

# An Investigation into the Effectiveness of Detective Internal Control for Small Business Entrepreneurs in Mpumalanga, South Africa.

## Keywords

Conceptual Business Management Skills;

Effective Detective Internal Controls;

Small Business Entrepreneurs

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## Abstract

Detective internal controls usually foster compliance among small businesses and are the second line of defence to identify errors, theft, or omission that the preventive controls failed to block. They provide a holistic technical view that safeguards and protects the assets of small businesses. However, failure to isolate the unique risks facing small businesses negatively affects the detective internal controls and is often neglected. A qualitative method was adopted through semi-structured interviews among 12 small business entrepreneurs in Mpumalanga, South Africa. MAXQDA 2022 was used to analyse data. The results revealed that small businesses were reluctant to participate due to their concerns about the information being gathered. Moreover, small business entrepreneurs indicated a lack of financial readiness and technical and conceptual business management skills as prohibitors to implementing internal detective controls. Ineffective detective internal control activities lead to weak documentation, noncompliance, lack of skilled employees and volatile employee dynamics, inconsistent use of bank accounts, inadequate information systems and software and business continuity issues. The emergence of trends and resilience strategies adopted by small business entrepreneurs during the pandemic provides a glimpse of what futuristic small business entrepreneurship looks like.

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## 1. Introduction

Small businesses are faced with several challenges such as infrastructural inadequacy, high-interest rates, poor transportation networks, management problems, political instability, limited access to finance or capital, infrastructure, inconsistent implementation of government policies, multiple taxes and levies, limited access to modern technology, and unstable foreign exchange rates among the challenges facing these small businesses (Zondi, 2017; Oni, 2021:229). This trend has been observed across South Africa.

## **1.2. Background**

The Nkangala District Municipality is the smallest in Mpumalanga and comprises six local municipalities which have historically diverse economic sectors such as mining, energy, tourism, and agriculture (Municipalities of South Africa – Overview, 2021). Small business entrepreneurs neglecting detective controls face the burden of compliance, inefficient internal controls and harsher impact by uncontrollable external factors, which obstruct their success (Mthimkhulu & Aziakpono, 2015). Putra (2019) states that small businesses perceive providing financial records to be a waste of time. In the long run, small business entrepreneurs who lack the necessary financial skills will be unable to make critical financial decisions in the best interests of their business. Over-reliance on outsourcing makes small businesses not respond timeously and comprehensively to rapid changes leading to inaccurate business decisions, noncompliance and many more issues (Okpara, 2011; Visser, Chodokufa, Amadi-Euchendu & Phillips (2016); Massingham & Al Halaibi, 2017; Mthimkhulu & Aziakpono, 2015).

## **1.3. Problem Statement**

Small businesses are regressing due to ineffective detective controls which provide a holistic technical safeguard that protects the business assets and processes of small businesses and assists in fostering compliance which are subsequently reflected in their financial reporting.

## **1.4. Research objective**

Through the adoption of the System of Internal Control, this study will focus on evaluating the internal detective controls of small businesses in the Nkangala District Municipality of Mpumalanga.

The Literature Review will provide a diagrammatic view of the SoIC with the detective control activities being the focal point. And the Research Methodology will tabulate the research instrument used to collect data. From the data collected the Findings are documented, thereafter generating the Managerial implications. Finally, the Conclusion, Limitations and Future Research will conclude this paper.

## **2. Literature Review**

The Covid-19 Pandemic exacerbated existing internal and external risks faced by small businesses as external factors became internal factors namely infrastructural inadequacy, high-interest rates, poor transportation networks, management problems, political instability, limited access to finance or capital, expenses and heavy electricity, increasing crime rates, high levels of exposure to corruption, increasing competition among small businesses, inconsistent implementation of government policies, bureaucracy, large businesses monopolising the market segment, multiple taxes and levies, limited access to modern technology, unstable foreign exchange rates, financial losses, retrenchments and forced shutdown are among the challenges facing these small businesses (Oni, 2021; Naidoo, 2021; DSBD, 2014:43; Piskunov, Manyayeva, Tatarovskaya & Bychkova,

2016). Some challenges indicated can be classified as fruits of inefficient internal controls that affect small businesses' efficiency, growth and profitability (Cheng, Goh & Kim, 2018; Chelimo & Sophia, 2014).

Small business entrepreneurs need to consider detective internal controls as the common thread is that the owners and family members participate in day-to-day business activities, and there may be no distinction between owners, those charged with governance or management and related party relationships (ISA 315 (Revised 2019), 2021; ISA 550, 2021). Controlling the systems of the business effectively could improve the processes whilst maintaining control of the business.

## 2.1 System of Internal Control

According to Fraser (2020), small businesses' System of Internal Control (SoIC) creates adequate control as this fosters accurate presentation and disclosure of management's objectives at an entity level. The System of Internal Control, including detective control activities, are not designed to detect fraudulent, abnormal, non-routine transactions (ISA 315 (Revised 2019), 2021). Presented below are Systems of Internal Control (SoIC) and its components which are known for solving the problem of dealing with credible information for the decision-making process (Fraser, 2020:28). Presented below is an adaptive interpretation of the Five Components of the System of Internal Control alongside Understanding the Entity and its Environment component.



