

**EVALUATING THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEMS IN
SMALL AND MEDIUM ENTERPRISES IN WINDHOEK, NAMIBIA**

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ABSTRACT

This study was prompted by the desire to evaluate the effectiveness of internal control systems in Small and Medium Enterprises (SMEs) in Windhoek, Namibia. The research focused on determining the existence and level of implementation of internal controls in SMEs in Windhoek, examining if Windhoek SMEs are experiencing problems that could result from implementing ineffective systems of internal controls and identifying the barriers that may prevent Windhoek entrepreneurs from implementing adequate systems of internal control. The target population consisted of 61 Windhoek based and registered SMEs that submitted their company profiles to the Namibia Civil Aviation Authority (NCAA) for procurement purposes. Fifty (50) SMEs were randomly selected for the sample which was calculated using the Krejcie and Morgan formula. Primary data were collected using a set of questionnaires while secondary data were sourced from various journals, textbooks, and other publications. The study applied conventional descriptive statistics for data analysis. The findings revealed that respondents' businesses are lacking some principles of COSO's five key components of internal control, therefore, the effectiveness of internal control systems could not be established in their companies. It was further established that respondents ranging from 28.9 - 76.3 percent are going through problems resulting in embezzlement or loss of assets due to theft and unintentional errors, while their resources are used ineffectively resulting in shortages of funds and failure of companies to meet operational, reporting and compliance goals. Issues related to lack of resources, malpractices and lack of knowledge were among the barriers that were found to prevent Windhoek entrepreneurs from implementing effective internal control systems. It is recommended that efforts need to be made to develop entrepreneurs' knowledge on the importance of implementing effective internal control systems for the sustainability of their businesses while contributing more to employment creation and to the country's economic development.

DECLARATION

I, Pendukeni Tuyeimo Etutuma Nauyoma, hereby declare that this study is my own work and is a true reflection of my research, and that this work, or any part thereof has not been submitted for a degree at any other institution.

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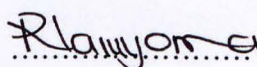
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.....



.....

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DEDICATION

I dedicate this thesis to the Heavenly Father Lord for giving me the strength, knowledge, ability, and opportunity to undertake this research study and complete it satisfactorily.

It is also dedicated to my family, my dear husband Silas Nauyoma, and our lovely children Silas Jnr, Stefanus and Daniel for all their support and patience during my studies.

Special dedication goes to my sister Tulonga as well as to Kaleinasho, Penoshinge, Ndeshi and Fimaneka for being wonderful family members who have been always there for me when I needed them most.

I further dedicate this thesis to all SMEs owners and managers who participated in this study and those who will find it useful for sustainability of their companies.

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LIST OF ACRONYMS

ACFE	Association of Certified Fraud Examiners
AICPA	American Institute of Certified Public Accountants
BON	Bank of Namibia
COSO	Committee of Sponsoring Organizations of the Treadway Commission
COW	City of Windhoek
CPA	The Certified Practicing Accountant Australia
EU	European Union
EUR	Euro
EUROSTAT	Statistical Office of the European Union
FIG	Figure
GDP	Gross Domestic Products
IBM SPSS	IBM Statistical Package for Social Science
IC	Internal Control
ISA	International Standard on Auditing
ISACA	Information Systems Audit and Control Association
MITSMED	Ministry of Industrialization, Trade and SME Development
MSME	Micro, Small and Medium Enterprises

NCAA	Namibia Civil Aviation Authority
OJT	On the Job Training
SME	Small and Medium Enterprise
SMEs	Small and Medium Enterprises

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CHAPTER ONE: INTRODUCTION

1.1 Orientation of the Study

Small and Medium Enterprises (SMEs) are known as drivers of economic development in many countries worldwide. There is solid empirical evidence confirming this reality. Edinburgh Group (2013) discovered that a substantial amount of work has been done to assess the roles that SMEs play in driving GDP growth and sustaining employment. The evidence suggests that SMEs are vitally important for economic health, in both high-income and low-income economies, worldwide. Edinburgh Group (2013) further clarifies the contribution of SMEs to economic fundamentals nonetheless varies substantially across countries from 16% of GDP in low-income countries (where the sector is typically large but informal) to 51% of GDP in high-income countries. The appreciation of SMEs as the backbone of any given economy is further acknowledged by Karadag (2016) who recognised SMEs as the drivers of socio-economic development worldwide due to their important role in GDP growth, new job creation and entrepreneurship. A study done by the World Bank (2020) similarly revealed that SMEs represent about 90% of businesses and more than 50% of employment in their respective economies while contributing more than 40% of national income in emerging economies.

The positive contributions of SMEs to employment creation and economic development can be seen as an asset that any country cannot afford to lose if it must maintain a healthy economy. However, this business sector is unfortunately believed to have destroyed a lot of the much-needed jobs due to short lives resulting from several factors including operational inefficiencies. According to Olawale (2014) new SMEs fails due to both internal and external factors which include lack of management experience, lack of functional skills and poor staff training and development, poor attitudes towards customers as well as competition, rising

costs of doing business, finance, and crime among others. A study done by Sharmilee and Muhammad (2016) also specified crime and corruption among the factors affecting SMEs performance. All these detrimental factors can be categorised as business risks that need to be identified, assessed, and controlled by SMEs owners and managers.

The inability to identify, assess and control risks is one of the negative factors resulting from the absence of effective internal control systems in SMEs. An effective system of internal control reduces, to an acceptable level, the risk of not achieving an objective relating to one, two, or all three categories of objectives that is, operations, reporting, and compliance (COSO, 2013). Internal control systems play an important role in the survival of businesses and they can be considered as the organisation's governance system with the ability to manage risks (Loan, 2015). It is therefore vital to say that internal controls systems play a significant role in helping SMEs achieve their goals.

1.1.1 Global Definition of the SME Sector

Despite SMEs being the major engines towards job creation and economic growth of the respective countries, there is no uniform definition for this business sector. Countries worldwide have different definitions of SMEs based either on their preferred criteria, economic sectors and/or size of their economy. The research conducted by the Edenburg Group (2013) on the impact of SMEs on economic growth revealed that one of the challenges when conducting international research into SMEs is the lack of any standard definition of what size of business constitutes an SME. The abovementioned group came to that conclusion after discovering various definitions of SMEs across countries and regions, however most of those definitions are said to include one or more of the following criteria:

- Number of full-time employees
- Annual sales turnover

- Amount of total assets in the firm.
- Economic sector
- Ownership/management.

According to the Statistical Office of the European Union [Eurostat], (2017), SMEs in the European Union (EU) are defined as having less than 250 persons employed, an annual turnover of up to EUR 50 million, or a balance sheet total of no more than EUR 43 million. This definition of SMEs considers three criteria which are the level of employment, annual turnover, and size of the balance sheet (total assets). The European Union's SMEs are further classified into micro enterprises with less than 10 persons employed, small enterprises with 10-49 persons employed and medium-sized enterprises with 50-249 persons employed. Any enterprise employing 250 or more employees is considered large. Ramsden (as quoted in the Bank of Namibia, 2010) 12th Annual Symposium Publication, states that although the EU thresholds are high for most developing countries, this definition can be used as an illustration because the EU has made more effort to standardise the SME definition than any other part of the world, and today at least 27 countries follow the definition.

The Edenburg Group (2013) identifies that South Africa applies different criteria for different business sectors. SMEs in South Africa are classified as Small, Medium and Micro Enterprises (SMMEs). The classification distinguishes between different sectors, and takes full-time employment, annual turnover, and total gross asset value into account.

1.1.2 Overview of the SME Sector in Namibia

The Government of the Republic of Namibia (2016) proposed a revised version of the definition of Namibian Small and Medium Enterprises (SMEs) that was adopted in 1997. This definition is now adopted in the 2016-2021 Micro, Small and Medium Policy (MSME Policy) under the Ministry of Industrialisation, Trade and SME Development (MITSMED).

The Namibian government has revealed in the above-mentioned policy that the national definition is in compliance with internationally acknowledged standards and defines Namibian MSMEs according to two sets of criteria namely: the number of employees and annual turnover. The overall definition therefore incorporates the categories indicated in table 1.1. This table indicates that the definition classifies Namibian SMEs into three categories of micro, small and medium enterprises (MSME) which are also one of the most common categories used across nations.

Table 1.1: Current Namibian Definition for SMEs

Category	No. of full-time employees	And/or	Annual turnover (N\$)
Micro-enterprises	1 to 10	And/or	0 to 300,000
Small enterprises	11 to 30	And/or	300,001 to 3,000,000
Medium enterprises	31 to 100	And/or	3,000,001 to 10,000,000

Source: Government of the Republic of Namibia (MSME Policy, 2016-2021)

The Namibian Government (2016) further emphasises that this definition only applies to formally registered entities and all affected stakeholders were given a one-year timeframe to align their current MSME definitions with the national definition as outlined in the 2016-2021 MSME Policy. The Namibian government also highlights in the above-mentioned policy that in the event of an enterprise falling under two categories, the final categorisation depends on the support requested, and additional information might be required to determine the category of the enterprise in question. It is further clarified that the government may, from time to time, modify the national MSME definition to ensure that it is continuously aligned

with national economic aspirations. Modifications of the national MSME definition may be needed to reflect structural changes affecting the Namibian economy and any modifications to the national MSME definition must be informed by the monitoring and evaluation (M&E) system in place and must be officially announced through publications in a Government Gazette (Namibian Government, 2016).

Apart from the definition, the importance of SMEs' contribution to the country's economic emancipation is not overlooked in Namibia. The Government of the Republic of Namibia (2016) has accredited Namibian SMEs' roles as key players towards fostering job creation, income generation and improving the living conditions of Namibian people and this was revealed in its 2016-2021 National Policy on Micro, Small and Medium Enterprises [MSME Policy]. According to Luvindao (2019), Namibia's Small and Medium Enterprises (SME) sector contributes over 10 percent to the gross domestic product and 20 percent to employment creation. This is further supported by Ogbokor and Ngeendepi (2012), in acknowledging that SMEs provide some form of employment and incomes to 160,000 people, representing approximately one-third of the Namibian nation's workforce and in terms of full-time employment, this sector currently employs about 60,000 people. The authors further confirm that politicians, academicians, and developmental economists are of the view that enhancing small business development and promoting entrepreneurship would be a good strategy to contribute and promote economic development.

In recognition that MSMEs are key contributors to employment creation, income generation, and poverty eradication for the people of Namibia, both in rural and urban areas, the Namibian government (2016) could conclude that indeed, strong, independent and expanding MSMEs are the drivers of growth, innovation, development and job creation in the country's emerging economy, where the scale and diversity of large businesses are insufficient to meet

the demand for new investment and employment opportunities. The government of Namibia has shown its commitment to ensuring economic development and growth for all by creating a National Technical Committee, chaired by the Ministry of Industrialisation, Trade and SME Development and it is responsible for the development of the National Policy on Micro, Small and Medium Enterprises in Namibia.

The goal of the MSME Policy is to create an enabling business environment for Namibian MSMEs, thus fostering sustainable employment creation and income generation through training; improved access to finance, technology, and markets; enhanced capacity to innovate; and improved entrepreneurial skills. The MSME Policy thus aims to provide the requisite policy and implementation frameworks to ensure the development of competitive, dynamic, and innovative Namibian MSMEs (Namibian Government, 2016). This can be seen as a framework to create an enabling regulatory environment in which SMEs can be developed and promoted by the public and the private sectors. The Namibian Government (2016) further outlined in the abovementioned policy that thriving and growing SMEs can therefore be regarded as key success factors in achieving national development goals as expressed in Namibia's Vision 2030.

However, the government also highlighted that Namibian SMEs are experiencing more losses due to theft, vandalism, and crime. This is an indication that numerous established SMEs in Namibia do not grow to the thriving stage due to numerous challenges. Amwele (2013) also identified resources and finance, external environment, competitions, and corruption as the most factors that adversely affect the performance of SMEs in the Namibian retail sector.

1.1.3 Impact of an Effective Internal Control System in Namibian SMEs

As revealed in the previous section, Namibian SMEs are facing challenges of resources and finance, external environment factors, competitions, and corruption as well as losses due to theft, vandalism, and crime. These challenges might result from operating SMEs with weak or ineffective systems of internal controls and if not lessened, they could remain threats to the sustainability of Namibian SMEs.

The system of internal control is part of the enterprise management system that ensures the implementation of the enterprise's goals, its effective economic-commercial performance, observance of accounting principles and an effective control of work risks, which enables to minimize the number of intentional and unintentional mistakes, and to avoid frauds in the process of enterprise performance, made by its authority or employees (Lakis & Giriunas, 2012). The system of internal control must be effective to curb risks for any company. Running a business using an ineffective internal control system can result in many risks that can severely handicap the company or eventually result in its failure. According to Kaplan Financial (2020), an effective internal control system has the potential of helping companies to ensure the orderly and efficient conduct of business including adherence to internal policies, safeguarding of assets of the business, preventing, and detecting fraud and error, accuracy and completeness of the accounting records and the timely preparation of financial information. Once implemented efficiently, all the above benefits of an effective system of internal control can lead to the survival of Namibian SMEs.

It is notable that in today's highly competitive business environment, a company's growth cannot be sustained only by way of promoting a business through strategies that mainly focus on growing sales volumes or gross profits. It is also important for an SME to maintain a relationship of trust with its employees, suppliers, clients, shareholders, the government, and other stakeholders. To build up and maintain such a relationship in their companies,

Namibian SME owners and managers need to create and maintain an ethical culture while putting in place policies and procedures that can enable the realisation of operational, reporting and compliance goals. An effective system of internal control makes it possible for SMEs to be in a good relationship with all stakeholders and in turn this will promote their sustainability. Effective internal control systems can help SMEs to improve their performance while enabling them to take on additional opportunities and challenges in a more controlled way. Therefore, the adoption of a strong and effective internal control system in an entity is crucial for a safe and sound management of that entity (Kamau, 2016).

