



**INTERNAL CONTROL SYSTEM AND FINANCIAL REPORTING QUALITY OF  
LISTED OIL AND GAS COMPANIES IN NIGERIA**

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**Abstract**

*Poor reporting quality is a destructive issue in the business world while the internal control is perceived as a form of assurance technique to the management and stakeholder. In response to series of abysmal financial reporting from Nigeria's oil and gas sector, this study appraised the effect of internal control system on financial reporting qualities of the listed oil and gas sectors in Nigeria. A survey research design was employed and primary data were obtained through structured questionnaire distributed to 233 management staff, selected randomly from nine oil and gas firms in Nigeria. The data was subjected to multiple regression analysis and the study revealed that control activities, monitoring activities, control environment, and risk assessment have p-value of 0.000 and beta of 0.33; 0.56; 0.359; -0.323 respectively on the comparability of financial reports in Nigeria's oil and gas sector. The study concludes that efficient internal controls system enhanced improved financial reporting quality. It was recommended that the management should implement efficient risk assessment system in place to ensure preventions from irregularities and compliance to standards and other regulatory requirements. Also, there should be an effective risk assessment to reduce mismanagement of firm's assets.*

**Keywords:** Comparability, Faithful presentations, Financial Reporting, Internal control system.

**INTRODUCTION**

The quality of users' economic decision largely depends on the accuracy and reliability of earnings information at their disposal. High quality information devoid of fraud or misstatements certainly assists in making better economic decisions. However, the reports may be manipulated by managers in various ways which could consequently reduce the quality of information contained in the reports (Owolabi & Thomas, 2020). Financial reporting quality is an issue that attracts interest from firm stakeholders, researchers and accounting professionals. This is due to the fact that financial reporting has been the primary means through which information is disseminated to outsiders, about the financial strength and performance of an entity. Quality financial reporting is important because it helps capital providers and other stakeholders to make sound decisions with investments, credit, and similar resource allocation decisions with a view of improving overall market efficiency (Mustapha et al., 2023).

Conversely, misrepresented financial reports mislead users and negatively impact capital markets, erode investors' confidence and hurt company reputation (Enofe et al., 2021). Thus, financial reporting quality has implication on market efficiency and economic performance of a country (Zhang, 2019; PWC, 2019). Despite the importance of quality reporting and the adverse effects of manipulated report, management may engage in opportunistic behavior to achieve personal interest at the expense of other stakeholders. In line with Agency theory,

management as agent always pursues their personal interests at the detriment of principals' interests. The incentives for managing earnings may include the need to meet internal or external earnings expectations, improve company's financial status, grow the stock price or increase management rewards in line with growth in financial performance. (Abiodun & Nurudeen, 2023).

In the bid to ensure financial information adequacy, internal control system becomes the darling of committed organization's board and management. Internal controls credited with the basis for internal and external auditing remain the last resort of assets and other resources prevention strategies for the organization governing team. An internal control system is a set of rules, procedures, and processes developed by corporations to maintain the integrity of financial and accounting reports, encourage responsibility, and prevent fraud, through which companies are directed and controlled. An effective internal control may minimize or reduce management opportunistic behavior that could influence reporting quality (Chen & Wong, 2023 & Mustapha et al., 2023) through its five components: control activities, monitoring activities, control environment, risk assessment, and information and communication. The control environment sets the organization's tone, influencing the control consciousness of its people. It encompasses integrity, ethical values, and the competence of personnel. Risk assessment involves identifying and evaluating risks that might impact the achievement of objectives, allowing management to put preventive and corrective measures in place. Control activities are the actions that help ensure directives are carried out, including approvals, verifications, reconciliations, and segregation of duties. Information and communication ensure that pertinent information is captured and conveyed to those responsible for managing and evaluating the organization's controls. Monitoring involves evaluating the effectiveness of the internal control system over time and making necessary adjustments (COSO, 2013).