**Figure 2.1: System of Internal Control**

Source: Authors' own construction.

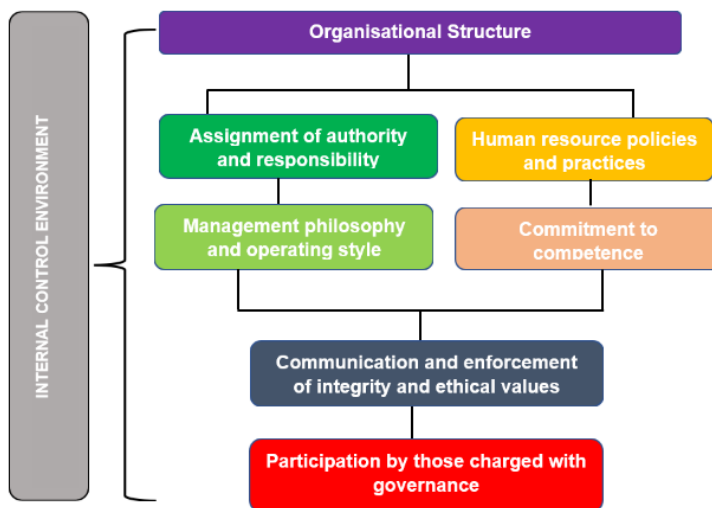
Understanding the entity and its internal control environment is the core starting point. Contextualizing the systems of internal control in the South African context is important.

### 2.1.1. Understanding the business and its environment

The South African context is unique, with small businesses facing several challenges such as unfavourable economic conditions, from load shedding (an energy utility's method of reducing demand on the energy generation system by temporarily switching off the distribution of energy to certain geographical areas.) to a record petrol price hike, the lingering aftermath of the Covid-19 pandemic and the July 2021 unrest in KwaZulu Natal and Gauteng (Department of Economic Development and Tourism, 2019; Makonye, F., 2022). This gives a background to the volatile external environment in which small businesses operate. Mbomvu, Hlongwane, Nxazonke, Qayi & Bruwer (2021) argued that there is a weak business sustainability rate as 75 percent of small businesses go bankrupt after running for not more than three years, and one of the causes of this is load shedding. Small business entrepreneurs and lower-level staff work closely, exposing employees to management's behaviour and conduct. An adverse effect is that the internal control environment can be eroded based on management's conduct. The opposite is true as a positive, direct influence on employees can result in a strong internal control environment culture (Barišić & Tušek, 2016).

### 2.1.2. Internal control environment breakdown diagram

Presented below is an adaptive interpretation of ISA315 internal control environment components, diagrammatically broken down to demonstrate the flow and their interrelated nature.



**Figure 2.1: Internal control environment**

Source: Authors' own construction.

- Organisational structure: Small business entrepreneurs are responsible for designing, planning, assigning, executing and revising the set business objectives by implementing a minor distinction in duties between the employees as a form of delegation based on their job description (Sartipi, 2020; Smit, Botha & Vrba, 2016; ISA 315 (Revised 2019), 2021).

- Assignment of authority and responsibility: Small businesses have limited skilled personnel and multiple duties executed by the same personnel, for that reason senior management intervention is prevalent to ensure oversight or review of employees' work performed to maintain a strong control environment (Adams, Diale & Richard, 2019).
- Small business entrepreneur's managing philosophy and operating style: A small business entrepreneur should also not bypass or ignore the business' internal controls set as the leadership attitude, awareness and actions towards business risk, financial reporting and accounting process, function, and personnel determine the philosophy and the operations of the business. (ISA315 (Revised), 2017; Marx, Van der Watt & Bourne, 2016).
- Human resource policies and practices: This element of the internal control environment ensures a business environment that hires competent, capable and suitable candidates according to human resources policies and procedures in alignment with the overall strategy
- Commitment to competence: For small businesses, a challenge may be implementing a commitment to competence due to resource constraints which results in employees being responsible for multiple duties and duties they are underqualified to perform (Piskunov *et al.*, 2016; Doyle, Ge, & McVay, 2007).
- Communication and enforcement of integrity and ethical values: When small business entrepreneurs are perceived to have integrity, the employees are less likely to behave in an unethical manner (Kereri, 2019; King IV, 2017:68; Barišić & Tušek, 2016).
- Participation by those charged with governance: Small business entrepreneurs as directors must lead by example by maintaining an attitude that promotes and establishes universal ethical awareness, compliance with laws and with the fiduciary duty of acting in the business's best interest. (King IV, 2017; The Companies Act (74/2008), 2021).

### **2.1.3. Small Business Risk Assessment Process**

Risk can be mitigating risk, but often never terminating risk and are pivotal in determining control activities to be implemented by the business (Boghean & Chihai, 2021). Risk assessment and control activities have an inverse relationship, therefore risk exposure which means that the business does not achieve its business objective, and the absence of risk management prevents the process of mitigating risk (Anh, Thi, Quang & Thi, 2020; Pham, 2018; Pham, 2021). Risk identification is assessed simultaneously at the unsystematic level, internal in nature, the business-specific level and systematic risk, external in nature, based on the business's internal environment and vulnerability risk (CFA Institute, 2022). Therefore, each component must not be looked at in isolation from risk assessment, as risk assessment is continuous and intertwines with internal control, control activities, and monitoring (Rae, Sands & Subramaniam, 2017; Mock, Sun, Srivastava & Vasarhelyi, 2009).