1.2 Statement of the Problem

Despite treasured contributions of SMEs to the economic development of many countries worldwide, the lack of sustainability is still a major challenge among these valuable businesses. SMEs are much more vulnerable proportionally to fraud by employees and they are much less able to absorb these losses than large corporation (Shanmugam, Mohd, & Azwadi, 2012). One root cause of their failure is the absence of adequate and effective internal control systems to prevent and mitigate a variety of risks that operations falling within small businesses face (Dubihlela & Nqala, 2017). The failure of SMEs is an unfortunate situation that plays a major role globally and Namibia is no exception. The Namibian Government (2016) highlighted in the 2016-2021 MSME Policy that Namibian SMEs are experiencing more losses due to theft and vandalism than larger enterprises nationally and in this regard, they are also affected more than the average small and medium enterprises in sub-Saharan Africa. The policy further disclosed that 16% of small enterprises and 20% of medium enterprises in Namibia identified crime and theft as some of the major constraints to their development, compared with only 5% of larger enterprises (Namibian Government, 2016). This reveals the research problem which relates to the fact that Namibian SMEs are facing risks like those caused by operating a business with ineffective

systems of internal control. Operating a business with an ineffective system of internal control has a negative impact resulting in loss of assets and poor performance that leads to ongoing failures among SMEs which in turn results in adverse impacts on the economic development of the country. The present study was therefore driven by the desire to evaluate the effectiveness of internal control systems in the survival of Windhoek SMEs in Namibia. In assessing such effectiveness, the researcher also aimed to fill the gap by providing the reader with empirical evidence regarding the status of internal control systems in Windhoek SMEs.

1.3 Objectives of the Study

The overall objective of this study was to evaluate the effectiveness of internal control systems in the survival of Windhoek SMEs. Specific objectives of the study were therefore to:

- Determine the existence and level of implementation of internal controls in SMEs in Windhoek;
- Examine if Windhoek SMEs are experiencing problems that could result from implementing ineffective systems of internal controls; and
- Identify the barriers that may prevent Windhoek entrepreneurs from implementing adequate systems of internal controls for their businesses.

1.4 Research Questions

The following research questions were formulated in view of the research objectives identified above:

- How could the implementation of an effective system of internal controls contribute to the sustainability of Windhoek SMEs?
 - To what extent are internal controls implemented in Windhoek SMEs?

- What are the key elements of an effective internal control system?
- What are the problems encountered by Windhoek SMEs?
- What are the barriers that inhibit Windhoek entrepreneurs from implementing adequate systems of internal controls for their businesses?

1.5 Significance of the Study

Since there is no evidence of any research conducted on the effectiveness of internal control systems in the survival of SMEs in Namibia, this study is of significance to entrepreneurs. It can help in raising awareness among SMEs management and add more knowledge to the existing literatures on the internal control systems of SMEs. Furthermore, the study sheds light on the effectiveness of internal control systems for business operations.

An understanding of the role of internal control systems for business operations can lead to the successful development and implementation of an effective system of internal control. The implementation of an effective system of internal control can help SME owners and managers to reinforce and comply with their internal control systems, align business objectives, encourage good management, and ensure proper financial reporting as well as compliance with laws and regulations. This in turn would place businesses in a better position to protect their resources and other assets, lead to increased profitability and promote the sustainability of SMEs. With increased profitability, Windhoek SMEs can be expanded, attract investors, and compete with larger companies while creating more employment and stimulating economic development.

1.6 Limitations of the Study

The findings of this study must be seen considering some limitations which include:

- Shortage of time: the researcher is employed on a full-time job and that means there was limited time to conduct research in different districts throughout the city of

Windhoek. As a result, the research could only be done on selected Windhoek based and registered SMEs that submitted their company profiles to the procurement division of the Namibia Civil Aviation Authority (NCAA) for procurement purposes. The reason for targeting this group was that there were numerous submissions made and the researcher expected many of those submissions to be from Windhoek based and registered SMEs.

- Non-responses from respondents: the researcher couldn't obtain information from all prospective participants. Some indicated that they did not find time to respond while others were always not reachable.

1.7 Delimitations of the Study

- Although there are other factors that might contribute to the failure of SMEs, this research only focused on one aspect, which is their systems of internal control.
- Namibia has fourteen geographical regions with SMEs activities and a relatively bigger sample covering large geographical areas would have been appropriate for this research. However, the study was only conducted on selected Windhoek-based SMEs. The choice of this location was due to high concentration of SME activities in Windhoek, which is the capital city of Namibia. The results, however, cannot be applied to other regions of Namibia where different opinions could not be sourced.

1.8 Organisation of the Study

Chapter one offered the background of the study, outlined the problem statement, research objectives, and provided the significance, limitations, and delimitations of the study. The following chapter is on the Literature Review which is reviewed according to the objectives of the study. The third chapter covers the entire methodology that was used to attain the objectives of the study. Data presentation, analysis and discussions are covered in chapter

four, while chapter five presents the summary, conclusions, and recommendations for the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The literature review assesses the main features surrounding the effectiveness of internal control systems towards the survival of SMEs. The study within this review of literature focuses on all research objectives as set out in sub-section 1.3 of the previous chapter.

By exploring the areas of literature, a significant contribution is made to this research. The strategic forces or benefits that can push SMEs owners and managers to engage effective internal control systems leading to survival of their businesses are evaluated through the subsection for the effectiveness of internal control systems in SMEs. Similarly, the existence and level of implementation of internal controls in SMEs are examined and importantly, the problems encountered by SMEs with ineffective systems of internal control as well as barriers that may prevent entrepreneurs from implementing adequate system of internal controls are also identified. In effect, the value of studying those literature areas is to provide discussions and evaluation of internal control systems in a structured way as well as to facilitate a critical understanding of internal control systems for the survival of SMEs.

At the end of this main unit, it is hoped that a critical understanding of key issues is exhibited that the reader is better informed in these areas and that there emerges a clear focus and justification for empirical research regarding the effectiveness of internal controls for the survival of Windhoek SMEs. In the first section, a sensible starting point is to explore what is meant by internal control to provide a better understanding among readers.

2.2 Understanding Internal Controls

Jackson and Stent (2012), proffer that everyone is exposed to internal control in every day of life sometimes without even being aware of it. This specifies that internal control is a broad concept that can be applied to different areas of operations in general. It is given diverse but

related definitions by different frameworks, researchers and professional organisations including the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and the American Institute of Certified Public Accountants (AICPA).

In their Internal Control-Integrated Framework (1992, 2013), COSO defined internal control as a process that is effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. This definition is self-explanatory, and it has gained broad acceptance resulting in it being widely used by many including business executives, board members, regulators, standard setters and professional organisations worldwide as an appropriate and comprehensive framework for internal control. It is known as a leading framework for designing, implementing, and conducting internal control as well as assessing the effectiveness of internal control systems. Therefore, it can be considered as a valuable resource and a guiding tool to any company setting up, evaluating and/or updating its internal control system. COSO (2013) highlights that their definition of internal control is intentionally broad and as such it captures important concepts that are fundamental to how organisations design, implement, and conduct internal control, providing a basis for application across organisations that operate in different entity structures, industries, and geographic regions.

Considering its well documented information and a wide support worldwide, the author also considered that it is essential to adopt COSO's Internal Control-Integrated Framework (2013) as a major source of information to this literature. COSO Framework involves several key concepts around internal control. It specifies internal control as a process, implying that internal control is a means to an end, not an end in itself. This indicates that internal control should consist of ongoing tasks and activities aiming to keep the business going to achieve its objectives. The same definition also points out that internal control is effected by an entity's

board of directors, management and other personnel. This implies that it requires all relevant stakeholders including board members (where applicable), management and other employees at different levels within the company to participate in bringing internal control systems into effect. Therefore, it is important for all individual employees to be informed and made familiar of their companies' systems of internal control. That would enable them to understand that internal control systems are not merely documented policy manuals and forms but a system that requires the efforts of every employee at all levels of the company to continually function to implement those policies and procedures through the actions they take to positively influence the performance of internal control systems for their specific companies.

The International Federation of Accountants [IFAC], (2012) states that individual controls as well as the internal control system in whole should be regularly monitored and evaluated. Identification of unacceptably high levels of risk, control failures, or events that are outside the limits for risk taking could be a sign that an individual control or the internal control system is ineffective and needs to be improved. This needs to be emulated by SME owners and managers that once the company's internal control system is established and implemented, it must be monitored, evaluated, and updated frequently to properly function on an ongoing basis throughout the company.

Another notable aspect of the internal control system is that it must be established by the company's management, and that is what has made it to be considered as flexible in application for any given company or for a particular division, or business process. Being flexible implies that internal controls systems can easily be adapted to suit any business regardless of its type and size. For example, the AICPA (2014) had defined internal control as a process that is effected by plan management and other personnel, and those charged with governance, and it is designed to provide reasonable assurance regarding the achievement of

objectives in the reliability of financial reporting. Although this AICPA (2014) definition seems to be drawn from COSO's concept, it is modified to suit their organisational scope which mainly focuses on the reliability of financial reporting. Similar amendments can be done by an SME that needs to define and implement internal control in relation to its company's operations.

The above COSO definition of internal control has further revealed the core objectives of internal controls that they are designed to provide reasonable assurance to management but not an absolute assurance regarding the achievement of objectives in the following three categories:

- Effective and efficient operations – Internal control is aimed to assist any company to have effective and efficient operations to achieve its operational objectives including operational and financial performance goals. By doing so, it plays an important role in minimizing risks by preventing theft, waste and abuse while detecting fraud, thereby safeguarding the company's assets against loss. Therefore, SMEs' internal control systems should provide room for management and employees to operate with efficiency and integrity within their company's policies and procedures set to provide reasonable assurance to the achievement of performance and profitability goals while safeguarding assets.
- Accuracy of reporting – A sound internal control system provides any company with reasonable assurance regarding the achievement of objectives related to the preparation of timely, reliable, relevant, and transparent internal and external financial and non-financial reports that are needed by management for decision-making. It is important for an SME to have complete, accurate, transparent, and timely records of its accounting information which could result in it having reliable reports. The term reliable, as it relates to financial statements, refers to the preparation of statements

that are presented fairly and based on comprehensive and well-defined accounting principles and rules to provide confidence to bank stakeholders (Bank for International Settlements [BIS], 1998; 2012). Reliable reporting can therefore create value for the business in a way that the company will be able to not only measure the contribution it is making, accelerate growth and better competitive performance, but also set targets and share dependable information with different stakeholders including suppliers, lenders, clients, and regulatory authorities. Consequently, owners and managers of the small-scale enterprises should embrace accurate accounting records keeping practices to enhance transparency and improve operational efficiency which in turn creates a good image for their companies.

- Compliance with laws and regulations – For their sustainability, SMEs need to comply with laws and regulations governing their existence including supervisory authorities and the government's rules, policies, and procedures. Compliance with applicable laws and regulations could prevent companies from negative publicity while promoting a good reputation. As one of its core objectives, internal control can provide SMEs with reasonable assurance regarding the achievement of objectives that pertain to adherence to laws and regulations to which the company is subject.

Being commercial companies, SMEs are established not only to make profits and increase the wealth of their owners; they are also well known for their contributions to their countries' GDP and employment. To maintain this status, SMEs need to have good internal control systems that are functioning well to promote operational efficiency, minimise risks and protect their assets, ensure the accuracy of records to produce reliable financial and non-financial reports while encouraging adherence to applicable laws and regulations. In turn, this would stimulate these companies' good image, increase competitiveness, and promote sustainability.

2.3 Components of Internal Control System

When designing an internal control system for an SME, it is important to consider certain components that are essential for a complete system. According to COSO (2013), a system of internal control consists of five integrated components which are namely as, control environment, risk assessment, control activities, information, and communication, and monitoring as articulated in figure 2.1.



Figure 2.1: COSO Framework Cube

Source: Internal Control-Integrated Framework - Executive Summary (2013)

According to COSO (2013), the cube shaped picture above shows that a direct relationship exists between objectives, which are what an entity strives to achieve, the components, which represent what is required to achieve the objectives, and the organisational structure of the entity (the operating units, legal entities, and other). COSO (2013) further indicates that the three categories of objectives known as operations, reporting, and compliance are represented

by the columns. The five components are represented by the rows and an entity's organisational structure, and these are represented by the third dimension. It is visible in the picture that each component of internal control cuts across and applies to all the three categories of objectives. This implies that all the five components are applicable and important to the achievement of each of these objectives. Specifically, information from each component is needed to effectively manage business operations, to prepare reliable financial and non-financial reports as well as to ensure compliance with applicable laws and regulations.

2.3.1 Control Environment

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organisation (COSO, 2013). The aforementioned COSO further outlined that the control environment involves the integrity and ethical values of the organisation, the parameters enabling the board of directors to carry out its governance oversight responsibilities, the organisational structure and assignment of authority and responsibility, the process for attracting, developing, and retaining competent individuals; and the rigor around performance measures, incentives, and rewards to drive accountability for performance. This is supported by Kaplan Financial Knowledge Bank (2020) which states that the control environment describes the ethics and culture of the organisation, which provide a framework within which other aspects of internal control operates. This edition of Kaplan Financial (2020) further indicates that the control environment is set by the tone or nature of management, its philosophy and management style, the way in which authority is delegated, the way in which staff are organised and developed, and the commitment of the board of directors.

This does not mean that SMEs should consider having the board of directors or many employees to set its control environment, however, a small or medium enterprise operating with one or a few employees can equally set the control environment at its level. Since SMEs are often operating with limited resources, they are encouraged to weigh costs versus the benefits of each control the company is putting into place. Perry (2017) has given an example that the owner or manager of a small entity is that entity's control environment. If that owner has a good character and is committed to performing key controls and is diligent in carrying out day-to-day responsibilities, it is possible for that small entity to have a perfect control environment. It should, however, be noted that an ineffective owner/manager may increase the risk of material misstatements at both the financial statement and assertion levels (Perry, 2017). This could be due to the fact that the actions of management can have a significant effect on employees' behaviour, for example, if the owner or manager does not care about the operations of his/her company, employees will also not care and the product out of this would have a negative effect in reaching the company's objectives. It is thus important for owners and managers of SMEs to be responsible, show commitment to their work and treat the resources of their businesses in the same way they would expect from their employees, to avoid undue influences that could lead to a weak control environment.

