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Exploring the Internal Control Activities in Small Businesses

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A B S T R A C T

This study explores the internal control activities implemented by small businesses, particularly grocery stores registered under the Department of Trade and Industry (DTI) in Pagadian City. The study aims to understand how these businesses apply internal controls, the problems they face, and the ways they address these problems. A qualitative research design was employed using a case study approach, where the case focused on the internal control practices of these small businesses. Data was collected through semi-structured interviews conducted with six small business owners during the academic year 2024-2025. The interviews aimed to explore the types of internal control activities implemented and their perceived importance. The findings revealed that small businesses implement key control activities, such as the division of responsibilities, designation of departmental leaders, cash handling and recording, and inventory control. The study also uncovered challenges related to employee integrity issues, inaccurate financial reporting, and workplace conflict and collaborative dysfunction. Small business owners addressed these issues through error management, the use of penalties for financial discrepancies, and efforts to promote communication and team cohesion. These findings provide valuable insights for small business owner, future researchers, and academic community to a better understanding of internal control activities in small businesses.

Keywords: *Internal Control Activity, fraud prevention, Small Business, financial management, Case Study*

1. Introduction

No organization is immune to fraud; it affects all of them. Since there is always potential for fraud, businesses must make the most of their resources to create robust anti-fraud programs (The Institute of Internal Auditors, 2019). Desiderius Erasmus's saying, "prevention is better than cure," applies to financial matters, emphasizing the importance of prioritizing fraud prevention strategies as it often costs more to recover from fraud (The Certified Public Accountants, 2023). Fraud prevention involves the integration of all efforts that are used to reduce or limit the opportunities to commit fraud in an organization. It is tool for protecting the collapse of business activities and manage business challenges (Ogwiji & Lasisi, 2022).

1.1 Background of the Study

Businesses are encountering increased fraud due to a global rise in economic crime (Khaing et al., 2022). Fraud is a significant issue in all organizations, whether in the public or private sector, particularly in developing countries (Yusrianti et al., 2020). Hence, businesses stand to lose significant profit and income due to fraud (Nakitende et al., 2021). It is defined as dishonesty in the form of purposeful deceit or a willing complete misrepresentation of a material fact, lying, the wilful telling of an untruth, cheating, or getting an unfair or unjust advantage over another (Alemu, 2021).

Fraud can be classified into three major categories: corruption, asset misappropriation, and financial statement fraud (The Association of Certified Fraud Examiners, 2022). Corruption in the financial sector can be identified as bribery, fraud, financial crime, abuse, falsification, favoritism, manipulation, misrepresentation, etc. (Bahoo et al., 2020). While, asset misappropriation refers to the theft of company assets for personal gain. This can also involve fraud schemes by anyone accessing the target company's financial data (Pavlović & Paunović, 2019). On the other hand, financial statement fraud is defined as the deliberate deception of a company's financial status by intentionally misstating financial statement amounts or disclosures to key financial statement users (Soltani et al., 2023).

Despite multiple efforts to combat fraud, fraud has continued to become a serious problem. One of the causes could be due to the lack of understanding on what influence the fraud to happen and the implication of committing fraud (Zulkaply, 2019). The Fraud Triangle Theory (FTT), presented by Donald R. Cressey, a notable expert in the sociology of crime, provides the best explanation for the research and analysis of fraud. Cressey researched why people committed fraud and assessed their response using three criteria: pressure, opportunity, and rationalization. These elements occur in sequence to elicit the urge to commit fraud (Sánchez-Aguayo, 2021). The fraud triangle theory has succeeded in building the theoretical foundations that are expected to be responsible for the occurrence of fraud (Koomson et al., 2020).

Financial pressure is the primary factor, which can be brought on by unrealistic deadlines, performance standards, or even personal vices like drug or gambling use (Hakami & Rahmat, 2019). Opportunity is another factor; historically, opportunity has been linked to a company's incapacity or ineffectiveness of internal control components, especially in internal fraud cases, or to insufficient corporate governance frameworks in corporate fraud cases (Kumar, 2022). Moreover, rationalization can also be defined as developing a mindset, personality, or set of moral principles that permit management or staff members to engage in dishonest behavior (Kesuma & Fachruzzaman, 2024).

Financial fraud can be conceived of as an act of indulgence; when opportunities for fraud exist, such as under conditions of weak internal control, temptation arises (Sun & Chen, 2022). Financial fraud is a constant and evolving threat to individuals, companies, and the general integrity of the financial system (Rangapur et al., 2023). Financial fraud occurs when management manipulates financial records to meet their desires and the interests of the parties concerned. Such offenses encompass various strategies of misusing finances, such as overstating income, undervaluing expenses, overvaluing assets, undervaluing obligations, and so on (Vekariya, 2023).

