USAGE PATTERNS OF THE FRAUD RISK MANAGEMENT FRAMEWORK WITHIN SMALL RETAIL ENTERPRISES OPERATING IN CAPE TOWN

by

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DECLARATION

I, Jonathan Ebombo Efile, declare that the content of this thesis represents my own unaided work, and that this thesis has not previously been submitted for academic examination towards any qualification, at any tertiary institution, either nationally or internationally. Furthermore, this thesis represents my own opinions and perceptions and not necessarily those of the Cape Peninsula University of Technology.

Signed: Date: 19 June 2024

ABSTRACT

The South African Small Business Act No. 102 of 1996 considers small and medium enterprises (SMEs) as distinctive small business entities that are owned solely or by multiple owners, operating nationally in various sectors of the country's economy. SMEs contribute substantially to job creation, enhancement of economic growth and poverty alleviation. Despite the fact that SMEs have contributed positively towards the economic development, particularly in South Africa, prior research has shown that these business entities are affected by fraud more heavily than larger organisations. The focus on the prevention and control of fraud generally tends to be on larger organizations, and research examining fraud within SMEs is limited. This study investigates the factors that may contribute to the existence of undetected fraud within small retail lending to these entities. The study followed a quantitative research methodology classified as survey research as it used a questionnaire to collect and process large amounts of data. In total, 150 questionnaires were collected from retail SMEs management (owners and/or managers) operating in Cape Town since they aligned with the delineation criteria for this study. A positivist paradigm was implemented in undertaking the research and quantitative methodology was used in analysing the data for the research. The research findings avail the fundamental causes of fraud risks within SMEs including inadequate fraud risk management as well as weak internal control systems, resulting in undetected fraud. Undetected fraud that the SMEs were not fully aware of, results in loss of assets, profitability and negative cash flow. It is conclusive to say, based on the research findings that the majority of SMEs do not make satisfactorily use of fraud risk management framework as method for controlling the risk of fraud within their organisations. It is recommended that SMEs effectively manage fraud risks and make use of (or implement if non-existent) adequate fraud risk management framework(s) within their organisations. This framework will enable small retail owner/managers to gain knowledge of varied threats they are faced within daily operations and help them to better respond to these risks.

Keywords: SMEs, internal control, risk model, fraud, risk management, risk management frameworks

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ACRONYMS AND ABBREVIATIONS

ACFE	Association of Certified Fraud Examiners
ANOVA	Analysis of Variance
CFI	Chartered Financial Institute
CIMA	Chartered Institute of Management Accounting
COBIT	Control Objectives for Information and Related Technologies
COSO	Committee of Sponsoring Organisations of the Treadway Commission
CPUT	Cape Peninsula University of Technology
ERM	Enterprise Risk Management
GDP	Gross Domestic Product
IESBA	International Code of Ethics for Professional Accountants
IRM	Institute of Risk Management
OECD	Organisation for Economic Cooperation and Development
PWC	PriceWaterhouseCoopers
SMEs	Small And Medium Enterprises
SMMEs	Small, Medium and Micro Enterprises
SPSS	Statistical Package for Social Sciences

TABLE OF CONTENTS

DECLARATION ..... **ii**
ABSTRACT ..... **iii**
ACKNOWLEDGEMENTS ..... **iv**
ACRONYMS AND ABBREVIATIONS ..... **v**
LIST OF FIGURES ..... **xii**
LIST OF TABLES ..... **xiii**
CHAPTER 1: INTRODUCTION TO THE RESEARCH STUDY **1**
1.1 Introduction 1
1.2 Problem statement 2
1.3 Aim, Objective and Research questions 3
1.3.1 Aim of the study 3
1.3.2 Research objectives 3
1.3.3 Research questions 3
1.3.4 Investigative questions 3
1.4 Research design, methodology and methods 4
1.4.1 Target population 5
1.4.2 Sampling technique 5
1.4.2.1 Sample size 6
1.4.3 Data collection instruments 6
1.4.4 Data collection/fieldwork 6
1.4.5 Questionnaire 7
1.4.6 Secondary data 7
1.4.7 Data coding and analysis 7
1.4.8 Reliability tests 8
1.4.9 Validity tests 8
1.5 Ethical considerations 8
1.6 Delimitation of the study 9
1.7 Significance of the study and structure of the study 9
1.8 Chapter summary 10
CHAPTER 2: LITERATURE REVIEW **11**
2.1 Introduction 11
2.2 Overview of South African SMEs and the retail sector 11
2.2.1 SME sustainability factors in the South African economic landscape 12

2.2.2 Overview of retail enterprises 14
2.2.3 Global retail industry 14
2.2.4 The South African retail sector 15
2.3 Fraud and fraud risk 17
2.3.1 Types of fraud 18
2.3.1.1 Occupational fraud 18
2.3.1.2 Corporate retail fraud 21
2.3.1.3 External fraud 21
2.4 The concept of risk 21
2.4.1 Definition of risk 21
2.4.2 Fraud risk 22
2.5 Fraud risk management 23
2.5.1 Objectivity and usefulness of risk management 23
2.5.2 Underlying elements of risk management processes 24
2.6 Fraud risk management framework 29
2.6.1 Control activities 30
2.6.1.1 Fraud prevention control 31
2.6.1.2 Fraud detection control 32
2.6.1.3 Responsive control 33
2.6.2 Elements of a fraud risk management framework 33
2.6.2.1 Organisational commitments 33
2.6.2.2 Fraud risk assessment 33
2.6.2.3 Programme design and implementation 34
2.6.2.4 Monitoring and evaluation 34
2.7 Gaps in literature 36
2.8 Chapter summary 37
CHAPTER 3: RESEARCH METHODOLOGY 39
3.1 Introduction 39
3.2 Overview of research design, methodology and methods 39
3.3 Research paradigm 39
3.3.1 Positivism 39
3.3.2 Interpretivism 40
3.3.3 Critical realism 40
3.4 Research methods 40

3.4.1 Qualitative research 40
3.4.2 Quantitative research 40
3.4.3 Mixed research 41
3.5 Research design 41
3.6 Sampling procedures 41
3.6.1 Target population 42
3.6.2 Sampling technique 43
3.6.3 Sample size 44
3.7 Data collection instruments 44
3.8 Data collection/fieldwork 44
3.9 Questionnaire design 45
3.10 Pilot testing of research questionnaire 47
3.11 The distribution of research questionnaire 48
3.12 Data coding and analysis 48
3.13 Validity and reliability 48
3.13.1 Validity 48
3.13.2 Reliability 49
3.14 Delimitations of the study 49
3.15 Ethical considerations 49
3.15.1 Informed consent 49
3.15.2 Voluntary participation 50
3.15.3 Protection from harm 50
3.15.4 Right to privacy 50
3.15.5 Data management plan 50
3.16 Chapter summary 50
CHAPTER 4: DATA ANALYSIS, RESULTS AND DISCUSSION 51
4.1 Introduction 51
4.2 Questionnaire results 51
4.3 Section A: Background information 52
4.3.1 Retail sector operation and background 52
4.3.2 Duration of existence of the retail store in operation 52
4.3.3 Number of employees hired by the retail stores 54
4.3.4 Position held in the organisation by participants 54
4.3.5 Number of years respondent has been in managerial position 55

