

**2016 Southern African Accounting  
Association (SAAA)  
National Teaching and Learning and  
Regional Conference Proceedings**



ISBN number: 978-0-620-74761-5

---

**AUD 06: Effects of Internal Organisational Environments  
on Preventative, Detective and Directive Internal Controls  
of SMMEs in Cape Town**

*Luyolo Siwangaza<sup>1</sup> and Job Dubihlela<sup>2</sup>*

**Luyolo Siwangaza<sup>1</sup>**

School of Accounting Sciences,  
Cape Peninsula University of Technology,  
Cape Town Campus  
Corner of Keizersgracht and Tennant Street,  
Zonnebloem, South Africa, 8000  
Tel: +27 21 460 3477

**Job Dubihlela<sup>2</sup> (Corresponding author)**

School of Accounting Sciences,  
Cape Peninsula University of Technology,  
Cape Town Campus  
Corner of Keizersgracht and Tennant Street,  
Zonnebloem, South Africa, 8000  
Tel: +27 21 460 3477  
Tel: +27 21 460 3266  
Email: [dubihlelaj@cput.ac.za](mailto:dubihlelaj@cput.ac.za)

**ABSTRACT**

In spite of the remarkable contributions made by Small, Medium and Micro Enterprises (SMMEs), particularly in developing economies such as South Africa, sustainability remains a major challenge. One root cause of the failure is the absence of adequate and effective internal controls to mitigate a variety of risks that small businesses face. The implementation of adequate and effective internal controls is dependent on how conducive the internal control environment is, which is believed to be the foundation of any system of internal controls. This study which fell within the ambit of positivistic research paradigm, sought to determine the effect of internal control environment (ICEn) on the implementation of detective (DetC), preventative (PreC) and directive (DirC) internal controls within SMMEs. The study employs an empirical survey approach, conducted with 107 SMMEs located within the Cape Peninsula. Descriptive statistical analysis was conducted to run preliminary data and test for reliability and validity of the scales and regression analysis was used to test the proposed hypotheses. This study confirms that internal control environments (ICEn) of SMMEs are essential for successful implementation of DetC, PreC and DirC, whereas robust internal controls are known to enhance enterprise risk management and reduce operational risk. The paper contributes to research by advancing the understanding of internal control environments for SMMEs in South Africa, possibly providing practitioners with managerial insights. Limitations and directions for future research are also reported in the paper.

**Keywords:** *Internal control environment, SMMEs, Sustainability, Risk control, South Africa.*

## 1. Introduction

In many developing economies SMMEs are touted as ‘the backbone’, ‘the engine’, ‘the fuel’ and ‘the lifeblood’ of the national economy (Cant *et al.*, 2014:566; SBP, 2014; Lekhanya, 2015:412; Chimucheka & Mandipaka, 2015:309; Kemp *et al.*, 2015:2). In South Africa, SMMEs operating within the economy are commended for their remarkable contribution to GDP, creation of employment and reduction of poverty (Chimucheka & Mandipaka, 2015:309). Ramukumba (2014:19) puts the important role played by SMMEs into perspective when reporting that over 90% of African business operations can be ascribed to this sector; which contributes alone over 50% towards the GDP and employment creation. In South Africa, SMMEs account for up to 55% of all jobs (Ramukumba, 2014:19). Despite these notable contributions, prior research (Bruwer, 2010; Cant *et al.*, 2014:565; SBP, 2014; Ngubane, 2015:384; Garg and Makukule, 2015:71) shows that the South African SMME failure rate has frequently been cited as one of the highest in the world.

Lekhanya (2015:412) and Bowler *et al.* (2007) as cited by Ramukumba (2014:19) report the 40% failure rate of new establishments in this sector to lie within the first 12 months of start-up, while 60% cease to exist in their second year of trade and a staggering 90% failing to operate beyond the 10th anniversary. In a more recent study, Garg and Makukule (2015:71) confirm the PwC (2015) report that approximately 75% of newly established SMMEs cannot be salvaged from the risk of business failure. A plethora of previous studies have identified a host of SMME challenges, which are attributed to the weak SMME failure rate. These challenges are grouped by Bruwer (2010) and Siwangaza (2014) into two broad categories, namely macro-economic factors (external forces which the business has little or no control over such as crime, fluctuating interest and inflation rates, etc.) and micro-economic factors (internal forces which the business has full control over such as the circumvention of established internal controls by management, incompetent staff, etc.). One of the micro-economic factors which have been identified and confirmed as a root cause of SMMEs failure rate is the absence of adequate and effective internal controls to mitigate a variety of risks that SMMEs face (Siwangaza *et al.*, 2014:163; Prinsloo *et al.*, 2015:66).

