

# **FRAUD PREVENTION MEASURES AND INTERNAL CONTROLS TO MITIGATE INTERNAL FRAUD RISK WITHIN SOUTH AFRICAN RETAIL SMMEs**

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## **Abstract**

SMMEs have been reported to encounter the highest number of fraud instances primarily due to the ineffective use of internal controls within their businesses. Previous research shows that the South African SMMEs are more susceptible to the risk of fraud. It is deemed that there is a lack of effective communication of fraud prevention measures and internal controls, resulting in fraudulent activities. This study sought to evaluate the effectiveness of the communication of fraud prevention measures and internal controls to mitigate the risk of internal fraud within the retail SMMEs located in the Cape Metropole. This study took the form of a cross-sectional survey research, and it recorded the empirical evidence in terms of a quantitative research approach. There is a significant progress in retail SMMEs towards communicating fraud prevention measures and internal controls. The majority of retail SMMEs were aware of the risk of internal fraud and communicated with greater emphasis the importance of prevention measures and internal controls with the intention to combat the risk of internal fraud. However, these businesses evident some internal control deficiencies which led the realisation of various risks including internal fraud. Half of these businesses did not attend any anti-fraud awareness or ethics training. This study served as a basis for future research to improve the communication of fraud prevention measures and internal controls within the South African retail SMMEs to combat internal fraud. This study served of a particular value to policymakers to promote a fraud free environment in retail SMMEs.

**Keywords:** Fraud prevention, internal controls, internal fraud risk, South African retail

## 1. INTRODUCTION

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Over the years, the importance of Micro, Small and Medium Enterprises (SMMEs) has increasingly been recognised across the globe since these business entities have become key role players in the development of almost every country's economy (Chimucheka, 2014:783; Akugri, Bagah & Wulifan, 2015; Kalidas, Magwentshu & Agesan Rajagopaul, 2020). SMMEs' contribution to the economy is generally grouped into two main economic indicators namely the Gross Domestic Product (GDP) and the employment opportunity which in turn leads to the poverty alleviation (Bruwer, 2016).

The foregoing has not been of any difference in South Africa as these business entities are playing a vital role in combatting unemployment and in contributing altogether to the economy of the country (Prinsloo, Walker, Botha, Bruwer & Smit, 2015:67; Saah, 2021). The Trade industry, including South African retail SMMEs, contributed 43,2% toward the total national income earned by SMMEs, excluding the agricultural sector (South African Market Insights, 2020). More so, the retail sector is the largest industry contributor to the country's GDP (34%), which has the potential to reduce the high unemployment rate in South Africa and enhance national economic growth (Stats SA, 2018; The Banking Association South Africa, 2019).

Despite the stated and prospective contribution of SMMEs to the country's economic stimulus, they are nonetheless vulnerable to substantial risk exposure, such as loss of key personnel, credit losses, increased (high) competition, theft, shoplifting, bankruptcy, fraud, and so on (Petersen, 2018). In addition, with such risk exposure it becomes then difficult for these business entities to attain their business objectives by the resultant losses caused when the risk materialises (Ramukumba, 2014; Rungani & Potgieter, 2018). The materialisation of risks, such as fraud, unfolds to devastating consequences to SMMEs as they are in most cases unable to easily absorb the losses (Ramukumba, 2014; Sarokin, 2020; Fanews, 2022). Fraud is believed to be one of the most prevailing risks that hinder the attainment of business objectives as well as the smooth business continuation since it carries strategic, legal, financial, and operational consequences (Pickett, 2012:7; Petersen, 2018).

This study focuses on internal fraud because it is infrequently detected and reported in the context of SMMEs (ACFE, 2020b). Internal fraud can be referred to as any intentional act or omission within the organisation designed to deceive others, resulting in the victim suffering a loss and/or the internal perpetrator (such as an employee, a manager, and a business owner) achieving a gain (Reding, Sobel, Anderson, Head, Ramamoorti, Salamasick & Riddle, 2013). The retail industry is one of the riskiest industries in terms of internal fraud, often because of the easy reach of stock and cash, which are mostly the logical and/or convenient targets of perpetrators (Deloitte, 2015; ACFE, 2020b; Nicasio, 2021). More often than not, the risk of internal fraud is increased by various parties involved in the supply chain, such as employees, packers, and other service providers (Deloitte, 2015; BDO, 2018; KPMG, 2020). It is projected that the fraud losses cause organisations across the globe to lose approximately 4 trillion American dollars (Lappen & McDonough, 2018). Prior research suggests that SMMEs' managers lack knowledge of internal controls and its implementation (Burger, 2016). In other words, this can be seen as these businesses being unable to prevent the occurrence of fraudulent activities within their organisations. Whilst it is known that the best way to prevent internal fraud is through implementing internal controls that can reasonably, effectively and adequately address such risk (Shanmugan, Haat & Ali, 2012:91; COSO, 2017; ACFE, 2020b). The communication of fraud prevention measures and internal controls is crucial in any business since it would allow everyone to be aware of the associated risks as well as to know what it takes to mitigate them (UCSF, 2022)

