



**Internal control processes and risk reduction in Harare's retail
SMEs**

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**A Dissertation submitted in Partial Fulfilment of the Requirements
for the Master Degree in Business Administration**

2016

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DECLARATION

I, KAGANDE RONY do hereby declare that this dissertation is a result of my own investigation and research, except to the extent indicated in the acknowledgements, references and by comments included in the body of the report, and that this dissertation is therefore my original work and has not been presented in part or full for any other degree in any other University

Signature

Date

APPROVAL

I, Dr W. Mkumbuzi confirm that the work reported in this dissertation was carried by the candidate under my supervision as the University supervisor. This dissertation has been submitted for review with my approval as University Supervisor.

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Date.....

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DEDICATIONS

This work is especially dedicated to the Kagande Family

ACKNOWLEDGEMENTS

This research was never a solo effort. Faculty lecturers in their own special way played an important role in general guidance of the research work. Special mention is extended to Dr Mkumbuzi for the professional assistance in a very demanding task. My Family Mr and Mrs Kagande thank you so much for the encouragements and support. Ms Gally Kagande (Lady G), power to you, couldn't have made it this much without your total support.

Team Tyron, team Tasha, team Jordan, Tat, team Ish, Changara, Ruva, team Innov8, Delma family thank you. Special thanks also to my classmates Munyaradzi Manenji, Ronald Chirevo, Alice Daka, Farirai Kasipo, Regai Kanogota, Blessing Muzanhamo, Brenda Nyoni, Dr Abigel Jemedze and the whole Finance class who were very instrumental in guiding me throughout my MBA studies.

Finally brethren not unto us but unto the ALMIGHTY GOD for his Grace and Mercy.

ABSTRACT

Progressively in the past few years, there has been a problem of high Small to Medium Enterprise (SMEs) failure rate. Much of the studies conducted have put forth much effort on availability, accessibility and cost efficiency in the utilisation of finances. Little attention has been paid to the great role played by the internal control systems in the performance of businesses. The research work aimed among others at determining the impact of internal control processes and risk reduction in SMEs which in turn influences efficiency of these institutions. A survey research design was embraced for this research study with a sample size of 121 SMEs selected; data was collected using questionnaires. Data analysis was done using SPSS Version 22 software and results findings tabulated for presentation and interpretation done. Five research questions were formulated out of which a hypothesis was formulated using regression co-efficient analysis method at 5% level of significance. The findings from the analysis indicate that internal control processes are necessary for risk reduction and effectiveness of SMEs institutions. Risk appetite of any organisation cannot be fulfilled without internal control processes built in within the organisational operational framework. The results established that there was a significant association between the internal control processes variables and risk reduction in SMEs. The study further concluded that accounting control and authorisation, approvals are more critical ingredients in realising risk reduction and associated failure rate elimination.

ABBRIATIONS

SMEs : Small to Medium Enterprises

COSO : Committee of Sponsoring Organisation

IIA : Institute of Internal Auditors

ICs : Internal Controls

INTOSAI : International Organisation of Supreme Audit Institutions

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CHAPTER 1

1.1 Introduction

In an environment where the formal business market is critically struggling for survival and on the other side rapid growth and recognition of small to medium enterprises (SMEs) as economic vehicles taking centre stage. Aiding to the creation of jobs, stimulation of national economy and poverty alleviation, their performance issues can never be side-lined. It is not surprising that the bulk of entrepreneurs in this situation are regarded as necessity entrepreneurs hence not focusing on development, but rather SME profitability eventually resulting in business failure.

In a bid to counter the later events efficiently, the implementation of an adequate system of internal controls must be prioritised. By definition Internal control embraces the policies, processes, tasks, behaviours and other aspects of a company that, taken together enhance its level of effectiveness and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks so as to realise the company's goals (Gree, 2003).

Campbell and Hartcher (2003) stressed that SMEs are well-known to be a target for weak internal controls as bulk of them view the enactment of an adequate system of internal controls as an exorbitant task. To this end SME owners evaluate the costs of applying a structure of internal controls alongside the probable paybacks that can be later realised. Unavoidably this strategy of evaluation, to a greater extent, will result in insufficient internal controls to be implemented and, accordingly, creating a trading environment vulnerable to an array of risks. This critically has a direct effect on the collapse of SMEs.

As a result, the purpose of this research will be to explore the impact of internal control processes being implemented by retail SMEs in Harare and their contribution to risks reduction and come up with feasible recommendations. This chapter will focus mainly on the

introduction background to the study, problem statement, research objectives, questions, hypothesis, justification and also scope of the research.

1.2 Background

Six years after the formation of an inclusive government with a lofty goal of stabilising the economy and ramping up productivity, there appears to be no significant improvement in the output of the key manufacturing sector. Statistics by the Confederation of Zimbabwe Industries (CZI) in its annual Manufacturing Sector Competitiveness Reports (2014-2015) show that capacity utilisation across all key sectors continue to hover below 60 percent. This is in sharp contrast to the optimal figure of 100 percent recorded in the late 1990s prior to the adoption of the fast-track land reform programme. In a way, the poor performance of the sector is due to the collapse of the agro-industrial cluster that used to exist which saw a lot of companies relying on the key agricultural sector for their inputs. Lately, manufacturing companies are reeling under a mixture of both supply-side and demand-side constraints which have stymied their growth and competitiveness of this sector. The major supply-side constraints have been cited as high cost of utilities especially electricity and water, as well as the high cost of finance. Consequently, the manufacturing sector continues to witness company closures and retrenchments have become a common occurrence. The past year alone 2015, saw the placement of Zimbabwe Stock Exchange-listed agro-processor, Cairns, under judicial management resulting in the loss of over 1 000 jobs(*BH24 News*). Historically, the manufacturing sector has witnessed periods of downturn which have invariably augured well for the small to medium enterprises (SMEs) sector growth.

It is therefore in this context that this write-up attempts to situate the issue of accelerated support to SMEs which have become a key sector of Zimbabwe's economy in view of the faltering manufacturing sector. Significantly, the SME sector has become a significant employer in the economy as those being retrenched or laid-off have no option except to be involved in some form of entrepreneurial activity however small and informal it could be. The small and medium scale business enterprises form the informal sector which has been

recognized not only to play a major role in Zimbabwe but also in Kenya's economy providing the much needed employment opportunities. Studies have shown also that the sector has the capacity and ability of alleviating poverty through the creation of employment opportunities and generation of income(Webster, 2013). In recognition of the steady increase in unemployment, the Kenyan government has appreciated the role the small and medium scale enterprises are set to play.

The critical observation as the anchor to the study is that SMEs have concentrated on the availability, accessibility and cost efficiency in the utilization of finances. Little attention has been paid to the great role played by the internal control systems in the performance of businesses. Small and medium scale enterprises have operated in total disregard of internal control systems leading to the mass failure of these business organizations (Roth, 1997). Studies show that 90% of the business start-ups do not operate beyond the third anniversary due to lack of sound internal control systems (Katuntu, 2005). Therefore, the study sought to contribute to the existing literature by empirically investigating the role of internal control processes on business performance in this case being reduction of threatening risks to SMEs

1.3 Statement of the problem

Zimbabwe has more than 1.6 million registered Small and Medium sized Enterprises constituting about 70 per cent of all business enterprises in the country (Ruzivo, 2015). SMEs represent the largest sector in the economy employing up to 60% of country's workforce and contributing up to 50 % of the country's Gross Domestic Product (GDP)(RBZ, 2013). SMEs have expressed an impressive need to grow and have introduced various expansion mechanisms but despite this initiative there is still a large number of SMEs that fail. The lack of managerial skill and implementation of sound internal control processes are some of the key factors which have been noted to SMEs failure because of the aligned risks. It is true to say, when an entity cannot be managed, it cannot be controlled, which in return affects the execution of an acceptable system(s) of internal controls and exposing the business to an array

of risks. The problem therefore, is that SMEs performance is compromised owing to inadequate use of effective internal control processes.

1.4 Objectives

The overall objective of the study is to analyse the impact of effective internal control processes on risk reduction (business performance) in Harare's retail business.

Specifically the study intends to:

1. Analyse the relationship between effective authorisation and approvals on risk reduction in SMEs
2. Establish the relationship between comprehensive segregation of duties on risk reduction in SMEs
3. Determine the relationship between arithmetic check and accounting control and risk minimisation in SMEs
4. Draw conclusions on the relationship between physical control and risk reduction in SMEs
5. Determine if supervision and monitoring have an impact on risk minimisation in SMEs

1.5 Research questions

1. To what extent does effective authorisation and approvals reduce risk in SMEs?
2. Does segregation of duties reduce transactional risk in SMEs?
3. Is there a relationship between arithmetic and accounting control and risk reduction in SMEs?
4. To what extent does physical control reduce risk in SMEs?
5. Does supervision and monitoring have a bearing on reducing risk in SMEs?

1.6 Research Hypothesis

H₀. There is no relationship between risk reduction and effective internal control system(s) among SMEs.

H₁. There is a relationship between risk reduction and effective internal control process among SMEs

1.7 Significance of the study

This research is expected to bring to light the impact of internal control processes in small to medium retail enterprises against an array of risks hindering performance. Internal controls have a major impact on all businesses be they are large or small encompassing also issues stretching to corporate governance. Since Small to Medium Enterprises dominate the private sector in most developing countries, a deeper understanding of how internal controls are relevant in managing risks in such institutions will be ideal. In globalized economies there has been an increase in challenges such as intense competition and ever changing environmental conditions. Since SMEs are a major contributor to the GDP as of now, it is pertinent to note that they still lack a theoretical understanding of how to manage and implement internal controls. This study therefore seek to establish the importance of internal control processes on risks reduction in small to medium enterprises in Harare thereby cushioning them from failure and enhancing performance.

1.8 Scope delimitations of the study

The research seeks to investigate the extent to which there is a link between internal control processes and risk minimisation in Harare's retail SMEs. The study will be conducted among the existing retail SMEs drawn from various parts of the Great Harare. This will provide information and will enable better understanding of the research problem. The research will be carried out over a period of six months as stipulated by the university regulations. There has been so much research on why SMEs fail and to date much attention has been placed on liquidity issues. Little attention has been directed on internal control processes adoption hence being the motivation also behind the research

1.9 Dissertation structure

Chapter 2: Focuses on literature interlinked to this study that is to determine effects of internal control processes and risk reduction among SMEs. The chapter examines important terms, theories and models related to internal controls and risk reduction

Chapter 3:The chapter serves the purpose of explaining the adopted methodology that was deemed appropriate for the intended research. It justifies methodology employed and the instruments that were used

Chapter 4:Presentation and analysis of the research findings

Chapter 5:fundamentally focuses the conclusions and recommendations that arise from this study

1.10 Chapter summary

This chapter sets the pace for the study;the chapter gave a brief background to the study and gave an overview of the small to medium enterprises in relation to internal controls. The chapter also highlights the problem statement, research objectives, research questions, research hypothesis and justification of the research. This study will dwell on internal control processes and risk minimisation a case of retail SMEs in Harare.

CHAPTER 2 LITERATURE REVIEW

2.0 Introduction

The main focus of this chapter is to examine literature inter-linked to this study, that is to determine the level of link between internal control processes and risks reduction in retail SMEs. The chapter examine important theories and models related to internal control processes and SMEs risk appetite. Initially the chapter defines key important terms related to the study and secondly looks at the conceptual framework adopted on the relationship between internal controls and risk reduction. Further various internal control processes employed by SMEs and how these have influenced risk minimisation will be analysed. Status of internal control processes in different regions will later also reviewed in the final section of the literature review. The main purpose of the literature review is to guarantee that the researcher has a comprehensive understanding of the subject matter, recognise similar work done within the field and knowledge gaps that command further examination (Webster and Watson, 2002)

2.1 Definition of terms

2.1.1 Internal control process

Cascarino and Van Esch (2007) define the term internal control as a process which is established by significant investors, within a business, with the main objective to offer sensible guarantee concerning the realisation of objectives, inclusive of safeguarding assets, the integrity and dependability of financial and operational information all in a bid to deter risk. The International Organisation of Supreme Audit Institutions, (INTOSAI) defines internal control processes as a vital process that is stimulated by an entity's management and employees and is calculated to address risks and to provide realistic guarantee that in pursuit of the entity's assignment, general objectives are being achieved.

Mwindi (2008) also agreed with Cascarino and Van Esch and further outlined that internal controls are procedures instated by an institution so as to guarantee accomplishment of the entity's objectives, aims and assignments. They are a set of strategies and processes adopted by an entity in guaranteeing that an organisation's dealings are administered in the fitting style

to circumvent waste, theft and misuse of funds. They range from control activities inclusive of strict approvals, authorisation of transactions, arithmetic and accounting control systems, physical control, segregation of duties, supervision and control. These systems to be specific are not only related to accounting and reporting but also relate to the organisation's communication processes, internally and externally, and include procedures for, handling funds received and expended by the organisation.

