



Determining causes for non-adherence to internal inventory controls in a cooperative

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To whom it may concern

EDITING OF MINI-DISSERTATION

I, the undersigned, hereby inform the addressed party that I have language edited the mini-dissertation of Mr. W.C. Stofberg entitled: Determining causes for non-adherence to internal inventory controls in a cooperative.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Elsabé Stofberg', with a large, stylized initial 'E'.

Elsabé Stofberg

ABSTRACT

In big cooperatives, functions such as effective stock management play a vast role in ensuring risk management and asset protection. It is thus pertinent that internal control procedures be put in place to monitor and effectively manage stock controls. Although these procedures are found to be in place, the problem recognized was that employees, however, lack in compliance. This study aims to investigate what influences the employees to the point that they feel impervious to follow control procedures that relate to inventory. In order to accomplish this, a survey was completed by employees from a cooperative in the Eastern Free State.

The Committee of Sponsoring Organizations of the Treadway Commission's *Report on Internal Controls* (2013) was used as guideline and framework to identify specific components, for the survey, that have a direct influence on the employee's behaviour. The COSO report identifies five components that form the pillars of this framework namely: the control environment, risk assessment, control activities, communication and monitoring activities. This survey was used as tool to interview the employees by means of a questionnaire. It addressed the five identified components and measured their effectiveness currently in the cooperative, as experienced by the employee. It was clear that there exists a correlation between these components and the influence thereof on the effectiveness of the employees to follow internal control procedures. Finally, the component that was found to be the least effective currently in the cooperative was the control environment.

Keywords

Cooperatives; Internal controls; Non-adherence; Employees; Non-compliance; and Control environment

TABLE OF CONTENTS

ABSTRACT	II
CHAPTER 1 – AN INTRODUCTION TO THE STUDY OF INTERNAL CONTROLS.....	1
1.1 INTRODUCTION	1
1.2 ORIENTATION AND BACKGROUND OF THE STUDY	1
1.3 PROBLEM STATEMENT	2
1.4 RESEARCH QUESTIONS	2
1.5 RESEARCH OBJECTIVES.....	Error! Bookmark not defined.
1.6 RESEARCH METHOD	3
1.7 DATA COLLECTION	4
1.8 DATA ANALYSIS	5
1.9 LITERATURE STUDY.....	5
1.10 RESEARCH APPROACH	6
1.11 IMPORTANCE OF THE STUDY	6
CHAPTER 2: EXPLORATION OF INTERNAL CONTROLS, A THEORETICAL REVIEW	8
2.1 INTRODUCTION	8
2.2 DEFINITION AND THE NEED FOR INTERNAL CONTROLS.....	8
2.3 COMPONENTS IDENTIFIED WITHIN THE INTERNAL CONTROL FRAMEWORK.....	9
2.3.1 Control environment	12
2.3.2 Risk assessment	12
2.3.3 Control activities	12
2.3.4 Information sharing and communication	12

2.3.5 Monitoring activities	12
2.4 IMPLIMENTATION OF THIS FRAMEWORK - THE KING III REPORT ON INTERNAL CONTROLS	13
2.5 THE AIM AND OBJECTIVES OF IMPLIMENTING EFFECTIVE INTERNAL CONTROLS	14
2.6 KEY PRINCIPLES WITHIN INTERNAL CONTROLS	14
2.7 INTEGRATION OF PLANNING -THE IMPLIMENTATION OF THE INTERNAL CONTROL FRAMEWORK.....	16
2.7.1 Control environment	16
2.7.2 Risk assessment	19
2.7.3 Control activities	21
2.7.4 Information and communication.....	23
2.7.5 Monitoring activities	24
 CHAPTER 3 - METHODOLOGICAL ORIENTATION AND RESULTS; WHICH INTERNAL CONTROL FRAMEWORK COMPONENT IS THE CAUSE FOR NON-ADHERANCE TO INTERNAL CONTROLS IN THE COOPERATIVE.....	 26
3.1 INTRODUCTION	26
3.2 RESEARCH METHODOLOGY	26
3.3 QUESTIONNAIRE ANALYSIS.....	26
3.4 METHODS OF SURVEY	27
3.5 RESEARCH SAMPLE	27
3.6 INTERNAL CONTROL ASSESSMENT	29
3.7 RESEARCH RESULTS.....	29

3.7.1 Questionnaire analysis	29
3.7.2 Reliability	41
3.7.3 The T-Test.....	42
3.7.4 Correlations	46
3.7.5 Effect size.....	47
 CHAPTER 4 - SUMMARY, CONCLUSIONS, FINDINGS AND RECOMMENDATIONS	51
 4.1 INTRODUCTION	51
4.2 SUMMARY OF THE STUDY	51
4.3 RESEARCH FINDINGSa	52
4.3.1 Control environment	52
4.3.2 Risk assessment activity.....	53
4.3.3 Control activities	53
4.3.4 Information sharing and communication	54
4.3.5 Monitoring activities	54
4.4 FINAL RECOMMENDATIONS.....	54
4.4.1 Recommendations to the management team and the board of directors	54
4.4.2 Future research	55
4.5 CONCLUSION	55
 BIBLIOGRAPHY	57
 ANNEXURES A – QUESTIONS AND REPONSES	59

LIST OF TABLES

Table 3.1 – Questionnaire analysis	28
Table 3.2 - Representative groups by working experience	Error! Bookmark not defined.
Table 3.3 - Questionnaire analysis	Error! Bookmark not defined.
Table 3.4 - Reliability comparison.....	42
Table 3.5 - Group analysis.....	44
Table 3.6 - Correlation analysis	Error! Bookmark not defined.
Table 3.7 - Effect sizes: Age group.....	Error! Bookmark not defined.
Table 3.8 - Effect size: Working experience	Error! Bookmark not defined.

LIST OF FIGURES

Figure 2.1 - COSO Internal control framework	10
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CHAPTER 1 – AN INTRODUCTION TO THE STUDY OF INTERNAL CONTROLS IN ENTITIES

1.1 INTRODUCTION

Internal controls have a very important role in cooperatives namely to minimize risk and to protect assets. Lalic, Jovanovic, Nikolic and Vulovic (2011) agreed that one of the primary roles of business operations is to be effective and efficient Internal controls form the system that increases efficiency as it ensures that management policies and procedures are in place, financial transactions are effectively reported and that company resources are sufficiently protected. A correlation can be drawn between internal controls being effectively managed and better inventory turnover as argued by Feng, Li, Sarah and McVay (2009). They found that where entities remediated their inventory internal control environment, they also improved their sales, gross profit and operating cash flows. There can thus be no question regarding the importance of the correct implementation of internal controls in a cooperative.

1.2 ORIENTATION AND BACKGROUND OF THE STUDY

Stines and Kellen (2014) defined internal controls by accounting standards as a process to be implemented to provide reliable financial reporting, effective and efficient operations, compliance with law and regulations to safeguard assets. It is therefore an important managerial responsibility to put policies and manuals in place to ensure effective management of the above processes. Where internal control weaknesses are identified, through the risk assessment process, corrective measures must be identified and implemented. In these risk assessments, responsible parties should address changing the regulatory and economic environment as well as regularly review high risk areas. Possible areas of fraud should also be identified through these processes (Stines & Kellen, 2014).

The management team of an agriculture cooperative put a lot of effort in growing awareness regarding the existing internal control systems. In order to accomplish this, the cooperative compiled a procedure manual as well as an audit checklist that were distributed between all relevant employees and on which, training was given to all newly

appointed personnel . Regardless of these inputs however, the internal audit reports did not improve drastically. this indicates a control weakness in one of the five internal control components, the control environment, risk assessment, control activities, information sharing and monitoring activities. This study will look at the five elements as identified in the *Committee of Sponsoring Organizations of the Treadway Commission report (2013)* COSO that influence compliance in implementation of internal controls. It will aim to pinpoint the root cause and answer the question why the non-adherence to internal controls wasn't rectified after both dedicated training and an increased awareness were implemented.

1.3 PROBLEM STATEMENT

Employees must work in an environment with clear and understandable internal controls. It is essential that they adhere to these internal controls to manage the risk and support the effective working environment of the cooperative.

Internal audit gave clear and comprehensive instructions to these employees as to the scope of monitoring activities that should be carried out. Although agriculture cooperatives put adequate internal controls in place, the employees do not adhere to these controls. The internal audit department of the cooperative release reports that point to a lack of adherence to internal controls. Efforts such as consistent communication to the branches as well as dedicated audit check lists compiled by the internal audit committee, in order to improve efficiency, seemed lacking as tools to improve the adherence of these internal controls. Focusing on the different components that influence adherence to internal controls, which one is currently the least supportive component and can the specific answers behind this component be identified in order to remedy the non-adherence?

1.4 RESEARCH OBJECTIVE

To support the aim of this study, questions were developed to understand the internal controls of the cooperative. To achieve this one needs to understand the employee's current implementation of these internal controls. Questions were formulated in each of the five control elements in order to measure their influence according to the employee's perception as well as to identify the current least effective component.

This research paper will thus focus on the reasons as to why, after all these measures were taken to inform and train the employees in the importance of following these internal controls, they still failed to adhere to the instructions received.

1.6 RESEARCH METHOD

The study will as starting point, focus on the five components of the internal control framework that affect employees in their different functions in an agriculture cooperative. These employees all work on the different administrative systems such as the “Point of Sales” system and different “Inventory” systems. The employees in question need to be in the direct line of contact with the customers and inventory.

An agriculture cooperative with 22 branches and an average of 5 personnel per branch, thus a total of 110 individuals, will be interviewed for this research by means of a survey.

The selected cooperative, more specifically the branch personnel that work directly with clients and inventory, will be selected by means of probability sampling. Geographically the analysis will represent the cooperative’s footprint in the rural parts of the Eastern Free State. The employees will not be selected or divided according to gender or age groups. This will give the study the best chance of finding the one least supportive component across all genders, races and ages.

These employees will be able to give the direct feedback required to understand the reasons behind controls being broken and deviated from. The focus of the study is thus to identify the least supporting element of the five components, affecting the employees’ behavior. In order to identify this least supportive component, a quantitative study will be done by means of a questionnaire.

The study will also be cross-sectional in nature and will determine the state of mind and perceptions of the employees, conducting everyday business, as in the past few months. In order not to interfere with their perceptions, the study cannot be a longitudinal study as this may alter the behavior and the respective answers of the employees, should they understand the reasons motivating the research. It may be possible to draw correlations in the study between years of service for the corporation and/or the respective age of the

employee and its respective influence on adherence or non-adherence to internal controls.

1.7 DATA COLLECTION

The information will be gathered in the form of a questionnaire that was developed from a previous questionnaire to fit the purpose of this study (Hancox, 2005). These questionnaires will have quantitative questions and make use of a Likert scale to determine to what extent these factors determine the employees' response to a control procedure. These questions will be focused on the five identified components namely the control environment, risk assessment, control activities, sharing of information and communication and finally monitoring activities. The answer will determine whether the specific component has either a positive or negative effect currently.