With this background, it becomes easier to mitigate the risk of internal fraud when there is a clear understanding of its possible causes as well as understanding why it is important to combat it. Therefore, as a solution this study evaluates the communication of fraud prevention measures and internal controls within the retail SMMEs to ascertain whether they are effectively addressing the risk of internal fraud. Furthermore, this study also provides insight into South African SMMEs regarding the importance of communicating fraud prevention measures within their organisations to curb the risk of internal fraud which is very inherent to their business operations. External parties would also be beneficial to this research such as individuals and institutions responsible of making policies on SMMEs' fraud risk framework for example, this research would serve as empirical evidence.

The remaining discussions of this research are expanded upon under the following headings: Overview of South African SMMEs, conceptual framework, research methods and design, ethical consideration, results and discussion, conclusion.

## 2. THE CONCEPT OF INTERNAL FRAUD

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South Africa's retail sector experiences a high degree of economic crime. It is rated third in the world for recorded economic crime (Cape Business News, 2020), with bribery and corruption accounting for 42% of the kind of economic crime. Internal fraud continues to be a crippling impediment to the global economy's progress, resulting in massive losses for enterprises all over the world (ACFE, 2020b). As a result, internal fraud could be one of the most serious ongoing concerns in any organisation, as no organisation is immune to it (Bach, Dumičić, Žmuk, Ćurlin & Zoroja, 2018; ACFE, 2020b). When it comes to internal fraud, the retail business is one of the most vulnerable, owing to the easy access to stock and cash, which are frequently the logical and/or convenient objectives of perpetrators (Deloitte, 2015; ACFE, 2020b; Nicasio, 2021). Internal fraud is frequently exacerbated by the existence of numerous parties in the supply chain, such as employees, packers, and other service providers (Deloitte, 2015). The foregoing is in line with ACFE (2018), which said that internal fraud can be committed by any internal actor (whether an employee, manager, executive, or company owner). Internal fraud is defined as any deliberate act or omission within an organisation that is intended to deceive others, resulting in a loss for the victim and/or a gain for the internal perpetrator (such as an employee, a management, or a business owner) (Reding et al., 2013).

The Covid-19 epidemic exacerbated the issue by increasing the pressure, opportunity, and justification for fraud (PWC, 2020). As a result, companies throughout the world have had to deal with economic changes, supply chain interruptions, remote operations, financial constraints, rigorous lockdowns, a health crisis, a decrease in the number of employees, and other challenges (ACFE, 2020a). Generally, internal fraud is broken into three major categories namely asset misappropriation, corruption, and financial statement fraud (ACFE, 2018; Koivisto, 2019; ACFE, 2022a):

**Asset misappropriation:** the act of willfully stealing or exploiting an employer's assets for personal gain, causing financial harm to the company. Asset misappropriation is the most common sort of internal fraud that companies face, and it is also the least expensive. Asset misappropriation can take two forms: cash scheme (when the misappropriation is centered on cash) and non-cash scheme (where the misappropriation is not centered on cash) (meaning the misappropriation revolves around anything else than cash).

**Corruption:** Internal fraudsters wrongfully utilise their authority in a corporate transaction to purposefully exploit and/or get some type of benefit to their personal advantage, even if such benefit is counter to their job duties or other parties' rights. Dishonesty cannot be separated from corruption in most cases since everybody who commits corruption develops a sense of dishonesty. In the case of South Africa, the country is considered one of the most corrupt in the world. As a result, corruption is regarded as one of the most serious forms of internal fraud in South Africa.

**Financial statement fraud:** The intentional falsification or misrepresentation of the employer's financial statements by the actors (whether employee, management, executive, or business owner) by intentionally overstating revenues and understating liabilities and costs is referred to as financial statement fraud. This deception is conducted in order to deceive persons (such as investors, shareholders, lenders, or creditors) with whom the employing firm may have a commercial transaction. Financial statement fraud is the least prevalent sort of internal fraud, yet it does the most damage to the victim firms, as seen by Enron's demise in 2001.