2.1.2 Business performance

Organisational performance encompasses accumulated end results of all the organisation's work processes and activities. Performance measures can be financial or non-financial. Both measures are used for competitive firms in the dynamic business environment. Financial measures of organisational performance include; return on assets, return on sales, return on equity, organic growth, survival and profitability (Gerrit and Abdolmohammadi, 2010). Damodaran (2012) had a view of corporate performance involving managing an organisation's performance according to key performance indicators (KPIs) such as revenue growth, return on investment, overhead and operational costs management. On the other hand non-financial measures and for the purposes of this research will relate to risk reduction. This will be inclusive of fraud reduction, safeguard of company assets, reduction in misappropriation of funds and reliability of financial information. Hence the two terms risk reduction and business performance will be used interchangeably in the research. This can be summarised in the following equation given below;

$$\mathbf{Firm\ Performance = Internal\ Control\ processes + Net\ Assets - Gearing + Liquidity}$$

2.1.3 Risk in SMEs

The term 'risk', as defined by the Institute of Internal Auditors (IIA), refers to an uncertainty of an event occurring that could have an (adverse) impact on the achievement of business objectives (IIA, 2012). In this study the term risk in relation to SMEs will relate to fraud, misappropriation of funds, embezzlement, theft of assets among others.

2.2 Why Should a Small Business Care About Internal Controls?

Long (2009) argued that obviously, small businesses should care about internal controls to protect their assets and reduce the risk of fraud. Additionally, the growing awareness of fraud has caused investors and other companies to focus on stronger internal controls even on smaller private companies. Not that they have to spend millions or even thousands of dollars to implement internal controls, they should not, they do not have that regulatory requirement. But, understanding internal controls and how they can protect themselves and their small business is important. Weber (2008) was also of the opinion that good internal controls are indispensable no matter how minor the enterprise for many binding motives stretching from fraud prevention, misappropriation, and accurate financials. Doyle (2007) further agreed with the motion and propounded that instigating controls into accounting software independently is not adequate to certify obedience and risk reduction; it takes some people and power too. It is however of fundamental importance to note that most SME owners have very limited accounting back-ground hence accountants are necessary to provide a key consultative duty in assisting a business enterprise implement sound internal controls processes. Internal controls can help an entity achieve its objectives, minimise resource loss and fraud. It can help guarantee dependable financial reporting and it can help ensure that the business conforms with laws and regulations, circumventing damage to its status and other penalties (Messier, 2007).

2.3 Agency theory

The Agency theory being also one of the grounding theory for the study mostly concerned with the principal agency problem of ownership and controlling a firm. Managers are deemed

to mostly act self-interestedly and fulfil their desires. In regard owners have to institute controls and monitoring so that they pursue shareholder interest. Control activities instituted are also central to this write up. According to Horne (2009) managers are naturally inclined to act in their own best interests giving rise to agency problem. Mechanisms to ensure managers are acting in shareholder's interest include managerial compensation, board of directors to an organisation, institutional investors among others. This form of monitoring normally has an effect of attracting agency costs (costs of monitoring and controlling) so as to optimise management behaviour and encourage goal congruence. Issues of cooperate governance have emanated from this end and in United Kingdom cooperate governance systems have customarily stressed the need for internal control processes.

2.3.1 Governance, internal control and performance

In an article by the Independent Commission Against Corruption (ICAC) argued that in a highly competitive business environment, a company's edge cannot be sustained only by way of promotion of business through aggressive networking and business strategy. Of equal importance to the company is a relationship of trust with both its business partners and customers. To build up and maintain such a relationship, the company has to uphold an ethical culture and put in place a system of effective internal control with a risk appetite through good governance and minimising agency problem.

2.4: Conceptual framework

Lettie, Svincki and Shi (2010) define a conceptual framework as an interconnected set of ideas about how a particular fact is related to its parts. A conceptual framework is of great importance because it identifies variables and relationships. Below is a conceptual framework that was developed by the researcher in line with the reviewed literature, representation below

Conceptual framework

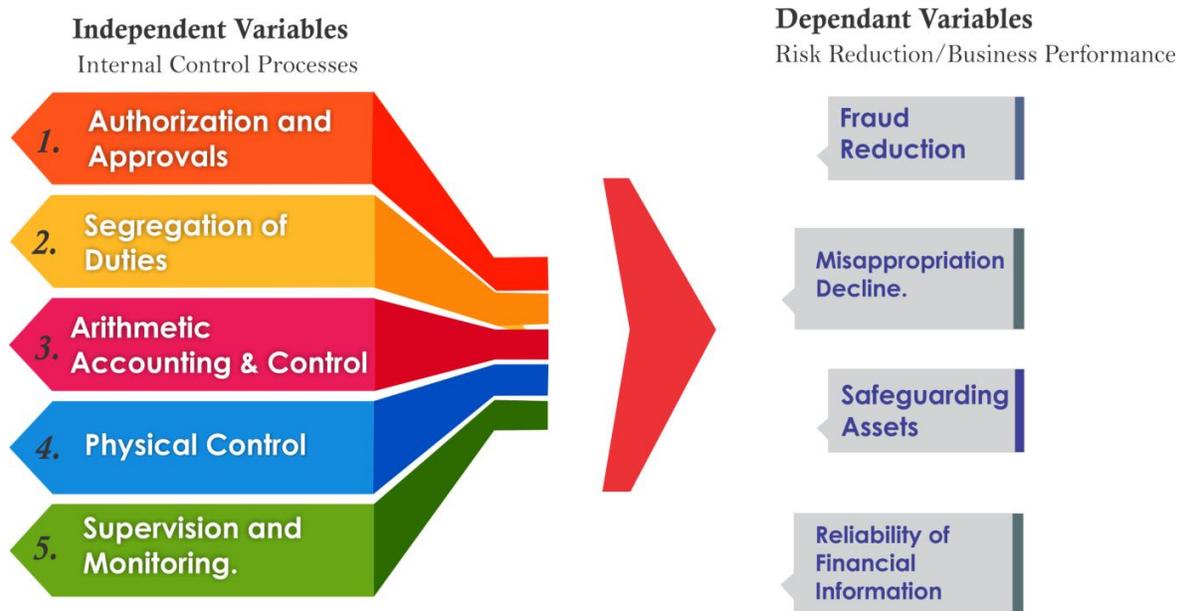


Figure 2.1 Conceptual framework

2.4.1 Independent variables

These include internal control processes which comprise of key control activities from authorisation and approvals, segregation of duties, physical control, arithmetic accounting and control, supervision and monitoring

2.4.2 Dependent variables

It is key to note that the organisational objectives which include risks minimisation in form of fraud reduction, safeguard of company assets, control of misappropriation of funds is achieved when there is interface and linkages on the independent variables initiated by the set up and level of absorption of the concept by the firm as shown by the representation above.

2.5 Types of internal control for SMEs

The guideline on internal control processes put forward eight (8) types of internal control processes that should be obtainable in an organisation to curb risks, for the purpose of this

study the following were assumed to be more relevant and will be explained in details as follows: authorisation and approvals, segregation of duties, arithmetic and accounting control, physical controls, supervision and monitoring.

2.5.1 Authorisation and approvals

All transactions should require authorisation by an appropriate responsible person. This is very critical in the financial system of an organisation where large amount of money is handled. Hence it is appropriate for funds used for various transactions to be authorised by a trusted and responsible person. Hatcher (2003) supported authorisation, approvals and also noted that authorisation is the delegation of authority; it may be general or specific. Allowing a department permission to expend funds from an approved budget covers also general authorisation. Particular authorisation relates to individual transactions; it may require the signature or electronic approval of a transaction by a person with approval authority. Sanction of a transaction means that the approver has reviewed the supportive documentation and is satisfied that the transaction is appropriate, correct and conforms to applicable laws, regulations, policies, and procedures. Approvers should review supporting documentation, question unusual items, and make sure that obligatory information is existent to justify the transaction.

2.5.2 Segregation of duties

Asoke (2005) underscored the importance of segregation of duties that the likelihood of fraud and the theft, which may reduce organisational performance, is reduced if it becomes necessary to collude with others to accomplish an offence. One of the prime means of control is the separation of duties. This reduces the risk of internal manipulation, accidental error and increases the element of checking. System development and daily operations have to be considered in moulding the internal control system to be full proof against fraud (Long, 2009). Manasseh (2004) also noted that segregation of duties reduces the risk of fraud, error and manipulation in the business thus increasing efficiency in the company's operations and improving performance. Plan of organization should describe proper separation of functional

responsibilities. Authorising transactions and running a department should not be the responsibility of one person. Allocating diverse people the tasks of approving transactions, recording transactions, and keeping custody of assets is intended to moderate the chances to tolerate any person to be in a position to both commit and hide faults or fraud in the usual daily activity of the person's duties. Long (2009) buttressed the motion and further highlighted that one of the most important ways to fight and detect fraud in a small business is to set up shared responsibilities for the business' financial management. Access to financial assets and information, including the accounting system, should be restricted and carefully controlled. Do not allow this to be a one-person task; make sure there is a separation of duties where no single employee has too much responsibility within the system.

2.5.3 Physical control

Mwakimsinde (2014) noted the following on physical control activities; they include physical security of assets, including adequate precautions such as protected services over entry to assets and records; approval allowing individuals to reach files; and annual or quarterly stock counting comparing with current amounts on the system. Losses may occur if for example there is no comparing of the results of cash, security and inventory counts with accounting records. Frauds are discovered in these controls and hence improving the organizational performance. The degree physical counting has on identifying deviation on on-hand balances are pertinent to the dependability of financial statement preparation, and henceforth the spot checks and planned audits, depends on conditions such as when assets are highly vulnerable to misuse (Mwakimasinde, 2014). This also concerns the physical custody of assets and involves procedures and security measures designed to limit access to authorized personnel only. Katuntu (2003) also endorsed physical controls and argued that these controls assume importance in the case of valuable, portable assets. Physical control can also be achieved by electronic means in a computerized environment for example through the use of electronic I.D cards, password to restrict access to particular file and reducing risk of access.

These controls aim to protect physical and non-physical assets and minimise losses from both internal and external events. Physical assets include cash, stock and equipment while non

-physical assets could include debtors, intellectual property or customer lists. Types of control techniques used to protect assets include:

- Physical security such as locking premises, using security cameras, safes
- Restricting access to access codes
- Changing computer passwords regularly
- Avoiding giving one employee total control over a process
- Making sure there is an independent check on processes and procedures

2.5.4 Arithmetic and accounting control

These are the controls within the recording function which check that the transactions to be recorded and processed have been authorized and that they are correctly and accurately processed. Possible activities to this to foster control include arithmetical check on accuracy of the records, maintenance and checking of sums, reconciliation, control accounts and trial balances and accounting for document. This reduces risk of fraud and increases reliability of financial information. Arithmetic check and control support the collection of correct information for management and financial reports (Hartcher, 2003). Many decisions are based on the information in these reports so accurate information is crucial. When financial reports are prepared and presented, users including regulators assume:

- All assets and liabilities actually exist
- The records cover the whole story and are complete
- All liabilities, rights and obligations are included
- All entries have been allocated to the correct accounts
- All relevant information has been disclosed

2.5.5 Supervision and monitoring

Katuntu (2003) forwarded that any system of internal control should include the supervision by responsible officials of day-to-day transactions and the recording thereof. All activities

performed in the financial management by all the level of staff should be clearly laid down and communicated to the person supervising. This facilitates and ensures that personnel have capabilities commensurate with their responsibility. Inevitably, how good a system performs depends on the capability and reliability of the individual who are in charge and commanding it. The credentials as well as the individual features of the people involved are resourceful prerequisites to be considered in setting up any control system especially in financial management so as to curb further risks.

It is also true to note that the above types of internal control processes for SMEs will thrive well if the following **control components** are working effectively

2.6: Components of internal control

Internal control structure and set up consists of up to five interrelated mechanisms. Most drawn from the way management runs daily activities of an institution, and integrated mostly with the management process (Nyakundi, 2014). Regardless of the components being applicable to an array of businesses, SMEs may make use of them differently as compared to their larger counterparts. SME controls may however be minimum and less recognized, less structured and yet at a smaller scale. Internal control systems offer different levels of output and effectiveness range. Defining whether a particular internal control system is working intact is a derivative resulting from checking whether components which are the control Environment, Assessment of risk, Activities to control, how information flows and communicated, and lastly the monitoring part are present and active. Sound controls provide reasonable guarantee regarding the accomplishment of targeted objectives. The elements of the control structure were outlined by the COSO in Figure 2.2 and described briefly below



Figure 2.2: The components of internal control

Source: Committee of Sponsoring Organisation (2015)

There is a general agreement among scholars on the components of internal control components which support control activities. Osefuah (2013) also stressed the following concerning how these components interlink. The afore mentioned components are inclusive of the following; conducive control environment, being keen to risk valuation, clear effective information and communication, control activities which are key in curbing risk, the form of strategies and actions that is, being cautious and alert on continuous monitoring of the usefulness of control-related policies and procedures. The total success of a system of internal control is a factor of how excellent each of these basic functions are working together in a bid to produce a favourable environment (DiNapoli, 2008). COSO (2010) forwarded that to a greater extent, availability of these five components of internal control will mostly guarantee efficiency. The control process is shown also in the following figure and discussed further.