The aim of these questionnaires is to determine the reasons causing the employee to deviate from the control procedure. The questionnaire consists of six sections. Firstly the demographic profile of the employee i.e. the gender, age and length of service will be determined. The next five sections will focus on the five different influential components relating to adherence or non-adherence to internal controls. The questionnaires will be used to measure the employees' perception on the influencing components affecting adherence to internal controls by means of the Likert scale . Each answer will be measured in relation to the other components in order to identify the current least supportive component.

Firstly, permission will be obtained from the agriculture cooperative to participate in the study. The division head of the cooperative must be contacted to discuss the value and scope of the study. The cooperative needs to show interest and needs to fully participate in order for the study to be effective. Once the cooperative agrees to the study, branch managers will be contacted to communicate and elaborate on the value of the study. Thereafter a dedicated person per branch needs to be identified whom will encourage the employees to complete the questionnaires as well as to finally compile all the questionnaires. The questionnaires will then be circulated to each branch where contact will be made with the employees. Ideally the employees should be given time off from

work to complete the questionnaire. These completed questionnaires will then be collected, processed and analyzed.

1.8 DATA ANALYSIS

The employee's demographic profile will be obtained in other words their gender, age and the years of service completed at the cooperative as the first part of the questionnaire.

Secondly, the questionnaire then measures the *five elements* of internal control respectively by looking at the following:

1. What is the employees perception of the *control environment* he/she operates in.
2. Is there a reasonable level of *risk assessment*.
3. Is the *control activities* that has been implemented effective and comprehensive.
4. Is there a reasonable level of *communication and information sharing*; and
5. Does the employee feel he is suitably *monitored*?

The questions will be set up with a value measurement of 1 to 4: 1 pertaining to the employee strongly agreeing while 4 pertains to the employee strongly disagreeing.

These results will then be analyzed to determine the current least supportive component influencing adherence to internal controls as recorded by the employees.

1.9 LITERATURE STUDY

There have been a lot of studies on internal controls and the effect it has on: a) the risk profile of entities, b) financial reporting integrity as well as on c) profitability. These internal controls have to be effectively implemented and followed. The *COSO report* supplies a clear internal control framework that supports adherence to internal controls in any given entity. This framework describes the different components supporting ideal adherence to internal control procedures. Employees then need to respond positively to these components which will result in adherence of internal controls in the cooperative. Jong-Hag Choi, Sunhwa Choi, Chris E. Hogan and Joonil Lee (2013) found that there is a positive association between the investment in human resources and effective adherence

to internal controls. This clearly shows that there is an element of decision making involved whereby employees choose to either adhere to these internal controls or not.

1.10 RESEARCH APPROACH

The study aims to request that employees answer a questionnaire anonymously in order to gain an understanding on their views regarding compliance as well as what directs their decision making process when following or rejecting these internal control procedures. The study will focus mainly on the working environment of the cashiers and floor personnel that work directly with inventory. These are also employees that work in the direct line of contact with the agriculture cooperative's customers. Employees will be chosen by means of probability sampling. The sampling will be taken from the agriculture cooperative in the Eastern Free State. It will also be a quantitative study as a series of questions will be answered to identify the most probable causes leading to non-adherence of internal control procedures.

The study will be cross-sectional in nature. The employee's state of mind and perception will be determined as they were conducting everyday business the past few months. In order not to interfere with these perceptions, the study cannot be a longitudinal study since it would otherwise alter the behavior and answers of the employees should they perceive the reasons behind the research. It may be possible to draw correlations between length of service worked for the company, and/or the age of the employee and their motivation to comply with internal control procedures.

The results will be added up within the different components in order to determine which supportive component is least effective currently which in turn results in not adhering to internal controls.

1.11 IMPORTANCE OF THE STUDY

John R Leavins and Vinita Ramaswamy (2013) have shown that the importance of inventory control has grown to the point where entities, with a lot of success, has even used radio frequency identification as a tracking and monitoring activity. This indicates a steadily growing movement towards the use of diverse technologies to increase efficient management of inventory and in order to implement more efficient internal controls. The

Institute of directors in Southern Africa in their King III report (2009) first dedicates chapter 4 to risk management and then chapter 7 to the internal audit body responsible for looking after these implemented internal controls in order to manage inventory associated risks. A lack of internal controls adherence will be a material risk that could lead to losses or incorrect financial reporting. The method to contain and manage these risks is the cooperative's internal control framework (Institute of Directors in Southern Africa, 2009). Management can however implement all the right procedures and yet an employee in a branch still has the choice to either adhere to these internal controls and instructions or not. This will influence the outcome of the internal control process. Where internal controls are not adhered to, employees therefore specifically decide to supersede this instruction for some or other reason. If the inefficient framework component can be identified and rectified these control breaks might be remedied.

CHAPTER 2: EXPLORATION OF INTERNAL CONTROLS, A THEORETICAL REVIEW

2.1 INTRODUCTION

In this chapter a review will be conducted on the reason for implementing internal controls and the importance thereof. These controls can be preventative internal controls such as segregation of duties, different authorization levels or clear record keeping. According the University of Arizona (2017) it can also be detective controls such as reviewing financial information in order to look for irregularities or employing monitoring procedures such as exceptions reports. The review will also look at risk management through the implementation framework of internal controls as well as the factors impacting on the effectiveness of these components. It was found that entities with material weakness in internal controls regarding inventory management were more likely to have stock shortages, excess inventory and inventory obsolescence. This was also linked to ineffective inventory-related internal control over financial reporting. In these entities it was also found that the turnover ratios, sales, gross margins and cash flows were directly affected by these internal control weaknesses. Following these findings it was also reported that the unintended benefit of improvement of the internal control of financial reporting on inventory was the improvement of operating performance of these entities (Feng, et al., 2015). There is thus clear evidence of the importance of these internal controls regarding inventory management and its direct influence on the performance of these entities. In order to subsequently address these internal control weaknesses of inventory management, the specific ineffective supportive component needs to be identified.

2.2 DEFINITION AND THE NEED FOR INTERNAL CONTROLS

According to the American Institute of Certified Public Accountants (AICPA) *Employee Benefit Audit Quality Centre Internal Controls* (2014), internal controls is a process that is designed to provide a reasonable level of assurance regarding financial reporting and the achievement of goals effected by personnel and management, as well as others charged with governance. Internal controls are otherwise defined as a process that is affected by the board of directors or its managers as well as other members of an entity that is

designed to provide reasonable assurance regarding that company's achievements of objectives such as operational goals, financial reporting and legal compliance (Committee of Sponsoring Organizations of the Treadway Commission, 2013). If these internal controls are correctly implemented it will safeguard assets from theft, fraud and errors that can cause damage to the entity. The correct and effective internal controls will also ensure accurate financial information across all departments of the entity. This in turn will enable the entity to comply with regulations and laws. These implementations will typically support a more effective business process and the entity will accomplish better operational efficiencies. As stated by CRI Carr Riggs & Ingram (2016) these implementations will in a healthier business entity.

Internal controls are a key element of any business and have become more important through the years. Not only will these controls afford the company's board of directors peace of mind regarding meeting regulatory requirements, but it will also add focus in their pursuit of effectively achieving business goals and in achieving financial performance. It will also assist in not leaving any room for unwelcome financial losses along the way. With these controls in place, the company can deal more effectively with both economic changes and with competition in the business environment (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

2.3 COMPONENTS IDENTIFIED WITHIN THE INTERNAL CONTROL FRAMEWORK

As earlier mentioned, controls cannot only be captured in procedure manuals and policies. It needs to be a functioning system. In order for this system to be effective, each of the five components listed in figure 2.1 needs to be present and correctly implemented. These five components should also operate together in an integrated manner in order to be:

1. Geared to the achievements of the companies objectives in all its categories.
2. An ongoing process consisting of different tasks and activities that makes it an means to an end and not an end in itself.

3. Something that is effected by people. It does not merely consist of policies and procedure manuals or systems and forms but rather consists of actions taken by people at every level of the organization, effecting internal controls.
4. Something that can provide reasonable assurance, not absolute, to its management and board of directors; and
5. Something that is adaptable to the entity structures and that is flexible in its application to the entity or the specific business enterprise or process (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

The internal control framework is graphically represented in Figure 1 as seen below. Each component speaks to all three objectives and to all four business divisions as defined below. Set policies need to for example ensure that proper monitoring is in place i.e. consistent legal compliance is required from entry level units throughout to top levels of the business. These internal controls need to be dynamic, interactive and integrated into the business processes (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

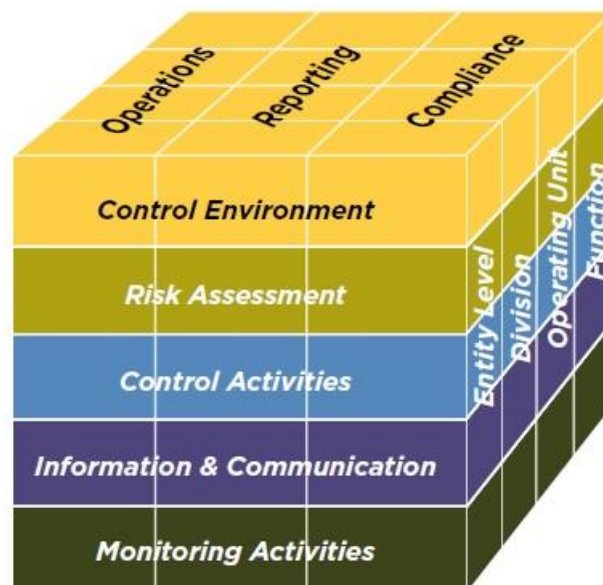


Figure 2.1 - COSO Internal control framework (Committee of Sponsoring Organizations of the Treadway Commission, 2013)

The COSO committee identified three main objectives of the framework of internal controls.

These internal control objectives consist of operations objectives, reporting objectives and compliance objectives (Committee of Sponsoring Organizations of the Treadway Commission, 2013):

Operations Objectives

This objective pertains to the entity's operational effectiveness and efficiency including the financial and operational goals set out by the company. This also includes the safeguarding of the company's assets against losses.

Reporting Objectives

These objectives pertain to the entity's internal and external financial and non-financial reporting obligations. This will include elements such as reliability, timeliness, transparency and all other reporting guidelines the company is subject to.

Compliance Objectives

This objective includes all statutory regulations the company may have to comply with.

The *COSO report* of 2013 then identifies the five components regarding internal controls to support the objectives mentioned. These components need to be effectively managed in order to achieve the required level of control to in turn achieve these objectives. These were identified as:

1. Fostering a favourable control environment.
2. Conducting risk assessment.
3. The designing and implementation of control activities by compiling policies and procedures.
4. Effective communication through the company; and
5. Continuous monitoring of the internal control policies and procedure effectiveness.

When looking at these components, the following functions were identified within each control component as the 17 principles of the internal control framework.