#### **2.1.4 Small Business monitoring processes and information systems**

The monitoring control assists with ensuring that the input and processed data and the output of the information are accurate, valid and complete, ensuring timely communication for decision-making. Small businesses ultimately retain the responsibility of an effective SoIC, thus maintaining, reviewing and replanning internal controls on an ongoing basis regardless of the business size and ascertaining if controls are still working as intended and whether a modification is required based on risk exposure (Tan & Yu, 2018). Small businesses usually use a simple, off-the-shelf accounting software package as a less complex I.T. environment does not negate the value of a sound information system (Adams *et al.*, 2019, Jackson & Stent, 2017). Smaller businesses will likely have an information system represented by manual information systems (human intervention) and automated information systems (I.T. systems).

#### **2.1.5. Small Business Control Activities**

Risk assessment plays a pivotal role in selecting relevant control activities for the business and each component must be considered simultaneously as risk assessment intertwined (Rae, Sands & Subramaniam, 2017; Mock *et al.*, 2009; Boghean & Chihai, 2021). Small business entrepreneurs at a strategic level need to break down their business into departments and isolate the unique departmental risk, which also affects their risk management function. Small business entrepreneurs cannot have unilateral control and access to a transaction from initialisation to completion (Edori & Ogaluzor, 2018). Practical and sound control activities protect a business from embezzlement by staff members and preserve the integrity of the financial information produced by the company by separating conflicting roles. Detective internal controls uncover violations of internal controls structure within the entity. Detective controls are not designed to prevent unusual or non-routine breaches through fraudulent activities, usually post-event discoveries (Lartey, Kong, Maci Bah, Santosh & Gumah, 2020). Detective control's pertinent nature is that they are action-based involving human intervention based on established rules, procedures and supervision that is subsequently evident tangibly in documents, policies and operational activities (Alarcon, Vautier, Hernandez & Guarnieri, 2019). Detective control includes the following;

- Segregation of duties where there must be clear reporting lines for the key areas in which significant risk has been identified. It is critical to delegate to mitigate operational risk by giving different people responsibilities for authorising a transaction, recording a transaction, and maintaining custody of assets (Edori & Ogaluzor, 2018).

- Review Control Activity where small businesses can design performance reviews for the small business entrepreneur, employees, operations and financials and compliance in line with objectives set for the business.
- Reconciliation Control Activity to identify gaps by comparing multiple data sets, records, documents and physical assets (Shiner & DuPriest, 2012). A separate employee must independently reconcile employees' work, such as checking invoices prepared before sending them to the customer (Al-Mashhadi, 2021; Chalmers, Hay & Khlif, 2018). The interdependency on the segregation of duties strengthens the reconciliation, monitoring and performance review in alignment with the business objectives (Frazer, 2020; ISA 315 (Revised 2019), 2021; Pham, 2021; Koutoupis & Malisiovas, 2021).
- Safeguarding Physical and Logical Control Activity over tangible and intangible (logical) assets (Bruwer, 2016, Adams *et al.*, 2019:5-19). The policies and procedures to safeguard business assets are also called custody control, which involves the segregation of duties. Better segregation of duties such as isolation of responsibilities simply means that the set duty has been segregated to unique and separately identifiable personnel. (ISA 315 (Revised 2019), 2021:90 ).
- Small business continuity control activity which covers disaster recovery plans. The COVID-19 pandemic posed a new disruption with a twofold threat of access limitations to employees and the worksite and conventional methods did not prevent business disruption and loss of revenue from efforts to protect employees (Alao & Gbolagade, 2020).
- Inherent Limitations of Internal Controls include non-routine transactions, human error, biases of human judgment, collusion and management overriding internal controls (ISA 315 (Revised 2019), 2021).
- Financial readiness as entrepreneurial pursuits can rise from a need or a want: either way, it is about access to financial freedom, unfortunately, that does not translate to the success of a small business (Branham, 2017; Zondi, 2017).
- Education levels and competency challenges to the implementation of internal controls. Some small business entrepreneurs have tertiary education; however, the core problem that is impeding small businesses is a low level of knowledge and lack of managerial and financial skills, which often can be intricately linked to the abrupt failure of a business (Urban and Naidoo, 2012; Bezuidenhout & Nenugwi, 2012).

## **2.2 Difference between Internal Control Activities**

The South African Institute of Chartered Accountants (SAICA), concurs that internal controls are critical in a business including the SMME. SAICA (2021) in the International Audit Standards (ISA) 315 (Revised 2019) (2021:9) define internal control as

“...the process designed and maintained by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to financial reporting, effectiveness, and efficiency of operations and compliance with laws and regulations.”

The definition is indicative that having effective internal detective controls that provide a holistic technical safeguard that protects the assets and processes of small businesses. This suggests that exploring the concept of internal detective control activities among small businesses in South Africa is paramount. The three internal control activities presented in Table 1 provide accurate financial reporting, non-financial information, operational efficiency and compliance.