Figure 2.3: The process of internal control

Source: Committee Of Sponsoring Organisation (2015)

2.6.1: Control Environment

The control environment, as established by the institution staff, is the mainstay that sets the tone towards a conducive control operating environment cognisance of its people (Nyakundi, 2014). Management attitude should be committed to ethical business practices and to following the established control processes and procedures. This is regarded as the springboard for all relevant components of internal control thus providing a standing structure. Control environment needs to be bound by integrity of the people, ethical values on appreciating what is good from bad, the commitment to excellent duty delivery, attitude and working culture; and the way leaders of institutions delegates' authority and responsibility. Not only does Osefuah (2013) agree to the notion he further supported that control environment is a key determinant and has the latitude to influence positively or negatively the total organisation and all other elements integrated in the structure. It is the link that joins the organisation's drive to operate in an ethical and honest behaviour, effectively and allowing for accurate financial reporting. Key elements of an institution's control environment range from

management's philosophy and operating style, manner in which management allocates authority and responsibility and their bid to better and develop employees.

2.6.2: Control Activities

Being the key variables to risk restriction, they range from policies and procedures to make sure that management directives are executed promptly. This facilitates steps initiated towards risk elimination and achievement of an organisation's goals. Control activities should be intertwined in the organisation and be the basis of all transactions processed. They include a range of initiatives from activities inclusive of approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Control activities usually comprise two key fundamentals being, policy establishing what should be done and procedures to ensure it is done. All policies must be implemented thoughtfully, conscientiously and consistently (Anduuru, 2005).

2.6.3: Monitoring

Internal control processes discussed above demand a high degree of monitoring, a process that assesses the level of quality of the system and how it is performing in a given time frame. This is achieved through continuous and consistent monitoring activities, independent evaluations or a combination and effective use of the two (Munene, 2013). General consensus has also been noted with Noovree (2006) agreeing that on-going checking has to be part and parcel of operations. It has to be inclusive of management and supervisory activities, and wide range of activities, exercises in a bid to monitor. The occurrence of separate evaluations will depend heavily on a valuation of risks and how reliable the continuous monitoring procedures are. Internal control lack should continuously be reported to top management, with serious matters being also directed to the leaders. There is interaction and connection among these components, forming an intelligent system that operates in-line with the current situation (Oseifuah, 2013). The internal control system should be intertwined with the entity's operating dealings and borrowing from this Njaramba (2014) made an important observation and asserts that internal control components are most effective when controls are built into the

entity's infrastructure and are being treated as part of the organisation and not in isolation. "Built in" controls support quality and output an institution produces. This as a whole avoids unnecessary costs and enables quick response to changing conditions. There is a positive and direct relationship between the categories of objectives, which are what an entity strives to achieve, and components which represent what is needed to get hold of the objectives. All components do not work in isolation but are relevant to each other. Krishnan (2005) further supported the notion of bringing all this together in a bid to curb risk.

2.6.4 Risk Assessment

Risk assessment involves the identification of aspects or conditions that put at risk realisation of an entity's objectives. This encompasses the process of identifying risks to the effectiveness and efficiency of operations, which also threatens dependability of financial reporting. Changes in personnel, theft, misappropriation, fraud are some of the factors that could affect an organization's targets(Oseifuah, 2013).

2.6.5 Information and communication

Communicating upstream and downstream is also one factor that should be entirely built in the framework. Nyakundi(2014) had it clear that information is the vehicle by which control guidelines and measures are introduced. On the other end communication represents the pipeline by which employees become aware of management's commitment to internal controls (Nyakundi, 2014). Both the control environment and information and communication harness all elements of the frame in a bid to make it intact. Information systems produce reports governing operational, financial and compliance-related information that facilitates smooth flow and efficient run of the business. COSO (2010) also states that information must flow through the entire organization so that individuals understand their conduct and interaction with the rest of the team. As one of the key fundamentals information and communication is supposed to inform all employees the importance of the control environment. Each employee should understand his or her role in the internal control system, as well as how

their individual activities relate to the work of others. Employees also need to know that they have a total responsibility to forward problems they notice in the delivery of their duties to the responsible authorities.

2.7 Status of internal control in the region

2.7.1: Status in South Africa

Just also on a comparison basis and shifting focus to South Africa, SMEs that side also have been deemed to play a very significant role. According to Kesper (2013) SMEs are regarded as the basis for development to stimulate the national economy through poverty alleviation and job creation among others. The strength of SMEs are put in viewpoint when emphasis is placed on the phenomenon that in the City of Cape Town alone, SMEs are believed to be responsible for generating up to half the population of the City's total business transactions, which explains meaningful numbers in formal job creation (Hayes, 2014). Hence the contribution alone that SMEs promote can never be side-lined. Siwangaza (2014) had also the same sentiments and forwarded focusing only on the retail sector in South Africa; SMEs are classified as either micro enterprises or survivalist enterprises. Stemming from the above, Solomon (2004) buttressed the two views and argued small businesses are start-up in South Africa mainly for survival and going concern purposes. In similar vein, Mutezo (2005) expressed the view that SME leaders are not concerned about internal controls they worry much about sales and profits generated. Key pointer from this is that small businesses become a target for weak internal controls, major driver being the perception that it is costly to implement internal controls. Jackson and Stent (2007) also in Siwangaza (2014) state that one of the major drawback of formulating comprehensive internal controls in most SMEs is that they follow a cost-benefit-approach and mostly it is viewed as expensive. That is the status quo in Cape town SMEs and inescapably this approach, more often than not, has resulted in inadequate internal controls processes being implemented and, consequently, creating a business environment that is susceptible to unwarranted risks. Regrettably if these risks surface in SMEs, the overall sustainability of these entities may be in jeopardy as in Cape Town.

2.7.2 Status of internal control processes in Uganda

A large number of SMEs in Uganda are characterised with little appreciation of the accounting side of business and do not appreciate and prepare books of accounts, this is one of the chief factors they are faced with in accessing finance (Briggs, 2009). One of the major characteristic Ugandan SMEs possess is operating in what is locally termed as “juakali” that is simply functioning in undeveloped way as noted by UNCTAD(2002). This is attributed to the environment in which SMEs are operating where customers do not ask for receipts whenever they purchase goods, in retrospect suppliers do not ask for invoices either. Documentation of important formal business contracts is not consistently done and demand for audited accounts is not compulsory hence making it much difficult to keep track and trail of transactions resulting in poor financial management with businesses exposed to extreme risks internally and externally and higher failure rate of these institutions is non-avoidable (Ernst and Young, 2011).

2.8: Consequences of weak internal control

Developed and sound internal controls which are efficient should guarantee sustained business development (Temkin, 2014). On the contrary, a small business environment characterised by weak internal controls would be in no doubt susceptible to all types of unfavourable risks. The term risk, as defined by the Institute of Internal Auditors (IIA), refers to an uncertainty of an event occurring that could have an adverse impact on the achievement of business objectives (IIA, 2012). When these risks take over a small business and its operations, the overall sustainability of the respective business will be in jeopardy. A risk which is quite common in a business entity which has weak internal controls is that of anomalies. According to Smit (2012) anomalies include all types of transgressions. A transgression, in turn, is defined as an act of violation of a law, or a duty or moral principle, weak managerial skills (Wordnetweb, 2010). If a transgression occurs, surfaces and goes undetected, the overall sustainability of any business is vulnerable. Some of the consequences as also argued by Hatcher (2003) include:

Fraud: Millions of dollars are lost every day in all business environments due to fraud. Fraud can be committed by an individual, a number of staff and/or external parties. But fraud

does not happen in a vacuum, fraud occurs due to a perception that it is possible to avoid being caught

Wrong decisions are made by people ill-equipped to deal with a situation. People without permission may authorise payment of petty cash without following procedures and end up disbursing cash for non-business expenses or not having appropriate receipts exposing the business to an array of risks.

2.9: Controls to assist in achieving the business objectives

Campbell (2011) argued that without accurate reliable financial information, decision-making becomes impossible and the business will suffer. Internal controls ensure financial information is accurate so that managers and owners can take the correct action to meet the business's objectives. Other internal controls under discussion that ensure the business meets its goals include; undertaking reference checks on new staff to ensure they do have essential qualifications, ensuring correct training for staff has been provided, appropriate supervision of staff, arithmetic checks, physical control, authorisation and approvals. The following provides also examples of techniques often used in small businesses to control procedures: document control, sequential numbering of documents, cheques, Independent check, re check totals, review spreadsheets, automated controls limit inputs in system, check dates, validation checks check amounts on invoices signed off, segregation of duties receipting separate from banking cash, exception routines, spot checks, physical controls limited access to equipment, petty cash, rotation of duties, receipting, approval authority levels, purchasing authority levels for staff, assignment of responsibility and clear lines of responsibility. These are important and will help an institution perform efficiently and effectively in the process minimising risks.

2.9.1 Internal controls and performance

The theoretical basis for establishing a relationship between financial performance and internal control systems has been documented in various literature. Internal control systems that have been confirmed to have a relationship with business organization performance include: organization, segregation of duties, physical authorization and approval, arithmetical and accounting, personnel, supervision, management, acknowledgement of performance and

budgeting (Weber, 2008). Anduuru (2005) was also of the same view and further asserts that it is difficult to rely on internal control systems of small and medium scale enterprises. This is so because such business entities have not established elaborate systems of internal controls, there is no adequate segregation of duties and there are no assurances as to the completeness of recording business transactions. On-going monitoring activities of small entities are more likely to be informal and typically performed as part of the overall management of the entity's operations (Wamae, 2005). To also strengthen the notion on internal control processes and performance Wolf (2004) positively identified that management's close participation in operations often will identify noteworthy variances from expectations and inaccuracies in financial data leading to remedial action to be taken for the aligned risk. He further analysed that basic concepts of the entity's risk assessment process are relevant to every entity, regardless of the size, but the risk assessment process is likely to be less structured in small entities than in larger ones, this enhances performance. Messier (1997) also endorsed that a firm's performance depends heavily on a sound internal audit function. Small and medium sized businesses are not too small for effective internal controls and appetite for risk; even a relatively small business can enforce certain internal controls that are very effective and this is key to propel a firm to competitive edge over the rest of the firms.

2.9.2 Further facts on internal controls and risk

Dwivedi (2002) analysed the following condition and tried to express the following view: an unpleasant fact of business is that some customers, employees shoplift, some vendors and suppliers overcharge their merchandise and short-count on deliveries, some employees embezzle or steal assets and go undetected, some managers commit fraud against the business or take personal advantage of their position of authority in the business. None of this is news probably. But you may think your business is exempt from these risks, you feel that all your employees are honest and everyone you deal with is honest and prudent. A small to medium business particularly is a natural target for fraudulent activities, scams, employee embezzlement, pilferage, worker crime, theft all being risks. Even a relatively small business handles a lot of money, holds valuable assets, and deals with a lot of people pre condition for an array of risks. To protect against these threats, a small business should put into place and

vigorously enforce internal control processes(Munene, 2013). Various precautions are established to prevent, or at least to minimize losses from all types of dishonesty against the business from within and outward bound.

2.9.3: Internal control processes and Survival

Dwivedi (2002) also identified that one of the key significant sign of a surviving business is a good internal control system. Richardson, Sonny & Suzan (2009) found out that, 38 active British businesses went into liquidation in the third quarter of 1992 and in 1991 a total of 21,827 businesses failed compared to 15,051 in 1990. However in Kenya there are no good data to indicate how many SMEs collapse within 3 years although it is a fact that they fail. This is therefore an indicator of weak internal control. When firms pose a blind eye on internal controls they directly link their daily activities to an array of devastating factors, serious pilferage, shrinkage of stocks especially in retail SMEs, fraud among others. Shrinkage usually refers to something becoming smaller or a gradual contraction overtime an impact considered to be serious or of much concern especially in retail business (Beck & Peacock, 2009). Shrinkage issues have been identified to be detrimental in SMEs as this has direct impact on the institution profitability. Kohne and Shaun (2014) argued that retailers typically identify an acceptable range of shrinkage based on the industry standards and the situations of specific stores. The acceptable level of shrinkage has to be taken into account when a company is making predicted forecasts. Excessive shrinkage is shrinkage that is higher than the particular retailer's acceptable level of shrinkage; this with no doubt has a higher threatening factor to the survival of the business

2.9.4 Causes of shrinkage

Theft from internal

This mostly has to do with stolen goods by employees of the company who are in direct contact with the group. Stock theft includes direct shop floor lifting by internal employees, detrimental combination between customers and suppliers to defraud the retailer among other activities (Newman and Cullen, 2002). Literature has it that retailers have an estimated loss of about 40 percent loss in shrinkage (Hollinger & Adams, 2008). In other European nations such as the US the impact of internal theft is estimated to be around 10 to 15 percent of the

cost of goods sold (Hollinger 2008) and a major contributor to liquidation in the range of about 30 to 50 collapsing companies.