Evidently, internal control as revealed above is a significant concept in every organization. It remains one aspect of the financial landscape of the oil and gas sector which presents a complex web of challenges. In 2019, government approved business support facility through the Central Bank of Nigeria (CBN) for the oil and gas sector and requested that applications should come through the Department of Petroleum Resources (DPR) as the regulatory body. Many applications were turned down as the financial reports did not meet with standard and different report formats were employed by the responding companies. The process was stalled because of this inconsistency and incomparability of financial reports from the firms. Moreover, there were instances which suggested that the financial statements were manipulated in various ways, making it difficult for the users to understand because of the irregularities which consequently reduced the quality of information contained in the reports. Such a case happened in a top hydrocarbon company in Nigeria in 2019, where the top managers sold the company branded cylinders worth N400 million which has been reported in the financial statement as asset and claimed it was used for cylinder exchange with customers soon after.

In another, scenario, a member of staff used the AGO and PMS allocated to the company's daily operation in 2016 and 2017 for personal use. This led to a misappropriation of over N1 billion of company funds in 2017. Moreover, a situation occurred in a particular oil and gas firm in 2020, as the auditors discovered gaps in the figures of the consolidated financial statement due to difference in the report submitted by some of the outlet managers as result of mismanagement perpetuated in the reporting outlets. It is assumed that agent(s) are pressured with personal interest; reports can be dressed against the actual after perpetuation of fraud to suit the expectation of the investors, and make it difficult for users to understand as exemplified in the above scenarios. The research question arises as to whether effective internal controls

may have effect on financial irregularities, abuse, mismanagement, and compromise the overall quality of financial reporting and lack of financial report relevance.

The Nigerian oil and gas sector plays an essential role in the country's economy; it remains the major source of the government's revenue and foreign exchange earnings. Given its strategic importance, the financial reporting of companies operating in this sector is of paramount importance. Having reports of the ugly incidents as above demand prompt amendment and undermine the financial reporting quality despite the existences of internal control system. Therefore, this study specifically asks:

- i. What is the extent of control activities' effect on the comparability of the financial statement in Nigeria's Oil and Gas Companies?
- ii. To what extent is the influence of monitoring activities on the comparability of the financial statement in Nigeria's Oil and Gas Companies?
- iii. What is the effect of control environment on the comparability of the financial statement in Nigeria's Oil and Gas Companies?
- iv. What extent is the effect of risk assessment on the comparability of the financial statement in Nigeria's Oil and Gas Companies?

## LITERATURE REVIEW

### ***Financial Reporting Quality***

The term "financial reporting quality" is frequently mentioned, either directly or more frequently indirectly in academic writings through the concepts of "quality of information." It has been said to be challenging to come up with a single, widely acknowledged definition for the term (Bakare et al., 2022; Liu & Hassan, 2023; Wang & Li, 2023). According to Agienohuwa and Ilaboya (2018) and Chen and Wong (2023), there have been a number of intricate, perplexing, and contradicting discussions surrounding the idea of FRQ worldwide. The IASB's conceptual framework also described the FRQ as the cornerstone for standards that "contribute to transparency by enhancing the international comparability and quality of financial information" (IASB, 2018).

The word "quality of reporting" appears in the IASB mission statement, although the standard-setter does not elaborate on what FRQ actually means. The fact that various users use financial reports for different purposes and have varying information demands is one of the potential causes of the difficulty in defining FRQ. Investors make decisions on their investments and withdrawals from firms based on a variety of investment techniques, including capital gains and dividend income. Conversely, lenders worry about the company's ability to pay back loans. Lenders look largely at a company's solvency, liquidity, and profitability metrics when evaluating its funding. Krismiaji & Perdana (2018), Johnson et al. (2021), and Bakare et al. (2019) backed this claim, arguing that the concept of quality is intrinsically subjective since various user groups have opposing tastes and make different decisions. Additionally, Maines and wahlens (2016) and Nurudeen et al. (2020) contended that consumers of information will assess its own quality, since it is a subjective concept. Consequently, it is to be expected that earlier research had difficulty defining FRQ and determining a set of unwavering quality evaluation standards. Furthermore, according to the IASB, "the 'usefulness' of financial information is enhanced if it is comparable and understandable" and "if financial information is to be 'useful,' it must be relevant and faithfully represent what it purports to represent" (IASB, 2010, 2018).

