

CATHOLIC UNIVERSITY COLLEGE OF GHANA

AN EVALUATION OF INTERNAL CONTROL SYSTEMS OF SELECTED
SMALL AND MEDIUM ENTERPRISES IN THE SUNYANI MUNICIPALITY
IN THE BONO REGION OF GHANA

SOLOMON AMFO

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IN THE BONO REGION OF GHANA

BY

SOLOMON AMFO

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the award of Master of Business Administration degree in Accounting

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature:..... Date:.....

Name: Solomon Amfo

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by Catholic University College Ghana.

Supervisor's Signature:..... Date

Name: Stephen Frimpong

ABSTRACT

The study aimed to evaluate the accounting and control systems practiced by SMEs in the Sunyani Municipality using the following objectives; to find out the various accounting and control systems used by SMEs, to find out the challenges faced by SMEs in using accounting and control systems in their business operations, to identify the benefits SMEs derive by using accounting and control systems in their business operations. The research design employed in the study was casual comparative in nature under which questionnaires were used in collecting data from 132 respondents who were selected through convenience sampling technique. Findings of the study revealed among others that, the major accounting and control systems used by sampled SME operators in the Sunyani Municipality are financial record keeping and working capital management. The major challenges identified with regard to using accounting and control systems by SMEs in their business operations were found to include lack of professional accounting staff, poor financial management systems, among others. Based on the findings, it was recommended, among other things, that, SMEs must inculcate accounting and control systems in their financial administration of their business to bring improvements in managing their finances. Finally, SMEs must hire qualified accountants on part-time bases to manage their finances as well as keep financial records of the business professionally. This may aid in making realistic budgets/financial projections.

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DEDICATION

To my parents, children and wife for their unflinching love and support.

TABLE OF CONTENTS

	Page
DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENT	iv
DEDICATION	v
TABLE OF CONTENTS	vi
LIST OF TABLES	ix
LIST OF FIGURES	x
CHAPTER ONE: INTRODUCTION	
Background of the Study	1
Statement of the Problem	4
Purpose of the Study	6
Objectives of the Study	6
Research Questions	6
Significance of the Study	7
Delimitations	8
Limitations	8
Definition of Terms	8
Organization of the Study	9
CHAPTER TWO: LITERATURE REVIEW	
Introduction	11
Internal Control Theory	11

The Effectiveness of Internal Control System	12
Definitions of Concepts	13
Theories of Accounting and Control Systems	15
The Accounting and Control Systems used by SMEs.	16
The Challenges Faced by SMEs in using Accounting and Control Systems in their Business Operations	19
Benefits SMEs Derived by Using Accounting and Control Systems in their Business Operations	22
Control Environment	24
Risk Assessment	24
Control Activities	25
Information and Communication	25
Monitoring Activities	26
Benefits of Internal Control	27
Empirical Review	31
CHAPTER THREE: RESEARCH METHODS	
Introduction	33
Research Design	33
Study Area	35
Population of the Study	37
Sample and Sampling Techniques	37
Data Collection Instruments	38
Data Collection Procedures	39

Data Processing and Analysis	39
Ethical Consideration	40
CHAPTER FOUR: RESULTS AND DISCUSSION	
Introduction	41
Personal Information of Respondents	41
The Various Accounting and Control Systems used by SMEs	43
The Challenges Faced by SMEs in Using Accounting and Control Systems in their Business Operations	45
Results on the Challenges Faced by SMEs in Using Accounting and Control Systems in their Business Operations	47
Benefits SMEs Derive from Using Accounting and Control Systems in their Business Operations	48
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	
Introduction	53
Summary of Findings	53
Conclusions	54
Recommendations	55
Suggestions for Further Research	56
REFERENCES	57
APPENDIX	62

LIST OF TABLES

Table	Page
1 Results on the Personal Information of Respondents	41
2 Results on Accounting and Control Systems used by SMEs	43
3 The Challenges Faced by SMEs in Using Accounting and Control Systems in their Business Operations	46
4 Benefits SMEs Derive from Using Accounting and Control Systems in their Business Operations	49

LIST OF FIGURES

Figure		Page
1	Results on the personal information of respondents	42
2	Results on accounting and control systems used by SMEs	44
3	The challenges faced by SMEs in using accounting and control systems in their business operations	46

CHAPTER ONE

INTRODUCTION

Background of the Study

There is growing recognition of the important role Micro, Small and Medium Scale Enterprises (SMEs) play in the economic development of most countries. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines (Aragón-Sánchez & Sánchez-Marín, 2010) argues that SMEs are particularly important in supporting economic growth and livelihoods in developing countries. Even in the developed industrial economies, the SME sector is the largest employer of workers (Ates, Garengo, Cocca, & Bititci, 2013). Some of the roles of small and medium scale enterprises include employment generation, rural development, youth empowerment, contribution to national income and growth, spread and development of adaptable technology and regional balanced growth channel.

In Ghana, available data from the Registrar Generals Department indicates that 90% of companies registered are micro, small and medium enterprises. This target group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment (Amidu, Effah & Abor, (2011).

Taking cognizance of the crucial role of SMEs in the economic development of Ghana, they are increasingly attracting both governmental and non-governmental attention. Following the above, the government of Ghana has intervened with various micro-financing schemes, such as the Micro Finance and

Small Loans Centre (MASLOC), Venture Capital Trust Fund and Export Development and Investment Fund (EDIF). Policy makers, investors, financial institutions, regulatory bodies and other stakeholders are also progressively becoming interested in the financial performance of SMEs (Ntim, Evans & Anthony, 2014). The above attention has placed a demand on SMEs to show more accountability for the stewardship of resources allocated to them; that is, a call for proper accounting practices and financial reporting. Previous researches (e.g Ntim *et al.*, 2014; Mbroh & Attom, 2011; Amidu *et al.*, 2011) have indicated that small firms are a group of businesses driven by the attitude and motivation of one person, tend to control all functional areas of the business and accord less time to the accounting and finance function. This is often viewed as unimportant and thus received less attention on the part of the owner manager.

Mbroh and Attom (2011) also reported evidence that micro-firms lack signs of any systematic accounting practices. Various studies by Dawuda & Azeko, 2015; Ankrah, Mensah, & Ofori-Atta, 2015) gave evidence that SMEs still failed to keep proper books of accounts due to low levels of education and inadequate knowledge in accounting on the part of the Owner-managers and lack of money to hire qualified accountants. Other similar key reasons include lack of time, resources and skills of small business managers. Accounting systems provide a source of information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance. The importance of financial performance measurement to any business entity, big or small, cannot be over-emphasized. In any sense, profit can analogously be viewed as the life-blood of a

business and hence the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement.

Small and medium enterprises (SMEs) constitute over 90% of businesses in Nigeria (Adoyi, Agu, & Adoli, 2015) and account for more than 90% of total enterprise in Africa, the Caribbean, and Pacific countries (Adoyi, Agu, & Adoli, 2015). Statistics from the Registrar General's Department in Ghana suggests that 92% of businesses registered are micro, small and medium enterprises. SMEs in Ghana are categorised into urban and rural enterprises. Therefore, their survival is critical to the development and boost of African economies (Ogundele et al.). Internal Control is a serious issue among SMEs.

The adverse effect of internal control weakness can lead to loss of revenue, fraud, waste, loss of client and mismanagement. It can also lead to loss of business and inability of a firm to achieve set goals and objectives (Stones, 2016). A very high proportion of the failed SMEs can be attributed to financial crisis resulting from poor internal control (Fatoki, 2014). Internal control is critical to the survival of businesses, SME owners should improve on the internal control system of their firms (Frazer, 2016; Radzi, Nor, & Ali, 2017). Corporate fraud and business failures lead to greater demand for better internal controls among companies (Dimitrijevic, Milovanovic, & Stancic, 2015). The world financial crisis of 2007 and 2008 are examples of the need to strengthen the internal control for businesses (Kanagaretnam, Lobo, Ma, & Zhou, 2014).

SMEs are vital to the economic growth and equitable development in developing economies (Adoyi, Agu, & Adoli, 2015). In Nigeria, SMEs are important to the economy and a vital contributor to the Gross Domestic Product (Adoyi, Agu, & Adoli, 2015). Over 90% of all businesses in Nigeria are small businesses because they employ fewer than 100 employees (Etuk, & Etuk, & Baghebo, 2014). Lack of effective internal control systems was the reason why some SMEs failed during the financial crisis of 2007 to 2008 (Kanagaretnam, Lobo, Ma, & Zhou, 2014). The failure of SMEs was related to some managers' beliefs that According to Soininen et al., 2012, some managers believe that the establishment of internal control systems will increase costs without tangible results. Some SME owners also conclude that there is a shortage of human and financial resources. Therefore, it is difficult to establish internal control (Luyolo, Yolande, Juan-Pierré, & Wilfred, 2014).

Statement of the Problem

Many reasons can be adduced for lack of internal control. They include inadequate personnel, lack of qualified staff, cost of implementation, and inability to segregate duties (Feng, Mc Vay & Skaife, 2015). Cost control and increase in profit make SMEs not to invest in internal control (Jiahu, 2015). Small businesses are more prone to internal control failure compared to large organization. In recent years, many companies have suffered severe losses and collapsed as a result of internal control failure (Al-Zwyalif, 2015). According to ACFE Survey in 2016, about 88.3% of large companies have an internal control system in place compared

to 38.6% of small businesses (Stone, 2016, ACFE, 2016). SMEs account for substantial percentage of firms in African economies.