Theft from External

Different pointers are used, including shop theft, shoplifting and customer theft, but it is often referred to as an official taking of goods by employee or non-employees during working hours for personal use and without the intention of bringing back (Newman and Cullen, 2002), or as Kraut sarcastically put it as the acquisition of goods at minimum or no cost.

Inter group fraud

Mostly accounts of stock losses that occur between the company transactions, for instance movement of stocks from one unit branch to another. If there is no system to monitor the departure and arrival of such goods, fraud might be prevalent in between. Short deliveries might be facilitated in between or even failure of the supply to reach the intended destination putting the stocks at risk

Supplier theft or fraud is challenging to control as suppliers normally have contact to the retailer's stock receiving area when delivering stock, their relationship with buyers of companies, all this can facilitate collusion which might result in shrinkage (Gilbert, 2003).

Process failures

This comprise of system errors that may in the running time process go wrong.as products make their journey from delivery to the retailer upto their final departure as sales in the hands of a customer, not including theft internally and externally (Fisher et al., 2000). The channels for shrinkage through human error are vast being also a function of the large volume of transactions they handle (Gilbert, 2003).

2.10:Value of internal control and risk management

An organization's system of internal control has a key role in the management of risks that are significant to the fulfilment of its business objectives. A sound system of internal control contributes to safeguarding the shareholder's investment and the company's assets. Internal

control facilitates the effectiveness and efficiency of operations, helps ensure the reliability of internal and external reporting and assists compliance with laws and regulations (Munene, 2013). A company's objectives, its internal organization and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. A well comprehensive system of internal control in reciprocal depends on a thorough and regular effectiveness check-up of the nature and degree of the risks to which the company is exposed. As a principle since profits are, in part, the reward for successful risk-mapping in business, the purpose of internal control is to help manage and control risk appropriately rather than to eliminate it totally (Jiang, 2010).

2.11: An element of a good internal control system (audit)

Leslie and Howard (2012) writing on internal audit say, it is a review of operation and files sometimes continuous, looked into by a specially assigned staff. Leslie (2012) went further to argue that where internal audit exist, internal control are greatly facilitated and in order to achieve the planned objectives, management must have to set reasonable procedure for the internal audit department to apply. Further he claimed that if internal auditor is to achieve the aim of management that is profit maximization, independence is also a necessity. Not only Savcuk (2007) agreed with the motion he went further to support that if management set up a strong internal audit department with its own autonomy, the scarce fund of an organization would be adequately and effectively managed. Internal auditors have responsibilities to carry out some of which are: providing management with information about the adequacy and effectiveness of the organization system of internal control processes. Internal auditors should be able to undertake at all times special investigation at the management request so as to reduce all potential risks

2.12: Relationships between internal control and internal auditing

There has been a misconception about the use of the word internal audit and internal control and a clarification has been deemed necessary. Ashbaugh(2014) defined internal audit as an independent review of operations and records, sometimes continuously undertaken within a business by a specially assigned staff as a continuous improvement process rather than fault

finding. While he defined internal control as a system which comprises the plan of an institution and all of the calculated methods and measures embraced within a business to safeguard its assets, check the accuracy and reliability of its accounting data, and eliminating risks which might befall the entity. Furthermore, he explained that an efficient internal control system embraces need of an internal audit; internal audit is carried out on the basis of the internal control system for mostly spectacle firm performance. Messier(2007) not only did agree but further supported that one of the fundamentals to note in regard to internal control it is a function of internal audit. Small entities have however disregarded this important function whose benefits may prove to be more than the costs of having none. Messier (2007) further supported the perception and points out that a firm's performance depends heavily on a sound internal audit function. Anduuru (2005) also agreed and supported other authors with the notion that small and medium sized businesses are not too small for effective internal control. Even a relatively small business can enforce certain internal controls that are very effective. To have a competitive edge over the rest of the firms, business entities constantly should carry out appraisals of their internal control processes. Therefore, the basis of superior enterprise performance is stronger, reliable and up to date systems of internal controls process. Njaramba(2014) further clarified the processes and also defined internal controls as measures introduced by an entity to facilitate and guarantee achievement of its objectives.

2.13 Management and internal control systems

Chukwu (2012) stressed the following in relation to management and internal control process: the internal control system should be evaluated periodically to expose any lapses present to know how strong or weak the system is. Management is in the position to override controls, which it has established, for its own interest. The role of management in internal control is explained as follows; It is the management of an organization that put in place the internal control system for smooth running and continuity of the enterprise. However, management has a way of affecting the internal control system and vice versa. When an internal control system is set up by the management, it will be arranged in such a way that any misconduct or lapses in the system will be noticed. The effect of management on internal control will be obvious from the way in which they handle misbehaviours or misconducts among workers. If management deals with the misconduct with levity, the whole organization will relax, that is

people will begin to work at will and at their own pace, knowing that nothing will be done to them. It should be noted that with this kind of management, fraudulent act would thrive very well. Also in a case whereby the management shows favouritism to some workers and turn blind eyes to their misconduct, fraud thrives. A good management ought to ensure effectiveness of the internal control system by frowning at any type of malpractice or misconduct. Finally, the competence and integrity of the personnel operating the controls must be ensured by management through proper selection and training to assure the organisation beyond reasonable doubt against fraudulent acts and achieves its key objectives

2.14 Limitations of internal Control

Chukwu (2012) observed a flip side of internal control and argued that, internal controls are essential features of any organisation that is non-effective. However no system of internal control processes can by itself guarantee efficient administration and the completeness and accuracy of the records nor can it be proof against fraudulent act especially in connection with those holding the position of authority. Limitations of internal control include:

Management overriding controls whenever the control does not suit their selfish ambitions. Further the following flaws were also noted

- Fraud committed by someone who has carefully studied the system of a particular organization
- Abuse of responsibility that is taking advantage of the position held to do or carryout illegal acts.
- Employees of an organization making potential human errors caused deliberate moves

All these are factors that can limit the effectiveness of internal control process system in the risk management of an organization.

Wamae (2005) is also slightly of the same sentiments but however postulated further on the some complications on effects of suppressed internal controls processes. Inadequate internal controls routinely result in loss of revenue, loss of market share, loss of critical business information and data, inaccurate or untimely reporting, or failure on outside audits or

reviews. Potentially serious consequences are faced by any business, organization, or agency that lacks control systems, has weak control systems or has controls that are not followed. A failure in control systems jeopardizes a firm's ability to provide goods or critical services in a timely, efficient manner and may result in such negative consequences as:

- loss of assets and resources;
- loss of potential revenue
- unintentional errors, inefficiency, or waste;
- mismanagement;
- loss of consumer confidence and market share hampering growth

2.15 Chapter Summary

This literature review chapter started with the introduction of internal control processes and then further went on key types of internal control processes and control components which buttress the overall system to risk reduction. The author's conceptual framework was also outlined and discussed in relation to risk minimisation. Status of internal control processes in different regions was also discussed. Further essential linkages between internal controls and internal audit were also analysed. Finally limitations to a system of internal control process being a bullet proof to risks was also put forward before rounding up all the relating issues.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

The chapter serves the purpose of explaining the adopted methodology that was deemed fitting for the intended research. Essential elements of the chapter dealt with such issues as research design and the instruments employed in the data collection processes. The chapter also focused on validity and reliability aspects of the research process. Another important inclusion related to detail regarding population sample and sampling procedures. Since it was important that the instruments were pre-tested for suitability and appropriateness, a section of the chapter was devoted to describing the pilot study. A projection of how data would be analysed in chapter four was also given.

3.1 Research design

A research design is a framework that guides a researcher in studying a research problem (Mugenda, 2008). Burns and Grove (2007) also defined it as a blue print for conducting a study with maximum control over factors that may obstruct with the soundness of findings. It guides a researcher to know what to do in the whole of research process. A descriptive approach research design was followed for this research as it entailed the description of phenomena that exist in the practical world (Collis and Hussey, 2009). The main drive of this research was to resolve the identified research problem, namely that SMEs are perceived as not sustainable owing to an array of risks and inadequate utilisation of internal controls. This research also fell within the ambit of the positivistic research paradigm. Descriptive research is more rigid and seeks to describe the phenomena that exist in the practical world (Hussey, 2009).

The major limitation to this paradigm was that it fell short of being a representative of total the total population but the researcher made use of stratified sampling to ensure that all elements of the total population are adequately represented.

3.2 Research Philosophy

Research philosophy according to Saunders and Thornhill (2011) is a belief about the method in which facts about an event should be collected, interpreted and used. This research focused on positivism out of all the philosophies.

Positivism adheres to the view that only “factual” knowledge gained through observation (the senses), including measurement, is trustworthy. In positivism studies the role of the researcher is limited to data collection and interpretation through objective approach. The research findings are usually observable and quantifiable (Goddard, 2004). A positivist philosophy of research is based on observable experience facts gained from positive authentication of observable experience rather than intuition. Against this background scientific methods are the best way of achieving this knowledge. These methods ensure that there is space between the personal biases of the researcher and objectives. It has been noted that as a way of life positivism is in agreement with the view that knowledge comes from experience (Collins 2010).

Thus for this research a positivist philosophy was chosen since the study focused on testing hypothesis developed from existing literature. The researcher also believed that reality is stable and can be observed from an objective point of view. Further the researcher wanted to distance himself from subjective bias and would want to use the findings to a wider population and against this background there was need for rigid control of variables which is in line with the positivist philosophy.

3.3 Research Approach

Saunders (2011) recognized the deductive and inductive approaches as the two main approaches to any research. It is true to confirm that deductive research is a study in which theory is proved by empirical observations thus it can be referred to as moving from the general to the particular (Hussey and Hussey 2009). For the purposes of this research, the researcher used the deductive approach because the researcher was concerned with developing a hypothesis based on the existing theory from the literature on the

interrelationship between internal control processes and risk reduction and then designs a research strategy to test the hypothesis.

3.4 Research Strategy

The research strategy chosen for the purposes of this study was a survey. According to Bell (1993), a survey will aim to obtain information from a representative selection of the population and from that sample it will then be able to present findings as being representatives of the population as a whole. The objective was to obtain information that could be analysed. The researcher opted for a survey because of its ability to extract data that is near to exact characteristics of a larger population implying a good statistical significance. The researcher also opted for a survey other than other research strategies because no other research method could provide this broad capability of describing the characteristics of a large sample. It enabled gathering of large quantity of data in an efficient way and in the process standardisation of the research instrument allowing for greater control.

3.5 Data collection

The respondents in this study were the entrepreneurs of the targeted SMEs. The reason for administering the chosen population was necessitated by the complexity of the subject under study. Primary data was collected using a questionnaire with closed questions administered to the selected entrepreneurs. The questionnaires were self administered. However, where the entrepreneurs were busy and could not be easily reached, the researcher used drop and pick later method. According to Oso and Onen, (2008) questionnaires are a data collection instruments in which the respondents respond to the number of items in writing. Questionnaires were chosen simply because of the time limitation. The main characteristics of a well designed questionnaire as outlined by Haralambos et al (2004) are its ability to provide information being required and its acceptability to the respondents. Above all the instrument should not give problems at the analysis and interpretation stages of the research this was also noted in the process.

The questionnaire, therefore, consisted of closed ended items. The closed ended items had predetermined set of choices answers for selection by respondents. The questionnaire approach had an advantage of being able to plead for quick responses from the sample population on internal control processes and risk reduction in SMEs. The closed ended items allowed for collection of data that was easy to code and quantify.

3.6 Pilot study

Christensen (2006) defines a pilot study as an experiment that is conducted on a few subjects prior to the actual collection of data. A similar view on the matter was given by Robson (2002). The first stage of any data gathering should be a dummy run, a pilot study. This helps you to throw up some of the un-foreseen problems of converting your design into reality.

The value of this stage as detailed by Bell (1993) emphasised on the need to pilot data collecting instruments so that any items that did not yield usable data were removed. This was cautiously done and applied for the research with the first batch of the questionnaire tested. An added advantage that accrued with the trial run of the questionnaire was that it provided a great deal of information regarding accuracy and thus helped to reveal any ambiguity in the questionnaire. Some subtle factors for example the wording and format of items that had potential for negative influence on the survey were identified and rectified at this phase. These measures ensured that the survey was sufficiently edited to meet the test for validity and reliability. This also helped develop an instrument that really served to solicit the required information.