4.3.6 Highest qualification of participants 56
4.3.7 Location of the business 56
4.3.8 Estimated annual turnover of the business 57
4.4 Section B: Fraud risk management and policies 58
4.4.1 Likert scale questions 59
4.4.1.1 The organisation's code of ethics on handling fraud risk 59
4.4.1.2 Policies and procedures to address fraud risk 61
4.4.1.3 Risk appetite setting in fraud risk management 62
4.4.1.4 Risk analysis approach to deal with fraud risk 64
4.4.1.5 Risk evaluation as a fraud risk management tool 65
4.4.1.6 Company strategy as a fraud risk management tool 67
4.4.1.7 Risk treatment as fraud risk management tool 68
4.4.1.8 Setting clear objectives to manage fraud risk 69
4.4.1.9 Availability of controls to reduce the impact of fraud 70
4.4.1.10 Communicating fraud risk timely across the enterprise 72
4.4.1.11 Consulting risk management experts 72
4.4.1.12 Performance appraisal as a fraud risk management tool 74
4.4.1.13 Performing separate evaluations 74
4.4.2 Motivating factors to implement a fraud risk management framework 76
4.4.2.1 Fraud risk management can improve profitability 76
4.4.2.2 Fraud risk management as a tool to safeguard assets 77
4.4.2.3 Fraud risk management framework as tool to detect and prevent fraud 78
4.4.2.4 Fraud risk management and business continuity 79
4.4.2.5 Fraud risk management framework and regulatory compliance 80
4.4.2.6 Fraud risk management framework and internal compliance 81
4.4.2.7 Fraud risk management framework and minimising unforeseeable events 82
4.4.3 Status of the organisation's fraud risk management framework 84
4.4.3.1 Availability of a fraud risk management framework 84
4.4.3.2 Implementation of a fraud risk management framework 85
4.4.4 Fraud risk management framework implementation methods 85
4.5 Section C: Factors contributing to undetected fraud within an organisation 86
4.5.1 Undetected fraud and anti-fraud programmes 86

4.5.2 Undetected fraud and fraud prevention policy.. 88
4.5.3 Undetected fraud, poor communication and training.............................. 88
4.5.4 Undetected fraud and internal control systems 89
4.6 Impact of fraud on an organisation 90
4.7 Participants' comments on the importance of fraud risk management........ 91
4.8 Chapter summary 92
CHAPTER 5: FINDINGS, CONCLUSION AND RECOMMENDATIONS 94
5.1 Introduction 94
5.2 Research problem revisited 95
5.3 Primary question and research objectives revisited 96
5.4 Research sub-questions and research objectives revisited 96
5.4.1 First research sub-question and respective objective revisited 97
5.4.2 Second research sub-question and respective objective revisited 97
5.4.3 Third research sub-question and respective research objective revisited 98
5.4.4 Fourth research sub-question and respective research objective revisited 99
5.4.5 Fifth research sub-question and respective research objective revisited 100
5.5 Research findings 101
5.5.1 What risk management frameworks are available for the mitigation of fraud risk in small business operations? 102
5.5.2 To what extent do small retail business owners and managers use a fraud risk management framework in their business operations? 102
5.5.3 Are small business owners/managers fully aware of the impact that undetected fraud events could have on the business continuation? ... 103
5.5.4 What is the extent to which small retail businesses use a risk management framework as tool for the mitigation of fraud? 104
5.5.5 What is the adequacy and effect of existing frameworks applied to fraud risk management within small retail businesses in Cape Town? 104
5.6 Recommendations 105
5.7 Theoretical implications of the study 106
5.8 Areas of further research 106
5.9 Conclusion 107

REFERENCES **110**
APPENDIX A: QUESTIONNAIRE **131**
APPENDIX B: CPUT ETHICAL CLEARANCE **137**
APPENDIX C: CONSENT LETTER **139**
APPENDIX D: SIMILARITY REPORT **141**
APPENDIX E: EDITING CERTIFICATE **154**

LIST OF FIGURES

Figure 2.1: Fraud tree comprising occupational fraud risk classes 19
Figure 2.2: Occupational fraud abuse and risk frequency in SMMEs 20
Figure 2.3: The process of managing risk 26
Figure 2.4: Fraud risk management framework 30
Figure 2.5: Anti-fraud strategy 35
Figure 3.1: City of Cape Town map 43
Figure 4.1: Tenure of business operations 53
Figure 4.2: Code of ethics that deal with fraud risk 60
Figure 4.3: Policies and procedures to manage fraud risk 62
Figure 4.4: Risk appetite setting in fraud risk management 63
Figure 4.5: Risk analysis as a tool for fraud risk management 65
Figure 4.6: Risk evaluation tool for fraud 67
Figure 4.7: Company strategy as a fraud risk management tool 68
Figure 4.8: Setting clear business objectives 70
Figure 4.9: Internal controls in managing fraud risk 71
Figure 4.10: Consulting risk management experts 73
Figure 4.11: Separate evaluations in fraud 75
Figure 4.12: Risk management framework and profitability 77
Figure 4.13: Fraud risk management framework and company assets 77
Figure 4.14: Fraud risk management and business continuity 80
Figure 4.15: Fraud risk management framework and internal compliance 81
Figure 4.16: Risk management framework and occurrences of unforeseeable events 83
Figure 4.17: Fraud risk framework implementation methods 86
Figure 4.18: Absence of anti-fraud programme 87
Figure 4.19: Impact of fraud on an organisation 91

LIST OF TABLES

Table 2.1: Categorisation of retail SMEs according to the National Small Enterprise Act 2 of 1996 (Source: South Africa, 1996) 12
Table 3.1: Section A as depicted in the questionnaire 46
Table 3.2: Section B of the questionnaire 47
Table 3.3: Likert scale and open ended questions 47
Table 4.1: Types of retail stores 52
Table 4.2: Stores' duration of existence 53
Table 4.3: Staff employed by stores 54
Table 4.4: Position in organisation 55
Table 4.5: Years in a managerial position 55
Table 4.6: Qualifications 56
Table 4.7: Business locations 57
Table 4.8: Business turnover 57
Table 4.9: Reliability and relationship test (Chi-square goodness of fit test) 58
Table 4.10: Code of ethics questionnaire coded responses 59
Table 4.11: Policies and procedures to manage fraud risk 61
Table 4.12: Risk setting appetite coded responses 63
Table 4.13: Risk analysis as a tool of fraud risk management 64
Table 4.14: Risk evaluation as a fraud risk management tool 66
Table 4.15: Company strategy as a fraud risk management tool 67
Table 4.16: Risk treatment as a fraud risk management tool 69
Table 4.17: Communication of fraud risk 72
Table 4.18: Performance appraisal in fraud risk management 74
Table 4.19: Fraud Risk management framework and fraud detection 78
Table 4.20: Risk management framework and regulatory framework 81
Table 4.21: Status and availability of a fraud risk management framework 84
Table 4.22: Implementation of a fraud risk management framework 85
Table 4.23: Undetected fraud and fraud prevention policy 88
Table 4.24: Undetected fraud attributed to poor communication and training 89
Table 4.25: Undetected fraud and internal control systems 90
Table 4.26: Respondent comments on the importance of fraud risk management.. 92

CHAPTER 1: INTRODUCTION TO THE RESEARCH STUDY

1.1 Introduction

Small and medium enterprises (SMEs) are regarded undoubtedly as vital role players in economies of most developing and emerging countries, such as South Africa (Mutezo, 2013). Their contributions to economic development are significant in the areas of job creation, enhancement of growth and poverty alleviation (Mutezo, 2015). A recent study performed by Amoah et al (2022) similarly found that these business entities contribute significantly to stimulating the economy. SMEs contribute not only towards alleviating poverty but also to a favourable gross domestic product (GDP) output (Dubihlela & Qeke, 2018).

Despite SMEs having contributed positively to economic development, specifically in South Africa, these business entities are more heavily affected by fraud due to inadequate fraud risk management and weak internal control systems (Bierstaker et al., 2006; Thomas & Gibson, 2003). Bressler & Bressler (2007) agree with this view, indicating that in the 1990s, fraud caused 30% of SME failure. Smaller companies often feel they are less likely to be a target of fraudsters (CIMA, 2009, CIMA, 2020). A report released by the Association for Certified Fraud Examiners (ACFE, 2018) adds to other researchers' views that small entities suffer from fraud more often than large companies. ACFE (2018) further opines that when smaller enterprises are faced with fraud damages, it is usually difficult for them to engross the loss compared to larger enterprises, thus leading them to the risk of going out of business as a result. Moreover, Hanno & Hughes (1999) found SMEs to be more inclined to fraudulent activities than larger firms. This is owing to the absence of resources and their inability to implement adequate internal control mechanism to mitigate fraud risks (Ezeonwuka & Dubihlela, 2018). A structured internal control mechanism to mitigate fraud risk is referred to in this study as "fraud risk management framework".

