

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTANCY**

**IMPACT OF INTERNAL CONTROL SYSTEMS ON FINANCIAL PERFOMANCE OF FORMAL RETAIL SMALL AND MEDIUM ENTERPRISES IN BINDURA, ZIMBABWE.**

**BY**

**B192157B**

**A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE BACHELOR OF ACCOUNTANCY HONORS DEGREE OF BINDURA UNIVERSITY OF SCIENCE EDUCATION, FACULTY OF COMMERCE.**

**JUNE 2023**

# **APPROVAL FORM**

The undersigned confirm that this research project was presented in line with the guide of the faculty and guidelines for typing undergraduate project. A study entitled “impact Internal Control Systems on financial performance of formal retail Small and Medium Enterprises in Bindura, Zimbabwe “suitable to be submitted to the Faculty of Commerce, Bindura University of Science Education.

STUDENT’S SIGNATURE………………………

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# **RELEASE FORM**

NAME OF AUTHOR: B192157B

PROJECT TITLE: Impact of internal control systems on financial performance of formal retail Small and medium enterprises in Bindura, Zimbabwe.

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# **DEDICATION**

# I would like to express my gratefulness and dedication towards my family and friends who have been an immense source of support throughout my academic journey. I especially want to thank my parents, Susan, Sylvia, and Uncle Hilton for their words of inspiration and motivation that continue to inspire me. My sisters Wendy, Venus, and little brother Sam have also been a constant presence in my life, and I am grateful for their unwavering support. Therefore, I dedicate my dissertation work to all of them as a token of my appreciation and love.

# **ABSTRACT**

The purpose of this research was to investigate how ICS in formally registered SMEs impact their financial performance in Bindura, Zimbabwe. Researcher had three main objectives: to identify the internal controls implemented by retail SMEs, to examine the relationship between internal control practices and financial performance, and to identify challenges faced in establishing internal control systems. The researcher developed three null hypotheses for inferential statistics. Researcher implemented a descriptive research design and collected data from the entire population of 108 formally registered SMEs in Bindura through a survey questionnaire. The study focused on CA, RA, and MA as components of ICS, with net profit margin used to measure financial performance. Data was analyzed using Statistical Packages of Social Sciences version 20, and multiple linear regression analysis was performed. Results indicated a strong positive linear relationship among all proxies of internal control systems studied and financial performance, leading to rejection of all three null hypotheses. The researcher recommended that SMEs improve their commitment to internal control systems, and suggested that the government offer financial and other support programs to enable SMEs to invest in such systems. Additionally, SMEs can seek assistance from consultants and industry experts to design and implement effective internal control systems tailored to their specific business needs, and collaborate with other stakeholders in the industry to share experiences and best practices. Future studies could explore the role of technology in auditing SMEs, particularly how emerging technologies such as artificial intelligence and data analytics can improve the audit process for small businesses.

Key words: Internal Control Systems, Financial Performance, Small to Medium Enterprises, control activities, monitoring activities, risk assessment.

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Table of Contents

[**APPROVAL FORM** i](#_Toc137930027)

[**RELEASE FORM** ii](#_Toc137930028)

[**DEDICATION** iii](#_Toc137930029)

[**ABSTRACT** iv](#_Toc137930031)

[**ACKNOWLEDGEMENTS** v](#_Toc137930032)

[**LIST OF APPENDICES** ix](#_Toc137930033)

[**CODED LANGUAGE** 1](#_Toc137930035)

[**CHAPTER 1** 2](#_Toc137930036)

[INTRODUCTION 2](#_Toc137930037)

[1.0Introduction to the chapter 2](#_Toc137930038)

[1.1Background of the study 2](#_Toc137930039)

[1.2Statement of problem 4](#_Toc137930040)

[1.3Research objectives 4](#_Toc137930041)

[1.4 Research hypotheses 5](#_Toc137930042)

[1.6Assumptions to the study 5](#_Toc137930043)

[1.7Delimitation to the study 6](#_Toc137930044)

[1.8 Significance of the study 6](#_Toc137930045)

[1.8.1Limitations to the study 7](#_Toc137930046)

[1.8.2 Definition of phenomenon 7](#_Toc137930047)

[1.9Summary 7](#_Toc137930048)

[**CHAPTER 2** 9](#_Toc137930049)

[**LITERATURE REVIEW** 9](#_Toc137930050)

[2.0 Introduction 9](#_Toc137930051)

[2.1Theoretical Literature Review 9](#_Toc137930052)

[2.2.1Defining financial performance 9](#_Toc137930053)

[2.2.3SMEs financial performance in Zimbabwe 11](#_Toc137930054)

[2.3Theoretical Framework 11](#_Toc137930055)

[2.3.1 Agency Theory 11](#_Toc137930056)

[2.3.2 Reliability Theory 12](#_Toc137930057)

[2.3.3 Stakeholder Theory 12](#_Toc137930058)

[2.4. Empirical Literature Review 13](#_Toc137930059)

[2.5.1Conceptual framework 15](#_Toc137930060)

[2.7Research Gap 23](#_Toc137930061)

[2.8Chapter summary 24](#_Toc137930062)

[**CHAPTER 3** 25](#_Toc137930063)

[**RESEARCH METHODOLOGY** 25](#_Toc137930064)

[3.1 Introduction 25](#_Toc137930065)

[3.2Research design 25](#_Toc137930066)

[3.2.1Justification of a descriptive research approach 25](#_Toc137930067)

[3.3 Research philosophy 26](#_Toc137930068)

[3.4Target population 26](#_Toc137930069)

[3.5Data Sources 27](#_Toc137930070)

[3.6Research instruments 27](#_Toc137930071)

[3.6.1 Questionnaire Structure 27](#_Toc137930072)

[3.6.2 Advantages of research instrument 28](#_Toc137930073)

[3.7Data processing and analysis 28](#_Toc137930074)

[3.7.1Validity and reliability 28](#_Toc137930075)

[3.7.2Reliability results 29](#_Toc137930076)

[3.8 Ethical considerations 30](#_Toc137930077)

[3.9Chapter summary 31](#_Toc137930078)

[**CHAPTER 4** 32](#_Toc137930079)

[**DATA PRESENTATION AND ANALYSIS** 32](#_Toc137930080)

[4.1Introduction 32](#_Toc137930081)

[4.2 Response rate 32](#_Toc137930082)

[4.3Presentation and Analysis of Questionnaire Responses 33](#_Toc137930083)

[4.5 Presentation of Regression Analysis 41](#_Toc137930084)

[4.6 Summary 50](#_Toc137930088)

[**CHAPTER 5** 51](#_Toc137930089)

[**SUMMARY CONCLUSIONS AND RECOMMENDATIONS** 51](#_Toc137930090)

[5.1Introduction 51](#_Toc137930091)

[5.2 Summary of research findings 52](#_Toc137930092)

[5.3Conclusions 55](#_Toc137930093)

[5.4Recommendations 55](#_Toc137930094)

[**REFERENCES** 57](#_Toc137930095)

**LIST OF TABLES**

[Table 2. 1: Defining SMEs 10](#_Toc137984924)

[Table 3. 1: Reliability results 29](#_Toc137984925)

[Table 3. 2: Reliability results 30](#_Toc137984926)

[Table 4. 1 : Questionnaire response rate 32](#_Toc137984927)

[Table 4 .2: Period of existence 33](#_Toc137984928)

[Table 4. 2.1: Academic qualifications 34](#_Toc137984929)

[Table 4. 2. 2: Business ownership 34](#_Toc137984930)

[Table 4. 2. 3: Number of employees 35](#_Toc137984931)

[Table 4. 2. 4: Firm's category 36](#_Toc137984932)

[Table 4. 2. 5: Internal control systems 36](#_Toc137984933)

[Table 4. 2. 6: Challenges affecting ICS implementation 39](#_Toc137984934)

[Table 4. 2. 7: Net profit margin 40](#_Toc137984935)

[Table 4. 3: Model summary 41](#_Toc137984936)

[Table 4. 3. 1: ANOVA 42](#_Toc137984937)

[Table 4. 3. 2: Coefficients of determination 43](#_Toc137984938)

[Table 4. 4: Model summary 45](#_Toc137984939)

[Table 4. 4. 1: ANOVA 45](#_Toc137984940)

[Table 4. 4. 2: Coefficients of determination 46](#_Toc137984941)

[Table 4. 5: Model summary 48](#_Toc137984942)

[Table 4. 5. 1: ANOVA 49](#_Toc137984943)

[Table 4.5. 2: Coefficients of determination 49](#_Toc137984944)

**LIST OF FIGURES**

[Figure 2. 1: Conceptual framework 17](#_Toc137985626)

### LIST OF APPENDICES

# Appendix A - Questionnaire

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# **CODED LANGUAGE**

SMEs-Small to Medium Enterprises

ROI-Return on Investment

ICS-Internal Control System

IIA-Institute of Internal Auditors

SPSS-Statistical Package for Social Scientists

COSO-Committee of Sponsoring Organizations

IA- Internal Audit

CE-Control Environment

CA-Control Activities

IC- Information Communication

MA-Monitoring Activities

RA-Risk Assessment

ICFR- Internal Control over Financial Reporting

ANOVA-Analysis of Variance

FP- Financial Performance

# **CHAPTER 1**

##  INTRODUCTION

### 1.0Introduction to the chapter

International Auditing and Assurance Standards Board (2014), an internal control system consists of the guidelines, practices, and organizational frameworks which aim to provide a decent level of certainty in meeting company goals and avoiding undesirable events through discovering and addressing them. It is also viewed as a contributory factor towards a firm’s financial performance; it ensures compliance with relevant rules and regulations to safeguard assets and a commitment to recording all transactions completely, timely and accurately in the accounting records and also acts as a cost rationalisation drive.

Research employed a content exploration in assessing the impact of the internal control systems on the financial performance of registered Small to Medium Enterprises in the retail industry, from Bindura. Background of the study, statement of the problem, justification for the study, research questions, objectives of the study, significance of the study, assumptions, delimitation/scope of the study, limitations of the study, definition of key terms and the chapter summary are provided in this chapter.

### 1.1**Background of the study**

Pham (2017), SMEs are well recognized for contributing significantly to any nation. The growth of most economies depends on SMEs that play an indispensable character in activating and sustainably fostering economic development. Karadag (2016) argued that SMEs have caused the greatest aid in alleviating unemployment, wealth, expansion and productivity growth, which are the essential elements of all economies. Moreover Adebisi, Majekodunmi and Adigun (2018) argued that SMEs are an apparatus of economic growth and due to their pliability to changes of business environment, they are encouraged to enhance their attractiveness and fiscal health if they are to play a sufficiently great role in the market as they aid economic growth worldwide.