### ***Comparability***

According to IASB (2018), comparability is the qualitative trait that helps consumers recognize and comprehend similarities and differences between products. Comparability, according to

Bakare et al. (2019), is centered on accounting for comparable transactions and occurrences in a comparable manner. Financial statement comparability was further defined by Chen et al. (2022) as the degree to which a transaction heading in a company's financial statements resemble those reported by other companies in the same industry. Even though this definition of comparability is limited, the study shows that there are specific benefits of comparability, such as the ability to forecast earnings for investors using the income statement and lenders using the balance sheet to assess credit risk. This is because the main line items of financial statements are standardized and prescribed by IAS 1. Through IFRS, the IASB aims to increase information comparability and increase the utility of decisions. For instance, the IASB mission statement aim of achieving openness by improving international comparability was covered in discussed in FRQ earlier (Bakare et al., 2019).

Therefore, comparability improves the utilization of the information by enabling users to assess several options during the decision-making process. This implies that if corporate information from the present period can be compared with information from the past, with comparable companies, and with information from the same industry, then comparability will be improved. Clearly, one method to ensure comparability is to offer further analysis of the data (by offering, for example, a financial evaluation accompanied with ratio analysis). Additionally, consistent use of accounting principles and procedures will enhance comparability. "The use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities," is what the Conceptual Framework defines as consistency (IASB, 2018). Therefore, the objective is comparability, and consistency aids in achieving that objective. Comparability benefits lenders as well as investors. Wang & Li (2023) find that financial statement comparability lowers an information processing cost that helps analysts in projecting the performance of companies.

### ***Internal Control System***

This is a set of processes, procedures, and mechanisms that organizations use to ensure the achievement of objectives related to operational efficiency, financial reporting reliability, and compliance with laws and regulations. Internal control has become a crucial aspect of organizational governance, particularly in today's complex and dynamic business environment (Mustapha et. al, 2023). The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives" in three primary areas: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations (COSO, 2013). This definition highlights that financial reporting quality rely solely on internal control system and is not a one-time action but an ongoing process involving various levels of the organization.

### ***Component of Internal Control***

Internal control is a broad concept that cut across levels or layers of an organization. The COSO framework identifies five essential components of an internal control system: Control Activities, Monitoring Activities, Control Environment, Risk Assessment, and Information and Communication (COSO, 2013). This study examines four out the five components. The information and communication component was excluded for the study.

i. **Control activities**

These are specific actions established by management to mitigate risks and ensure the achievement of an organization's objectives. These activities are a fundamental component of the internal control framework, involving both preventive and detective measures that safeguard assets, verify accuracy, and promote compliance (Abiodun & Nurudeen, 2023). According to COSO (2013), control activities include a range of practices such as approvals, authorizations, verifications, reconciliations, and segregation of duties. For example, requiring dual signatures for significant transactions or conducting monthly bank reconciliations are typical control activities aimed at preventing fraud and errors. In modern organizations, control activities have increasingly incorporated automated systems that ensure consistency and reduce the risk of human error (Moradi et al., 2021). Effective control activities are tailored to the specific needs of an organization and are reviewed regularly to adapt to changing business conditions and emerging risks.

ii. **Monitoring activities**

This concept involves the continuous or periodic evaluation of an organization's internal control system to ensure that controls are functioning as intended. These activities are crucial for maintaining the effectiveness and efficiency of the control framework. According to Hermanson et al. (2020), monitoring can be performed through regular management reviews, internal audits, or using automated systems that track and analyze control performance in real-time. It helps identify control weaknesses, detect errors, and ensure timely corrective actions. Monitoring activities are often divided into two categories: ongoing monitoring, which is integrated into regular operations, and separate evaluations, which involve periodic assessments by internal or external auditors. A robust monitoring system enables organizations to respond quickly to control failures or changing risks, supporting a dynamic and adaptive internal control environment.