Since this study focused mainly on risk management, which is regarded as a helpful tool that can assist retail SMEs to mitigate fraud risks, the researcher defined risk management as follows:

Risk management is identified as the process of comprehending risks and governing threats to which a business is unavoidably exposed to in an attempt to accomplish its corporative objectives (CIMA, 2020). Interestingly, fraud risk management happens to be an area of interest and attracting the mainstream because various stakeholders began to understand the negative effects of uncontrolled risk (Deloitte, 2012). Therefore, it is a prerequisite for both large and smaller organisations to implement a robust anti-fraud programme and an effective, perceived approach to combat fraud. Jonker (2001) opines that larger businesses place more emphasis on risk management in comparison to smaller business (SMEs). According to Nieman (2001), risk management enhances the chances of survival and ultimately fosters growth. The aforesaid holds relevance in the sense that SMEs should appreciate its value and proactively take initiatives to implement a fraud risk management strategy. Every entity should have a process that is aimed at identifying possible events that could affect its day-to-day operations, which may impede the achievement of their business objectives. According to Raghavan (2005), risk management clarifies that the survival of an entity relies significantly on its ability to foretell and prepare for the change associated with risks rather than waiting for the change and then react to it. Howard & Jawahar (2002) posit that risk management is important for small entities, as inadequately managed risk is likely to increase the risk of fraudulent activities within any organisation.

1.2 Problem statement

Stemming from the above, it is evident that the majority of small retail enterprise stakeholders, (such as owners and managers) currently operating in Cape Town, do not make use of risk management frameworks to control fraud risk within their organisations. This raises concerns since these business entities are highly subjected to fraud. Furthermore, these businesses are deemed more fragile and susceptible to risks, thus contributing to the number of small business failures. DHL (2023) supported this by indicating that many SMEs face financial challenges due to poor cash flow management, inadequate financial planning and limited access to financing and absence of risk management framework tools. In addition, Rampersad (2020) is of the view that operational inefficiencies resulting from lack of risk management practices further increase the failure rate of SMEs. The many small business failures and their susceptibility to fraud together with the absence of risk management have resulted in the need for these business entities to have a fraud risk management framework, which can be used as a guideline to better combat their ongoing business risks. From this point of view, the research appears to be useful and fill the gap.

The problem statement therefore reads as follows: It is deemed that **managers and owners of small retail enterprises currently operating in Cape Town do not make use of risk management framework(s) for controlling the risk of fraud within their organisations**, leading to losses in assets, profitability and negative cash flow.

1.3 Aim, Objective and Research questions

This section focuses on the research aim and objectives, primary research question, and investigative questions.

1.3.1 Aim of the study

The study aimed to investigate and make recommendations to improve the adoption and effectiveness of fraud risk management framework, specifically tailored to the resource and operational constraints of SMEs in Cape Town.

1.3.2 Research objectives

The objectives of this research were as follows:

- To investigate risk management frameworks applied by SMEs for the mitigation of fraud risk in their operations.
- To establish the extent to which small retail business owners and managers use fraud risk management frameworks in their business operations.
- To establish if small business owners are fully aware of the impact undetected fraud events could have on business continuation.
- To determine the extent to which small retail businesses make use of risk management frameworks as a tool for the mitigation of fraud.
- To identify whether the methods applied to fraud risk management are adequate and effective within the existing framework.

1.3.3 Research questions

Primary research question (PRQ): To what extent is a risk management mechanism used to identify, examine and monitor fraud risks within small retail enterprises operating in Cape Town?

1.3.4 Investigative questions

Five research sub-questions (RSQs) were identified:

RSQ 1: What risk management frameworks are available for the mitigation of fraud risk in small business operations?

RSQ 2: To what extent do small retail business owners and managers use a fraud risk management framework in their business operations?

RSQ 3: Are small business owners/managers fully aware of the impact that undetected fraud events could have on the business continuation?

RSQ 4: What is the extent to which small retail businesses use a risk management framework as tool for the mitigation of fraud?

RSQ 5: What is the adequacy and effect of existing frameworks applied to fraud risk management within small retail businesses in Cape Town?

1.4 Research design, methodology and methods

This section briefly explains the research design undertaken to achieve the research aim and objectives. Specific research design, tools, methods and methodology this research adopted, are discussed. These concepts are thoroughly expanded on in Chapter 3.

This quantitative study adhered to the positivist research paradigm. A research paradigm is a collection of viewpoints and rules that academics in a specific discipline follow to influence and guide what should be studied, how research should be conducted, and how results should be interpreted (Neuman, 2021). To allow for the collection and analysis of numerical data, a positivist research paradigm favours the recording of empirical evidence in the form of a quantitative research approach.

The research method chosen depends on the research paradigm used in the study (Du Plooy-Cilliers et al., 2015). According to Bryman & Bell (2015), research design is a fundamental plan that guides and directs the researcher on the best way to conduct the study so as to answer the research questions. This study is descriptive in nature because it aimed to describe a specific phenomenon through an empirical study (Atmowardoyo, 2018). The study followed a quantitative research methodology and was classified as survey research as it used a questionnaire to collect and process large amounts of data. Survey research collects information from a sample of a population, and the responses of participants are used to draw conclusions about the research study (Ponto, 2015).

Du Plooy-Cilliers (2014) indicates that the research method(s) deployed in any research study should possess one of three approaches—quantitative, qualitative or mixed methodology—and should conform to the selected research paradigm and the researcher's comprehensive research ideology. This research study employed a quantitative method, which is followed by positivist researchers who conduct descriptive research. Creswell & Creswell (2023) opined that quantitative research is suitable for studies that requires numerical data and are looking for patterns or relationships across larger population.

Research design refers to a framework of the research process followed to solve a research problem and address the research questions. For this study, a large-scale survey design was adopted to aligns with positivist research. A large-scale survey comprises data collection, by disseminating questionnaires, toa group/groups of individuals, posing particular questions about issues that cannot be measured easily through general observations (Leedy & Ormrod, 2010).

1.4.1 Target population

A target population comprises "all the persons and objects relevant to the study" (Quinlan, 2011:206). This study focused on retail businesses operating within the City of Cape Town. The target population consisted of retail business owners and staff members in a managerial position. The South African National Small Business Amendment Act 26 of 2003 (South Africa, 2003) posits that in total, SMEs employ about 51–250 full-time working employees. Therefore, for this study, the target population included SME owners and managers.

1.4.2 Sampling technique

For this research, purposive sampling was chosen and used as data collection technique. Purposive sampling is often utilised for a distinct motive, for example, selecting individuals who are from a particular cluster or those representing diverse perspectives on a concern (Suri, 2011). According to Hassan (2024), purposive sampling, as a "non-probability sampling technique", is selected in research to choose persons/groups of persons who meet predetermined criteria relevant to the questions or objectives of the study. Purposive sampling adopts substantial approaches that assist with determining the characteristics of interest while ensuring that the population is still considered so that the sample adequately answers the research questions. That said, the researcher regarded purposive sampling as the appropriate sampling technique as it enabled the study to focus on a specific sample of retail business owners and managers, with the primary purpose of collecting "rich data" (Welman et al., 2007:70).

1.4.2.1 Sample size

Although the number of retail business owners and managers may increase, the actual statistics of these owners and managers fluctuate. In deciding the sample size, questions about time, budget and degree of accuracy were important. Considering these aspects, a sample size of 150 enterprises from the retail businesses operating in Cape Town was chosen. The sample size of 150 was deemed sufficient enough to present the population of SMEs so to allow subgroup analysis, such as by industry sector or size of the business, while still being manageable in terms of resources. The target group for this study comprised owners/ managers in the retail industry as they were deemed knowledgeable about the significance of risk management process in the retail business sector.

1.4.3 Data collection instruments

Data collection comprises gathering information on variables of interest systematically, thereby allowing participants to answer or reply to posed research questions, test hypotheses and assess findings and deliverables (Nyakundi et al., 2014). This research project opted for a structured questionnaire to collect data, using open-ended and closed questions. One-hundred-and-fifty questionnaires were disseminated to the participants. According to Nyakundi et al. (2014), using a questionnaire as data collection technique requires the participants to respond to a number of items in writing. The researcher chose a questionnaire because it was deemed economical, and it set the participants at ease during their participation in the study. Furthermore, the questionnaire made it possible for the researcher to gather a significant amount of data.