3.7 Population and sample

Part of the trail when conducting a research especially when there are limited resource and time is to choose just a proportion of population which truly reflects entire population. At its broadest sense a census involves enumerating the whole population whilst on the other hand a sample survey calls for investigating only a segment of the target group. Sampling frame describes the list of all population units from which the sample was selected (Cooper and Schindler, 2003). It is a physical representation of the target population and comprises all the

units that are potential members of a sample (Kothari, 2008). Mugenda and Mugenda (2003), indicates that a sample size of 10% of the target population is large enough so long as it allows for reliable data analysis and allows testing for significance of differences between estimates.

For the purpose of this research, a survey was adopted and had vast merits. Mainly this compensated in form of low cost and increased accuracy in data analysis. Sampling also consumed far less time to collect data as opposed to an analysis of the total population, notably also was that data precision improved as the researcher had to deal with relatively small amount of information.

Critically noted were also however short comings of sampling being the risk of unintentionally dealing with incomplete information and choosing the right and adequate sample size but to neutralize, stratification method used enabled the whole population to be adequately represented. For instance central business district SMEs, workington side and granite side SMEs being part of the stratification process.

3.8 Determining the sample size

3.8.1 Factors to consider in determining the sample size

When the researcher is sampling he will only be dealing with limited information about the population and there is a danger of the information being wrong when inferring population characteristics from a sample. So, a researcher should know the degree of accuracy he needs to seek from the research since there is a strong relationship between the degree of accuracy and the sample size (Koltler 2013)

The confidence level and precision determine the sample size. A high confidence of for example ninety nine percent shows that the researcher seeks to minimize risk (Damodaran, 2012). This confidence level means that the researcher wants true value being sought. The frequently used confidence level in surveys is 95 percent, and the precision is more often than not set at five percent as the unconditional minimum

3.8.2 Calculating the sample

Table for determining minimum returned sample size for a given population

Table3.1:Calculating the sample

Population size	sample size
100	55
200	75
300	85
400	92
500	96
600	100
700	102
800	104
900	105
1000	106
1500	110
2000	112
4000	119
6000	119
8000	119
+10000	119

Source: Kotrlik and Higgins (2001)

Retail SMEs understudy are in excess 5000 in Harare and against that background 121 questionnaires were distributed which also agrees with Kotrlik and Higgins (2001). Hogg and Tanis (2008) also emphasized that a sample size greater than 30 is ideal for large sample inference in business research thus a sample size of 121 was representative of the total population.

3.9 Data analysis

Responses from all questionnaires were analysed using the Statistical Package for Social Sciences (SPSS). Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. Tables were used to summarize responses for further analysis

and facilitate comparison. Data analysis was done using SPSS Version 22.0 software to generate quantitative reports. Data for this study was quantitative hence descriptive statistics were employed and arithmetic mean, standard deviation, percentages and frequencies were used to analyse responses to the questionnaires while the findings were presented using tables.

Regression model was used to determine whether the sets of independent variables together predict the dependent variable. The regression model was in the form:

$$BP = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5$$

Where,

β_0 , β_1 , β_2 , β_3 , β_4 and β_5 are the regression co-efficient

BP –Business Performance of Small businesses/Risk reduction

X1 – Authorisation and approvals

X2 – Segregation of duties

X3 – Arithmetic and accounting control

X4 – Physical control

X5 –Supervise and monitoring

Regression analysis was carried out to find the significant effect of independent Variables (X1, X2, X3, X4 and X5) on dependent variables (Risk reduction).

3.10 Validity and reliability

Validity of a research questionnaire refers to the degree to which the instrument measures what it is set out to measure (Twycross and Shields 2004). Face validity was accomplished by pretesting the questionnaire. Content validity which measures the degree to which the instrument fits into the conceptual framework was achieved by use of experts verified through submission of the questionnaire to the research supervisors for content verification. Further validity of research instrument was determined by the researcher through seeking opinions of experts in the field of study especially the researcher's supervisor and lecturers in the

department of Business Administration at the University of Zimbabwe. This facilitated the necessary revision of the research instrument.

Reliability of the research instrument was enhanced through a pilot study that was done on 5 Small to medium enterprises in Harare. Reliability refers to the measure of the degree to which a research instrument yields consistent results on across time and across the various items of the instrument (Sekaran, 2003). It is the extent to which an instrument is predictable, stable, accurate and dependable to yield the same results every time it is administered. The pilot study enabled the researcher to be familiar with research and its administration procedure as well as identifying items that required modification. Internal consistency which tests for the homogeneity of items in the instrument was assessed using the Cronbach's Alpha. Cronbach's alpha is a measure of internal consistency that is how closely related a set of items are as a group. It is considered to be a measure of scale reliability. An alpha of between 0.7 and 0.9 was acceptable for this research.

3. 11 Limitations

As the research was more senior management based and required also at some level input of the owners of SMEs in context it was difficult to get the information at once but however reschedules were done which meet the requirements of the respondents. The researcher also pre advised respondents on the academic nature of the information being required. More so the research was to be undertaken in a short space of time frame the sample had to be limited in order to make the task manageable as well as keeping it within the allocated budget.

3.12 Ethical considerations

There is always real need of the researcher's transparency and honest to the people who will take part in the research study. In this study the following considerations were taken into account;

- i. All names of the respondents were not disclosed
- ii. All information was to be used for academic purposes only
- iii. The researcher made sure that no offensive information was contained in the research
- iv. The researcher kept the moral obligation of maintaining the confidentiality of data to ensure respondents anonymity
- v. Permission was sought to carry out the study from relevant authorities.

3.13 Chapter summary

The research methodology used in this study was quantitative in nature. Because the research had well considered hypothesis the deductive approach was used for this research. The study adopted a survey as the research study. The chapter also discussed aspects of validity and reliability of the research instrument. The chapter also gave an overview of data analysis and presentation techniques in which the statistical tool SPSS was used for that purpose. Finally the chapter discussed the ethical considerations of the study. Next will the chapter on data analysis.

CHAPTER 4

4. RESEARCH FINDINGS AND DISCUSSIONS

4.0 Introduction

The previous chapter focused on the methodology used for data collection and analysis. This chapter will now present the research findings from the study population and how the collected data addressed the objectives. The data was captured and analysed using SPSS version 22, the following discussion will present response rate, descriptive analysis, reliability analysis, normality tests, correlation analysis, regression analysis and hypothesis testing discussed in relation to the objectives. Tables and graphs will also be used to ensure clarity and simplicity

4.1 Response Rate

The study had a target population of 200 registered and active SMEs operating within the Harare Province from which a sample of 150 SMEs was selected. In this study the researcher administered 150 questionnaires to SMEs operating in Harare and from this 121 were successfully completed and returned for analysis representing an 80.6% response rate. Questionnaires were either hand-delivered or sent electronically via email to each sample element with the specific request and clarity that the responses were only to be used for the study. Owners, senior managers and junior managers were targeted mostly because they are familiar with internal control process to curb risk in these institutions.

4.2 Demographics

It was found validating for this study to explore the respondents on a personal level focusing on their Gender, Position held in the Organisation and Level of Education. This is appropriate for the researcher to understand the background statistics of the respondents as demographic data can unearth significant relationships that may be present in the data (Cooper and Schindler 2003).

4.2.1 Gender of respondents

Rating presents that majority of the respondents 78 (64.5%) were males and 43 (35.5%) of the respondents were females. Figure 4.1 below, presents the gender rating of the respondents.

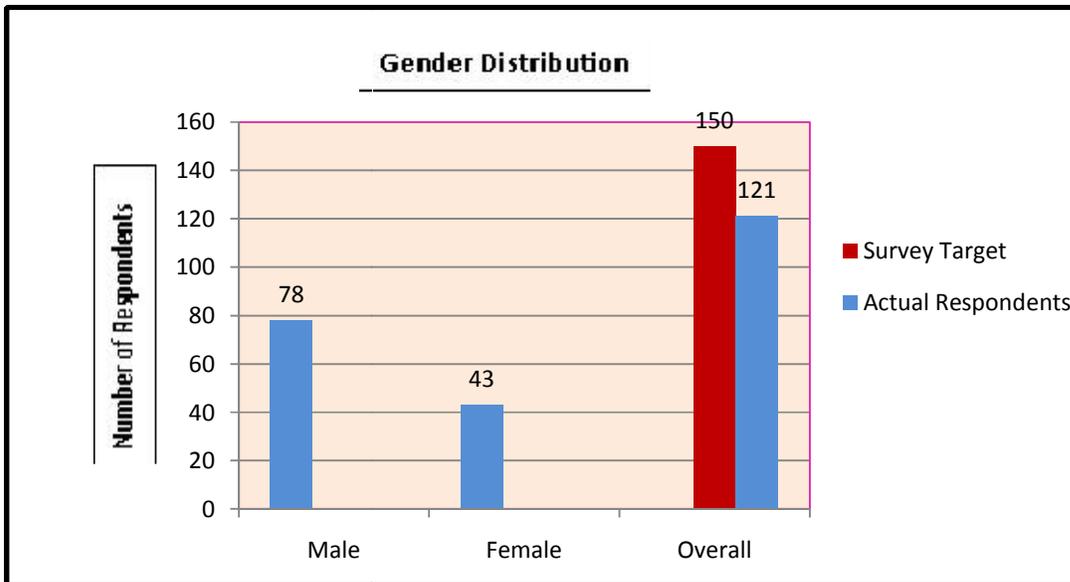


Figure 4.1: Gender of Respondents

Male representation reflected to be high in comparison with the female, explanation may be being explained by the higher proportion of males in the ownership and managerial positions of SMEs. Massive retrenchments in the formal job market as experienced lately might also explain the SMEs market rise dominated by males.

4.2.2 Level of Management

Respondents that were mainly targeted by this research study comprised of the Owners, Senior Managers and junior managers considering that they are the ones in the driving seat of internal control processes and curbing risk in SMEs. Rating in the study was as follows. Owners, 79 (65.3%) followed by Senior Managers 29 (24.0%) and Junior managers 13 (10.7%). This improved also the quality of the results obtained.

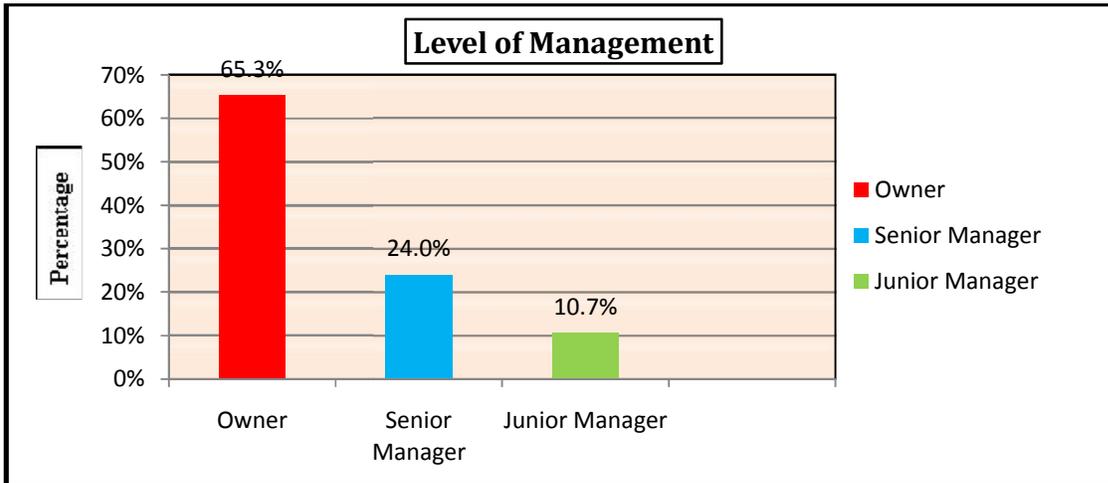


Figure 4.2: Level of Management

4.2.3 Education level

Data processed in regards reviewed the following, quite a significant number of graduates driving the SMEs sector. Facts extracted supporting the motion include the following 54 (44.6%) of the respondents have an Undergraduate degree as their highest qualification, closely followed by 53 respondents (43.8%) with Post-Graduate degrees, the minority also having the remaining qualifications.