The internal control system is a vital course of action that firms use to improve their organizations' attainment of goals and objectives, improve operational efficiency, strengthen corporate existence, and improve competitiveness. The size and age of a firm are two important factors of the weaknesses in internal controls (Hsiung & Wang, 2014). Big companies seem to have better internal control system compared to Small organizations (Hsiung & Wang, 2014). Segregation of duties is vital to an internal control system. Some small firms cannot implement segregation of tasks because of insufficient personnel and limited resources (Frazer, 2016). The weakness of internal control has an adverse effect on the profits and continuity of business (Adeniyi, & Adeniran, 2017).

It is recognized that appropriate accounting information is important for a successful management of a business whether it is large or small. This has made accounting issues in recent years to become more and more important in the business world. However, despite the increasing importance attached to small-scale economic activities across the globe, there appears to have little reported improvement in the financial management skills of small business owners (Smirat, 2013). This area has not received the same consideration as many other areas; ranging from start-ups to schemes promoting the growth of the sector.

Similarly, some studies have focused on the financial management problem facing small businesses, they have been exclusively undertaken in the US, UK,

Australia, Belgium, Sweden and India. The context is obviously different and the findings would most probably not be applicable to the local context where institutional set up and economic frameworks are different. To date, limited research has been carried out into the accounting systems in use within small firms in Ghana (Agyei-Mensah, 2011).

This paper therefore attempts to fill the gap and contributes to the growing literature on the accounting practices and control systems of small firms. This paper therefore focuses on investigating the types of accounting records being kept and maintained by SMEs, their completeness and the control systems practiced in Ghana.

Purpose of the Study

The general objective of the study is to evaluate the accounting and control systems practiced by selected Small and Medium Scale Enterprises (SMEs) in the Sunyani Municipality. The specific objectives are:

Objectives of the Study

1. To find out the accounting and control systems used by SMEs.
2. To find out the challenges faced by SMEs in using accounting and control systems in their business operations.
3. To identify the benefits SMEs derived by in using accounting and control systems in their business operations.

Research Questions

The study seeks to address the following questions:

1. What are the accounting and control systems used by SMEs?

2. What are the challenges faced by SMEs in using accounting and control systems in their business operations?
3. What are the benefits to be derived by SMEs for using accounting and control systems in their business operations?

Significance of the Study

This study when completed will inform SME operators on how to make effective use of accounting and control systems to make their businesses more profitable. The results will also help policy makers make amendments/changes in existing policies on accounting and control systems to enable SMEs effectively employ them in their business operations. Finally, the results will add to knowledge in academia in SME and finance.

Owners of small businesses with weak internal control may use the findings of this study to increase their profitability, thus attracting investors. With increased profitability, small businesses may expand and compete with larger firms.

The findings of the study may be of use to leaders of existing SMEs in setting up and strengthening their internal control systems. The results of the study may also provide useful information to business groups as well as governmental and nongovernmental agencies on how to improve internal control practices. An understanding of the role of internal control system among SMEs could lead to a successful development of a framework for internal control. An excellent internal control system will help small business leaders sustain their businesses and prevent loss of income. A sound internal control system could contribute to protecting the investments of the shareholders and prevent loss of assets of the company.

Delimitations

The study was undertaken in selected SMEs in the Sunyani Municipality in the Bono Region. The contents cover the various accounting and control systems used by SMEs, the challenges faced by SMEs in using accounting and control systems in their business operations, and the benefits SME's derive in using the accounting and control systems

Limitations

The study is limited by access to information since not all respondents were willing to divulge pertinent financial information about their businesses. Time limitations and financial constraints were also encountered as the student did not have enough time and the financial resources to visit all SMEs in the Municipality. Data collected on internal control systems and performances were based on personal assessment due to the need to combine the different units of performance. The instrument used the five COSO variables in capturing internal control. Other measure of internal control such as internal audit was excluded. Performance measures adopted Fitzgerald and Moon's (1996) measures of performance. Control variables were not included because the effects of other variables were captured in the error term.

Definition of Terms

Internal control systems Internal control systems are processes effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives with respect to effectiveness and efficiency of operations, reliability of financial reporting and

compliance with applicable laws and regulations. It comprises control environment, risk assessment, control activities, information and communication and monitoring.

Firm performance Firm performance denotes companies' respondent's personal assessment of their company's efficiency and effectiveness in ensuring the Digitized by UCC, Library 12 achievement of organisational goals. It covers financial and non-financial performance indicators of the building block model developed by Fitzgerald and Moon (1996) for measuring firm performance in the service industry. The financial indicators are return on asset and liquidity. The non-financial indicators also capture customer base, quality of service, flexibility, resource utilisation and innovation.

Companies in the Ghanaian insurance industry Companies in the Ghanaian insurance industry refer to all companies in the insurance sector. It encompasses life insurance, non-life insurance, reinsurance, oil and gas, brokerage, reinsurance brokerage, and lost adjuster

Organization of the Study

This study is organised into five chapters. Chapter one presents the general introduction. This chapter covers background to the study, statement of the problem, objectives of the study, research questions, and delimitations, limitations of the study and the organisation of the study. The review of related literature forms the second chapter. The chapter two presents the introduction, internal control theory, the effectiveness of internal control systems, accounting and control systems, the accounting and control systems used by SMEs, the challenges faced by SMEs in using Accounting and Control systems in their Business Operations,

benefits SMEs derive by using Accounting and Control systems in their business Operations, factors that determines the effective application of control systems in the SMEs, control environment, risk assessment, control activities, information and communication, monitoring activities, benefits of internal control and empirical review. The methodology is also presented as the third chapter. The chapter specifically presents the introduction, the study area, population of the study, sampling procedures, data collection, measurement instrument, and data analysis techniques. Chapter four presents the results and discussions. Presentation of the results and major findings from the study. The summary, conclusions and recommendations are the last chapter.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter assesses literature on the topic under study. The chapter defines the variables of the study, followed by some concepts and theories of accounting and control systems. This literature review provides empirical review on the various objectives of the study by different authors. This is to throw more light on issues pertaining to working capital management in the operations of SMEs.

Internal Control Theory

The concept of internal control was first, mentioned by the American Institute of Certified Public Accountants (AICPA) in 1949 (Frazer, 2011). Pang & Li, 2013 and white house, 2013 stated the 5 components of COSO internal control framework as: (a) control environments, (b) risk assessment, (c) control activities, (d) information and communication, and (e) monitoring (Pang & Li, 2013; Whitehouse, 2013). The first four components relate to the design and generation of the system of internal control while the fifth component ensures that internal control operates without hindrance (Missioura, 2014). In 1985, the COSO of the Treadway Commission introduced internal control on the presentation of financial reports, which assisted in improving internal control efficiency in smaller companies. The fifth component ensures that feedback from monitoring is passed to management (Missioura, 2014) COSO of the Treadway Commission recommended the format for presentation of the financial report which is of benefit to SMEs by improving internal control. The COSO report of 1985 also recommends

that owners of small businesses should establish internal control system in order to ensure that objectives are accomplished, operations effectiveness and efficiency, sound financial reporting and compliance with relevant laws and regulations (Leng & Zhao, 2013). Leng & Zhao; Saninen et al., 2012 stated that most companies are now adopting internal control for financial reporting, prevention of fraud and control of organizations. COSO advised that where there is no segregation of duties, there should be management examination and reconciliation to boost internal control (White house, 2013). The most effective activity an organization can embark upon to minimize fraud is to improve its internal control practices (Leng & Zhao, 2013). Egbunike, 2014 observed that the greatest problem with internal control activities is the absence of controls. When separation of functions is lacking, COSO directs attention to the use of management examination and reconciliation to boost controls (Whitehouse, 2013).

The Effectiveness of Internal Control System

According to Frazer (2012), internal control officers use the five components of COSO's internal control framework to detect, prevent, or correct errors or misstatements in the financial operations of the business. According to COSO, there are 17 principles under the five components of internal control framework. The full implementation of these principles is expected to lead to effective internal control among firms. (COSO Internal Control Framework, 2013).

Definitions of Concepts

Accounting and control systems

Accounting and control are the methods and procedures that are implemented by a firm to help ensure the validity and accuracy of its financial statements (Kenton, 2017). The accounting controls do not ensure compliance with laws and regulations, but rather are designed to help a company comply. Another proposed definition of accounting and control systems by Jacobson (2015) was as follows: methods or procedures that form the complete internal control system of an organization. This system is concerned with:

- (1) Ensuring compliance with accounting policies and procedures,
- (2) Protecting the organization's assets, and
- (3) Preparing reliable and timely financial reports.

For the purpose of this study, accounting and control systems are defined as the ways a company control their accounting practices to enable them follow rules and procedures, protect the company, and provide timely reports.

Definitions of small and medium scale enterprises

There are several definitions of SMEs in literature which are based on proxies such as the number of employees, turnover volume among others. Chelimo and Sopia (2014) in their study in Kenya argue that businesses with less than 10 employees are 'micro', those with more than 10 but less than 50 are classified as small and those with employees more than 50 to 250 are medium enterprises. Another criteria defining SMEs is by valuing the fixed assets in the firm. However, the National Board for Small Scale Industries (NBSSI) in Ghana

makes use of both the “fixed asset and number of employees” in defining SMEs. They describe SMEs as one which has not more than 9 workers, and has plant and machinery not greater than 10 million Ghanaian cedis.

The Ghana Enterprise Development Commission (GEDC), on the other hand, defines SMEs as an enterprise with more than 10 million Ghanaian cedis for plant and machinery. It is realised that the valuation of fixed assets is therefore a problem. Also, the continual depreciation of the currency of Ghana as against major trading currencies often makes such definitions obsolete (Kayanula & Quartey, 2000). Osei et al. (1993), on the other hand grouped SMEs into three categories. These are:

- (i) micro – which employs less than 6 people;
- (ii) (ii) very small firms – which employs between 6-9 people;
- (iii) (iii) Small firms- between 10 and 29 staff.