Given the intrinsic nature of internal fraud, it is likely to occur in any type of business. Internal fraud is eventually ubiquitous in each business, regardless of its geographic location (ACFE, 2020b). Prior research studies in the context of South African SMMEs reveal that internal fraud continues to have negative impacts (such as bankruptcy, major financial loss, and client loss) on such organizations (Sarokin, 2020; Fanews, 2022). As with any risk, there might be a variety of reasons that contribute to its occurrence. Some of the reasons why SMMEs are vulnerable to internal fraud include, among other things, management putting too much reliance in employees, management not being sufficiently trained to develop a good control system, and management lacking adequate capabilities to address the risk of fraud (Bruwer, 2015; Ekegbo, Quede, Mienahata, Siwangaza, Smit & Bruwer, 2018). Internal controls and/or anti-fraud measures

continue to be the most effective instruments for combating fraud since they assist in assessing internal fraud risks and enacting suitable proactive steps to mitigate such risks (ACFE, 2020b). Despite the fact that internal controls are the best strategy to deal with the risk of internal fraud, SMMEs sometimes encounter obstacles such as limited resources and, as a result, view internal controls as costly (Mohd & Norhusnaida, 2015). Furthermore, these control methods would be ineffective in preventing and/or detecting fraud on their own; management must also be dedicated to the culture of controls, demonstrate zero tolerance for fraud, develop a strong controls and fraud prevention measures and communicate these measures to everyone in the organisation to create awareness and consciousness of fraud (Myemane, 2019).

### 3. INTERNAL CONTROL AND FRAUD PREVENTION MEASURES

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Some decades ago, Sawyer (1988:84) opined that internal control enhances the probability that management's wishes will be achieved. This sentiment has since remained topically relevant in a sense that internal controls are designed to ensure they address or limit the potential risks and ultimately enhance the business abilities to achieve their goals (Bruwer, Coetze & Meiring, 2019). Even though internal controls may be established and executed for a variety of causes and functions, internal controls are widely classified into three types: preventive (or preventative), detective, and corrective controls, which are briefly addressed below (ODU, 2019):

- a) **Preventive controls:** These are adopted to avoid unfavorable consequences from occurring. They were also expected to be more cost effective than the others since unwanted consequences would not need notice or repair.
- b) **Detective controls:** These are intended to detect undesirable consequences as they occur.
- c) **Corrective controls:** They aim to reverse unfavorable results.

It is concerning that the literature reveals SMMEs have a greater failure rate because they do not manage their resources properly and efficiently, implying that they apply poor internal controls with little fraud prevention measures (ACFE, 2016; Petersen, 2018). According to the literature, an internal control system helps with: improving the effectiveness, efficiency, and economy of

business operations; promoting compliance with applicable rules, regulations, policies, and procedures; safeguarding relevant assets; and fortifying the integrity of both financial and nonfinancial information (Bruwer, et al., 2019).

To strengthen internal control systems to fulfill both applicable adequacy and effectiveness requirements, many professional bodies around the world established internal control frameworks (Bruwer, et al., 2019). According to Reding et al. (2013) the need for developing internal control frameworks arose from past events experienced most of which being undesirable causing corporate issues such as fraud scandals. Various internal control frameworks exist in the world, however for the purpose of this research, focus is placed on the COSO Integrated Internal Control Framework as it is perceived to be the most extensively used framework in the world since it is one of the earliest created internal control frameworks (Martin, Sanders & Scalan, 2014).

The COSO framework includes five components of internal control which are namely: control environment, risk assessment, control activities, information and communication, and monitoring activities (COSO, 2013). These five components of internal control are briefly explained below:

### ***Control environment***

This internal control component is concerned with how risks are seen and treated, as well as influencing management philosophy in terms of risk management (COSO, 1992; COSO, 2013; Gordon, Baatjies, Johannes, Samaai, Sonto, Smit & Bruwer, 2014). It is concerned with the entire management attitude toward proactive implementation and evaluation of internal control operations (Bruwer, 2016). Moreover, it has an impact on managerial leadership and attention to honesty, integrity, and ethical behavior (Myemane, 2019). In turn, it triggers people's consciousness to be proponents of internal controls (COSO, 1992).

### ***Risk assessment***

This internal control component is concerned with identifying and analysing risks (including the risk of fraudulent activities) that the business may face as well as developing and analysing methods to mitigate such risks in order to achieve the objectives effectively (Van Wyk, 2015).

### ***Control activities***

Control activities are defined as selected and planned actions carried out in accordance with existing company policies and procedures (both manual and automated) to assist management in limiting risks and enhancing the possibility of attaining their business objectives (Salin, 2018). These activities are implemented with the intention of providing a reasonable assurance that business objectives will be attained by effectively and efficiently reducing risks from materialising.

### ***Information and communication***

This internal control component is focused with effectively managing the company's information and interacting with stakeholders, both internal and external (Salin, 2018). This component assists the other internal control components by raising awareness of internal controls among diverse stakeholders (Salin, 2018). One way to do this is to clearly define rules, processes, and internal control needs for workers to comprehend. Internal controls should be highlighted in SMMEs so that all workers may comprehend the use of internal controls objectively. Consequently, the possibility of employees rationalising illegal behavior would be minimised.

### ***Monitoring activities***

Monitoring activities include continuous assessments, separate evaluations, or a mix of the two to determine if each of the five components of internal control is present, effective, and operating. Furthermore, these activities assist the organisation in evaluating and communicating weaknesses. For example, management might examine the efficacy and efficiency of regulations and processes on a regular basis.