**Table1: Internal control activities**

Preventative control activities	These are proactive policies and procedures to minimise errors or illegal events from occurring in the organisation (Adams <i>et al.</i> , 2019)
Detective control activities	These set policies and procedures are designed to mitigate internal control limitations, such as human error, collusion, or management overriding established internal controls. According to Adams <i>et al.</i> (2019:5/15), the detective control activities are called the “second line of defence” designed and implemented to identify errors, theft, or omissions that the preventative controls failed to block
Corrective control activities	These are set policies and procedures that rectify the errors, omissions, or unauthorised transactions identified by the detective controls activities.

Source: Own compilation

The research methodology followed in this paper will be presented.

### 3. Research Methodology

A qualitative approach is adopted to obtain comprehensive information to evaluate participants' experiences, behaviours, interactions and social context (Fossey *et al.*, 2002). In addition, this study evaluated the social constructs to which the participants are exposed and the effects on their business' detective internal controls. The target population included a purposive sample size of 12 small businesses in the Nkangala District from the SMME (expansion/scale-up) sub-category. The 12 Small businesses provide different goods and services to demonstrate diversity and balance sample selection.

Data was collected through semi-structured interviews with the small businesses within the Nkangala District. The interview is used to expose and interpret the individual participant's world: in essence, the interview will map out the individual's social construct. Denzin (2001) explained that the researcher becomes the co-producer by taking the participant's responses and merging them with the researcher's technical knowledge of the topic.



The qualitative research method hones in on the thematic nuances presented by the empirical data from the interviews. MAXQDA 2022 software was used to code and make connections to understand the inherent meanings of the raw data. The interviews have heightened the credibility of the findings and confidence in the conclusion and recommendations (Wester, Wachter Morris, Trustey, Cory & Grossman, 2021). The transcripts were listened to and read several times to establish themes and categories (Jain & Ogden,1999:1597). The themes that emerged and the patterns created the code framework to provide meaning (Marshall, 1999:419) in this study.

### 3.1. Ethics

Ethical clearance was approved by The Research Committee of Milpark Business School, Reference number MBA2021/07/004. In addition ethical consent was obtained from The Nkangala District Municipality to conduct research and access the Small Business database. Pseudonyms were created for each participant to preserve identity and ensure anonymity in this study. The data collected has three storage backup generations so data is not lost, compromised, or corrupted; namely the external hard drive, cloud storage and on the laptop. During this study, mutual respect and professional etiquette were demonstrated at all times when engaging participants and any other person involved in the research project. Compliance with COVID-19 regulations during the empirical research phase by using WhatsApp as face-to-face contact had social distancing restrictions (Milpark, 2020).

## 4. Results and Findings

This section presents the demographics of the participants in the study. 12 small business entrepreneurs participated. The ethnic demographic of the participants is homogeneous as all participants, both male and female, are, Black African. About 7 participants (58 percent) in this study were male of which 5 (42 percent) were female. Bowmaker-Falconer & Herrington (2020) argue that despite the inherent difficulties experienced by small businesses in South Africa, female small business entrepreneurs are narrowing the gap between the sexes, which historically favoured males. Female small business entrepreneurs are filling the social gap in the market as their focus and motivation are to create a sense of value in their communities (Meyer & Krüger, 2021; Mahlokweg, 2019). Table 2 presents the classification and allocation of participants' businesses as registered under the trading and accommodation industry according to the Department of Small Business Development (DSBD) Annual Performance Plan 2021 (2021:18).

**Table 2: Classification of small business entrepreneurs in the study**

Participant	Goods or services
A	Hospitality
B	Beauty and cosmetic product
C	Mechanical engineering and construction
D	Solar renewable energy

Participant	Goods or services
E	Hair salon
F	Beauty therapy
G	Internet cafe and I.T. consultant
H	Electrical installation
I	Estate agent
J	Student accommodation
K	Recruitment and corporate training
L	Civil construction and mechanical engineering

Source: Own compilation

The interviewed participants were between the ages of 25 and 45, with 62 percent being male and 38 percent being female small business entrepreneurs. According to Liang, Wang & Lazear (2018) factors contributing to entrepreneurship may decline with age; conversely, experience and skill increase with high-level positions, increasing with age and preventing younger entrepreneurs from acquiring business skills. Based on the age groups, there seem to be fewer small business entrepreneurs in the age bracket of 55 to 70. Liang *et al.* (2018) argue that members in the 55 - 70 age bracket are employed in high positions and close the door to opportunities, experience and expertise for the 25 - 45 age bracket, consequently many have ventured into entrepreneurship. Investors have observed that young people are more likely to establish successful new businesses (Azoulay, Jones, Kim & Miranda, 2020). The small business entrepreneurs within the age bracket 25 to 45 (67 percent) showed little interest in detective controls and focused on increasing business revenue when asked about internal controls at a strategic level and the presence of detective control activities. These results are similar to those from a study conducted by Chen, Hua & Sun (2018) on CEOs' ages and the persistence of Internal Control Deficiency: there was a negative relationship between "CEO age x number of material weakness in current period", which showed that age had a marginal impact on the determination to have adequate internal controls. The information in Table 3 below covers the age groups of participants, who ranged from 18 to 70 years.