By setting up the control environment of the company, SMEs can use the following principles of COSO (2013) Internal Control-Integrated Framework that are relevant to the achievement of internal control objectives at the control environment level.

- **Integrity and ethical values** - this involves the company's commitment to sound integrity and ethical values.
- **Authority and responsibility** - includes establishing of company structures, reporting lines where applicable, an appropriate level of authorities and responsibilities in the pursuit of objectives.

- **Competencies** - comprises setting the process for attracting, developing, and retaining competent individuals in alignment with the company's objectives. Nowadays, money is not considered as the only influential factor for best places to work. Other non-monetary factors such as shorter working hours on Fridays, free weekends, lunch time workouts, and appropriate vacation also play a role. In addition, the company's success in the market, innovation, team unity and good working environment are other conditions that can be highly valued by employees. SMEs leaders should therefore consider generating strategies within their grasp to get hold of good employees through generating a good working environment, providing employee development opportunities through on the job training (OJT) or other affordable training/workshops, having a motivated team and offering flexibility to retain them. This in turn should create an ideal team that can face new challenges to ensure company growth.
- **Management's philosophy and operating style** - requires SMEs management to exercise management's philosophy and operating style that can influence employees in an appropriate way to support achieving effective internal control system.

2.3.2 Risk Assessment

SMEs may face a range of risks from external and internal sources. COSO's (2013) Internal Control-Integrated Framework defines risk as the possibility that an event will occur and adversely affect the achievement of objectives. As to human beings, risks can also occur to any of the company's daily activities at any time and it is therefore important for SMEs to have procedures of assessing and eliminating possible risks that may prevent the attainment of objectives. SMEs should perform risk assessment to determine the level of risk that can be accepted and the one that can be managed responsibly.

Rovins et al. (2015) define risk assessment as a methodology to determine the nature and extent of risk by analysing potential hazards and evaluating existing conditions of vulnerability that together could potentially harm exposed people, property, services, livelihoods, and the environment on which they depend. This is reinforced by COSO (2013), where risk assessment is explained in the context of business perspectives that risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives. Risk management practices and strategies play a significant role in SMEs' success and growth (Farzaneh, 2017). Therefore, failure to consciously manage risks can severely handicap a business and eventually result in its collapse. It is important for SMEs to properly identify risks to their business and determine the level of operational, reporting and compliance risks they are willing to accept while curbing the most significant ones.

Like other components of internal control, risk assessment is mainly management's responsibility, thus it requires an SME owner or manager's action to put proper procedures in place to reduce unwanted surprises. This can be done in line with COSO's (2013) principles that are related to the achievement of control objectives at the risk assessment level where an SME's leaders are expected to:

- Specify the company's objectives with sufficient clarity to enable the identification and assessment of risks relating to the company objectives.
- Identify risks to the achievement of objectives and analyse those risks as a basis for determining how they should be managed.
- Consider the potential for fraud in assessing risks to the achievement of objectives.

- Identify and assess changes that could significantly impact the system of internal control.

Since components of internal control need each other to function well, control activities need to be set and implemented in a possible way to provide room for identifying and manage risks. Continuous or periodically monitoring will also need to be fully practiced to ensure that the risk assessment component is present and functioning as expected.

2.3.3 Control Activities

Control activities are the actions established through policies and procedures that help to ensure management's directives to mitigate risks to the achievement of objectives are carried out (COSO, 2013). This definition implies that control activities play an essential role in every business's daily operation. It can be considered as checks and balances that are embedded in the company's operations to identify unusual circumstances including transactions that need to be investigated while taking appropriate corrective actions. Loan (2015) emphasises that these policies and procedures aim to support other necessary activities to minimise the business risk and enable objectives to be implemented seriously and efficiently across the whole enterprise. Mohd et al. (2015) identified the basic accounting control activities as segregation of duties, adequate documentation and records, controlled access to assets, independent accountability checks and reviews of performance and approval and authorisation. These are good control activities that can be implemented by SMEs.

In addition, COSO's (2013) Internal Control-Integrated Framework indicates that control activities may be preventive or detective in nature. As their name implies, preventive controls attempt to prevent undesirable events from occurring. Examples of preventive controls are segregation of duties, approvals, proper authorisation, adequate documentation,

and physical control over assets (COSO, 2013). These actions dissuade fraud or theft activities that may eventually lead to losses (Frazer, 2012).

AICPA (2021) specifies that smaller entities often have fewer employees which may limit the extent to which segregation of duties is practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties. Since the internal control system is flexible in nature, it would enable the owner/manager of a small business to override some controls with other appropriate strategies for their less structured systems of internal control.

COSO (2013) further outlines that detective controls are aimed to detect undesirable acts and provide evidence that a loss has occurred. Undesirable acts can be detected and proven through reviews, variance analyses, reconciliations, physical inventories, and audits.

Both types of control activities are vital to an effective internal control system of an SME. Preventive controls are essential because they are proactive in preventing undesirable events from occurring while detective controls play a critical role by providing evidence that a loss has occurred or that the preventive controls have functioned well in preventing losses to a certain point. It is therefore important for an SME to select applicable control activities from both preventive and detective controls, develop them according to the company's policies and procedures and implement or deploy them at the right time through policies that establish what is expected and procedures that put policies into action to manage or reduce risks to an acceptable level.

2.3.4 Information and Communication

Communication is the continual, iterative process of providing, sharing, and obtaining necessary information (COSO, 2013). The COSO (2013) Framework further states that

information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. SMEs owners and managers should therefore seek to obtain or generate relevant, timely and quality information from both internal and external sources to support the functioning of their internal control systems. Loan (2015) confirms that information and communication of the control environment, risks, control activities and their implementation should be reported to superiors and moved from top to bottom as well as horizontal line way in an enterprise. The flow of relevant information throughout the company is an important aspect that creates awareness among all employees. For a company to efficiently run and control its operations, it must utilise relevant, valid, reliable, and timely information that is sourced from both the internal and external environment. This would further enable management to integrate such information into their operations, make informed decisions while eliminating risks and updated policies and procedures.

Managers of companies require information to guide their strategies on internal control (Aladejebi, 2017). COSO's (2013) Internal Control-Integrated Framework advises companies to obtain or generate and use relevant quality information to support the functioning of their internal control systems to achieve control objectives at the level of information and communication. The abovementioned framework further recommends companies to internally communicate information including the objectives and responsibilities for the internal control that is necessary to support the functioning of internal control, as well as to communicate with external parties regarding matters affecting the functioning of internal control.

2.3.5 Monitoring Activities

The United States Government Accountability Office (2014) states that since internal control is a dynamic process that must be adapted continually to the risks and changes an entity faces, monitoring of the internal control system is essential in helping internal control remain

aligned with changing objectives, environment, laws, resources, and risks. This reveals that monitoring is equally an integral component of internal control which should be implemented to ascertain whether the system of internal control is complete and operates effectively as intended. Unmonitored controls tend to deteriorate over a time therefore the internal control systems need to be monitored to assess the quality of the system's performance over time. COSO's (2013) Internal Control-Integrated Frameworks recommends the use of either ongoing evaluations, separate evaluations, or some combination of the two to ascertain whether each of the five components of internal control, including controls to affect the principles within each component to ensure that it is present and functioning.

An ongoing evaluation can be done through daily managerial activities such as supervision, reconciliations, checklists, comparisons, performance evaluations and status reports. Ongoing evaluations are built into business processes at different levels of the entity to provide timely information (COSO, 2013). Timely information would help companies to identify and correct internal control deficiencies on a timely basis and produce more accurate and reliable information for use in decision-making and to prepare accurate and timely financial statements.

Monitoring through separate evaluation may be performed internally through internal audits or periodic reviews but it can also be performed by external sources like external audits, and it is mainly done for the assessment of risks, the effectiveness of ongoing evaluations and other management considerations. Deficiencies found during monitoring need to be reported to the business owner or responsible manager for corrective actions and to improve the system of internal control for the better achievement of an SME's objectives.

2.4 Effectiveness of Internal Control System in SMEs

An effective internal control system is claimed to provide reasonable assurance regarding the achievement of objectives related to operations, reporting and compliance. With an effective internal control system, SMEs' existence is protected, resources are used actively and effectively, the reliability of financial statements is ensured, and the risk of fraud and corruption in the enterprise is reduced (Büyükçoban & Ünkaya, 2016).

COSO (2013) states that an effective system of internal control reduces, to an acceptable level, the risk of not achieving an entity's objectives and may relate to one, two, or all three categories of objectives. These are objectives related to operations, reporting and compliance as mentioned in previous sections. Kendi (2016) specifies that SME leaders may be grappling with and wondering if they are complying with regulatory requirements, having loopholes that are being exploited thus leading to fraud, having unproductive business processes that could be deterring them from achieving their strategic objectives, as well as if they are accounting for and reporting for all their income streams and expenses. The aforementioned author further acknowledges that a robust set of internal controls will go a long way in ensuring that the above needs are being met, the company's resources are well safeguarded, one is complying with regulatory requirements and inherent risks are adequately mitigated. Not only that, but entrepreneurs will also manage to free up their time to concentrate on other key objectives and their companies will experience improved operational efficiency that would ultimately do well for their bottom line.

Effective internal control systems can enable entrepreneurs to find ways to direct, monitor and measure the performance of their enterprises. Effective internal control systems can also support SME leaders to run ethical businesses and supervise their operations effectively to reach the desired goals. Effective internal control systems are essential for many reasons no matter how small a company is. Fraud prevention, embezzlement detection, and accurate

financials are all reasons to justify for good internal control practices (Shanmugam, Haat, & Ali, 2012). This implies that engaging effective internal control systems into business operations has the potential of enabling SME owners and managers to eliminate threats to their business sustainability while allowing them to grow their companies and thereby contribute more to the country's economic development.

2.5 Requirements for an Effective Internal Control System

With the knowledge of benefits of an effective internal controls system, one may need to know the requirements for an effective internal control system.

COSO (2013) Internal Control-Integrated Framework sets forth the requirements for an effective system of internal controls that each of the five components and their relevant principles as indicated in table 2.1 must be present and functioning. Present refers to the determination that the components and relevant principles exist in the design and implementation of the system of internal controls to achieve the specified objectives. Functioning refers to the determination that the components and relevant principles continue to exist in the operations and conduct of the system of internal controls to achieve specified objectives.

The COSO (2013) Framework views all components of internal control as suitable and relevant to all entities. Since principles are fundamental concepts associated with these components, the Framework also views the seventeen principles as suitable to all entities.

Table 2.1: 5 Components and 17 Principles of Internal Control

Components	Principles
Control environment	1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority, and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability.
Risk assessment	6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
Control activities	10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys control activities through policies and procedures
Information and communication	13. Uses relevant information 14. Communicates internally 15. Communicates externally
Monitoring activities	16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies

Source: Adapted from the COSO (2013) “Internal Control – Integrated Framework”

The Framework further presumes that principles are relevant because they have a significant bearing on the presence and functioning of an associated component. Accordingly, if a relevant principle is not present and functioning, the associated component cannot be present and functioning. However, there may be a rare industry, operating, or regulatory situation in which management has determined that a principle is not relevant to a component.

COSO (2013) Framework further emphasises that the five components operate together in an integrated manner. Operating together refers to the determination that all five components collectively reduce, to an acceptable level, the risk of not achieving an objective. Components should not be considered discretely; instead, they operate together as an integrated system. Components are interdependent with a multitude of interrelationships and linkages among them, particularly the way principles interact within and across components.

Management's close involvement in operations will often identify significant variances from expectations and inaccuracies in financial data leading to corrective action to the controls (Nyakundi, Nyamita, & Tinega, 2014). SMEs management therefore has the responsibility of designing, implementing, and conducting internal control as well as assessing its effectiveness to reach business objectives related to operations, reporting and compliance. When a system of internal controls is determined to be effective, management has reasonable assurance, relative to the application within the entity structure, that the organisation achieves its objectives.

2.6 Existence and Level of Implementation of Internal Controls in SMEs

What has been done so far in this chapter is laying a solid ground for the theoretical framework upon which the study is based. Now that clarity has been provided on what exactly is meant by internal control as well as its effectiveness in SMEs, it is now time to review further literature on theories around the effectiveness of internal control systems in SMEs. Therefore, this section concentrates on identifying the existence and level of implementation of internal controls in SMEs as well as problems encountered by SMEs with poor internal controls.

Okoli (2014) argues that every organisation has internal controls no matter how unstructured it may seem. This could be true because entrepreneurs have some means of obtaining

comfort over the cash and/or inventory left in their businesses either at the end of the day, weeks, or months and by doing this, they are practicing a strategy that forms part of the internal controls needed in SMEs.

Literature has however revealed that SMEs are operating with inadequate systems of internal controls. Aladejebi (2017) specifies that some SME leaders lack strategies for improving internal control systems. This is in line with Okoli (2014), who states that the major challenge observed in SMEs is the lack of formal documentation of internal controls. These statements imply that the implementation of internal control systems in SMEs is insufficient due to the failure of either improving or documenting internal control as required. The abovementioned author further revealed that SMEs are operating with inadequate systems of internal controls and that can negatively impact their sustainability. It allows resources to be used ineffectively, however, the reliability of financial statements cannot be guaranteed and there will be a high risk of fraud and corruption in such an enterprise. In contrary, the implementation of sound internal control system can simplify SMEs' performance and enable them to work according to a set of applicable rules and practices.

COSO (2013) emphasises that for a system of internal controls to function properly; all five components of internal controls should be present and functioning. Therefore, entrepreneurs should make sure that all the five components of the internal controls system exist, are well implemented and functioning in their companies before claiming to have an effective system of internal controls. The existence and appropriate implementation of internal controls could guide employees' operations, enable the business to perform accordingly while improving the quality of decision making made by the company's management.