## **4. RESEARCH METHODS AND PROCEDURE**

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A survey was conducted to gather information from various SMME owners and managers. Although the adequacy of communication of internal controls and fraud prevention measures could not be measured due to limited reporting structures and information available, the perceptions that management of SMMEs should communicate to employees about internal controls and fraud prevention measures to ensure that they engage in combating fraud and irregularities within their respective business entities. In the scope of this research study, a survey design was employed.



The study used a quantitative research methodology since the research assumed the form of descriptive research. The survey design allowed the collection and processing of substantial amounts of data from selected retail SMMEs (n=100). Despite the population size of this research being unknown to the researcher, the population of this study was simply made of all the formal and informal South African retail SMMEs in Cape Metropole (Prinsloo et al., 2015).

These data were further analysed with a statistical tool to make applicable inferences and conclusions. To get rich data from 100 SMMEs, non-probability sampling approaches, notably purposive sampling and convenience sampling, were used. Due to time and financial limitations, the scope of this study was confined to SMMEs in the Cape Metropole. The questionnaires were distributed to these owners and managers to respond to the questions posed. The use of a questionnaire was deemed appropriate since it allows for the collection of data from a large number of respondents, resulting in complete conclusions capable of addressing the study topic (Sifumba, Mothibi, Ezeowuka, Qeke & Matsoso, 2017). The responses from respondents were recorded in an Excel spreadsheet and then the Excel data file was then imported into Statistical Analysis System (SAS) for analysis. The analysis served to bring order, structure and meaning to the large data gathered (De Vos, 2002:339).

## 5. DATA ANALYSIS AND DISCUSSION OF RESULTS

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### ***Demographical information***

As for the results obtained through this survey with respect to the demographic properties of the survey; the following analogies describe the demographic information of sample for this study. These businesses are located mainly in the City Bowl (40,6%), Southern suburbs (25,0%), Northern suburbs (15,6%), and Western suburbs (11,5%) of the Cape Metropole. More than half of the businesses exist (54,2%) for more than 10 years, 29,2% exist for 2-5 years and 16,7% exist for 6-10 years. Most of the respondents to this survey are managers of these businesses (91,7%) and 8,3% are the owners of these businesses. The respondents are mostly in their position for 2-5 years (53,1%), with 15,6% in their position for 0-1 years, 15,6% for 6-10 years, and 15,6% for more than 10 years. The majority of the respondents have Grade 12 (45,8%), or an Undergraduate

diploma/degree (35,4%). Sixty-two point five per cent of these businesses have 0-10 employees in their business, 28,1% have 11-50 employees, and 9,4% have 51-250 employees. Fifty-three point one per cent of these businesses were micro businesses, 30,2% were small businesses, and 16,7% were medium businesses.

### **Construct validity and reliability of measures**

Respondents were primarily requested to provide answers using a four-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = agree, and 4 = highly agree) and a yes/no scale to assess variables. These variables were subject to content and construct validity. Content and construct validity were applied to these variables. Content validity is concerned with the representativeness or sampling adequacy of a measuring instrument's content (e.g., subject or items) (De Vos, 2002:84). The extent to which a measuring instrument can be proved to measure a certain hypothetical construct is referred to as construct validity (Rose & Sullivan, 1996:19). The construct validation, on the other hand, can only be carried out when the questionnaire measures what it is designed to measure. Construct validation should be addressed during the survey's design and questionnaire development phases. The reliability of the data will be addressed at the data analysis phase (information). Reliability relates to the consistency, stability, and repetition of outcomes; for example, a researcher's results are regarded dependable if consistent results have been produced in identical but distinct contexts (Twycross & Shields, 2004:36). A Cronbach's alpha of 0.700 or above is considered adequate for a factor's dependability (Tavakol & Dennick, 2011). The research study made use of the following inferential statistics on the data: Chi-square, Chi-square goodness of fit test, Cronbach Alpha test, and Fisher's exact test. A reliability test (Cronbach's Alpha Coefficient) was done on the statements in the survey pertaining to the communication of the fraud prevention measures and internal controls to mitigate internal fraud in retail SMMEs. The Cronbach Alpha Coefficient analysis shows the correlation between the respective item (statement) and the total sum score (without the respective item) and the internal consistency of the scale (coefficient alpha) if the respective item were to be deleted. According to the Cronbach's Alpha Coefficients (in Table 2) for all the items entered to the test (with 2 reversed coded variables): 0.9312 for raw variables and 0.9410 for standardized variables, which is more than the acceptable level of 0.70, thus these items proves to be internally consistent.