**Table 3: Age group of participants**

Age group	Number of participants	Percentage
18-25	0	0%
26-35	5	42%
36-45	3	25%
46-55	1	8,3%
56-65	1	8,3%
66-75	1	8,3%
Undisclosed	1	8,3%
Total	12	100%

Source: Own compilation

The small business entrepreneurs within the age bracket 26 – 45 age bracket (67 percent) were more compared to the 56 - 70 age bracket (33 percent), who showed little interest in detective controls and focused on increasing business revenue when asked about internal controls at a strategic level and the presence of detective control activities.

Evaluating the years that the business has been in operation is critical as both capital structure and year of operation are negative predictors of materially weak internal control, specifically, a lack of segregation of duties as small businesses are less likely to have sufficient resources or experience to utilize high-quality accounting controls (Doyle *et al.*, 2007; Cheng *et al.*, 2018). In this study, an observation of participants displaying a strong knowledge of strategic planning with feeble execution directly linked with the years in operation is tabulated in Table 4 below.

**Table 4: Years in operation**

Years in operation	Number of participants
0 > 1 year	1
1 > 5 years	3
5 > 10 years	5
10 years or older	3
Total	12

Source: Own compilation

In this study, small businesses that operated for more than ten years knew what internal controls were and displayed their knowledge when explaining their business operating systems. In addition, those operating a business for one to ten years (75 percent of participants) had a vague concept of internal control or perceived it as not the internal responsibility of the small business but an outsourced function. This showed that small businesses still did not consider internal control at a strategic level. Feng, Li, McVay & Skaife (2015) state that smaller and newer businesses are less likely to invest in sophisticated information systems and are highly likely to have ineffective controls. Alawaqleh (2021) argues that as small businesses experience a highly competitive and active market, growing businesses face various challenges. So, as the business develops, diverse challenges and opportunities call for different solutions, meaning that, monitoring all business control activities is critical. For example, 66 percent of participants with a single-focus product and service offering were precise in their business descriptions. Additionally, the small business that had been operating for more than ten years (25 percent) displayed conceptual skills detailing industry competition and their experience. Feng *et al.* (2015) state that smaller and newer businesses are less likely to invest in sophisticated information systems and are highly likely to have ineffective controls.

#### **4.1 State of detective internal controls for small business entrepreneurs in Mpumalanga**

The results revealed that the small businesses that operated for one to ten years (75 percent of participants) had a vague concept of internal control or perceived it as an external responsibility of their outsourced function. Participant G confirmed this by saying, “These business terms – I am not good with them, but internal controls, the only thing I know was central budgeting, meaning you are the centre and you control the budget. But internal control, no”. The participants with a single-focused product and service offering were precise in their business descriptions (66 percent). Additionally, the small business that had been operating for more than ten years (25 percent) displayed conceptual skills detailing industry competition and their experience.

#### **4.2.1. Segregation of duties control challenges**

As business directors, small business entrepreneurs must conduct themselves to maintain a robust internal control environment. Their conduct determines the small business’s internal control environment, which indicates its risk exposure and risk assessment process. Participant H confirmed this by saying, “Because this is a family business, I am working with my brother, and I am relying much on him because he is the one who has this knowledge of electricity. I am the one doing the management, day-to-day running of the business, checking if their business is running, buying stock, advertising the business, seeing the customer, liaison clients and all this stuff.” Eldridge & Kealey (2005) argue that the segregation of duty control functions in a small business must be cost-effective to implement, maintain and monitor. It is counterintuitive for a small business to hire multiple employees who do not form part of their product cost but add to the company’s period cost because the benefit cannot be quantified, but the cost can be quantified (Platz & Temponi, 2007). However, understanding the business’ nature and processes played a role in justifying why specific detective controls were present or absent, as it may be less practical to have segregation of duties but instead have the small business entrepreneur perform oversight or review duties. The cost incurred by the business to have adequate controls must make financial sense. (ISA 315 (Revised 2019), 2021:A157; Alawaqleh, 2021). This study shows an example of a small business that has scaled down its workforce and spread the current duties to its existing employees. Participant C elaborated that, “We are four who are handling maybe the two or three positions. Like myself, sometimes I have to make sales at a higher level, and as I am the managing director.”

#### **Cost-benefit of outsourcing business functions**

A prevailing theme was the challenge small businesses experienced in implementing detective controls through their inability to afford to employ more people, or competent and skilled people, without the relevant revenue stream (Coates & Srinivasan, 2014; Eldridge & Kealey, 2005). Most small businesses work on a contractual basis and can only employ for the contract duration as their revenue stream is limited. As a result, they opt to outsource their workforce (Van der Berg, 2019). Participant L elaborates:

“We cannot say permanently employed because we do not have a contract. So we work in an order-to-order kind of business. So if there is no order, we do not have a business then. So it cannot be permanent. Just keep

them ready. On our side is to have their Information and Safety file ready for them to come in, but as they get better opportunities, obviously they will leave, so we do not have any permanent employees.”

Participant C laments:

“You get a suitable candidate from Durban, and they say: ‘I cannot come for one month.’ Those are the regrets we find in the business, so at the moment, they go to the well-established companies.”