As a small business owner, one might think that implementing properly designed internal controls with limited resources can be challenging, however, not addressing deficiencies can

expose your business to operational and financial risks and losses (Gwin, 2015). The International Federation of Accountants [IFAC], (2013) also states that the way in which internal control is designed, implemented, and maintained varies with an entity's size and complexity. This gives opportunities to SME leaders to create and implement a relevant and less structured system of internal control with simpler processes and procedures to achieve their objectives.

Establishing, implementing, reviewing, and updating internal control systems continually can uplift entrepreneurs' creativity which in turn enables them to establish and develop more relevant strategies to protect their businesses from unnecessary failures while allowing them to reap fruits of their investments and contribute more to economic development of the specific countries. Through continuous or periodically monitoring of internal control systems, an entrepreneur can easily discover deficiencies on the existing system of internal control which enables corrective actions to be taken at the right time for the business to implement and maintain an effective internal control system.

2.7 Problems Encountered by SMEs with Poor Internal Controls

Feng et al. (as cited in Yemer & Chekol, 2017) confirms that a company with ineffective internal control systems have a larger tendency of experiencing management errors in their operation than those companies that report an effective internal control system. Hence, SMEs with poor internal controls are facing threats which hamper their development and the realisation of their full potential. Abdulkadir (2014) specifies that the consequences of uncontrolled risks may include the use of resources inefficiently or ineffectively resulting in shortages of funds or failure of a unit to meet its goals, and the loss of assets due to theft or unintentional errors. The author further indicates that this may result in unreliable financial and operational reports that result in poor decision making by management, while non-

compliance with laws, rules, or regulations may result in financial penalties or damage to the reputation of the organisation.

This is in line with Siwangaza et al. (2014) who specify that with the absence of adequate internal controls, an environment is created where an organisation is susceptible to all kinds of detrimental risks and if these risks are not taken care of on time, the overall sustainability of the organisation could be negatively affected, which may lead to imminent failure.

The Certified Practising Accountant [CPA] Australia, (2008) outlined some related consequences of poor internal controls as:

- Fraud, for instance, millions of dollars are claimed to be lost every day in all business environments due to fraud. When a company does not have strong internal control systems, fraud can occur much easier.
- Bad decisions for the business, for example not reconciling bank accounts regularly may result in overspending and sudden cash shortfalls, which can even lead to bankruptcy or insolvency. Wrong decisions can be made by people that are ill-equipped to deal with a situation. People without permission may authorise the payment of petty cash without following procedures and they end up disbursing cash for non-business expenses or not having appropriate receipts for tax purposes.
- Not taking appropriate action in time to correct errors; an example of this is the failure to take action to collect the funds when an invoice is paid twice, not allocating resources of the business correctly or most efficiently and spending time fixing problems that could have been avoided. So, as an entrepreneur, one should consider how many mistakes are made in his/her business which most of them usually could be avoided if the procedures were clearer or more thorough.

According to the Association of Certified Fraud Examiners [ACFE], (2018) report to the Nations, 29% of small businesses face risk due to billing, 22% for check payment and

tampering, 21% for expense reimbursements, 20% for skimming, and 16% for financial statement fraud. The data for such loss and risk is evidently less for large companies with more than 100 employees. The report further states that the average loss to a small business due to occupational fraud is \$200,000, out of which 42% is due to the fraud caused by a lack of internal controls. Small businesses have fewer anti-fraud controls than larger organizations, making them more vulnerable to fraud (ACFE, 2018).

Overall, poor internal control systems have a negative effect in achieving operational, reporting and compliance goals for the business and this in turn can result in stakeholders' dissatisfaction, negative publicity of the company, and misuse of resources that leads to imminent failure of the whole business.

2.8 Barriers to Effective Internal Controls in SMEs

Siwangaza et al. (2014) identified the barriers to implement effective internal controls in SMEs as lack of financial resources and other prevailing issues. The afore-mentioned authors specify that the most prevailing barriers to effective internal controls include neglects of internal control by management, prominent problems within the enterprise environment, distortion of accounting information and poor management communication, lack of effective supervision mechanisms, limited funding and limited resources, unusual transactions, intentional disregard of controls, collusion, inadequate use of resources, and unauthorised transactions.

According to Stone (2016) characteristics of small businesses make them ripe targets for fraud and create barriers to fully implementing appropriate security and controls to address fraud. Examples of these barriers include limitations in resources and expertise and often too few employees to fully implement traditional internal accounting controls e.g., segregation of duties. It is understandable that for small businesses, implementing properly

designed internal controls with limited resources can be challenging. SMEs generally have limited resources to focus on internal controls, however, COSO (2013) advises smaller entities to meet the challenges they face in attaining the cost-effective internal controls. As can be derived from its definition, internal controls are adaptable to the entity's structure, flexible in application for the entire entity or for a particular subsidiary, division, operating unit, or business process. This gives SMEs an option to implement controls that are applicable to their companies while weighing the cost versus the benefit of each control that the company is putting into place.

Lack of knowledge of the internal control concept is also considered as another obstacle that may prevent the proper implementation of effective internal control systems. Although SMEs are known for their benefits to the financial stability of the country, SME managers and leaders in developing countries are perceived to lack knowledge of internal controls (Nqala, 2019). In this regard, SME managements are urged to seek and invest on affordable training to build capacity in implementing effective internal control systems for the sustainability of their businesses.

2.9 Empirical Review

Oseifuah and Gyekye (2013) investigated the effectiveness of internal controls in SMEs in South Africa. Specifically, the study focused on SMEs in the Vhembe District of the Limpopo Province. A questionnaire was used to collect data pertaining to the five essential and interrelated components of internal controls which are the control environment, risk assessment, information, and communication, monitoring and control activities. The SPSS Statistical software was used to analyse the data. Chi-square statistical procedure was employed to establish the relationship between levels of internal controls among businesses by size of business and type of business in the Vhembe District. The main findings of the

study were that (i) internal control practices among the small business sector enterprises in the Vhembe District is low, with only 45 percent of firms surveyed having adequate internal controls systems in place; (ii) that the size of business in the sector studied determines the possession of insurance cover (a major component of internal control). The policy implication of these findings is that there is a need to encourage and support small businesses for them to grow and expand in size to effectively employ internal control measures, the lack of which is firmly established as a major cause of business failures around the world.

Siwangaza, Smit, Bruwer and Ukpere (2014) conducted research on the status of internal controls in fast moving Small Medium and Micro (SMME) consumer goods enterprises within the Cape Peninsula. The main objective of their study was to determine the degree to which the implementation of an adequate system of internal control can help improve SMME sustainability. The research that was conducted was empirical in nature and fell within the ambit of the positivistic research paradigm. Based on the findings, it is obvious that most of the SMMEs have a variety of internal controls as prescribed by formal internal control frameworks but their support in terms of SMMEs' sustainability were quite limited.

Unam, Inneh and Ojo (2014) investigated the effects of internal controls on the operating performance of small businesses in Lagos Metropolis. Primary data were employed through a structured questionnaire administered to 200 small businesses selected using convenience sampling. Six determinants of internal control that include the control environment, risk assessment, control activities, information and communication, monitoring, and information technology were examined to determine their influence on the financial and operational performance of small businesses. The results showed that these determinants have a significant effect on the efficiency of operations of the selected small businesses, which consequently enhanced their profitability. The study concluded that internal controls, grounded in the COSO Model, have significantly positive effects on small business

profitability and survivability. Thus, the study recommended that managers/owners of small businesses should be attentive to the issues of internal control to maximize the business potential and minimize the risk of fraud, error and loss.

Sankoloba and Swami (2014) examined the impact of internal controls in managing resources of small business using a case study of Botswana. The paper examined the importance of internal controls in managing resources of small businesses of Botswana. The research was driven by the argument that small businesses lack internal control and as a result they end up failing. The research investigated further into this issue by assessing whether small businesses have internal controls and if so whether internal controls are costly to implement. This quantitative research used a questionnaire and semi-structured interviews to obtain information from 52 randomly selected respondents. Although the findings revealed that most businesses have internal controls, it was further discovered that internal controls are moderately expensive to implement in SMEs. It was further noted that the owners were aware that there should be internal controls in place but identified that they are not able to maximize the effectiveness of internal controls to their advantage. The conclusion derived from responses is that internal controls are significant in managing the resources of a small business hence owners and employees should train themselves for them to be more knowledgeable about internal controls.

Mohd et al. (2015) investigated the importance of internal control against fraud prevention and detection in SMEs. The research aim was to determine the relationship of internal control components (control environment, information and communication, control activities, risk assessment and monitoring) in the prevention and detection of fraud. Questionnaires with structured questions were used to collect data from a sample of 200 respondents. This research found that the five components of internal control which are control environment, risk assessment, control activities, information and communication and monitoring need to

work together to achieve an effective and strong internal control system. Nevertheless, the result of the research shows that the SMEs should be able to maintain such a basic internal control system in their company especially in monitoring and managing their activities through an independent unit such as the internal audit department. It was therefore recommended for SMEs to outsource those departments so that it can be cost effective, and the system will be more reliable as the outsourcing company has more experience in designing the internal control system which is suitable for the SMEs from different sectors.

2.10 Summary: Emerging Issues and Need for Empirical Review

Scholars highlight that effective internal control systems play a critical role in the performance and survival of SMEs by providing reasonable assurance regarding the achievement of objectives related to operations, reporting and compliance. It is noted that SMEs are facing risks that lead to their businesses failures because they are operating with inadequate systems of internal controls. Although there are various barriers that may prevent the proper implementation of effective internal controls in SMEs, attaining the cost-effective internal control systems is the best option to a successful business. Empirical research has proven that good internal control systems work to the advantage of SMEs' performance and stability.

The researcher, however, did not come across any local study that relates to the effectiveness of internal control systems in the Namibian SMEs. This means that the reviewed research were all done in other countries hence, there was still a need for a similar study to be carried out with Namibian SMEs especially those located outside Windhoek.

The next stage of this research details the research methods used to capture empirical data, including details on the research strategy adopted, data collection techniques, sample selection and the management of the researcher's role.

CHAPTER THREE: RESEARCH METHODS

3.1 Introduction

The previous chapter focused on the literature around the effectiveness of internal controls with special attention to SMEs. The purpose of this chapter is to describe the research methodology that was used to evaluate the effectiveness of internal control systems for the survival of Windhoek SMEs specifically to determine the existence and level of implementation of internal controls in SMEs in Windhoek, examine if Windhoek SMEs are experiencing problems that could result from ineffective systems of internal controls and to identify the barriers that may prevent Windhoek entrepreneurs from implementing adequate systems of internal controls for their businesses.

Research design, population and sampling, research instruments and procedures used to collect and analyse data as well as the research ethics are addressed below.

3.2 Research Design

Creswell (2013) simplifies that research design means the plan for conducting the study. It involves the entire process of research from conceptualizing a problem to writing research questions, and on to data collection, analysis, interpretation, and report writing. This study adopted a quantitative research design as an approach to realise its objectives. According to Bryman (2012), quantitative research can be construed as a research strategy that emphasises quantification in the collection and analysis of data. This is in line with Mohajan (2021) who indicated that quantitative research can be used to quantify attitudes, opinions, behaviors, and other defined variables and generalize results from a larger sample population by the way of generating numerical data.

A quantitative research design is therefore considered the best approach to this research since it enables the researcher to measure attitudes, opinions, and behaviours of respondents and

generalises results from a larger sample population. This structured method of data collection also allows the researcher to collect data using questionnaires, and it measures and converts data into numerical form that can be transformed into usable statistics. Measurable data is the best data that enables the author to formulate facts and uncover patterns in research.

3.3 Population

Casteel and Bridier (2021) indicates that the population of interest for the study is comprised of the individuals, dyads, groups, or organizations that are potential units of analysis and to whom or to which the study results may be generalized or transferred. The above-mentioned authors further clarifies that the target population is the specific, conceptually bounded group of potential participants that represents the nature of the population of interest.

There are numerous formally registered SMEs in the City of Windhoek (COW) that are regarded as the population of interest. However, the target population was that of Windhoek based and registered SMEs that submitted their company profiles to the procurement division of the Namibia Civil Aviation Authority (NCAA) where the researcher works. It was identified that several registered SMEs had submitted their company profiles to NCAA in 2017 for procurement purposes. Among the submissions, the researcher identified 61 companies as Windhoek based and registered SMEs that are engaged in various economic activities and they were then regarded as the population of the study.

3.4 Sample

The study adopted the survey type of research in which a sample from the target population was considered for the investigation. A sample is the segment of the population that is selected for investigation (Bryman, 2012). There are different sampling methods from which the researcher chose to use the “simple random sampling” method which allows individual members of the population an equal chance of being selected for a sample. A total sample

consisting of fifty (50) SMEs which translate to 83% of the target population were chosen entirely by chance to be engaged in this study. The sample size (s) was calculated using the commonly employed method of Krejcie and Morgan. Krejcie and Morgan (1970) came up with the following formula to determine sampling size:

$$s = \frac{X^2 NP}{(1-P) + d^2 (N-1) + X^2 P (1-P)}.$$

Where: s = required sample size

X^2 = the table value of chi-square for one degree of freedom at the desired confidence level, in this regard 90% (1.645)

N = the population size

P = the population proportion (assumed to be .50 since this would provide the maximum sample size)

d = the degree of accuracy expressed as a proportion (.05), so

$$s = 2.7060 \times 30.5 \times 0.5 / 0.0025 \times 60 + 2.7060 \times 0.25$$

$$s = 41.2665 / 0.15 + 0.6765$$

$$s = 41.2665 / 0.8265 = 49.9292$$

$$s \approx 50$$

3.5 Research Instruments

Data was collected by means of a semi-structured questionnaire. According to Roopa and Rani (2012), a questionnaire is a series of questions asked to individuals to obtain statistically useful information about a given topic. When properly constructed and responsibly administered, questionnaires become a vital instrument by which statements can be made about specific groups or people or entire populations. The questionnaire was not only chosen

for this study because it is the most common data collection instrument used in research but also because large amounts of data can be collected from many respondents in a short period making the whole process cost-effective.