iii. **Control environment**

This is the organizational leadership traits context within which internal controls operate, setting the tone for an organization's culture and attitudes toward control activities. It includes ethical values, integrity, governance structures, and commitment to competence that influence how business is conducted (Mustapha et al, 2023); (Abiodun & Nurudeen, 2023). COSO (2013) emphasizes that the control environment forms the foundation for all other components of internal control, as it establishes the discipline and structure necessary for control effectiveness. Elements such as management's philosophy, leadership style, organizational structure, and human resource policies all contribute to the overall control environment (Khan & Akhtar, 2022). A strong control environment fosters a culture of accountability, encouraging ethical behavior and compliance with laws and regulations. Conversely, a weak control environment can lead to control deficiencies, increasing the risk of fraud and operational failures.

iv. **Risk assessment**

This is the process of identifying, analyzing, and prioritizing risks that could hinder the achievement of an organization's objectives. It is a dynamic and iterative process that considers both internal and external factors influencing the organization. According to COSO (2013), risk assessment involves evaluating the likelihood and impact of potential risks, allowing management to develop appropriate responses and establish mitigating controls. This component is critical because it helps organizations proactively address risks rather than react to them after they have materialized. In recent years, risk assessment has increasingly relied on data analytics and predictive tools to

provide more accurate and timely insights into emerging risks (Deloitte, 2021). An effective risk assessment enables an organization to allocate resources efficiently and focus on the most significant threats to operational success, financial integrity, and regulatory compliance.

Effective internal controls are fundamental to managing risks, safeguarding assets, ensuring accurate and reliable financial reporting, and maintaining compliance with regulations. According to Hermanson et al. (2020), robust internal controls can significantly reduce fraud risk by deterring fraudulent activities and detecting them early. Moreover, internal controls enhance the accuracy of financial statements, giving stakeholder's confidence in the reported financial data (Dibra et al., 2022). The internal control system plays a vital role in achieving organizational goals by managing risks, ensuring operational efficiency, and fostering compliance. It is a dynamic process that requires continual evaluation and improvement in response to changes in the internal and external environment.

## **Theoretical Framework**

### ***Contingency Theory***

Contingency theory was expounded and popularize by Hofer in 1975. Hofer declared that “any theory of business (corporate) strategy must be a contingency theory” He maintained that contingency theories have implications for improving enterprise productivity through the strategic choices undertaken by the business executive (Kald et al., 2000). The contingency theory falls into the class of behavioral theory which explains that there is no single best way of organizing or leading, and that organizational or leadership styles which are successful in one situation might not be successful in another (Fiedler, 1964), where the optimal means of organizational performance or leadership styles are contingent upon different internal and external constraints.

Tiessen and Waterhouse (1983) expanded view of contingency theory is that the structure of an organization depends on the company's technology and environment and the effectiveness of the management accounting system is contingent on the organization's structure. More also, Chenhall, (2003) discusses contingency theories from a functionalist perspective where the assumption is that management control systems are developed, or adopted to aid in achieving desired organizational goals and outcomes. Donaldson, (1999) also stated that contingency theory can be used as a framework in seeking to identify the influence of contingent variables on organizations' performance. Broadly, this contingency includes any variable that moderates the effect of an organizational characteristic on its performance. Contingency theory is seen as a theory of theories. That said, a common denominator underlying all strands of contingency theory is the proposition that organizational performance is dependent (i.e., contingent) upon the fit between an organization and several factors, some of which are technology, structure, people, strategy, and organizational culture (Ganescu, 2012; Raymond, 2016).

Contingency Theory provides a strong foundation for understanding of the impact of internal control systems on the financial reporting quality of the Nigeria oil and gas industry. Contingency theory posits that performance of an organization is a function of the fits between the organization factors. Therefore, the financial reporting quality of the oil and gas firms is contingent on the alignments between the internal control functions such as control environment, monitoring and review, and risk assessment. In line with the postulation of the theory, these three factors (control environment, monitoring and review, and risk assessment) dictate the process and output of the financial reporting in the organization. This study therefore appraised the effectiveness of the three functions. Any of the three variables with positive effect

contribute to financial reporting quality while negative effect reduces the financial reporting quality.

### **Empirical Review**

There are several studies that link the internal controls and financial reporting quality, most of these studies employed internal control system as a moderator while few appraised the direct relationship. Liu and Hassan (2023), assessed the relationship of corporate governance, internal control to financial statement comparability in the BRICS countries (Brazil, Russia, India, China, and South Africa). The study focused on 350 BRICS companies and found that stronger corporate governance was associated with better internal controls and higher financial statement comparability. Also, the relationship between internal controls and comparability was more pronounced in countries with weaker legal enforcement.