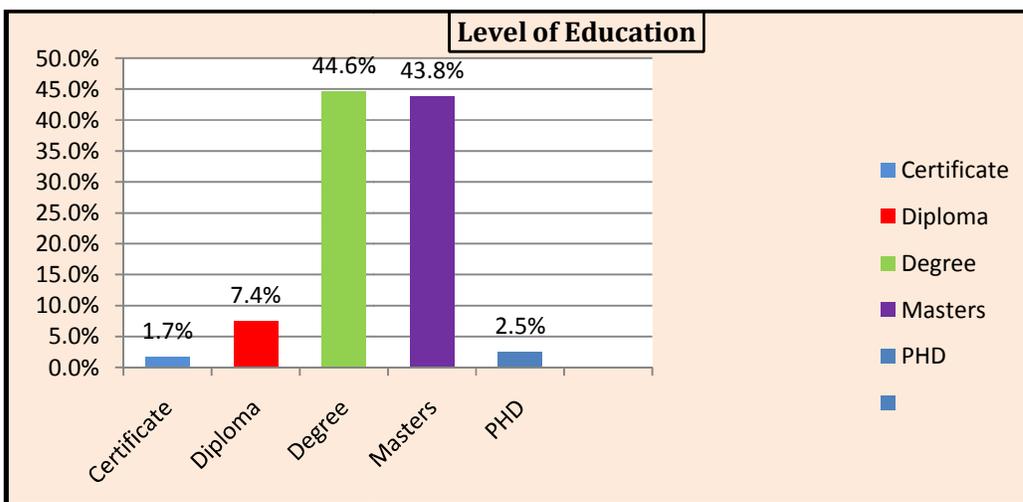


Figure 4.3: Level of Education

4.2.4 Financial literacy

This statistic was also explained by the level of education attained by the respondents from the analysis above. Majority of the respondents are well up to date with financial issues and pose a higher financial literacy rate. For instance 69 respondents (57%) had very high financial literacy with 48(39.7%) on high and 4(3.3%) on average. Table below summaries

Table 4:1 Financial literacy

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very high	69	56.6	57.0	57.0
	high	48	39.3	39.7	96.7
	Average	4	3.3	3.3	100.0
	Total	121	100.0	100.0	
Total		121	100.0		

4.3 Reliability test

According to Malhotra (2007), a scale is considered to be reliable if the Cronbach's Alpha values are equal to or exceed the recommended threshold of 0.70. Sandada (2015) also agreed with the motion and noted that, for a research instrument to be considered credible it must be valid and reliable. A Cronbach alpha estimate should be interpreted just like other internal consistency estimates, that is, it estimates the proportion of variance in the test scores that can be attributed to true score variance (Tavakol 2011). To simplify it, Cronbach alpha is used to estimate the proportion of variance that is systematic or consistent in a set of test scores. To comply with the views, reliability tests were processed to ensure that the questionnaire could be depended upon. Content check was also done through supervisors and other academics in the Graduate School of Management; this catalysed the process of refining the questionnaire. Piloting of the questionnaire was also done and this eliminated ambiguity in some of the questions. Cronbach's alpha reliability coefficient normally ranges between 0 and 1. However, there is actually no lower limit to the coefficient. The closer Cronbach's alpha

coefficient is to 1.0 the greater the internal consistency of the items in the scale (Gliem & Gliem 2003).

George and Mallery (2003) provide the following rules of thumb: > .9 Excellent, > .8 Good, > .7 Acceptable, > .6 Questionable, > .5 Poor, and < .5 Unacceptable. Computation of the Chronbach's Alpha for the study noted a significantly overall statistic for the questionnaire that was acceptable 0.707.

The summarised table below shows the final reliability score that were obtained after all the 121 questionnaires had been captured in SPSS for analysis

Reliability statistics for questions asked

Table 4:2 Reliability Statistics

Cronbach's Alpha	N of Items
.707	17

The reliability test was conducted using SPSS and the Cronbach's Alpha equaled 0.707 which certainly lies in the acceptable range of 0.7-0.9 (Gliem & Gleim 2003). This meant that questions asked on whether internal control processes had an impact on risk reduction were reliable. Tavakol & Dennick (2011) argued that reliability is concerned with the ability of an instrument to measure consistently; an instrument cannot be valid unless it is reliable.

After obtaining assurance that the questionnaire which was used was valid and reliable, the study proceeded by carrying out a normality test. The results of the normality test are presented in the next section.

4.4 Normality test

There are several methods of assessing whether data are normally distributed or not. They fall into two broad categories: graphical and statistical. Graphical include such test as cumulative frequency plots and Q-Q probability plots. Statistical tests include Shapiro-Wilk test or Kolmogorov-Smirnov test. The Shapiro-Wilk test is usually appropriate for small sample sizes (<1000 samples) whilst the Kolmogorov-Smirnov handle sample sizes greater than 1000 samples. The normality test establishes how data is distributed. On a normality test, a p value

greater than 0.05 ($p > 0.05$) indicates that the data is normally distributed signifying that the sample selected does not differ significantly from the population of the study and Parametric statistical tests can be performed using this data. In comparison, if the p value is less than 0.05 ($p < 0.05$), then the data is not normally distributed as a result sample differs significantly from the population and this calls for the performance of Non-Parametric statistical tests on the data.

Table 4.3 Test of Normality

	authorise	Kolmogorov-Smirnova			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
RISKre	4.00	.360	7	.007	.664	7	.001
duction	4.33	.184	15	.185	.851	15	.018
	4.67	.234	23	.002	.808	23	.001
	5.00	.385	76	.000	.633	76	.000

a. Lilliefors Significance Correction

Analysis above reflected an uneven distribution since sig levels are less than 0.05, therefore the study used non-parametric statistics to analyse the data. Non-parametric statistical tests make no such assumptions about the parameters of the population distribution from which the data is drawn. As the sample size increases, normality parameters becomes more restrictive and it becomes harder to declare that the data are normally distributed.

4.5 Analysis of variance

Analysis of variance (ANOVA) is applied when comparing values on some continuous variable for more than two groups or conditions (Pallant, 2005). One-way between-groups analysis of variance is used when there is one independent (grouping) variable with three or more levels (groups) and one dependent continuous variable. According to Pallant (2005), the 'One-Way' part of the title indicates that there is only one independent variable, and 'Between-Groups' means that there are- different subjects or cases in each of the groups..

When conducting the one-way analysis of variance, the Sig. value should be equal or less than 0.05 ($p \leq 0.05$) in order to conclude that there is a significant difference among the mean scores

of the dependent variable for each of the three or more groups (Pallant, 2005). If the Sig. value is greater than 0.05 ($p > 0.05$), then there is no significant difference among the groups.

The study adopted Correlation analysis and Regression analysis in establishing the existing relationship between internal control processes and risk reduction in SMEs. The results are explained in the next section.

4.5.1 Regression analysis

Regression analysis was performed to test the predictive relationship between two sets of constructs; namely, risk reduction and internal control processes. The five perceived driving factors of risk reduction were used as independent variables and risk reduction itself was used as a dependent variable.

Table 4.4 below presents the model summary of the regression analysis between the five perceived driving factors and risk reduction.

Table 4:4 Regression Analysis Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.848a	.701	.681	.26382

Predictors: (Constant), segregation, Physical control, authorisation, supervision, accounting

The results from the analysis clearly reflects that 68.1% in risk reduction is being explained by the model which comprises authorisation and approvals, arithmetic and accounting control, segregation of duties, physical control and supervision. The regression coefficient for the relationship of perceived internal control processes and risk reduction was 0.848 whilst the corresponding R-square statistic was 0.701. The value of R-square (0.701) shows that the model is a strong predictor of the perceived driving forces of risk reduction among SMEs. This means that authorisation and approvals, arithmetic and accounting control, segregation of duties, physical control and supervision explain 70.1% of the variation in risk reduction among SMEs.

4.5.2 Statistical significance of the regression model

Table 4:5 Regression Model Validity

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.008	5	.402	5.770	.000^b
	Residual	8.004	115	.070		
	Total	10.012	120			

a. Dependent Variable: risk reduction

b. Predictors: (Constant), segregation, physical control, authorisation, supervision, accounting and control

The F-ratio depicted in Table 4.5 above was used to test whether the overall regression model was a good fit for the data. It is given then that the independent variables were statistically significant in predicting the dependent variable, $p < .05$ ($p=0.000$). Therefore, the regression model was a good fit for analysing the effect of perceived drivers on risk reduction in SMEs.

4.5.3 Model Coefficients

Table 4:6 Model Coefficients and Statistical Significance of Independent Variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.388	.669		3.568	.001
	authorisation	.300	.116	.318	2.592	.011
	supervision	.023	.109	.025	.214	.831
	Phy control	.223	.120	.197	1.855	.066
	accounting	.392	.154	.357	2.543	.012
	segregation	.045	.079	.055	.567	.572

a. Dependent Variable: risk reduction

The coefficient analysis gives the beta values which measure the extent of contribution for independent variables are contributing to the dependent variable. In this study the focus was on determining the magnitude to which authorisation and approvals, arithmetic and accounting control, segregation of duties, physical control and supervision contributed to risk reduction in SMEs. The p-value for each coefficient was also used to determine whether the relationship between the independent and dependent variable was statistically significant.

The outcomes exhibited that:

- a) Authorisation and approval makes the most significant contribution to Risk reduction in SMEs [$\beta = 0.318$, $p < 0.05$ ($p = 0.011$)]. As we increase critical authorisation and approvals risk reduction will be prevalent in SMEs.
- b) Accounting and control make the second most significant contribution to risk reduction in SMEs [$\beta = 0.357$, $p < 0.05$ ($p = 0.012$)]. There is a direct link between risk reduction and level accounting and control among SMEs.
- c) Physical control reflected to be insignificant contribution to risk reduction in SMEs despite positive p value [$\beta = 0.197$, $p < 0.05$ ($p = 0.066$)]. If we could enhance physical control in SMEs risk can possibly be curbed
- d) Segregation of duties contribution to Risk reduction in SMEs reflected to be insignificant also despite the positive p value [$\beta = 0.55$, $p < 0.05$ ($p = 0.572$)].
- e) Supervision and monitoring being the least contributor to risk reduction in SMEs [$\beta = 0.025$, $p < 0.05$ ($p = 0.831$)].

4.6 Correlation analysis

Correlation analysis is used to describe the strength and direction of the linear relationship between two variables. The correlations range from -1.0 for a perfect negative relationship to +1.0 for a perfect positive relationship (Welman, Kruger, & Mitchell, 2005). Pearson's product-moment correlation coefficient was adopted in testing the correlations amongst the above mentioned internal control processes factors and risk reduction

Following table illustrates the Pearson's product-moment correlation coefficients that were obtained from the correlation analysis.

Table 4:7 Correlation Matrix

		Business Performance	Authorisation	Supervision	Physical control	Accounting and control	Segregation of duties
Business Performance		1					
Authorisation	Coefficient	.319**	1				
	Sig.	.000					
Supervision	Coefficient	.261**	.154	1			
	Sig.	.004	.092				
Physical control	Coefficient	.192*	-.012	.513**	1		
	Sig.	.035	.899	.000			
Accounting and control	Coefficient	.324**	.625**	.307**	.055	1	
	Sig.	.000	.000	.001	.548		
segregation	Coefficient	.104	.161	.341**	-.080	.159	1
	Sig.	.256	.077	.000	.382	.081	

4.6.1 Authorisation and risk reduction

The results indicated that there is a positive, strong and statistically significant relationship between Authorisation and Risk reduction in SMEs [$r=0.319$, $p<0.01$ ($p=0.000$)].

4.6.2 Supervision and risk reduction

The results indicated that there is a positive, strong and statistically significant relationship between Supervision and Risk reduction in SMEs [$r=0.261$, $p<0.01$ ($p=0.004$)].

4.6.3 Physical control and risk reduction

The results showed that there is a positive, weak and statistically significant relationship between Physical control and Risk reduction in SMEs [$r=0.192$, $p<0.05$ ($p=0.035$)].

4.6.4 Accounting control and risk reduction

The results indicated that there is a positive, strong and statistically significant relationship between Accounting control and Risk reduction in SMEs [$r=0.324$, $p<0.01$ ($p=0.000$)].

4.6.5 Segregation of duties and risk reduction

The results showed that there is a positive, **weak** and statistically significant relationship between Segregation of duties and Risk reduction in SMEs [$r=0.104$, $p<0.05$ ($p=0.256$)].

Further analysis noted there was no problem of **multicollinearity** which is essentially when independent variables are correlated among themselves. Principle rule is correlation above 0.7 should be closely viewed as this might have a possibility of collinearity problem. The greater the multicollinearity the greater the standard errors (Gleim&Gleim 2003). When high multicollinearity is present, confidence intervals for coefficients tend to be very wide and t-statistics tend to be very small. Coefficients will have to be larger in order to be statistically significant, that is it will be harder to reject the null when multicollinearity is present.

Cross tabulations were also done to deduce based on the level of management which was a key cross tab, analysis of the results is explained in the following discussion

Table 4:8 Level of Management vs. Authorisation

Level of management vs. Authorisation of transactions cross tabulation

		Authorising		Total
		Agree	Strongly agree	
Level of Owner management	Owner	10	69	79
	Senior Manager	4	25	29
	Junior manager	0	13	13
Total		14	107	121

From the table above 69(64.5%) owners of businesses strongly agreed that authorisation and approvals have a bearing on minimizing risk in SMEs, while 25(23.3%) senior managers were also of the same view. The results were consistent with Campbell &Hatcher (2013) who had the motion that transactions should require authorization by an appropriate responsible person. This is very critical in the financial system of an organization where large amount of

money is handled hence it is appropriate for funds used for various transactions to be authorised by a trusted and responsible person to reduce risk.