The global institute of internal auditors (IIA, 2012) describes internal control as any action or process executed by those charged with governance of the business and other key stakeholders to manage a variety of risks that threaten the attainment of business objectives. According to formal guidelines (IIA, 2012; COSO, 2013) an effective system of internal control can only provide reasonable (not absolute) assurance regarding the attainment of business objectives. Gordon *et al.* (2014:38) holds the view that a system of internal control can only be effective if it is supplemented by a conducive and robust internal control environment, which is globally accepted to be the foundation of any system of internal control. In essence, the control environment is concerned with the operating style and philosophy of those charged with governance (including management), attitude of those charged with governance (including management) towards risk and control, management’s commitment to ethics, integrity, values, responsibility and accountability, the assignment of authority and the establishment of sound human resources practices (COSO, 2004; COSO, 2013, Reding *et al.*, 2013; Coetzee *et al.*, 2014; Nyakundi *et al.*, 2014:5). The problem which characterizes many small businesses, more

often than not, is that there is an absence of adequate internal controls (Sankoloba & Swami, 2014:87). The probable cause for this is that those charged with governance of these entities often lack a commitment towards internal control, thus not setting an appropriate tone at the top, which is believed to be a key attribute of a robust internal control environment (Nyakundi *et al.*, 2014:11). From the forgoing, a perception was formulated that SMMEs are not as sustainable as they ought to be, due to inadequate use of effective internal controls. The latter is as a result of a weak internal control environment, a problem which characterizes many SMMEs.

## **2. Literature Review**

### **2.1. Overview of South African SMMEs**

Although small businesses have been in existence for many years and their growth being a topic of discussion for a number of years (Maye, 2014), SMMEs, in South Africa, were formally recognised in 1995 through the publication of the Department of Trade and Industry (DTI) National Strategy, which was geared towards the development and promotion of these entities (DTI, 1995). In the following year, the South African Parliament gazetted the National Small Business Act No. 102 of 1996, as amended in 2004. In this piece of legislation, SMMEs are regarded as distinct business entities which are managed by those charged with the governance of their respective businesses. According to the afore-mentioned Act, SMMEs can be operated in any sector or subsector of the South African economy and further be classified in terms of their respective sizes as “micro”, “very small”, “small” and “medium”. The criteria for classification of SMMEs in terms of their sizes vary by industry and take into consideration the total number of full-time salaried employees, total revenue generated during a full financial year and total gross value of the business assets, excluding the value of fixed properties.

Bruwer *et al.* (2013:1005) point out that SMMEs continue to receive considerable amounts of attention from government through the provision of advisory and financial support services. The aforementioned policy documents provided for the establishment of various government institutions and service providers to help SMMEs by providing a plethora of support services, which take on the form of financial and non-financial services (DTI, 1995; South Africa, 2004). In addition, the DTI launched a monthly national newspaper; called the Small Business Connect aimed at providing pertinent information on how these enterprises can access markets, leverage emerging technologies, glean insight on business improvement resources and take advantage of networking opportunities (DTI, 2013). All in all, this newspaper transmits empowering information for those charged with the governance of SMME to enhance their understanding of the business environment, stay ahead of all the latest developments in the sector and improve their business operations as a whole (DTI, 2013). In recent times the support provided by government to SMMEs manifested itself into a newly established Department of Small Business Development which will, among other things, address a plethora of challenges faced by this sector, which includes, but is not limited to difficulties in accessing markets, access to finance, access to information, regulatory red tape, skills shortages, etc. (Maye, 2014; SBP, 2014). The latter confirms government’s efforts in building a sector which is renowned for making valuable contributions in the stimulations of the national economy.

According to prior research (Chimucheka and Mandipaka, 2015:309; Chakabva, 2015; Kemp *et al.* 2015:2; Prinsloo *et al.* 2015:64; Ngubane *et al.* 2015:382; Hendricks *et al.* 2015:87; Cant *et al.* 2014:566; Ramukumba, 2014:19 Cant & Wiid, 2013:707) South African SMMEs are playing an increasingly important role in socio-economic development; significantly contributing to the GDP, employment formation and poverty alleviation. The importance of these entities in a developing economy such as South Africa is affirmed by the Global Entrepreneurship Monitor (2014) when stating that SMMEs are instrumental in providing employment opportunities, driving economic growth and achieving equity. The Bureau for Economic Research (2016) reaffirms the latter when reporting that in the second quarter of the 2015 fiscal year there were approximately over 2,25 million South African SMMEs, making contributions of approximately 42% to the country's GDP. Aigbavboa, et al. (2014) as quoted by Mthabela (2015), report that roughly 91% of businesses in this country can be attributed to SMMEs, which account for up to 61% of formal employment. The significant role played by SMMEs is further fortified in the Vision 2030 of the South African National Development plan where it is estimating that 90% of new jobs in 2030 will be provided by this sector (SAICA, 2015; SBP, 2014). However, despite these remarkable contributions, the high failure rate of these entities is a matter of concern.