**Table 2. Cronbach's Alpha Coefficients**

<b>Variable name</b>	<b>Statements for measurement scale</b>	<b>Correlation with total</b>	<b>Cronbach's Alpha Coefficient</b>
	<b>MEASURING INSTRUMENT - Communication of fraud prevention measures and internal controls</b>		
S01	Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.	0.3048	0.9309
S02	Your staff are sufficiently familiar with the business's policies and procedures.	0.5371	0.9294
S03	Staff meeting and briefings are the medium for learning about internal controls.	0.4252	0.9301
S04	Your business maintains a fraud whistle-blower programme.	0.2824	0.8619
S05	You deal with confidentiality the information about the person who exposes any fraud act happening in the business.	0.4379	0.9103
S06	Red flags (such as employees experiencing financial pressures) are normally the indicators of the risk of fraud.	0.4467	0.8307
S07	There is a channel to report the occurrence of fraudulent acts or control weaknesses.	0.6295	0.9284
<b>Cronbach's Coefficient Alpha for raw variables</b>			<b>0.9312</b>
<b>Cronbach's Coefficient Alpha for Standardised variable</b>			<b>0.9410</b>

Since the data was obtained from the respondents, ethical considerations were maintained to seek informed consent from respondents, protection of respondents from harm, protection of the privacy of respondents, adequate level of confidentiality, respect of dignity of respondents and respondents had the right to withdraw from the research without any consequence.

### Chi-square tests

The chi-square test for goodness of fit is used for a single population and is a test used when you have one categorical variable. This test determines how well the observed frequency distribution from that sample fits the expected frequency distribution (Cooper & Schindler, 2001:499). The following Hypotheses are going to be tested:

#### Hypothesis A

- $H_0$  = the proportion of respondents who selected the different categories is equal. ( $p_1 = p_2 = p_3$ )
- $H_1$  = the proportion of respondents who selected the different categories is not equal. ( $p_1 \neq p_2 \neq p_3$ )

Only the statistically significantly different statistics are discussed in the following paragraphs.

**Table 3: Statistically significant Chi-Square tests**

Variable name	Statements for measurement scale	Sample Size	Chi-Square	DF	P-Value
Communication of fraud prevention measures and internal controls					
S01	Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.	95	42.7789	2	<0.0001***
S02	Your staff are sufficiently familiar with the business's policies and procedures.	95	45.2421	2	<0.0001***

Variable name	Statements for measurement scale	Sample Size	Chi-Square	DF	P-Value
S03	Staff meeting and briefings are the medium for learning about internal controls.	95	30.6526	2	<0.0001***
S04	Your business maintains a fraud whistleblower programme.	95	19.8211	3	0.0002***
S05	You deal with confidentiality the information about the person who exposes any fraud act happening in the business.	95	25.3474	2	<0.0001***
S06	Red flags (such as employees experiencing financial pressures) are normally the indicators of the risk of fraud.	95	28.1579	3	<0.0001***
S07	There is a channel to report the occurrence of fraudulent acts or control weaknesses.	95	31.0947	2	<0.0001***
S08	Do you participate in any anti-fraud awareness programme or company ethics training?	95	0.0105	1	0.9183
S09	Do you transmit a message to the new employee about the company's values, culture, and operating style?	95	83.3789	1	<0.0001***
S10	Are you familiar with your business code(s) of conduct?	95	87.1684	1	<0.0001***
S11	Do you explain to your staff the consequences of non-compliance with the business's values?	95	87.1684	1	<0.0001***

Variable name	Statements for measurement scale	Sample Size	Chi-Square	DF	P-Value
S12	Would you be reluctant to report a violation or fraud if it was committed by a colleague who is dear to you?	94	10.8936	1	0.0010**
S13	Does every staff have access to the company policies and procedures?	93	60.4839	1	<0.0001***
S14	Do you give a chance to your staff to give their opinions (improvement suggestions) on the controls implemented?	94	64.7234	1	<0.0001***
S15	What channel of communication is used by management to communicate the implementation of internal controls?	95	164.3263	3	<0.0001***
S16	Internal fraud is likely to be committed by the:	95	131.7368	3	<0.0001***

The following is a discussion on where these statistically significant differences lie for communication of fraud prevention measures and internal controls variables relevant to Table 3:

- a) *For statements S01 to S07* there is a statistically significant difference in the proportions of respondents for all the communication of fraud prevention measures and internal controls. These differences lie in that more respondents agree to strongly agree than who disagree to strongly disagree, except for statement S04 and S06. The difference for statements S04 (Your business maintains a fraud whistle-blower programme) and S06 (Red flags (such as employees experiencing financial pressures) are normally the indicators of the risk of fraud) lies in that there are more respondents who disagree, agree and strongly agree than who strongly disagree with this statement.
- b) *For statements S08 to S14* there is a statistically significant difference in the proportions of respondents who answered yes or no on these statements, except for statement S08 which is not statistically significant. The H0-hypothesis for equal proportions could not be rejected for

statement S08 (Do you participate in any anti-fraud awareness programme or company ethics training?), where 50,5% of the respondents indicated yes and 49,5% of the respondents indicated not. The difference for statements S8, S10, S11, S13, and S14 lies in that there are more respondents who indicated “Yes” than who indicated “No” for these statements. The difference for statement S12 (Would you be reluctant to report a violation or fraud if it was committed by a colleague who is dear to you?) lies in that there are more respondents who indicated “No” than who indicated “Yes”.