Table4:9Level of Management vs. Segregation of Duties Cross tabulation

Level of management * Segregating Cross tabulation

		Segregating		Total
		Agree	Strongly agree	
Level of Owner management	Senior	15	64	79
	Manager	11	18	29
	Junior manager	10	3	13
Total		36	85	121

Table above depicts also 75.3% (64 of 85) strongly agreeing respondents appreciating the value segregating duties among employees in a bid to reduce risk,18 (21.2%) senior managers were also of the view while 3(3.5%) junior managers also agreed. Aligning the results to literature Asoke (2005) underscored the importance of segregation of duties that the likelihood of fraud and the theft, which may reduce organisational performance, is reduced if it becomes necessary to collude with others to accomplish an offence. One of the prime means of control is the separation of duties. This reduces the risk of internal manipulation, accidental error and increases the element of checking. System development and daily operations have to be considered in moulding the internal control system to be full proof against fraud(Long, 2009). Hence the above motion also indicated that there is a positive relationship between segregation of duties and risk reduction and as argued by the respondents.

Table 4:10 Level of Management vs. Physical Control Cross Tabulation

Level of management * Physical Control Cross tabulation

		Physical Guarding		Total
		Agree	Strongly agree	
Level of Owner management	Owner	16	63	79
	Senior Manager	3	26	29
	Junior manager	2	11	13
Total		21	100	121

Presentation above reflects 63% of owners strongly of the motion that physical control deters risk, 26% senior managers and 11% junior managers were also of the same view. The results were also in alignment withMwakimsinde (2014) who noted the importance of the following physical control activities that encompass the physical security of assets, including adequate safeguards such as secured facilities over access to assets and records; authorization for access to computer programs and data files; and periodic counting and comparison with amounts shown on control records. This has a bearing on reducing risk, physical controls intended to prevent theft of assets enhancing also relevance to the reliability of true financial statement preparation. Katuntu (2003) also endorsed physical controls and argued that these controls assume importance in the case of valuable, portable, exchangeable or desirable assets. Hence it can also be clearly noted that there is a relationship between physical control and risk threatening the institution.

Table 4:11 Level of Management vs. Accounting Control Cross Tabulation

		Accounting		Total
		Agree	Strongly agree	
Level of management	Owner	21	58	79
	Senior Manager	3	26	29
	Junior manager	2	11	13
Total		26	95	121

A greater number of SMEs owners were also overall agreeing that accounting and control of transactions have an impact on overall risk reduction. In regards to that 58(61%) of owners were in agreement while 27% and 11.5% being between senior managers and junior managers respectively. To further buttress with literature Hatcher (2003) was also of the view that the recording function which checks that the transactions to be recorded and processed have been authorized and that they are correctly and accurately processed includes checking the arithmetical accuracy of the records, maintenance and checking of totals, reconciliation, control accounts and trial balances and accounting for document reduces risk of fraud and increases reliability of financial figures.

Table 4:12 Level of Management vs. Supervision and Monitoring Cross Tabulation

		Supervising			Total
		Uncertain	Agree	Strongly agree	
Level of management	Owner	2	14	63	79
	Senior Manager	0	5	24	29
	Junior manager	0	6	7	13
Total		2	25	94	121

Finally on the independent variables being supervision and monitoring, out of the respondents who responded 63(67%) were owners, 24 (25.5%) senior managers and 7(7.4%) minority

being junior manages. The justification of low response from junior managers being the research also targeted owners and senior managers of these SMEs.

Information also on whether internal control processes discussed above had a bearing on various types' risks defined by IIA (2012) as any uncertainty of an event occurring that could have an (adverse) impact on the achievement of business objectives was discussed. These risks ranged from fraud reduction, mis appropriation of funds, safeguard of company assets, reliability of financial information and responses are outlined in the following discussion.

Table 4:13 Internal Control Processes and Fraud Reduction

	Internal Control Supress Fraud cases		Total
	Agree	Strongly agree	
Level of Owner management	9	70	79
Senior Manager	4	25	29
Junior manager	3	10	13
Total	16	105	121

From the analysis above those who strongly agreed that internal controls facilitate reduction in fraud cases in SMEs were 70(67%) owners while also 25 (24%) senior managers and 10(9%) junior managers were also in the same band of support. Munene (2013) from literature further buttressed the findings and argued that even a relatively small business handles a lot of transactions, holds valuable assets, and deals with a lot of people, a pre-condition for an array of risks. To protect against these threats, a small business should put into place and vigorously enforce internal controls. Further the following condition was analysed; since profits are, in part, the reward for successful risk-taking in business, the purpose of internal controls is to help manage and control risk appropriately rather than to eliminate it (Hatcher 2011). Therefore the above noted motion also suggests that there is a

positive relationship between internal control processes and fraud reduction as also supported by the respondents.

Table 4:14 Internal Control Processes and Reliability of Financial Information

		Internal Controls and Reliability of Financial Information		Total
		Agree	Strongly agree	
Level of Owner management		23	56	79
	Senior Manager	4	25	29
	Junior manager	3	10	13
Total		30	91	121

Representation above also highlights the outcome between the view on internal control processes and reliable financial information. On those who strongly agreed 56(62%) were owners of SMEs, while 25(27%) were senior managers and 10(11%) were junior managers. Campbell (2011) argued that without accurate reliable financial information, decision-making becomes impossible and the business will suffer. Internal controls ensure financial information is accurate so that managers and owners can take the correct action to meet the business's objectives. He further noted the specific actions from independent checks, re-check of totals, review of spreadsheets, automated control limit inputs in system, checking dates, validation checks, checking amounts on invoices signed off, segregation of duties, receipting separate from banking, exception routines, spot checks, physical controls, limited access to equipment, petty cash, rotation of duties, receipting, approval authority levels, all these contribute to the reliability of financial information.

Table 4:15 Internal Control Processes and Assets Safeguard

		Internal Controls Safeguards Assets		Total
		Agree	Strongly agree	
Level of management	Owner	15	64	79
	Senior Manager	4	25	29
	Junior manager	0	13	13
Total		19	102	121

From the analysis above the total population was in agreement with the notion that internal control helps in safeguarding company assets. Representation was as follows 64(63%) being owners, 25(24%) senior managers, 10(13%) junior managers were in agreement that internal control processes safeguards assets of a company.

Table 4:16 Internal Control Processes and Efficiency and Effectiveness

		Internal Controls Increase Effectiveness and Efficiency		Total
		Agree	Strongly agree	
Level of management	Owner	9	70	79
	Senior Manager	4	25	29
	Junior manager	3	10	13
Total		16	105	121

Table above reflects also the following on internal control processes increasing effectiveness and efficiency, 70(66%) were owners who strongly agreed, 25(24%) senior managers and 10(10%) also supported the view. To also strengthen the notion on internal control processes and efficiency Wolf (2004) positively noted that management's close involvement in operations often will identify significant variances from expectations and inaccuracies leading

to corrective action to be taken for the aligned risk therefore promptly increasing effectiveness and efficiency of the institution.

4.7 Further discussion

It was perceived that internal control processes and system have a positive stimulus effect on risk reduction in SMEs as stated by our H1 Hypothesis. Evidence on results from the analysis of the study confirmed this hypothesis in a substantial direction. This study confirmed the relevance of the deemed contributors to risk reduction in SMEs being authorisation and approvals, segregation of duties, physical control, arithmetic accounting control, supervision and monitoring as also identified and supported by other authors.

The results posed the following on the perceived driving factors of risk reduction which were investigated, authorisation [$\beta = 0.318$, $p < 0.05$ ($p = 0.011$)] posed the greatest positive influence in reducing risk in SMEs. Hatcher (2013) supported and forwarded that transactions should require authorization by an appropriate responsible person. This is very critical in the financial system of an organisation where large amount of money is handled hence it is appropriate for funds used for various transactions to be authorized.

The results also confirmed that accounting and control [$\beta = 0.357$, $p < 0.05$ ($p = 0.012$)] had the second most contributing influence on risk reduction in SMEs. The results also indicated accounting and control is a significant predictor of risk reduction. Hatcher (2003) also supported the findings and argued that accounting and control reduces risk of fraud and increases reliability of financial information. Arithmetic check and control support the collection of correct information for management and financial reports and advances in suppressing all susceptible risks.

Next in line to note being a contributor to risk reduction was physical controls [$\beta = 0.197$, $p < 0.05$ ($p = 0.066$)] identified to play also a meaningful part in compelling risk in SMEs though the variable was insignificant. Mwakimsinde (2014) noted the following on physical control activities, they encompass the physical security of assets, including adequate safeguards such as secured facilities over access to assets and records; authorisation for access

to computer programs and data files; and periodic counting this has an effect on risk reduction.

Study also proved that the more duties are segregated [$\beta = 0.195$, $p < 0.05$ ($p = 0.009$)] the more likely risk is suppressed in SMEs though it is insignificant to some level. Asoke (2005) underscored the importance of segregation of duties and highlighted that the likelihood of fraud and the theft, which may reduce organisational performance is curbed, further Manasseh (2004) also noted that segregation of duties reduces the risk of fraud, error and manipulation in the business thus increasing efficiency in the company's operations and improving performance. Hence both authors having a buy in and acknowledging the effect segregating duties has. Last contributor to be risk reduction regardless of it being insignificant being supervision and control [$\beta = 0.25$, $p < 0.05$ ($p = 0.831$)] relationship however positive but weak as identified by the outcome.

4.8 Chapter summary

In a round-up fashion the above text in the chapter presented an analysis of the research's findings. Tables and figures were adopted for analysis in order to simplify and clarify findings from the research. A positive and statistically significant relationship between internal control processes being, (authorisation and approvals, segregation of duties, physical control, arithmetic accounting and control, supervision and monitoring) and risk reduction in SMEs was noted. The mentioned perceived drivers in reducing risk were found to be applicable even though their contribution level varied. Meanwhile this study concluded that authorisation approvals and accounting control were the two main central influences of risk reduction that had a positive impact in SMEs. The up-coming chapter presents the conclusions and recommendations of this study based on the findings described.

CHAPTER 5

CONCLUSION, RECOMMENDATIONS AND FURTHER RESEARCH

5.1 INTRODUCTION

The previous chapter thoroughly discussed the findings of the research, now this chapter is centred on drawing conclusions and proffer managerial recommendations. One of the fundamental tasks in this chapter is to ascertain that the research questions of this study were addressed and that the research objectives were met. In addition, the chapter suggests some managerial recommendations as well as areas for further study.

5.2 Conclusions

In summing up, the study aimed at investigating the influence internal control processes had on risk reduction in Harare's retail SMEs. In parts as background, key fundamentals of the study was the little attention placed to the great role played by the internal control processes to risk reduction which in turn exposes SMEs to high failure rate due to an array of risks. The researcher noted that a system of internal control processes that fails above average to guarantee that the institution's goals will be achieved is regarded as weak.

The study concluded that internal control process (authorisation and approvals, segregation of duties, physical control, arithmetic accounting and control, supervision and monitoring) have a significant direct positive impact on reducing risk in SMEs, therefore different leaders of these institutions should borrow immensely from the model. This will however require continuous monitoring and evaluation to leverage more on efficiency. Authorisation and accounting control were the two major factors considered to be significant among the other variables.

5.2.1 Authorisations and approvals

The study concluded that authorisation and approvals posed the greatest positive influence on reducing risk in SMEs. The positive, strong and statistically significant relationship between Authorisation and Risk reduction in SMEs was also confirmed by Hatcher (2003) who also had the buy in and forwarded that transactions always require authorization by an appropriate responsible person. This is very critical in the financial system of an organization where large amount of transactions flow hence deemed appropriate for funds used for various transactions to be authorized. Significant relationship noted to play a great deal in risk reduction. [$\beta = 0.318, p < 0.05 (p = 0.011)$].

5.2.2 Arithmetic accounting and control

The research also concludes that there is a positive, strong and statistically significant relationship between Accounting control and Risk reduction in SMEs. A vast number of respondents were clear subscribers to the objective making it the second most contributing influencer on risk reduction in SMEs. Hence accounting and control is a significant predictor of risk reduction. Campbell and Hatcher (2003) also supported the findings and argued that accounting and control reduces risk of fraud and increases reliability of financial information. Arithmetic check and accounting control as a process support the collection of correct information for management and financial reports preparation and contributes immensely in suppressing all susceptible risks. This has an effect of cushioning SMEs and a major contributor also to their going concern. [$\beta = 0.357, p < 0.05 (p = 0.012)$].

