THE INFLUENCE OF THE CONTROL ENVIRONMENT ON THE SUSTAINABILITY OF FAST FOOD MICRO AND VERY SMALL ENTERPRISES OPERATING IN THE NORTHERN SUBURBS

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ABSTRACT

The Small Business Act No. 102 of 1996 of South Africa defines Small Medium and Micro Enterprises (SMMEs) as separate and distinct business entities which managed by one or more owner; predominantly carrying out their operations in any sector or sub-sector of the national economy. SMMEs are widely regarded as the 'driving force' of economies around the world, especially since they aid in the eradication of poverty and in the creation of jobs both in developed and developing countries. Albeit the latter, the failure rate of SMMEs, particularly in South Africa, is believed to be one of the highest in the world with an estimated 75% of these entities ceasing to exist after operating for only 42 months. More often than not the failure of these entities is linked to economic factors. Prior research suggests that one of the major economic factors which influence SMMEs is the condition of their 'control environment' – the overall attitude of management towards internal controls. Here it is argued that if SMME leaders are pro internal controls, their respective enterprises would be more likely to become sustainable. The main objective of this paper was to determine the condition of SMMEs' control environment. This research study was descriptive in nature and relevant quantitative research methods were deployed to obtain data from 30 SMME leaders (i.e. owners and managers), all of whom had to adhere to strict pre-determined delineation criteria. It was found thatSMME leaders' deployed internal control measures are not effective in terms of mitigating risks due to the 'poorly conditioned' control environments of their respective SMMEs.

KEYWORDS: SMMEs, fast moving consumer goods, internal controls, control environment.

1 INTRODUCTION

The concept of Small Medium Micro Enterprises (SMMEs) was formally introduced to the South African economy through the enactment of the Small Business Act No. 102 of 1996. In this Act, SMMEs are legally defined as separate and distinct business entities which are managed by one or more owner(s), and predominantly carry out their operations in any sector or sub-sector of the national economy (South Africa, 1996). Furthermore, this Act also imposed three vital socio-economic objectives on South African SMMEs, namely: 1) assisting in the alleviation of poverty, 2) assisting in the diminishing of unemployment, and 3) assisting in the boosting of the national economy.

At present time, more than 20 years since the passing of the Small Business Act No. 102 of 1996, SMMEs are still regarded as 'vital' to the South African economy. This sentiment is supported by Moss (2007) who is of the opinion that in order for countries, particularly those in Africa, to ensure economic growth, it is of paramount importance that SMMEs become sustainable and, in turn, grow to larger organsiations. Though the latter is feasible, especially for South Africa, research conducted by Nieman and Nieuwenhuizen (2009) found that of all businesses that are operating in South Africa, a total of 97% can be regarded as SMMEs. In addition to the afore-mentioned, South African SMMEs are believed to provide up to 80% of all national employment opportunities (Swart, 2011) while also substantially contributing towards 35% of the national Gross Domestic Product (GDP), as posited by Rwigema& Venter (2004) and by Nieman & Nieuwenhuizen (2009). In almost all cases, South African SMMEs do not only place emphasis on attaining socio-economic objectives as prescribed by the Small Business Act No. 102 of 1996, but also on becoming sustainable, which has to do with the attainment of social objectives, economic objectives and environment objectives (Kucukvar, *et al.*, 2014). South African SMMEs sustainability is placed in perspective by Ngary, *et al.* (2014) who aver that these entities are not sustainable at all as close to 75% of South African SMMEs fail after being in operation for 2 to 3 years (Fatoki, 2012; Fatoki & Smit, 2011; Gordon, *et al.,* 2014).

Prior research conducted by Brink, *et al.* (2003) points out that the majority of South African SMMEs are adversely influenced by the effects of economic factors – i.e. factors which may have an undesirable impact on a business' attainment of economic objectives. These factors, in turn, may cultivate risks which culminate in destructive repercussions on the existence of SMMEs. Notwithstanding the latter, Rittenberg, *et al.* (2007) posit that the ever-changing economic environment, holistically speaking, can be adequately managed if SMME leaders strategically design and implement effective internal controls.