Lee et al., (2022) examine the effect of internal control quality on financial statement comparability with 600 United State companies for a period of over 6 years. The study found that companies with higher internal control quality demonstrated greater financial statement comparability. Likewise, improvements in internal control systems led to increased comparability with industry peers over time.

Smith et al., (2021), examine the internal control weaknesses and comparability of financial ratios relationship. The study was based on 300 U.S. companies that disclosed material weaknesses in internal controls. Findings indicated that companies with material weaknesses have lower comparability of financial ratios with industry peers while remediation of internal control weaknesses led to improved comparability in subsequent reporting periods. Bakare et al (2019); Chen & Wong (2023), assessed the impact of IFRS adoption on internal controls and financial statement comparability. In all the three studies across countries, it was found that IFRS adoption encouraged comparability of financial statement while the improvement in comparability was more pronounced for companies that had stronger internal control systems prior to IFRS adoption.

Similarly, Nurudeen et.al, (2020) appraised the impact of IFRS adoption on the comparability and quality of financial reporting; the authors analyze data from firms in various emerging economies and compare them with developed markets. The result shows that IFRS adoption in emerging markets leads to significant advancements in the quality of financial reporting, comparable to developed markets. Firms in emerging markets that adopt IFRS exhibit greater comparability with their counterparts in developed market.

Focusing on control activities, Li, et al (2020) investigated the impact of effective control activities on financial report comparability among U.S. firms. Using a sample of firms from the S&P 150 between 2010 and 2018, the study analyzed the effectiveness of internal control activities through financial report disclosures, focusing on authorization, reconciliation, and review processes. Financial report comparability was measured by the degree of similarity in accounting estimates and reporting choices across firms in the same industry. Findings reveals firms with strong control activities showed more consistent and comparable financial reporting practices. Effective internal controls ensured similar accounting choices, particularly in revenue recognition and expense estimation, improving financial statement comparability across peer companies

Also, Lennox & Pittman, (2021) examined the effect of internal control activities on financial report comparability and transparency. The research covered a dataset of 500 U.S. public companies from 2011 to 2019, focusing on how control activities related to documentation,

segregation of duties, and verification processes influenced financial statement comparability. Comparability was assessed using similarity in financial ratios and accounting practices. The study revealed that firms with robust control activities had greater consistency in their financial reporting, leading to improved comparability within industry sectors. Such firms exhibited fewer discrepancies in disclosures, particularly around asset valuation and revenue recognition. In relations to the monitoring and review, Aobdia et al (2022) investigated how internal and external monitoring activities impact the comparability of financial reports among large public companies. The study used a dataset of 80 publicly traded firms from 2015 to 2021, the study examined the effectiveness of monitoring activities, such as audit committee involvement and internal audit functions, on financial statement comparability. Comparability was evaluated through alignment with industry norms and consistent disclosure practices. Firms with comprehensive internal and external monitoring activities had more comparable financial reports, with higher conformity to industry standards. This was evident in consistent accounting treatments and lower instances of financial restatements.

Similarly, Bradley & Sun (2021), explored the role of internal audit effectiveness in promoting financial report comparability in the U.S. and European markets. The study analyzed data from 40 multinational firms from 2012 to 2020, focusing on internal audit effectiveness as a key monitoring activity. Financial report comparability was measured by examining consistency in reporting formats and financial disclosures across different jurisdictions. Finding revealed companies with strong internal audit functions demonstrated higher levels of financial report comparability, particularly in aligning disclosures related to revenue and cost allocations. This was especially pronounced in firms operating in multiple regulatory environments.

With regards to control environment, Ball et, al (2021) examined how the control environment, particularly governance practices, influences financial report comparability among global firms. The research focused on a sample of 70 multinational firms from 2014 to 2020, evaluating control environment aspects like board structure, executive accountability, and ethical standards. Financial report comparability was measured using similarity in accounting methods, particularly around earnings reporting. Findings indicates that firms with a strong control environment, supported by independent boards and stringent ethical standards, showed higher levels of financial report comparability across different countries. The consistent application of accounting policies was a key driver.