5.2.3 Physical controls

It has been also been concluded that physical controls play also a meaningful part in compelling risk in SMEs. Despite the relationship being a positive, weak and statistically

insignificant relationship as noted by the results. Mwakimsinde (2014) buttressed the motion and noted that following on physical control activities results in physical safety of assets, including sufficient safeguards such as secured facilities to gain entry to assets and records. If an institution has a high appetite for risk, this type of control should never be side lined [$\beta = 0.197, p < 0.05$ ($p = 0.66$)]

5.2.4 Segregation of duties

The study also concluded that the more duties are segregated the more also it had an influence in reducing risk. Despite also a positive, weak and statistically insignificant relationship being noted between Segregation of duties and Risk reduction in SMEs it is a noble idea to adopt though the contribution might be minor. Asoke (2005) emphasized the importance of segregation of duties that the likelihood of fraud and the theft, which may reduce organisational performance is minimised. Manasseh (2004) support the positive relationship noted that segregation of duties reduces the risk of fraud and error and manipulation in business thus increasing efficiency in the company's operations and improving performance. [$\beta = 0.55, p < 0.05$ ($p = 0.572$)]

5.2.5 Supervision and control

Meanwhile supervision and control was concluded to be the least contributor to risk reduction in SMEs [$\beta = 0.025, p < 0.05$ ($p = 0.831$)], however a positive relationship towards risk reduction was noted regardless it being insignificant.

The study reflected that there is a positive and partially statistically significant relationship between internal control processes being, (authorisation and approvals, segregation of duties, physical control, arithmetic accounting and control, supervision and monitoring) and risk reduction in SMEs hence rejecting the null hypothesis H_0 . The mentioned perceived drivers in reducing risk were found to be applicable even though their contribution level

varied. Meanwhile this study concluded that authorisation approvals and accounting control were the two main and most central influences of risk reduction that had a positive and significant impact in SMEs.

5.3 Research hypothesis evaluation

Table 5:1 Hypothesis Evaluation

Hypothesis	Decision
H ₀ : There is no relationship between Risks reduction and effective internal control system(s) among SMEs	Hypothesis Rejected
H ₁ : There is a relationship between Risks reduction and effective internal control process among SMEs	Hypothesis Partly Accepted

5.4 Recommendations

Based on the results of the study the researcher recommends the following

5.4.1 Managerial recommendations

Internal control processes and procedures to be seriously adopted by leaders when managing SMEs, the overall management of these institutions to be focused also on ensuring minimisation of risks and soundness of their operations

1. Outsourcing of external services in the short run on training and development issues surrounding internal control processes and total adoption of the framework. This preferably to be done practically and be hands on starting with owners of SMEs
2. In return transfer of knowledge obtained to be cascaded to other employees for an all-inclusive approach since the training and development might be an expensive process

3. Management should ensure that there is adequate authorisations and approvals of transactions at all times as this is equally key and ensures effectiveness of an enterprises and stance on risk elimination
4. Accounting and control of transactions is a critical aspect and one of the driving forces to elimination of detrimental risks crippling SMEs hence being noted as a pre requisite

5.4.2 Theoretical Recommendation

1. The processes of training and development might be costly especially to SMEs hence the Government should consider funding the process from the national budget if we are to be serious on SMEs sustainability
2. A framework governing SMEs in curbing risks to be crafted by the Ministry of Small to Medium Enterprises since this sector has been noted to be exposed to a higher volatile risk and operating environment
3. The internal control processes should be remoulded and evaluated periodically in line with the research findings to strengthen it, so as to guard against any weaknesses which might arise in the organization.

5.5 Research limitations

This study cannot escape from limitations. One limitation is that the participants were drawn from Harare with relatively small sample size compared to the total population of SMEs in the country although it accounted for the most part of the research. An analysis with a wide spread geographic approach was also to assist in the overall result. Omission of other variables for instance just the status quo of internal control processes in SMEs could be a

major contributor to risk, the research had the assumption that these factors were constant. In essence some firms might recognise internal control processes while others might act in a total disregard. This has critically opened up a reasonable number of essential areas attracting further research; these are highlighted in the next section of the discussion.

5.6 Areas of further study

The researcher having concluded that internal control processes have a direct effect on risk reduction, the research recommends the following as a gap which further researchers might need to take up

- ❖ An investigation into the **overall status** quo of internal controls process in retail SMEs in Harare Zimbabwe businesses. This will help to appreciate in broader sense if the SMEs in the first place have internal control processes or are acting in total disregard.

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APPENDIX 1

Rony Kagande

University of Zimbabwe

P.O .Box MP167

Mt Pleasant

HARARE

4 January 2016

Re: Request to complete the Questionnaire

Dear Respondent

I am Rony Kagande an MBA student with the University of Zimbabwe Graduate School of Management. I am conducting a research on the impact of internal control processes in reducing risk. This research will be purely for academic purpose and for the ultimate enrichment of the body of knowledge. This is in partial fulfilment of the requirement of the Master of Business Administration degree at the University of Zimbabwe.

You are one of the strategically selected people to give your own opinion by sharing your experience on the issue stated. You are kindly asked to complete the questionnaire below and the researcher would greatly appreciate your assistance. For any clarifications please do not hesitate to contact the researcher on mobile +263 772 867 698 or ronykag@gmail.com

This is an academic research and confidentiality is strictly emphasized, your name will not appear anywhere in the report.

Your objectivity in completing this questionnaire would be appreciated. This questionnaire will take you at least 15 minutes to complete

Yours Faithfully

Rony Kagande

	<ul style="list-style-type: none"> • Diploma [2] • Degree [3] • Masters [4] • PhD [5] 							
4.	<p>What level of financial literacy do you possess?</p> <ul style="list-style-type: none"> • Very high [1] • High[2] • Average[3] • Low [4] • Very low [5] 							
<p>SECTION B: Main Body</p> <p>Internal control activities in small business</p>								
<p>Authorisation and approvals</p>								
5	<p>My organisation reduces risk to the business by authorising all transactions</p> <table border="1" style="width: 100%; text-align: center;"> <tr> <td>5. Strongly agree</td> <td>4. Agree</td> <td>3. Uncertain</td> <td>2. Disagree</td> <td>1. Strongly disagree</td> </tr> </table>	5. Strongly agree	4. Agree	3. Uncertain	2. Disagree	1. Strongly disagree		
5. Strongly agree	4. Agree	3. Uncertain	2. Disagree	1. Strongly disagree				
6	<p>Risk in the business is deterred by using different levels of approvals on business transactions</p>							

	5.Strongly agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly disagree							
7	Reviewing of transactions before authorisation in a business is utilised to minimise risk <table border="1"> <tr> <td>5.Strongly agree</td> <td>4.Agree</td> <td>3.Uncertain</td> <td>2.Disagree</td> <td>1.Strongly disagree</td> </tr> </table>					5.Strongly agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly disagree		
5.Strongly agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly disagree								
Supervision and control												
8	Strict supervision on business activities is a tool used by the company in reducing risk <table border="1"> <tr> <td>5.Strongly Agree</td> <td>4.Agree</td> <td>3.Uncertain</td> <td>2.Disagree</td> <td>1.Strongly Disagree</td> </tr> </table>					5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree		
5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree								
9	Controls exercised by management outside the day to day routine check of the system helps safe guarding company assets (risk reduction) <table border="1"> <tr> <td>5.Strongly Agree</td> <td>4.Agree</td> <td>3.Uncertain</td> <td>2.Disagree</td> <td>1.Strongly Disagree</td> </tr> </table>					5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree		
5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree								
10	Physical control My organisation reduces risk of unauthorised entry into delicate business											

	sites by employing advanced locking systems							
	<table border="1"> <tr> <td>5.Strongly Agree</td> <td>4.Agree</td> <td>3.Uncertain</td> <td>2.Disagree</td> <td>1.Strongly Disagree</td> </tr> </table>	5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree		
5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree				
11	Pass-wording on all organisational systems is utilised in the company to secure company data and reduce risk							
	<table border="1"> <tr> <td>5.Strongly Agree</td> <td>4.Agree</td> <td>3.Uncertain</td> <td>2.Disagree</td> <td>1.Strongly Disagree</td> </tr> </table>	5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree		
5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree				
12	Physical guarding of company premises reduces chances of break in.							
	<table border="1"> <tr> <td>5.Strongly Agree</td> <td>4.Agree</td> <td>3.Uncertain</td> <td>2.Disagree</td> <td>1.Strongly Disagree</td> </tr> </table>	5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree		
5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree				
	Arithmetic accounting and control							
13	Checking of all company transactions ensures reliability of figures and eliminates chances of undetected fraud							
	<table border="1"> <tr> <td>5.Strongly Agree</td> <td>4.Agree</td> <td>3.Uncertain</td> <td>2.Disagree</td> <td>1.Strongly Disagree</td> </tr> </table>	5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree		
5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree				
14	Accounting of all business transactions is a source of enhancing reliability of financial information							
	<table border="1"> <tr> <td>5, Strongly agree</td> <td>4.Agree</td> <td>3.Uncertain</td> <td>2.Disagree</td> <td>1.Strongly disagree</td> </tr> </table>	5, Strongly agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly disagree		
5, Strongly agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly disagree				

	<p>Segregation of duties</p> <p><input type="checkbox"/></p>							
15	<p>Segregating duties among the employees in your organization</p> <p>Reduce chances of un detected fraud (risk reduction)</p> <table border="1"> <tr> <td>5.Strongly agree</td> <td>4.Agree</td> <td>3.Uncertain</td> <td>2.Disagree</td> <td>1.Strongly disagree</td> </tr> </table>	5.Strongly agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly disagree		
5.Strongly agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly disagree				
	<p>SECTION C: OUTCOME</p> <p>Risk reduction/business performance</p>							
16	<p>Internal control processes directly improves in safe guarding assets of SMEs</p> <table border="1"> <tr> <td>5.Strongly Agree</td> <td>4.Agree</td> <td>3.Uncertain</td> <td>2.Disagree</td> <td>1.Strongly Disagree</td> </tr> </table>	5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree		
5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree				
17	<p>Internal control processes highly curbs mis appropriation of funds in SMEs</p> <table border="1"> <tr> <td>5.Strongly Agree</td> <td>4.Agree</td> <td>3.Uncertain</td> <td>2.Disagree</td> <td>1.Strongly Disagree</td> </tr> </table>	5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree		
5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree				

18	Internal control system has a significant contributing factor on reliability of financial information in SMEs							
<table border="1"> <tr> <td data-bbox="315 522 526 632">5.Strongly Agree</td> <td data-bbox="526 522 652 632">4.Agree</td> <td data-bbox="652 522 826 632">3.Uncertain</td> <td data-bbox="826 522 989 632">2.Disagree</td> <td data-bbox="989 522 1226 632">1.Strongly Disagree</td> </tr> </table>		5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree		
5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree				
19	Internal control processes assist in suppressing issues of fraud in SMEs							
<table border="1"> <tr> <td data-bbox="315 833 526 942">5.Strongly Agree</td> <td data-bbox="526 833 652 942">4.Agree</td> <td data-bbox="652 833 826 942">3.Uncertain</td> <td data-bbox="826 833 989 942">2.Disagree</td> <td data-bbox="989 833 1226 942">1.Strongly Disagree</td> </tr> </table>		5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree		
5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree				
20	Internal control processes assists in curbing overall risk of SMEs.							
<table border="1"> <tr> <td data-bbox="315 1367 526 1478">5.Strongly Agree</td> <td data-bbox="526 1367 652 1478">4.Agree</td> <td data-bbox="652 1367 826 1478">3.Uncertain</td> <td data-bbox="826 1367 989 1478">2.Disagree</td> <td data-bbox="989 1367 1226 1478">1.Strongly Disagree</td> </tr> </table>		5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree		
5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree				
21	Internal control processes improves efficiency and effectiveness in SMEs.							
<table border="1"> <tr> <td data-bbox="315 1654 526 1766">5.Strongly Agree</td> <td data-bbox="526 1654 652 1766">4.Agree</td> <td data-bbox="652 1654 826 1766">3.Uncertain</td> <td data-bbox="826 1654 989 1766">2.Disagree</td> <td data-bbox="989 1654 1226 1766">1.Strongly Disagree</td> </tr> </table>		5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree		
5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree				
22	Internal control processes enhances going concern and survival amongst SMEs.							
<table border="1"> <tr> <td data-bbox="315 1873 526 1938">5.Strongly Agree</td> <td data-bbox="526 1873 652 1938">4.Agree</td> <td data-bbox="652 1873 826 1938">3.Uncertain</td> <td data-bbox="826 1873 989 1938">2.Disagree</td> <td data-bbox="989 1873 1226 1938">1.Strongly</td> </tr> </table>		5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly		
5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly				

	Agree				Disagree		
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The End

Thank you for your time