- c) *The difference for statement S15* (What channel of communication is used by management to communicate the implementation of internal controls?) lies in that there are more respondents indicated “Staff meeting” than who indicated any of the other options
- d) *The difference for statement S16* (Internal fraud is likely to be committed by the:) lies in that there are more respondents who indicated “Anyone within the business” than who indicated any of the other options.

The Chi-square test was used to test whether the demographic groups differed with respect to their responses on the measuring variables. Due to too many categories for the demographic variables there are more than 20% of the expected frequencies less than 5 in the cells of the contingency tables. Take note that only the statistically significantly different statistics for the Chi-Square and for Fisher-Exact tests are discussed in the following paragraphs. In the cases where Chi-Square test is statistically significant and the Fisher-Exact are not, or vice versa the statistics will be deemed as not statistically significant:

- a) *There is a statistically significant difference* between period that business is in existence with respect to the statement “Staff meeting and briefings are the medium for learning about internal controls” (P-value=0.0064 (Fisher-Exact test)). The proportion of respondents from businesses who are in existence for less and equal to 10 years who disagree to strongly disagree is greater than that of the respondents from businesses who are in existence for more than 10 years.
- b) *There is a statistically significant difference* between period that business is in existence with respect to the statement “Do you participate in any anti-fraud awareness programme or company ethics training?” (P-value=0.0251 (Fisher-Exact test)). The proportion of respondents from businesses who are in existence for less and equal to 10 years who indicated

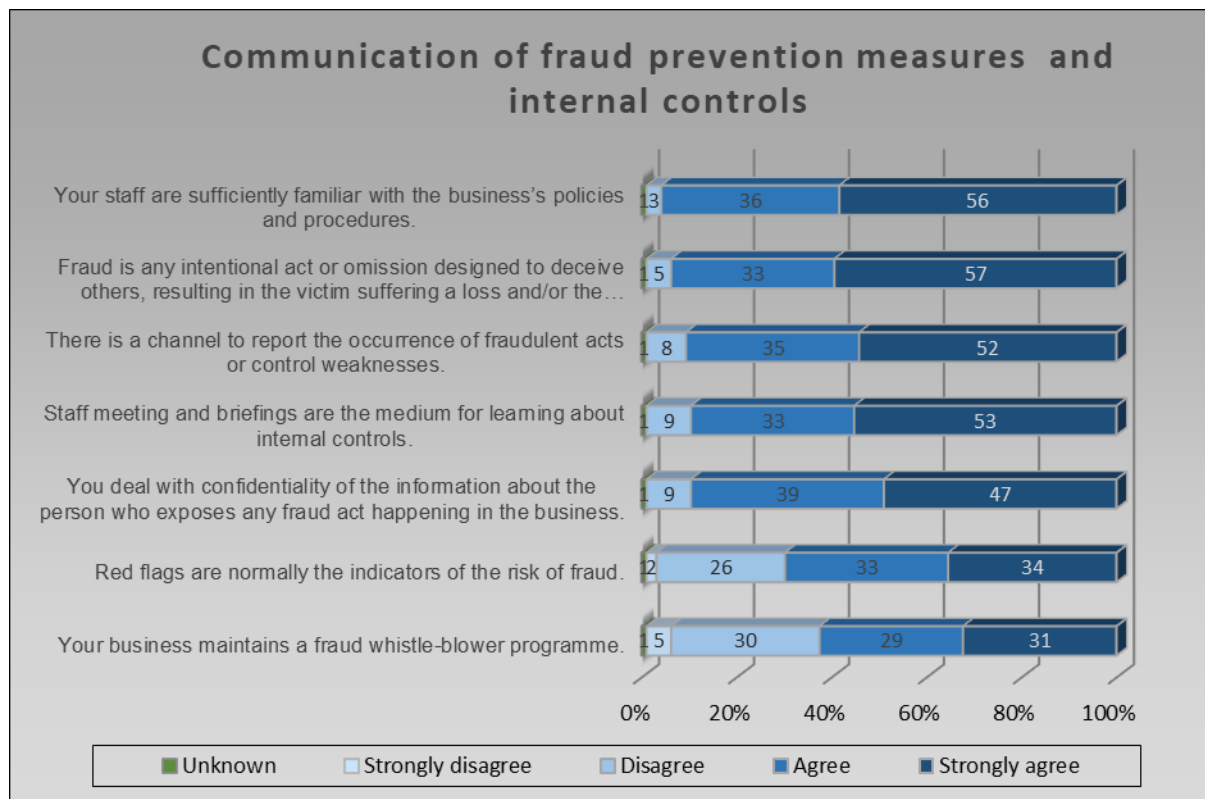
no is greater than that of the respondents from businesses who are in existence for more than 10 years.