The Regional Project on Enterprise Development Ghana manufacturing survey paper gave a more recent definition. The survey report classified firms into:

- (i) micro enterprise, less than 5 employees;
- (ii) (ii) small enterprise, 5 - 29 employees;
- (iii) (iii) medium enterprise employs between 30 – 99 employees;
- (iv) (iv) Large enterprise, 100 and more (Teal, 2002).

The Ghana Statistical service (GSS) defines small scale enterprise as companies with not more than 10 employees and those with more than 10 employees as medium-scaled enterprises (Amoako et al., 2014; Boame et al., 2014).

Theories of Accounting and Control Systems

The contingency theory

Pike (1986) developed the Contingency Theory aimed at explaining various financial management concepts. The theory holds that there are various contextual factors that determine how an organisation operates such as technology and the external environment (Henri, 2006). As described by Chenhall (2003), these factors will affect the organisation's structure, which will then influence the design of the financial system. Efficiency in operations will only be attained by having a balance between the corporate setting and how the financial system operates.

The theory concentrates mainly on three aspects of the corporate context that are assumed to have an association to operation, design of aspects in the financial system. This entails the ordinary investment outcomes history, professional competency degree and capital budgeting control policy. While the contextual factors describe why accounting systems vary based on the particular organisation, the theory makes the assumption that organisations do not have similar accounting systems and thus attain different financial performances. This may be explained by the different contextual factors surrounding firms. Therefore resource allocation to financial management practices should be made while giving consideration to these factors (Pike, 1986).

The theory's proposition to the study is that there are certain accounting and control systems that may work well with certain firms but not with others. This is due to the difference in the corporate settings and external factors. This implies that there are no standard accounting and control system practices to be applied by

SMEs. Therefore, appropriate systems should be chosen after evaluating the particular business setting to ensure its suitability in achieving its intended purpose. A positive influence on the financial performance will only be attained when a balance is met between the corporate setting and the financial system operations.

The Accounting and Control Systems used by SMEs.

The financial management practices in SMEs is different to of large firms. This is usually due to the more dynamic nature of their cash flow cycle, general lack of working capital, and their ability to raise finance through debt or equity. For this reason, some authors (e.g. Mazzarol et al., 2015 Jindrichovska, 2013; Abanis et al., 2013; Butt et al., 2010) have found it necessary study the financial management practices of SMEs.

Butt et al. (2010) maintained that major concepts of financial management practices in SMEs can vary from one country to another, depending on the development of the setting of corporate sector. In their study, they found capital structure decision, dividend policy, investment appraisal techniques, working capital and financial assessment as the most common financial management practices in Pakistan. Nguyen (2001), conducting a research study on Vietnamese SMEs, argued that the financial management practices which are more related to the profitability and performance of SMEs in Vietnam are the practices related to the accounting information systems, financial planning, working capital management, fixed-asset management and financial reporting and analysis. Also, Kennedy and Tennent (2006) used financial record keeping as the general indicator of financial management conduct in small businesses in Australia.

Mazzarol et al. (2015) further examined financial management practices in small to medium enterprises (SMEs) from a study of 289 small business owner-managers across 30 industry sectors in Australia and Singapore. The findings show that SMEs have largely informal and ad hoc financial management practices. Differences by size and financial literacy levels were found. This implied that, as the firm grows in size and complexity the owner-manager is required to adopt more sophisticated and systematic approaches to financial management. The findings also revealed that, SMEs with higher financial literacy have greater capacity to monitor and control the financial performance of their businesses.

Peel and Wilson (1996) cited in Jindrichovska (2013) researched the capital budgeting and working capital practices of small firms. Their paper presented the results of a preliminary study on the working capital and financial management practices of a sample of small firms located in the north of England. In general, the results of the survey indicated that a relatively high proportion of small firms in the sample claimed to use quantitative capital budgeting and working capital techniques and to review various aspects of their companies' working capital. In addition, the firms which claimed to use the more sophisticated discounted cash flow capital budgeting techniques, or which had been active in terms of reducing stock levels or the debtors' credit period, on average tended to be more active in respect of working capital management practices.

Based on the studies presented above, it is evident that financial management practices differ from one country to another, depending on the development of the setting of corporate sector as proposed by Butt et al. (2010).

This implies that, SMEs consider the business environments of their countries before deciding on the financial management practices to adopt. When the business environment is conducive, it will be easier for the SMEs to consider favorable financial management practices since they are aware it will positively affect their businesses.

However, most SME operators may not see the need in using any major form of financial management practices if they feel it will not have any effect on their businesses. This can be seen in the result of Abanis et al. (2013) who found that, the extent of financial management was low among SMEs in Western Uganda. Nyamao et al (2012) also conducted a study to elucidate the WCM practices of SMEs in Kenya using a sample of 113 SMEs. They concluded that WCM practices are low amongst SMEs as majority had not adopted formal WCM routines. Such situations as that of the Ugandan case are common in most developing countries in Africa such as Ghana.

Thus, for SMEs to adopt effective financial management practices there is the need for key stakeholders such as governments to make business environments and financial regulations acceptable to suit the needs of small businesses as well as that of large corporations. This will in a way encourage SMEs to employ financial management practices that will lead to the growth and expansion of their businesses.

The Challenges Faced by SMEs in using Accounting and Control Systems in their Business Operations

Globally, SMEs are being identified as drivers of economic growth due to their significant role in creation of new jobs, rise in GDP, and entrepreneurship and innovation. One of the noticeable contributions of SMEs to the economic development is their ability to create employment (Abor & Quartey 2010). As argued by Caner (2010), both registered and unregistered SMEs have become significant sources in providing employment.

Despite the importance of working capital management practices to SMEs, Howorth and Westhead (2003) argue that knowledge and understanding of WCM practices of SMEs is inadequate. Poutziouris et al. (2005) found that working capital management practices in SMEs are inadequate. Poor financial management has also been reported as the major causes of business failures in SMEs (Karadag, 2015).

In Ghana, Agyei-Mensah (2010) was of the view that most SMEs do not have sound financial management systems in place which will help them to prepare financial reports. The end result is that it becomes very difficult for tax authorities to compute their taxable incomes. He further stated that, the three most influential factors that prevent SMEs from practicing sound financial management practices were qualified accountants being too expensive to maintain, difficulty in understanding accounting records, and lack of internal accounting staff.

Other problems of financial management in SMEs were that, they also lack the financial management and accounting systems available to large firms, as well

as the professional staff who manage such systems. Typically, the owner-manager is required to perform these tasks, often, but not always, with support from a bookkeeper and an accountant. This is a pattern found throughout the world, both within the advanced economies that comprise the Organisation for Economic Co-operation and Development (OECD) group of nations, and the developing economies (OECD, 2010; Abanis et al., 2013; Amoako, 2013; Uwonda, et al., 2013). Harif et al (2010) in their research on the financial management practices of SMEs in Malaysia found, that lack of working capital was the most common weakness in the area of financial management. Atrill (2006) argues that lack of financial management skills within SMEs often creates problems in managing stock in an efficient and effective way.

In addition, Thevaruban (2009) underscored that SMEs of small-scale industries in Sri Lanka had difficulties in getting credit from external sources because the cash flow and savings of SMEs was significantly low. Datta (2010) agreed with the above by averring that, external finance was also more expensive than internal finance. Hence, bank and non-bank financial institutions usually do not emphasise much on credit lending from external source for SMEs development due to its expensive nature.

Ssendaula (2002) in his study listed some factors that have discouraged banks from lending to SMEs. Among them are poorly compiled records and accounts; low levels of technical and management skills; outdated technologies; lack of professionalism and networking; lack of collateral; lack of market outlets due to poor quality and non-standardized products; poor linkages and limited

knowledge of business opportunities. In addition, most SMEs have been affected by lack of proper storage facilities, especially for those operating in the agricultural sector. This has been a major limitation on the ability of such business to access credit because most of the agricultural products require preservation and have an inelastic demand. This means that, even if the prices of the products are lowered, quantity demanded can increase in that same proportion to clear the market of surpluses. However, there may be shortages as a result of the decrease in price and this may negatively affect the business when it is not able to restock to meet the demand of customers.

To address such issues, SMEs must be willing and ready to invest in their human capital. As averred by Agyei-Mensah (2010), highly qualified and experienced managers may be able to manage all aspects of WCM as compared to unqualified and inexperienced ones. Such managers may be able to negotiate good credit terms with suppliers and customers alike. Such managers may also be able to employ the latest computerized accounting packages to control the levels of inventory in order to maximise firm performance.

A separate finance department can also be created by SMEs where professionals are recruited on a fulltime or part-time base to be in charge of the financial administration of the firm. Business owners must also train themselves in the fields of financial analysis and balance sheet reading techniques. This is to help them understand financial administration of the firm better and also help them identify effective financial management practices that will help grow their businesses. Also, in order not to damage the cooperation with the bank and other

financial organizations, the business owners should pay ultimate attention to the credit reimbursement of the business and individual payments and a system must be established to follow up the credit terms.

Benefits SMEs Derived by Using Accounting and Control Systems in their Business Operations

Accounting records and control system practices is at the heart of business activities as it serves as the basis for proper planning and management of business activities (Abdul-Rahamon & Adejare, 2014). Maseko and Manyani (2011) argue that record keeping and generation of financial reports is a basic element in accounting records keeping and control systems and decision making in every business entity. These activities as stated by the researchers allows managers and owners to determine whether they are making profits or loss.