Enron is an early example of financial fraud. Forbes listed Enron as the seventh most powerful corporation, but it fell a few years later due to significant corporate governance flaws and massive financial statement fraud (Sendyona, 2020). Enron and its culture reveal a culture rife with abuses of authority, arrogance, and unnecessary expenditure. The firm's culture and the level of corruption have become an epidemic that has affected bankers, auditors, and lawyers (Mustafa, 2020). The Enron scandal serves as a reminder that even the most successful companies can falter when unethical behavior is allowed to go unchecked (Deb, 2023). Organizations of all shapes and sizes engage in fraud and other unethical behavior. Fraud and unethical activity are more common in small and medium-sized businesses (Bhat, 2023). Small businesses are vulnerable to fraud because they lack the resources and, on occasion, the motivation to prevent, detect, and recover from fraudulent occurrences (Hutton, 2019).

In the Philippines, small businesses comprise of more than 99% enterprises in the country and employ 64.67% of local workforce. These micro, small and medium enterprises (MSMEs) are regarded as the "backbone of the Philippine economy" (The Department of Trade and Industry, 2022). As such, MSMEs are crucial partners of the fullest economic potential and growth of the Philippines. MSMEs play a key role in the maintenance of the cooperative and competitive advantage of the Philippines in the global market (Nwosu & Umeh, 2021). This is how important the MSME sector in the job creation and the inclusive economic development of the Philippines (Guliman & Uy, 2019).

Developing and implementing internal control system strategies for small businesses may aid in protecting business assets and profitability (Keaunui, 2023). The prevention of fraud and financial wrongdoing within a company is greatly aided by internal controls. Internal controls refer to the strategies, policies, and processes implemented by an organization to guarantee the accuracy and consistency of its financial and accounting data while maintaining operational effectiveness (Siazon, 2021). Likewise, internal controls are laws that protect an organization's assets, offer reliable financial reporting, improve compliance with regulations and rules, and promote operational efficiency (Ahmed & Nganga, 2019). It comprises control environment, risk assessment, control activities, information and communication, and monitoring (Babalola, 2020).

Over the years, internal controls have been mistakenly perceived as just an accounting or auditing function (Stephens, 2021). There is a chance for internal control practices to be present, but they are ineffective (Nneamaka et al., 2021). As a result, entities that lack effective internal control policies, such as banks, MFIs, small and medium-sized firms, and local businesses, are being exposed to fraud (Abei, 2021). Approximately 29% of fraud incidents are caused by lack of internal controls and 23% are committed by an owner or executive (The Association of Certified Fraud Examiners, 2022). When properly applied, internal control techniques can reduce fraud and boost profitability in small manufacturing companies (Molungu, 2019). As long as internal controls follow the correct processes and procedures, they can protect the business from financial loss and encourage management to operate to the highest standards by the organization's policies and procedures, as internal controls serve as the cornerstone of any successful operation (Aseffa, 2019).

Although the significance of sound internal controls has been acknowledged, there is a lack of knowledge on how these controls work in the small business setting. Prior studies discuss the broad advantages of internal controls in preventing fraud, though little research has been conducted to examine their efficiency in small businesses. This research was intended to help fill this gap by exploring the implementation of internal control activities for fraud prevention in small businesses, to identify practices and policies that could help improve the situation in this vital area.

1.2 Theoretical Framework

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework (1992) and Fraud Triangle Theory (1953) served as the foundation of the study. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a framework known as Internal Control – Integrated Framework in 1992 to help organizations identify, assess and manage risks. The COSO framework includes five major components: (a) control environment, (b) risk assessment, (c) control activities, (d) information and communication, and (e) monitoring that strengthens the efficiency of management for organizations (Frazer, 2016, as cited in Park et al., 2021). Each component aligns with the different functional and operational activities of the various departments of a corporate body. Small business leaders may benefit from the framework in developing their internal controls program to protect business assets and profitability (Braun, 2015).

Donald Cressey formulated the fraud triangle theory. This research aims to investigate the factors that lead to fraud in small businesses and how internal controls can help reduce these risks. The fraud triangle theory by Cressey 1953 identifies three factors—pressure, rationalization, and opportunity—as the root causes of employee workplace fraud. Accordingly, organizations can prevent fraud by acknowledging and dealing with these components.

These studies show how the COSO framework and fraud triangle theory are essential in improving internal control activities, particularly in small businesses. The COSO framework provides a systematic approach to internal controls, while fraud triangle theory provides insight into the causes of fraud, enabling small businesses to develop effective strategies to protect their assets and ensure efficiency.