With the lack of a skilled workforce, the odds continue to stack against small businesses as they try to maintain a competitive edge over well-established businesses by obtaining contracts with limited resources to increase revenue whilst maintaining adequate internal control (Doyle *et al.*, 2007).

#### **4.2.2. Safeguard assets control challenges**

Rapani & Malim (2020) state that the primary internal control objectives are designed to safeguard the business’ assets and resources from misappropriation and fraud. This section assesses two specific elements: 1) the documentation of the small business’s operations; and 2) safeguarding their physical and electronic assets.

##### **4.2.2.1. Safeguarding documents in the operating system**

Du (2020) explained that internal control is a comprehensive management activity that includes business management, production control, capital control, investment control and human capital. Small businesses use simplistic documentation in their operating systems as the goods or services in their business process are iterative. Participant F simplistically explains, “No system at all; I use my logic. I give a customer a quote, then I split it and see what must be done, how much must be spent, and how much profit we get. That is how it operates.” The ISA 315 (Revised) (2018:A89) states that in the case of small businesses, the most significant internal control deficiency risk is because of the direct personal involvement of management in the internal financial reporting process and the documents used and the document design “...the form and extent of documentation with less complex entities may be simple and relatively brief”. Participant E explains the documentation of the customer in a ledger book: “I have a book. Each person when they come, I read their name. I write a service offered. The money for the product that I was using. I record it.” On the other hand, the findings dictated that complex documentation in the operating system is partly due to the small business industry and compliance requirements. These small businesses had efficient detective internal controls and outsourced their accounting functions. Below is one example of a complete operating system for Participant I, the principal, who gives a detailed answer, “If a customer wants to rent a property, the first thing is that the customer saw the property on our website and Property24. The landlord will approach us to rent out properties for them. Then we will sign an agreement, whether an open mandate or sole mandate and take pictures. The landlord will point out the defects and sign the list, and then we will file that to show the lessee. We will have to go and qualify that lessee before we take them out. The first thing we will do is we will require I.D. documentation, proof of address, and proof of funds. We also check the ITC because some lessees jump from

one place to the other: they are not paying the landlords in some way, and then the tenant is blacklisted. So, once pre-qualified, take the lessee to see the property. The lessee will go to the property, and they will point out the defects, and then we will do the paperwork. So, we will ensure that the property is in order with a move-in checklist. When the tenant moves in, they must sign the defects list, and then when the lessee moves out, we check that again with a checklist. So the check-in list must be the same as the checkout list. There was a deposit at the beginning of the process when the lessee signed the lease agreement, and the money is paid into the trust accounts.”

#### **4.2.3. Safeguarding of business assets**

Rapani & Malim (2020) state that adequate internal detective controls are a constant review of controls over safeguarding assets and employees’ adherence to small business policies and procedures as this directly or indirectly affects financial performance, information disclosure, and fraud. Safeguarding of assets entails the operational assets used to produce goods and services are being kept safe: this includes equipment and tools, laptops, application software and client information. In this study, when asked about safeguarding business assets, the small businesses explained that owing to the size of the business, they do not own expensive equipment but outsource the equipment as and when needed. Participant L explained, “We employ qualified fitters, so they come with their tools and equipment. So we do not keep those things because we are still a small business. We cannot afford to buy any assets and do not keep any assets.”The pertinent issue is the confidentiality of the client’s information used in the business. Participant A stated, “The files that keep all the information, the listed forms, are in a safe and lockable cabinet. No other person has access. I think it is something to look into.”

Participant H states, “They are written in a book and file those names with the customers’ details in the customer book. I have a safe in my room and have put them there.” Identifying the challenges around safeguarding assets and having mechanisms to mitigate associated risks maintains the accuracy, validity and quality of financial information, achieving efficient operation. In addition, it encourages the employees to follow the business’s policies and procedures (Salameh, 2019).

In this study, unfortunately, many participants (K, F, A, C) did not perform any forecast or budgetary functions. For the small businesses that did, it was an outsourced function. Participant C elaborates: “The accountant is handling them because they must be realistic when analysing performance, and with the last performance, we will be able to do our forecast.”There is a weak understanding of the interrelated nature of budgeting and financial reporting (Dabbicco & Mattei, 2021). This is in line with what the participant stated.

#### **4.2.5. Reconciliation control challenges**

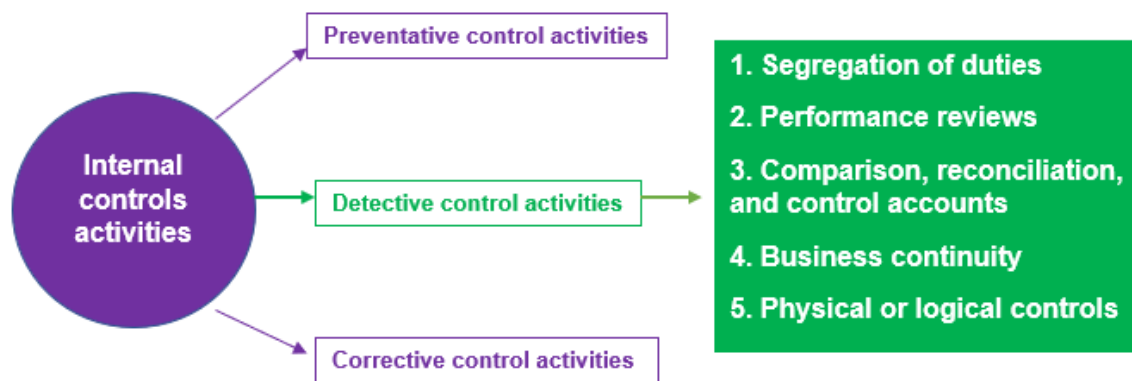
Reconciliation helps to detect accounting errors and fraudulent reporting (Chang, Yen, Chang & Jan, 2014). Financial reconciliation is a type of internal control where financial data is cross-checked with independent