- c) *There is a statistically significant difference between period that business is in existence with respect to the statement “Does every staff have access to the company policies and procedures?” (P-value=0.0075 (Fisher-Exact test)). The proportion of respondents from businesses who are in existence for less and equal to 10 years who indicated no is greater than that of the respondents from businesses who are in existence for more than 10 years.*
- d) *There is a statistically significant difference between positions in business with respect to the statement “CCTV camera footage is used in your business” (P-value=0.0469 (Fisher-Exact test)). The proportion of owners who disagree to strongly disagree is greater than that of the managers.*
- e) *There is a statistically significant difference between period in position with respect to the statement “Do you transmit a message to the new employee about the company's values, culture, and operating style?” (P-value=0.0349). The proportion of respondents who are 0-1 years in their position who indicated no is greater than that of the respondents who are in their position for 2-5 years or more than 5 years.*

### **Descriptive statistics**

The communication of fraud prevention measures and internal controls listed; are sorted according to the responses from where the respondents agreed the most with to where they agreed the least with, by giving the response “Strongly agree” the highest weight and “Strongly disagree” the lowest weight and then calculate the sum of the product of the weight and the frequency of respondents who selected that option. After sorting the communication of fraud prevention measures and internal controls from the highest sum calculated to the lowest sum calculated the 7 communication of fraud prevention measures and internal controls are represented in the following graph.





**FIGURE 1: COMMUNICATION OF FRAUD PREVENTION MEASURES AND INTERNAL CONTROLS**

Most of the respondents agree to strongly agree with the communication of fraud prevention measures and internal controls listed above. More particularly the results are as follows:

- a) Fifty-eight point three per cent of the respondents strongly agree, 37,5% agree and 3,1% disagree that their staff are sufficiently familiar with the business's policies and procedures. Unfortunately, 1,0% of the respondents did not respond.
- b) Fifty-nine point four per cent of the respondents strongly agree, 34,4% agree, and 5,2% disagree that fraud is an intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain. Unfortunately, 1,0% of the respondents did not respond.
- c) Fifty-four point two per cent of the respondents strongly agree, 36,5% agree, and 8,3% disagree that there is a channel to report fraudulent acts or control weaknesses. Unfortunately, 1,0% of the respondents did not respond.

- d) Fifty-five point two per cent of the respondents strongly agree, 34,4% agree, and 9,4% disagree that staff meetings and briefings are the medium for learning about internal controls. Unfortunately, 1,0% of the respondents did not respond.
- e) Forty-nine per cent of the respondents strongly agree, 40,6% agree, and 9,4% disagree that they deal with confidentiality of the information about the person who exposes any fraud act happening in the business. However, 1,0% of the respondents did not respond.
- f) Thirty-five point four per cent of the respondents strongly agree, 34,4% agree, 27,1% disagree, and 2,1% strongly disagree that red flags are normally the indicators of risk of fraud (such as employees experiencing financial pressures). Unfortunately, 1,0% of the respondents did not respond.
- g) Thirty-two point three per cent of the respondents strongly agree, 30,2% agree, 31,3% disagree, and 5,2% strongly disagree that their business maintains a fraud whistle-blower programme. Unfortunately, 1,0% of the respondents did not respond.

Based on the above results, there seemed to be effective communication on the risk of fraud and its mitigation initiatives, which empowered employees to fight internal fraud. These businesses were known to draw little to no attention to internal controls and their promotion (Siwangaza, Smit & Bruwer, 2014; BER, 2016; Blackburn & Schaper, 2016). However, the results obtained, in terms of these businesses' communication of fraud prevention measures and internal controls, indicate that these businesses are proactively communicating and promoting fraud prevention measures and internal controls within their respective businesses to mitigate the risk of internal fraud and other risks at large.

As previously mentioned, during the Covid-19 crisis, SMMEs became more vulnerable to the risk of fraud. The assumption was drawn that this situation attracted their attention to internal controls and fraud prevention measures. Therefore, following the Covid-19 incident, SMMEs have become more sensitive and prone to the risk of fraud. Thus, these business entities will likely improve their internal controls and communication to avoid being consumed by the risk of internal fraud. As a result, there was enhanced responsiveness to the risk of internal fraud risk.