1.4.4 Data collection/fieldwork

According to Quinlan et al. (2015), research fieldwork is the setting/delineation location from where data will be collected. Fieldwork sometimes involves conducting an observation ‘in the field’, administering a questionnaire, or facilitating a focus group. The researcher visited the participants at their study location. The role of participants was that of SMEs owners and managers as they were deemed familiar with the concept of a risk management framework. Data were collected by means of a questionnaire containing closed as well as open-ended questions. The questionnaire was emailed to the participants with a clear indication of the study’s aim what the researcher required the participants to do.

1.4.5 Questionnaire

A questionnaire can contain structured, unstructured or semi-structured questions. The questionnaire is referred to as a quantitative questionnaire when it is wholly made up of structured questions (Creswell & Creswell, 2023). A quantitative questionnaire was distributed to participants by visiting them to their respective place of operations, which made the researcher’s administration of the questionnaire effective, efficient and convenient, as geographically dispersed respondent could be reached with ease. A Likert scale was used to improve the questionnaire’s reliability and validity (Teherdoost, 2016). The researcher used the Likert scale to measure the construct of the fraud risk framework within SMEs setting.

1.4.6 Secondary data

Johnston (2017) describes data as secondary data if it is not first-hand obtained from the opinion or work of previous researchers. According to Saunders, et al. (2019), conclusions and statistical analyses from research papers are considered secondary data since it is obtained from the work of other researchers. Secondary data can also include newspapers information, journal articles, textbooks, reports, policy documents and thesis and dissertations, among others.

1.4.7 Data coding and analysis

Descriptive statistics were applied in this study to explain the sample composition. The Statistical Package for Social Sciences (SPSS) version 25.0 for Windows was adopted to achieve accurate data analysis. SPSS was chosen for its prominence in the business and academic spheres as well as for the package’s overall acceptance in quantitative research. SPSS is an adjustable and flexible software package that enables researchers to perform several types of data analyses, which, for this research project, effectively fulfilled its purpose. Furthermore, correlations, crosstabulations, the analysis of variance (ANOVA) test and non-parametric tests were adopted because of their ability to test relationships and variances across and among the variables used in the research (Cooper & Emory, 1995:526).

1.4.8 Reliability tests

Saunders et al. (2020) affirm that reliability points to the confidence of the dependable results achieved through the techniques applied for aggregating and examining the data. Reliability threats can be classified into four types, namely: participant/ respondent errors, participant/respondent bias, observer errors and observer predisposition. Triangulation of research methods was used to reduce the reliability errors. In this study, the Cronbach alpha statistic was applied to examine reliability.

1.4.9 Validity tests

According to Saunders et al. (2020), validity focuses on the results being what they are regarded to be. Robson (2002) confirms that validity tests are useful for dealing with validity threats.

1.5 Ethical considerations

Du Plooy-Cilliers (2014:291) indicates that the majority of organisations require the adherence of ethical principles when conducting research, especially when the research includes humans and/or animals. Israel (2017) and Bryman & Bell (2022) further mentions that ethics provide direction to researchers on what is regarded are acceptable and/or unacceptable behaviour in terms of research. Moreover, ethics are mechanisms or procedures that guide researchers on how they should act and analyse research problems/issues. Matsoso (2018) explains that most of the ethical problems concerning research studies are dealt with as follows:

- **Informed consent**: This principle ensures that all participants are fully informed about the content of the study. For this research, the participants were informed in advance by the researcher clarifying what the study required of them during their participation, how their identities/personal information would be protected, and how the findings and outcomes would be used.
- **Voluntary participation**: This principle ensures that participants' participation in the study is voluntarily. The researcher engaged only with those participants who were voluntarily willing to partake in the research, meaning none of them

was forced or conditioned. Furthermore, participants were free opt out of the study at any time.

- **Protection from harm**: This principle ensures that those who participate in a study are protected from physical harm. The researcher ensured that participants were not asked sensitive questions.
- **Right to privacy**: This principle entails that those participating in a study are assured their information will remain confidential. The researcher assured the participants that their names or identities would not to be exposed in any way and at any time during and after the study.

1.6 Delimitation of the study

This research was limited to small retail businesses operating in Cape Town. Only responses from retail business owners and staff members in the managerial position of such firms were considered as they are deemed knowledgeable about fraud risks affecting their businesses. For clarity, delineation criteria for this study were set as follows:

- All participants should be retail business owners and staff members in the managerial position in their respective entities.
- All participants should be small retail business trading entities.

1.7 Significance of the study and structure of the study

The concept of fraud risk management is an area of interest attracting the mainstream, since various stakeholders across the globe begin to understand the negative effects of uncontrolled risk (Deloitte, 2012).

This research contributes in terms of the usage patterns of fraud risk management frameworks for small retail enterprises. The use of a fraud risk management framework will enable SME managers and owners to acknowledge the different risks they face during their daily operations and help them to better responding to such threats. Moreover, a fraud risk model is likely to enhance policymakers' efficiency in terms of threats faced by small businesses and assist them in drafting more effective SMEs policies.

Within the South African context, and even globally, a deeper understanding is required on the effects of fraud on business operations, particularly SMEs. Researchers have spent considerable time investigating fraud risk, and it is deemed procedurally correct that the next phase of research interrogates the effects of fraud on SMEs. Through this research, the body of knowledge related to the fraud risk becomes more robust and comprehensive.

1.8 Chapter summary

In this chapter, the problem statement, research aim, research questions and objectives were stated. Furthermore, a synopsis of the research methodology followed in this research, was presented. The contribution made by this research was indicated. Following Chapter 1, the outline of the remaining chapters are presented below.

Chapter 2: This chapter reviews literature on South African SMEs and their operations within the local economy. Furthermore, information on fraud risk management is presented in a South African SME milieu.

Chapter 3: This chapter explains the study’s selected research methodology, which includes an outline of the data collection and data analysis processes. The research ethics, data validity and data integrity are also outlined.

Chapter 4: This chapter presents the quantitative methods used to analyse the collected data, derive the findings, and interpret these findings. All the survey data were analysed using inferential statistics and descriptive statistics.

Chapter 5: The final chapter addresses significant parts of the research study. Key findings are contextualised within the framework of the larger research challenge; the chapter closes with making recommendations and drawing conclusions.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter reviews existing literature on the usage patterns of the fraud risk management frameworks used in SMEs operating in Cape Town.

A literature review can be regarded as a systematic way to comprehensively summarise and synthesise previous research studies to build a solid foundation and understanding so as to enhance the current research study. It also serves as empirical means to address the research questions. The literature discussed in chapter 1 was therefore important to help build a firm base of knowledge that was used to address the main research objective, namely: to determine the extent to which small retail businesses, operating in Cape Town, make use of fraud risk management frameworks as they carry out their business operations to identify, examine and monitor fraud risks within their respective entities. Given the nature of retail SMEs and their exposure to risks, it was imperative to review the literature relevant to the usage patterns of fraud risk management frameworks.

The befitting theoretical framework for this research is the contingency theory. This theory suggests that there is no one size fits all solution for risk management since different SMEs may need different frameworks depending on variables like size, industry and risk exposure (Mike & Kaplan, 2023).

The discussion in this chapter unfolded as follows: overview of South African SMEs and the retail sector (section 2.2), fraud and fraud risk (section 2.3), exploring the concept of risk (section 2.4), overview of fraud risk management (section 2.5) and the fraud risk management framework (section 2.6).

2.2 Overview of South African SMEs and the retail sector

The National Small Business Act 102 of 1996 of South Africa describes SMEs as individual and independent business units, inclusive of co-operative enterprises and non-governmental organisations (NGOs), handled (i.e., managed) by one or more owners, and include branches and subsidiaries (South Africa, 1996). Table 2.1 below shows how SMEs are categorised according to number of employees and annual gross turnover.