## **2.2. SMME failure**

Despite a number of government interventions in the form advisory and financial support services procured from various South African institutions to aid in the advancement of SMMEs, the failure of these entities continues to rise in rank (Olawale & Garwe, 2010:731; Cant & Wiid, 2013:707; Lekhanya, 2015:412). The sentiments on the SMME failure rates is supported by SBP (2014) when stating that the growth of SMME in South Africa is very stagnant despite government offering a helping hand to stimulate the growth of this sector; which implies that government's efforts have rendered very limited results. Previous studies (Mahembe, 2013; Maye, 2014; Cant *et al.*, 2014:565; Garg & Makukule, 2015:71) have confirmed that the growth of SMMEs remain a major challenge in South Africa, with the failure of a majority of these businesses reported to be within the first year of trade. Lekhanya (2015:412) and SBP (2014) report that in South Africa the SMME failure rate is in the region of 70% and 80%. A plethora of factors can be ascribed to the remarkably high SMME failure rate (Kemp *et al.*, 2015:3; Chimucheka & Mandipaka, 2015:309; Cant and Wiid, 2013:708 - 709).

## **2.3. Factors affecting SMME Sustainability**

According to Cant *et al.* (2014:570), Garg and Makukule (2015:71) SMMEs are faced with a variety of challenges which can adversely affect the sustainability or cause these entities not to grow and succeed as they ought to. Furthermore, Chimucheka and Mandipaka (2015:309) points out that these challenges obstruct the establishment, survival and growth of SMMEs, thus barricading these businesses from attaining success and achieving the 'going concern' status. Bruwer (2010) and Siwangaza (2014) go on further to state that the challenges faced by SMMEs can be broken down into two broad categories, namely macro-economic factors and micro-economic factors as previously stated in the introduction. Previous authors such as Kunene (2008), Bruwer (2010), Grimsholm and Poblete (2010) and Siwangaza (2014) describe macro-economic factors as external events which the business has little or no control over, while micro economic factors are regarded as internal events which the business has full control over. Against this background, examples of macro-economic factors which affect the

sustainability of SMMEs include, but are not limited to rigid and onerous legislation, licencing and registration, market and economic conditions, crime, inflation, interest and exchange rates, taxation, politics, demand and supply of goods, infrastructure, technology, and competition, while on the other hand examples of micro-economic factors are lack of finance, insufficient managerial skills and experience, staff competency, lack of business acumen and marketing strategies, wasteful spending, lack of risk management, lack of internal control, to mention but a few (Maye, 2014; Kemp *et al.*, 2015:3; Prinsloo *et al.*; 2015:66; Cant *et al.*, 2014:570; Chimucheka & Mandipaka, 2015:309; Cant & Wiid, 2013:708-709; Lekhanya, 2015:417; SAICA, 2015; SBP, 2014; Garg & Makukule, 2015:71-73).

Moreover, Prinsloo *et al.* (2015:66) is of the opinion that the afore-mentioned factors may attract a variety of risks especially if they are not effectively managed, and when these risks are realised, they could threaten the ability of these entities to continue operating as a going concern (Bureau for economic research, 2016). To mitigate such risks, the design and implementation of internal controls is warranted.

#### **2.4. The concept of internal control**

According to COSO (2013) the term internal control pertains to a set of measures, which are instituted by those charged with governance, to provide reasonable (but not absolute) assurance regarding the attainment of business objectives. These business objectives are briefly explained below (IIA, 2012; COSO, 2013; Reding *et al.*, 2013; Coetzee *et al.*, 2014):

- Operational objectives: These objectives ensure that business operations are efficient and effective, while also ensuring that business assets are safeguarded.
- Reporting objectives: These objectives are concerned with the integrity, reliability, timeliness and transparency of financial and non-financial reporting (internally and externally).
- Compliance objectives: These objectives have their main intention of ensuring that the business conforms to all applicable laws, rules, regulations, policies and procedures.

The significance of internal control in any business environment is underscored by Coetzee *et al.* (2014) when stating that the non-existence of adequate and effective internal controls will result in the sustainability of a business being negatively impacted upon. The latter is supported by Oseifuah and Gyeke (2013:241) who share the view that the lack of robust internal controls is one of the root causes for a number of business failures. To help businesses in designing, implementing and assessing the adequacy and effectiveness of internal controls, the COSO's (2013) internal control integrated framework is a useful tool with the most comprehensive approach (Protiviti, 2016). The framework comprises of five interrelated elements, that were reviewed by various researchers (Teketel & Berhanu, 2009; Reding *et al.*, 2013; Oseifuah & Gyeke, 2013:244-246; Coetzee *et al.*, 2014; Siwangaza, 2014; Bruwer & Van Den Berg, 2015:54), and are briefly explained as follows:

- Control environment: This element is touted as the foundation upon which any system of internal control is built. The operating effectiveness of any system of internal control is influenced by this element. The key aspects of this element are discussed below in section 2.5.
- Risk assessment: Those charged with governance and/or management should identify risks from internal and external sources (for example, criminal activities). This is because risks threaten the attainment of business objectives and as result these risks should be

identified and assessed in terms of their likelihood of occurring and the potential impact should they occur.