Also, Gu, & Li (2023) appraised the relationship between control environment quality, including leadership integrity and ethical culture, and the comparability of financial reporting. With data from 60 firms in North America from 2015 to 2023, the authors analyzed how the control environment influenced financial comparability using a financial disclosure similarity index. The study revealed firms with strong ethical cultures and high management accountability showed improved comparability in financial reports. Consistent disclosure practices, driven by a positive control environment, were key to aligning financial statements with industry benchmarks.

On the effect of risk assessment Chen & Martin (2023) investigated the role of risk assessment in ensuring consistent and comparable financial reports among multinational corporations. Using 45 multinational firms operating in North America and Europe from 2018 to 2023, focusing on risk assessment processes related to financial reporting. Comparability was measured using financial disclosure similarity across different jurisdictions. Findings indicates the companies that integrated detailed risk assessment processes in their financial reporting had higher comparability in financial statements, particularly in recognizing and measuring

contingent liabilities and complex transactions. This consistency was crucial in multinational environments.

Bui & La (2022) analyzed how risk assessment activities impact the comparability of financial reports, particularly in industries with high exposure to financial risk. The study was based on 50 companies in the technology and finance sectors from 2016 to 2021. They focused on risk assessment activities, including risk identification and mitigation strategies, and their influence on the comparability of financial disclosures. The study revealed firms with comprehensive risk assessment processes demonstrated greater financial report comparability, particularly in valuation practices for complex financial instruments. Risk assessment led to consistent application of valuation methods across industry peers

These findings underscore the importance of maintaining strong internal control systems not only for the accuracy of financial reporting but also for enhancing the comparability of financial statements, which is crucial for investors, analysts, and other stakeholders in making informed decisions.

### METHODOLOGY.

The study investigated the effect of internal control system on the quality of financial reporting of listed oil and gas sector. Survey research design is adopted being the most suitable obtaining data that are perceptions in nature (Nurudeen, 2022). The study approach is quantitative, focuses on numerical aspects as the data both in the process of using collection and the results of the analysis. The Population of the study is the entire management staff of the nine oil and gas firms in Nigeria [Lekoil Nigeria limited, Chevron Nigeria, Shell Nigeria, Exxonmobil Nigeria, Oando plc, Cambridge LNG, Nigerian National Petroleum Corporation (NNPC), Total energies and Arдова]. The firms comprise of six hundred forty- three management personnel (643). Subjecting the study population to Taro Yamane (1975) sampling techniques provides a sample of size of 247 respondents.

The study was based on primary data obtained through structured questionnaires. In order to establish the validity, the instrument was presented for criticism and amendments by an expert in the field of auditing studies prior to administrations. The data was analyzed with linear regression techniques through use of a Statistical Package for Social Science (SPSS). This allows inferences to be drawn on the effect of internal control system on the quality of financial report in listed oil and gas companies.

The relationship between financial report quality (Y) dependent variable and the internal control system (X) independent variable as captured below was subjected to the test through multiple linear regression. The model of Setyawan and Rindu, (2020),

$FRQ = \alpha_0 + \beta_1 CONTR_{it} + \beta_2 MON_{it} + \beta_3 ConEn_{it} + \beta_4 RSK_{it} + \mu$  was adapted for the study accordingly Therefore:

$$Y_t = \alpha_0 + \beta_1(x)1 + \beta_2(x)2 + \beta_3(x)3 + \beta_4(x)4 + \mu$$

$$\text{Model: } COMP_{it} = \alpha_0 + \beta_1 CONTR_{it} + \beta_2 MON_{it} + \beta_3 ConEn_{it} + \beta_4 RSK_{it} + \mu$$

Where:

CONTR = control activities

MON = monitoring

ConEn = control environment

RSK = risk assessment

Y = Comparability (COMP)

$\alpha$  = Constant

## RESULTS AND DISCUSSION

From the two hundred and forty-seven questionnaires (247) prepared and purposefully distributed to the respondents (management personnel of the nine firms), two hundred twenty-nine copies were returned (229). The obtained data were subjected to preliminary diagnostic and inferential statistics.