Table 2.1: Categorisation of retail SMEs according to the National Small Enterprise Act 2 of 1996 (Source: South Africa, 1996)

Category	Number of employees	Annual gross turnover
Small	11-5	R25 million
Medium	51 to 250	R80 million

SME businesses were found to decrease the unemployment rate and furthermore, contributed to the country's Gross Domestic Product (GDP). Small firms also contribute positively to the economy in a sense that they are a source of livelihood and employment for many (Mutoko, 2017; Naifoghe & Vezi-Magigaba, 2023). According to Ajide et al. (2022), prior research reveals that SMEs are significant and important to the economy, especially to developing countries, which is attributed to the essential role they play in job creation. The latter is substantiated by the fact the SMEs contribute approximately 30% to 57% to the South African GDP and delivers approximately 80% of all employment opportunities locally and an estimated 91% of the national workforce.

SMEs have a huge impact on the business environment. The retail SMEs operate within a significantly potential industry and contribute undeniably to technical innovation and new product development, which stimulates the economy to be more efficient and productive (Ayandibu & Houghton, 2017). In South Africa, about 79% of SMEs are involved in retail activities; the large presence of retail SMEs could be explained by the growing interest in self-employment, business ownership, or entrepreneurial inclination (Shanmugam et al., 2012).

2.2.1 SME sustainability factors in the South African economic landscape

Sustainability factors include phenomena that affect a certain outcome (Cambridge Dictionary, 2024), and economic factor indicates any influencer that may influence a country's national economy, including its residents (legal and natural individuals) (Masama, 2017). The following are examples of economic factors that have an influence on the South African landscape: interest rates, earnings (wages), governmental activities, tax rates, regulations, laws and joblessness. Even though these stated variables occur outside the business, they have significant impacts on the future value of resources.

Economic variables are divided into two categories: microeconomic factors and macroeconomic issues (Kraja & Osmani, 2015:122). Macroeconomics is concerned with the social viewpoint on resource allocation, while microeconomics deals with resource availability and use, which influence both enterprises and individuals (Trinity-Templar, 2021). These two categories of economic considerations are further explained as follows:

- **Macroeconomic factors:** Macroeconomic considerations have an impact on enterprises through affecting fluctuations in the market. Macroeconomic factors are economic elements that can impact the economy in its entirety (i.e. natural and legal people) and cannot be managed or handled to a considerable extent by management (Bruwer & Coetzee, 2016:205). Socio-``demographic variables, economic factors, political-legal factors and technical factors are the four categories of macroeconomic factors (Glowik & Smyczek, 2015). Macroeconomic factors influencing the economy of South Africa include increasingly high crime and corruption rates, escalating costs of water, the provision of raw materials, low demands, heightened interest rates, high unemployment, excessive inflation rates, unreliable and expensive electricity supply, strict government regulations, strong external competition, weak infrastructure, and rapid changes in technology.
- **Microeconomic factors:** Microeconomic variables are economic elements that impact individual company entities but can be handled to a significant extent by management (Chron, 2019). Furthermore, microeconomic variables have an impact on natural individuals (i.e., employees and consumers) who live in the applicable economy (CFI, 2023). Unlike macroeconomic elements, which are generally consistent across country-wide, key microeconomic factors differ from industry to industry from business to business (Indeed, 2023). Microeconomic problems affecting South African businesses include, but are not limited to, a dearth of credit facilities, debtors and/or customers not paying, ineffective marketing skills, the non-availability of substitute products, shortage of business infrastructure and ineffective business sites (Bruwer & Van den Berg, 2017,Maziriri, E. T., & Mapuranga, M. 2020, Cant, M. C., & Wiid, J. A. 2020).

2.2.2 Overview of retail enterprises

A retail business, also known as a retail trader, is defined as a business that directly sells products and/or services to customers for personal use rather than for reselling (Jones & Baron, 1991; BFI Finance, 2022). Retail is identified as business activities that are closely linked to marketing products, with the overall purpose of the products and services reaching customers for their own consumption or for household necessities (Prasad, 2022). Meanwhile, Papirfly (2019) contends that retail encompasses all attempts made to gratify end consumers, beginning with the application of marketing expertise to services or products. Retail businesses stand as a final channel of distribution in which goods or services are sold in reasonably small quantities, as opposed to wholesale, to final consumers for personal consumption (Varley, 2014; Dopson, 2022). The retail industry is by far regarded as a major industry in most countries across the globe as it contributes to the GDP of a country's economy through job creation, even though different countries define retail differently (OECD, 2020; Deloitte, 2022; Statista, 2022).

In South Africa, retail enterprises take on different forms, depending on their type and the products they sell. These products include glass, paint, hardware, household appliances and/or furniture, textiles and clothing, various types of equipment, leather goods, footwear, medical foods, pharmaceuticals, toiletries, cosmetics, beverages, food, and tobacco. The stores focus on building strong customer relationship and brand loyalty by meeting specific needs and preferences within their product area (Grewal & Levy, 2022). The types of retail enterprises can be department stores, specialty stores, convenience stores, supermarkets and e-commerce stores (Bhasin, 2023).

In the next section (2.2.3), the retail enterprise industry will be explored from a global perspective as these businesses are key role players in the economy worldwide, as indicated in foregoing discussion.

2.2.3 Global retail industry

The retail industry is considered one of the biggest sectors in many countries' economies worldwide as it contributes significantly to national economies as well as global revenue (Ross, 2015). The retail sector contributes approximately 28.4% of the world's GDP, as indicated by the sales generation of almost $22 trillion in 2014 (Ross, 2015). Certain countries displayed robust growth in terms of their economy through the retail industry, for instance, retail and wholesale trade are key economic contributors in Germany (McKinsey, 2022), similarly, in a country like India, these businesses contribute about 10% of their GDP (Invest India, 2023).

According to Statista (2022), the retail industry forms part of the most diverse industries worldwide. Notwithstanding the fact that small retail businesses are dominated by larger organisations, these businesses are developing tremendously. The larger entities are multi-nationalised, operating in most countries, whereas smaller entities are battling with issues about inflation and development (Meyersohn, 2021).

The retail industry plays a vital role in almost every country's economy, particularly in employment creation. The retail industry accounts on average for 10% to 15% of a country's overall employment worldwide**,** while in the United States and the United Kingdom, it counts for roughly 11% of job creation (Smith, 2022).

Notwithstanding the fact that the retail industry is of great importance to a country's economy across the globe, this industry has experienced a massive decline in profit margin (Gopinathi, 2020). The decline is attributed to the recent COVID-19 outbreak, which has led to global changes in economic conditions (Mordor intelligence, 2021). Mordor intelligence (2021) further posits that the COVID-19 outbreak caused the global economy to slow down since 2019, resulting in a difficult forecast period for the retail sector as the majority of goods and products are susceptible to economic cycles. Despite the decline in the global economy, the retail industry has been a major economic contributor with the tremendous shift to online sales rather than in-store selling. Thus, regardless of the economic situation, it could be concluded that retail industry cannot be dissociated from humans – end consumers will always demand goods and services (ONS, 2020).

2.2.4 The South African retail sector

South Africa's retail businesses are no exception to the global success story as these businesses have contributed significantly to both the South African economy and Africa's economic growth. From 1994**,** the South African retail sector has been contributing ±15% annually to the country's GDP (Trading Economics, 2024).

Importantly, this retail statistic is inclusive of wholesale, catering, the motor trade and accommodation (Trading Economics, 2024).

The South African retail sector is by far the largest growing retail industry on the continent of Africa as illustrated on Kearney's 2023 Global Retail Development Index (Kearney, 2023). According to Crush and Frayne (2011), the South African retail sector is cited as the 20^{th} largest in the world, with an average trade turnover of ± 29% annually in online retail sales, while the total sales in retail is expected to escalate further (Aye et al., 2015; Masojada, 2019; Tighe, 2022). The steady growth of the retail industry in South Africa can be widely attributed to the country's escalating supply of retail space and the growing number of shopping centres (Ligthelm, 2008; Trading Economics, 2024). From the buyer's point of view, retail growth is mostly affected by their economic environment (Carree & Thurik, 2010).