- **Control activities:** Control activities are put in place by management to mitigate the identified risks down to an acceptable level. These control activities will either prevent (known as preventative internal controls) or detect (known as detective internal controls) the risks identified. In addition, directive controls (e.g. management directives) should also be designed and implemented. Examples of popular control activities are management reviews, authorisations / approvals, segregation of duties, reconciliations, limiting access to authorised personnel only, etc.
- **Information and communication:** Important information, including risk and control information, should be communicated to all business stakeholders. Communication is critical in any business as it ensures that internal controls are operating effectively.
- **Monitoring:** The internal control system in its entirety must be monitored and its operating effectiveness (performance) be assessed on an on-going and periodic basis.

## **2.5. Internal control environment**

A robust internal control environment is like a solid foundation of a building structure - without the solid foundation, the building will cease to exist. As the control environment forms the basis of any system of internal control (COSO, 2013), it influences the manner in which the entire business is managed and controlled (Oseifuah & Gyeke, 2013:244). Furthermore, the internal control environment is about those charged with governance (including management) setting an appropriate tone at the top, demonstrating their attitude and commitment towards internal controls (COSO, 2013). The attitude of those charged with governance (including management) towards internal controls is fundamental; particularly because employees are likely to observe the attitude of management towards internal controls and if this attitude proves to be lax, employees will in turn, not adhere to established internal controls (Coetzee *et al.* 2014). Jackson and Stent (2007) concur with the latter when stating if management is remiss towards internal control, employees will soon follow suit. Previous research studies and policy documents (Teketel & Berhanu, 2009; Oseifuah & Gyeke, 2013:244; COSO, 2013; Reding *et al.*, 2013; Coetzee *et al.*, 2014; Bruwer & Coetzee, 2016:195) concur that the internal control environment should include, among other things, the following rudiments: The operating style and philosophy of management, the commitment of management to ethics, values, integrity, competency, delegation of authority, responsibility and accountability, reporting structures and development of human resources policies and procedures.

## **3. Problem Statement**

Based on the established theoretical scenario, it became apparent that SMMEs are playing a vital part in the realisation of socio-economic objectives. Despite a number of government initiatives and support measures to help these enterprises to grow and succeed a large number of SMMEs continue to fail. Previous studies have identified a host of challenges which can be ascribed to the weak SMME failure rate. These challenges have been grouped by prior research as macro-economic and micro-economic factors. These economic factors, if not well managed, attract a variety of risks which can be detrimental to the success of any business. To mitigate a variety of risks which SMMEs face, an effective internal control system is needed. Of concern, the lack of adequate and effective internal controls, which is regarded as a micro-economic factor, has been cited as one of the root causes to a number of business failures.

The implementation of an adequate and effective system of internal control is greatly influenced by the internal control environment, which is the foundation of any system of internal control.

Fundamentally, the internal control environment is about the attitudes and commitment of those charged with governance issues on risks, controls, ethics, values and integrity. It can then be said that sustainable internal controls of SMMEs are always affected by internal organisational environments which in turn influence the effective utilisation of internal control systems. Against this background, the internal control environments can be 'blamed' for the often defective implementation of internal control constructs within SMMEs.

#### **4. Methodology**

The research study conducted was empirical in nature and fell within the ambit of positivistic research paradigm. The main objective of this study was to determine the effect of the internal organisational control environment (ICEn) on the implementation of detective (DetC), preventative (PreC) and directive (DirC) internal controls within SMMEs. Data collected from 107 SMMEs located within the Cape Peninsula using a structured questionnaire were aggregated and analysed (Saunders et al, 2007). The sampling techniques employed were the non-probability purposive and convenience sampling since the size of the population was unknown. All the survey respondents had to comply with a strict delineation criteria, namely that of 1) respondents had to be classified as SMMEs in conformance with the Small Business Act, No. 102 of 1996, 2) respondents had to be SMME owners and/or managers, 3) these SMMEs had to be non-franchised and in existence not less than one year, 4) respondents had to operate their respective businesses in the fast moving consumer goods industry and, 5) lastly all SMMEs had to be located within the Cape Peninsula. Descriptive statistical analysis was conducted to run preliminary data and test for reliability and validity of the scales, regression analysis was used to test the hypothesised construct relationships.