### *Normality test*

The study adopted and used the skewness and kurtosis statistic in an effort to determine if the data obtained is normally distributed. The variables' skewness and kurtosis values fall within the permitted range of  $\pm 1$ , as Table 1 makes clear. It follows that the constructions as a whole are considered normal.

**Table 1: Skewness and Kurtosis Result**

| Constructs | Skewness | Kurtosis |
|------------|----------|----------|
| CONTR      | -1.390   | 1.068    |
| MON        | -0.814   | 0.632    |
| Con En     | -0.831   | 0.897    |
| RSK        | -1.065   | 1.197    |
| COMP       | -0.863   | 0.905    |

*Author's Computation 2024*

As presented in table 1, skewness and kurtosis value of the research variables were within -3 to +3; this is acceptable as prescribed by Kline (2011).

### *Reliability and Validity test*

It is necessary to assess the reliability of the instrument used for the data before running the regression on the variable. Table 2 revealed a Cronbach Alpha of 0.793 on the measurement of financial report quality. Also, internal control variables achieved the Cronchach Alpha of 0.980 for the test of reliability.

| Variable                | Reliability Statistics |            |
|-------------------------|------------------------|------------|
|                         | Cronbach's Alpha       | N of Items |
| Dependent (FRQ)         | .793                   | 2          |
| Independent (INT CONTR) | .980                   | 4          |

*Author's Computation 2024*

The result in the table 2 indicates good internal consistency and suggests the questions are measuring a similar underlying construct with reasonable consistency.

On the test of hypothesis one, Table 2 presented the model test, variance and coefficient result of the objective one of the study.

**Regression**

**Table 3 Regression Analysis Model Summary<sup>b</sup>**

| Model                           | R                 | R Square                    | Adjusted Square | R                         | Std. Error of the Estimate |                   |
|---------------------------------|-------------------|-----------------------------|-----------------|---------------------------|----------------------------|-------------------|
| 1                               | .931 <sup>a</sup> | .867                        | .865            |                           | .13656                     |                   |
| <b>ANOVA<sup>a</sup></b>        |                   |                             |                 |                           |                            |                   |
| Model                           |                   | Sum of Squares              | Df              | Mean Square               | F                          | Sig.              |
| 1                               | Regression        | 27.297                      | 4               | 6.824                     | 365.945                    | .000 <sup>b</sup> |
|                                 | Residual          | 4.177                       | 224             | .019                      |                            |                   |
|                                 | Total             | 31.474                      | 228             |                           |                            |                   |
| <b>Coefficients<sup>a</sup></b> |                   |                             |                 |                           |                            |                   |
| Model                           |                   | Unstandardized Coefficients |                 | Standardized Coefficients | T                          | Sig.              |
|                                 |                   | B                           | Std. Error      | Beta                      |                            |                   |
| 1                               | (Constant)        | 2.750                       | .089            |                           | 30.852                     | .000              |
|                                 | CONTR             | .333                        | .052            | .547                      | 6.472                      | .000              |
|                                 | MON               | .560                        | .050            | 1.462                     | 11.216                     | .000              |
|                                 | ConEn             | .359                        | .064            | .766                      | 5.579                      | .000              |
|                                 | RSK               | -.323                       | .073            | -.808                     | -4.451                     | .006              |

a. Dependent Variable: COMP

Source: Author's computations, (2024)

From table 3 R- square statistics shows a value of 0.867 which can be interpreted to mean that only 86% of total variation in COMP can be explained by the dependent variables (CONTR, MON, ConEn and RSK) while the remaining percentage (14%) can be explained by other variables not employed by the study. Also, the F- Statistics from table 2 shows a 365.945 with a corresponding probability value of 0.000, which can be interpreted to mean that the model derived for the purpose of the study is statistically significant as the p-value is less than 5% significant level. The least squares regression coefficients are calculated using the conventional OLS formula. The model previously stated can be expressed as follows:  $COMP = 2.750 + 0.333 + 0.560 + 0.359 - 0.323 + \mu$

From this equation, CONTR, MON and ConEnv have a positive effect on the independent variable (COMP) while RSK has a negative effect on COMP. This could further be explained that if CONTR, MON and ConEnv increased by one unit each, would rise from = 0.040, 0.333, 0.560, and 0.359 respectively while an increase in RSK by one unit would result to a fall in COMP fall by 0.323. More also, the t-test result of the dependent variables was shown as 6.472, 11.216, 5.579, -4.451 for CONTR, MON, ConEn and RSK respectively. Therefore the entire internal control variables tested in the study have effect on the comparability of the financial statements of oil and gas firms in Nigeria.