The retail sector's importance in South Africa cannot be undervalued since it is classified as one of the top economic contributors. This sector is a significant job creator for skilled and semi-skilled individuals. Despite a decrease in retail employment in recent years (e.g., comparing quarter 1 of 2016 to December 2015), the industry's employment share has remained stable at roughly ± 7% of the national percentage (Court, 2021). The retail industry's most prolific contribution to employment was in 2006, when 7.9% has been achieved (Aye et al., 2015). With regards to sales income, the retail industry achieved a remarkable expansion, for example, a sales income increase of 4.8% year-on-year in March 2018 (Deloitte, 2018). This resulted in the demand for new shopping facilities to accommodate more stores (BusinessTech, 2021; Moore, 2023).

On the other hand, the South African retail sector faces significant challenges that can be attributed to business competitiveness and uncertainty, making business challenging as businesses find themselves in a tough and volatile business environment (KPMG, 2017; IOL, 2023). The retail landscape in South Africa is diverse, depicted by a population that consists of various races (Rogerson, 2001).

Although retail SMEs have a phenomenal impact in stimulating the economy, the business environment changes and cannot be predicted – economic globalisation, changes to technology and an increase in customer demand competition lead to complexity in the management of businesses (McMahon et al., 2014; Stobierski, 2021). Also, these business entities appear to be exceptionally vulnerable to risks, which impede their business continuation ability. Among these risks, fraud remains pertinent in affecting business entities as there is a lack of adequate and effective use of fraud risk management frameworks to combat the fraud risk. The next section discusses fraud risk in detail.

2.3 Fraud and fraud risk

Current literature has shown that fraud is a major challenge faced by companies and business sectors across the globe (Wealth & Finance International, 2015, PWC, 2024). A recent report by Stander (2018) states that fraud can broadly affect the business activities in two distinct ways, internally and/or externally. A classic example of fraud committed internally could be an intentional act by an employee creating "ghost accounts" purporting to be for vendor payments, while these accounts have been created for their own benefit or the benefit of third parties (Stander, 2018). An example of external fraud could be credit card fraud by a dishonest customer with the intention to enrich themselves to the detriment of the business (Ross, 2015, ACFE, 2024).

The risk of fraud is intrinsically present in every business transaction. The effect fraud has on businesses is not limited to businesses in developed countries only; it also affects businesses in developing countries and differs in terms of time and place (Thomas & Bennett, 2022). The ACFE (2024) report supports this view by indicating that the risk of fraud exists in almost every enterprise regardless of nature, area, country and complexity. Furthermore, the risk of fraud could eventuate itself in an employee, vendor, consumer, or management (Coupa, 2019). A study conducted by Ghazali et al. (2014) holds relevance by indicating that fraud is a significant problem in all business sectors, and the main causes of fraud are economic pressure, inadequate management practices and weak internal control systems.

A survey of 6,337 entities from 115 countries conducted by PricewaterhouseCoopers (2016), found that 36% of the companies encountered fraud in the preceding 24 months (2014-2015). The report further disclosed that 56% of the fraudsters were employees. This report is an example and indication of poor risk assessment of staff members and weak internal controls. It is unfortunate that most companies still face continuous and never-ending fraudulent activities, hence the need for valuing the function of fraud risk management to mitigate fraud risk in businesses (Rehman & Hashim, 2020). Since the role of retail businesses is extremely important in South Africa's economy, it is essential for businesses to establish some practical fraud risk management procedures to limit the detrimental effect of fraud in the retail sector (Abor & Quartey, 2010; CMS Law-Now, 2022). Fraud risk management entails the activities of establishing and discovering plans for the business to mitigate the risk that could emerge from potential and actual incidents of fraud (ComplyAdvantage, 2024). According to ComplyAdvantage (2024), these mitigating activities are driven mechanisms designed to restrain, identify and respond to fraud at an early stage in the retail business industry. Notwithstanding the above, it becomes apparent that small and medium retail enterprises, because they encounter fraudulent activities and associated risks, need a fraud framework that can assist them in effectively combating fraud risk within their business. The next section elaborates on the different types of fraud.

2.3.1 Types of fraud

The following forms of fraud are found within businesses:

2.3.1.1 Occupational fraud

Figure 2.1 is a schematic presentation of a fraud tree, comprising occupational fraud risk classes.

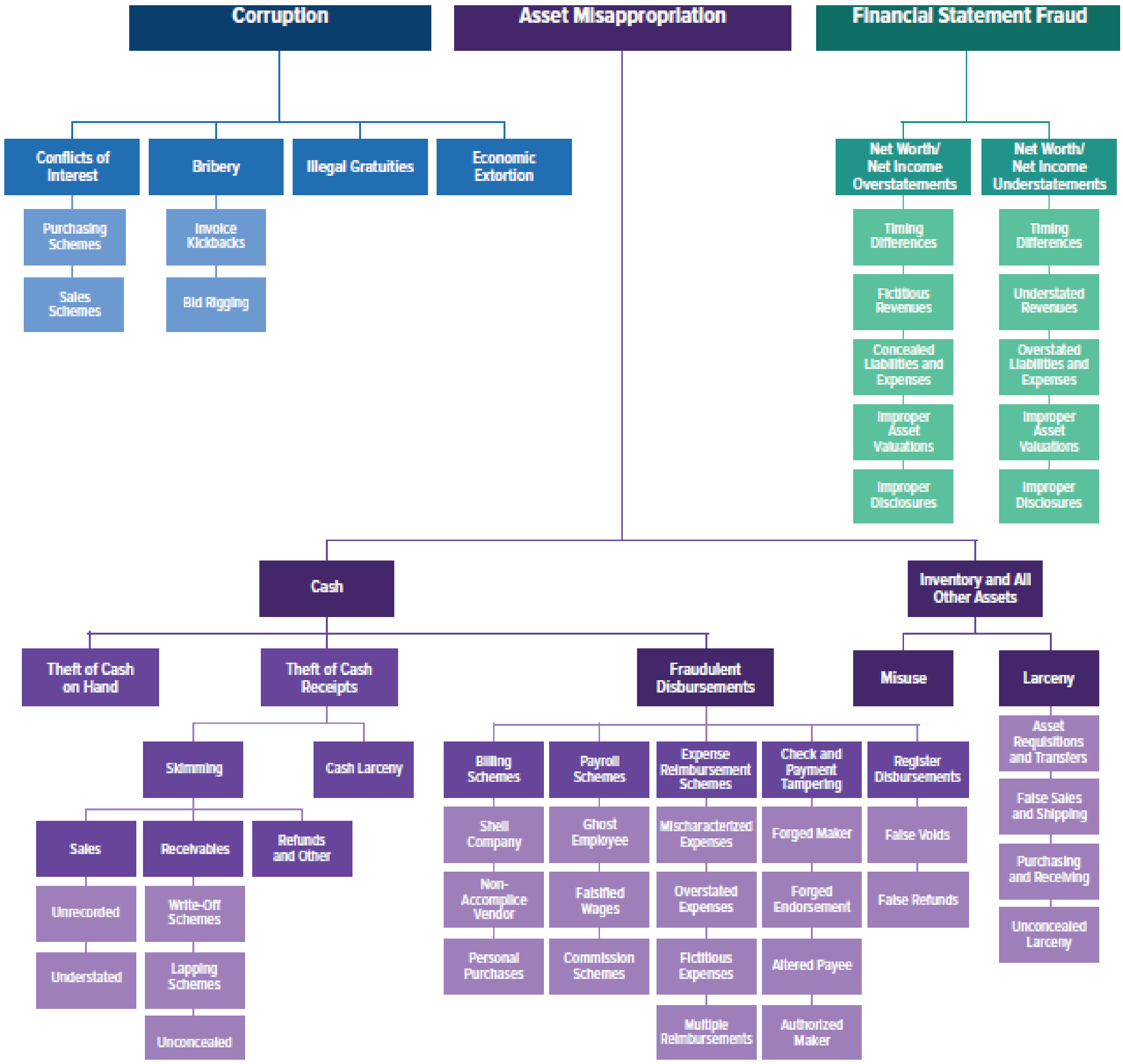


Figure 2.1: Fraud tree comprising occupational fraud risk classes (Source: ACFE, 2020)

Occupational fraud can be regarded as an intentional act committed by an employee for the purpose of creating a personal enrichment while mismanaging the company's resources and exploiting their roles in the company. Occupational fraud is not industry specific and can occur in any type of business, whether legally structured or not, since it is human problem rather than a system problem. This type of fraud is the most generally committed fraud and can categorised into three main sections: asset misappropriation, corruption and financial statement fraud (Nigrini, & Wells, 2021).