Abdul-Rahamom and Adejare (2014) contend that the general objectives of using accounting and control systems include improving efficiency and productivity, to control creation and growth of businesses, to reduce operating costs, and to ensure compliance with regulatory requirement. In Ghana, most SMEs are compelled to keep proper books of accounts in order to get access to credit facility from banks, microfinance institution or venture capital funds.

According to Musah and Gakpetor (2017), the companies Code, 1963, Act 179 requires all business registered under Act 179 to prepare periodic financial statement and circulate same to shareholders as well as debenture holders. Despite the legal requirement on all business registered as companies which almost all SMEs fall under, most of them do not comply with the legal requirement

because of weak enforcement regime in Ghana. Mutua (2015) posits that proper use of accounting and control systems help SMEs to control their activities and also aid in managing cost and expenses. Mutua (2015) again added that, despite its importance to the success of SMEs, the difficulties encountered by owners and managers in using accounting and control systems in their business operations deters from employing such systems. For example such systems are expensive to set up and maintain for small businesses.

In addition to the above, Sanga et al. (2014) asserted that keeping business records is an important driver for the success of a business and argues that a comprehensive record keeping and control system enables business owners to develop accurate and timely financial reports that detail the progress and prospects of the business. This would enable managers to know the financial positions of their businesses and to take certain control measures to improve corporate performance. It also provides a wealth of information that is used by managers, investors, leaders, customers, suppliers, and regulators.

Also, an analysis of its statements can highlight a company's strengths and shortcomings, and managers can use this information to improve performance. Thus, if management is to maximise the value of a firm, it must take advantage of the firm's strengths and correct its weaknesses. This is done through the analysis of the financial statements. Financial statement analysis which can be obtained through effective implementation of accounting and control systems involves comparing the performance of the firm with that of other firms in the same industry and evaluating trends in the firm's financial

position over time. These would help managers identify deficiencies and then take corrective actions to improve situation (Sibanda & Manda, 2016). From the manager's standpoint, financial statements analysis is useful both to help anticipate future conditions and, more important, as a starting point for planning actions that will improve the firm's future performance.

Control Environment

Control Environment is one of the critical parts of a firm's internal control (Vu, 2016). Some of the components of control environment include the Board who is responsible for supervision of development and evaluation of internal control, the management team that formulates, put a structure in place, introduce policies and procedures and implementation of internal control policies (white house, 2013). There is a need for management to hire, train and reward capable staff of internal control unit. Also, COSO Internal Control framework, (2013) stated that management of organizations should make internal control officers accountable for their activities. The control environment is very key as any lapse may result in fraud (Kachelmeier, Major & Williamson, 2014). Good control environment will lead to a reduction in errors and irregularities (Noland & Metrejean, 2013). Every firm needs to keep updating its internal control system as a result of a change in environment (Kachelmeier, et al., 2014).

Risk Assessment

Risk assessment is important; risk should be identified, analyzed, estimated and reviewed periodically (Asiligwa, 2017). Risk management framework should be set up to help improve the risk management practices and internal control

(COSO to Internal Control framework, 2013) Risk assessment can be classified as high, medium and low. This will determine the seriousness or handle each potential risk and which area need monitoring and proactive activities (D'Aquila and Houmes, 2014).

Control Activities

Control processes are developed on identified risk in order to reduce the incidence of the risks happening. These controls are put in place in order to achieve the companies' objectives (COSO internal control framework, 2013). Control activities entail checking of authorization and approval, reconciliation, variance analysis of budgets and actual performance review (Vu, 2016). The identified risk may be prevented from happening through the institution of a sound internal control system (Muceku, 2014). Control activities may be manual or computerized. Before controls are established there should be a cost-benefit analysis, so that cost of control does not outweigh the benefits that will be derived (Gyebi and Quain, 2013).

Information and Communication

Information is vital to the strategies a firm will use for internal control. The staffs of internal control need to know the companies' goals and objectives, strategy and the role internal control play in order to achieve these goals and objectives. Internal Control unit needs to communicate lapses noticed in the system to management and management will pass major information to the Board of Directors (COSO International Control Framework, 2013). Information and communication are very important in the internal control process (internal control process (Vu, 2016).

Monitoring Activities

Monitoring is vital in the Internal Control process (Zecheru, 2014). Monitoring of the internal control process (Vu, 2016). The frequency of monitoring is dependent on risk assessment. The higher the risk, the higher the level of monitoring (Zecheru, 2014). The effective monitoring system internal control system that is then communicated to the owners of the business.

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important in the internal control process (Vu, 2016). Every staff in an organization needs to know the role to play in the

Monitoring is vital in the Internal Control process (Zecheru, 2014). Monitoring can be used to know the effectiveness). The frequency of monitoring is dependent on risk assessment. The higher the risk, the higher the level of monitoring (Zecheru, 2014). The effective monitoring system should be able to detect weakness in the internal control system that is then communicated to the owners of the business (Vu, 2016).

Benefits of Internal Control

According to Campbell and Hartcher (2010), control within organizations assists in supporting the goals of the enterprise, protecting assets, and identifying and stopping fraud and error. Control leads to the promotion of excellent administration, giving room for the punishment of poor performance, approving of transactions, helping in authenticating transactions, and minimizing exposure to unexpected events (Campbell & Hartcher, 2010). Control guarantees proper financial statements, recording of all transactions, and maintenance of correct amounts with proper classification.

To justify the above statement , for example ; All expenditure out of the petty cash must be properly authorized .What amount should be charged to the income statement in the year ended 30 ... (1) A contra entry of Ghc 980 was recorded in the payables ledger control ... 20 Prisha has not kept accurate accounting records during the financial year. . Because errors and

fraud can and do occur, it is important that you establish safeguards for your plan to ensure you can adequately meet your fiduciary responsibilities.

Critical example, As a plan sponsor, administrator, or trustee, you are considered a fiduciary under ERISA — As such, you are subject to certain fiduciary responsibilities, and with these responsibilities comes potential liability: Fiduciaries who do not follow the basic standards of conduct may be personally liable to restore any losses to the plan, or to restore any profits made as a result of their improper use of the plan's assets.

Reasons for justification, Under ERISA, my responsibilities include plan administration functions such as maintaining the financial books and records of the plan, and filing a complete and accurate annual return/report for your plan. Because errors and fraud can and do occur, it is important that you establish safeguards for your plan to ensure you can adequately meet your fiduciary responsibilities. One way this can be accomplished is by implementing effective internal control over financial reporting.

Occurrence or existence — Do assets and liabilities actually exist at a given date? Did recorded transactions occur during the current year or did they take place in an earlier or later year? For example, all assets in the investment account must physically exist and be available to pay benefits or plan expenses.

Other benefits of internal control include helping business leaders to ascertain the existence of assets and liabilities; error identification and handling; separates functions; and ensuring timely preparation, presentation, and proper disclosure of financial statements (Campbell & Hartcher, 2010). Effective internal

audit functioning is essential to the success of a firm (Adedokun, Asaolu, & Monday, 2016). Efficient internal controls are useful to a company because they support consistent financial statements and give a reasonable guarantee for the records on which managers rely to make vital decisions concerning their businesses (Tong, Wang, & Xu, 2014). Internal audit adds to the attainment of business objectives and is more beneficial to business performance (Badara & Saidin, 2013). Control in an organization is an elemental provision for well-organized and effectual attainment of the general and specific goals of any company (Muceku, 2014). SMEs need viable internal audit system to contribute to the achievement of set business objectives. With effective internal control compliance, enterprises will garner limitless gains that stream from well-organized procedures, which will add value to the company's capacity (Nor Azimah, 2013).

Good internal control leads to efficient management, harmonization, and promotes a company's ability to generate value and maximization of companies' capital. Internal audit activities are useful in achieving enterprise missions, organization cost-effectiveness, and successful operations (Muceku, 2014). Internal control may result in the creation of quality products and services similar to the organization's mission to preserve resources against loss due to misuse, negligence, errors, and frauds. A well-built control system is an effective protection against business failures and a vital driver of business achievement (Nor Azimah, 2013).

The implementation of good internal control system may help SMEs to achieve successful operations. Internal control is a vital part of corporate governance (Gyebi & Quain, 2013). Management may use ICT to harmonize best

business practices in a firm (Frazer, 2011). Control within enterprises is vital in resolving difficult economic climate because businesses have the need to reduce waste and improve efficiency (Bhatti, Iftikhar, Qureshi, Shams, & Zaman, 2013). SMEs should establish or raise the standard of preventive and detective internal controls to enhance chances of accessing funds (Luyolo et al., 2014). The four types of internal control are: (a) preventive, (b) detective, (c) corrective, and (d) compensating (Johnston & Spencer, 2011). Correct applications of preventive controls could prevent fraud. Preventive controls are useful in avoiding non-valid transactions and stopping assets from misuse. Preventive controls require a considerable amount of physical effort and involvement to succeed and are the costliest type of control to apply. Examples of preventive controls include two-fold signatures on the financial instrument to prevent unapproved transactions and user identities and passwords over computers to avert illegitimate access to applications (Johnston & Spencer, 2011). Data control procedures involving endorsement, agreement, confirmation, protection, and separation of functions are protective control activities (Johnston & Spencer, 2011).