According to COSO (2004), internal controls are defined as processes which are implemented by an organisations' management, designed to provide reasonable assurance regarding the achievement of organisational objectives. This is done particularly through means of providing assurance regarding:

1) the effectiveness and efficiency of operations,
2) the reliability of financial reporting,
3) the integrity of information to make business decisions, and
4) the compliance with applicable policies, rules, laws and regulations (Coetzee, *et al.*, 2013).

Jackson and Stent (2007) are of the opinion that the adequacy of internal controls is strongly dependent on the condition of the control environment evident in an organisation. In core the control environment can be viewed as an organisation management's overall 'attitude' pertaining to internal controls (Coetzee, *et al.*, 2013), characterised by: 1) management's commitment to integrity and ethical values, 2) organisational structure of a business, 3) management's commitment to competency, and 4) management's commitment to accountability (McNally, 2013). In a recent research study conducted by Siwangaza, *et al* (2014), it was found that South African SMMEs' internal controls do not provide sufficient assurance that their relevant objectives will be met in the foreseeable future. Therefore the analogy can be drawn that the condition of the control environment, of these entities, leaves much to be desired.

2. LITERATURE REVIEW

2.1 A brief overview of South African SMMEs

In the wake of 1996 the South African government placed emphasis on the attainment of three socio-economic objectives: 1) the lessening of unemployment, 2) the eradication of poverty, and 3) the boosting of the national economy. In order to 'fast-track' the latter, the Small Business Act No. 102 of 1996 was signed into law with the introduction of SMMEs. In this Act, SMMEs are defined as follows:

"[SMMEs are] separate and distinct business entities, including co-operative enterprises and non-governmental organisations, which are managed by one or more owner(s), including its branches and/or subsidiaries, and are predominantly carried on in any sector and/or sub sector of the national economy" (South Africa, 1996)

Not only did the latter Act define SMMEs, it also categorised these entities in terms of size based on three criteria, namely:

1) the number of full-time employees employed,
2) the annual turnover made, and
3) the gross asset value (excluding fixed property).

The latter criteria are tabulated in Table 1 below:

TABLE 1: Categorisation of SMMEs' sizes in the fast moving consumer goods industry

SIZE OF ENTERPRISE	NUMBER OF FULL-TIME EMPLOYEES	ANNUAL TURNOVER	GROSS ASSET VALUE (EXCLUDING FIXED PROPERTY)
Medium	Between 51 and 100	Between R25 000 001 and R50 000 000	Between R4 000 001 and R8 000 000
Small	Between 6 and 50	Between R5 000 001 and R25 000 000	Between R500 001 and R4 000 000
Very small	Between 6 and 10	Between R150 001 and R5 000 000	Between R100 001 and R500 000
Micro	Between 0 and 5	Between R0 and R150 000	Between R0 and R100 000

(Source: South Africa, 1996)

Although the statistics in Table 1 differ from industry to industry, in South Africa, it is evident that SMMEs do play a major role in the attainment of the afore-mentioned socio-economic objectives of South Africa. This sentiment is supported by De Jongh *et al.* (2012) who express the view that

SMMEs have received lots of attention from government since 1996; mainly taking the form of governmental support agencies (Young, *et al.*, 2012). The need for investment by government, in these entities, is justified by research conducted by Fatoki and Garwe (2010) which established that South African SMMEs contribute up to 56% of employment opportunities in the private sector, while simultaneously contributing a mammoth 36% to the national Gross Domestic Product (GDP). In more recent times however Ngary et al (2014) make mention that South African SMMEs are responsible for 80% of all employment opportunities in South Africa while Swart (2011) is of the opinion that these entities contribute up to 30% of the national GDP.