### **5 Measurement and Data Analysis**

#### **5.1 Correlation analysis**

The first step in the data analysis involved a rigorous data screening process as suggested by Malhotra (2012), whose intention was to ensure clean data before performing both the descriptive and inferential statistical analysis. In accordance with study objectives outlined, it was imperative to examine the component inter-relationships between internal control environment (ICEn), detective internal controls (DetC), preventative internal controls (PreC) and directive internal controls (DirC). Therefore, it was necessary to employ correlations analysis among the mentioned constructs to determine the strength of the underlying relationships. The Pearson correlation coefficient ( $r$ ) was used to measure the degree of linear association between the variables in line with Malhotra (2012). The composite correlation is reported in Table 1.

**Table 1: Correlations: internal control environment (ICEn), detective controls (DetC), preventative controls (PreC) and directive controls (DirC)**

		ICEn	DetC	PreC	DirC
Internal Control Environment (ICEn)	Pearson Correlation	1.000	.8031*	.6913**	.7723**
	Sig. (2-tailed)		.0006	.0013	.0003
Detective Internal Controls (DetC)	Pearson Correlation		1.000	.5997**	.6017**
	Sig. (2-tailed)			.0002	.0041
Preventative Internal Controls (PreC)	Pearson Correlation			1.000	.5391*
	Sig. (2-tailed)				.0002
Directive Internal Controls (DirC)	Pearson Correlation				1.000
	Sig. (2-tailed)				
	N	107	107	107	107

\*\* Correlation is significant at the 0.01 level (2-tailed).

Table 1 shows that the relationships among 'internal control environment (ICEn), detective internal controls (DetC), preventative internal controls (PreC) and directive internal controls (DirC)' are significantly positive. It is evident from the table that the results of the Pearson correlation coefficients suggested a strong positive linear relationship between ICEn and Detc at ( $r=0.8031$ ,  $p<0.01$ ) level of significance, indicating that ICEn influences DetC, the relationship between ICEn and PreC is positive at ( $r=0.6913$ ,  $p<0.01$ ), and the table also shows the positive relationship between ICEn and DirC at ( $r=0.7723$ ,  $p<0.01$ ).

In terms of the effect sizes, Cohen's 1988 measure of effect sizes showed a large practical significance. In assessing the size of the correlation coefficients, Cohen's d-measure of effect sizes was used to measure the significance of an effect. The size of the effect is outline bellow as conquered by Steyn (2008:19):

- $r = 0.10$  (small effect)
- $r = 0.30$  (medium effect)
- $r = 0.50$  (large effect)

Based on the above results, it is evident that there is convergence among the investigated variables, lending support therefore, and supplementing the body of knowledge on the relationships among these constructs.

## 5.2 Regression analysis

This study utilised regression analysis to establish the predictive influence of internal organisational environment on the three annotated constructs under investigation. The independent predictor variable in this case was internal control environment (ICEn), and the dependent variable entered into the prediction model was detective internal controls (DetC) as illustrated in Table 2 (below). The beta coefficient of ICEn ( $\beta=0.789$ ) suggests that there is a strong positive relationship between the dependent and independent variables. The table reports the rating of an examination of the predictive relationship between the two variables, where adjusted  $R^2$  (0.613) indicates that ICEn explained 61.3% of variance on DetC. Thus, internal control environments within SMMEs are more likely to enable effective implementation of detective internal controls.



**Table 2: Regression analysis: ICEn & DetC**

Construct	B	Beta ( $\beta$ )	t	p-level
<b>Dependent:</b> Detective internal controls (DetC)	0.697	0.789	22.913	0.000*
<b>Independent variable:</b> Internal control environment (ICEn)				
R = 0.779 R <sup>2</sup> = 0.607 Adjusted R <sup>2</sup> = 0.613 F = 539.015 p<0.0000				

Table 3 reports the results of the regression analysis between internal control environments (ICEn) and preventative internal controls (PreC). In the model, ICEn is held as the constant (predictor and independent variable), whilst PreC is the dependent variable. The beta coefficient ( $\beta=0.801$ ) suggests that there is a strong positive relationship between the dependent and independent variables. The rating (the adjusted R<sup>2</sup>) of the relationship between these two variables is 0.589, indicating that ICEn explains about 58.9% of the variance of PreC. Thus, internal organisational control environments are more likely to impact the implementation of preventative internal controls.

**Table 3: Regression analysis: ICEn & PreC**

Construct	B	Beta ( $\beta$ )	t	p-level
<b>Dependent variable:</b> Preventative internal control (PreC)	0.723	0.756	22.297	0.000*
<b>Independent variable:</b> Internal control environment (ICEn)				
R = 0.769; R <sup>2</sup> = 0.591 Adjusted R <sup>2</sup> = 0.589 F = 497.153 p<0.0000				

Table 4 shows the regression analysis on the relationship between the internal control environment (ICEn) and the directive internal control (DirC). The beta coefficient of satisfaction ( $\beta=0.811$ ), suggests that there is a strong positive relationship between the two variables. The dependent variable was DirC, and the independent variable was ICEn. On the examination of the relationship between these two constructs, the rating score (adjusted R<sup>2</sup>) was 0.641. Therefore, the results indicate that internal organisational controls are more likely to impact the implementation of directive internal controls.