1.3 Statement of the Problem

This study probed into exploring the internal control activities in small businesses. This qualitative case study focused on small businesses particularly convenience stores registered in the Department of Trade and Industry in Pagadian City as research participants. This study was conducted during the school year 2024-2025.

Specifically, this study aimed to answer the central question, "What are the internal control activities in small businesses?" It aimed to answer the following queries:

1. What types of internal control activities are implemented in small businesses?

2. How do small business owners view the importance of internal control activities in their business?

3. How do small business owners implement internal control activities?

4. What problems do small business owners encounter in implementing internal control activities?

5. How do small business owners deal with the problems in the implementation of internal control activities?

1.4 Significance of the Study

This study is useful to various individuals. As this study focused on preventing financial fraud through internal control activities, it provided insights into best practices and strategies for safeguarding financial assets. The findings of this study were beneficial to the following:

Small Business Owners. The study would serve awareness of the importance of internal control activities in their business. It would allow them to know how to enhance their internal practices, reduce the risk of fraud, and protect their resources.

Future Researchers. This study would provide baseline data for future researchers aiming to contribute to the study of small businesses, particularly on their accounting practice, as this study defines the existing research gaps and proposes directions for future research. It will guide them in understanding internal control activities' uses to prevent financial fraud in small businesses.

Academic Community. The findings of this research would contribute to the existing literature on financial fraud prevention. It gives out qualitative results that can be referred to in other studies, teaching, and formulation of different theories or models concerning internal controls and fraud.

2. Research Method

The study's research methodologies are presented in this chapter. It covers the research setting, subject, sampling strategies, instrumentation, and data collection strategies. It also discusses the study design and methodology.

2.1 Research Design

The researchers employed qualitative research design to explore the internal control activities in small businesses. Qualitative research involves exerting an effort to comprehend various phenomena in their unique contexts and interactions in order to understand the nature of that situation or setting including "what it means for participants to be in that setting, what their lives are like, what is going on for them, what their meanings are, and what the world looks like in that particular setting" as well as conveying that experience faithfully to others who are interested in that situation (Patton, 1985, as cited in Merriam, 2016).

Case study approach by Merriam has also adopted to obtain the research objective. Case study analyzes an event in its current and authentic context, provide extensive descriptions and explanations, and aim to investigate a system with defined limits (Merriam, 2010). It is appropriate with descriptive studies in which the aim focuses on explaining the event of a particular group. The case of this study was the small business owners, exploring how small businesses in Pagadian City implement internal control activities, the difficulties they encounter in the process, and the impacts of these controls on their business performance. The case mainly focused on the small businesses. Through a thorough investigation and analysis of the results, the researchers were able to attain the purpose of the research.

2.2 Research Environment

This study was conducted in Pagadian City, a capital of the province of Zamboanga del Sur. Pagadian City is a growing urban city with diverse small businesses such as grocery store. Grocery store is a retail shop that primarily sells food items and everyday household products that offers a range of items, including food and non-food items. Grocery stores in Pagadian City are generally small-scale operations and family-owned businesses and in a position to meet the day-to-day needs of the community. These stores are situated in the residential areas, along the highways, and near public transportations, thus are easily accessible by the customers.

2.3 Research Participants

This research participants were (6) small business owners, particularly grocery store owners in Pagadian City. In the absence of the owner, the manager took responsibility in the interview. The researchers consulted the Pagadian City Registry and Licensed Division to determine the number of grocery stores registered in the city over the past five years. The names of the store owners were also included in the data given by the office.

The following were the criteria for choosing the participants in purposive sampling. The participants should own a business which is registered in Department of Trade and Industry (DTI). The business assets range from PHP 3,000,001 to PHP 15,000,000 and employed 10 to 99 people. And lastly, the business operated for at least two years. To maintain the anonymity of the participants, it is coded as P1 to P6.

P1 is an owner of a DTI registered grocery store with annual gross income of less than P3 million. The business operates for 29 years. She established her business in year 1995 and was located at Araullo Street, Sta. Lucia District, Pagadian City.

P2 is an owner of a DTI registered grocery store with annual gross income of less than P3 million. The business operates for 4 years. She established her business in year 2020 and was located at Ramon Magsaysay Street, Sta. Lucia Pagadian City.

P3 is an owner of a DTI registered grocery store with annual gross income of less than P3 million. The business operates for 3 years. He established his business in year 2020 and was located at F.S. Pajares Avenue, Sta. Lucia District, Pagadian City.

P4 is a manager of a DTI registered grocery store. Its annual gross income is in between P3 million to P15 million. The business operates for 18 years. It was established in year 2006 and was located at Rizal Avenue, San Francisco District, Pagadian City.