Notwithstanding the above, South African SMMEs are believed to have one of the highest failure rates in the world (Fatoki, 2012), with between 70% and 80% of these entities failing after being in existence for an average of 4 years (Nieman, 2001; Van Eeden, *et al.*, 2003). This view is placed in perspective by Von Broembsen et al (2005), who share that the probability of a newly established South African SMME surviving beyond 42 months is very unlikely (Mass & Herrington, 2006). In effect, Bruwer (2010) posits that South African SMMEs, today, have great difficulty to become sustainable (i.e. achieving their own objectives), adversely impacting upon their overall contribution to the attainment of South Africa's socio-economic objectives.

2.2 Factors influencing South African SMME failure

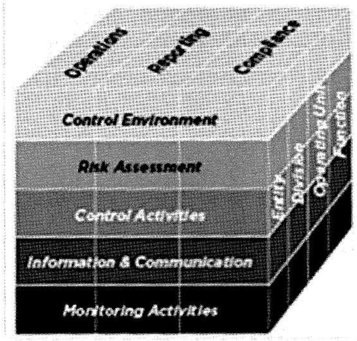
Holistically speaking, the high failure rate of South African SMMEs is believed to be caused by economic factors – i.e. factors which, in most cases, may have an adverse influence on a business' attainment of economic objectives (Brink, *et al.*, 2003). Research conducted by Bruwer and Watkins (2010) show that economic factors can be categorised into two categories, namely: 1) macro economic factors (factors over which business leaders have little/no control) and 2) micro economic factors (factors over which business leaders have some/complete control). Some examples of economic factors (Fatoki & Garwe, 2010; Ligthelm, 2011) include, but do not limit: access to finance, managerial skills, organisational infrastructure, technological advancement, market fluctuations, interest rates, inflation rates, taxation, changes in regulations, and competition. In quintessence 'managerial skills' is a major economic factor which has a major influence on SMMEs (Siwangaza, *et al.*, 2014). The manner in which SMME leaders manage their respective businesses will have a direct impact on how risks (events which may result in the non-achievement of an organisation's objectives; cultivated by the existence of economic factors) are managed - a business is a vivid and clear reflection of its leader (Urquhart-Brown, 2008).

2.3 Internal controls and the control environment

Risks are generally managed through means of the deployment of proper internal controls. The concept of internal controls can be regarded as a set of procedures which are designed, by an organisation's management, to provide reasonable assurance regarding the achievement of organisational objectives in the foreseeable future (COSO, 2004). In core, the latter 'reasonable assurance' is provided by ensuring that operations are functioning as effectively and efficiently as possible, that financial reporting is reliable, that information required for decision making possesses integrity and that an organisation complies with relevant laws, regulations, policies and procedures (Coetzee, *et al.*, 2013).

The most used internal control framework in commerce, today, is the COSO-framework. In this framework internal controls are depicted as a process comprising of five inter-related elements, namely: 1) control environment, 2) risk assessment, 3) control activities, 4) information and communication, and 5) monitoring activities. This is depicted in Figure 1 below:

FIGURE 1: The most recent COSO framework



Source: McPas, 2014

Each element in Figure 1 is briefly described below:

- **Control environment:** The control environment is management's attitude regarding internal controls in and around an organisation as a whole. (This is further discussed below).
- **Risk assessment:** All risks are identified and thoroughly assessed in relation to their frequency of realising and their potential impact that can be caused upon realisation.
- **Control activities:** Relevant controls are put in place to prevent, detect and corrects risks that were identified and assessed.
- **Information and communication:** Findings pertaining to the adequacy of internal controls are shared and/or communicated through to relevant stakeholders for their perusal.
- **Monitoring:** The adequacy of internal controls are monitored on a continual basis and maintained accordingly.