**Table 4: Regression analysis: ICEn & DirC**

Construct	B	Beta ( $\beta$ )	t	p-level
<b>Dependent variable:</b> Directive internal control (DirC)	0.811	0.813	24.819	0.000*
<b>Independent variable:</b> Internal control environment (ICEn)				
R = 0.799; R <sup>2</sup> = 0.638 Adjusted R <sup>2</sup> = 0.641 F = 615.975 p<0.0000				

## 6. Concluding remarks

The study sought to investigate if effective internal control systems of SMMEs are influenced by the internal organisational control environment. The findings of the study show that sustainable internal controls of SMMEs are positively influenced by the effective internal

organisational environments. The significance of the internal control environment is underlined by IIA (2011) when stating that the majority of business failures can be blamed on poor internal control environments. These results are consistent with the findings of a study conducted by Jiang and Li (2010:215) which found that the internal control environments of small businesses, although largely defective, are essential for organisational risk performance. In this study, researchers went further to measure the predictive impact on each of the three outcome components (DetC, PreC and DirC). The results illustrated in the previous sections confirm that ICEn positively influences the outcome variables in a strongly significant way. The observations noted in two recent studies by Bruwer and Van Den Berg (2015:61) as well as Bruwer and Coetzee (2016:197) only concluded that the control environment of South African SMMEs were poor, blaming it on poor implementation of internal control activities. Based on the results in the current study, it can further be argued that the issue is not only on poor implementation but rather on the internal organisational environments of SMMEs which do not support sustainable implementation of any nature on internal controls.

## 7. Limitations of the study

Like many other studies, this study also had limitations. One of the limitations was the fact that the survey was confined to only SMMEs in Cape Town. Further studies should consider the SMMEs in other parts of South Africa. The study employed a quantitative research approach. Future research could consider using triangulation methodology where a qualitative design could be used in generating rich ideas and explanations. Another limitation could be the fact that the method of data collection relied on accurate introspection of responses that are subject to some degree of bias. Despite these limitations, the study advances knowledge regarding effective implementation of internal controls within SMMEs environments, considering that there is a noticeable absence of prior research on this subject within the South African context.

## REFERENCES

- Bureau for Economic Research, 2016. The Small, Medium and Micro Enterprise Sector of South Africa. The Small Enterprise Development Agency Research Note.
- Bruwer, J-P. 2010. Sustainability of South African FMGC Retail businesses in the cape peninsula. A dissertation submitted in full fulfilment of the requirements for the degree of Magister Technologiae: Internal Auditing in the Faculty of Business at the Cape Peninsula University of Technology.
- Bruwer, J-P. & Coetzee, P. 2016. A literature review of the sustainability, the managerial conduct of management and the internal control systems evident in South African Small, Medium and Micro Enterprises. *Problems and Perspectives in Management*, 14(2):190-200.
- Bruwer, J-P, Masama, B., Mgidi, A., Myezo, M., Nqayi, P., Nzuzwa, N., Phangwa, M., Sibanyoni, S. & Va, N. 2013. The need for a customised risk management framework for small enterprises Southern African Accounting Association: Conference Proceedings. 26 June 2013.