2.3.1 Control environment

1. Demonstrates commitment to integrity and ethical values.
2. Exercises oversight responsibility.
3. Establishes structure, authority and responsibility.
4. Demonstrates commitment to competence; and
5. Enforces accountability.

2.3.2 Risk assessment

6. Specifies suitable objectives.
7. Identifies and analyses risk.
8. Assesses fraud risk; and
9. Identifies and analyses significant changes.

2.3.3 Control activities

10. Selects and develops control activities.
11. Selects and develops general controls over technology; and
12. Deploys through policies and procedures.

2.3.4 Information sharing and communication

13. Uses relevant information.
14. Communicates internally; and
15. Communicates externally.

2.3.5 Monitoring activities

16. Conducts ongoing and/or separate evaluations; and

17. Evaluates and communicates deficiencies.

2.4 IMPLIMENTATION OF THIS FRAMEWORK - THE KING III REPORT ON INTERNAL CONTROLS

The *King III report* places an obligation on the board of directors to report on the effectiveness of the financial internal controls in principle 1.12. (Institute of Directors in Southern Africa, 2009). This report, compiled by the directors, should be included in the integrated report as a statement outside the annual financial statements. This statement should establish formal policies and frameworks as well as address the implementation thereof. The report must further comment on the effectiveness of the company's internal financial controls and lastly, it should also include evidence that a review on these controls has taken place. Internal audit should also make a written assessment of these internal financial controls (Institute of Directors in Southern Africa, 2009).

The board of directors and management thus have an active role to play in the implementation of the framework. The *King III report* places a burden on the governing body to know both which controls are in place and whether they are indeed effective. It is imperative that the governing body ensures that this control framework is functioning optimally (Institute of directors in Southern Africa, 2009).

Internal audit is one of the key partners in assurance providers of the company. As an internal assurance provider, internal audit must function as an independent entity with sufficient resources to fulfil its function. The audit committee must make sure that the above mentioned elements are in place. They must also make sure that there is an acceptable level of cooperation between the internal and external audit departments. The audit committee should at least annually evaluate and report on the effectiveness of the internal audit function. This report should include the internal audit's assessment of the internal control function (Institute of Directors in Southern Africa, 2009). Internal audit's role here is primarily to review and monitor the management team's implementation of internal controls as well as the implementation of the control framework itself.

The internal audit function should also be an active part of the risk management and measuring function. The *King III report* holds the internal audit committee responsible as an integral part of the risk management process accountable for the design,

implementation and maintenance of the internal control function (Institute of Directors in Southern Africa, 2009). This risk identification should correlate with the control framework implemented in order to neutralize the identified risks.

The audit committee should remain responsible for overseeing financial risk management as well as the control environment of the company regarding the following (Institute of Directors in Southern Africa, 2009):

1. Financial reporting and risk management.
2. Reviewing internal financial controls.
3. Detecting and preventing fraud; and
4. Reviewing information technology risks.

2.5 THE AIM AND OBJECTIVES OF IMPLIMENTING EFFECTIVE INTERNAL CONTROLS

One of the main aims and objectives of the implementation of internal controls will always be to provide a reasonable assurance regarding the achievements of the entity's objectives. This level of assurance can be valuable for both the entity as well as its sub-units. Entities that reported weak internal controls were found more likely to have quality issues with regards to their financial reporting. It also affected management's ability to accurately forecast economic growth and profitability of the entity (Feng, et al., 2009). The effective internal control framework can offer an entity a higher level of assurance. In order to offer this level of assurance, the internal control needs to not only deliver on all three objectives identified, but must also be present and functional in each of the five components including its relevant principles. Furtherly, all five of these components must operate together in an integrated manner (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

2.6 KEY PRINCIPLES WITHIN INTERNAL CONTROLS

The key principles are regarded as the fundamental concepts associated with the five different components and, as such, are considered as suitable to all entities. There may

be instances where a certain principle is deemed irrelevant to a specific industry, operation or regulatory situation. Though this is for management to decide upon, it should be considered with the rational kept in mind that a principle's absence could result in a deficiency in the system of internal controls (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

This system of internal controls consists of policies and procedures that reflect management and the board's statement of what should be done to effect internal control. These procedures should effect the implementation of the policies. Each entity has its own unique system and considerations to effect these internal controls. These factors could include:

- Regulations, laws, rules and entity standards.
- The nature of the business and the operating market.
- The scope and nature of the management team operating the system of internal controls.
- The level of competency of the responsible personnel.
- Technology dependency; and
- Response of management to assessed risks.

Management should consider the internal control components and relevant principles with these factors. The effectiveness of the control system will depend on management's comprehension of the influencing factors and their implementation of these processes. The framework allows for judgement and assessment of the internal controls. Where deficiencies occur, the potential impact of the respective deficiency should be considered. The framework also makes room for alternative controls to be implemented (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

2.7 INTEGRATION OF PLANNING -THE IMPLIMENTATION OF THE INTERNAL CONTROL FRAMEWORK

2.7.1 Control environment

The control environment is a human intervention that is initiated by the board of directors. They delegate their responsibility of creating an effective control environment to managers and others whom then create a control environment throughout the whole cooperative. These managers should clearly communicate the importance of internal controls. The absence of effective communication could affect the control environment negatively and result into inefficient internal controls. Management's approach to business risk will give employees an indication regarding its relevance in the control environment. Management's involvement will also determine the employees' degree of understanding of the importance of achieving financial and objective goals, as well as the importance of financial reports (Lalic, et al., 2011). Looking at the cooperative, it is vital to understand the perspectives of the employees regarding the elements mentioned. The strength of the cooperative's control environment will be affected by its investment in its human capital. There is a correlation between the role of human resource investment and the strength of entities' internal controls. It was also found that there was a positive change in the remediation of control weaknesses with a changing of internal control personnel (Choi, et al., 2013). Considering the investment of the cooperative into its human capital, the resulting strength of the entity's internal controls directly reflect the positive control environment set by management. This investment into human capital could for example include training and/or improving the employee's skills. Compensation is also a way of investing in human capital. It can be perceived to be more than simply basic salaries or remuneration and rather reflect payments as a reward on past performance or as an incentive to drive future performance. Recruiting the correct employees is also an example. Retaining staff through motivation also has the benefit of promoting positive change. According to R. Manna (2008) these examples of employee management are necessary to achieve the set goals and the long term objectives of the cooperative. This level of engaged employee management supports the creation of the correct control environment that drives better internal controls. Matching the correct

human capital investing methods with the correct employees (responsible for vital internal controls), can have a positive effect on the entity's internal control framework.

As a guide to improve internal controls through the improvement of the control environment the cooperative needs to consider certain elements. The control environment is one of the most crucial components of the internal control framework. It is however also one of the most subjectively measured elements and can thus be challenging to measure. As such, the vigilance of the audit committee and external auditors is crucial to effect sound financial reporting in the organization. The tone set by top management can greatly affect the control environment and is worthy of formal consideration. In their study, Hermanson, R Dana, Smith, J Jason and Nathaniel M Stephens (2012) found that both internal audit and external audit should educate the board of directors regarding the different risk factors evident in the internal control environment. The measuring of the control environment as well as the communication to the board of directors are crucial tools to be used through internal and external audit by a business entity. These reports from both internal and external audit should be reviewed and actively managed to improve the internal control environment.

COSO's breakdowns of the elements of the control environment can be summarized according to the following principles:

- **Demonstrates commitment to integrity and ethical values**

This integrity and the commitment to make it a set value of the company needs to come down from the top. Management should set the example and demonstrate the behaviour thereof to drive awareness down to all levels of employees. This integrity should be visible through established standards of conduct against which behaviour should continuously be evaluated. Deviations and exceptions should be dealt with promptly and accurately. Management should express their commitment to these values through the mission and value statements they produce. It should also be reflected in their codes of conduct namely within their policies and operating principles (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

- **Exercises oversight responsibility**

Management should establish expected responsibilities as applicable to each relevant expertise. A board for this purpose should also be compiled that must consist of a sufficient number of members independent of the management team. This board will bear a supervisory responsibility to oversee management's implementation of the system of controls (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

- **Establishes structure, authority and responsibility**

Management, in cooperative with the board members, should consider and establish every available structure in order to achieve their objectives. Reporting lines for each structure should also be established to enable the execution of sufficient flow of information through the different levels in the control system. Together with the board of directors, management should delegate the authorities, define the different levels of responsibilities and finally must make use of the necessary processes and technologies to assign these responsibilities (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

- **Demonstrates commitment to competence**

In the setting of policies and procedures there is an expectation of the necessary competence required in employment to achieve the different objectives. There should also be a continuous evaluation of competence across the organization regardless of whether individuals are involved internally or externally with the company. There should also be an urgent focus on attracting, developing and retaining competent individuals and furtherly on proper succession planning (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

- **Enforces accountability**

There must be a well designed structure to communicate and hold individuals accountable for the internal performance regarding adherence to the internal control system. Possible corrective actions should be enforced when compliance doesn't occur. On the other hand, should objectives and goals be achieved,

successes must be rewarded (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

2.7.2 Risk assessment

According to a study done by Fourie and Christo (2013), on internal auditors and their perception of the impact of the COSO risk assessment components on the control effectiveness, it was found that the most emphasis was set on the following:

1. The organizations consideration of risk from external sources.
2. The risk identified in misstated financial statements and steps taken to mitigate those risks; and
3. The estimation of the significance of risk by management.

There is thus little emphasis placed by internal audit on the risk assessment done by employees or on the employee's control environment when considering the following material risk and the needs it addresses:

- **Specifies suitable objectives**

The organization needs to set out the guidelines or rules as to how they will identify risk within the company. Once these risks have been identified, they need to be written into objectives of the company in order to address these risks. Consideration must be given to both align these objectives with the entity's strategic priorities and to also articulate the risk tolerance. This alignment must always correlate with established laws, rules and regulations as well as within the standards set by the company. These objectives that speak to risk tolerance must then be communicated throughout the subunits and right across the entity. Operational objectives should reflect management's decisions and agreed tolerance of acceptable risk. These should include operational and financial performance goals and form the basis supported by the commitment of allocation of resources (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

The external financial reporting objective should align with the applicable accounting standards and have a materiality standard. Here the entity's activities should be reflected and measured. An external non-financial reporting objective should comply with external established standards and frameworks such as health and safety standards. The level of compliance should also be reflected in this objective and should correlate with the company's activities. The internal reporting objective should reflect both the management's choices as well as the company's activities with an acceptable level of precision. Compliance objectives must ensure that the company meets the necessary level of compliance with regards to external laws and regulations, with an acceptable level of tolerance (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

- **Identifies and analyzes risk**

The identification and analysis of risk need to include all the dimensions and divisions of the company. This therefore comprises of the company, its subsidiaries, divisions, operating units and all other functioning units. The analysis must include internal and external factors as well speak to appropriate levels of management. Measurement of the identified risk is important and the significance thereof needs to be determined. Suitable response is then required (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

- **Assesses fraud risk**

The various types of possible fraud include fraudulent reporting, loss of assets and possible corruption resulting from misconduct. The assessment of possible fraud is based on the consideration of both the different pressures as well as the incentives currently present in the company. This consideration results into possible opportunities for unauthorized acquisition, use or disposal of company assets. Possible fraud could also include the altering of the entity's reporting records or any other inappropriate acts. Assessment of fraud cannot occur separate from the assessment of personnel and management's possible engagement or the justification of their behaviour in inappropriate actions (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

- **Identifies and analyses significant changes**

The three most prominent changes are considered as changes in the external environment, changes in the business model or changes in leadership. External changes to consider are elements such as regulatory changes, economical changes or environmental changes.