Moreover researches conducted in different regions globally have shown that SMEs that implement ICS tend to perform better financially. Muller (2015), SMEs in Europe that implemented ICS had better FP as equated to those that did not. Similarly, Omar and Bin Mohamad (2017) found that SMEs in Asia that implemented ICS had higher profitability and lower risk of financial distress.

 The development of jobs, the eradication of poverty and economic growth are considerably aided by SMEs in emerging nations like Nigeria (Aremu and Adeyemi, 2011).However these SMEs encounter several hindrances that impede financial growth and sustainability. Ekwughalu and Okoyeuzu (2019), one of the major difficulties encountered by SMEs is the lack of ICS which can result in financial mismanagement and fraud. Ngugi and Muhoro (2015) found that SMEs in Kenya faced challenges implementing ICS, which negatively impacted their FP. Makochekanwa (2017), SMEs frequently lack the capacity to manage risks, which has a detrimental effect on the viability of their businesses. ICS, when correctly developed and put into practice can assist organizations in managing risks and enhancing sustainability. Unfortunately, the deficiency of empirical research on this topic makes it difficult to determine whether ICS can improve SMEs' sustainability (Anderson, 2017).

Aribaba et al. (2019),have noted that SMEs in Nigeria have underperformed compared to expectations, failing to effectively fill key roles in wealth generation and employment creation while also making a sizable contribution to Nigeria's GDP.SMEs are defined by poor management, partial control to detect fraud, illiteracy and misunderstanding, incapacity to differentiate amid personal and working capital, lack of expansion, insufficient funding, frequent business closures, an unorganized accounting system ,non-motivating welfare factors, a lack of resources and raw materials required for production, lackluster dialogue, among other things Bello(2018).

According to Navare & Handley-Schachler (2018) numerous difficulties that SMEs in developing economies encounter in running their businesses have an effect on their ability to sustain their FP. Due to lack of resources, SMEs are unable to implement or outsource a proper internal audit function. Additionally, SMEs, practitioners, and policy makers do not completely understand how ICS’ presence affects a company's ability to remain sustainable (Amroune, Plaisent, Hafsi, Bernard, & Zuccaro, 2017).

### 1.2Statement of problem

Association of Chartered Certified Accountants (2019), ICS are essential for SMEs in the retail sector to maintain efficient FP. The effectiveness of these systems ensures that SMEs assets are safeguarded, fiscal evidence is accurate and reliable, compliance with laws and regulations is maintained and risks are managed appropriately. Despite the benefits of ICS, SMEs in the retail sector have been facing challenges in implementing and maintaining these systems, which has in turn affected their FP and undermined their facility to participate effectively in the market. The problem of inadequate ICS in retail SMEs has been prevalent for years .Davis (2018), retail SMEs have struggled to implement ICS due to limited resources and lack of expertise. The problem has been exacerbated by the dynamic nature of the retail industry and technological advancements. As a result, SMEs have suffered from fraudulent activities, operational inefficiencies, inaccurate financial reporting and reduced profitability. To solve the problem of inadequate ICS in retail SMEs, there is a need for increased awareness and education on the importance of these systems .SMEs can seek the assistance of consultants and industry experts to design and implement effective ICS that are tailored to their specific business needs. Therefore, there is need to survey the impact of the ICS on the FP of Retail SMEs in Bindura, County Zimbabwe.

### 1.3Research objectives

i) To identify the internal controls implemented in registered retail SMEs in Bindura.

ii) To ascertain the relationship among the ICS’ components and FP.

iii) To identify the challenges encountered in establishing ICS.

### 1.4 Research hypotheses

* H0 1: There is no relationship among FP and the CA of retail SMEs.
* H1 1: There is a positive relationship among FP and the CA of retail SMEs.
* H0 2: There is no relationship among FP and the RA of retail SMEs.
* H12: There is a positive relationship among FP and the RA of retail SMEs.
* H0 3: There is no relationship among FP and the MA of retail SMEs.
* H1 3: There is a positive relationship among FP and the MA of retail SMEs.

### 1.6Assumptions to the study

* All management's information is given with the company's best interests.
* Findings are anticipated to be beneficial to SMEs, as they can utilize the findings to enhance their FP.
* SMEs are willing to strongly adopt ICS if they are educated about their implications on FP.
* Challenges that are encountered by retail SMEs are not unique to this sector as many SMEs face similar obstacles when implementing new systems or processes. By understanding these challenges and investing in the resources required to overcome them, SMEs can establish robust ICS that help drive growth and improve performance.

### 1.7Delimitation to the study

* The study was constrained to retail SMEs in Bindura, with special emphasis on SMEs FP and the ICS.

### 1.8 Significance of the study

* To the Scholar: The study increased knowledge in the auditing environment of formally registered SMEs in the retail sector. By analyzing challenges these SMEs face, the scholar suggested potential ways to increase their FP.
* To the University: The study will be included in the library's collection of research papers for Bindura University of Science Education, and serve as a reference point to prospective academics and can explore on other areas of ICS that still need to be dealt with.
* To the SMEs : The study findings can help SMEs in Zimbabwe and other similar regions to appreciate the importance of ICS and the benefits associated with their application, and also how to appraise the effectiveness of their system. Ultimately, this study aims to help SMEs in the retail sector by identifying dealings to be put in place to solve their financial challenges.
* To the Ministry of SMEs: Through the provision of the insights into the problems that SMEs encounter in the retail sector and the impact of ICS, the ministry may use this information to educate the SMEs so as enable the financial sustainability.

### 1.8.1**Limitations to the study**

* The study's findings are impacted by issues like confidentiality and respondents' lack of interest.
* It was challenging to extrapolate the results to the broader SME industry because only one sector i.e. the retail was used.

### 1.8.2 **Definition of phenomenon**

##### Internal Control System is policies and mechanisms implemented by an organization to ensure effectiveness of its operations and safeguarding of the organization’s assets.

##### Financial Performance is the capacity to work effectively and respond to environmental opportunities and dangers.

Small to Medium Enterprisesare firms with less than 250 employees and an annual turnover of less than a certain amount which varies by country.

Control Activitiesareset of rules put in place by an organization to mitigate risks and achieve its objectives.

Risk assessmentis systematically identifying and analyzing potential risks, evaluating the level of risk and determining appropriate measures to address those risks.

Monitoring and review of controlsisongoing evaluation of an organization’s policies and procedures.

### 1.**9Summary**

This chapter has analyzed the structure of a research project, which includes identifying the research problem, developing research hypotheses, and setting constraints and delimitations. The following chapter focuses specifically on evaluating the related to assessing the impact of ICS on the FP of SMEs in the retail sector.

# **CHAPTER 2**

# **LITERATURE REVIEW**

### 2.0 Introduction

The motivation of this segment is on the literature that underpins this research of ICS. The subject of ICS in enabling desirable FP on retail SMEs in Bindura has been the centre of focus in this study. Theoretically, this study will delve into the mechanism of ICS that promotes financial growth. ICS as a function has components that will be looked at to ascertain how each branch promotes financial growth. Empirical review of literature will give a number of advantages to this study as key contributors through comparisons with the current study. The principles of ICS are used in organizations as an efficiency enhancer that promotes business expansion and development that results in stable financial conditions. Gwilliam et al (2014) and other earlier studies indicate that ICS are not recognized properly inside SMEs which leads to failure in an organization. Therefore, it is essential to conduct a thorough examination of the published research on the efficacy of ICS.

### 2.1Theoretical Literature Review

### 2.2.1Defining SMEs

According to the European Union, an SME is a company with fewer than 250 employees, annual turnover of less than 50 million Euros (European Commission, 2021).Reserve Bank of Zimbabwe (2021), defines SMEs as enterprises with an annual turnover amongst US$20000 and US$1 million. The table below summarizes the definitions of SMEs from various sources.

Table 2.1: Defining SMEs

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Country  | Author(s)/authors   | Number of Employees  | Annual Turnover | Gross Assets, excluding fixed |
| South Africa | National Small Business Act , 1996  | < 5 to 200 | <R150 000≤ R50 m | amongst R100 000 to R8 m |
| European Union | European Commission 2021 |  < 10 to 250 | < 2 million ≤ €50 million | ≤ €43 million≤ 10 million ≤ €2 million |
| Zimbabwe  | Reserve Bank of Zimbabwe 2021 and Ministry of Small to Medium Enterprises 2019 | Less than 100 employees | Amongst US$20000 and US$1 million  | <US$1 million |
| World Bank  | World Bank | Less than 300 employees | US$15 million in annual revenue | US$15 million in Assets |

 **Source**: Fieldwork (2023)

### 2.2.2Defining financial performance

FP is the ration in what way well a company consumes its financial resources to generate profits and maximize shareholder value. It includes metrics such as revenue growth, profit margins, return on assets and return on equity. Brigham and Daves (2013), FP is important for a firm’s capacity to generate profits, meet its contractual or legal obligations and continue to expand its operations.

###

### 2.2.3SMEs financial performance in Zimbabwe

Reserve Bank of Zimbabwe (2018) stipulates that majority of SMEs in Zimbabwe are facing financial challenges including inadequate access to finance, high interest rates and limited financial management skills. The FP of SMEs in Zimbabwe is also struck by internal factors such as poor management practices, inadequate accounting systems and lack of information systems (Bandara, 2019).

###  2.3Theoretical Framework

The study will review the theories that are well thought to be helpful in scrutinizing the impact of ICS on FP of SMEs in retail sector. Therefore, the theories that will be analyzed in this study are the agency theory, reliability theory and the stakeholder theory.

### 2.3.1 Agency Theory

The agency arrangement is a convention whereby one or more people (the principal(s)) hire another person (the agent) to give the agent the power to act on their capacity and to make some decisions (Meckling and Jensen, 1976). According to the theory, ICS are required for upholding contracts and allow for the exercise of control that reduces agents' opportunistic conduct. In larger enterprises, the interests of officials and investors might significantly change over time. Jensen (2003) lists ICS as one of several business strategies for dealing with the agency problem, and additional research has demonstrated that ICS lowers agency costs, which is the sole reason this theory was chosen for this study. In accordance with the present study, it is implied that managers and other employees of SMEs are agents rather than principals, and that the directors of these companies are the principals. These agents are charged with a variety of tasks related to resource management, which ultimately affects FP. According to the agency theory, managers and other staff members ought to work to further the interests of the directors by making sure that any employees reporting to him only follow the established financial policies, so maximizing the benefit to the principals.