The right application of preventive controls may aid the avoidance of fraud. The right application of detective controls helps to uncover errors and fraud. Application of detective control can help in spotting situations where detrimental events occurred. Application of detective controls can show that a violation has happened but cannot prevent the unwanted action from occurring. Examples include a reconciliation of bank statements and variance analysis of actual budget. Detective control measures are moderately inexpensive to apply (Johnston &

Spencer, 2011). The failure of company leaders to institute detective control may result in expensive fraud incidents. Management may put corrective controls in place after an error or fraud occurs (Johnston & Spencer 2011). Proper use of corrective controls may help in mitigating damage once a risk crystallizes. Corrective controls are internal controls business leaders develop to remedy errors and systematically correct faults. Restoration of the computer back up after an earthquake disaster is an example of corrective control (Johnston & Spencer 2011). The right application of corrective controls to mitigate fraud incidents is important to SMEs. A compensating control is necessary to neutralize an identified internal control weakness. The owner-manager often uses compensating control (Johnston & Spencer 2011). Examples of compensating controls include exception reports showing expenses at higher than normal levels, clients' over-approved limits, and customers' past due accounts.

Effective internal control reduces the risk of asset loss, and helps ensure that plan information is complete and accurate, financial statements are reliable, and the plan's operations are conducted in accordance with the provisions of applicable laws and regulations. When internal control is effective, you have reasonable assurance that your plan is achieving its financial reporting objectives. When it is not effective, you have little or no such assurance.

Empirical Review

Taking cognizance of the crucial role of SMEs in the economic development of Ghana, they are increasingly attracting both governmental and non-governmental attention. Following the above, the Government of Ghana has

intervened with various micro-financing schemes, such as the Micro Finance and Small Loans Centre (MASLOC), Venture Capital Trust Fund and Export Development and Investment Fund (EDIF). Policy makers, investors, financial institutions, regulatory bodies and other stakeholders are also progressively becoming interested in the financial performance of SMEs (Ntim, et al, 2014). The above attention has placed a demand on SMEs to show more accountability for the stewardship of resources allocated to them; that is, a call for proper accounting practices and financial reporting. Previous researches (e.g Ntim *et al.*, 2014; Mbroh & Attom, 2011; Amidu *et al.*, 2011) have indicated that small firms are a group of businesses driven by the attitude and motivation of one person, tend to control all functional areas of the business and accord less time to the accounting and finance function. This is often viewed as unimportant and thus received less attention on the part of the owner manager.

Mbroh and Attom (2011) also reported evidence that micro-firms lack signs of any systematic accounting practices. Various studies have found similar results for small firms and the key reasons include lack of time, resources and skills of small business managers. Accounting systems provide a source of information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance. The importance of financial performance measurement to any business entity, big or small, cannot be over-emphasized. In any sense, profit can analogously be viewed as the life-blood of a business and hence the accounting bases, concepts and principles adopted ought to capture and report all the relevant accounting information to ensure reliability in its measurement.

CHAPTER THREE

RESEARCH METHODS

Introduction

In this chapter research methods or design, procedures and techniques employed in the study were discussed. The issues covered include; the study area, research design, population of the study, sample size/sampling technique, the data collection tools/instruments, data collection procedure, and data analysis.

Research Design

This study work employed the descriptive research design under which, case study was employed for the study. Descriptive research specifies the nature of a given phenomenon. It determines and reports the way things are. The purpose of employing descriptive research was to enable the researcher to observe, describe, and document what occurred during the observation. The purpose of using the descriptive research is to observe, and document aspects of situations as it naturally occurs. The characteristics of descriptive research include the use of quantitative or qualitative data and also the formulation and testing of research questions and seeking answers to them or describing situations.

The descriptive research uses the logical method of inductive reasoning which involves reasoning from specific observation to more general rules and deductive reasoning which involves reasoning from general to specific situations. The method employs randomization so that errors may be estimated when population characteristics are inferred from observations of samples.

Case studies are useful ways to explore, examine, or bring to light variables, phenomena, processes, and relationships that have not been thoroughly researched and as such deserve investigation that is more intensive. The primary purpose of a case study is to help the researchers determine the factors, and relationships among the factors that have resulted in the current behaviors or status of the subject of the study.

A Mixed methods research approach was adopted. This research approach utilized both quantitative and qualitative methods. Questionnaire administration and structured interviews were the main methods of data collection. RSSIs in the Sunyani Municipality constituted the cases for the study.

The case study design was adopted because it relies on multiple sources of evidence (Yin, 2009). It also facilitates close contacts with the cases being studied. This allows for detailed assessment or discussion of the phenomena under investigation (Sarantakos, 1998). Questionnaires were used to gather primary data. Using questionnaires promised an extensive coverage because it provides an easier approach to respondents than other methods (Amadahe, 2002). The study started by the reviewing of relevant literature on the growth and development of RSSIs as well as associated supporting institutions and organisations working to facilitate such growth in both international and local contexts.

The review of literature enabled a thorough understanding of the theoretical developments as well as the changing aspects of RSSIs, especially, in developing countries. The Slovin's formula: $n = \frac{N}{1+N(\alpha)^2}$, where n is the

sample size, N is the total RSSIs (sample frame) and α is the margin of error (0.08) was used to select a sample of 200 rural small scale industries for the survey .

Respondents were randomly selected among the RSSIs operators for the questionnaire administration. Three officials from the National Board for Small Scale Industries (NBSSI), Capital Rural Bank and the Department of Co-operatives were purposively selected for interviews. Questionnaires were the main instruments used to gather primary data. Using questionnaires promised an extensive coverage because it provides an easier approach to respondents than other methods (Amadahe, 2002). This ensured the collection of a wide range of data including the demographic characteristics of RSSIs operators, prospects and challenges, as well promotional activities for these enterprises in the Sunyani Municipality.

Study Area

The study was carried out in the Sunyani Municipality. Sunyani municipal is one of the twenty-five municipalities and districts in the then Brong Ahafo Region. Sunyani is the administrative capital of the Sunyani Municipal District and also doubles as the regional capital. The Sunyani municipal is one of the 260 Metropolitan, Municipal and District Assemblies (MMDAs) in Ghana, and forms part of the 12 of Municipalities and Districts in the Bono Region with the capital as Sunyani.

The Municipality was established on 10th March, 1989 by a legislative instrument (LI) 1473. This was the period Ghana adopted the District Assembly concept. The overall goal is to accelerate growth and development in the

Municipality. The Sunyani West District was carved from this Municipality on November 2007. The Sunyani Municipal Assembly is located at the heart of Bono Region lying between Latitudes 7° 20'N and 7° 05'N and Longitudes 2° 30'W and 2° 10'W and covers a total land area of 506.7 Km².

The Municipality is bordered on the north by Sunyani West District; west by Dormaa East District, to the south by Asutifi South District to the south and east by Tano North Municipal. The population of the Municipality according to the 2010 Population Housing Census stands at 123,224 with 61,610 males and 61,614. The main occupation of the inhabitants is predominantly Small and Medium Skill Enterprises.

There are several self-employed businesses in the area. The municipality has many business institutions including governmental set-ups, banks, schools, hospitals, micro-finance establishments, sole-proprietorship businesses, mobile telecommunication companies and many other hospitality set-ups (hotels, restaurants, guest houses etc) all in the services sector.

The municipality is currently characterized by small scale businesses which employ only about 8% of the active labour force. The service and commerce sector in the Municipality employs about 22% of the local active labour force. The commercial sector is dominated by activities in the retail and (a limited) wholesale activities in agricultural and industrial goods such as raw agricultural produce, food preparation, household consumables, chemical shops, and electrical shops.

It is, therefore, obvious that due to the twin role-played by the Sunyani municipality, it attracts the entry of various categories of people and generates

commercial activities that doubtlessly include those of the services sector. The vast numbers of people who visit Sunyani include government officials, entrepreneurs, religious leaders, and people seeking admission to educational institutions, inter alia. The study uses Sunyani Municipality as a case study because of the different kinds of business activities that goes on in the municipality. And these business manage their working capital in different ways.

Population of the Study

The population for the study was the sole proprietorship enterprises in the municipality with employees that fall within the definition of Small and Medium Scale. The population is homogenous in nature.

Sample and Sampling Techniques

The estimated population of two hundred (200) SME operators in the Sunyani municipality were used. In determining the sample size where the population is known, the following formula was used.

$$n = N \cdot X / (X + N - 1)$$

Where n= required sample size

$$X = Z_{\alpha/2}^2 \cdot p \cdot (1-p) / MOE^2$$

$Z_{\alpha/2}$ = the critical value of the Normal distribution at $\alpha/2$ (e.g. for a confidence level of 95%, α is 0.05 and the critical value is 1.96),

MOE = the margin of error,

P= the sample proportion (assumed to be 0.5) since this would provide the maximum sample size

N = the population size.

Using a 95% confidence level with an estimated population of 200 SME operators in the Sunyani Municipality, a sample size of 132 was chosen.

$$\text{Thus } X = Z_{\alpha/2}^2 * p * (1-p) / \text{MOE}^2$$

$$X = 1.96^2 \times 0.50 \times (1-0.50) / 0.05^2$$

$$X = 0.9604 / 0.0025 = 384.16$$

Therefore using the formula

$$n = N * X / (X + N - 1)$$

$$n = 200 \times 384.16 / (384.16 + 200 - 1)$$

$$n = 76832 / 583.16$$

$n = 131.76$ which is approximately 132 SMEs

SMEs were selected using convenience sampling technique. This is a non-probability sampling method. The convenience sampling technique was chosen because sampling participants using the list from authorities was a challenge. In applying this technique, the participating SME were selected due to their availability and convenience to be selected. The participants for the study were approached at their places of work and their agreement sought to participate in answering the questionnaire.

Data Collection Instruments

The data collection instrument used for this study was a structured questionnaire. The questionnaires for this study was designed in two parts. Parts one covered data about personal characteristics of respondents: Details such as sex, age, marital status and level of education were key information collected. The second part contained the questions relating to the objectives of the study. This

included information on the various accounting and control systems used by SMEs, the challenges faced by SMEs in using accounting and control systems in their business operations.