The questionnaire was designed in a simple manner with about 38 mainly structured questions including a combination of Likert Scale and closed ended questions. There were very few open-ended questions, nevertheless, it is important to note that those open-ended questions were not used to turn the research into qualitative research but merely to shed more light to structured responses. According to Infosurv Research (2019), open-ended questions do not always yield qualitative research insights, but can significantly enhance the insights gained from quantitative studies.

The questionnaire was further divided into three sections, namely A, B and C. Although questions were based on research objectives described in the first chapter, respondents were also required to disclose their demographic information under section A. Demographic information collected in this research comprised of respondents' gender, age, level of education and position in the company. This information was intended to provide a better understanding of respondents' background and to present the results of this empirical investigation in a sensible way. Some elements of SMEs were also observed under Section A to determine the company's age, size, and economic sector. Section B was aimed to test the existence and level of implementation of internal control system in Windhoek SMEs while Section C was about general evaluation concentrating the problems encountered by SMEs with poor internal control and barriers to the proper implementation of internal control systems in these businesses sector. Overall, the questionnaire was set to test the effectiveness of internal control systems in the survival of Windhoek SMEs.

3.6 Validity and Reliability of the Research Instrument

3.6.1 Validity

Validity is the extent to which the scores from a measure represent the variable they are intended to (Price, Jhangiani, Chiang, Leighton & Cuttler, 2017). How accurately a method measures what it is intended to measure also defines validity (Middleton, 2021). The aforementioned author further clarifies that if research has high validity, which means it produces results that correspond to real properties, characteristics, and variations in the physical or social world. Validity of the questionnaire used in this study was established firstly, by having it evaluated by the supervisors. This facilitated revision of the questionnaire to remove ambiguous questions and proposed amendments were applied accordingly. Additionally, the researcher adopted face validity test where the questionnaire was pilot tested to determine if the content of the test appear to be suitable to its purposes. Five questionnaires were presented to five qualified respondents who couldn't form part of the final research because they were not from the target population. There were no areas of concern arose from piloting.

3.6.2 Reliability

Sürücü & Maslakçı (2020) explained that reliability refers to the stability of the measuring instrument used and its consistency over time. The above-mentioned authors further stated that reliability is the ability to measure instruments to give similar results when applied at different times. To establish if the questionnaire was reliable, the data collected was run through the statistical measure of internal consistency called Cronbach's alpha (Cronbach's α) and the test results are as shown in table 3.1.

Table 3.1 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.861	.876	52

Source: Author’s Compilation (2022)

Price et al., (2017) stated that a value of Cronbach’s α that is greater than or equal to 0.8 is generally taken to indicate good internal consistency or good reliability. Therefore, test reflecting that $\alpha = 0.861$, signifies reliability of the instrument (questionnaire) used in this study.

3.7 Procedures

Data collection can be described as the process of gathering and measuring information on targeted variables in an established system, which then enables one to answer relevant questions and evaluate outcomes. Accurate data collection is essential to maintaining the integrity of any research therefore, data collection plays a very essential role in every research. There are different methods that are used to gather information, most of which fall under two common categories of primary and secondary data, which are the same methods adopted and used in this research.

According to Ajayi (2017), primary data is original and unique data which is directly collected by the researcher from sources such as observations, surveys, questionnaires, case studies and interviews according to the researcher’s requirements. The abovementioned author further states that secondary data is opposed to primary data, and it is easily accessible but might not be pure as they may have undergone many statistical treatments.

The questionnaire used in this study constituted the main source of primary data. A total of fifty self-administered questionnaires were distributed to fifty SMEs based in Windhoek. Eight percent (80%) of the questionnaires were e-mailed to respondents while 20% were hand-delivered. The email and physical addresses of respondents were obtained from the procurement division of the Namibia Civil Aviation Authority (NCAA) and many registered SMEs submitted their company profiles for procurement purposes. To avoid surprises, before e-mailing the questionnaires, the researcher first called all the targeted companies to introduce herself. All respondents were then given two weeks (fourteen days) to complete the questionnaires before it could be collected or e-mailed back to the researcher. This period was provided to allow sufficient time to some respondents who claimed to have busy schedules. Though this time was considered enough, some respondents could still not manage to complete the questionnaire within the availed period, and they requested for extra days to complete questionnaires. Seven more days were then granted by the researcher.

Finally, out of 50 questionnaires distributed either through e-mail or hand delivery, only 38 were returned, providing an overall response rate of about 76 percent. To maintain the ethics of the study, the researcher could not force other potential participants to complete the given questionnaires but to accept the returned ones as sufficient.

In addition to questionnaires, secondary data were also collected to supplement the study. Secondary data collected were sourced from journals, handbooks and manuals, textbooks, government, and other organisational publications as well as reviewed articles and editorials.

3.8 Data Analysis

Data collected for this research were analysed using IBM Statistical Package for Social Science (SPSS) version 25. Descriptive statistical methods were used to analyse data and

results of the study were presented in various forms including tables and charts where frequencies and percentiles were displayed for ease understanding and interpretation.

3.9 Research Ethics

Information obtained from other sources were referenced and acknowledged to avoid plagiarism. No respondent was forced to participate in this research and participants were fully informed of the purpose of the study. All materials gathered during the study were treated with confidentiality and data were anonymised and presented in the aggregate form to avoid the identification of individual participants. Participants' dignity, rights and safety were respected to prevent any harm to any of the respondents. The study also ensured the confidentiality of all respondents by maintaining confidentiality regarding their personal data that was only gathered for the study and could not be used for any other purpose. The completed questionnaires will be kept safe in a locked cabinet for a period of five (5) years before destroying it afterwards.

CHAPTER FOUR: FINDINGS, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter outlines the empirical research findings. The results of the 38 questionnaires that were received from respondents are analysed and discussed below. Collected data were first organised and captured into IBM SPSS version 25. Results were then analysed and presented in the form of frequency distribution tables, pie charts and bar charts of which descriptive statistics like frequencies and percentiles are displayed for ease understanding. The analyses of answers from the completed questionnaires are divided into the following four main topics:

- Demographic profile and SMEs identification
- Existence and level of implementation of the internal control system in Windhoek SMEs
- Problems encountered by SMEs with poor internal control
- Barriers to proper implementation of internal control systems

4.2 Demographic Profiles and SMEs Identification

4.2.1 Gender

In this section, closed-ended questions were used to collect respondents' information such as gender, age, level of education and position in company. This information was intended to provide a better understanding of respondents' background and to present the results of this empirical investigation in a sensible way. Some features of SMEs were also observed under this section to define the company's age, economic sector, and size.

Table 4.1: Respondents’ Gender

Gender	Frequency	Percent	Cumulative percent
Male	23	60.5	60.5
Female	15	39.5	100.0
Total	38	100.0	

Source: Author’s compilation (2019)

The results in Table 4.1 give the impression that the survey was dominated by male respondents at the rate of 60.5% while women respondents were represented by 39.5%. Most of the respondents are male, and this could be an indication that men are more in the business sector than women. According to the World Bank (2018), one of the reasons how and why female-run businesses are different is that women would often prefer wage employment over self-employment. They are more likely to be “pushed” into entrepreneurship by economic necessity (i.e., lack of jobs or insufficient family income) rather than “pulled” by opportunity (i.e., a creative idea for a new business).

4.2.2 Respondents’ Age

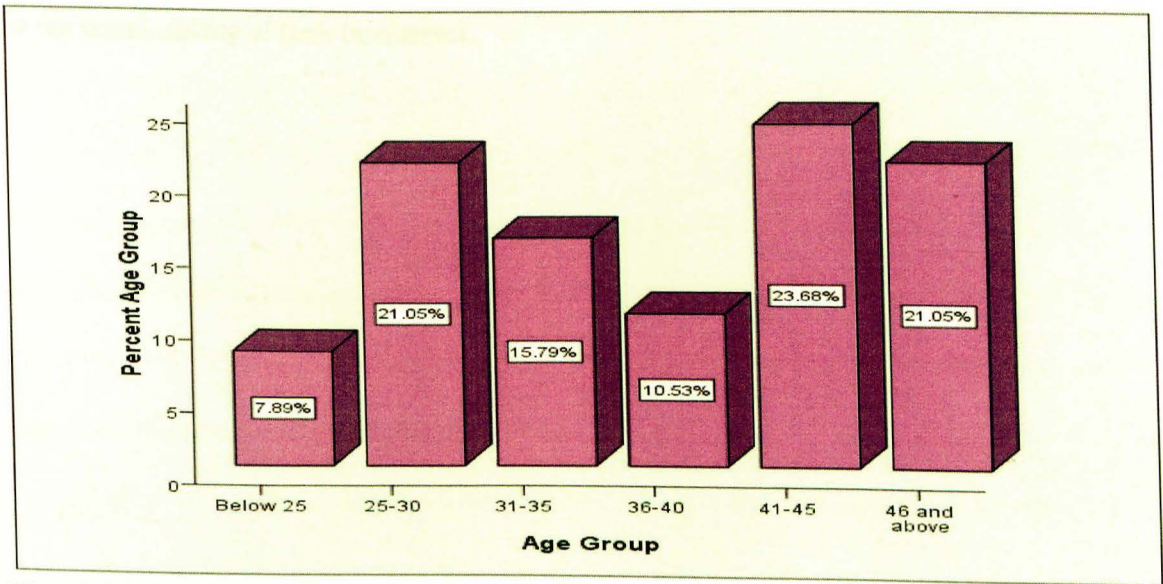


Figure 4.1: Respondent’s Age
Source: Author’s compilation (2019)

The entrepreneurs' age in Figure 4.1 indicates that 21.05% of respondents are between the ages of 25-30 years. At this young age, one is considered to still be deciding on what he or she wants to do in life but due to the current high unemployment rate in the country, many young people are forced or encouraged to do business to create their own income while offering employment to others. The drop in the percentages of respondents between the ages of 31 through 40 might be due to some business failures among these young entrepreneurs. This could be associated with lack of knowledge of the internal control concept or lack of strategies to improve their businesses' internal control systems. Both factors are considered as obstacles that may prevent entrepreneurs from implementing effective internal control systems. After failing on the first attempt, some entrepreneurs could have learnt new strategies of controlling their businesses hence they came up with effective internal control systems which could make them to succeed on the second trial. This could be the reason of a peak in the percentages of entrepreneurs over the age of 40 forming a total of 44.73% (23.68% + 21.05%) of all respondents. This age group can also be considered as a mature group of people who have discovered what they need in life, and they are much more level-headed, experienced and or knowledgeable to implement effective internal control systems for the sustainability of their businesses.

4.2.3 Respondents’ Level of Education

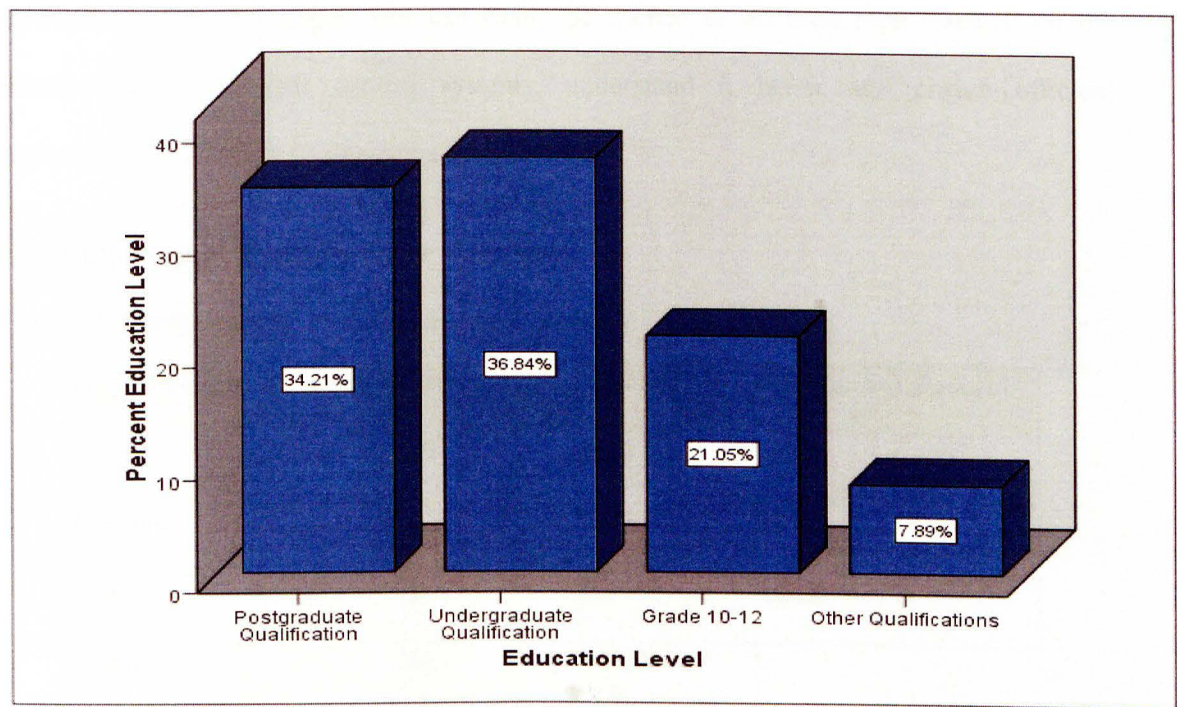


Figure 4.2: Respondents’ Level of Education

Source: Author’s compilation (2019)

As it appears in Figure 4.2, the survey findings reveal that respondents’ level of education was dominated by those with undergraduate qualifications at 36.84% followed by 34.21% of postgraduate qualifications. Entrepreneurs with Grade 10-12 were represented by 21.05% and the remainder 7.89% was for people holding other unnamed qualifications. A high percentage of respondents with tertiary qualifications could be an indication that many respondents are skilled entrepreneurs who might possess some expertise in the areas of their businesses and that could have enabled them to properly manage their companies’ thorough implementation of relevant internal control systems.