From the standpoint of an agency, the need to harmonize management's interests with other business stakeholders in directive to minor agency expenses and enhance the efficiency of the ICS underpins the significance of desirable fiscal health. Duties that employees have towards the company are also supported by agency theory as stated by Gordon, (2021).

### 2.3.2 Reliability Theory

Reliability theory is the study of the prospect that a system will perform as anticipated throughout a specific amount of time (Gavrilov and Gavrilova, 2001). In directive to define the most lucrative prices to bill their customers, insurance and life insurance firms have adopted the notion as a model. The notion asserts that ICS are primarily designed for RA and management. Additionally, the principle contends that porous ICS frameworks lead to further substantial labor and consequently higher costs (Kinney, 2000). The assessment of any ICS "weakness" is largely subjective, according to Gavrilov & Gavrilova (2001). After estimating the practice as well as system reliability, a contrast by means of fiscal information as of the organization's prior performances may offer a more reliable basis for determining how an ICS will affect the firm's income risk. Messier and Austen (2000), one of the reliability theory's main benefits is how closely it relates to an organization's requirements for appreciative ICS. A structure that has been built ought to function as intended, according to the reliability theory. According to the second goal of the study, which includes looking at how risk assessment as an ICS component affects FP of enterprises in this case, SMEs in Bindura's retail sector, the reliability theory is pertinent to this study.

### 2.3.3 Stakeholder Theory

The stakeholder theory proposes that businesses ought to contemplate the welfares and needs of all stakeholders, including employees, customers, suppliers, and shareholders, in making decisions (Freeman 1984). Nangoli and Gathondu (2018) in the context of SMEs, ensuring effective ICS can help meet these expectations, as it can improve the quality and reliability of financial reporting, thus improving transparency and accountability to stakeholders. Furthermore, the stakeholders who are affected by the FP of SMEs may have differing interests and expectations. For instance, while shareholders may prioritize profitability, customers may value high quality products and services and employees may prioritize job security and fair compensation (Donaldson and Preston, 1995). Effective ICS can help balance these competing interests and expectations as they can help improve the reliability and comprehensiveness of financial reporting and reduce the risk of fiscal fraud and mismanagement (Fakoya and Olaoye, 2020). Therefore the stakeholder theory highlights the importance of considering the broader impact of ICS on the interests and needs of all stakeholders when assessing the FP and sustainability of SMEs.

### 2.4. Empirical Literature Review

##### 2.4.1 Identifying ICS implemented in retail SMEs.

SMEs’ common practice is the use of internal audits, which involve periodic reviews of business processes to identify areas where controls can be improved. This helps to ensure that controls are effective and operating as intended, and can also help businesses identify potential fraud or other risks before they become major problems (Elliott & Jacobson, 2018). Another common practice is the use of ICFR, which involves implementing controls to enhance accuracy and completeness of financial information. Research has shown that SMEs in Zimbabwe that implement strong ICFR systems are probable to have healthier FP compared to those that do not (Chiweshe & Shumba, 2020).

##### 2.4.2 Ascertaining the relationship between ICS and FP.

 Otoo, [Kaur](https://www.emerald.com/insight/search?q=Manpreet%20Kaur) and Rather (2023) organizational effectiveness is significantly impacted by three dimensions of ICS: CA, CE and RA. According to Tunde et al. (2023) there exists a strong correlation amid ICS and every proxy for organizational performance, including corporate expansion, survival, and operational effectiveness as indicated by an R2 of 82.92 percent which shows that ICS have a significant positive influence on FP and ICS has a favorable and statistically significant effect on FP. Abubakar et al. (2023) also found out that the FP of SMEs in Kebbi State, Nigeria is significantly and favorably impacted by the CE, RA, and CA. Alhassan et al. (2022) study's findings demonstrated a significant and positive correlation among the FP of registered SMEs and each of the five key ICS components. Nguyen and Tuan (2021) the findings of measuring SME performance using ROA revealed that, in this instance, the CE, which is a component of ICS, had a favorable impact on SME performance. According to Eniola (2020) there exists a beneficial connection amid effective ICS and organizational performance. Institutions with effective ICS will always have better FP (Mawanda, 2008).According to Spira and Page (2003) ICS have shown to assist businesses in acting in compliance by means of internal laws and regulations, as well as reducing risks and ensuring the accuracy of financial statements. Kipkurui & Makori (2023) performance of revenue collection is highly influenced by all of the variables, including CA, MA, RA, IC, and the CE. Wang, Dai, Ding (2019) revealed that ICS plays a larger role in SMEs with various key shareholders because they demonstrate that an operational ICS greatly encourages SMEs to accomplish substantial progression and that many large shareholders could mitigate the effect .Nertila Çika (2022) in his study he found that SMEs in Albania had an ICS that was both strong and effective, but still needed improvement. In general, this calls for more attention from the board members. Kinyua et al. (2015) found a considerable relationship among the CE and FP.

 However Nguyen and Tuan (2021) found out that the performance of SMEs was not significantly impacted by other aspects of ICS, such as CA, IC, RA, and MA, but the findings nevertheless provide useful insights for SMEs in Vietnam. Otoo, [Kaur](https://www.emerald.com/insight/search?q=Manpreet%20Kaur) and Rather (2023) found out that MA and IC on organizational effectiveness have a nonsignificant impact of on organizational FP. Eniola (2020)found out thatthe performance of the company is significantly impacted negatively by CE and practices.

##### 2.4.3Challenges faced by SMEs in establishing ICS.

Eniola (2020) found out internal auditors of SMEs lack routine oversight on the policies and procedures implemented as internal auditors must also assess the effectiveness with which the various departments carry out their assigned responsibilities as well as the ICS structure. Additionally, management lack thorough evaluation of the degree of risk to be anticipated and work to control the risk at certain moments. SMEs ICS is lagged behind by poor management of information systems which could help organizations in tightening their procedures. Kipkurui & Makori (2023) SMEs lack periodic reconciliations and routine function reviews therefore resulting in poor CA, he found out that there is also poor RA which leads to investments in unprofitable projects or extending credits to unworthy customers. Sarens and De Beelde (2006) found out that lack of management comprehension of the role of the ICS in monitoring and control of risk measures reduces their commitment to ICS. Lacking ICS comprehension bySME's and other enterprises or organizations in understanding and accepting the significance of routine and prompt financial audits to assist them in finding any holes in their accounting procedures and fiscal health (Abubakar et al, 2023). Additionally Tunde et al. (2023) found out that government organizations that offer SMEs financial support and financial advisory services are lagging behind in informing SME operators about the significance of ICS in their businesses. Nertila Çika (2022) suggested that additional devotion from the board members to improve ICS is essential.

### 2.5.1Conceptual framework

**Elements of Internal Control System**

COSO (2013), there are many levels of efficacy in how ICS work. The efficiency of a particular ICS can be determined by assessing if the CE, RA, CA, IC, and MA are present and functioning. Effective controls provide a reasonable degree of assurance regarding the accomplishment of established goals. I shall restrict the ICS components to three for the purposes of this study, CA, RA and MA.

##### 2.5.2Control Activities

CA is procedures and standards that ensure the organization's commands are followed, helping to manage risks that could prevent the entity from achieving its objectives. These operations take place at all levels and across all departments of the organization. CA involves a broad range of actions such as authorizations, approvals, verifications, reconciliations, performance reviews, asset security, and separation of duties. Typically, CA consists of two elements: a policy and procedures for carrying out the policy's instructions. When implementing policies, it is essential to exercise caution, diligence, and consistency (Anduuru, 2005).

##### 2.5.3Monitoring activities

ICS need to be monitored, which is a procedure that evaluates how well the system functions. Regular administrative and supervisory tasks are part of ongoing monitoring, which also includes additional actions staff members do while carrying out their duties to determine whether ICS measures are working effectively (Kamau 2016).

##### 2.5.4Risk assessment

Risk identification is a prerequisite for controls. Without knowing the risks, it is hard to decide what controls are required. Risks exist for all entities and are always evolving. Organizations therefore require a methodical strategy to risk management which emphasizes on both likelihood and consequence (Bahiru 2016).

Therefore, the relationship amid ICS and FP is shown on figure 2.1 below:

Figure 2.1: Conceptual framework

**INDEPENDENT**

**Control activities**

Segregation of duties

Physical access controls

Top level reviews of actual performance

**Monitoring activities**

Monitoring of controls

Periodic reconciliations

**Risk Assessment**

Risk identification

Analysis of risk

**MODERATING**

 Management skills

**DEPENDENT**

Financial Performance (Net profit margin)

**Source:** Author (2023)

##### 2.6Empirical listings

**Kipkurui and Makori (2023). Internal control systems and revenue collection performance of the county government of Kericho, Kenya.**

The study focused at how ICS mechanisms influenced the efficiency of tax collection for the Kenyan county government of Kericho. The target demographic for the analysis consisted of 62 personnel from the County Government of Kericho who had direct involvement in the administration of revenue. Explanatory research methodology was used. Results showed that the performance of revenue collection was exceedingly influenced by all of the variables, including CA, MA, RA, IC, and CE. As a result of the study, the county was advised to strengthen reconciliation and conduct routine function reviews in order to improve CA. By implementing information accounting systems and accounting tools like QuickBooks, the county government ought to improve the accuracy of its reports. Continuous evaluation of the ICS and independent process checks and evaluations should be carried out so as to advance monitoring in the county automation. The elimination of systemic risks that can be detected and documented requires high RA. To ensure appropriate reporting and strengthen information security, policies and regulations that control communication channels must be improved due to the county's inadequate communication channels. A unified information hub will also aid in the gathering and dissemination of data on economic activity. Finally, the report suggested that ethical standards be preserved in the county to lessen fraud and improper use of tax money gathered at the county level. To close gaps in the ICS, the chain of command's oversight and power structure needs to be improved.

**Chiweshe and Shumba (2020). The impact of internal control over financial reporting on financial performance of small and medium enterprises in Zimbabwe.**

 They conducted research on the association amid ICS over financial reporting (ICFR) and the FP of SMEs in Zimbabwe. The study used a quantitative approach, analyzing data from 100 SMEs of various sectors in Zimbabwe. Their findings revealed that there is a positive link among ICFR and FP among SMEs in Zimbabwe. This suggests that effective ICFR systems can lead to better FP for SMEs. The size of the SME, industry sector, and age of the company were also factors that affected the relationship among ICFR and FP. Centered on their research, Chiweshe and Shumba recommend that SMEs prioritize implementing effective ICFR systems as it can significantly impact their FP. Policymakers and regulatory authorities should provide resources to support SMEs in maintaining effective ICFR systems.