P5 is an owner of a DTI registered grocery store with annual gross income of less than P3 million. The business was located at Rizal Avenue, Corner Duterte Street, Santa Lucia District, Pagadian City.

P6 is a manager of a DTI registered grocery store. Its annual gross income is in between P3 million to P15 million. The business operates for more than 10 years and was located at F.S. Pajares Avenue, San Francisco District, Pagadian City.

The participants were selected using purposive sampling method. Purposive sampling selects respondents most likely to provide pertinent and helpful information (Kelly, 2010, as cited in Campbell et al., 2020). It is a method for determining and choosing situations that efficiently use the few research resources available (Palinkas et al., 2015, as cited in Campbell et al., 2020).

2.4 Research Instrument

The primary research instruments in this study were the researchers themselves, guided by a well-designed interview guide. The research tool of this study was a semi-structured interview with open-ended questions. A semi-structured interview is a combination of unstructured and structured interviews. Documents and field notes also functioned as secondary instruments, offering extra information that supported and contextualized the conclusions drawn from the interviews. These secondary instruments were essential in providing a more comprehensive viewpoint and verifying the data acquired throughout the core data collection procedure.

3. Results

3.1 TYPES OF INTERNAL CONTROL ACTIVITIES IN SMALL BUSINESSES

Following the responses, four sub-categories emerged regarding the types of internal control activities implemented in small businesses. The types of internal control activities were division of responsibilities, designation of department leaders, cash handling and recording and inventory control procedures.

Division of Responsibilities. This encompasses activities that involve allocating specific tasks to different employees to ensure accountability and minimize the risk of fraud. By dividing responsibilities businesses create a structured approach to managing operations and ensuring that oversight is in place.

[The function of each employee is divided. They have individual functions and their own responsibilities. For the financial aspect, we are complete as we have an accounting department and a purchasing department.] – P1.

P1 highlighted the importance of division of responsibilities as a critical internal control activity in their business. As stated by P1, each employee's function is clearly divided. This highlights how the business ensures accountability by assigning specific roles to different departments. By employing member-checking, the researchers validated insights by consulting with the employees. The employees confirmed that division of responsibilities have been practiced by their business. They also noted that each employee is assigned a specific role, there is a certain person that handles cash and another responsible for recording transactions to prevent overlap.

Designation of Department Leaders. This involves assigning a specific employee to lead and manage a particular department of the business. The department leader tasks are to monitor daily operations and address issues. By assigning an employee to oversee each area, businesses improve organization, communication and accountability within each part of the company.

[We assign a head personnel for each area, where they supervise their area and their people.] – P5.

P5 stressed the importance of designating area head as a critical internal control activity in their business. P5 shared that the company assigns a head personnel each area to oversee their areas and supervise their teams. This stresses how the business improves organization, communication and accountability within each part of the firm. It has been confirmed by the employees that designating department leader are in place. Employees shared that it helps keep tasks on schedule and makes communication more effective. This supports P5's response about showing how the role of department leader contributes to improved organization, effective communication, and accountability throughout the company.

Cash Handling and Recording. This includes the procedures and activities related to managing cash transactions, such as maintaining accurate records, ensuring that sales are deposited directly into the bank, and holding cashiers accountable for their transactions. Effective cash handling and recording practices help prevent mismanagement and maintain financial integrity.

[We collect the journal or the purchase of sales from the cashiering department. It should be intact by the end of the day.] – P2

[Before closing the store, we always check the system to see if the sales remitted by the cashier matches with it. Our cashier performs a reading.] – P3

[When it comes to sales, no specific person handles the money except for the cashier while the money is still at the cashier desk. When it is time to deposit, no one holds it; it goes directly to the bank.] – P4

The participants' responses underscore the importance of cash handling and recording as critical internal control activities. P2 explained that they collect the sales records from the cashier department every day and make sure all records are complete by the end of the day. P3 stressed the need for accuracy, stating that before closing the store, they check the system to confirm that the sales reported by the cashier match the recorded sales. P4 mentioned that only the cashier is allowed to handle the money, and when it is time to deposit it, the money goes straight to the bank. At the end of each day, all cashiers must submit a journal that indicates the total cash collected each day, which the accounting then reviews against the sales records from their point-of-sale (POS) system. If any discrepancies arise, an immediate investigation is conducted as noted by employees.

Inventory Control Procedures. This focuses on the activities involved in monitoring and managing inventory levels. Regular checks on stock in and out ensure that inventory records are accurate, help prevent losses due to theft or errors, and support effective inventory management.