- Bruwer, J-P & Van Den Berg, A. 2015. The influence of the control environment on the sustainability of fast food Micro and Very Small Enterprises operating in the Northern suburbs. *Journal of Leadership and Management Studies*, 2(1), pp 50-63.
- Cant, M.C. & Wiid, J.A. 2013. Establishing The Challenges Affecting South African SMEs. *International Business & Economics Research Journal*, 12(6), pp. 707 -716.
- Cant, M.C., Erdis, C. & Sephapo, C.M. 2014. Business Survival: The Constraints Experienced by South African SMEs in the Financial Sector. *International Journal of Academic Research in Business and Social Sciences*, 4(10), pp. 565 – 579
- Chakabva, O. 2015. The Effectiveness of Risk Management Practices of Small, Medium and Micro Enterprises (SMMEs) which Provide Microfinance in the Cape Metropole, South Africa. A dissertation submitted in full fulfilment of the requirements for the degree of Magister Technologiae: Internal Auditing in the Faculty of Business at the Cape Peninsula University of Technology.
- Chimucheka, T. & Mandipaka, F. 2014. Challenges Faced By Small, Medium And Micro Enterprises In The Nkonkobe Municipality. *International Business & Economics Research Journal*, 14(2), pp. 309
- Coetzee, P., Du Bruyn, R., Fourie, H. & Plant, K. 2014. Internal Auditing: An introduction. Johannesburg: LexisNexis.
- COSO, 2004. Enterprise Risk Management – Integrated Framework Executive Summary. [Online]. Available from: [http://www.coso.org/documents/coso\\_erm\\_executivesummary.pdf](http://www.coso.org/documents/coso_erm_executivesummary.pdf) [Accessed on 17/05/2016]
- COSO, 2013. Internal Control – Integrated Framework Executive Summary. [Online]. Available from: [http://www.coso.org/documents/990025p\\_executive\\_summary\\_final\\_may20\\_e.pdf](http://www.coso.org/documents/990025p_executive_summary_final_may20_e.pdf) [Accessed on 01/06/2016]
- Department of Trade and Industry (DTI), 1995. The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa. Parliament of the Republic of South Africa.
- DTI, 2013. Minister Davies Launches New National SMME Newspaper. [Online]. Available from: <http://www.thedti.gov.za/editmedia.jsp?id=2811> [Accessed 20/04/2016]
- Garg, A.K. & Makukule, P. 2015. Business risk management – the key success factor: evidence from shebeens and taverns in Soshanguve Township. *Problems and Perspectives in Management*, 13(2), pp. 71-81
- Global Entrepreneurship Monitor, 2014. GEM South Africa Report South Africa: The crossroads – a goldmine or a time bomb? [Online]. Available from: <http://www.gemconsortium.org/country-profile/108> (Accessed 20/04/2016)
- Gordon, C., Baatjies, V., Johannes, L., Samaai, S., Sonto, J., Smit, Y., Bruwer, J. 2014. The control environment of fast food micro and very small entities in the Cape Metropole. *Topclass Journal of Business Management and Innovations*. 1(2), pp 37-46.

Grimsholm, E., & Poblete, L. 2010. Internal and External factors hampering SME growth - A qualitative case study of SMEs in Thailand. A dissertation submitted in fulfillment of the requirements for the degree of Master in Business Administration: International Management in the Faculty of Social Sciences at the Gotland University.

Hendricks, B., Hendricks, G., Johnson, R., Manuel, A., Maritz, R., Theron, L & Bruwer, J.P. 2015. The Influence of "Sin Tax" on the Economic Sustainability of Small, Medium and Micro Liquor Store Enterprises in the Northern Suburbs of the Cape Metropolis, South Africa. *Journal of Economics*, 6(2), pp.87-101

IIA. 2011. IPPF – Practice Guide Auditing the Control Environment [Online]. Available from: [http://www.iaa.nl/Sitefiles/IIA\\_leden/Auditing\\_the\\_Control\\_Environment\[1\].pdf](http://www.iaa.nl/Sitefiles/IIA_leden/Auditing_the_Control_Environment[1].pdf) [Accessed on 15/ 05/ 2016]

IIA. 2012. International Standards For The Professional Practice of Internal Auditing (Standards). [Online]. Available from: <https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf> [Accessed on 16/ 05/ 2016]

Jackson, R., Stent, W. Auditing Notes for South African Students. 2007. Durban: LexisNexis

Jiang, L. & Li, X. 2010. Discussions on the Improvement of the Internal Control in SMEs. *International Journal of Business and Management*. 5(9), pp 214-216.

Kemp, A., Bowman, A., Blom, B., Visser, C., Bergoer, D., Fullard, D., Moses, G., Brown, S.-L., Bornman, J. and Bruwer, J.-P., 2015. The usefulness of cash budgets in micro, very small and small retail enterprises operating in the Cape Metropolis. *Expert Journal of Business and Management*, 3(1), pp.1-12

Kunene, T. R. 2008. *A critical analysis of entrepreneurial and business skills in SMEs in the textile and clothing industry in Johannesburg, South Africa*. A dissertation submitted in full fulfillment of the requirement for the degree of Philosophiae Doctor: Entrepreneurship in the Faculty of Economic and Management Sciences at the University of Pretoria.

Lekhanya, L.M. 2015. Public Outlook on Small and Medium Enterprises as a Strategic Tool for Economic growth and Job Creation in South Africa. *Journal of Governance and Regulation*, 4(4), pp. 412 - 418

Mahembe, E. 2013. Research Study to Identify Needs, Opportunities and Challenges of SMEs in the Chemicals and Plastics and Sector Prepared for Small Enterprises Development Agency (SEDA). Underhill Corporate Solutions (UCS).

Malhotra, N. K. 2012. Basic marketing research: *Integration of social media*. Pearson Publishers.

Maye, M. 2014. Small Business in South Africa: What the Department of Small Business Development Can Do to Stimulate Growth. Southern African Catholic Bishop's Conference. Parliamentary Liaison Office. Occasional Paper 35.