In the highly competitive global market, the role of education has become more important since it has been proven that personnel’s high level of education is a factor in the research and innovation process, thus facilitating improvements in productivity and competitiveness

(Magoutas, Papadogonas, & Sfakianakis, 2012). Therefore, skilled entrepreneurs could be regarded as the right people who can easily be trained or do their own research on the effectiveness of internal control systems, understand it better and ensure efficient implementation for their businesses sustainability.

4.2.4 Respondents’ Positions in the Company

Table 4.2: Respondents’ Positions in the Company

Position in the company	Frequency	Percent	Cumulative Percent
Owner	26	68.4	68.4
Manager	9	23.7	92.1
Other	3	7.9	100.0
Total	38	100.0	

Source: Author’s compilation (2019)

Table 4.2 indicates that out of 38 respondents, 68.4% were owners of SMEs, 23.7% were managers, while 7.9% represented other senior officials. This is an indication that most SMEs are managed by owners while a few of them are controlled by managers or other personnel who could be considered as senior officials.

4.2.5 Companies’ Age

Table 4.3: Companies’ Age

Company Age	Frequency	Percent	Cumulative Percent
0-3	3	7.9	7.9
4-6	9	23.7	31.6
7-9	13	34.2	65.8
10-15	8	21.1	86.8
16-20	2	5.3	92.1
21 and above	3	7.9	100.0
Total	38	100.0	

Source: Author’s compilation (2019)

Table 4.3 represents the age of the SMEs surveyed, which is the number of years in operation. It is evident from this table that only 7.9% represent the newly established companies ranging from 0-3 years; whereas 23.7% were from companies aged between 4 and 6 years while many respondents (34.2%) indicated that they are from companies aged between 7 and 9 years. This high percentage indicates that many of the respondents’ companies had grown that far, however, there is a decrease in the percentage noted on companies aged from 10-15, 16-20 and above 21years with scores ranging at 21.1%, 5.3% and 7.9% respectively. This may possibly mean that some enterprises have failed before reaching the age of 10 and among those survived to that stage, only a few could grow above the age of twenty.

Lings (as cited in Bushe, 2019) points out that there is a very high rate of business failure among small to medium enterprises with an estimation showing that 40% of all new businesses in the country fail in their first year of existence, while 60% in the second year and

90% within the first 10 years from inception. It was also revealed in literature that SMEs are much more vulnerable proportionally to fraud by employees and as such they much less able to absorb these losses than large corporations (Shanmugam, Mohd, & Azwadi, 2012). This possibly means that any enterprise that could not maintain effective internal control systems at all times can easily become a victim of fraud at any growing stage. Fraud typically results in a loss of assets and an enterprise’s doors might close at any time when losses cannot be recovered.

4.2.6 SMEs Size (Employees and Annual Turnover)

Table 4.4: Number of SMEs’ Employees and Annual Turnover

Number of Employees	Frequency	Percent	Cumulative Percent
1-10	23	60.5	60.5
11-30	7	18.4	78.9
30-100	5	13.2	92.1
More than 100	3	7.9	100.0
Total	38	100.0	100.0
Annual Turnover			
0-300000	9	23.7	23.7
300 001-3 000 000	17	44.7	68.4
3 000 001-10 000 000	10	26.3	94.7
More than 10 000 000	2	5.3	100.0
Total	38	100.0	100.0

Source: Author’s compilation (2019)

Table 4.4 shows that the majority (60.5%) of respondents' companies employed between 1 and 10 employees. It is further revealed that 23.7% of respondents indicated that they are reaping an annual turnover ranging from 0-300 000 Namibian dollars. All these companies are considered as micro-enterprises according to the Namibian definition of SMEs as revealed from the literature. It is also indicated in the table below that 17 out of 38 respondents' companies were regarded as small enterprises in terms of employment (11-30 employees) while on an annual turnover, the percentage of small enterprises earning between 300 001-3 000 000 Namibian dollars have risen to 44.7%. Medium enterprises scored 7.9% of respondents employing between 31 and 100 employees, while their annual turnover ranges from 3000 001-10 000 000. There were however about 7.9% of respondents' companies employing more than 100 employees while 5.3% indicated an annual turnover more than N\$10 000 000.00. These companies could be regarded as big, however, the difference in the percentage on the number of employees and the annual turnover could be an indication that either the number of employees or annual turnovers had landed them halfway under the definition of SMEs.

4.2.7 SMEs’ Economic Sector

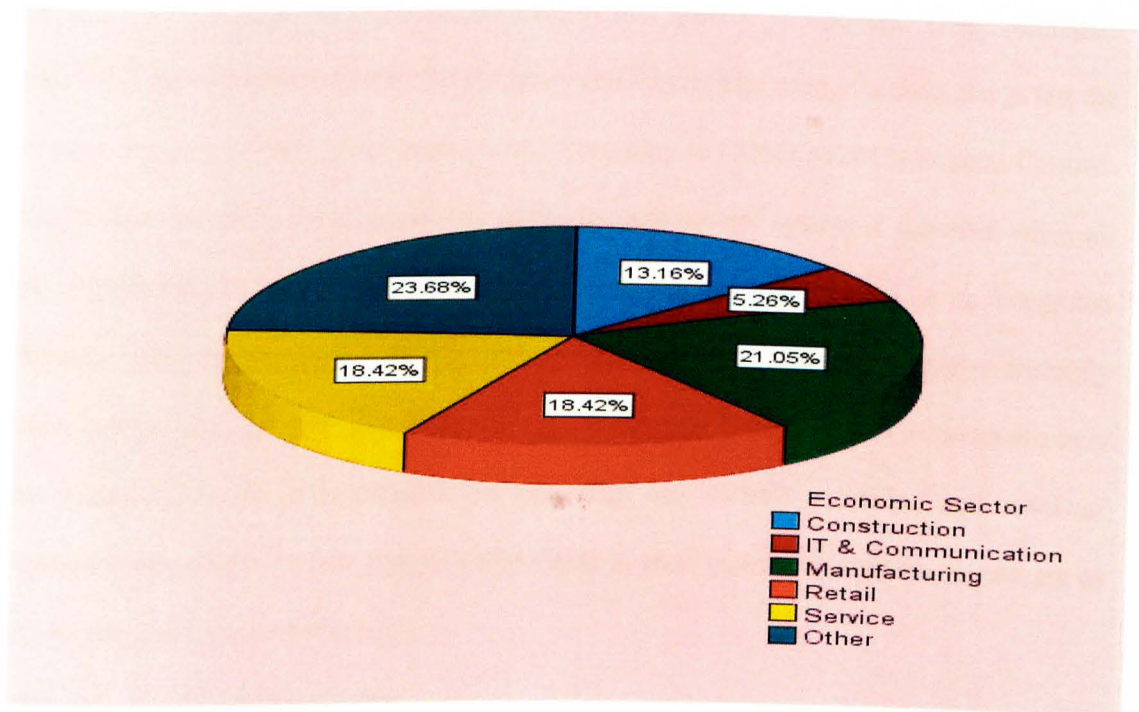


Figure 4.3: SMEs’ Economic Sector

Source: Author’s compilation (2019)

Findings in figure 4.3 indicate that the research covered respondents from different economic sectors where 21.05% are in manufacturing, followed by 18.42% from the service sector. Retail, construction and IT and communication sectors were represented by 18.42%, 13.16% and 5.26% respectively, whereas 23.68% of respondents are from other different sectors including financial (micro-lending), beauty and hair care, bakeries and survey and mapping.

4.3 Existence and Level of Implementation of Internal Control System in SMEs

4.3.1 Control Environment

The next responses reveal whether each of the five COSO integrated components of the internal control system are present and functioning among respondents’ SMEs. The Likert Scale was used with different statements on each of the five components of internal control.

The given statements under each component are principles related to the achievement of the internal control system objectives at the level of that specific component. These principles need to be met or implemented by the company and they can be used as a checklist to test the presence and functioning of that component. According to COSO's (2013) Internal Control-Integrated Framework, the effectiveness of the internal control system is achieved when all five components of the internal control are present and operate together in an integrated manner. This study requested respondents to rate their businesses on a scale of Strongly Agree, Agree, Nor Agree Neither Disagree to Strongly Disagree. The respondents were also requested to do a self-evaluation regarding the overall existence and level of implementation of all internal control components in their companies and the results are as well be presented under this section.

Table 4.5: Control Environment

Statement	Percentage (%) of Respondents				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The company has a clear vision and mission statements	55.3	34.2	7.9	2.6	
The company demonstrates commitment to integrity and ethical values	47.4	47.4	5.3		
The acts and actions of management are consistent with the stated values and conduct expected of all other employees	36.8	50.0	10.5	2.6	
Management strives to comply with laws, rules, and regulations applicable to the company	44.7	36.8	10.5	5.3	2.6

The company demonstrates commitment to attract, develop, and retain competent individuals in alignment with its objectives	36.8	36.8	2.6	21.1	2.6
The company has written internal policies and procedures which is supported and understood by all employees to allow them to do their work effectively	21.1	39.5	10.5	21.1	7.9
Management has established, structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives	21.1	50.0	7.9	18.4	2.6
The company holds individuals accountable for their Internal control responsibilities in the pursuit of objectives	28.9	42.1	10.5	10.5	7.9

Source: Author’s compilation (2019)

According to the results in table 4.5, the highest percentages of 55.3% and 47.4% of respondents strongly agreed that their companies have a clear vision and mission statements and that they also demonstrate commitment to integrity and ethical values. More than 50% of respondents were also in agreement (strongly agree / agree) that the acts and actions of management are consistent with the stated values and the conduct expected of all other employees and that their managements are striving to comply with laws, rules, and regulations applicable to their companies. Similarly, the large number of participants represented by 73.6% (36.8% + 36.8) revealed their agreement that their companies are

demonstrating commitment to attract, develop and retain competent individuals in alignment with their objectives.

About 71% (28.9% + 42.1%) of respondents also agreed that their company holds individuals accountable for their internal control responsibilities in the pursuit of objectives while a total of 71.1% agreed that their management has established structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives. The percentage of 21.1% and 39.5% reveals respondents that either strongly agree or agree to the availability of written internal policies and procedures in their companies which are supported and understood by all employees to allow them to do their work effectively.

As revealed in the literature, the control environment is argued to be the foundation for other components of internal control, and it involves the set of standards, processes and structures that provide the basis for carrying out internal control across the organisation.

Having a large number of respondents in agreement to have employed each of the given principles related to the achievement of internal control objectives at the control environment level is an indication that many of the respondents' companies have laid a strong foundation for other components of internal control systems for their companies.

It is however noted that a least percentage of less than 22% of respondents disagree to each given principle while not more than 10.5% indicated being neutral. This group represented several respondents that are lagging behind or doubting if they really have implemented the principles of the control environment component.

4.3.2 Risk Assessment

Table 4.6: Risk Assessment

Statement	Percentage (%) of Respondents				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The organization specifies its objectives with sufficient clarity to enable the identification and assessment of risks relating to those objectives.	18.4	47.4	23.7	10.5	
Company has identified risks to the achievement of its objectives and analyses risks as a basis for determining how the risks should be managed.	26.3	50.0	18.4	5.3	
The company considers the potential for fraud in assessing risks to the achievement of objectives.	26.3	55.3	15.8	2.6	
The company identifies and assesses changes that could significantly impact the system of internal control.	23.7	55.3	18.4	2.6	

Source: Author’s compilation (2019)

About 81.6% of respondents as shown in table 4.6 agree that they are considering the potential for fraud in assessing risks to the achievement of their companies’ objectives. The total percentage value of 79% and 76.3% represent respondents who agreed and strongly agreed that their companies identify and assess changes that could significantly impact the system of internal control and that their companies identified risks to the achievement of objectives and the analysis of risks as a basis for determining how risks should be managed. The least percentage of 65.8% in agreement further indicates that their companies specify

objectives with sufficient clarity to enable the identification and assessment of risks relating to those objectives. The table however indicated few percentages of respondents who disagreed to have employed each of the principles related to the achievement of risk assessment as outlined in COSO’s (2013) Internal Control Integrated Framework. The remaining percentages of respondents could not agree nor disagree (neutral) if those principles of risk assessment in their companies are fully implemented or functioning as expected.

COSO’s (2013) Internal Control-Integrated Framework revealed that by assessing risks, companies should identify and analyse potential risks to the achievement of their goals in order to determine how to manage those risks. Failure to consciously manage risks can severely handicap any organisation and eventually result in its downfall.

4.3.3 Control Activities

Table 4.7: Control Activities Among Respondents’ SMEs

Variables	Percentage (%) of Respondents				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The organisation selected and developed control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.	15.8	63.2	15.8	5.3	
The organisation selected and developed general control activities over technology to support the achievement of objectives. Examples can be computer backups and updates, virus protection, official usage, non-sharing of computer passwords, etc.	23.7	47.4	13.2	13.2	2.6

The company deploys control activities through policies that establish what is expected and procedures that put policies into action.	18.4	34.2	18.4	28.9	
Applicable preventive controls in the company are transparent like segregation of duties, adequate documentation and records, controlled access to assets, independent accountability checks and reviews of performance and approval and authorisation.	21.1	50.0	15.8	10.5	2.6
Applicable detective controls are practiced in the company to detect undesirable acts and provide evidence that a loss has occurred. Examples of detective controls are reviews, analyses, reconciliations, stock taking or physical inventories, audits etc.	31.6	50.0	7.9	5.3	5.3

Source: Author's compilation (2019)

The total percentage of 81.6% (31.6% + 50%) in table 4.7 shows that many respondents strongly/agree that detective controls are practiced in their companies to detect undesirable acts and provide evidence that a loss has occurred. In literature, COSO' (2013) Internal Control-Integrated Framework indicates that undesirable acts can be detected and proven through reviews, variance analyses, reconciliations, physical inventories, and audits. Continuing to use any of the applicable detective controls could enable these entrepreneurs to discover and act against undesirable acts that could negatively affect their operations.