2.7.3 Control activities

The control activities will mostly differ from one entity to the next although similarities can also be found across most entities. These control activities are set in place in order to meet an identified control objective. If for example the objective is to ensure that all refunds relate to a valid adjustment, control activities could include management comparing refunds, write offs and other adjustments to revenue adjustment documentation. They could also ensure that an established policy exists regarding criteria on the issuing of refunds. Jeffrey L Decker (Decker, 2012) pointed out in his study that proper monitoring is also a control activity that should enforce adherence to procedures and policies. According to Fanxiu (2016) these different activities are supported through available accounting software as well as ongoing system development programs. These activities include:

- **Selection and development of control activities**

Control activities are activities selected to address the identified risk. These activities are developed according to the risk assessment. The activities should address the risk to the extent required and should be shaped to address the company's specific needs in the entity's environment of operations. Relevant business processes need to be implemented as required by the different control activities in the company. Objectives such as accuracy, completeness and validity of transactions should be amongst the process objectives. To achieve these processes, activities such as authorization, approvals as well as verifications could be implemented.

There are also physical controls that could be implemented where atomization is not an option. Technology can also be used to support improvement of business

processes and to automate some crucial control activities. Other reconciliations and supervisory controls can also be looked at as possible control activities or business processes. These control activities can consist of many different activities to balance out the identified risk. These could also include manual, automatic, preventative as well as detective controls (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

- **Selects and develops general controls over technology**

Firstly, a clear understanding of the dependence on technology to improve business processes and control activities is required as there is a direct link between business processes and automated control activities. Understanding this link and co-dependency means that the correct technology must be selected for the correct business process. After the right technology is agreed upon, the development of a control activity must be implemented to oversee the technology infrastructure. The usage of technology must ensure complete, accurate and in time processing. As with all technology, security is crucial and management must always ensure the secure processing of business information when making use of a technology infrastructure. This is necessary in order to protect the company's assets from external threats. The technology used should always be developed and maintained to suit the entities needs and ensure that the entity's objectives are reached (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

- **Deploys through policies and procedures**

The organization's control activities are deployed throughout the company with day-to-day activities. These are implemented as policies and procedures. Designated personnel are assigned different responsibilities in order to execute these policies and procedures. These activities and responsibilities need to be performed in a timely manner by competent personnel. Afterwards, these control activities need to be reviewed to determine if they are appropriate and relevant (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

2.7.4 Information and communication

Jesper Falkner, Mats Heide, Howard Nothhaft, Sara von Pleten, Charlotte Simonsson and Rickard Anderson (2017) found that most managers saw information sharing and communication of business goals as highly important. The entities' co-workers also viewed both internal and external communication as important to achieve a high level of credibility. Communication within a company regarding internal controls, goals and objectives is a crucial part of the entity.

According to JJ Jenkins (2016) communicating the audit findings to management is one of the most important functions of an internal auditor. This communication should not only be the sharing of the findings but to improve the relationship with management by understanding the business environment, identifying issues and elicit support and actions on recommendations. From the COSO Report they indicated the following:

- **Uses relevant information**

Internal controls will always rely and be dependent on information. A process needs to be in place to ensure the required information is made available to support the functioning components of the internal control structure. Data must be captured from internal and external sources. It is then converted into usable insightful information. Information systems must ensure that information is timely, accurate, complete, protected, accessible and retainable as relevant, in order to support the internal control components (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

- **Communicates internally**

Internal control responsibilities are largely dependent on relevant and accurate communication regarding the internal processes. It enables personnel to understand and therefore carry out their duties efficiently. The communication needed must provide information across all levels of the company, both from management to employees as well as from management to the board of directors. There should also be alternative communication lines such as whistle blowing hotlines to encourage anonymous or more specifically, confidential information

sharing. These different communication channels should all be conscious of timing, audience and the nature of information (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

- **Communicates externally**

External communication is provided to parties such as shareholders, partners, owners, regulators, financial analysts or other relevant external parties. There is also opportunity to receive information from external entities such as customers, suppliers or other relevant external entities that need to communicate to the board of directors or management. A separate communication line is needed for these external parties in order to provide a correct platform for communication (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

2.7.5 Monitoring activities

According to the King IV Report the governing body of the entity is responsible for the direction of the internal audit function and the appointment of the internal audit committee. This monitoring function is considered as so important that it is to be independent of the rest of the entities governing body. This is to give a higher level of assurance regarding the financial reporting of the entity. (Institute of directors of Southern Africa, 2016) This audit committee is vital to the integrity of the internal financial controls and to identify and manage internal financial risks. A combined assurance model between internal and external audit should be in place that integrates with the monitoring activity of management. The COSO report gives the following indications.

- **Conducts ongoing and/or separate evaluations**

Every internal control system or framework needs continuous and ongoing evaluation to ensure that the components are both present and fully functional. This evaluation should bear in mind the dynamic nature of the business environment and business processes. Ongoing evaluation should start off from a baseline of comprehension and present state to evaluating future change. The evaluation should be done by well-informed personnel and be integrated with

business processes. Separate evaluations should be conducted from time to time to provide and ensure objective feedback (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

- **Evaluates and communicates deficiencies**

Results from these evaluations should be assessed by management as well as by the board of directors. Deficiencies should be communicated and corrective action be initiated. These corrective actions should then also be monitored.

Implementing an effective, functioning, internal control environment is crucial to any business entity. It is fast becoming an even more important subject through audit and business functionality. However, all five elements as well as its supporting principles should be considered and reviewed. It is subsequently imperative that a business entity should know the strengths and weaknesses of its internal control function.

CHAPTER 3 - METHODOLOGICAL ORIENTATION AND RESULTS; WHICH INTERNAL CONTROL FRAMEWORK COMPONENT IS THE CAUSE FOR NON-ADHERANCE TO INTERNAL CONTROLS IN THE COOPERATIVE.

3.1 INTRODUCTION

In this chapter the research design as well as the research methodology applied will be outlined. In order to insure the correct findings and in order to reach the correct research objectives the methodology and research questions must be carefully considered. It will then be possible to give an analytical overview of the research questionnaires and aim to point out the most to the least effective control elements of the internal control framework of the cooperative. When this is achieved the cooperative can then decide on a cause of action to remedy the problems that was identified in order to have a more effective control environment.

3.2 RESEARCH METHODOLOGY

The internal control framework of the cooperative was identified as the focus area of the researcher's interest. It was decided that the internal control framework's five elements would be the focal point of the research. The research problem was also defined by the researcher by means of supporting definitions found in the research. Once the definition of the research problem was determined, it laid the foundation of the research and suggested the most applicable research method for the study. The applications of the research questions, the research ethics considerations as well as the research sample used in this study will be elaborated on in the following sections.

3.3 QUESTIONNAIRE ANALYSIS

The questionnaire focused on the internal control framework as defined by the *COSO report* as well as on the employees' perceptions regarding each component. In order to measure these controls across a universal platform, employees were selected whom specifically work directly with both inventory and clients. The employees were asked questions, regarding their perceptions, on each of the components of the internal control framework. The reason therefor is to find the cause behind underling disregard and non-adherence to the internal controls. Questionnaires were sent out to all the selected

employees that met the requirements of working with both inventory and clients. These included sales point personnel, administrative personnel as well as sales assistants. The questions and sections were outlined as follows:

- Section 1 – Employee demographic.
- Section 2 – Control environment.
- Section 3 – Risk assessment.
- Section 4 – Control activities.
- Section 5 – Information and communication; and.
- Section 6 – Monitoring activities.

Close ended questions were used and employees needed to respond by selecting a Strongly agree/ Agree/ Disagree/ Strongly disagree answer. There were no middle ground answer options so as to prompt the employee to respond to what he mostly agreed or disagreed with.

3.4 METHODS OF SURVEY

The survey method will include questionnaires that will be sent to the employees in the cooperative through emails. These emails are sent to the branch managers who will assist the employees if clarification is needed. The questionnaires is completed on the survey program that make it impossible to trace the answers back the employee or the branch who filled in the questionnaire. The questionnaires will thus be answered anonymously. The employees would be given opportunity to complete the questionnaire in their own time and they would be allowed to ask questions to the field agents to clarify some of the questions when necessary.

3.5 RESEARCH SAMPLE

The researcher needed to select a type of survey that would best corresponds with the topic of the study. Regarding the selection of the sample, the researcher took into account how to best identify the sample. The sample group that was identified was employees

whom work with both inventory and clients. The reason therefore was to include as many of the internal controls while not expanding the sample field too much. The representative groups and sections are represented in Table 3.1

Table 3.1 – Questionnaire analysis

Questionnaires received	41
Questionnaires usable	41
Questionnaires unusable	0

Of the 41 respondents, 25 correspondents were female and 15 were male with one correspondent choosing not to respond. Correspondents aged between 18 and 25 represented 22% of the population. Respondents aged between 26 and 35 represented 29.3% of the population. Respondents aged between 36 and 45, represented 26.8% of the population while respondents aged 46 and older represented 22% of the population. 150 questionnaires were sent out with a response rate of 27.3%

Years of service for the company were represented as follows.

Table 3.2 - Representative groups according to work experience

Years employed	Percent
Less than 1 year	70.8
1 Year - 5 years	15.6
5 Years - 15 years	4.3
Less than a year	5.0
More than 15 years	4.3

Although management implements the internal control environment, the researcher chose to enquire from the employees functioning within the internal control framework.

Their perceptions regarding which internal control component they currently experience to be least supportive in ensuring adherence to internal controls needed to be attained.

3.6 INTERNAL CONTROL ASSESSMENT

The internal audit results of the last five years were obtained from the cooperative's internal audit department. During these years the internal audit team and the responsible accountant implemented an internal audit checklist. This list was distributed amongst the cooperative employees working at the branches. The audit team supported the accountant in implementing training in order to raise awareness regarding the internal controls implemented. For this purpose, procedure manuals were drafted and distributed. The internal audit reports did however not improve as was expected. The different components in the internal control framework thus needed to be considered to identify the least supportive area of this framework currently in the cooperative.

3.7 RESEARCH RESULTS

The results of the researched target group of employees are discussed below.

3.7.1 Questionnaire analysis

Looking at the respondent's reaction to the questions the following is considered. A Questionnaire that is based on a Likert scale from "Strongly disagree" to Strongly agree" prompted the respondents to either agree or disagree. Values were assigned as follows: Strongly disagree = 4; Disagree = 3; Agree = 2; Strongly agree = 1. Positive response values were below 2.5 and negative response values above 2.5.