[The in and out of stocks are regularly checked. Aside from that, we also have merchandisers who are responsible for pulling out expired products.] – P6

P6 highlighted the importance of checking stock and issues regularly to ensure stock records are correct. P6 also mentioned that there is designated merchandiser responsible for identifying and recalling expired products, which highlights a proactive approach to inventory management. Small businesses must comply with the rules set by the Department of Trade and Industry (DTI) to adhere regulations and promote fair trade practices. A merchandiser has been designated to conduct monthly physical counts of the inventory to ensure there is enough stock and ensure all items are in a good condition as asserted by employees. The merchandiser ensures accurate records in compliance with the Department of Trade and Industry (DTI) regulations.

COSO framework has been prominent assessing, implementing, and evaluating the effectiveness of internal control (Thabit et al., 2017). In particular, division of responsibilities directly supports COSO's principle of segregation of duties, which ensures that no single individual has control over all aspects of a financial transaction. This reduces the risk of fraud and errors. Similarly, designation of department leaders aligns with the Control Environment component by fostering accountability and clear oversight through defined leadership roles. Furthermore, cash handling and recording and inventory control procedures exemplify the importance of adherence to established guidelines to maintain accurate financial records.

3.2 IMPORTANCE OF INTERNAL CONTROL ACTIVITIES

The importance of internal control activities in small businesses are revealed into three main reasons. These were operational efficiency, employee integrity and accountability, and compliance and risk mitigation.

Operational Efficiency. This highlights the significance of internal control activities in promoting efficient business operations. Effective controls contribute to a seamless workflow, enabling quick identification and resolution of issues that may arise, thereby enhancing overall productivity and minimizing disruptions.

[The activities we impose are very important for ensuring the smooth operation of the store.] – P1

[Problems are easily resolved if there is a head assigned per department. If we monitor, we communicate with the head, and if they have complaints, we can address them immediately.] – P5

Participants emphasized that effective internal controls contribute to a smooth workflow, enable quick identification and resolution of the problems. P1 stated that the activities implemented were the key to ensure the store ran smoothly and supported the idea that structured processes were essential to operational success. Similarly, P5 noted that having department heads assigned to each area simplifies problem solving as it encourages direct communication and immediate resolution of complaints. It has been noted by the employees that the internal control activities implemented by their management contribute to the operational efficiency of the business. By dividing responsibilities and regularly monitoring of performance, an organized work environment is created that enhances efficiency and productivity.

Employee Integrity and Accountability. This emphasizes the role of internal controls in fostering employee honesty and accountability. By implementing monitoring systems, business owners can track discrepancies in transactions, ensuring that employees adhere to ethical practices and reducing the likelihood of theft or dishonesty.

[Through the journal or the purchase of sale, we can quickly track if there is an overage or shortage.] – P2

[It is important so that we can see if they are working honestly. We evaluate them by checking their performance. It is necessary to rotate them.] – P3

Participants noted that effective monitoring systems allow business owners to track transaction irregularities and reduce the risk of theft or dishonesty. P2 stated that by using a journal or purchase of sales, they can quickly identify any overages or shortages, which helps maintain financial accuracy and accountability. P3 emphasized the need to evaluate staff performance to ensure the integrity of their work. Employees asserted that the implementation of monitoring systems fosters an environment of honesty and accountability within the organization, as they are conscious of the ethical standards required when under supervision. They believe these methods not only discourage unethical behavior but also promote transparency in their daily operations.

Compliance and Risk Mitigation. This focuses on the importance of internal control activities in ensuring compliance with regulatory standards and mitigating risks. Adhering to guidelines, such as those set by the Department of Trade and Industry (DTI), helps prevent errors and fraud that could negatively impact the business's reputation and financial stability.

[This is important to prevent discrepancies. If we need to purchase something, we go directly to the management and ask the owner.] – P4

[They closely monitor in compliance with the Department of Trade and Industry (DTI) regulations. For instance, if a customer buys an expired product and complains, our store's reputation will be damaged if we don't follow the rules set by the DTI.] – P6

Participants emphasized that following guidelines such as those set by the Department of Trade and Industry (DTI) is essential to prevent errors and fraud that could adversely affect the reputation and financial stability of a business. P4 noted the proper authorization of financial transactions. P6 further emphasized the importance of compliance by stating that their operations are closely monitored for DTI inspections. It has been claimed by employees that the internal control activities help the business comply with the laws and regulations set by the Department of Trade and Industry (DTI). Regular physical checks enable close monitoring of inventory and ensure operations align with legal guidelines, thus avoiding potential legal issues and enhancing credibility in the market.