Respondents also agreed at a total percentage of 79% that their companies had selected and developed control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels. The twin total percentage of 71.1% (23.7% + 47.4% and 21.1% + 50%) shows respondents that strongly agree and those agreed to have selected and developed general control activities over technology to support the achievement of objectives and that applicable preventive controls in their companies are transparent like the segregation of duties, adequate documentation and records, controlled access to assets, independent accountability checks and reviews of performance and approval and authorisation.

The lowest total percentage of 52.6% (18.4 and 34.2) signify respondents who are in agreement that their companies deploy control activities through policies that establish what is expected and procedures that put policies into action. It can be seen from this table that respondents ranging from 5.3% to 28.9% disagreed to the given principles of control activities which means that these activities are not practiced in their companies while 7.9% to 18.4% percentage of respondents could neither agree nor disagree to have implemented those standards. Literature revealed that control activities are actions that are established through policies and procedures that help to ensure management's directives to mitigate risks to the achievement of objectives are carried out. As cited in literature, Loan (2015) emphasised that these policies and procedures aim to support other necessary activities to minimise the business risk and enable objectives to be implemented seriously and efficiently across the whole enterprise. A business needs to be fully controlled through all applicable activities and operating without or with inadequate principles of control activities can adversely affect the achievement of internal control objectives at this (control activities) level.

4.3.4 Information and Communication

Table 4.8: Information and Communication

Statement	Percentage (%) of Respondents				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Company obtains or generates and uses relevant, quality/updated information to support the functioning of internal control.	18.4	28.9	26.3	23.7	2.6
The organisation internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.	23.7	47.4	15.8	10.5	2.6
The company communicates with external parties regarding matters affecting the functioning of internal control.	15.8	50.0	23.7	5.3	5.3

Source: Author’s compilation (2019)

Findings in table 4.8 indicate the highest percentages of 23.7% and 47.4% as an indication that most of the respondents’ companies internally communicate information, including objectives and responsibilities for internal control that is necessary to support the functioning of internal controls. The table further reveals a significant 65.8% (15.8% and 50%) of respondents agree that their companies communicate with external parties regarding matters affecting the functioning of internal control, while a total percentage of 47.3% (18.4% and 28.9%) represent respondents with SMEs that obtain, generate and use relevant, quality/updated information to support the functioning of internal controls. About 26.3, 13.1 and 10.6 percentages of respondents did not agree to have employed respective principles that

are relevant to information and communication, whereas the rest of the respondents neither agreed nor disagreed to have put these principles into practice. This is an indication that some Windhoek SMEs do not seek to obtain, generate, and use or share pertinent information which could support the functioning of internal control systems in their companies.

COSO’s (2013) Internal Control-Integrated Framework states that information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Therefore, inabilities to seek, identify, capture, and communicate relevant information in a form and timeframe that could enable employees to make informed decisions through their responsibilities may prevent those SMEs to achieve internal control objectives at the level of information and communication.

4.3.5 Monitoring Activities

Table 4.9: Monitoring Activities

Statement	Percentage (%) of Respondents				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The company selected, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.	13.2	31.6	15.8	36.8	2.6
Internal control deficiencies are evaluated and communicated in a timely manner to those parties responsible for taking corrective action, including senior management.	21.1	21.1	15.8	31.6	10.5

Source: Author’s compilation (2019)

Through evaluation and feedback processes, an organisation assesses, tracks, and monitors its performance over time. Table 4.9 shows how participants weighed monitoring activities in their companies. Only respondents represented by values totalling 44.8 percent (13.2% and 31.6%) are in compliance with the COSO's (2013) Internal Control-Integrated Framework principle that their companies selected, developed, and performed ongoing and/or separate evaluations to ascertain whether all components of internal control are present and functioning.

A total of 42.2% (21.1% + 21.1%) of respondents also confirmed that their internal control deficiencies are evaluated and communicated in a timely manner to those parties that are responsible for taking corrective action, including senior management.

About 42.1% and 39.4% were however in disagreement to both principles respectively. This is an indication that they don't employ these principles at all. Another 15.8% of respondents could not agree nor disagree to have implemented the same principles which possibly mean that some elements of these principles are not properly put into practice in their SMEs. Without monitoring or proper monitoring activities, an SME cannot assess the presence and functioning of its internal control systems, and this may lead to the decline or failure of the company's system of internal control which in turn could result in their businesses' failure. Literature highlighted the use of monitoring activities to be done either continually, periodically or in a combination of both to ensure the effectiveness of internal control systems and counter the risks of this degradation and breakdown. It is also recommended for organisations to evaluate and communicate internal control deficiencies in a timely manner for responsible parties to make corrective actions (COSO, 2013; ISACA, 2010).

4.3.6 Overall Existence and Level of Implementation of Internal Controls in Windhoek SMEs

Table 4.10: Overall Existence and Level of Implementation of Internal Controls in Windhoek SMEs

Statement	Yes		No	
	Frequency	Percentage (%)	Frequency	Percentage (%)
Presence and functioning of five IC components	17	44.7	21	55.3
Reviewing IC system regularly	14	36.8	24	63.2
Company has effective and efficient operations	20	52.6	18	47.4
Reporting and Operations are according to laws and regulations	31	81.6	7	18.4

Source: Author’s compilation (2019)

Table 4.10 represents the respondents’ self-evaluation of the status and effectiveness of internal control components in their companies. The results show that only 44.7% of respondents believe that each of the five internal control components above are present and properly functioning in their companies while a considerable 55.3% disagreed. A total of 63.2% of respondents indicated that their company’s internal control systems are not reviewed regularly to accommodate new developments, leaving alone 36.8% of respondents that regularly review the functioning of their internal control systems. The results had however revealed that 52.6 percent of respondents have effective and efficient operations leading to operational and financial performance goals and safeguarding of assets against loss, while 47.4 percent did not agree to have efficient operations. A massive 81.6% of respondents specified that reporting and operations in their companies are carried out in

accordance with applicable laws and regulations while 18.4 percent are not in compliance with applicable laws and regulations.

The findings in this section revealed the presence of some principles of the five key components of internal controls in many respondents' companies, however, the overall existence and adequate level of implementation of these components could not be confirmed. This contradiction is supported by the results in table 4.10 where it is evident that a large number of respondents (55.3%) could not confirm the presence and functioning of all five integrated components of internal controls in their companies, while another 63.2% are failing to review their systems. It has been established from the literature that every organisation has controls no matter how unstructured it may seem. Operating with some principles of the five components of internal control makes Windhoek SMEs to have some controls in place, however, not implementing all principles under each component means that a component is not fully implemented and that turns such business to operate with a deficient system of internal control. A system of internal control is only considered efficient when all five components of internal control are present and properly functioning in an integrated manner (COSO, 2013). Operating with deficiencies or failure to meet this requirement is a sign of working with a poor internal control system which could easily land a business into failure.

4.4 Problems Encountered by SMEs without Adequate System of Internal Controls

Table 4.11: Problems Encountered by SMEs with Poor Internal Controls

Statement	Yes		No	
	Frequency	Percentage (%)	Frequency	Percentage (%)
Problems resulting in shortage of funds, embezzlement, or loss of assets	29	76.3	9	23.7
Resources are acquired or used inefficiently	21	55.3	17	44.7
Unreliable financial and operational reports	11	28.9	27	71.1
Customer dissatisfaction resulting in loss of customers or negative publicity	11	28.9	27	71.1
Non-compliance with regulatory requirements	11	28.9	27	71.1
Difficult achieving operational, reporting and compliance objectives	25	65.8	13	34.2
Any other related problems: Damages to stock by third party transporters	1	2.6	37	97.4

Source: Author’s compilation (2019)

According to the results in table 4.11, a total of 76.3% of respondents specified that they have problems resulting in the shortage of funds, embezzlement, or loss of assets due to theft or unintentional errors, while 55.3% have their resources acquired or used inefficiently or ineffectively resulting in shortages of funds or failure of a company to meet goals. This confirms what is stated in the problem statement that Namibian SMEs are experiencing more losses due to theft, crime, and vandalism than larger enterprises nationally and in this regard,

they are also affected more than the average small and medium enterprises in sub-Saharan Africa (Namibian Government, 2016).

The results in Table 4.11 further revealed that only 28.9 percent of respondents experience unreliable financial and operational reports, customer dissatisfaction due to ineffective operations results in a loss of customers, negative publicity and non-compliance with regulatory requirements resulting in financial penalties and or damage the reputation of their companies. The results also revealed a substantial 65.8% of respondents having difficulties achieving operational, reporting and compliance objectives. Out of 38 respondents, only 2.6% disclosed damages to stock by the third-party transporters as additional related problems in their business.

Any business with poor systems of internal controls may face similar or more related problems that may hinder development and the full realisation of their goals. As established from the literature, Siwangaza et al. (2014) agree that with the absence of adequate internal controls, an environment is created where an organisation is susceptible to all kinds of detrimental risks and, if these risks are not taken care of in time, the overall sustainability of the organisation could be negatively affected, which may lead to imminent failure.

4.5 Barriers to Effective Internal Controls

Table 4.12: Barriers to Effective Internal Controls

Statement	Yes		No	
	Frequency	Percentage (%)	Frequency	Percentage (%)
Limited funding and lack of financial resources	29	76.3	9	23.7
Management neglects internal controls	34	89.5	4	10.5
Prominent problems within the enterprise environment	30	78.9	8	21.1
Falsification of accounting information	30	78.9	8	21.1
Lack of management skills	36	94.7	2	5.3
Lack of communication	37	97.4	1	2.6
Lack of effective supervision mechanisms	34	89.5	4	10.5
Unusual transactions	29	76.3	9	23.7
Intentional disregard of controls by employees	34	89.5	4	10.5
Lack of knowledge of internal control	35	92.1	3	7.9
Inadequate use of resources	34	89.5	4	10.5
Unauthorized transactions	33	86.8	5	13.2

Source: Author’s compilation (2019)

Table 4.12 shows that out of 38 respondents, 76.3% confirmed that limited funding and lack of financial resources plus unusual transactions are some of the barriers that may prevent entrepreneurs from implementing effective internal controls. In addition to those barriers, 89.5% of respondents agree that effective internal control systems cannot be implemented where there is lack of effective supervision mechanisms, when management are neglecting internal controls and where there is an intentional disregard of controls by employees as well as the inadequate use of resources. Prominent problems within the enterprise environment

and falsification of accounting information were also believed by 78.9% of respondents to be among barriers to the effective implementation of internal control systems. Respondents further confirmed lack of management skills (94.7%), lack of communication (97.4%) and lack of knowledge of internal control (92.1%) and unauthorised transactions (86.8%) as barriers to effective implementation of internal control systems.

In addition, some respondents identified other barriers to the effective implementation of internal control systems to be competition from foreigners, complacency, fear of being held accountable, multi-tasking (key employees performing multiple tasks that lead to some failure on controlling the business), traditional systems of business units, academic training or doing business without its technical background or knowledge, the size of business vs the number of employees and tracking system failures.

All these barriers can make it difficult for an entrepreneur to implement effective systems of internal controls. These barriers are however sourced from different entities operating in different economic sectors, thus, a barrier to one SME's implementation of effective internal control system can't necessarily be a barrier to all other SMEs. Similarly, being adaptable to the entity's structure and flexible in application, an internal control system can be modified and that makes it easier for SMEs to implement effective internal controls that are applicable to their companies without many challenges or barriers. COSO's (2013) Internal Control-Integrated Framework advised smaller entities to meet the challenges they face in attaining cost-effective internal controls.

4.6 Summary

This chapter outlined the results of the research findings. The main focus was to evaluate the effectiveness of internal control systems in the survival of Windhoek SMEs by determining the existence and level of implementation of internal controls in SMEs in Windhoek, examine if Windhoek SMEs are experiencing problems that could result from ineffective systems of

internal controls and to identify the barriers that may prevent Windhoek entrepreneurs from implementing adequate systems of internal controls for their businesses.

Data were analysed through IBM SPSS v25 and results were presented in various forms including tables and charts where descriptive statistics like frequencies and percentiles were displayed for ease understanding and interpretation.

Findings revealed the presence of some principles of the five key components of internal controls in respondents' companies; however, the effectiveness and adequate level of implementation of these components in most of the respondents' SMEs could not be confirmed. Some 55.3% of respondents could not confirm the presence and functioning of all five integrated components of internal control in their companies and a total of 63.2% of respondents are not reviewing their internal control systems regularly to accommodate new developments. Failure to update or improve internal control systems is a clear indication of operating with a poor internal control system which can hamper the achievement of objectives.

About 76.3% of respondents also specified that they have problems resulting in the shortage of funds, embezzlement, or loss of assets due to theft or unintentional errors, while 55.3% have their resources acquired or used inefficiently or ineffectively resulting in the shortages of funds or failure of a company to meet goals. A total of 65.8% of the respondents were also found to have difficulties in achieving operational, reporting and compliance objectives. All of these can only be caused by operating a business with ineffective internal control systems.

The findings further revealed that more than 76% of respondents confirmed that limited funding, lack of knowledge of internal controls, lack of management skills, intentional disregard of controls by employees, lack of communication, prominent problems within the enterprise environment and falsification of accounting information are among barriers to

effective implementation of internal control systems. Chapter five presents the summary, conclusions, and recommendations for the study.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Following the empirical findings of this research work, this chapter revisits the research objectives and questions, concludes, and offers recommendations based on the findings. Suggestions of areas which may require further considerations as far as future research is concerned are also provided in this chapter.

The research was basically conducted to evaluate the effectiveness of internal control systems in the survival of Windhoek SMEs in Namibia, specifically to determine the existence and level of implementation of internal controls in SMEs in Windhoek, examine if Windhoek SMEs are experiencing problems that could result from implementing ineffective systems of internal controls and to identify the barriers that may prevent Windhoek entrepreneurs from implementing adequate systems of internal controls for their businesses. Research objectives were met by means of answering the following research questions:

- To what extent are internal controls implemented in Windhoek SMEs?
- What are the key elements of an effective internal control system?
- What are the problems encountered by Windhoek SMEs?
- What are the barriers that inhibit entrepreneurs from implementing adequate systems of internal controls for their businesses?