**Elliott and Jacobson (2018). Internal auditing and small business.**

They conducted a research on the role of internal auditing in small businesses. Their qualitative research involved analyzing case studies of four small businesses from different sectors to determine if i2.nternal auditing practices were employed and beneficial. The findings revealed that small businesses have difficulties adopting internal audit practices owing to inadequate resources, lack of awareness, and the insight that it is solely for larger corporations. However, those who implemented internal auditing experienced benefits such as improved risk management, better financial reporting quality, and increased organizational efficiency. Therefore, despite obstacles, internal auditing can aid small businesses with their operations, mitigate risks, and achieve strategic objectives. To encourage the adoption of effective internal auditing, policymakers and regulators could provide support through training and education, guidelines and standards development, and incentives.

**Tunde et al. (2023) Internal control systems and organizational performance in Small and Medium Enterprises in Nigeria.**

In this study, SMEs in Ondo State, Nigeria, were examined to see how ICS affected their organizational performance. 323 SMEs were chosen through the use of stratified and random sampling approaches for the study's primary data, which was gathered from a survey of them. Descriptive statistics and multiple regression analysis were used to analyze the data that had been obtained. Findings revealed a strong correlation among ICS and every proxy for organizational performance, including corporate expansion, survival, and operational effectiveness. Additionally, the results implied that ICS are essential and ought to be implemented in SMEs' business operations for improved production, company expansion, and organizational performance. Study also urges SMEs to use ICS to increase their operational effectiveness, sustainability, and waste reduction. Additionally, government organizations that offer SMEs financial support and financial advisory services should inform SMEs operators about the significance of ICS in their businesses.

**Okharedia, Elizabeth & Taiwo, Muritala & Abbas, Umar (2023). The effect of internal control system on the financial performance of construction firms in Nigeria.**

The research aimed to investigate the influence of ICS on the FP of Nigerian construction companies. A self-administered questionnaire was given to 305 workers in a corporation, and their responses were analyzed using ridge regression. Results showed a significant positive impact of ICS on FP, with an R2 value of 82.92 percent. Results indicated that ICS had a favorable and statistically significant correlation with FP. However, the benefits of the CE and RA were statistically insignificant. The findings suggest that having a functional control system is essential for improving FP in construction companies..

**Otoo,**[**Kaur**](https://www.emerald.com/insight/search?q=Manpreet%20Kaur)**and Rather (2023). Evaluating the impact of internal control systems on organizational effectiveness.**

They evaluated the impact of ICS on banking industry effectiveness. Data was collected from 15 commercial and 20 rural banks. A structural equation modeling was applied in testing the conceptual model and hypothesis. Confirmatory factor analysis was implemented to establish validity and reliability of the dimensions. The indicated that organizational effectiveness was significantly impacted by three dimensions of ICS: CA, CE and RA. However, the impact of monitoring of control on organizational effectiveness was not significant. The results also show a nonsignificant impact of IC on organizational effectiveness.

**Abubakar et al (2023).Effect of control environment, risk assessment and control activities on financial performance of small and medium scale enterprises in kebbi state.**

The study looked at how SMEs in Kebbi State's FP were affected by the CE, RA, and CA. A well-structured questionnaire was initiated using a simple random sample of 30 SMEs in Nigeria's Kebbi State. By means of the assistance of SPSS version 23, data was examined. The outcome implied that the FP of SMEs in Kebbi State, Nigeria is significantly and favorably impacted by the CE, RA, and CA. The research consequently advised that SME's and other enterprises or organizations understand and accept the significance of routine and prompt financial audits to assist them in finding any slums in their accounting procedures and fiscal health. So that SME management may assess their aims' likelihood of success, RA should be carried more out often.

**Nertila Çika (2022). Development of Internal Controls in Small and Medium Enterprises.**

Focusing on the five primary ICS components and their effect on attaining the company's goals, the researcher investigated and described the efficacy of ICS in Albanian SMEs. He developed a single study question: How closely do SMEs' ICS adhere to the fundamentals of efficient ICS? Data on the five crucial and interconnected elements of ICS; CE, RA, IC, MA, and CA were gathered by the researcher using a questionnaire. A thorough analysis was conducted and the results showed that SMEs in Albania had an ICS that was both strong and effective, but still needed improvement. In general, this calls for more attention from the board members.

**Alhassan Musah, Abigail Padi, Bismark Okyere, Deodat E. Adenutsi & Charles Ayariga (2022). Does corporate governance moderate the relationship between internal control system effectiveness and SMEs financial performance in Ghana?**

Study explored the impact of the main component of the COSO framework, which is an ICS, on the FP of SMEs in Ghana that are registered. It also explored how corporate governance practices influenced the relationship among various ICS components and FP. The study collected data from 300 SMEs through a questionnaire and used hierarchical regression analysis and Pearson correlation analysis to analyze it. The results revealed a positive and significant correlation among the FP of AGI-registered SMEs and each of the five primary ICS components - CE, CA, RA, IC, and MA. Moreover, effective corporate governance practices reduced the association among these ICS components and FP of Ghanaian SMEs registered with AGI. The implementation of corporate governance procedures increased the interaction amid independent variables and FP.

 **Nguyen and Tuan (2021). The impact of Internal Control on Performance of SMEs in an emerging economy.**

The impact of ICS on the FP of SMEs in a rising economy was examined in this study. The Agency Theory served as the underpinning for the study framework, which surveyed the connection amid ICS and organizational performance in SMEs. To evaluate this impact on SMEs in Hanoi, Vietnam, the article employed a survey, non-probability sampling, and regression analysis. The findings of measuring SME performance using ROA revealed that, in this instance, the CE, which is a component of ICS, had a favorable impact on SME performance. The performance of SMEs was not significantly impacted by other aspects of ICS, such as CA, IC, RA, and MA, but the findings nevertheless provide useful insights for SMEs in Vietnam.

 **Eniola (2020). Internal Control Procedures and Firm's Performance.**

Analysis of ICS and business performance in Nigeria's south-west was the goal of the study. Stakeholder theory and a detailed investigation of the literature served as the foundation for the development of the study framework. A qualitative method of descriptive research design was used for the analysis. It was determined using multiple regression models if CA, RA, CE, and MA had an influence on FP. The survey's findings suggested a beneficial connection amid effective CA, RA, and MA, and organizational performance. However, the performance of the company is significantly impacted negatively by CE . The study advised routine oversight and control of internal auditors. Internal auditors must also assess the effectiveness with which the various departments carry out their assigned responsibilities as well as the ICS structure. Additionally, management should thoroughly evaluate the degree of risk to be anticipated and work to control the risk at certain moments.

**Wang, Dai, Ding (2019). Internal Control and SMEs’ Sustainable Growth**

This study explores the link amongst internal governance and long-term expansion and evaluates the moderating impact of numerous substantial shareholders. The findings reveal that ICS acts a larger role in SMEs with multiple major shareholders because they demonstrate that effective ICS greatly encourages SMEs to achieve viable growth and that many large shareholders could mitigate the effect.

**Kinyua, Gakure, Gekara and Orwa (2015). Effect of Internal Control Environment on the Financial Performance of Companies Quoted in the Nairobi Securities Exchange**

The researchers discovered a strong and significant association among the CE and FP in their study. They collected responses from 115 participants, and the positive correlation was shown by a value of 0.42. The results of a regression analysis showed that the CE had strength of fit of 16.9%, signifying that it accounted for 16.9% of the variation in the FP of companies listed on the Nairobi Securities Exchange in Kenya and they concluded that there is a considerable relationship among the CE and FP.

**Sarens and De Beelde (2006).** **Internal Auditor’s Perception about their Role in Risk Management.**

In their study, the extent of the ICS is impacted by risk and control knowledge. These findings imply that management is more likely to support a substantially larger ICS when they are conscious of hazards and control measures. Management is also probable to comprehend the role of the ICS in monitoring risk and control measures.

**Spira and Page (2003). Internal control and the changing role of internal audit**

 Spira and Page (2003), investigated the evolution of ICS utilizing theoretical approaches concerning danger and its perception to enclose the discussion of ICS and risk management in the context of UK corporate governance. By employing this technique, the study was able to demonstrate how ICS have shown to assist businesses in acting in compliance with internal laws and regulations, as well as reducing risks and ensuring the accuracy of financial statements.

### 2.7Research Gap

Existing literature has focused mainly on large companies and non-retailers. There is a significant gap in our understanding of how ICS impact the FP of retail SMEs, particularly in the context of Bindura. Therefore the study fills an important gap in the literature and providing valuable insights for both academics and practitioners in relation to retail SMEs.

### 2.8Chapter summary

The ICS has developed into an essential part of SMEs approach of administration and enhancing their FP through reducing and mitigating potential risks. This study is limited to CA, RA and MA of the five elements of the ICS.

# **CHAPTER 3**

# **RESEARCH METHODOLOGY**

### 3.1 Introduction

The target audience, the approach to the study, and the methods used to choose the sample components are all described in this chapter. In addition to describing the techniques used to analyze the data, it also includes the study tools together with processes for gathering primary data.

### 3.2Research design

According to Creswell (2003), research design is a plan that connects assumptions to ideal methods. Research design refers to a scheme or arrangement that is meant to obtain answers to research questions. Saunders (2006) proposes that it is a way of answering a research question. Kumar (2011) also agrees to the above definition. It can therefore be concluded that research design puts together a series of coherent components, strategies and methods to collect and analyze data that will directly meet the objectives of the project. In order to perform an in-depth analysis of the research issue, the researcher engaged a descriptive survey research approach. For the study’s data collection, questionnaires were employed and sent to management and those charged with governance of registered retail SMEs in Bindura through email.

### 3.2.1Justification of a descriptive research approach

 It was determined that a descriptive survey design would be the best way to generate a complete understanding of the features of the study population, record the study's quantitative elements, such as the ICS implemented by SMEs and the extent to which they are implemented. The essential data for the survey was gathered via questionnaires. It is feasible to conduct quantitative descriptive research. Test scores are an example of a collection of quantitative data that may be tallied numerically along a continuum as used in this current study. In descriptive research, data that describes events is obtained, and then the material is arranged, tabulated, depicted, and described (Cooper et al., 2007). It regularly employed frequency tables as visual aids to assist the reader appreciate how the data was distributed. The goals of this study were accomplished by using a numerical narrative research technique.