Fundamentally speaking, each inter-related element of internal control builds upon one another and one cannot exist without the other four. According to COSO (2004) the control environment is the foundation of any system of internal control. The control environment can be viewed as a phenomenon which has to do with the attitude of an organisation's management towards internal controls as a whole (Jackson & Stent, 2007). Generally speaking the control environment holds strong relevancy to the commitment of management towards: 1) integrity, 2) ethical behaviour, 3) competency, and 4) management's commitment to accountability (COSO, 2004; McNally, 2013). The importance of the control environment is put in perspective by Oseifuah and Gyekye (2013) who share the view that the absence of a proper control environment has been cited as a major contributing factor to an array of business failures.

3. RESEARCH DESIGN AND METHODOLOGY

The research design serves as the 'master plan' for any research study. As such Collis and Hussey (2009) make mention that any research study can be designed in terms of its purpose, process, logic and outcome. The research design for this research study took the following stance:

- **Purpose:** This research study was descriptive research as the main intent of the author was to describe a specific phenomenon at hand (the condition of the control environment of SMMEs).
- **Process:** This study fell within the positivistic research paradigm as mostly numeric data were gleaned to solve and/or mitigate the identified research problem.
- **Logic:** This research was deductive in nature as the author formulated a certain perception which stemmed from the consultation of existing literature; pertaining to the research problem at hand.
- **Outcome:** This research was basic in nature as the main intention of the author was to 'shed light' and/or provide clarification on the identified research problem.

In addition to the design, the research methodology serves as a 'step by step manual' as to how to implement the 'master plan'. The research methodology deployed for this study was survey research as a questionnaire-tool (comprising mostly of quantitative questions) was used to collect data from an array of respondents that were representative of a certain population. Particularly 30 respondents were selected through means of non-random sampling (a mixture of convenient sampling and purposive sampling). The latter sampling method was used as the size of the population was unknown and also, the author wanted to obtain rich data for this research study. In fundamental nature respondents had to adhere to the following strict list of delineation criteria:

- All respondents had to be SMME leaders (i.e. owners and/or managers).
- All respondents had to have between 1 and 7 years of experience as SMME leader.
- All SMMEs should have adhered to the definition of a "SMME" as per the definition of the Small Business Act No. 102 of 1996.
- All SMMEs should have operated in the fast food industry.
- All SMMEs should have been based in the Northern suburbs.
- All SMMEs should have been in existence for between 1 and 8 years.
- All SMMEs should have employed between 2 and 10 employees.
- All SMMEs should have been regarded as non-franchised businesses.
- All SMMEs should have been regarded as a sole trader or as a partnership.

Furthermore, relevant ethical considerations were taken into account by the author as all respondents were guaranteed protection from physical harm, guaranteed confidentiality of information provided and guaranteed anonymity upon participation in this study.

4. FINDINGS AND DISCUSSIONS

The results from the data analysis are stated under the following headings below: delineation of respondents, internal controls deployed by respondents, the condition of respondents' SMMEs' control environments.

4.1 Delineation of respondents

When respondents were asked what type of business their respective SMMEs were involved in, 86.67% of respondents indicated that their SMMEs were regarded as fast food stands (take away stands), while 13.33% of respondents indicated that their SMMEs were regarded as sit-down restaurants. All respondents further agreed that their respective SMMEs were deemed as non-franchised and all were based in the Northern suburbs (6.67% based in Goodwood, 83.33% based in Bellville, and 10% based in Parow).

Respondents were also asked how long their respective SMMEs have been in existence. The following dispensation emerged as illustrated in Table 2 below:

TABLE 2: The number of years respondents' SMMEs have been in existence

Value Label	Value	Frequency	Percent	Valid Percent	CUM Percent
	1	1	3.33	3.33	3.33
	2	4	13.33	13.33	16.67
	3	6	20.00	20.00	36.67
	4	9	30.00	30.00	66.67
	5	3	10.00	10.00	76.67
	6	4	13.33	13.33	90.00
	7	2	6.67	6.67	96.67
	8	1	3.33	3.33	100.00
Total	**30**	**100.0**	**100.0**		

Source: Author's field work 2015

From the table above it is evident that 66.67% of SMMEs existed for between 1 and 4 years (the critical years according to popular literature) while only 33.33% of SMMEs existed for more than 4 years - on average, SMMEs existed for 4.13 years.