Table 3.3 - Questionnaire analysis

Control environment question	Mean	Std. Deviation	
1. The Administrative Commercial Accountant demonstrates high ethical standards	1.90	0.583	The mean indicates a strong positive response that agrees with the statement.
2. The Department Head demonstrates high ethical standards	2.02	0.570	The mean indicates a positive response that agrees with the statement.
3. The Administrative Commercial Accountant strives to comply with regulations affecting the organizations	1.85	0.527	The mean indicates a strong positive response that agrees with the statement.
4. Department Head strives to comply with regulations affecting the organization	1.95	0.590	The mean indicates a strong positive response that agrees with the statement.
5. My Branch Manager demonstrates high ethical standards	2.00	0.592	The mean indicates a positive response that agrees with the statement.
6. My Branch Manager strives to comply with regulations affecting the organization	2.07	0.565	The mean indicates a positive response that agrees with the statement.
7. My Senior Personnel demonstrates high ethical standards	2.05	0.444	The mean indicates a positive response that agrees with the statement.

8. My Senior Personnel complies with the regulations affecting the organization	1.95	0.384	The mean indicates a strong positive response that agrees with the statement.
9. I demonstrate high ethical standards	1.78	0.419	The mean indicates a strong positive response that agrees with the statement.
10. I comply with the regulations affecting the organization	1.93	0.565	The mean indicates a strong positive response that agrees with the statement.
11. Managers and employees are sensitive to ethical considerations of others when making decisions	2.15	0.527	The mean indicates a positive response that agrees with the statement.
12. The Administrative Commercial Accountant places sufficient emphasis on the importance of integrity in their dealings with employees	1.95	0.498	The mean indicates a strong positive response that agrees with the statement.
13. My Branch Manager places sufficient emphasis on the importance of integrity in their dealings with employees	2.00	0.632	The mean indicates a positive response that agrees with the statement.
14. An atmosphere of mutual trust and open communication between management and employees has been established within the organization	2.29	0.642	The mean indicates a positive response with a closer to neutral response but still agrees with the statement.

15. The actions of management are consistent with the stated values and conduct expected of all other employees	2.29	0.512	The mean indicates a positive response with a closer to neutral response but still agrees with the statement.
16. Standards related to personal conduct are periodically discussed with employees by managers	2.24	0.538	The mean indicates a positive response that agrees with the statement.
17. I have the qualifications, necessary to perform my job adequately	1.88	0.510	The mean indicates a strong positive response that agrees with the statement.
18. I have the knowledge, necessary to perform my job adequately	1.93	0.608	The mean indicates a strong positive response that agrees with the statement.
19. I have the training necessary to perform my job adequately	2.34	0.575	The mean indicates a positive response with a closer to neutral response but still agrees with the statement.
20. Employees in my work unit have the knowledge necessary to perform their job adequately	2.51	0.637	The mean indicates a neutral response.
21. Employees in my work unit have the training necessary to perform their job adequately	2.41	0.547	The mean indicates a positive response with a closer to neutral response but still agrees with the statement..
22. My work unit learns from their mistakes	2.17	0.543	The mean indicates a positive response that agrees with the statement.

23. My work unit is committed to providing quality services	2.12	0.640	The mean indicates a positive response that agrees with the statement.
24. I feel I have the opportunity to advance within the organization	2.10	0.700	The mean indicates a positive response that agrees with the statement.
25. I am satisfied with the training opportunities made available to me	2.22	0.525	The mean indicates a positive response that agrees with the statement.
26. In my work unit we are cross-trained so that we can fill in for each other when necessary	2.41	0.631	The mean indicates a positive response with a closer to neutral response but still agrees with the statement.
27. Management is open to suggestions for improvement	2.12	0.600	The mean indicates a positive response that agrees with the statement.
28. Personnel turnover has not impacted my work unit's ability to effectively perform its function	2.54	0.711	The mean indicates a neutral response that agrees with the statement.
29. Employees in my work unit are treated fairly and justly	2.24	0.663	The mean indicates a positive response that agrees with the statement.

Most of the correspondents agreed with the statements in the questionnaire regarding the affectivity of the control environment. There were however weaker levels of agreement on questions 20 (2.51), 21 (2.41), 26 (2.41) and 28 (2.54).

Risk assessment questions	Mean	Std. Deviation	
1. For the coming year, I am accountable for defined, measurable objectives regarding inventory	1.88	0.400	The mean indicates a strong positive response that agrees with the statement.
2. I have sufficient resources to accomplish my objectives regarding inventory control	2.07	0.412	The mean indicates a positive response that agrees with the statement.
3. The objectives and goals of my work regarding inventory control can be accomplished	1.93	0.412	The mean indicates a strong positive response that agrees with the statement.
4. Management has given me an appropriate level of authority to work with inventory to accomplish my goals	1.95	0.590	The mean indicates a strong positive response that agrees with the statement.
5. Generally, I do not feel unreasonable pressure to get the job done at any expense	2.24	0.582	The mean indicates a positive response that agrees with the statement.
6. In my branch, we identify problems and resolve issues that could impact achievement of inventory control objectives	2.12	0.510	The mean indicates a positive response that agrees with the statement.

7. In my branch, the processes for new technology and changes regarding inventory control are adequately managed	2.24	0.538	The mean indicates a positive response that agrees with the statement.
8. If you supervise staff, answer the following, otherwise go to Question 9 : I hold my staff accountable for defined, measurable objectives	1.92	0.400	The mean indicates a strong positive response that agrees with the statement.

Most of the correspondents agreed with the statements in the questionnaire regarding the affectivity of the risk assessment activities. Answers to questions 1 (1.88), 3 (1.95), 4 (1.93) and 8 (1.92) measured some of the closest values to 1 indicating a strong agreement by the respondents.

Control activities questions	Mean	Std. Deviation	
1. The policies and procedures in my work unit allow me to work effectively with inventory	2.00	0.387	The mean indicates a positive response that agrees with the statement.
2. My work unit's policies and procedures regarding the handling of inventory are reasonable	1.95	0.384	The mean indicates a strong positive response that agrees with the statement.

3. My work unit's policies and procedures regarding the handling of inventory are well known to me	1.93	0.519	The mean indicates a strong positive response that agrees with the statement.
4. My Branch's work policies and procedures regarding the handling of inventory are well known to all employees	2.05	0.545	The mean indicates a positive response that agrees with the statement.
5. My work unit's policies and procedures regarding the handling of inventory are consistent	2.05	0.545	The mean indicates a positive response that agrees with the statement.
6. Employees who break regulations regarding the handling of inventory will be discovered	1.90	0.539	The mean indicates a strong positive response that agrees with the statement.
7. Employees who break regulations regarding the handling of inventory, and are discovered will be subject to appropriate consequences	1.95	0.545	The mean indicates a strong positive response that agrees with the statement.
8. Employees who steal inventory from the organization will be discovered	1.90	0.583	The mean indicates a strong positive response that agrees with the statement.

9. Employees who steal inventory from the organization and are discovered will be subject to appropriate consequences	1.80	0.511	The mean indicates a strong positive response that agrees with the statement.
10. My work involving inventory is adequately supervised	1.93	0.469	The mean indicates a strong positive response that agrees with the statement.
11. We are discouraged from sharing our computer passwords with others	1.88	0.714	The mean indicates a strong positive response that agrees with the statement.

Most of the correspondents agreed with the statements in the questionnaire regarding the affectivity of the control activities. Some of the strongest agreement levels are measured from this component in question 9 (1.80) and question 11 (1.88).

Information and communication questions	Mean	Std. Deviation	
1.Our information systems provide management with timely reports regarding inventory on my performance relative to established objectives	2.05	0.384	The mean indicates a positive response that agrees with the statement.
2. There is a way for me to provide recommendations regarding handling of inventory for process improvements	2.05	0.312	The mean indicates a positive response that agrees with the statement.

3. The interaction between management and me enables me to perform my job with inventory handling effectively	1.98	0.570	The mean indicates a strong positive response that agrees with the statement.
4. The communication across departmental boundaries enables me to perform my job regarding the handling of inventory effectively	2.15	0.615	The mean indicates a positive response that agrees with the statement.
5. I have sufficient information regarding inventory to do my job	1.98	0.474	The mean indicates a strong positive response that agrees with the statement.
6. Management has clearly communicated to me the behaviour that is expected of me regarding the handling of inventory	1.93	0.519	The mean indicates a strong positive response that agrees with the statement.
7. Management is aware of my actual performance on handling of inventory	2.02	0.570	The mean indicates a positive response that agrees with the statement.
8. A communication channel exists for reporting suspected irregularities regarding the handling of inventory	1.93	0.346	The mean indicates a strong positive response that agrees with the statement.

9. I know where to report employee misconduct on the handling of inventory	1.88	0.510	The mean indicates a strong positive response that agrees with the statement.
10. If I report wrongdoing regarding inventory handling to my supervisor, I am confident the wrongdoing will stop	2.15	0.615	The mean indicates a positive response that agrees with the statement.
11. Employees who report suspected wrongdoing are protected, no one will find out that they reported the wrongdoing	2.15	0.527	The mean indicates a positive response that agrees with the statement.
12. Employees, management and work groups cooperate to reach shared goals of handling of inventory	1.98	0.524	The mean indicates a strong positive response that agrees with the statement.

Most of the correspondents agreed with the statements in the questionnaire regarding the affectivity of the communication and information sharing activities.

Monitoring activities questions	Mean	Std. Deviation	
1. Information reported to management reflects the actual results of my operations on handling inventory	1.98	0.418	The mean indicates a strong positive response that agrees with the statement.

2. I have access to enough information to monitor inventory performance	2.00	0.387	The mean indicates a positive response that agrees with the statement.
3. Internal feedback complaints regarding inventory are followed up on in an effective manner	1.98	0.418	The mean indicates a strong positive response that agrees with the statement.
4. Internal feedback complaints regarding inventory are followed up on in a timely and manner	2.07	0.412	The mean indicates a positive response that agrees with the statement.
5. We consider customer complaints regarding inventory in order to identify quality problems	1.90	0.583	The mean indicates a strong positive response that agrees with the statement.
6. We consider customer feedback regarding inventory in order to identify quality problems	1.83	0.543	The mean indicates a strong positive response that agrees with the statement.
7. The quality of output in my working with inventory is measurable	2.00	0.387	The mean indicates a positive response that agrees with the statement.
8. Employees in my branch know what actions to take when they find mistakes in how we are supposed to handle inventory	2.12	0.557	The mean indicates a positive response that agrees with the statement.
9. Management is aware of problems I encounter when handling inventory	1.95	0.498	The mean indicates a strong positive response that agrees with the statement.

10. My Branch manager reviews my handling of inventory with me at appropriate intervals	2.07	0.469	The mean indicates a positive response that agrees with the statement.
11. I know what action to take if I become aware of irregular activities regarding inventory	1.98	0.418	The mean indicates a strong positive response
12. The system information regarding inventory helps me to accurately do my job	1.93	0.412	The mean indicates a strong positive response that agrees with the statement.
13. Computerized data entry systems used within my branch effectively prevents incorrect inventory	2.07	0.519	The mean indicates a positive response that agrees with the statement.