### 3.3 Research philosophy

The study's underlying presumption was that positivism, which addresses study issues with recognizing and evaluating the reasons that determine either a result or results. This was extremely relevant to the assessment in the ongoing research with regards to the period under review. Additionally, positivism is justified for the present investigation since it is narrow in scope, which means that it condenses ideas into a manageable number of variables to examine. Many replies from respondents concerning ICS and FP of SMEs in the retail sector were condensed into a limited collection for which the effectiveness was tested.

### 3.4Target population

A population is a collection of individuals, objects, organizations and other research subjects that share the same characteristics. Valid conclusions are made from samples that are drawn from a population. Saunders et al. (2006), a population is a full set of subjects where samples are drawn. All the individuals who make up a real or imagined group of individuals, occasions, or topics are referred to as the target population when an academic wants to broaden the findings from a study (Saunders et al., 2006). The demographic focus is the group of people from whose data is drawn. In this study, the scholar focused on registered retail SMEs in Bindura. The population considered in this study was obtained from the Bindura Municipality Council. This is so because those in management have the broadest knowledge of the study's subject. One hundred and eight SMEs in the retail sector were identified from the Bindura Municipality Council registers and all registered retail SMEs were wholly considered in this study.

### 3.5Data Sources

 **Primary Data**

The Bindura Municipality Council has 108 registered operators under the retail sector in Bindura. Data that is gathered for the first time with a specific goal in mind is referred to as primary data. According to Thornhill et al, (2013), primary data should be gathered immediately because it would be more authentic. As the validity and reliability of the facts are increased, there are numerous benefits. Cohen (2017) adds that careful planning, sampling, and adherence to controls understood by methodology features increase the likelihood that data will be collected statistically for the intended use. The reliability of the data and study as a whole is increased by all of this.

### 3.6Research instruments

Data for the purpose of this research was gathered using questionnaires.

### 3.6.1 Questionnaire Structure

The questionnaire served as the study’s research technique. The survey is included in Appendix A. A note introducing the inquiries to the respondents appears at the top. The survey is divided into two sections, questions spread amid Sections A to B. Saunders et al., (2003), the design and structure of a questionnaire is critical as it ensures that the correct and relevant issues are dealt with. The questionnaire started with demographic related questions. The structured questions were scored using a five-point non-comparative Likert scale, with each statement intended to represent a distinct facet of identical mindset. Babbie (2016) Likert scales are simple to create and are also simple for readers among replies, comprehend, and react to in a way that is relevant to the assertions made. The Likert scale improves the generation of extremely precise outcomes during analysis. This is because much of the researcher’s data was ordinal in nature. According to Tichapondwa, (2013), respondents on such a scale need to show either a positive or negative attitude towards the scenario to which they are supposed to react. The participants indicated their view on a ranked scale in the instrument. Each reply has a number attached to it which shows the extent to which they implement those controls and the challenges they encounter and the total scores shows the participant’s attitude.

### 3.6.2 Advantages of research instrument

The regularity of answers to questions is made possible by structured questions. Compared to other instruments, the questionnaire is a quick approach to collect data (Mugenda and Mugenda 2003). Hair et al. (2003), the researcher can obtain detailed information on a variety of factors via questionnaires are initially affordable to produce and distribute to a sizable sample as opposed to employing interviews. Furthermore, since numerous respondents can be reached at once, questionnaires are time efficient.

### 3.7Data processing and analysis

Data was reviewed for accuracy before analysis. The field data were initially categorized according to the themes looked at in the study. The study's methodology was quantitative. SPSS version 20, statistical software for social sciences, was used for the analysis. Tables, charts, and descriptive data like percentages, mean scores, and proportions were represented. The link between both the independent as well as the dependent variable was also determined by the researcher using multiple regression analysis.

### 3.7.1Validity and reliability

The efficacy of a research study is measured by how closely its participants' conclusions corroborate those of comparable people not included in the research (Patino & Ferreira, 2018). A pilot study was undertaken by the scholar to assess the authenticity and reliability of the data collected by the questionnaire. This study's use of content validity as a measurement of the degree to which information gathered using a specific tool accurately reflects a specific domain or the content of a specific idea (Markus et al, 2010).In line with Mugenda & Mugenda (2003), using an expert or specialist in a certain discipline is the standard practice when evaluating the content validity of a measure.

The consistency of an instrument's results is a measure of its reliability (Creswell and Creswell, 2018). By standardizing the questionnaires' design and instructions, the researcher was able to assure consistency in the data extraction, analysis, and interpretation processes. Through standardization, similar inquiries might be made in the same order to every respondent. The pilot participants, who were not included in the actual sample, pointed out any potential problem areas, the researcher had to solve them, which increased the questionnaires' dependability.

By incorporating numerous items that are similar on a measure, evaluating a wide range of people, and employing consistent testing processes, reliability is increased. 15 people from the target population were chosen as a pilot group by the researcher to evaluate the validity of the research instruments. Utilizing internal consistency methods and Cronbach's Alpha, the instruments' dependability was examined. The reliability increases as the alpha value rises, which has a range between 0 and 1.

### 3.7.2Reliability results

Table 3.1: Reliability results

|  |
| --- |
|  |
|  | N | % |
| Cases | Valid | 10 | 100.0 |
| Excludeda | 0 | .0 |
| Total | 10 | 100.0 |
| **Source:** Fieldwork (2023) |

Table 3.2: Reliability results

|  |
| --- |
|  |
| Cronbach's Alpha | N of Items |
| 0.843 | 10 |

**Source:** Fieldwork (2023)

The reliability was derived from the 10 questions on the questionnaire which are directly linked to the objectives. A constant value of 0.843 was determined based on the related reliability; this confirms a high degree of reliability and consistency. The used items have a good correlation with one another. According to a widely used generalization, a coefficient of 0.6 to 0.7 denotes a reliable system that is satisfactory, and 0.8 or higher denotes a reliable system (Mugenda and Mugenda, 2003). This is evidence that the questionnaire passed the reliability test and may thus collect reliable data.

### 3.8 Ethical considerations

The researcher is well-versed in the ethical research that must be followed during the study, particularly when working with respondents. The researcher conducted the examination in a moral manner, paying close regard to the moral concerns that surrounded it. By asking the respondents not to include any personal information on the questionnaires, the researcher was able to keep their identities secret this was in line with Morrison et al. (2011) who suggests that when participants provide confidential information, it is important for them to not reveal their identities. This ensures that they can participate freely without fear of punishment and helps the researcher collect more relevant data.

 The prospective respondents were completely informed about the study's objective before deciding to take part in the investigation by completing questionnaires. According to Walliman (2011), researchers conducting studies in organizations must seek consent from managers or individuals with overall responsibilities. Additionally, they should clearly explain the purpose of the study before proceeding.

The study was not replicated from anyone else's work, nor was it plagiarized. Plagiarism is defined as presenting someone else's ideas or work as one's own (Roig, 2013). The literature and structure used in the study were properly referenced. Thus, the study was solely conducted by the researcher.

### 3.9Chapter summary

This chapter has emphasized the techniques utilized during the investigation, such as the research method, approach, plan, population, sample size, sampling procedure, data sources, tools, procedures, data analysis, as well as the credibility and dependability of the study. The next chapter will concentrate on displaying, scrutinizing, and deliberating the gathered data.

# **CHAPTER 4**

# **DATA PRESENTATION AND ANALYSIS**

### 4.1Introduction

In this chapter, the research's findings were examined in an effort to address the questions and research objectives while taking into account the research's study problem. The statistical tool SPSS (version 20) was used to analyze the raw data collected through questionnaires. This section discusses data display, response rate assessment, and interpreting techniques. The findings of the study are presented in tables.

### 4.2 Response rate

Table 4.1: Questionnaire response rate

|  |  |  |  |
| --- | --- | --- | --- |
| **Instrument** | **Expected** | **Actual** | **Percentage (%)** |
| **Questionnaire** | **108** | **81** | **75** |

**Source:** Fieldwork (2023)

Table 4.1 above shows the results on the response rate of the questionnaires that were distributed to 108 registered retail SMEs obtained from the Municipality of Bindura's database. The response rate was 75% in this case. The response rate is higher than the minimal requirement needed to guarantee the reliability and validity of the research findings. An appropriate response rate, according to Kim & Choi (2017), is one that is greater than 52%. Eichler et al. (2018) support the notion that a response rate of over 50% is suitable for a quantitative study.

### 4.3Presentation and Analysis of Questionnaire Responses

Table 4.2: Period of existence

|  |
| --- |
|  |
|  | **Frequency** | **Percent** | **Valid Percent** |
| Valid | 0-3 years | 50 | 61.73 | 61.73 |
| 4-6 years | 21 | 25.93 | 25.93 |
| Over 6 years | 10 | 12.35 | 12.35 |
| **Total** | **81** | **100.0** | **100.0** |

**Source:** Fieldwork (2023)

Table 4.2 above shows that majority of SMEs have run their businesses for the period 0-3 years represented by (61.73%), this implies that most retail SMEs in Bindura have a minimum number of 0 and a maximum of 3 years in operation. Findings are also in line with the research conducted by Sibanda and Maruwo (2018); the survival prospects of retail SMEs in Zimbabwe are generally low. The study found that only 40% of retail SMEs survived beyond two years, while the remaining 60% either failed or closed down within the first two years of operation.

Table 4.2.1: Academic qualifications

|  |
| --- |
|  |
|  | **Frequency** | **Percent** | **Valid Percent** |
| Valid | ordinary level | 5 | 6.2 | 6.2 |
| advanced level | 7 | 8.6 | 8.6 |
| Diploma | 34 | 42.0 | 42.0 |
| Degree | 15 | 18.5 | 18.5 |
| technician certificate | 20 | 24.7 | 24.7 |
| **Total** | **81** | **100.0** | **100.0** |

**Source:** Fieldwork (2023)

Table 4.2.1 indicates that a bulk of respondents (42%) possess diplomas. This indicates that the people who participated are academically qualified individuals, which increases confidence in the data gathered from the SMEs. However Mehralizadeh and Sajady (2006) claimed that in addition to earning a formal degree, practical training and experience also matter for the sustainability of a firm.

Table 4.2 2: Business ownership

|  |
| --- |
|  |
|  | Frequency | Percent | Valid Percent |
| Valid | Sole proprietorship | 46 | 56.8 | 56.8 |
| Partnership | 29 | 35.8 | 35.8 |
| Limited liability company | 6 | 7.4 | 7.4 |
| **Total** | **81** | **100.0** | **100.0** |

**Source:** Fieldwork (2023)

Table 4.2.2 showed that sole proprietorships make up the majority of SMEs represented by (56.8%) This indicates the dominance of sole proprietorships in the SMEs industry. This is in line with the study of the Ministry of Small and Medium Enterprises and Cooperative Development (2017), the majority of SMEs are owned by sole proprietors, accounting for approximately 70% of all registered SMEs in the country, 20% are partnerships and the remaining 10% is occupied by private limited companies and Co-operative Societies.