data to ensure that transactions recorded in the financial report are timeous, complete and accurate (Chew, 2020). Small businesses also perceived reconciliation control as being the accountant’s job and not an internal function done by small business entrepreneurs. As a result, there is an increased risk of exposure by small businesses to the inability to trace their expenses and revenues; therefore, fraud or inappropriate use of business assets by employees is prevalent. Moreover, those participants who did perform reconciliation could not pinpoint the financial challenges they faced as a small business. Participant H mentioned:

“Since it is a small business, some customers take advantage of it. So we start by installing the electricity. We have got payment methods in which our customers pay. Some of our customers do not comply with our payment methods, finding that some of the work done is not paid.”

Inefficient management affects the business’ working capital, which is the turnover of funds available in the business and disrupts internal controls. Furthermore, the risk profile of this small business increases because the sales transaction is on credit and the debtor does not pay; this adversely impacts the business’s finances and internal control as the accounts receivable remain uncollectable (Rohendra & Saudi, 2020). Lartey *et al.* (2020) state that reconciliation is the most common detective control activity to locate inconsistencies in accounting ledgers and bank accounts as this addresses the review of financial and operating systems. Small businesses that use reconciliation are a step ahead in mitigating the risk.

The results reveal the absence and presence of internal detective controls and how these controls influence the challenges faced by small businesses. The detective control expected is represented diagrammatically.



**Figure 2.2. Categories of Control Activities.**  
Source: Authors’ own construction.

Cheng *et al.* (2018) further added that the immensely positive impact of effective internal control is more visible in small businesses because of poorer information systems, so implementing adequate controls helps small businesses make educated operational decisions.

## **5. Managerial Implications**

Effective detective internal controls determine the success of a business. Presented in this section are the internal detective controls for small business entrepreneurs.

### **5.1. Segregation of duties Detective control**

Small business employees and management should be accountable and lead by example to avoid theft, fraud, and misappropriation of assets. Alawaqleh (2021) explains that small business entrepreneurs who are cognisant of leading by example adhere to setting controls and following the rules and regulations. The results of this study showed that weak segregation of duties controls over employees was a consequence of fluctuations in employee numbers, inconsistent human intervention adversely affecting the efficacy of the controls, and increasing information risk. Therefore, having an organogram or a template mapped out shows the work processes and responsibilities so that there is a unified workflow to boost efficiency and control integrity (Massingham & Al Holaibi, 2017). A small business must adopt a strategy to mitigate agency risk. The employees are encouraged to view themselves as partners with the small business and receive returns based on revenue performance. Adopting a culture of inclusivity is critical as it reinforces employee support, fosters a positive attitude, and enhances the employees' identity in the business to see themselves as stakeholders as their performance is an indicator of internal regulation (Chen, Hao, Ding, Feng, Li & Liang, 2020).

Traditionally, competency was the prerequisite, but the realistic and futuristic approach is shifting towards a proactive approach to competency through in-house training which empowers the business to improve strategic objectives, simplify the line of reporting and authority, increase efficiency, and alleviate conflict of interest. Thus the business benefit from streamlining duties is the resulting spare capacity to increase human capital, material, and financial resources and innovate new products and services. Thus aligning goals and strategies to adapt to client service delivery changes enhances the business's competitive advantage, efficiency and capacity, and quality of human capital (Vakola, Soderquist & Prastacos, 2007; Visser *et al.*, 2016; Shen, Lan, Xiong, Lv and Jian (2020). Small business entrepreneurs engage in cultivating skills, capabilities, and knowledge alongside formal education and work experience as fundamental to business growth. The South African Revenue Service (SARS) provides Skills development (SDL) tax benefits.

### **5.2. Safeguarding of assets detective control**

Rapani & Malim (2020) state that the primary internal control objectives are designed to safeguard the business's assets and resources from misappropriation and fraud. In this section, two specific elements are assessed: 1) the documentation of the small business's operations; and 2) safeguarding their physical and electronic assets. In this study, small businesses understood the importance of safeguarding control, demonstrated by various answers about how they had restricted certain documents from easy accessibility and overlooked how business operations reinforced the control. Wang (2015) concurs that the safeguarding of assets controls mitigates risks associated with unreliable financial reporting, inefficient operating systems, and non-



compliance with laws and regulations such as the POPI Act. This control is dependent on employees' responsibilities to ensure proper control over company assets as safeguarding assets detective control is a by-product and an inseparable control activity of isolation of responsibility control (Rahim, Nawawi, & Salin, 2017).