Most of the correspondents agreed with the statements in the questionnaire regarding the affectivity of the monitoring activities. Very strong agreement levels are measured from this component in question 5 (1.90) and question 6 (1.83).

3.7.2 Reliability

The Cronbach's Alpha indicates a reliable data set. The least positive combined mean response was 2.199 which was from the response on questions regarding the category component *the control environment* on employee level. Of the five components the control environment thus tested the lowest with a mean of 2.199. The strongest or most positive response was reported on the category component *control activities* (1.99) and *control activities* (1.97).

Table 3.4 - Reliability comparison

Internal Control Component	N	Cronbach's Alpha	Mean	Std. Deviation
Control Environment Management	41	0.70	2.06	0.30
Control Environment Branch	41	0.72	2.13	0.27
Control Environment Employees	41	0.66	2.20	0.34
Control Environment	41	0.70	2.13	0.24
Risk Assessment	41	0.67	2.06	0.29
Control Activities	41	0.84	1.94	0.33
Communication	41	0.72	2.02	0.25
Monitor activities	41	0.86	1.99	0.28
Valid N (list wise)	41			

The data set measures a Chronbach alpha of between 0.66 and 0.86 indicating a reliable data set. When the five components are compared, most correspondents agreed the strongest with statements regarding the control activities and monitoring activities. The correspondents agreed less on the statements regarding the control environment.

3.7.3 The T-Test

Group statistics shows that mostly males' and females' answers have a very closely related mean with the exception of the control environment component and more specifically the control environment component on employee level.

Table 3.5 - Group analysis

Group Statistics						
Gender		N	Mean	Std. Deviation	P Value	Effect sizes
Control Environment Management	Male	15	2.12	0.34	0.309	0.32
	Female	25	2.02	0.29		
Control Environment Branch	Male	15	2.17	0.34	0.525	0.19
	Female	25	2.10	0.23		
Control Environment Employees	Male	15	2.34	0.27	0.031	0.63
	Female	25	2.12	0.35		
Control Environment	Male	15	2.21	0.28	0.129	0.47
	Female	25	2.08	0.21		
Risk Assessment	Male	15	2.10	0.31	0.621	0.16
	Female	25	2.05	0.28		
Control Activities	Male	15	1.94	0.44	0.992	0.00
	Female	25	1.94	0.25		
Communication	Male	15	1.98	0.32499	0.489	0.20
	Female	25	2.04	0.20144		
	Male	15	1.92	0.39	0.335	

Monitor activities	Female	25	2.03	0.20		0.27
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The biggest effect size difference between male and females is on the control environment. This indicates a difference in opinion on the questionnaire statement. Men agreed less positively with these “related” statements on the control environment. The low P-values of 0.031 indicate a higher than 95% certainty that the control environment measured a weak response from the respondents regarding the affectivity of this component. The control environment as a whole has a P-value of 0.129 indicating a 87% certainty regarding a weak response on the agreement to the statements in the questionnaire.

3.7.4 Correlations

Table 3.6 - Correlation analysis

Spearman's rho Correlations Matrix								
Correlation Coefficient Comparison	Control Environment - Management	Control Environment - Branch	Control Environment - Employees	Control Environment	Risk Assessment	Control Activities	Communication	Monitor activities
Control Environment - Management	1.000	0.694**	0.267	0.744**	0.379*	0.493**	0.394*	0.389*
Control Environment - Branch	0.694**	1.000	0.528**	0.907**	0.323*	0.674**	0.363*	0.436**
Control Environment - Employees	0.267	0.528**	1.000	0.708**	0.229	0.361*	0.016	0.456**
Control Environment	0.744**	0.907**	0.708**	1.000	0.360*	0.630**	0.328*	0.496**
Risk Assessment	0.379*	0.323*	0.229	0.360*	1.000	0.476**	0.448**	0.520**
Control Activities	0.493**	0.674**	0.361*	0.630**	0.476**	1.000	0.528**	0.619**
Communication	0.394*	0.363*	0.016	0.328*	0.448**	0.528**	1.000	0.443**
Monitor activities	0.389*	0.436**	0.456**	0.496**	0.520**	0.619**	0.443**	1.000

* Indicates a medium correlation between components

** Indicates a strong correlation between components

Looking at the control environment component correlation it is clear that there is an above medium correlation between the different environments in the cooperative. The control

environment has the strongest correlation to the other activities when compared to one another.

The control environment in a whole has an average correlation to *control activities* (0.496) and *monitor activities* (0.630). It also has medium correlation to *risk assessment* (0.360), *communication and information sharing* (0.328).

Risk assessment activities has an overall medium correlation to *control activities* (0.476), *communication and information sharing activities* (0.448) and *monitor activities* (0.520).

Control activities has a medium correlation to *communication and information* (0.528) *sharing activities* with a stronger than medium correlation with *monitoring activities* (0.619). There is a medium correlation between *communication and information sharing* and *monitoring activities* (0.443)

The questionnaire was divided into the five components with the control environment fatherly divided into another three parts namely: the control environment at management level; the control environment at branch level and the control environment at employee level.

3.7.5 Effect size

Table 3.7 - Effect sizes: Age group

Compliance factors				Age		
		Mean	Std. Deviation	18-25	26-35	36-45
18 - 25	Control Environment Management	2.06	0.49			
	Control Environment Branch	2.03	0.33			
	Control Environment Employees	2.02	0.36			
	Control Environment	2.04	0.32			
	Risk Assessment	2.06	0.42			
	Control Activities	1.90	0.46			
	Communication	2.09	0.35			

	Monitor activities	1.90	0.42			
	Valid N (listwise)					
26-35	Control Environment Management	2.13	0.21	0.14		
	Control Environment Branch	2.21	0.32	0.53		
	Control Environment Employees	2.26	0.39	0.63		
	Control Environment	2.20	0.26	0.51		
	Risk Assessment	2.11	0.27	0.10		
	Control Activities	1.96	0.35	0.14		
	Communication	2.10	0.17	0.01		
	Monitor activities	1.97	0.26	0.17		
	Valid N (listwise)					
36-45	Control Environment Management	2.00	0.34	0.13	0.38	
	Control Environment Branch	2.09	0.23	0.16	0.39	
	Control Environment Employees	2.26	0.29	0.68	0.01	
	Control Environment	2.12	0.21	0.24	0.33	
	Risk Assessment	2.05	0.26	0.03	0.21	
	Control Activities	2.01	0.20	0.24	0.13	
	Communication	1.96	0.20	0.37	0.68	
	Monitor activities	2.08	0.22	0.44	0.44	
	Valid N (listwise)					
46-55	Control Environment Management	2.04	0.08	0.05	0.45	0.11
	Control Environment Branch	2.14	0.14	0.31	0.24	0.21
	Control Environment Employees	2.22	0.27	0.57	0.10	0.13
	Control Environment	2.13	0.13	0.29	0.27	0.07
	Risk Assessment	2.02	0.24	0.11	0.34	0.14
	Control Activities	1.87	0.29	0.07	0.27	0.47
	Communication	1.91	0.25	0.53	0.74	0.21
	Monitor activities	2.00	0.22	0.24	0.12	0.37
	Valid N (listwise)					

The effect size quantifies the difference between these age groups in their responses. Most medium to large deviations on the means effect size are on the control component

of control environment and mostly on the control environment of employees. Considering the age groups 18 – 25 and 26 – 35 there is a medium to large difference on the effect sizes of the cooperative's control environment. There is also a high deviation in the mean on the age groups 26 - 35 and the other groups of 36 – 45 and 46 – 55 on communication and information sharing.

Table 3.8 - Effect size: Working experience

Years of service in the Cooperative		Mean	Std. Deviation	Less 1 year	1-5 years	5-15 years with
1 Years - 5 Years	Control Environment Management	2.10	0.32	0.51		
	Control Environment Branch	2.16	0.25	1.04		
	Control Environment Employees	2.23	0.32	0.65		
	Control Environment	2.16	0.21	0.78		
	Risk Assessment	2.05	0.31	0.03		
	Control Activities	1.91	0.36	0.01		
	Communication	1.99	0.26	0.10		
	Monitor activities	1.99	0.30	0.41		
	Valid N (listwise)					
5 Years - 15 Years	Control Environment Management	2.09	0.27	0.49	0.03	
	Control Environment Branch	2.28	0.35	1.06	0.33	
	Control Environment Employees	2.43	0.50	0.81	0.40	
	Control Environment	2.27	0.29	1.12	0.36	
	Risk Assessment	2.07	0.25	0.08	0.06	
	Control Activities	2.06	0.21	0.35	0.43	
	Communication	2.14	0.16	0.31	0.58	
	Monitor activities	2.10	0.15	0.69	0.37	
	Valid N (listwise)					
Less than a year	Control Environment Management	1.90	0.39		0.51	
	Control Environment Branch	1.90	0.24		1.04	

	Control Environment Employees	2.02	0.27		0.65	
	Control Environment	1.94	0.29		0.78	
	Risk Assessment	2.04	0.38		0.03	
	Control Activities	1.91	0.43		0.01	
	Communication	2.02	0.37		0.10	
	Monitor activities	1.84	0.39		0.41	
	Valid N (listwise)					
More than 15 Years	Control Environment Management	2.06	0.09	0.39	0.14	0.14
	Control Environment Branch	2.10	0.12	0.79	0.26	0.51
	Control Environment Employees	2.07	0.08	0.19	0.49	0.71
	Control Environment	2.07	0.07	0.46	0.42	0.66
	Risk Assessment	2.12	0.11	0.20	0.21	0.19
	Control Activities	1.98	0.09	0.18	0.22	0.36
	Communication	2.00	0.11	0.07	0.04	0.85
	Monitor activities	2.05	0.11	0.56	0.19	0.34
	Valid N (listwise)					

Employees working less than 1 year compared to employees working 1 – 5 years and 5 – 10 years have a large effect size difference on their mean on the internal control component of the control environment.

CHAPTER 4 - SUMMARY, CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

4.1 INTRODUCTION

The importance of internal controls is undeniable. Functions such as the improvement of inventory turnover, financial reporting as well as many other functions not mentioned here, will be affected by weak internal controls. These internal controls are relevant to all and any business entities. The design of each internal control framework may vary from business to business but the importance thereof remains.

The continuous non-adherence to internal control processes and procedures poses a significant threat to the cooperative. The internal control framework must be an effective functioning system protecting the entity's assets and financial information. The effectiveness of this framework however is dependent on employees implementing these different internal control related activities efficiently. There are five different framework components that need to be equally active and maintained for the framework to be most supportive in encouraging adherence to internal controls.

These five components form the foundation of internal controls in the workplace. The researcher summarized the discussion on these components in preceding chapters and reviewed the outline of the findings regarding their respective influence in the cooperative. The chapter concluded by contributing recommendations regarding which component currently could be invested into in order to drastically improve adherence to internal controls.