Table 4.2.3: Number of employees

|  |
| --- |
|  |
|  | **Frequency** | **Percent** | **Valid Percent** |
| Valid | None | 1 | 1.2 | 1.2 |
| Less than 10 | 18 | 22.2 | 22.2 |
| 10-20 | 21 | 25.9 | 25.9 |
| 20+ | 41 | 50.6 | 50.6 |
| **Total** | **81** | **100.0** | **100.0** |

**Source:** Fieldwork (2023)

Results in table 4.2.3 have shown that majority of SMEs have more than twenty employees representing (50.6%).Therefore SMEs have proved to be the source of alleviating unemployment Aremu and Adeyemi (2011) argue that SMEs in developing countries like Nigeria contribute significantly to job creation, poverty reduction and economic growth.

Table 4.2 4: Firm's category

|  |
| --- |
|  |
|  | **Frequency** | **Percent** | **Valid Percent** |
| Valid | Clothing | 17 | 21.0 | 21.0 |
| Electrical appliances | 9 | 11.1 | 11.1 |
| Groceries | 18 | 22.2 | 22.2 |
| Housewares | 11 | 13.6 | 13.6 |
| Pharmaceuticals | 11 | 13.6 | 13.6 |
| Hardware and workshops | 15 | 18.5 | 18.5 |
| **Total** | **81** | **100.0** | **100.0** |

**Source:** Fieldwork (2023)

Table 4.2.4 indicates that the most respondents were in the groceries retail and the least were in electrical appliance retailing.

Table 4.2.5: Internal control systems

|  |
| --- |
|  |
|  | N | Minimum | Maximum | Mean | Std. Deviation |
| Segregation of duties | 81 | 2 | 5 | 3.09 | .656 |
| Physical access | 81 | 3 | 3 | 3.00 | .000 |
| Reconciliations | 81 | 1 | 5 | 1.30 | 1.054 |
| Risk analysis | 81 | 1 | 4 | 1.26 | .848 |
| Reviews | 81 | 2 | 4 | 3.01 | .335 |
| Monitoring | 81 | 2 | 5 | 2.04 | .333 |
| Risk identification | 81 | 1 | 5 | 2.33 | 1.897 |
| Valid N (listwise) | 81 |  |  |  |  |

**Source:** Fieldwork (2023)

**Segregation of duties**

Results from table 4.2.5 indicate mean score of 3.09 implying that majority of the SMEs separate their roles to a moderate extent. A standard deviation of 0.656 indicates that there is some variability in the data and it is small.

**Physical access controls**

Findings from table 4.2.5 indicate a mean score of 3.00, indicating that physical access controls are implemented to a moderate extent within SMEs. A standard deviation of 0.00 which suggests that the responses are relatively consistent and clustered around the mean score. This could indicate that most respondents had a similar opinion or perception of the subject being measured, although there may have been some variation in individual responses.

**Periodic Reconciliations**

Results in table 4.2.5 showed a mean score of 1.30 and a standard deviation of 1.054 indicate that the data is distributed around the mean value of 1.56, with most of the data points falling 1.054 units of the mean value. This indicates that majority of SMEs rarely engage in periodic reconciliations . Results indicate poor management practices as also indicated by Nkala and Dube (2020) who found out that majority of SMEs do not prepare financial statements and do not reconcile their bank accounts resulting into poor accounting management practices. This further supports Whittington and Pany's (2001) claim that SMEs lack commitment in managing controls. Dey and Sharma (2018) make the case that businesses should continuously balance their books and ensure that the proper ratios of working capital are in place in order to support the FP of their operations. Results also concur with Kusena and Masocha (2015), who identified management expertise as a key factor that affects the FP. Results also support the survey conducted by the Reserve Bank of Zimbabwe (2017) which found out that most SMEs in Zimbabwe lack basic management skills such as record keeping and financial literacy.

**Risk analysis**

Findings in table 4.2.5 indicated a mean score of 1.26 and standard deviation of 0.848 suggesting that majority of SMEs does not have risk analysis measures.

**Top level reviews of actual performance**

Results in table 4.2.5 indicate a mean score of 3.01 and a standard deviation of 0.335 suggesting that the majority of respondents have a positive attitude on top level reviews of actual performance as they conduct top level reviews of actual performance to a moderate extent.

**Monitoring and review of Controls**

Results in table 4.2.5 showed a mean score of 2.04 meaning that majority of respondents monitor and review their controls to a moderate extent and a standard deviation of 0.33 meaning that respondents were a little over 0.33 away from the mean. This further supports Whittington and Pany's (2001) claim that SMEs lack commitment in managing controls.

**Risk identification**

Results in table 4.2.5 revealed a mean score of 2.33 and a standard deviation of 1.897 implying that about 95% of the SMEs are within 1.897 standard deviations of 2.33. The findings have proved that there is evidence suggesting that SMEs in Bindura might not be aware of the potential risk and severity of loss that comes with making certain business decisions. Specifically, retailers who have the same person performing the same task all the time face a high likelihood of experiencing internal fraud, which could result in moderate to high financial losses and negatively impact their overall business performance.

This supports the researcher's concerns that the majority of SMEs lack dedication to ICS mechanisms. According to Lozano (2015), controls are the lifeblood of the company, and their absence would be fatal to its survival. These controls also address a company's working capital, which Dey and Sharma (2018) believe to be crucial for a company.

Table 4.2.6: Challenges affecting ICS implementation

|  |
| --- |
|  |
|  | N | Minimum | Maximum | Mean | Std. Deviation |
| lack\_ICS\_comprehension | 81 | 1 | 5 | 4.46 | 1.379 |
| unable\_to\_source\_IA | 81 | 1 | 5 | 4.60 | 1.201 |
| risk\_assess\_failure | 81 | 1 | 5 | 3.52 | 1.944 |
| Valid N (listwise) | 81 |  |  |  |  |

**Source:** Fieldwork (2023)

**Lack of Internal control system comprehension**

Results in table 4.2.6 indicated a mean score of 4.46 which implies that majority of SMEs lack ICS comprehension. This is in line with the results of Bure and Tengeh (2019) who found that majority of SMEs lack ICS comprehension which is a major cause of business failures around the world.

**Unable to outsource a proper internal audit function**

Results in table 4.2.6 shows a mean score of 4.60 implying that majority suffered this challenge to a larger extent and a standard deviation of 1.201 indicated that respondents were more spread out of the mean. Findings are also in line with Bure (2018) who claims that SMEs are facing financial problems which in turn inhibit them from implementing a proper IA function. Results also concur with the study of Munayi and Matavire (2019) who found out that inadequate financial management skill also pose a significant challenge for SMEs in Zimbabwe.

**Risk assessment failure on ongoing process**

Results in table 4.2.6 indicate a mean score of 3.52 and a standard of deviation of 1.944 indicating that responses were slightly below or above the mean. Results are in line with Abubakar et al (2023), who found out that SMEs lacked RA on their ongoing process and made a suggestion those SMEs and other organizations should understand the significance of RA as it plays an important role on the fiscal health of an organization.

##### 4.5Financial performance

It was requested of the respondents to state their FP using net profit margins for the year 2022 and results were compiled and presented in the table below.

Table 4.2.7: Net profit margin

|  |
| --- |
|  |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Loss | 5 | 6.2 | 6.2 | 6.2 |
| Low | 22 | 27.2 | 27.2 | 33.3 |
| moderate | 18 | 22.2 | 22.2 | 55.6 |
| high | 36 | 44.4 | 44.4 | 100.0 |
| Total | 81 | 100.0 | 100.0 |  |

**Source:** Fieldwork (2023)

Results in table 4.2.7 show that 5/81(6.2%) of the SME incurred a loss, 22/81(27.2%) attained low profits, 18/81 (22.2%) attained moderate levels of profits whereas 36/81 (44.4%) attained high levels of profits.

### 4.5 Presentation of Regression Analysis

# **4.5.1H0 1: There is no relationship between financial performance and the control activities of retail SMEs.**

The results below show the findings of the study of the relationship of CA as an ICS component on the FP of retail SMEs.

Table 4.3: Model summary

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Model** | **R** | **R Square** | **Adjusted R Square** | **Std. Error of the Estimate** | **Change Statistics** |
| **R Square Change** | **F Change** | **df1** | **df2** | **Sig. F Change** |
| 1 | .797a | .635 | .583 | .69885 | .635 | 12.204 | 4 | 28 | .000 |
| a. Predictors: (Constant), Segregation of duties, Physical access controls, Top level reviews of actual performance. |
| b. Dependent Variable: Net profit Margin**Source:** Fieldwork (2023) |

Table 4.3 is a model summary that provides information on the strength and direction of a linear relationship amid two variables. The R value in this table is 0.797, which indicates that there is a strong linear relationship amid CA and FP. The following table is a multilinear regression (ANOVA) table 4.3.1.

| Table 4.3.1: ANOVA

|  |
| --- |
|  |
| **Model** | **Sum of Squares** | **Df** | **Mean Square** | **F** | **Sig.** |
| 1 | **Regression** | 23.840 | 4 | 5.960 | 12.204 | .000b |
| **Residual** | 13.675 | 28 | .488 |  |  |
| **Total** | 37.515 | 32 |  |  |  |
| 1. Dependent Variable: Net Profit Margin
 |
| b. Predictors: (Constant), Segregation of duties, Physical access controls, Top level reviews of actual performance. |

 |
| **Source:** Fieldwork (2023) |  |  |

Table 4.3.1 above displays the results of an ANOVA, which was conducted to confirm the suitability of the model used. The table indicates an F-ratio (F=12,204 p=.000) was found to be statistically significant suggesting, the model utilized was appropriate and that the relationship amid the variables being examined was unlikely to have arisen by chance. Table 4.3.2 below shows the coefficients of determination.

Table 4.3.2: Coefficients of determination

|  |
| --- |
|  |
| **Model** | **Unstandardized Coefficients** | **Standardized Coefficients** | **T** | **Sig.** |
| **B** | **Std. Error** | **Beta** |
| 1 | (Constant) | .341 | 1.132 |  | .302 | .765 |
| Segregation of duties. | .395 | .115 | .438 | 3.442 | .002 |
| Top level reviews of actual performance | .248 | .213 | .142 | 1.162 | .255 |
| Physical access controls | .465 | .135 | .425 | 3.456 | .002 |
| a. Dependent Variable: Net profit Margin |

**Source:** Fieldwork (2023)

Table 4.3.2 above displays the coefficients of determination, which provide insight into how much the independent variables (CA) contributed to the changes observed in the dependent variable (Net profit margin). The estimated coefficients illustrate the degree to which the independent variables impacted the dependent variable.