COSO frameworks furnish a way for organizations to oversee their business climate and provide more significant assurance to realize strategic objectives through their governing components, principles, and objectives that rely strenuously on risk management (Vincent & Barkhi, 2021). Internal control activities also serve as a critical fraud prevention mechanism, a key objective outlined by the COSO Framework. By identifying potential errors and problems early, these activities ensure operational efficiency, reinforce accountability, and mitigate risks.

3.3 MEANS OF IMPLEMENTING INTERNAL CONTROL ACTIVITIES

There are different methods and actions the business takes to prevent fraud and maintain accountability within the company. The findings revealed three major means of implementing internal control activities in small businesses. These were assigning departmental heads, implementing regular transaction reviews, and utilizing technology for monitoring.

Assigning Department Heads. This involves appointing responsible leaders for each department or area to enhance accountability. By designating individuals with the authority to oversee operations, businesses ensure that each department is managed effectively, fostering a culture of responsibility and clear lines of communication.

[Each department has its own person in charge, who we call the department heads. They are the ones managing the department assigned to them.] – P1

[Of course, the heads we appoint are trustworthy. Usually, they are employees who have been with us for a long time.] – P5

Participants emphasized the importance of having designated individuals in leadership roles to ensure smooth operations and foster a culture of accountability. P1 noted that each department has a designated person in charge, who manages the relevant areas. P5 emphasized that managers are selected based on their credibility and experience, mostly employees who have been with the company for a longer period of time. Employees perceive that management assigns departmental heads who are responsible for overseeing specific areas and teams, ensuring that responsibilities are clearly delineated and managed effectively. This hierarchical structure is regarded as crucial to guaranteeing operational efficiency and resolving issues at the right level.

Implementing Regular Transaction Reviews. This focuses on the practice of regularly reviewing and documenting sales transactions. Cashiers are required to read sales lists and accurately record them in journals. This routine ensures that all transactions are accounted for, minimizes errors, and provides a basis for financial accountability.

[Our cashiers do a reading of the sales list to balance it in the accounting records for the sales of the day. There should not be any overage or shortage.] – P2

[Each assigned counter provides a journal that indicates the total sales for the day, and they bring it to accounting.] – P3

Participants emphasized that cashiers are responsible for reading sales lists and recording them accurately in journals, which is a necessary procedure for effective financial management. P2 explained that the cashiers read the sales list daily to reconcile it with the accounting records and ensure that there are no overages or shortages. P3 added that each assigned counter provides a journal in which indicates total sales for the day. Regular transaction reviews against receipts and records are conducted by the management to identify discrepancies. Employees participate in this process by checking for unrecorded sales and mismatched amounts to trace errors and inforce accountability among team members.

Utilizing Technology for Monitoring. This highlights the use of technology to implement internal controls effectively. Computerized inventory systems streamline stock management, providing real-time tracking of inventory levels. Additionally, using CCTV for performance monitoring allows for objective oversight of employee activities, helping to deter fraud and ensure adherence to company policies.

[Every item that goes out of the system is automatically deducted from the inventory—there's no manual inventory but computerized inventory.] – P4

[The owner also does a back check on the CCTV to monitor the performance of the employees. They are being monitored every day.] – P6

Participants highlighted how computer systems and tracking technologies help streamline operations and ensure accountability. P4 explained that their inventory is fully automated, with each item that comes out automatically deducted from the system, eliminating the need for manual inventory tracking. P6 added that the owner regularly reviews CCTV footage to monitor staff performance, provides daily supervision and ensures that staff adhere to company policies. Reliance on technology is seen as a crucial aspect of monitoring daily operations. Employees are being monitored from the CCTV cameras for their work performance, while computerized inventory systems help track financial aspects. These technological tools streamline processes and provide reliable data for management review.

COSO views internal control as a vital mechanism for aligning a company's strategy, integrating it throughout the organization, and enhancing communication by dismantling risk silos (Zecheru, 2014). Consequently, establishing departmental leadership strengthens the Control Environment component which ensures that employees understand the importance of adhering to internal controls. While, regular transaction reviews align with the Monitoring Activities component, providing ongoing evaluations of the effectiveness of controls and facilitating prompt corrective action when discrepancies arise. Moreover, utilizing technology supports the Information and Communication component by enabling real-time monitoring and accurate data analysis.

3.4 PROBLEMS ENCOUNTERED IN IMPLEMENTING INTERNAL CONTROL ACTIVITIES

Problems and challenges are expected to occur in implementing internal control activities. As risk is inherent in business, it is not surprising for small businesses to encounter problems in the business. The results showed three major problems encountered by small businesses in implementing internal control activities. These were employee integrity issues, inaccurate financial reporting and workplace conflict and collaborative dysfunction.