The questions were both open and closed ended. The open ended questions gave the respondents freedom to decide the detail and the length of their answers. It enabled the respondents to give more adequate presentation of their particular case and convey flexibility in their choices. The closed ended questions, however, were designed to keep the questionnaire to a reasonable length and this minimizes the risk of misinterpretation unlike the open ended question.

Data Collection Procedures

To start with, the researcher took an introductory letter to explain to respondents the purpose for the research to enable them to willingly provide the requisite information needed for the study. The questionnaires were personally administered to the selected respondents and a followed-up made to make sure all questionnaires were answered accordingly and returned for analysis.

Data Processing and Analysis

Data analysis was defined by Burns & Grove (2003) as a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. For the purpose of the present study, a qualitative approach to analyzing data was used. Using questionnaires, the views of the respondent were obtained and interview records sorted into specific themes alongside the specific research questions of study. The responses were analyzed using SPSS.

Questions relating to objective one were in section B of the questionnaire. The responses were coded and entered into SPSS spreadsheet. Descriptive statistical analysis was used to generate frequencies. These were displayed in tables.

In analyzing the responses based on the second objective, the responses entered into SPSS were analyzed using descriptive statistics. Frequency distribution tables were generated to show the responses given. The results arrived at were presented in a table and charts.

To achieve the third objective, the responses were analyzed using descriptive statistics. Descriptive statistics was used to determine the benefits SMEs derived by using accounting and control systems in their business operations. The results were presented using tables and charts.

Ethical Consideration

The study took into consideration some ethical issues required to ensure quality and independent work. Ethics are norms for conduct that distinguish between an acceptable and unacceptable behaviour. The study took into consideration the following ethical principles; honesty, objectivity, confidentiality, integrity, openness and respect for intellectual property. The researcher ensured that data collected for this study were not fabricated, falsified or misrepresented to ensure that, data was reliable and accurate. The study also respected intellectual property by referencing and acknowledging all authors whose materials were included in this study.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter provides information on the findings and analysis of data collected for the study. The responses from respondents are used to describe, analyze and establish relationships.

The general objective of the study was to evaluate the accounting and control systems practiced by SMEs in the Sunyani municipality. Data for the study was collected from SME operators in the Sunyani municipality using structured questionnaires with closed ended questions. This chapter of the study presents the results arrived at based on the data collected from the field and analyzed.

Personal Information of Respondents

Information collected in a Section of the questionnaire administered was on the personal information of respondents. The results are presented in Table 1

Table 1: Results on the Personal Information of Respondents

Items	Responses	Frequency/Percentage
Gender	Male	74 (56%)
	Female	58 (44%)
Age	Below 18 years	4 (3%)
	18-25 years	37 (28%)
	26-33 years	40 (30%)
	34-41 years	26 (20%)
	42 years and above	25 (19%)
Sector of business operation	Formal sector	59 (45%)
	Informal sector	73 (55%)
Type of business	Production	49 (37%)
	Services	69 (52%)
	Others	14 (11%)

Source: Field data (2020)

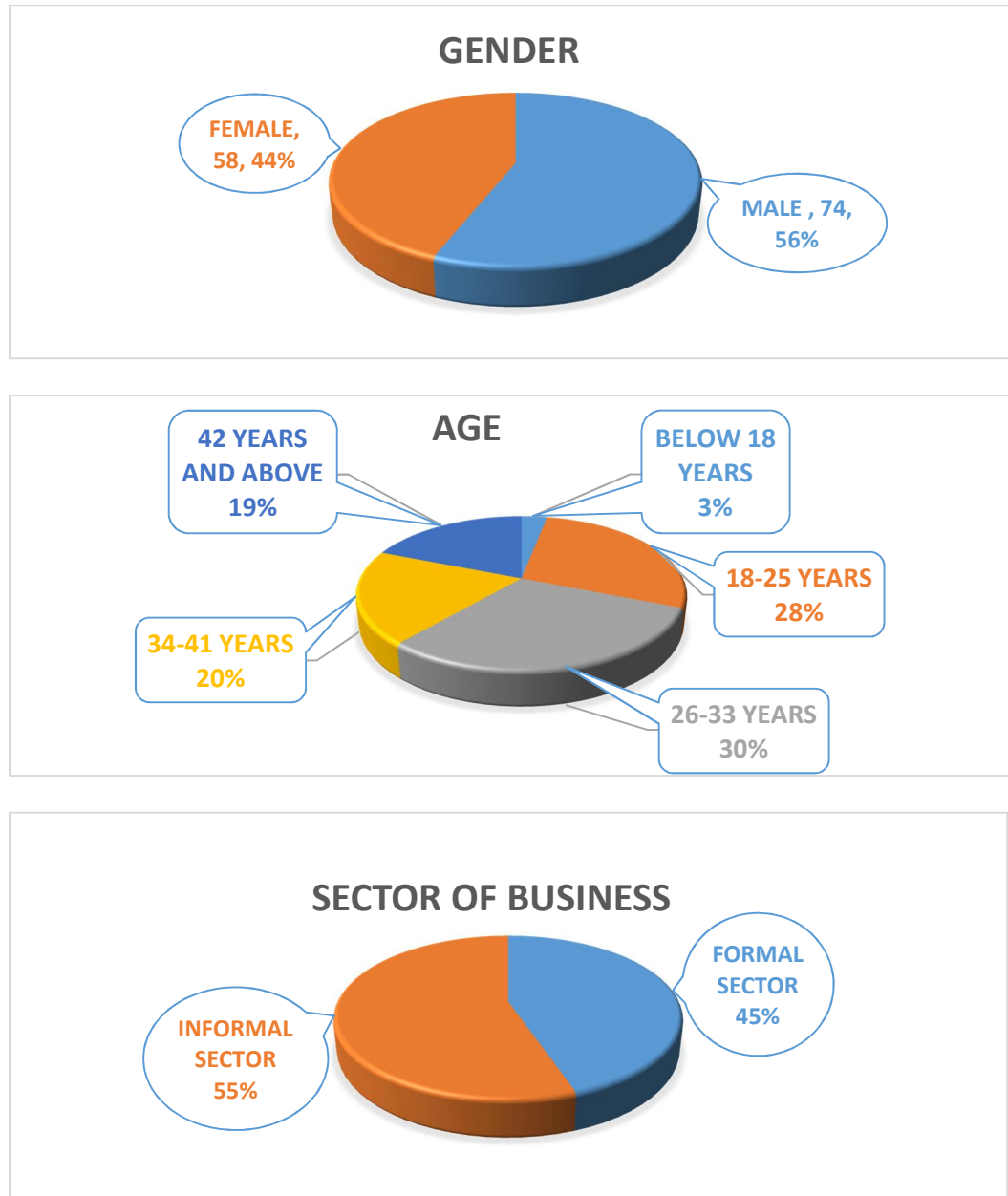


Figure 1: Results on the personal information of respondents

Source: Field data (2020)

From Figure 1, on the gender of respondents, 74 (56%) were male and 58 (44%) were female. With regard to their ages, 4 (3%) were below 18 years, 37 (28%) were between 18-25 years, 40 (30%) were between 26-33 years, 26 (20%) were between 34-41 years, and 25 (19%) were 42 years and above.

Concerning the sector of business operations, 59 (45%) operated in the formal sector and 73 (55%) operated in the informal sector. When asked the types of business engaged in by respondents, 14 (11%) were into production, 69 (52%) were into services, and 49 (37%) were into other forms of businesses in the municipality.

The Various Accounting and Control Systems used by SMEs

In section B of the questionnaire, respondents were asked to indicate the accounting and control systems used in their business operations. The responses received are presented in.

Table 2: Results on Accounting and Control Systems used by SMEs

Accounting and control system	Responses	Frequency/Percentage
Investment appraisal technique	7	5%
Working capital management	41	31%
Financial assessment	8	6%
Accounting information systems	11	9%
Fixed assets management	0	0%
Financial record	65	49%

Source: Field data (2020)

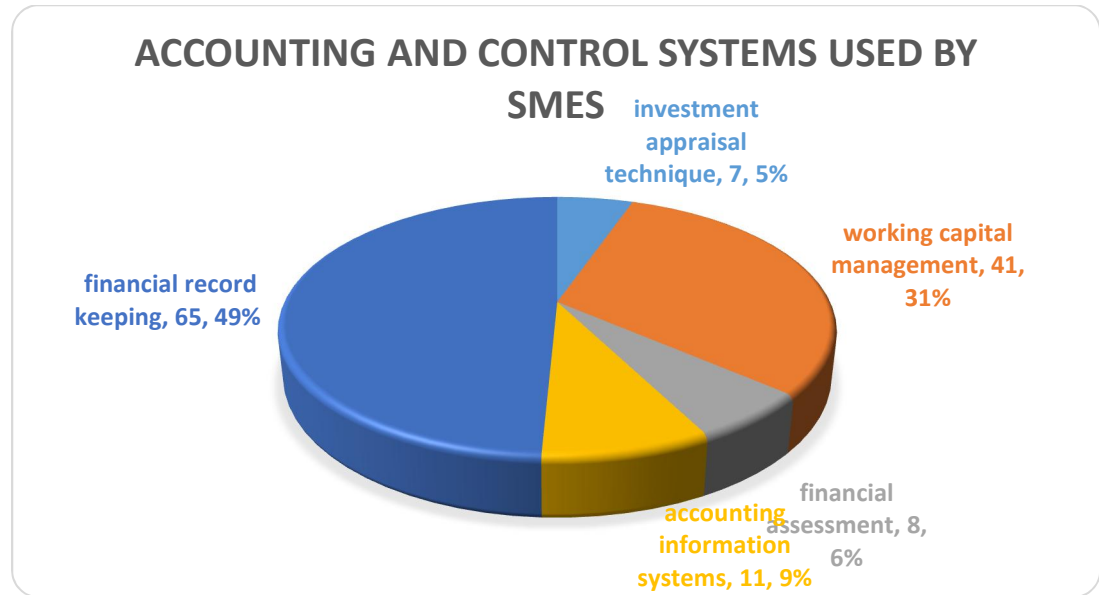


Figure 2: Results on accounting and control systems used by SMEs

Source: Field data (2020)

As presented in the table and the figure above, the major accounting and control systems used by sampled SME operators in the Sunyani municipality was financial record keeping, financial record keeping (65, 49%). Financial record keeping as a major tool employed by SMEs in this study is consistent with that of Kennedy and Tennent (2006) who in their study found financial record keeping as the general accounting and control system used by small businesses. The use of financial record keeping enables SME operators keep tract of their financial transactions, as it is a much easier accounting and control method as compared to the others.