5.2 Summary of Findings

The study reveals absence of some principles of the five key components of internal controls in respondents' companies. This implies that respondents are not fully complying with all principles of effective internal control systems. As specified in literature, COSO (2013) sets forth the requirements for an effective system of internal controls that each of the five components of internal control and relevant principles is present and functioning, and that the

five components are operating together in an integrated manner. Therefore, the effectiveness and adequate level of implementation of internal control system in most of the respondents' SMEs could not be confirmed.

Problems encountered by SMEs with poor internal controls have been identified in the study as the embezzlement of cash, loss of assets due to theft, crime, unintentional errors and acquiring of resources. Research reveals that globally, internal control failure among small businesses often leads to loss of assets, fraud, waste, mismanagement, inefficiency, loss of client assurance, and failure to achieve business goals (Kelebetse, Tangiral, Sethate & Kuruba, 2019).

Barriers like limited funding, lack of knowledge of internal controls, lack of management skills, and intentional disregard of controls by employees were as well confirmed to be among barriers that may prevent Windhoek SMEs from implementing adequate systems of internal controls. This finding is in line with Siwangaza et al. (2014) who identified the barriers to implement effective internal controls in SMEs as lack of financial resources and other prevailing issues like neglects of internal control by management, prominent problems within the enterprise environment, distortion of accounting information and poor management communication, lack of effective supervision mechanisms, limited funding and limited resources, unusual transactions, intentional disregard of controls, collusion, inadequate use of resources, and unauthorised transactions. However, COSO (2013) advises smaller entities to meet challenges they face in attaining the cost-effective internal controls.

5.3 Conclusion

The study findings reveal lack of some principles of the five key components of internal controls in Windhoek SMEs; however, the effectiveness and adequate level of implementation of these components could not be established. Not implementing all

principles under each component on internal control means that a component is not fully implemented and that turns such a business to operate with a deficient system of internal control. Therefore, the study concludes that internal control systems in Windhoek SMEs are not effective enough for their sustainability.

The study further concludes that due to poor internal control systems, respondents ranging between 28.9 and 76.3 percent are going through problems resulting in the embezzlement of cash, loss of assets due to theft or unintentional errors while their resources are acquired or used inefficiently or ineffectively resulting in the shortages of funds or failure of these companies to meet operational, reporting and compliance goals.

The barriers encountered by SMEs in the implementation of effective internal control systems are confirmed to include limited funding, lack of knowledge of internal controls, lack of management skills, intentional disregard of controls by employees, lack of communication, prominent problems within the enterprise environment and falsification of accounting information. Based on this background, it can be concluded that Windhoek SMEs do not implement effective internal control systems due to barriers related to financial constraints, malpractices as well as lack of learning and development.

5.4 Recommendations

Subsequent to the findings and conclusions of this study that most of respondents are operating businesses with poor internal control systems, it is advised that efforts be made to develop the knowledge and skills of Windhoek entrepreneurs to a stage where they can implement effective internal control systems. An effective internal control system has the potential to help companies to ensure the orderly and efficient conduct of business including the safeguarding of assets of the business, preventing, and detecting fraud and error, accuracy and completeness of the accounting records and the timely preparation of financial

information as well as adherence to laws and regulations. In turn, this can help SMEs to generate more profit which enables owners to reap the fruits of their investments while contributing more to the country's economy. Considering the above, the following recommendations are put forward:

- The researcher recommends owners and managers of Windhoek SMEs to utilise the COSO Internal Control-Integrated Framework. This framework provides a broader understanding of how the five interrelated components of internal control systems can be implemented to function in an integrated way. It can therefore be used as guidance on the implementation of effective internal control systems for any company, be it big or small.
- Although SMEs generally have limited resources to focus on the implementation of effective internal controls, they are advised to meet the challenges they face in attaining the cost-effective internal control systems for the sustainability of their enterprises. As it appeared in the definition, the internal control systems are adaptable to the entity's structure, it is flexible in application for the entire entity, particularly subsidiary, division, operating unit, or business process. This gives SME owners/managers an option to implement internal controls that are applicable to their companies while weighing the costs versus benefits of each internal control the company is putting into practice. This implies that though the investment made in setting up an internal control system could burden an SME's finances at that time, once properly implemented, it will bear fruits of building a secured and profitable future.
- The study further recommends that the Namibian government should put more efforts in supporting the development of SMEs through organising training programmes to equip entrepreneurs with relevant knowledge regarding internal control systems.

Supporting SMEs will stimulate their growth and expansion which allows them to contribute more effectively further to the country's economy while creating more jobs and eradicate poverty especially among Namibian youths.

- Entrepreneurs are also encouraged to not only wait for the government, but they should also seek to discover more about internal control systems by themselves. This can be done through attending affordable workshops and other relevant trainings that might be organised to educate and enable them to be acquainted with the best knowledge relating to internal control systems. In this world of advanced technology, one can also make use of available online information to educate themselves on internal controls. This too has the potential of enabling entrepreneurs to understand the full scope of internal control systems as well as to use the latest advancements for the sustainability of their businesses. Once equipped with proper knowledge, entrepreneurs will be aware of which internal controls best suit their businesses and how to implement them. And on top of that, this will also be enabling SME owners and managers to train their employees for effective implementation of internal control systems. This is a move that will as well reduce the barriers of financial issues, malpractices and lack of learning and development encountered by SMEs in the implementation of effective internal control systems.

5.5 Suggestions for Future Research

This study was only conducted on Windhoek SMEs and the findings cannot be generalised to other parts of Namibia. There are many other SMEs operating in different regions of the country, therefore the author recommends that the effectiveness of internal control systems in the survival of Namibian SMEs be done in other towns for different opinions.

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APPENDIX 2: RESEARCH QUESTIONNAIRE

Dear Prospective Participant

My name is Pendukeni Nauyoma, working for Namibia Civil Aviation Authority (NCAA). I am a final year student studying for a Master of Science in Accounting and Finance at the University of Namibia (UNAM). With the approval of UNAM's Centre for Postgraduate, I am conducting research related to the survival of SMEs and I therefore invite you/your company to participate in my survey on the following topic: **Evaluating the Effectiveness of Internal Control Systems in SMEs in Windhoek, Namibia**. The study intends to:

- Determine the existence and level of implementation of internal controls in SMEs in Windhoek.
- Identify problems encountered by SMEs with poor internal controls.
- Establish the barriers that may prevent entrepreneurs from implementing adequate system of internal controls.

This study would not only be beneficial to the researcher, but it would also help SMEs owners and managers to establish, reinforce and comply with their internal controls, align business objectives, encourage good management, and ensure proper financial reporting and compliance with laws and regulations. This in turn would lead to increased profitability and promote sustainability of SMEs.

I sincerely seek your full participation to complete the attached questionnaire. It is very important for me to learn from your opinions. There are no foreseeable risks associated with this project. Please note that the survey responses will be strictly confidential and data from this research will be reported only in the aggregate. If you have any questions regarding this questionnaire, please do not hesitate to contact me at +264 81 147 4686.

Thank you very much for your time and support.

Pendukeni Nauyoma

Student Number: 200302728

Overview of Internal Control

Internal control can be defined as a process, effected by an entity's management, and other personnel to provide reasonable assurance towards the achievement of objectives relating to:

Operations - effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss.

Reporting - internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other terms as set forth by regulators, recognized standard setters, or the entity's policies.

Compliance - adherence to laws and regulations to which the entity is subject.

A company's internal control system should therefore consist of five integrated components known as Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

QUESTIONNAIRE

Instructions for completing this Questionnaire:

- Please place an X or √ in the appropriate box
- Provide comments as you consider necessary
- Be honest

SECTION A

General Information

1. Please indicate your gender

Male	Female

2. What is your age group?

Below 25	25-30	31-35	36-40	41-45	46 and above

3. What is your level of education?

Postgraduate Qualification	Undergraduate Qualification	Grade 10 -12	Other

4. What category best describes your position within the company?

Owner	Manager	Other (please specify)

5. How old is the company (years in operations)?

0- 3years	4-6	7-9	10-15	16-20	21 and above

6. How many employees at your company?

1-10	11-30	31-100	More than 100

7. What is your company annual turnover (N\$)?

0-300 000	300 001 – 3 000 000	3 000 001 – 10 000 000	More than 10 000 000

8. What is your company's economic sector?

Agricultural	
Construction	
IT & Communication	
Manufacturing	
Retail	
Service	
Fisheries	
Mining	
Other (please specify)	

SECTION B

Components of Internal Control

Determine whether each of the five integrated internal control components below is present and functioning in your company by placing an X or √ in the appropriate column to each statement.

(Survey Scale: 5=Strongly Agree; 4=Agree; 3=Neither Agree nor Disagree; 2=Disagree; 1=Strongly Disagree)

CONTROL ENVIRONMENT

This is the foundation for other components of internal control and it involves the set of standards, processes and structures that provide the basis for carrying out internal control across the organization

Statement	Strongly Agree (5)	Agree (4)	Neither Agree nor Disagree (3)	Disagree (2)	Strongly Disagree (1)
9. The company has a clear vision and mission statements.					
10. The company demonstrates commitment to integrity and ethical values.					
11. The acts and actions of management are consistent with the stated values and conduct expected of all other employees.					
12. Management strives to comply with laws, rules, and regulations applicable to the company.					
13. The company demonstrates commitment to attract, develop, and retain competent individuals in alignment with its objectives.					

14. The company has written internal policies and procedures which is supported and understood by all employees to allow them do their work effectively.					
15. Management has established, structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives.					
16. The company holds individuals accountable for their Internal control responsibilities in the pursuit of objectives.					

RISK ASSESSMENT

By assessing risks, companies identify and analyses potential risks to the achievement of their goals in order to determine how to manage these risks.

Statement	Strongly Agree (5)	Agree (4)	Neither Agree nor Disagree (3)	Disagree (2)	Strongly Disagree (1)
17. The organization specifies its objectives with sufficient clarity to enable the identification and assessment of risks relating to those objectives.					
18. Company has identified risks to the achievement of its objectives and analyses risks as a basis for determining how the risks should be managed.					

19. The company considers the potential for fraud in assessing risks to the achievement of objectives.					
20. The company identifies and assesses changes that could significantly impact the system of internal control.					

CONTROL ACTIVITIES

These are actions established through policies and procedures that help ensure management's directives to mitigate risks to the achievement of objectives are carried out.

Statement	Strongly Agree (5)	Agree (4)	Neither Agree nor Disagree (3)	Disagree (2)	Strongly Disagree (1)
21. The organization selected and developed control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.					
22. The organization selected and developed general control activities over technology to support the achievement of objectives. Examples can be computer backups and updates, virus protection, official usage, non-sharing of computer passwords etc.					
23. The company deploys control activities through policies that establish what is expected and procedures that put policies into action.					

24. Applicable preventive controls in the company are transparent like segregation of duties, adequate documentation and records, controlled access to assets, independent accountability checks and reviews of performance and approval and authorization.					
25. Applicable detective controls are practiced in the company to detect undesirable acts and provide evidence that a loss has occurred. Examples of detective controls are reviews, variance analyses, reconciliations, stock taking or physical inventories, audits etc.					

INFORMATION AND COMMUNICATION

Pertinent information must be identified, captured, and communicated in a form and timeframe that enables people to carry out their responsibilities.

Statement	Strongly Agree (5)	Agree (4)	Neither Agree nor Disagree (3)	Disagree (2)	Strongly Disagree (1)
26. Company obtains or generates and uses relevant, quality/updated information to support the functioning of internal control.					
27. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.					

28. The company communicates with external parties regarding matters affecting the functioning of internal control.					
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MONITORING ACTIVITIES

Through evaluation and feedback processes an organization assesses, tracks and monitor its performance over time.

Statement	Strongly Agree (5)	Agree (4)	Neither Agree nor Disagree (3)	Disagree (2)	Strongly Disagree (1)
29. The company selected, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.					
30. Internal control deficiencies are evaluated and communicated in a timely manner to those parties responsible for taking corrective action, including senior management.					

SECTION C

General Evaluation

Question	Yes	No
31. Do you believe each of the five internal control components above are present and properly functioning in your company?		
32. Do your company's internal control system being reviewed regularly to accommodate new developments?		
33. Does the company have effective and efficient operations leading to operational and financial performance goals, and safeguarding assets against loss?		
34. Do the reporting and operations in the company carried out in accordance with the applicable laws and regulations?		

If NO to any of the above questions, please answer the following questions

35. Does your company experience any of the following problems?	Yes	No
a) Shortages of funds or embezzlement or loss of assets due to theft or unintentional errors.		
b) Resources are acquired or used inefficiently or ineffectively resulting in shortages of funds or failure of a company to meet goals.		
c) Unreliable financial and operational reports.		
d) Customer dissatisfaction due to ineffective operations resulting in loss of customers or negative publicity.		
e) Non-compliance with regulatory requirements resulting in financial penalties or damage reputation of the company.		
f) Difficult achieving operational, reporting and compliance objectives.		

36. If the company has any other related problems, please specify

37. Do you believe the following are barriers that may prevent entrepreneurs from implementing adequate system of internal controls?	Yes	No
a) Limited funding and lack of financial resources		
b) Management neglects internal controls		
c) Prominent problems within the enterprise environment		
d) Falsification of accounting information		
e) Lack of management skills		
f) Lack of communication		
g) Lack of effective supervision mechanisms		
h) Unusual transactions		
i) Intentional disregard of controls by employees		
j) Lack of knowledge of internal control		
k) Inadequate use of resources		
l) Unauthorized transactions		

38. What are other barriers that may prevent entrepreneurs from implementing adequate system of internal controls?

Thank you very much for taking time to participate in this survey

Please return the completed questionnaire to the address below

E-mail address: etutuma@gmail.com