**Test of hypotheses**

In reference to research question one, Control activities have significant effect on the financial report quality of oil and gas firms in Nigeria with a *beta* of 0.33 and *P-value* 0.000 as revealed in table 3. Therefore, the null hypothesis is rejected. Also, the Monitoring and review was found

to have significant influence on the financial report quality with beta of 0.560 and P-value 0.000. Since the P value is above 0.05 level of significant, the null hypothesis is therefore rejected. On the relationship between control environment and financial report quality, table 3 present the beta of 0.359 and P-value of 0.000. Therefore there is a significant effect of control environment on the financial reporting quality. This result also rejects the null hypothesis. Finally the last question was answered as well, the result from table 3 as beta -0.323 and P-value of 0.006. This indicates a negative and significant effect of risk assessment on the financial report quality. Therefore the null hypothesis is rejected.

### ***Discussion of findings***

The study found a significant positive effect of internal control systems on the comparability of financial statements in the Nigerian oil and gas sector. This implies that companies with well-established internal controls are more likely to maintain consistency in their financial reporting practices over time. The presence of standardized procedures and protocols contributes to a higher degree of uniformity in financial statements, facilitating meaningful comparisons across different periods and entities within the sector.

Specifically, control activities imbibe by the oil and gas firms ensures the preparations of financial statement follows the international best practices (IFRS); the established control environment enhanced the quality preparation and presentations of financial reports which makes it comparable to other firms; Monitoring and review activities ensures errors and other irregularities are reduced to least, this make it financial report to reveal true and fair view of the firm which is the most sought after quality; and risk assessment functions have negative effect on the comparability, this implicate role is not taking up as expected which lead to significance adverse effect.

Deducing from the postulations of contingency theory, the result indicates positive effect of internal control functions on financial reporting quality. Also, the findings of this study corresponds with the studies of Liu and Hassan (2023); Mustapha et al, (2023); Nurudeen et.al, (2020); Smith et al., (2021). This finding suggests that Nigeria oil and gas industry prioritize the development and maintenance of internal control systems to enhance the comparability of their financial statements. This leads to the prevention of fraud and other irregularities.

## **CONCLUSION**

The study concludes that internal control system has significant effect on the comparability of financial statement which is one of the major factors in financial reporting quality of listed oil and gas sector in Nigeria. It highlighted the critical role that internal control systems play in shaping the quality and attributes of financial statements in this industry.

In essence, the study underscores the importance for management in the Nigeria oil and gas sector to prioritize the development and maintenance of robust internal control frameworks. Such efforts can lead to financial statements that are not only comparable, faithfully represented, and relevant but also easily understandable, thereby improving the overall quality and credibility of financial reporting in the industry. Companies that invest in strengthening their internal control systems are likely to foster trust and confidence among stakeholders, ultimately contributing to the sustainable growth and development of Nigeria's oil and gas sector.

### **Recommendations**

- i. Standardized reporting procedures to improve comparability: To facilitate meaningful comparisons across different periods and entities, management should standardize financial

reporting procedures across the organization. This includes establishing uniform accounting policies and procedures that are consistently applied across all subsidiaries and business units. Comprehensive internal control framework should be developed for standardized accounting practices. Conduct regular audits to ensure compliance with these standardized procedures, and provide training to staff to maintain consistency in financial reporting.

- ii. Improve the risk assessment function to improve financial statement comparability and faithful representation: Management should focus on internal controls that ensure the financial statements are bias free, comprehensive, and free from material error. This will enhance the faithful representation of the company's financial performance and status. Internal audit and review processes should be implemented in order to be able to detect and correct errors or biases in financial reporting. Ensure that all financial transactions are fully documented and subject to independent verification.

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