In order to determine the actual size of SMMEs, respondents were asked how many full-time employees they employed. In Table 3 below, a summary of the results are shown:

TABLE 3: The number of employees employed by respondents' SMMEs

Value Label	Value	Frequency	Percent	Valid Percent	CUM Percent
Micro	2	2	6.67	6.67	6.67
Micro	3	9	30.00	30.00	36.67
Micro	4	4	13.33	13.33	50.00
Micro	5	5	16.67	16.67	66.67
Very small	6	2	6.67	6.67	73.33
Very small	7	2	6.67	6.67	80.00
Very small	8	1	3.33	3.33	83.33
Very small	9	1	3.33	3.33	86.67
Very small	10	4	13.33	13.33	100.00
Total	**30**	**100.0**	**100.0**		

Source: Author's field work 2015

It is clear that from the table above, 66.67% of SMMEs were classified as "Micro" enterprises (employing between 1 and 5 employees) while 33.33% of respondents were classified as

"Very Small" enterprises. Furthermore, on average, SMMEs employed 5.17 employees. When respondents were asked what position they fulfil in their respective SMMEs, a total of 26.67% of respondents indicated that they were owners, 33.33% of respondents indicated that they were managers, while 40.00% of respondents indicated that they were owner-managers. In addition, respondents indicated that they had an average experience of 3.33 years in their respective positions in their SMMEs.

Hence, the average respondent of this research study was a non-franchised fast food owner-manager with 3.33 years of experience; with his/her respective business employing 5.17 employees and existing for 4.13 years. This business also operated in Bellville and was deemed as a "Micro" enterprise.

4.2 Internal controls deployed by respondents

In order to understand the condition of the control environment of respondents, the author decided to first determine the actual internal controls which respondents deployed in their respective SMMEs. The latter would provide a 'sneak peek' as to the types of internal control activities respondents make use of in their respective SMMEs. Respondents were asked to rate a couple of statements starting with the followings sentence:

"In my business, the following internal control is used ..." To make answering easy, respondents were provided with a total of 5 options on a likert scale: 1 = strongly agree, 2 = agree, 3 = neither agree nor disagree, 4 = disagree, 5 = strongly disagree. A summary of the findings is shown in Table 4 below:

TABLE 4: Internal controls deployed by respondents in their SMMEs

Control	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Mean	St Dev.
Alarm system(s)	36.67%	23.33%	6.67%	16.67%	16.67%	2.53	1.55
CCTV camera footage	46.67%	23.33%	6.67%	10%	13.33%	2.2	1.47
Clear lines of authority	50%	16.67%	13.33%	10%	10%	2.13	1.41
Clock cards and/or time cards	26.67%	26.67%	16.67%	20%	10%	2.6	1.35
Continuous staff development/training	3.33%	43.33%	30%	20%	3.33%	2.77	0.94
Disciplinary measures (e.g. warnings, penalties, etc.)	6.67%	6.67%	23.33%	46.67%	16.67%	3.6	1.07
Formal risk identification tools (early warning systems)	20%	10%	40%	20%	10%	2.9	1.24
Limited access to tills and/or safes.	53.33%	16.67%	3.33%	23.33%	3.33%	2.07	1.36
Locks to business entrance(s)	76.67%	-	3.33%	20%	-	1.67	1.24