The three categories of occupational fraud are further explained as follows (Howell, 2017; ACFE, 2020):

- **Asset misappropriation:** Asset misappropriation can be perceived as the act of misusing the company for the sake of one's personal enrichment while such an act could be detrimental to the sustainability of the company. This fraud category is generally ranked as the most committed type of fraud in a business context worldwide, which usually carries fewer financial consequences when each individual occurrence realises; however, the more it occurs, the more likely it is to add up to greater devastating consequences (Figure 2.2). Some of the examples of asset misappropriation include fraudulent payments, fraudulent use of stock and misuse of money received from customers.

- **Corruption:** Corruption is described as insincere or underhanded behaviour by individuals in authority positions (management and/or authorised personnel) within a commercial entity. Furthermore, in a South African context, corruption is recognised as a major type of professional fraud risk (see Figure 2.2), because corruption plots are spreading rapidly across the country. Enticement (i.e., bribery), clashes of interests, dishonest perks and economic intimidation are all linked to corruption.
- **Financial statement fraud** happens when management or the employees purposefully misrepresent a company's financial reports to deceive stakeholders, creditors and/or investors. Financial statement fraud is defined as deliberate over- or understatement of liabilities, income, assets and/or expenses on the basis of bad financial performance or financial situation. Furthermore, the most costly and general type of financial statement fraud is false revenue. External fraud, especially credit card and identity theft, is becoming more prevalent.

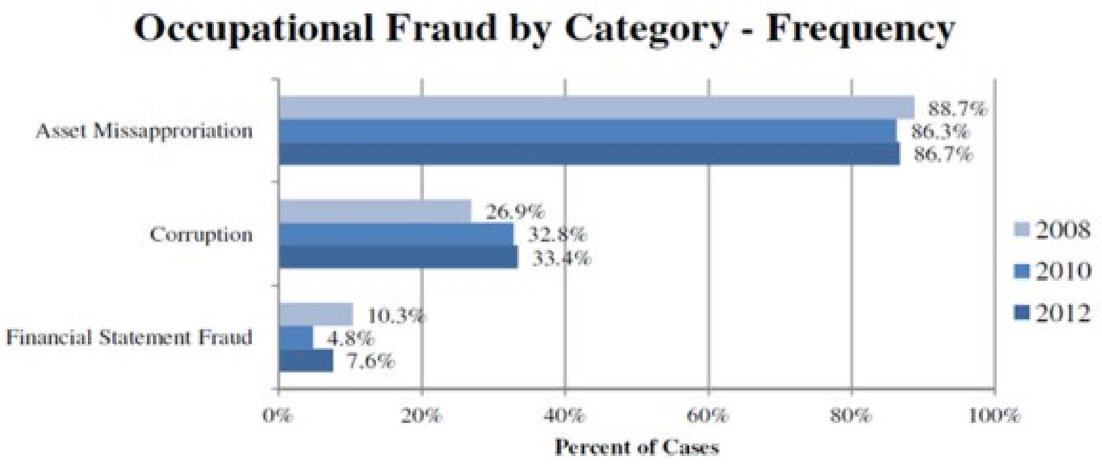


Figure 2.2: Occupational fraud abuse and risk frequency in SMMEs (Source: ACFE, 2020)

2.3.1.2 Corporate retail fraud

While occupational fraud mostly focuses on fraud committed by an employee, it is noteworthy to mention that fraud is not always committed by employees (Petersen et al., 2018; WhichVoIP, 2020). Corporate fraud refers to fraudulent activity committed by executives in top positions of the organisation's hierarchical structure, usually individuals charged with governance (Desai, 2020). These individuals can easily find ways to commit fraud as they have limited internal controls applying to them since they either have more influence or greater decision-making power. For this reason, corporate fraud is well-orchestrated since fraudsters have access to certain information and if set up properly, it would be difficult to identify or detect it (CFI, 2020).

2.3.1.3 External fraud

External fraud can be a pressing challenge for retail businesses due to the involvement of various parties to get the products ready for sale to customers (Galloway, C.2024). External fraud commonly refers to fraud committed by external parties such as vendors, customers, or customers; at times this type of fraud could involve internal staff members to materialise (Florida Atlantic University, 2023). External fraud involves external fraud conducted against a company, for example, sellers lying about work completed, demanding kickbacks from staff members, and falsifying or swindling costs. Customers, by contrast, can deceive organisations by handing in bogus checks or trying to return fake or stolen items. Furthermore, technology is progressively posing a threat to enterprises in terms of intellectual property theft or the loss of client information (Deloitte Insights, 2016).

Retail SMEs can combat this fraud by having a sound control environment and by making use of an adequate and effective fraud risk management framework; otherwise, the effects of fraud could tremendously be a greater impediment to the realisation of business objectives (Pomerleau & Auger-Perreault, 2020).

2.4 The concept of risk

2.4.1 Definition of risk

There are various definitions of risk, depending on the nature of the business to which it is applied (Deloite, 2024). ISO (2023) describe risk as deviating from an estimated value. It points to in an incidence of uncertainty, i.e., insecurity in terms of an activity generating a loss and hesitation about the outcome of the activity. It can include changeability, inconsistency and unpredictability in a business setting.

There is always the possibility of an occurrence existing or happening that can be to the detriment of the business; hence, it is important for the business to have sufficient knowledge of and manage such occurrences, situations and activities internally and externally in its strategies to realise business goals and generating shareholder value (Andersen & Terp, 2006:1; COSO, 2012). Chakabva (2015) contextualises that the business environment and entities are exposed to various risks. The following is a non-exhaustive list of possible risks: fraud, information and technology dangers, risk in terms of the business's reputation, governance, human resources, external business activities, liquidity, transactions, credit and interest rate (Goldberg & Palladini, 2010; RolandWanner, 2019; Maverick, 2022). Having listed some of the risks that organisations may face, this research study emphasised fraud risk as it aligned with its parameters of the researchable variables.

2.4.2 Fraud risk

Fraud risk, according to ACFE (2018), eventuates from both internal and external sources. Fraud risk is different from other risks because fraud, by definition, entails intentional misconduct aimed at evading detection. Like any other business sector, fraud can be extreme within the retail sector, especially when an organisation displays weak segregation of duties and does not have clearly defined strategies, procedures measures and policies (Churchill & Coster, 2001:8; BusinessTech, 2021). Boehmer (2016) is of the opinion that the common types of fraud faced by retail businesses are as follows: refund fraud, vendor theft, employee fraud, false price adjustments, discount abuse and cash register tampering. With reference to the aforesaid, it is evident that business entities are encouraged to implement fraud risk management tools that can assist them with effectively managing the risks of fraud affecting their business activities. Fraud events disproportionately affect small firms since the proportional quantity of a financial loss accounts for a significantly higher share of income compared to larger enterprises. The length of the scam adds to the dilemma. It does not seem likely for SMEs to invest the needed money and time required to lessen risk; therefore, in all likelihood, fraud goes unnoticed for significant periods of time.

Smaller enterprises also have less fraud safeguards than bigger organisations and, as a result, are more frequently victims. For example, billing and payroll fraud occur twice as frequently in small enterprises than in bigger organisations, while check and payment manipulation occurs four times as frequently. Prior research shows that these businesses are likely to experience more fraudulent activities since they mostly have inadequate internal controls.