Mthabela, T.E. 2015. Assessing the Causal Failures of Emerging Manufacturing SMEs in Johannesburg. A research report submitted in partial fulfillment of the requirements for the degree of Master of Management specialising in Entrepreneurship and New Venture

Creation: Internal Auditing in the Faculty of Commerce, Law and Management at the University of the Witwatersrand.

Ngubane, N., Mayekiso, S., Sikota, S., Fitshane, S., Matsotso, M & Bruwer, J-P.2015. Inventory Management Systems used by Manufacturing Small Medium and Micro Enterprises in Cape Town. *Mediterranean Journal of Social Sciences*, 6(1), pp. 382-390

Nyakundi, D.O., Nyamita, M.O. \* Tinega, T.M. 2014. Effect of Internal Control Systems on Financial Performance of Small and Medium Scale Business Enterprises in Kisumu City, Kenya. *International Journal of Social Sciences and Entrepreneurship*, 1(11), pp. 1-15

Olawale, F & Garwe, D. 2010. Obstacles to the growth of new SMEs in South Africa: A principal component analysis approach. *African Journal of Business Management*, 4(5), pp. 729 – 738

Oseifuah, E. & Gyekye, B. 2013. Internal control in small and microenterprises in the Vhembe district, Limpopo province, *South Africa. Eur. Sci. J.* 9(4)

PwC. 2015. Focus on South Africa's emerging companies and entrepreneurial landscape 2015 Working together, moving forward Emerging companies and the ecosystem. [Online] Available from: <https://www.pwc.co.za/en/assets/pdf/emerging-companies-and-the-ecosystem.pdf> [Accessed on 21/05/2016]

Prinsloo, S., Walker, C., Botha, L., Bruwer, J-P. & Smit, Y., 2015. The Influence of Combined Assurance Initiatives on the Efficiency of Risk Management in Retail Small and Very Small Enterprises in Bellville, South Africa. *Expert Journal of Business and Management*, 3(2), pp.63-81

Protiviti, 2016. Singapore Quick Guide to the COSO Enterprise Risk Management and Internal Control Frameworks. [Online] Available from: <http://www.protiviti.com/Singapore-en/Documents/SG-Quick-Guide-COSO-ERM-Internal-Control-Frameworks-2016Ed.pdf> [Accessed on 18/05/2016]

Ramukumba, T. 2014. Overcoming SMEs Challenges Through Critical Success Factors: A Case of SMEs in the Western Cape Province, South Africa, *Economic and Business Review*, 16(1), pp. 19-38

Reding, K.F, Sobel, P.J., Andersen, U.L., Head, M.J, Ramamoorti, S., Salamasick, M., Riddle, C. 2013. Internal Auditing: Assurance & Consulting. Florida: The Institute of Internal Auditors Research Foundation

SAICA, 2015. SME Insights Report. [Online]. Available from: [http://www.saica.co.za/portals/0/documents/saica\\_sme.pdf](http://www.saica.co.za/portals/0/documents/saica_sme.pdf) [Accessed on 18/05/2016]

Sankoloba, T. & Swami, B.N., 2014. Impact of Internal Controls in Managing Resources of Small Business: Case Study of Botswana. *Journal of Small Business and Entrepreneurship Development*, 2(2), pp. 87-105

Saunders, M.N.K, Lewis, P & Thornhill, A. 2007. Research Methods for Business Studies.London:Pitman Publishing.

SBP, 2014. Examining the challenges facing small businesses in South Africa. [Online]. Available from:[http://www.sbp.org.za/uploads/media/SBP\\_Alert\\_Examining\\_the\\_challenges\\_facing\\_small\\_businesses\\_in\\_SA\\_01.pdf](http://www.sbp.org.za/uploads/media/SBP_Alert_Examining_the_challenges_facing_small_businesses_in_SA_01.pdf) [Accessed on 19/05/2016]

Siwangaza, L. 2014. *The status of internal controls in fast moving consumer goods SMMEs in the Cape Peninsula. Dissertation submitted for the fulfilment for a MTech: Internal Auditing.* Cape Peninsula University of Technology.

Siwangaza, L., Smit, Y., Bruwer, J-P. & Ukpere, W. 2014. The Status of Internal Controls in Fast Moving Consumer Goods Enterprises within the Cape Peninsula. *Mediterranean Journal of Social Sciences*, 5(10), pp. 163-175

Steyn, G.M. 2008. Continuing professional development for teachers in South Africa and social learning systems: conflicting conceptual frameworks of learning. *Koers*, 73(1), pp.15-31.

South Africa. 1996. Small Business Act No. 102 of 1996. Pretoria: Government Printers

South Africa. 2004. National Small Business Amendment Act, No. 29 of 2004. Pretoria: Government Printer.

Teketel, T. & Berhanu, Z. 2009. Internal Controls in Swedish Small and Medium Size enterprises. A dissertation submitted in full fulfilment of the requirement for the degree of Masters in Business Administration at the University of Umea.