Control	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Mean	St Dev.
Password protected computers	26.67%	13.3%	26.67%	20%	13.33%	2.8	1.4
Performance reviews of staff	20%	26.7%	33.33%	6.67%	13.33%	2.67	1.27
Physical controls over receiving of goods	40%	10%	6.67%	33.33%	10%	2.63	1.54
Physical controls over stored goods	33.33%	10%	16.67%	26.67%	13.33%	2.77	1.5
Regular bank reconciliations	36.67%	6.67%	23.33%	30%	3.33%	2.57	1.36
Regular creditors reconciliations	23.33%	10%	30%	26.67%	10%	2.9	1.32
Regular debtors reconciliations	16.67%	16.7%	43.33%	16.67%	6.67%	2.8	1.13
Security staff	26.67%	23.3%	23.33%	10%	16.67%	2.67	1.42
Segregation of duties amongst the employees	33.33%	26.7%	13.33%	23.33%	3.33%	2.37	1.27
Sequentially numbered financial documents	26.67%	16.7%	20%	23.33%	13.33%	2.8	1.42
Staff supervision	40%	16.7%	20%	23.33%	-	2.27	1.23
Understandable (user-friendly) policies and procedures	33.33%	16.67%	16.67%	26.67%	6.67%	2.57	1.38
Unrestricted access to business policies and procedures	26.67%	20%	26.67%	20%	6.67%	2.6	1.28

Source: Author's field work 2015

Stemming from the statistics in Table 4, it is clear that the top internal control measures which were used by respondents, in their respective SMMEs, were as follows: 1) "locks to business entrances" (mean score of 66.6% agreement), 2) "limited access to tiles and/or safes" (mean score of 58.6% agreement), 3) "clear lines of authority" (mean score of 57.4% agreement), 4) "CCTV camera footage" (mean score of 56% agreement), and 5) "staff supervision" (mean score of 54.6% agreement). Out of these top five deployed internal control measures, two of them are preventive controls while three were detective controls.

What is disconcerting from the latter statistics is that the most used internal control measure was only used in 66.6% of all recorded cases while the least used internal control measure ("disciplinary measures") was only used in 28% of all recorded cases. For all listed internal control measures in Table 4, the mean utilisation thereof was only 48.28% in all recorded cases.

Following this, the author wanted to establish why certain deployed internal control measures (as evident in Table 4) were used by respondents. Respondents were asked to rate four statements starting with the following sentence: "The internal control measures listed above are of great help to mitigate the following risks in by business ..." In core, four types of risks were listed:

- **Strategic risks:** risks which may have an adverse influence on organisational strategy,
- **Operational risks:** risks which may have an adverse influence on the operations of an organisation
- **Compliance risks:** risks which may have an adverse influence on compliance activities in and around the organisation
- **Financial risks:** risks which may have an adverse influence on the financial performance and/or financial position of an organisation.

Although these risks could have been broken down into smaller segments, the author decided not to do so as the focus of the study was on the control environment of SMMEs. In order to rate the afore-mentioned statement respondents were provided a choice of 5 options on a likert scale:

1 = strongly agree, 2 = agree, 3 = neither agree nor disagree, 4 = disagree, 5 = strongly disagree. The findings made are shown in Table 5 below

TABLE 5: The risks which are mitigated by selected deployed internal control measures in SMMEs

Type of risks	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Mean	St Dev.
Compliance risks	13.33%	16.67%	33.33%	36.67%	-	2.93	1.05
Financial risks	30%	16.67%	13.33%	40%	-	2.63	1.3
Operational risks	53.33%	10%	20%	16.67%	-	2	1.2
Strategic risks	10%	16.7%	26.67%	26.67%	20%	3.3	1.26

Source: Author's field work 2015

The statistics in Table 5 show that operational risks are mostly mitigated by the deployed internal control measures (in 60% of all reported cases) however all other risks are not being reduced effectively. Two possible reasons exist for the latter dispensation: 1) majority of respondents are not aware as to how to effectively make use of internal control measures readily available to them, or 2) majority of respondents make use of informal internal control measures to reduce risks in their respective SMMEs.