Furthermore, as for the comprehensive results obtained through this survey with respect to the communication of fraud prevention measures and internal controls; the following analogies can be drawn from this research:

- a) The majority of respondents agree to strongly agree with the following communication of fraud prevention measures and internal controls statements:
  - *The staff are sufficiently familiar with the business's policies and procedures,*
  - *Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain,*
  - *There is a channel to report the occurrence of fraudulent acts or control weaknesses,*
  - *Staff meeting and briefings are the medium for learning about internal controls,*
  - *Business deals with confidentiality of the information about the person who exposes any fraud act happening in the business,*
  - *Red flags (such as employees experiencing financial pressures), and*
  - *The business maintains a fraud whistle-blower programme.*
- b) Half of the respondents participate in an anti-fraud awareness programme or company ethics training. This training contributes to creating and fostering a sound control environment to combat irregularities (including internal fraud).
- c) Almost all the respondents transmit a message to the new employee about the company's values, culture, and operating style. This helps to emphasize on awareness to avoid non-compliance or irregularity from happening due to lack of knowledge. To reduce the likelihood of internal fraud or any other non-compliance to business values, policies and procedures.
- d) Almost all the respondents are familiar with the business code(s) of conduct for their business.
- e) Almost all the respondents explain to their staff the consequences of non-compliance with the business's values.
- f) A third of the respondents are reluctant to report a violation or fraud if it was committed by a colleague who is dear to them. This question was asked to ascertain whether the management of the sampled retail SMMEs had a zero-tolerance attitude on internal fraud.
- g) Most of the respondent's staff have access to the company policies and procedures.
- h) Most of the respondent's give a chance to their staff to give their opinions (improvement suggestions) on the controls implemented.

- i) The channel of communication to communicate the implementation of internal controls mostly used is staff meetings.
- j) Nearly three quarters of the respondents think that internal fraud is likely to be committed by anyone within the business. In order for the management to attribute accountability on issues pertaining to internal controls as well as internal fraud, respondents were asked to provide their perceptions as to who can commit fraud within their business entities. This question was critical because it shows who the target is in terms of the overall implemented internal control of their businesses.

## Recommendations

To address some of the shortfalls and increase the effectiveness of the communication of fraud prevention measures and internal controls. The management of South African retail SMMEs should demonstrate a positive attitude towards internal control and have zero tolerance to fraud. They should proactively communicate with their staff the importance of the fraud prevention measures and internal controls to mitigate the risk of internal. This includes undergoing anti-fraud awareness programmes and business management training workshops, to mention but a few. The management of South African retail SMMEs should also establish counter-fraud initiatives within their businesses and have staff to participate in ethical or anti-fraud training to enhance their consciousness and abilities to combat internal fraud.

## 6. CONCLUSION

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Despite the rich literature on internal control activities and internal control systems, there is a gap in the relevancy, appropriateness, and efficacy of these mechanisms within an SMME to establish a fraud aware environment especially regarding the combatting of internal fraud. Recent research, such as those done by Lappen and McDonough (2018); Petersen, Bruwer, Le Roux (2018); and Fatoki (2020) revealed the presence of fraudulent activities among SMMEs. Therefore, it was worthy of study to establish whether these businesses are aware of fraud (particularly internal fraud) and whether they exist initiatives to create awareness in terms of mitigating internal fraud within their respective business entity. Communication of the company's values, culture, and

operating style plays an essential role in the business control environment in the sense that personnel are likely to develop the same attitudes about what is good and wrong as communicated by management (Coetzee, Du Bruyn, Fourie & Plant, 2017). In essence, it is important for management to demonstrate an attitude of promoting the control environment; the lack thereof might filter down to staff, generating internal control problems and potential for fraud (Cereni, 2016). The results indicated that the sampled retail SMMEs were aware of the risk of internal fraud and made use of customised fraud prevention measures and internal control as a way of combatting the risk of internal fraud. There seemed to be effective communication on the risk of fraud and its mitigation initiatives which resulted in empowering employees to engage in fighting internal fraud. It might also be related to the need for increased fraud knowledge or vigilance as a result of the chaos produced by the Covid-19 issue. These SMMEs have become more sensitive and prone to the risk of fraud. Their management portrayed a good tone in terms of establishing counter fraud initiatives and positive attitude to ethical behaviour. Portraying such tone promotes a conducive business environment in which violations of internal control or internal fraudulent activities are avoided. The management of the sampled SMMEs also demonstrated a commitment to some extent to improve their competence through various ethical trainings or anti-fraud awareness programme. However, it was found that although most of the sampled retail SMMEs seemed to have a sound control environment, they experienced challenges in having effective internal controls as more than 50% of the respondents had evident internal control deficiencies, which led to the realisation of various risks including the risk of internal fraud. This situation could be a result of reduced participation to anti-fraud awareness or ethics trainings as it was found that almost half of the respondents do not attend fraud related trainings. Retail SMMEs should consider attending these trainings as they help to continually create and foster a sound control environment to combat internal fraud.

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#### DISCLOSURE OF CONFLICT

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