4.2 SUMMARY OF THE STUDY

Chapter 1 presents the background and orientation of the study. Also, the identified problems regarding the identified topic were discussed which gave insight as to the focus the study should envision. This also added to the refinement of the study. The research questions and objectives were formulated based on the areas addressed by the study focus. The research design was also formulated from the study focus.

In Chapter 2, the importance of internal controls in every business entity was emphasized as well as the pertinent responsibility of management in the implementation thereof. The

COSO framework was identified as a tool to identify relevant components influencing adherence to internal controls. The five components of which the framework consist of was well defined and elaborated on by also further having discussed the different principles each component comprises of.

Chapter 3 presented the research methodology and the research results drawn from the responses to the questionnaire used. The main goal of the research was aimed at identifying the internal control component that could lead to the non-adherence of the procedures and policies that was put in place by management. The study achieved its goal by identifying the control environment as the weakest component.

Chapter 4 concluded the study by describing the different chapters and the findings of the study. It also includes recommendations to management on how to improve the internal control framework.

4.3 RESEARCH FINDINGS

Non-adherence to internal controls was identified as an on-going concern, especially after management has tried various improvement methods such as building awareness regarding accounting processes and by implementing internal audit checklists. Little improvement in the adherence to the internal control processes was reported after these methods were implemented by management. The internal control framework of the *COSO report* was therefore used as a starting point and basis to identify the least supportive component that management could invest into in order to improve employee adherence.

4.3.1 Control environment

The control environment is set and influenced by the human intervention of the board of directors and the management team. The *King III report* identified the board of directors and management team as primarily responsible for ensuring that internal controls are in place in the cooperative. They are responsible for guidance regarding the internal controls required in their entity and for implementing of the internal control framework. The so-called tone set at the top is responsible for creating the work environment within which the internal controls function in. This also affects the employees who ultimately need to

adhere to these internal controls as they are dependent on a supportive control environment. This environment is furthermore affected by the employee's view of the integrity of management and management's dedicated focus or lack thereof on regulatory compliance. Employees will respond either positively or negatively to the tone at the top as they perceive the manner with which structures and controls are implemented. If there is an unsupportive control environment within which employees must function, internal controls will suffer as a result.

The research showed that the control environment component was the least supportive performing component which could lead to non-adherence of internal controls implemented. The control environment also had the strongest influencing correlation to the other components. Investment in the control environment will thus have the largest impact on increasing adherence of internal controls.

4.3.2 Risk assessment activity

Employees must understand the impact of certain risks to their work environment. The identification of this risk could be considered to originate from external or internal sources that directly or indirectly affect business. Although the risk profile of the cooperative was not considered in the research, the identification of risk by employees was evaluated. The results indicate clearly that there is a high level of input from management regarding the identification of risk within the cooperative.

4.3.3 Control activities

Control activities are implemented through procedures and policies defining employee's way of handling their daily duties. Segregation of duties needs to be ensured through the defining of functions while supportive activities need to be developed to aid employees in meeting their function's requirements. These activities must be developed in line with the cooperative's unique identity and suitable, available technology must be considered. The results from the research show that the employees responded positively to the control activities implemented thus indicating that currently these activities are applicable and functional.

4.3.4 Information sharing and communication

Both information sharing and communication are integral parts of the internal control framework and should be present between employees and management. Information shared and communicated with management ensured in turn that the necessary control activities were implemented. The integrity of information sharing needs to be protected as it contains vital data used in financial reporting. The cooperative's employees had a positive response in the research conducted regarding information sharing and communication.

4.3.5 Monitoring activities

Monitoring activities needs to be a continuous process of evaluating the control systems or the components of the internal control framework. Objective evaluation should consider changes in the environment as well as in the business' needs. Where deficiencies are identified, exception reports should be generated and communicated for assessment by management, so that corrective actions can be implemented. All five components should be monitored including its supporting principles to ensure an effective internal control framework. The cooperative interviewed showed a positive response to the monitor activities questions. This positive response by employees reflects positively on the efforts made by management and internal audit to improve monitoring activities.

4.4 FINAL RECOMMENDATIONS

4.4.1 Recommendations to the management team and the board of directors

It is clear that the internal control framework is an integral part of management's responsibility towards generating a healthy accountable business. This internal control framework is one of the best guidelines available to support the policies and procedures of management. It is clear from the research that currently investing into improving the control environment will have the largest impact on improving adherence to internal controls. If in other words management should invest in understanding and improving factors supportive to an ideal control environment, which they are responsible for creating, adherence to internal controls implemented in the cooperative will largely improve.

Investing into the internal control environment will also have a positive effect on the other four components. The management team can for example implement a high ethical code of conduct that they demonstrate in their everyday behaviour and with which they measure themselves. This code of conduct should then be transparent and communicated throughout the cooperative. If there are any deviations from this conduct it should be resolved as soon as possible and in a consequent manner.

Management should also consider other available supporting structures of the entity. All the divisions must have for example the same level of training, availability of guidance with supporting operating manuals and audit accountability. Finally, reporting lines should always be clear and comprehensive to ensure accountability and consistency.

4.4.2 Future research

Internal controls are not limited to the branches of the cooperative. The internal control framework is also applicable to all other divisions. These divisions are however excluded from this study and in future research they could form part of a bigger research project to evaluate the internal control framework of the cooperative as a whole. This should give management a better understanding of the control environment in its entirety that they have put in place.

Further studies can also be done as to what principle in the control environment is the most problematic. This could assist management to even better understand which specific area they should invest their attention in.

A study could also be done to research and measure the impact on adherence to internal controls after management has invested into a specific component.

4.5 CONCLUSION

Every part of the internal control framework is equally important. Every principle given needs to be evaluated and implemented while carefully considering the impact of different business components. The internal controls put in place through policies and procedures play an integral part in ensuring both a successful business and financial reporting with a high level of assurance. The management team needs to understand their responsibility in the implementation thereof and needs to be measured accordingly. The *COSO internal*

control framework is an excellent standard to use to design the policies and procedures required to ensure adherence to internal controls. They can then be measured and evaluated according to the seventeen principles provided by the framework.

In this study, the component that scored the lowest measure within the internal control framework was the internal control environment component. Since this component has a high correlation to the other components, it would be a great concern for management and the first place to start with corrective measures.

In conclusion, putting policies and procedures in place to create a healthy internal control environment for better adherence to internal controls is an ongoing process with ceaseless development available. Therefore, these policies and procedures must periodically be evaluated and changed to ensure they speak to current, most effective, internal control adherence. This will in turn result into a higher level of assurance of compliance regarding financial reporting as well as more effective business processes.

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ANNEXURES A – QUESTIONS AND REPONSES

A1 - Control Environment

Questions 1 – 29 on the control environment measured a Cronbach's Alpha value of 0.69 indicating a reliable data set. Questions regarding the control environment had the lowest mean of 2.21 bordering on the 2.5 which will be a neutral response. There was also a low standard deviation ensuring that most correspondents felt this way.

1. The Administrative Commercial Accountant demonstrates high ethical standards

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	8	5.7	19.5	19.5
	Agree	30	21.3	73.2	92.7
	Disagree	2	1.4	4.9	97.6
	Strongly disagree	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

2. The Department Head demonstrates high ethical standards

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	6	4.3	14.6	14.6
	2	28	19.9	68.3	82.9
	3	7	5.0	17.1	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

Most respondents agreed that the department head demonstrated a high ethical standard.

3. The Administrative Commercial Accountant strives to comply with regulations affecting the organizations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	9	6.4	22.0	22.0
	2	29	20.6	70.7	92.7
	3	3	2.1	7.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

4. Department Head strives to comply with regulations affecting the organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	8	5.7	19.5	19.5
	2	27	19.1	65.9	85.4
	3	6	4.3	14.6	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

5. My Branch Manager demonstrates high ethical standards

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	7	5.0	17.1	17.1
	2	27	19.1	65.9	82.9
	3	7	5.0	17.1	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

6. My Branch Manager strives to comply with regulations affecting the organization

		Frequency	Percent	Valid Percent	Cumulative Percent
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Valid	1	5	3.5	12.2	12.2
	2	28	19.9	68.3	80.5
	3	8	5.7	19.5	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

7. My Senior Personnel demonstrates high ethical standards

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	3	2.1	7.3	7.3
	2	33	23.4	80.5	87.8
	3	5	3.5	12.2	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

8. My Senior Personnel complies with the regulations affecting the organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.8	9.8	9.8
	2	35	24.8	85.4	95.1
	3	2	1.4	4.9	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

9. I demonstrate high ethical standards

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	9	6.4	22.0	22.0
	2	32	22.7	78.0	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

10. I comply with the regulations affecting the organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	7	5.0	17.1	17.1
	2	31	22.0	75.6	92.7
	3	2	1.4	4.9	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

11. Managers and employees are sensitive to ethical considerations of others when making decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.4	4.9	4.9
	2	32	22.7	78.0	82.9
	3	6	4.3	14.6	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

12. The Administrative Commercial Accountant places sufficient emphasis on the importance of integrity in their dealings with employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	6	4.3	14.6	14.6
	2	31	22.0	75.6	90.2
	3	4	2.8	9.8	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

13. My Branch Manager places sufficient emphasis on the importance of integrity in their dealings with employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	8	5.7	19.5	19.5
	2	25	17.7	61.0	80.5
	3	8	5.7	19.5	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

14. An atmosphere of mutual trust and open communication between management and employees has been established within the organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.4	4.9	4.9
	2	27	19.1	65.9	70.7
	3	10	7.1	24.4	95.1
	4	2	1.4	4.9	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

15. The actions of management are consistent with the stated values and conduct expected of all other employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	30	21.3	73.2	73.2
	3	10	7.1	24.4	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

16. Standards related to personal conduct are periodically discussed with employees by managers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.4	4.9	4.9
	2	27	19.1	65.9	70.7
	3	12	8.5	29.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

17. I have the qualifications, necessary to perform my job adequately

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	8	5.7	19.5	19.5
	2	30	21.3	73.2	92.7
	3	3	2.1	7.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

18. I have the knowledge, necessary to perform my job adequately

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	9	6.4	22.0	22.0
	2	26	18.4	63.4	85.4
	3	6	4.3	14.6	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

19. I have the training necessary to perform my job adequately

		Frequency	Percent	Valid Percent	Cumulative Percent
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Valid	1	1	0.7	2.4	2.4
	2	26	18.4	63.4	65.9
	3	13	9.2	31.7	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

20. Employees in my work unit have the knowledge necessary to perform their job adequately

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	0.7	2.4	2.4
	2	20	14.2	48.8	51.2
	3	18	12.8	43.9	95.1
	4	2	1.4	4.9	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

21. Employees in my work unit have the training necessary to perform their job adequately

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	0.7	2.4	2.4
	2	22	15.6	53.7	56.1
	3	18	12.8	43.9	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