The second major accounting and control system used by SMEs, according to the views of 41 (31%) respondents, was working capital management. In line with this trend of result, Muneer (2017) in his study also found that, the efficient management of working capital enables businesses to increase their chances of

making profits. Being able to make more profits will reduce the dependence of SME on sourcing finance from external sources especially microfinance institutions who normally tend to have high interest rates.

Minor accounting and control systems used by SMEs per the responses received include accounting information systems (11, 9%), financial assessment (8, 6%) and investment appraisal techniques (7, 5%). These trends of results are consistent with the findings of Mazzarol et al. (2015) that SMEs have largely informal and ad hoc accounting and control practices, which are mostly, based on the firm size and financial literacy levels of owners and managers. Hence, as the firm grows in size and complexity the owner-manager is required to adopt more sophisticated and systematic approaches to financial management. This is necessary as SMEs with higher financial literacy have greater capacity to monitor and control the financial performance of their businesses.

The Challenges Faced by SMEs in Using Accounting and Control Systems in their Business Operations

Questions 11-12 in Section C of the questionnaire collected information on the challenges faced by SMEs in using accounting and control systems in their business operations.

Table 3: The Challenges Faced by SMEs in Using Accounting and Control Systems in their Business Operations

Challenges	Yes	No
Inadequate knowledge on working capital management practices	109 (83%)	23 (17%)
Poor financial management practices	125 (95%)	7(5%)
Inadequate financial management systems	98(74%)	34(26%)
Difficulty in understanding financial records	115 (87%)	17 (13%)
Lack of professional accounting staff	130 (98%)	2(2%)
Difficulty in accessing credit from external sources	121 (92%)	11(8%)
Using outdated technologies	97 (73%)	35(27%)
Low levels of technical and management skills	103(78%)	29(22%)

Source: Field data (2020)

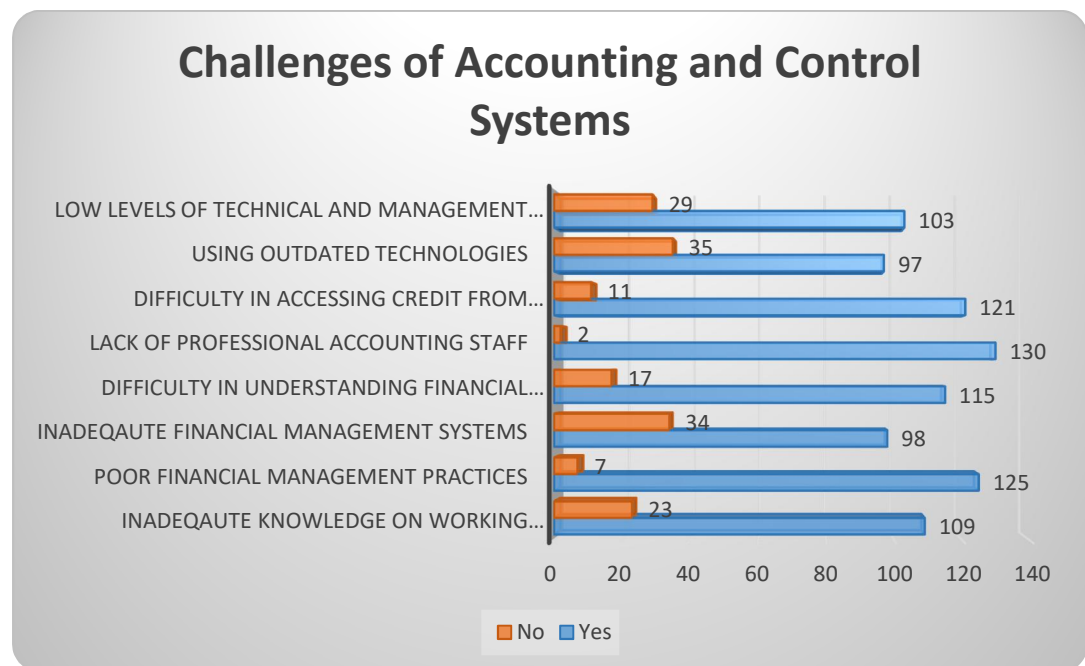


Figure 3: The challenges faced by SMEs in using accounting and control systems in their business operations

Source: Field data (2020)

Results on the Challenges Faced by SMEs in Using Accounting and Control Systems in their Business Operations

The major challenges identified by respondents with regard to using accounting and control systems in their business operations were lack of professional accounting staff (130, 98%), poor financial management systems (125, 95%), difficulty in accessing credit from external sources (121, 92%) and inadequate knowledge on working capital management practices (109, 83%). With regards to lack of professional accounting staff, Agyei-mensah (2010) averred that, SMEs mostly do not employ the services of qualified accountants because they are too expensive to maintain. This according to the author may account for the problem of poor financial management practices among SMEs. This makes it difficult for them to prepare financial reports.

In relation to difficulty in accessing credit from external sources, Also, Thevaruban (2009) emphasized that, SMEs experience difficulties in getting credit from external sources because the cash flow and savings of SMEs is significantly low. In agreement with the above, Datta (2010) added that, external finance is also more expensive than internal finance. Hence, bank and non-bank financial institutions usually do not emphasize much on credit lending from external source for SMEs development due to its expensive nature. Regarding inadequate knowledge on working capital management practices, Harif et al (2010) stated the lack of working capital was the most common weakness in the area of financial management. Improper management of working capital among SMEs

accounts for limited opportunities for them to make profits as funds meant for business are sometimes diverted to other uses.

Other challenges faced by SMEs in using accounting and control systems in their business operations are difficulty in understanding financial records (115, 87%), low levels of technical and management skills (103, 78%), inadequate financial management systems (98, 74%), and using outdated technologies (97, 73%). Ssendaula (2002) in line with the above low levels of technical and management skills; outdated technologies; lack of professionalism and networking as some challenges of accounting and control among SMEs. Concerning difficulty in understanding financial records, Atrill (2006) argues that lack of financial management skills within SMEs often creates problems in managing stock in an efficient and effective way. This may lead to the problems of over-stocking or under-stocking of goods among SMEs.

Benefits SMEs Derive from Using Accounting and Control Systems in their Business Operations

Information on the benefits SMEs derived from using accounting and control systems in their business operations was collected in Section D of the questionnaire. The results are presented in Table 4.

Table 4: Benefits SMEs Derive from Using Accounting and Control Systems in their Business Operations

Statements	Agree	Neutral	Disagree
Employing accounting and control system practices in organizations helps SMEs to undertake proper planning and management of their business activities.	96 (72%)	18 (14%)	18 (14%)
Managers are able to determine whether their businesses are making profits or losses when they make effective use of accounting and control systems.	115 (87%)	11 (8%)	6 (5%)
Business efficiency is improved when accounting and control systems are used by SMEs.	121 (92%)	11 (11%)	-
Proper use of accounting and control systems help SMEs to control their activities and also aid in managing cost and expenses.	105 (80%)	22 (17%)	5 (3%)
A comprehensive record keeping and control system enables business owners to develop accurate and timely financial reports that detail the progress and prospects of the business.	101 (77%)	17 (13%)	14 (10%)
Managers can use information derived from efficient use of accounting and control systems to improve performance.	95 (72%)	33 (25%)	4 (3%)
Using accounting and control systems can help managers identify deficiencies in their business operations and then take corrective actions to improve such situations.	87 (66%)	43 (32%)	2 (2%)

Source: Field data (2020)

The last objective for the study was to find out the benefits SMEs derive from using accounting and control systems in their business operations. To the first statement which was ‘employing accounting and control practices in organizations helps MSEs to undertake proper planning and management of their business

activities, 96 (72%) respondents agreed and 18 (14%) respondents disagreed with the statement. This trend of results confirms the findings of Abdul-Rahamon and Adejare (2014) who stated that, accounting records and control system practices is at the heart of business activities as it serves as the basis for proper planning and management of business activities. This shows that, businesses can be able to make more accurate plans when they employ accounting and control systems in their business activities.

To the next statement which was ‘managers are able to determine whether their businesses are making profits or losses when they make effective use of accounting and control systems, 115 (87%) respondents agreed with 6 (5%) of respondents disagreeing with managers being able to determine whether their businesses are making profits or losses when they use accounting and control systems. In agreement with the above, Maseko and Manyani (2011) argued that business managers and owners are able to determine whether they are making profits or losses when they keep good financial records since record keeping and generation of financial reports is a basic element in accounting records keeping and control systems and decision making in every business entity.