Employee Integrity Issues. This highlights the challenges related to employee integrity and honesty. Instances of dishonest behavior, such as theft or misappropriation of funds by cashiers, create significant risks for businesses, undermining the effectiveness of internal control measures.

[The number one factor is manpower; not everyone follows the rules set by the business] – P1

[Some cashiers engage in theft and their excuse is that they gave the customer the wrong change.] – P2

Participants emphasized that dishonest behavior such as theft or misappropriation of funds undermines internal controls and creates business risks. P1 noted that the workforce was a key issue and emphasized that not all employees follow company policies or ethical standards. Similarly, P2 mentioned that some cashiers steal money, often using the excuse of giving change to customers to cover up their actions. A significant challenge faced by small businesses in implementing internal control activities is maintaining employee integrity. Employees asserted that some individuals may attempt to bypass tasks to save time, while others have been known to misappropriate funds or manipulate recorded amounts.

Inaccurate Financial Reporting. This focuses on problems associated with inaccurate financial reporting and cash handling. Cashiers may inadvertently remit less than the actual sales amount, leading to discrepancies that complicate financial records and create trust issues within the organization.

[There have been many instances where the remittances from the cashiers were short. Because we can trace that through the computer and their journal if it matches up] – P3

[Sometimes the cashiers appeared short. For instance, the cashier is usually the one held accountable] – P4

Participants highlighted that discrepancies often arise when cashiers send less than the actual sales amount, which complicates financial records and creates trust issues in the organization. P3 explained that on several occasions the cashier's remittances were short, but these discrepancies could be traced through their computer system and journals, which help to verify that the amount remitted corresponds to the recorded sales. P4 added that when there is a shortage, the cashier is usually responsible. Inaccurate financial reporting has been identified as a significant issue within the business. Consequently, management regularly reviews financial reports to identify and address discrepancies, ensuring accuracy in financial statements and preventing potential losses as stated by the employees.

Workplace Conflict and Collaborative Dysfunction. This addresses interpersonal conflicts and lack of teamwork among employees. Disagreements and poor collaboration can hinder the implementation of internal control activities, as they disrupt workflow and create an environment of mistrust that can affect overall business performance.

[Most of the complaints from the department heads involve their staff who are lazy. They do not finish the required tasks for the day, and they have many excuses as regards to the work undone.] – P5

[There is also conflict among employees who do not get along] – P6

Participants pointed out that lack of collaboration disrupt work processes and create an environment of mistrust, which ultimately affects overall business performance. P5 stated that many department heads complain that their employees do not complete their required tasks for the day, and often make excuses for not completing their work. P6 added that conflicts between employees who no longer get along contribute to a lack of cohesion, making it difficult to maintain smooth operations. Employees have noted that internal controls can sometimes lead to conflicts, particularly during the review of an individual's work by department heads. This scrutiny can create tension; however, it is essential for maintaining high standards of accuracy and accountability.

Fraud triangle theory states that fraud occurs when there are three elements, namely: pressure, opportunity, and rationalization (Suryandari, et al., 2023). Accordingly, employee integrity issues relate to the rationalization element, as individuals may justify unethical behavior when they lack a strong moral foundation or feel unsupported by their workplace. While, inaccurate financial reporting highlights the opportunity element, where gaps in oversight or weak controls provide employees with chances to manipulate data. Furthermore, workplace conflict and poor team cohesion contribute to pressure, creating stress and dissatisfaction that may drive employees to commit fraud.

3.5 WAYS OF DEALING THE PROBLEMS ENCOUNTERED IN IMPLEMENTING INTERNAL CONTROL ACTIVITIES

As business were associated with risk, they were expected to face the problems they encountered. The business ways of dealing the problems encountered in implementing internal control activities are recognized into three. These were the error management and forgiveness, imposing penalties for financial discrepancies, and promoting communication and team cohesion.

Error Management and Forgiveness. This emphasizes a balanced approach to managing errors made by employees. Business owners advocate for a culture of forgiveness where mistakes are acknowledged and investigated rather than punished harshly. This approach encourages employees to learn from their mistakes and reduces the fear of retribution, fostering a supportive work environment.

[This store is wide for the employees. We have Labour Management and Cooperation, so sometimes there is a give-and-take approach when mistakes happen, we forgive them.] – P1

[We have journals that show the exact sales. If the journal doesn't match the actual cash, that is when we investigate. We then identify the error based on the difference.] – P2

Participants emphasized the importance of fostering a supportive work environment where mistakes are acknowledged and investigated rather than immediately penalized. P1 stated that their store emphasizes work management and collaboration, which allows for a give-and-take approach when mistakes are made, and encourages forgiveness as part of its culture. P2 added that they use journals to accurately track sales and discrepancies between recorded sales and actual cash amounts support investigations to identify and correct errors. Employees reported that in the event of a cash discrepancy, management conducts an investigation to determine whether the issue stems from a process flaw or a lack of proper training. As a result, employees are more comfortable disclosing errors, knowing that the emphasis is on improvement rather than punishment.