22. My work unit learns from their mistakes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.4	4.9	4.9
	2	31	22.0	75.6	80.5

	3	7	5.0	17.1	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

23. My work unit is committed to providing quality services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	5	3.5	12.2	12.2
	2	27	19.1	65.9	78.0
	3	8	5.7	19.5	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

24. I feel I have the opportunity to advance within the organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	6	4.3	14.6	14.6
	2	27	19.1	65.9	80.5
	3	6	4.3	14.6	95.1
	4	2	1.4	4.9	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

25. I am satisfied with the training opportunities made available to me

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	0.7	2.4	2.4
	2	31	22.0	75.6	78.0
	3	8	5.7	19.5	97.6

	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

26. In my work unit we are cross-trained so that we can fill in for each other when necessary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.4	4.9	4.9
	2	21	14.9	51.2	56.1
	3	17	12.1	41.5	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

27. Management is open to suggestions for improvement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.8	9.8	9.8
	2	29	20.6	70.7	80.5
	3	7	5.0	17.1	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

28. Personnel turnover has not impacted my work unit's ability to effectively perform its function

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	24	17.0	58.5	58.5
	3	12	8.5	29.3	87.8
	4	5	3.5	12.2	100.0
	Total	41	29.1	100.0	

Missing	System	100	70.9		
Total		141	100.0		

29. Employees in my work unit are treated fairly and justly

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.4	4.9	4.9
	2	30	21.3	73.2	78.0
	3	6	4.3	14.6	92.7
	4	3	2.1	7.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

A2 - Risk Assessment

Questions 1 – 8 on risk assessment measured a Cronbach's Alpha value of 0.67 indicating a reliable data set. Questions regarding the control environment had a mean of 2.06 indicating a positive response. There was also a low standard deviation measured of 0.29 ensuring that most correspondents felt this way.

1. For the coming year, I am accountable for defined, measurable objectives regarding inventory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	6	4.3	14.6	14.6
	2	34	24.1	82.9	97.6
	3	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

2. I have sufficient resources to accomplish my objectives regarding inventory control

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.4	4.9	4.9
	2	34	24.1	82.9	87.8
	3	5	3.5	12.2	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

3. The objectives and goals of my work regarding inventory control can be accomplished

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	5	3.5	12.2	12.2
	2	34	24.1	82.9	95.1
	3	2	1.4	4.9	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

4. Management has given me an appropriate level of authority to work with inventory to accomplish my goals

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	7	5.0	17.1	17.1
	2	30	21.3	73.2	90.2
	3	3	2.1	7.3	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

5. Generally, I do not feel unreasonable pressure to get the job done at any expense

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.4	4.9	4.9
	2	28	19.9	68.3	73.2
	3	10	7.1	24.4	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

6. In my branch, we identify problems and resolve issues that could impact achievement of inventory control objectives

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.4	4.9	4.9
	2	33	23.4	80.5	85.4
	3	5	3.5	12.2	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

7. In my branch, the processes for new technology and changes regarding inventory control are adequately managed

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	0.7	2.4	2.4
	2	30	21.3	73.2	75.6
	3	9	6.4	22.0	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

8. If you supervise staff, answer the following, otherwise go to Question 9 : I hold my staff accountable for defined, measurable objectives

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	3	2.1	12.0	12.0
	2	21	14.9	84.0	96.0
	3	1	0.7	4.0	100.0
	Total	25	17.7	100.0	
Missing	System	116	82.3		
Total		141	100.0		

A3 - Control Activities

Questions 1 – 11 on control activities measured a Cronbach's Alpha value of 0.33 indicating a reliable data set. Questions regarding the control environment had a mean of 1.94 indicating a positive response. There was also a medium standard deviation measured of 0.33 ensuring that most correspondents felt this way.

1. The policies and procedures in my work unit allow me to work effectively with inventory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	3	2.1	7.3	7.3
	2	35	24.8	85.4	92.7
	3	3	2.1	7.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

2. My work unit's policies and procedures regarding the handling of inventory are reasonable

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.8	9.8	9.8
	2	35	24.8	85.4	95.1
	3	2	1.4	4.9	100.0

	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

3. My work unit's policies and procedures regarding the handling of inventory are well known to me

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	7	5.0	17.1	17.1
	2	30	21.3	73.2	90.2
	3	4	2.8	9.8	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

4. My work Branch policies and procedures regarding the handling of inventory are well known all employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	5	3.5	12.2	12.2
	2	29	20.6	70.7	82.9
	3	7	5.0	17.1	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

5. My work unit's policies and procedures regarding the handling of inventory are consistent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.8	9.8	9.8
	2	32	22.7	78.0	87.8
	3	4	2.8	9.8	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		

Total	141	100.0		
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6. Employees who break regulations regarding the handling of inventory will be discovered

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	7	5.0	17.1	17.1
	2	32	22.7	78.0	95.1
	3	1	0.7	2.4	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

7. Employees who break regulations regarding the handling of inventory, and are discovered will be subject to appropriate consequences

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	7	5.0	17.1	17.1
	2	29	20.6	70.7	87.8
	3	5	3.5	12.2	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

8. Employees who steal inventory from the organization will be discovered

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	9	6.4	22.0	22.0
	2	27	19.1	65.9	87.8
	3	5	3.5	12.2	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

9. Employees who steal inventory from the organization and are discovered will be subject to appropriate consequences

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	10	7.1	24.4	24.4
	2	29	20.6	70.7	95.1
	3	2	1.4	4.9	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

10. My work with inventory is adequately supervised

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	6	4.3	14.6	14.6
	2	32	22.7	78.0	92.7
	3	3	2.1	7.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

11. We are discouraged from sharing our computer passwords with others

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	13	9.2	31.7	31.7
	2	20	14.2	48.8	80.5
	3	8	5.7	19.5	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

A4 - Information and Communication

Questions 1 – 12 on communication and information sharing measured a Cronbach's Alpha value of 0.72 indicating a reliable data set. Questions regarding the control

environment had a mean of 2.02 indicating a positive response. There was also a low standard deviation measured of 0.25 ensuring that most correspondents felt this way.

1.Our information systems provide management with timely reports regarding inventory on my performance relative to established objectives

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.4	4.9	4.9
	2	35	24.8	85.4	90.2
	3	4	2.8	9.8	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

2. There is a way for me to provide recommendations regarding handling of inventory for process improvements

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	0.7	2.4	2.4
	2	37	26.2	90.2	92.7
	3	3	2.1	7.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

3. The interaction between management and me enables me to perform my job with inventory handling effectively

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	6	4.3	14.6	14.6
	2	31	22.0	75.6	90.2
	3	3	2.1	7.3	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	

Missing	System	100	70.9		
Total		141	100.0		

4. The communication across departmental boundaries enables me to perform my job regarding the handling of inventory effectively

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	3	2.1	7.3	7.3
	2	31	22.0	75.6	82.9
	3	5	3.5	12.2	95.1
	4	2	1.4	4.9	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

5. I have sufficient information regarding inventory to do my job

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	5	3.5	12.2	12.2
	2	32	22.7	78.0	90.2
	3	4	2.8	9.8	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

6. Management has clearly communicated to me the behavior that is expected of me regarding the handling of inventory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	7	5.0	17.1	17.1
	2	30	21.3	73.2	90.2
	3	4	2.8	9.8	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		

Total	141	100.0		
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7. Management is aware of my actual performance on handling of inventory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	5	3.5	12.2	12.2
	2	31	22.0	75.6	87.8
	3	4	2.8	9.8	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

8. A communication channel exists for reporting suspected irregularities regarding the handling of inventory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.8	9.8	9.8
	2	36	25.5	87.8	97.6
	3	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

9. I know where to report employee misconduct on the handling of inventory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	8	5.7	19.5	19.5
	2	30	21.3	73.2	92.7
	3	3	2.1	7.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

10. If I report wrongdoing regarding inventory handling to my supervisor, I am confident the wrongdoing will stop

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.8	9.8	9.8
	2	28	19.9	68.3	78.0
	3	8	5.7	19.5	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

12. Employees, management and work groups cooperate to reach shared goals of handling of inventory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	5	3.5	12.2	12.2
	2	33	23.4	80.5	92.7
	3	2	1.4	4.9	97.6
	4	1	0.7	2.4	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

A5 - Monitoring Activities

Questions 1 – 13 on Risk assessment measured a Cronbach's Alpha value of 0.86 indicating a reliable data set. Questions regarding the control environment had a mean of 1.99 indicating a positive response. There was also a low standard deviation measured of 0.28 ensuring that most correspondents felt this way.

1. Information reported to management reflects the actual results of my operations on handling inventory

	Frequency	Percent	Valid Percent	Cumulative Percent
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Valid	1	4	2.8	9.8	9.8
	2	34	24.1	82.9	92.7
	3	3	2.1	7.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

2. I have access to enough information to monitor inventory performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	3	2.1	7.3	7.3
	2	35	24.8	85.4	92.7
	3	3	2.1	7.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

3. Internal feedback complaints regarding inventory are followed up on in an effective manner

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.8	9.8	9.8
	2	34	24.1	82.9	92.7
	3	3	2.1	7.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

4. Internal feedback complaints regarding inventory are followed up on in a timely and manner

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.4	4.9	4.9
	2	34	24.1	82.9	87.8
	3	5	3.5	12.2	100.0

	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

5. We consider customer complaints regarding inventory in order to identify quality problems

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	9	6.4	22.0	22.0
	2	27	19.1	65.9	87.8
	3	5	3.5	12.2	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

6. We consider customer feedback regarding inventory in order to identify quality problems

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	10	7.1	24.4	24.4
	2	28	19.9	68.3	92.7
	3	3	2.1	7.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

7. The quality of output in my working with inventory is measurable

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	3	2.1	7.3	7.3
	2	35	24.8	85.4	92.7
	3	3	2.1	7.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

8. Employees in my branch know what actions to take when they find mistakes in how we are supposed to handle inventory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.8	9.8	9.8
	2	28	19.9	68.3	78.0
	3	9	6.4	22.0	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

9. Management is aware of problems I encounter when handling inventory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	6	4.3	14.6	14.6
	2	31	22.0	75.6	90.2
	3	4	2.8	9.8	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

10. My Branch manager reviews my handling of inventory with me at appropriate intervals

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	3	2.1	7.3	7.3
	2	32	22.7	78.0	85.4
	3	6	4.3	14.6	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

11. I know what action to take if I become aware of irregular activities regarding inventory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.8	9.8	9.8
	2	34	24.1	82.9	92.7
	3	3	2.1	7.3	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

12. The system information regarding inventory helps me to accurately do my job

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	5	3.5	12.2	12.2
	2	34	24.1	82.9	95.1
	3	2	1.4	4.9	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		

13. Computerized data entry systems used within my branch effectively prevents incorrect inventory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.8	9.8	9.8
	2	30	21.3	73.2	82.9
	3	7	5.0	17.1	100.0
	Total	41	29.1	100.0	
Missing	System	100	70.9		
Total		141	100.0		