### **5.3. Interrelated review and reconciliation detective control**

The review and reconciliation control function is interlinked with operations, finances, and compliance with laws and regulations; so inefficiency hurts the abovementioned functions. In this study, the financial reporting and operation review functions were answered poorly. Small businesses' review control is a by-product of the segregation of duties: this is confirmed by the assertion of Al-Mashhadi (2021) that no single person should have the power to work and keep original documents and records from beginning to end without supervision or oversight. The financial review detective control has two aspects – forecast and budget reviews. In this study, the common mistake was that the small businesses failed to conceptually and technically differentiate between forecast and budget activities. Kunnathuvalappil Hariharan (2020) states that a budget is a projection or estimate covering 12 months and is frequently adjusted throughout the year based on actual events. However, a forecast is a projection or estimate beyond 12 months. Chalmers *et al.* (2018) mentioned that internal detective controls are essential to review the different stages in the business's life cycle. In this study, small businesses perform this function by reviewing employees for performance appraisal and their operation projects to ensure client satisfaction and retention and timely payment from trade receivables.

### **5.4. Load shedding and disaster recovery plan**

Load shedding, backups, and disaster recovery plans are part of the business continuity detective control. The adverse effect of load shedding on small businesses is undeniable. Other small businesses experience a delay in service delivery to their clients, affecting their business reputation. Load shedding is a social, business, and financial risk as 50 percent of the small business entrepreneurs that participated in this study had generators, but still faced financial deficits due to fuel costs as additional pressure widens the gap between incurred expenses and actual revenue – a financial and business risk (Mbomvu *et al.*, 2021; Van Niekerk, 2020). Traditionally business continuity risks related to theft and security issues. This study shows that the small businesses that have implemented safeguards against load shedding still face other related risks such as low return on investment because of increased fuel and electricity costs which affect liquidity adversely in pursuit of sustained power supply for operations. Government intervention is important to provide relief through subsidies or incentives to facilitate investment in generators, solar panels and battery inverters, known as Uninterrupted Power Supply (UPS). Small businesses can invest in a solar trolley inverter made up of a hybrid of batteries and solar energy backup powered by electricity and the sun.

### **5.5. Designing, implementing, and monitoring detective controls**

Small business entrepreneurs should proactively take responsibility for designing, implementing, and monitoring their detective controls early in their growth stage based on their risk assessment. This “embryo stage proactive step” will reduce reactive risk responses and decisions when additional risks present themselves during the growth stage of their business cycle (ISA 210, 2021:110). Early adoption will result in good upgrades to existing controls will be required instead of reactive decisions and incurring exorbitant costs due to insufficient internal controls. Nassimbeni, Sartor, & Dus (2012) confirm that extra precautionary controls must be considered to accommodate the decision to outsource, especially in the technical dimension. For example, I.T. personnel do not have unilateral control over the end-user application, report to management on the set-up of business data protection, and have limited access to significant application accounts, so there are no unauthorized changes or transactions. Additional safeguards of physical or logical assets can be put in place by giving employees only limited access along with unique usernames and passwords. JLL Report (2015) states that the I.T. division establishes additional controls for secure, precise, timely, reliable, and comprehensive data transmission.

As established, an inseparable link exists between a sound internal detective control environment and monitoring detective control. An additional recommendation is an adaptive mindset by small business entrepreneurs that reconciliation and review detective controls are inseparable from controls that monitor operational activities and ensure proper financial records capture (Koutoupis & Malisiovas, 2021). Mock *et al.* (2009) concur that risk assessment control negates the duplication of controls.

## **6. Conclusion, Limitations and Future Research**

With every resilient strategy demonstrated by small business entrepreneurs in the study to stay in business depicted the undeniable need for a balance of both technical and conceptual skill sets of risk management to successfully navigate the South African Economy. The results indicated that small business entrepreneurs understood in hindsight the importance of detective controls as these helped mitigate various risks associated with their finances and successfully achieve their business objectives. The pervasive nature of detective controls is demonstrated by the inseparable link between a sound internal control environment and monitoring control which are heavily reliant on human intervention. Moreover, the review and reconciliation detective controls are strongly linked with monitoring detective control. The pervasive nature of these controls is that they revolve around the segregation of duties and isolation of responsibility, which if not addressed the avoidable regression of small businesses will continue.

The database was obtained from the Nkangala District Municipality of Mpumalanga, 60 small businesses responded to the invitation to participate in the study, but only 12 consented to be interviewed as the majority were reluctant to participate due to their concerns about the information being gathered. Limited budget and

time constraints. The cost-effective approach to obtain data from participants was adopted by using WhatsApp Videos whilst not negating the importance of the face-to-face element of the interview.

This study contributes to the detective control effects in small businesses in a developing context, within a small town. Demographic-driven research for small businesses is necessary to evaluate detective controls in small businesses based on age, gender and race in the Nkangala District Municipality as an extension of these results to reflect actual conditions, situations and circumstances. The current study could be extended to include evaluations of detective control effectiveness for small businesses' survival and growth. Future studies might need to review the concepts introduced and add value by confirming and expanding on these relationships.

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