Findings from table 4.3.2 show a positive and significant relationship amid segregation of duties and net profit. This is shown by a coefficient value of 0.395 and a P-value of 0.002 which is significant at 5%. The results indicate that when there is separation of roles within an SME, the profitability of an organization improves as segregation of duties eliminates the concealing of fraud and errors .Due to reduction of fraud and errors, the FP improves.

The findings on table 4.3.2 also show that presence of physical access controls has a positive and insignificant effect on value for money. This is shown by a coefficient value of 0.248 and P-value of 0.255 which is insignificant at 5% level of significance. Therefore, this means that physical access controls are important for SMEs but it has insignificant effect on value FP.

Furthermore, the findings on table 4.3.2 show that, a top level review of actual performance has a positive significant effect on net profit margin. This is shown by a value of 0.465 and a P-value of 0.002 which is significant at 5% level of significance. This means that top level reviews are essential as it helps in attaining favorable FP in SMEs.

Through substituting the coefficients obtained from the regression equation, we are able to make predictions regarding the FP of the entity being studied. By utilizing the regression equation to estimate values for the dependent variable (Net profit margin), based on known values for the independent variables (CA), we can gain insights into how changes in the input variables may affect overall FP in as follows:

* FP [Net profit margin] = 0.341+0.395**CA1 +** 0.248$C$**A2 +** 0.465$C$**A3**

Therefore the analysis rejects the null hypothesis and comes to the conclusion that the CA had a significant impact on the financial results of retail SMEs. Results are also in line with Otoo, [Kaur](https://www.emerald.com/insight/search?q=Manpreet%20Kaur) and Rather (2023) who found out that organizational effectiveness was significantly impacted by three dimensions of ICS: CA, CE and RA.

# **4.5.1.2 H0 2: There is no relationship between financial performance and the monitoring activities of retail SMEs.**

Table 4.4: Model summary

|  |
| --- |
|  |
| **Model** | **R** | **R Square** | **Adjusted R Square** | **Std. Error of the Estimate** | **Change Statistics** |
| **R Square Change** | **F Change** | **df1** | **df2** | **Sig. F Change** |
| 1 | .739a | .546 | .481 | .85923 | .546 | 8.413 | 4 | 28 | .000 |
| a. Predictors: (Constant), Monitoring and reviewing controls, Preparing periodic reconciliations. |
| 1. Dependent Variable: Net profit margin

**Source:** Fieldwork (2023) |

Table 4.4 displays the summary of a linear regression model, which helps measure how two variables are related in terms of strength and direction. The R value displayed in the table is 0.739, indicating that there's a strong positive correlation amid MA and net profit margin in the analyzed dataset.

Table 4.4.1: ANOVA

|  |
| --- |
|  |
| **Model** | **Sum of Squares** | **Df** | **Mean Square** | **F** | **Sig.** |
| 1 | **Regression** | 24.843 | 4 | 6.211 | 8.413 | .000b |
| **Residual** | 20.672 | 28 | .738 |  |  |
| **Total** | 45.515 | 32 |  |  |  |
| a. Dependent Variable: Net profit margin |
| b. Predictors: (Constant), Monitoring and reviewing controls, Preparing periodic reconciliations. |

**Source:** Fieldwork (2023)

Table 4.4.1 presents the results of an ANOVA, which was used to confirm if the linear regression model employed was appropriate. The table indicates an F-ratio (F=8,413, p=.000) was statistically significant meaning, the model used is appropriate and that the relationship amid the variables shown is unlikely to have occurred by chance. Table 4.4.2 displays the coefficients of determination.

Table 4.4.2: Coefficients of determination

|  |
| --- |
|  |
| **Model** | **Unstandardized Coefficients** | **Standardized Coefficients** | **T** | **Sig.** |
| B | Std. Error | Beta |
| 1 | (Constant) | .753 | 1.392 |  | .541 | .593 |
| Monitoring and reviewing controls. | .362 | .141 | .364 | 2.566 | .016 |
| Preparing periodic reconciliations. | .466 | .166 | .387 | 2.818 | .009 |
| 1. Dependent Variable: Net profit margin
 |

**Source:** Fieldwork (2023)

Table 4.4.2 provides information on the coefficients of determination, also known as R-squared values, which indicate how much of the variation in the dependent variable (net profit margin) can be explained by changes in the independent variable (MA). The estimated coefficients in this table demonstrate the impact of MA on net profit margin and can help identify significant factors that contribute to changes in the dependent variable. By analyzing these coefficients, one can obtain insights that may aid in decision-making processes aimed at improving net profit margin.

Findings indicate a positive and significant relationship amid monitoring and reviewing of controls and net profit margin. This is shown by a coefficient value of 0.362 and a P-value of 0.016 which is significant at 5%. The results mean that retail SMEs in Bindura monitor and review their ICS, this leads to operational efficiency and this improves the FP.

Results on table 4.4.2 also show that, a preparation of periodic reconciliations has a positive and significant effect on procurement efficiency. This is shown by a value of 0.466 and a P-value of 0.009 which is significant at 5% level of significance. This means that periodic reconciliations are essential as they strengthen the ICS and improve FP within retail SMEs in Bindura. The findings the study by Nkala and Dube (2020) who indicated that periodic reconciliations is an essential tool for good accounting management practices

Through substituting the coefficients obtained from the regression equation, we are able to make predictions regarding the FP of the entity being studied. By utilizing the regression equation to estimate values for the dependent variable (Net profit margin), based on known values for the independent variables (MA), we can gain insights into how changes in the input variables may affect overall FP in as follows:

* FP [Net profit margin] = 0.753+0.362$M$**A1 +** 0.466$M$**A2**

As a result, the analysis rejects the null hypothesis and comes to the conclusion that the MA had a significant impact on the financial results of retail SMEs. This is in line with Nertila Çika (2022), who found a strong relationship amid FP and MA.

# **4.5.1.3 HO 3: There is no relationship between financial performance and the risk assessment activities of retail SMEs.**

Table 4.5: Model summary

|  |
| --- |
|  |
| **Model** | **R** | **R Square** | **Adjusted R Square** | **Std. Error of the Estimate** | **Change Statistics** |
| **R Square Change** | **F Change** | **df1** | **df2** | **Sig. F Change** |
| 1 | .735a | .540 | .474 | .90223 | .540 | 8.207 | 4 | 28 | .000 |
| a. Predictors: (Constant), Risk identification, Risk analysis. |
| b. Dependent Variable: Net profit Margin |

**Source**: Fieldwork (2023)

The table presented above as Table 4.5 displays a summary of the model that evaluates the magnitude and direction of a linear correlation amid two variables. The R value in the table is 0.735, indicating a robust linear connection amid RA and net profit margin. Table 4.5.1 below illustrates the multilinear regression (ANOVA) table.

Table 4.5.1: ANOVA

|  |
| --- |
|  |
| **Model** | **Sum of Squares** | **Df** | **Mean Square** | **F** | **Sig.** |
| 1 | Regression | 26.723 | 4 | 6.681 | 8.207 | .000b |
| Residual | 22.793 | 28 | .814 |  |  |
| Total | 49.515 | 32 |  |  |  |
| a. Dependent Variable: Net profit margin. |
| b. Predictors: (Constant), Risk identification, Risk analysis |

**Source**: Fieldwork (2023)

Table 4.5.1 exhibits the results of an ANOVA, which was conducted to determine the suitability of the model employed. The table demonstrates an F-ratio (F=8.207, p=.000) was statistically significant, indicating that the employed model was appropriate and that the observed relationship among the variables could not have arisen by chance. Table 4.5.2 below displays the coefficients of determination.

Table 4.5.2: Coefficients of determination

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Model** | **Unstandardized Coefficients** | **Standardized Coefficients** | **T** | **Sig.** |
|  | **B** | **Std. Error** | **Beta** |  |  |
| 1 | (Constant) | 1.977 | 1.462 |  | 1.352 | .187 |
|  | Risk identification. | .349 | .148 | .337 | 2.357 | .026 |
|  | Risk analysis. | .475 | .174 | .378 | 2.731 | .011 |
| a. Dependent Variable: Net profit margin. |

**Source**: Fieldwork (2023)

Table 4.5.2 displays the coefficients of determination. These estimated coefficients represent the extent to which the independent variables (RA) contribute to changes in the dependent variable (net profit margin)

Findings suggest a positive and significant relationship among risk identification and net profit margin. This is shown by a coefficient value of 0.349 and a P-value of 0.026 which is significant at 5%. The results mean that when the retail SMEs in Bindura strongly executes the risk identification process, they can develop strategies to prevent or mitigate those risks thus leading to better FP .This is in line with Ahmed and Kamal (2016) who found out that risk assessment is an essential component of the ICS and if implemented correctly, it yields better FP.

Results also suggest a positive and significant effect amongst risk analysis and net profit margin. This is shown by a value of 0.475 and a P-value of 0.011 which is significant at 5% level of significance. This means that risk analysis is essential as it determines the likelihood and potential impact. The analysis helps prioritize the risk based on significance and likelihood of occurrence and leads to the development of appropriate risk responses that mitigate identified risks and result in desirable FP.

Through substituting the coefficients obtained from the regression equation, we are able to make predictions regarding the FP of the entity being studied. By utilizing the regression equation to estimate values for the dependent variable (Net profit margin), based on known values for the independent variables (MA), we can gain insights into how changes in the input variables may affect overall FP in as follows:

* FP [Net profit margin] = 1.977+0.349$R$**1** +0.475**R2**$ $

As a result, the analysis rejects the null hypothesis and comes to the conclusion that the risk assessment activities had a significant impact on the financial results of retail SMEs. This is in line with Abubakar et al (2023) who indicated that the FP of SMEs is strongly impacted by the RA process.

### 4.6 Summary

In this chapter, data collected through questionnaires was presented in the form of tables. Through analysis, the research findings were compared to previous studies. Regression analysis resulted in the rejection of three pre-stated hypotheses and concluded that all three components of the ICS studied strongly influence the FP of SMEs. This conclusion supports the findings of Kipkurui & Makori (2023) who found that FP is highly influenced by variables such as CA, MA, RA, IC and CE. The next chapter will summarize the findings, draw conclusions, and provide recommendations.