Notwithstanding the above, respondents were given an opportunity to rate how effective their deployed internal control measures were. On average, 26.67% of respondents were of the opinion that their internal control measures were "ineffective", while 26.67% of respondents were "unsure" about the effectiveness of their deployed internal controls. Out of all responses received only 46.66% of respondents were of the opinion that their deployed internal controls were "effective".

4.3 The condition of respondents' SMMEs' control environment

In order to evaluate the condition of the control environment of respondents' SMMEs, respondents were asked to rate a variety of statements starting with the following sentence: "In my business there is ..." Respondents had to make a choice of 5 options on a likert scale:

1 = strongly agree, 2 = agree, 3 = neither agree nor disagree, 4 = disagree, 5 = strongly disagree.

A summary of the findings for these statements are shown in Table 6 below

TABLE 6: The evaluation of the condition of the control environment in SMMEs

Control environment element	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Mean	St Dev.
A level of accountability	36.67%	16.7%	13.33%	33.33%	-	2.43	1.3
A level of responsibility	40%	16.7%	16.67%	26.67%	-	2.3	1.26
A continuous measurement of the internal control system(s)	13.33%	23.3%	26.67%	13.33%	23.33%	3.1	1.37
An awareness of the internal control system(s) in place	20%	16.7%	23.33%	30%	10%	2.93	1.31
Management who leads by example (governance)	33.33%	6.67%	30%	30%	-	2.57	1.25
A priority towards internal controls by management	20%	20%	33.33%	16.67%	10%	2.77	1.25
Encouragement for the continuous development of staff	10%	16.7%	56.67%	13.33%	3.33%	2.83	0.91

Source: Author's field work 2015

From the above table it is clear that throughout respondents do not have a very favourable attitude towards internal control. The control environment element which was in the best 'condition' was "a level of responsibility" – respondents' attitude was 54% positive towards this. The control environment element that was in the worst 'condition' was "a continuous measurement of the internal control system(s)" – respondents' attitude was 38% positive towards this. On average, the overall condition of respondents' SMMEs' control environment came to 45.91%.

To ascertain whether respondents understood what was being tested, respondents were asked how they would rate the 'condition' of their SMMEs' control environments. A total of 10% of respondents indicated that it was "very poor", 26.67% of respondents indicated that it was "poor" and 46.67% of respondents indicated that it was "average". Only 13.33% of respondents indicated that it was "good" and 3.33% of respondents indicated that it was "very good". On average, the mean score came to 45.4% which is similar to the score that was mentioned in the previous paragraph.

The statistics above is not surprising at all since it is evident that the effectiveness of an organisation's internal controls (see Paragraph 4.2) is strongly dependent on the condition of its control environment. As a final question, to understand how respondents regard the control environment of their SMMEs, respondents were asked to rate the following statement: "The control environment of my business has a direct influence on the effectiveness of my business' internal controls". A total of 40% of respondents were in agreement with the latter statement, 40% of respondents were unsure and 20% of respondents were not in agreement with the latter statement.

5. CONCLUSION

Stemming from the research conducted, it is clear that internal controls are important 'tools' to assist business leaders in the management of risks in and around their respective organisations. In addition, popular literature suggests that the effectiveness of any system of internal control is directly influenced by the control environment of an organisation. From the findings, it is evident that relevant SMME leaders did not make use of formal internal control measures to help keep risks at an all time low. On average the internal control measures that were deployed were only used in 48.28% of all recorded cases. In addition to this, it was found that, on average, the deployed internal control measures were not very effective in the mitigation of risks in and around SMMEs.

Already the aforementioned served as an indication of a 'poor conditioned' control environment as effective systems of internal control are built upon adequate control environments. Stemming from the findings, it was established that the 'condition' of the control environment of respondents were 'poor' to say the least as SMMEs' leaders merely had a 45.91% favourable attitude towards internal controls. Hence, based on the research conducted the author concludes that SMMEs with 'poorly conditioned' control environments are more affected by changes in economic landscapes than those with appropriate control environments.

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