Imposing Penalties for Financial Discrepancies. This focuses on implementing penalties as a response to financial discrepancies, such as cash shortages or inaccurate remittances. By establishing clear consequences for errors, business owners reinforce the importance of accuracy in financial transactions and ensure that employees are aware of their responsibilities regarding cash handling.

[They receive penalties if they make mistakes in cashiering. They are immediately called by the management.] – P3

[They are called to the office to explain, and there are consequences like penalties or deductions from their salary.] – P6

Participants noted that penalties are enforced for accuracy in financial transactions and to ensure that employees are aware of their responsibilities. P3 explained that employees who make mistakes in cashiering are immediately called in by management and face penalties. P6 added that employees are summoned to the office to explain the discrepancies, and penalties, including salary deductions, are applied as necessary. Employees expressed agreement that financial discrepancies are addressed through penalties, which may include formal warnings or salary deductions, reinforcing the importance of financial accountability. They see these fines as important measures to maintain integrity and avoid future discrepancies.

Promoting Communication and Team Cohesion. This highlights the role of regular communication through monthly meetings to address employee concerns and reinforce expectations. These meetings provide an opportunity to discuss issues related to integrity, financial accuracy, and teamwork, helping to build a cohesive team environment that supports the effective implementation of internal controls.

[We have monthly meetings to find out what the problems are.] – P5

P5 explained that they hold monthly meetings to identify and address any problems within the business. This open communication helps create a cohesive team environment, where employees can share concerns and collaborate on solutions. Employees acknowledged that management conducts monthly meetings to address issues, a practice that strengthens teamwork and fosters a more cohesive work environment. These meetings are viewed as opportunities for open discourse and collaborative problem solving, which boosts organizational morale.

Based on the COSO framework, it is expected that weaknesses in internal controls will lead to poor company performance and low-quality accounting. As a result, there has been a significant amount of research examining the impact of weak internal controls (Janvrin et al., 2012, as cited in Park et al., 2021). As such, error management and forgiveness foster a learning environment. Likewise, imposing penalties for financial discrepancies reinforces accountability. In addition, promoting communication and team cohesion enhances the overall effectiveness of the Control Environment, ensuring that employees collaborate to achieve the organization's objectives.

4. Conclusion

Despite the presence of these key control mechanisms, the study reveals that small businesses remain highly vulnerable to financial discrepancies, which can manifest through undetected fraud, accounting errors, or operational inefficiencies. Small businesses often operate with limited resources resulting in inadequate responses to financial anomalies. The study emphasizes the critical necessity for small businesses to strengthen their internal control activities to reduce these risks. It is necessary to strengthen financial oversight through frequent internal audits, establish clearer financial regulations, and ensure that control actions are consistently applied throughout the firm. The study finds that embracing modern technologies is critical for small businesses seeking to improve their financial management capabilities. Ultimately, the study encourages small businesses to take proactive actions in modernizing their financial management methods to increase operational efficiency, reduce financial risks, and ensures the business's long-term viability in an increasingly complex and competitive market environment.

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Introduction

No organization is immune to fraud; it affects all of them. Since there is always potential for fraud, businesses must make the most of their resources to create robust anti-fraud programs (The Institute of Internal Auditors, 2019). Desiderius Erasmus's saying, "prevention is better than cure," applies to financial matters, emphasizing the importance of prioritizing fraud prevention strategies as it often costs more to recover from fraud (The Certified Public Accountants, 2023). Fraud prevention involves the integration of all efforts that are used to reduce or limit the opportunities to commit fraud in an organization. It is tool for protecting the collapse of business activities and manage business challenges (Ogwiji & Lasisi, 2022).

Background of the Study

Theoretical Framework

Statement of the Problem

Significance of the Study

Appendix A. Research Method

The study's research methodologies are presented in this chapter. It covers the research setting, subject, sampling strategies, instrumentation, and data collection strategies. It also discusses the study design and methodology.

Research Design

Research Environment

Research Participants

Research Instrument

Appendix B. Result

The categories that emerged from the study are the *Types of Internal Control Activities, Importance of Internal Control Activities, Means of Implementing Internal Control Activities, Problems Encountered in Implementing Internal Control Activities and the Ways of Dealing These Problems.*

Appendix C. Conclusion

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