# **CHAPTER 5**

# **SUMMARY CONCLUSIONS AND RECOMMENDATIONS**

### 5.1Introduction

The primary objective of this study was to assess the impact of ICS on the FP of retail SMEs. The background of the study was clear that retail SMEs in developed countries face challenges such as poor management, partial control to detect fraud, illiteracy and misunderstanding, incapacity to differentiate amid personal and working capital, lack of expansion, insufficient funding, frequent business closures, an unorganized accounting system ,non-motivating welfare factors, a lack of resources and raw materials required for production, lackluster dialogue, among other things which is affecting their FP and ICS’ effectiveness. Based on the challenges which the SMEs faced, the study sought to establish the impact of ICS on the FP in retail SMEs.

The study's context was described in the first chapter, which focused on the impact of ICS on SMEs' FP. The chapter also included the problem statement, main topic, and research questions that led to the study's objectives. This chapter covered the study's relevance, its boundaries and restrictions, its underlying assumptions, and the definition of essential words.

In chapter two, significant writings by a variety of authors and academics were reviewed. In an effort to fill the research gap, the researcher used literature by scholars to uncover knowledge that already existed in literature. The ICS is made up of five parts, according to COSO (2013). These include the CE, RA, IC, CA and MA.

 The CA, RA and MA were the only three elements of the ICS that were focused on for the purposes of this study. The other parts of the ICS were maintained at their original levels. The independent, dependent, and moderating variables in Chapter two discussion of the conceptual framework were identified.

The research approach was primarily discussed in chapter three. Since its main focus was on providing information relevant to CA, the descriptive approach required too much effort. The population was of a magnitude that made it feasible to collect statistics on the entire population. In an effort to learn more about ICS and FP, questionnaires were fueled by the research. Questionnaires were given out to the 108 participants in the study's population.

Data collected through questionnaires were presented and analyzed in the fourth chapter. A 75% response rate was obtained from the questionnaires. Data was analyzed through SPSS version 20 and tables were utilized for presentation. By citing scholars' ideas regarding the findings, the mode, mean and standard deviation was utilized as a measure of central tendency to support the conclusions.

### 5.2 Summary of research findings

**Objective 1**: **To identify the internal controls in place to safeguard company assets in retail SMEs.**

The study aimed at identifying the ICS implemented by registered retail SMEs in Bindura. Questionnaires were distributed to collect data on ICS practices within retail SMEs and the findings from the data that was collected showed that a good number of retail SMEs incorporate the segregation of duties, physical access controls, a majority of the SMEs monitor and review their controls and conduct top level reviews of actual performance. However a majority of SMEs lack RA procedures and does not engage with the preparation of periodic reconciliations. The findings were ICS are present and need more improvements to enhance their effectiveness.

**Objective 2**: **To ascertain the relationship between the internal control systems and financial performance.**

The regression analysis was performed to investigate how the FP is linked to the three components of ICS in as follows:

* **H0 1**: **There is no relationship between financial performance and the control activities of retail SMEs.**

 A model summary, ANOVA and the coefficient of determination were done to conclude the relationship of CA and FP. The model summary showed that R = 0.797 which meant a strong linear relationship amid CA and net profit margin. The ANOVA was done to ascertain the appropriateness of the model which was used and it showed an F-ratio (F=12,204 p=.000) was statistically significant which meant the model used was appropriate and the relationship of the variables shown could not have occurred by chance.

The table with the coefficient of determination was provided and the findings showed a positive and significant relationship amid segregation of duties and net profit margin which was shown by a coefficient value of 0.395 and a P-value of 0.002 which is significant at 5%. The findings also showed that top level reviews of actual performance had a positive and insignificant effect on net profit margin and this was shown by a coefficient value of 0.248 and P-value of 0.255 which is insignificant at 5% level of significance. Lastly the coefficient of determination table showed that physical access controls had a positive significant effect on net profit margin and this was shown by a value of 0.465 and a P-value of 0.002 which is significant at 5% level of significance.

The null hypothesis was rejected and the alternative hypothesis was accepted implying that there is a strong positive linear relationship amid CA and the FP of retail SMEs.

* **H0 2**: **There is no relationship between financial performance and the risk assessment of retail SMEs.**

A model summary, ANOVA and the coefficient of determination was done to determine the relationship among MA and FP. The model summary showed that R = 0.739 which meant that there is a strong linear relationship among MA and FP. Also, ANOVA was done to ascertain the appropriateness of the model which was used and it showed an F-ratio (F=8,413 p=.000) was statistically significant which meant the model used was appropriate and the relationship of the variables shown could not have occurred by chance.

The table with the coefficient of determination was provided and the findings showed a positive and significant relationship amid monitoring and review of controls and net profit margin. This was shown by a coefficient value of 0.362 and a P-value of 0.016 which is significant at 5%. It was also shown that preparation of periodic reconciliations had a positive and significant effect on net profit margin. This was shown by a value of 0.466 and a P-value of 0.009 which is significant at 5% level of significance.

The null hypothesis was rejected and the alternative hypothesis was accepted implying that there is a strong positive linear relationship amid MA and the FP of retail SMEs.

* **H0 3**: **There is no relationship between financial performance and the monitoring activities of retail SMEs.**

A model summary, ANOVA and the coefficient of determination was done to determine the relationship among RA and FP. The model summary showed that R = 0.735 which meant that there is a strong linear relationship amid risk identification assessment processes and net profit margin. Also, ANOVA was done to ascertain the appropriateness of the model which was used and it showed an F-ratio (F=8,207 p=.000) was statistically significant which meant the model used was appropriate and the relationship of the variables shown could not have occurred by chance.

The table with the coefficient of determination was provided and the findings showed a positive and significant relationship amid transparency and procurement effectiveness. This was shown by a coefficient value of 0.349 and a P-value of 0.026 which is significant at 5%.

The null hypothesis was rejected and the alternative hypothesis was accepted implying that there is a strong positive linear relationship among RA and the FP of retail SMEs.

**Objective 3**: **To identify the challenges encountered in establishing internal control system and procedures.**

* Lack of financial resources and lack of time were identified as major hindrances to the implementation of effective ICS. Majority of retail SMEs face challenges in terms availability of resources, including financial, technical and human resources .Implementing ICS typically requires significant investment in technology, staff training and infrastructure which can be difficult for SMEs with limited budgets.
* Retail SMEs face challenges in navigating complex and rapidly changing regulatory environments. Compliance with regulatory requirements is often a key driver of ICS, but the evolving nature of regulatory frameworks can create confusion and uncertainty among SMEs.

### 5.3Conclusions

According to the study, ICS has a significant influence on the FP of SMEs. The research findings suggest that the IA is crucial for effective ICS, but it lacks sufficient technical personnel. As a result, the effectiveness of the ICS has been negatively affected by this issue, as demonstrated by the study's results. This poses a drawback in the implementation of ICS. Due to insufficient financial resources, audit efforts have become more erratic and there are no longer any regular reports.

### 5.4Recommendations

* The study recommends prioritizing budgeting for this crucial department because it was clear from its investigation that the IA is inappropriately staffed to cover all aspects of ICS, as shown by the lack of regular audit activities, efficiency issues, and irregular reporting. This will allow SMEs to recognize immense benefits from it.
* Findings suggest periodical audit reports and reviews of the effectiveness of ICS in order to respond to the current business climate and deliberate efforts should be made to inform owners about the value of business knowledge in ICS.
* The study recommends SME owners to invest in education and training on ICS and seek financial assistance to overcome the lack of financial resources.
* The study recommends future researchers to focus on the role of technology in auditing SMEs, this research could examine the impact of technology on the audit process in SMEs.It can focus on how emerging technologies such as artificial intelligence and data analytics can improve the audit process for SMEs. This will help to cover huge gaps that are existing on the ICS and FP in the SMEs and other sectors of the economy.

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### APPENDIX A-QUESTIONNAIRE

**RE: Asking for the use of a questionnaire to gather data from your organization.**

My name is Ashnus Mafusire; I am currently studying for a Bachelor of Accountancy Honors degree with Bindura University of Science Education. I am carrying a research on the impact of the internal control system on the retail SMEs financial performance. I hereby solicit your participation by responding objectively to the questions that follow. All information gathered will be treated as confidential and for academic purposes only.

**Section A: Business Demographics**

1a) Indicate your highest level of education

|  |  |
| --- | --- |
| Ordinary level |  |
| Advanced level |  |
| Diploma |  |
| Degree |  |
| Post graduate |  |
| Technician Certificate |  |

1b) Tick your firm’s category

|  |  |
| --- | --- |
| Clothing |  |
| Electrical appliances |  |
| Groceries |  |
| Housewares |  |
| Pharmaceuticals |  |
| Hardware and workshops |  |

1c)How many employees do you have ?

|  |  |
| --- | --- |
| None |  |
| Less than 10 |  |
| 10-20 |  |
| 20+ |  |

1d)How many years has your business been in existence?

|  |  |
| --- | --- |
| 0-3 years |  |
| 4-6 years |  |
| Over 6 years |  |

1e) Kindly tick the form of business ownership

|  |  |
| --- | --- |
| Sole proprietorship |  |
| Partnership |  |
| Company |  |

**Section B –Internal Controls and Financial Performance Integration**

**Kindly use the scale provided below to answer the following questions, indicating with an X where appropriate.**

**1=Never 2= Smaller extent 3= Moderate extent 4= large extent 5= Very large extent**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Objective 1:To what extent do you implement the following internal control systems?** | **1** | **2** | **3** | **4** | **5** |
| Segregation of duties  |  |  |  |  |  |
| Analyzing risk in a project |  |  |  |  |  |
| Preparing periodic reconciliations  |  |  |  |  |  |
| Physical access controls  |  |  |  |  |  |
| Identifying risks in a project  |  |  |  |  |  |
| Monitoring and reviewing controls  |  |  |  |  |  |
| Top level reviews of actual performance  |  |  |  |  |  |
| **Objective 3: To what extent has your internal control practices been affected by the following challenges?** |  |  |  |  |  |
| Lack of internal control system comprehension |  |  |  |  |  |
| Unable to outsource proper Internal Audit Function |  |  |  |  |  |
| Risk assessment failure ongoing process |  |  |  |  |  |

**Objective 2: To ascertain the relationship between the internal control practices and financial performance.**

**Kindly indicate the net profit margin for the year 2022, being guided by the formula Net profit margin=Net profit/Sales \*100 and kindly use the scale provided below to indicate your net profit margin.**

Negative –net profit margin below 0%

Low –net profit margin ranges from 0% to 5%

Moderate –net profit margin ranges from 6% to 15%

High –net profit margin is above 15%