According to the views of 121 (92%) of the respondents, business efficiency is improved when accounting and control systems are used by SMEs. To buttress the finding, Abdul-Rahamom and Adejare (2014) contend that, the general objectives of using accounting and control systems include improving efficiency and productivity. This helps to control the creation and growth of businesses, reduce operating costs, and also ensure compliance with regulatory requirement.

It was further agreed upon by 105 (80%) of respondents that, proper use of accounting and control systems help SMEs to control their activities and also aid in managing costs and expenses. However, 5 (3%) of respondents disagreed with the statement that, proper use of accounting and control systems help SMEs to control their activities and also aid in managing costs and expenses. This result is consistent with the findings of Mutua (2015) who advances that, proper use of accounting and control systems help SMEs to control their activities and also aid in managing cost and expenses.

Further on the benefits derived by SMEs from using accounting and control systems in their business operations, 101 (77%) of respondents agreed that, a comprehensive record keeping and control system enables business owners to develop accurate and timely financial reports that detail the progress and prospects of the business. fourteen (14, 10%) of respondents on the other hand disagreed with the ability of a comprehensive record keeping and control system enabling business owners to develop accurate and timely financial reports that detail the progress and prospects of the business. This confirms the assertion by Sanga et al. (2014) that, keeping business records is an important driver for the success of a business. This would enable managers to know the financial positions of their businesses and to take certain control measures to improve corporate performance. It also provides a wealth of information that is used by managers, investors, leaders, customers, suppliers, and regulators. Proper records keeping would also help SMEs to get access to credit facilities from banks, microfinance institution or venture capital funds.

In addition, 95 (72%) of the respondents agreed that, managers can use information derived from efficient use of accounting and control systems to improve performance with 4 (3%) of respondents disagreeing. An analysis of financial statements can highlight a company's strengths and shortcomings, and managers can use this information to improve performance. Accordingly, management must take advantage of the firm's strengths and correct its weaknesses if it is to maximise the value of a firm.

To the last statement which was 'using accounting and control systems can help managers identify deficiencies in their business operations and then take corrective actions to improve such situations', 87 (66%) of respondents agreed with 2 (2%) respondents disagreeing. Doing this as stated by Sibanda and Manda (2016) would help managers identify deficiencies in their business activities and take corrective actions to improve the situation.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents a summary of the study. It presents the very important findings and succinctly presents the conclusions that were made as a result of the study. Key recommendations are then proffered.

Summary of Findings

This study examined the accounting practices and control systems used by SMEs, challenges faced by SMEs in using accounting and control systems in their business operation and the benefits derived from using accounting and control systems by SMEs in their business operations. SMEs were drawn on a survey of 132 owner-managers in the Sunyani Municipality. The results revealed that majority of SMEs in the municipality are family owned and are involved in trading activities having about 1-5 employees. The results also revealed that majority of SMEs practice financial record keeping and working capital management. Minor accounting and control systems used by SMEs per the responses received were found to include accounting information systems, financial assessment, and investment appraisal techniques. However, some of the SMEs kept records of their business using the paper based method. This category of SMEs maintained files of invoices and receipts, journals, ledgers, vouchers, cash book, payroll records and assets register. Also, in most cases owner-managers are in charge of the

challenges identified with regard to using accounting and control systems in their business operations were lack of professional accounting staff, poor

financial management systems, difficulty in accessing credit from external sources, and inadequate knowledge on working capital management practices.

Findings revealed that, employing accounting and control system practices in organizations helps SMEs to undertake proper planning and management of their business activities. Also, managers, according to the respondents, are able to determine whether their businesses are making profits or losses when they make effective use of accounting and control systems. Findings further revealed that, business efficiency is improved when accounting and control systems are used by SMEs.

Conclusions

In order for the SMEs to grow, there is the need for a more effective and efficient accounting practices coupled with good control procedures translating into preparation of complete set of financial statements not only for internal users but also to external users. As most owner-managers lack the education and experience to handle all of their business accounting needs, hiring an accounting practice to assist with the accounting functions of the business is a great way to ensure the books are in line with ethical standards and the law. Also, with the development of information technologies there is the need for SMEs to acquire computer software to improve the accuracy of their record keeping and financial reporting. SMEs in the municipality should form a union through which a consultant would be hired to prepare accounts for them at shared cost to be settled by the clients through the union. In this way, the problem of high cost of accounting services that prevent

most SMEs from preparing proper books of account would have been greatly resolved.

Lastly, national regulators such as National Board for Small Scale Industries (NBSSI) in collaboration with the Institute of Chartered Accountants, Ghana (ICAG) should organize accounting training programmes for owner-managers of SMEs to equip them with basic accounting knowledge and skills.

Recommendations

Based on the conclusions, the following recommendations may be considered by the SMEs.

1. The SMEs must do well to employ accounting and control systems in their operations through making efficient and effective practices such as the use of accounting information systems, financial planning, and fixed-asset management. These must be inculcated into the financial administration of the business to bring improvements in managing the finances of the business.
2. To overcome the identified challenges faced by SMEs problems of financial management, SMEs must hire qualified accountants on part-time bases to manage their finances as well as keep financial records of the business professionally. This may aid in making realistic budgets/financial projections.
3. Technologies used in their various lines of businesses must be updated to meet current trends. This is to help bring about efficiency in the general business operations of SMEs.

4. SMEs owners and managers must equally invest in skill enhancement programmes for employees. This is to aid in enabling them use modern technologies as well as meet the needs of all caliber of customers they may come into contact with.
5. SME businesses must continue to employ different accounting and control systems in their operations. This is to enhance their management and planning activities.
6. To sum up, SMEs must also keep accurate records of their business transactions to enable them develop comprehensive, accurate and timely financial reports to help forecast the progress and prospects of the business.

Suggestions for Further Research

The findings hold many suggestions for the owner-managers to assess performance on safeguarding assets to be able to strategize and make certain adjustments on their businesses. At the end of it all, the need for future studies that will address the following are recommended.

1. Assessment of the relationship between internal control practices and the performances of Small and Medium scale enterprises in Ghana.
2. The effects of various internal control measures on Quality Service Delivery.

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APPENDIX

QUESTIONNAIRE

CATHOLIC UNIVERSITY COLLEGE, SUNYANI.

**AN EVALUATION OF INTERNAL CONTROL SYSTEM
EFFECTIVENESS AMONG SELECTED SMALL AND MEDIUM
ENTERPRISES IN SUNYANI IN MUNICIPALITY IN THE BONO
REGION OF GHANA**

QUESTIONNAIRE

This questionnaire is to collect primary data from SME operators in the SUNYANI Municipality on accounting and control systems practiced by SMEs in the SUNYANI Municipality. All information given are for academic purposes only and will be held highly confidential. Kindly tick (/) where applicable. Thank you.

SECTION A: PERSONAL INFORMATION OF RESPONDENTS

1. Gender

a. Male () b. Female ()

2. Age

a. Below 18 yrs () b. 18-25 yrs () c. 26-33 yrs () d. 34-41 yrs () e. 42
yrs and above ()

3. Sector of business operation

a. Formal sector () b. Informal sector ()

4. Type of business

a. Production () b. Service () c. Others, please
specify.....

**SECTION B: THE VARIOUS ACCOUNTING AND CONTROL SYSTEMS
USED BY SMES**

Which of the following accounting and control systems do you use in your operations? Please tick as many as apply.

- 5. Investment appraisal techniques ()
- 6. Working capital management ()
- 7. Financial assessment ()
- 8. Accounting information systems ()
- 9. Fixed asset management ()
- 10. Financial record keeping ()

**SECTION C: THE CHALLENGES FACED BY SMES IN USING
ACCOUNTING AND CONTROL SYSTEMS IN THEIR BUSINESS
OPERATION.**

As an SME operator, which of the following challenges do you face in your business operations? Please tick as many as are applicable.

Challenges	Yes	No
11. Inadequate knowledge on working capital management practices		
12. Poor financial management practices		

13. Inadequate financial management systems		
14. Difficulty in understanding financial records		
15. Lack of professional accounting staff		
16. Difficulties in accessing credit from external sources		
17. Low levels of technical and management skills		
18. Using outdated technologies		

SECTION D: BENEFITS SMES DERIVE FROM USING ACCOUNTING AND CONTROL SYSTEMS IN THEIR BUSINESS OPERATIONS.

Kindly indicate your agreement or disagreement with the following statements on the benefits SMEs derive from using accounting and control systems in their business operations.

19. Employing accounting and control system practices in organisations helps SMEs to undertake proper planning and management of their business activities.

a. Strongly agree () b. Agree () c. Undecided () d. Disagree () e. strongly disagree ()

20. Managers are able to determine whether their businesses are making profits or losses when they make effective use of accounting and control systems.

a. Strongly agree () b. Agree () c. Undecided () d. Disagree () e. Strongly disagree ()

21. Business efficiency is improved when accounting and control systems are used by SMEs.

a. Strongly agree () b. Agree () c. Undecided () d. Disagree () e. Strongly disagree ()

22. Proper use of accounting and control systems help SMEs to control their activities and also aid in managing cost and expenses.

a. Strongly agree () b. Agree () c. Undecided () d. Disagree () e. Strongly disagree ()

23. A comprehensive record keeping and control system enables business owners to develop accurate and timely financial reports that detail the progress and prospects of the business.

a. Strongly agree () b. Agree () c. Undecided () d. Disagree () e. Strongly disagree ()

24. Managers can use information derived from efficient use of accounting and control systems to improve performance.

a. Strongly agree () b. Agree () c. Undecided () d. Disagree () e. Strongly disagree ()

25. Using accounting and control systems can help managers identify deficiencies in their business operations and then take corrective actions to improve such situations.

a. Strongly agree () b. Agree () c. Undecided () d. Disagree () e. Strongly disagree ()