2.5 Fraud risk management

As a result of the present economic situation, it becomes necessary for a business to re-assess the way in which fraud risks are managed. Although business entities seem too focused on safeguarding their survival, they should also focus on having a constructive fraud risk management; otherwise, fraud risk would probability increase. In addition, small retail organisations should adopt practical measures that can notably reduce their susceptibility to fraud (Hussaini et al., 2018). COSO (2023) supports this view by suggesting that organisations should design, execute and perpetuate fraud risk management intermittently.

KPMG (2016) explains fraud risk management as an approach designed to develop and identify actions that can assist organisations in reducing risks emerging from the possible and actual corporate fraud cases. These actions generally comprise fraud detection, fraud prevention and fraud response. Fraud risk management, according to Hussaini et al. (2018), should consist of three elements, namely: preventive, detective and responsive measures.

2.5.1 Objectivity and usefulness of risk management

The purpose of risk management varies depending on a trade’s type, size and stage of complexity because every organisation’s risk exposure and objectives can differ (Andersen & Terp, 2006; Western Governors University, 2021). Primarily, risk management intends to enhance the activities of an enterprise and increase the probabilities of its success (Duggan, 2019). Likhang’s (2009) and IRM’s (2019) view hold relevance by noting that risk management should be prioritised and flagged as essential in terms of managing a company. Having said that, management are yet to carry out and embed managing risk efficiently for the aims of risk management to be achieved.

Moreover, effective risk management is important in every business as it helps with the firm's sustainability (Goldberg & Palladini, 2010; RolandWanner, 2019; Maverick, 2022). Maverick (2022) further indicates that entities would likely benefit from applying a risk management model since it could represent an early warning system to manage possible risks and help with the efficient allocation of resources.

The above-mentioned benefits can further be explained as follows:

- **Early warning system for possible risks:** An effective risk management system will recognise and manage possible risks before they can cause severe harm to the organisation.
- **Efficient allocation of resources:** Risk management can assist retail businesses with efficiently allocating funds within their organisations (Chakabva, 2015).

2.5.2 Underlying elements of risk management processes

The reasons for a business implementing an effective fraud risk management framework are evident. Fraud is inherently pervasive as it can originate from outside or within the business. Yet, its effects are negative to the business and therefore require the highest sense of vigilance to ensure that it does not materialise through an inadequate management.

The process of managing risk involves identifying, measuring and appreciating risks, and taking actions to address these risks accordingly, such as transferring or mitigating risks posed to the business objectives and strategies (Boubala, 2010; CFI, 2022). Bowden et al. (2001) and Vector Solutions (2019) support this view by adding that the process of managing risk involves three key sub-processes, namely: managing the risk outcome, controlling/regulating the risk, and enhancing the risk management process. These key sub-processes contain various sub-activities, and, according Valsamakis et al. (2013), the process of managing risk (directed by an accepted risk management strategy and policy), comprises four steps:

Step 1 – Identification of risk

Risk identification includes an observed detection of risks that can affect the entity's day-to-day operations. Risk identification is the cornerstone of risk management as it entails corporate entities recognising hazards that might jeopardise the achievement of company objectives. Furthermore, to attain their unique business objectives, corporate organisations should undertake risk identification on a continuous basis.

Step 2 – Evaluation of risk

Risk evaluation is a key risk management process as the risk level is measured by ascertaining the probability that risk may eventuate and by the impact it may have on the business. The risk evaluation consists of labelling hazardous events based on their likelihood of occurrence and possible impact on occurrence.

Step 3 – Control of risk

Risk handling measures are implemented and assessed by management to control the effect of potential risk. Control of risk refers to how identified risks are handled after risk evaluation. These measures comprise:

- the transference or sharing of risks with third parties, such as the insurance business;
- reducing risks, meaning limiting the occurrence of effect of risk; and
- the entity accepting risks because of factors such as cost-benefit analyses.

Step 4 – Monitoring of risk

This process involves monitoring and evaluating the adequacy of the control system implemented by the company to prevent control failure and making sure that risk levels remain within satisfactory margins at all times. It is essential to review all risk-management operations to ensure that risks are effectively recognised and measured, and that suitable actions and controls are set. The goal of risk management is to detect risks, evaluate risks, and handle risks.

Figure 2.3: The process of managing risk (Source: Researcher's own construct)

Risk management manifests through the implementation of procedures that limit the potential harm risks might bring and in alignment with the achievement of business objectives (Petersen, 2018). Hence, risk management can be defined as the process of analysing, measuring and resolving threats to guarantee that organisations accomplish their goals. Recent reviews confirm the existence of two generally used processes to risk management, namely: risk management in silos (known as the traditional approach), and enterprise risk management (ERM) (Hohenwarter, 2014).

Traditional approach: before the advent of holistic risk management in 1992, the management of "pure risks" was mostly focused on, i.e., risks that materialised as potentialities of monetary shortfalls (Society of Actuaries, 2016; Simona-Iulia, 2014). Risks were perceived as isolated and not linked, generally attended to in silos (for example, per function/team/ department) (Dabari & Saidin, 2014). Between the early 1960s and mid-1970s, most international enterprises delivered satisfactory fiscal results (Bruwer & Coetzee, 2016), so no intervention was needed. However, in the late 1970s, numerous monetary risks began to realise, which drew worldwide attention of business stakeholders (Braine, 2015, Razali & Tahir, 2011). Silo risk management was not sufficient anymore (Godbole, 2012; Walker & Shenkir, 2008; Simona-Iulia, 2014), mainly of because the adverse effects of emergent monetary on many well-established business entities (Lam, 2014; Krosinsky, 2013). This caused debates about the effectiveness of silo risk management (Resolver, 2023; Wolf, 2008).

Notwithstanding businesses' incapability to manage the level of risks, the approach concentrated on departmental risk, leading to certain departments being more effective than others, but to the detriment of general business execution (Chiu, 2015; Lewis, 2012). Moreover, freedom between the departments stemmed from the uneconomical use of resources (Zhao et al., 2015; Lam, 2014). Basically, after the fall of some huge organisations, the business world, together with managers, understood the requirement for a progressively thorough approach to oversee risks – a methodology that was increasingly proactive, different from the silo approach and responsive (Bromiley et al., 2015; Hohenwarter, 2014; Pezzuto, 2016).

Enterprise risk management (ERM) approach: The necessity of properly managing risks holistically and from an alternate point of view gave a rise to the development of ERM (Hohenwarter, 2014; McKinsey, 2018). Despite the term *ERM* becoming well known in 2004, the idea of holistic risk management began in 1992 (Magan, 2016; Graham, 2015). The excess of risks that came in flooding businesses between 1970 and 1985 (Beck & Kewell, 2014; Shenkir & Walker, 2011; Bruwer & Coetzee, 2016:39) made it necessary for a change in the way risks were managed. COSO, an association founded in 1985 by the Treadway Commission, provided advice at its core on comprehensive risk management in organisations (Bruwer & Coetzee, 2016; Hayne & Free, 2014). COSO advanced a framework known as the *COSO Internal Control – Integrated Framework of 1992* (Gelinas et al., 2014) to attend to risks in a holistic manner through using an internal control sound system.

After the introduction of COSO's perceived framework to help businesses with managing risks in a holistic manner, the framework was continuously enhanced (Stamler et al., 2014; Moeller, 2013). In 2001, Enron and COSO, in cooperation with PricewaterhouseCoopers, started developing procedures for a new system to manage risks effectively and sufficiently (Bruwer & Coetzee, 2016; Steinberg et al., 2004). COSO's 1992 *Internal Control – Integrated Framework* was utilised as the foundation for a new system called the COSO Enterprise Risk Management Integrated Framework (from this point forward called the COSO ERM Framework) (Stamler et al., 2014), which was formally presented in 2004. In addition to being agile and robust, ERM provided opportunities for defining risks that differed from the traditional approach, which focused solely on risks (Hampton, 2014). The popularity of ERM continued to increase (Shenkir & Walker, 2011; Hoyt & Liebenberg, 2011), particularly as a result of its careful methodology. Henceforth, it is not surprising that ERM has evolved into becoming the new minimal standard of risks management for businesses (Krause, 2015; Rao, 2007).

Against the above backdrop, it comes as no surprise that the ERM approach manages risks from a wide and cohesive viewpoint, taking in consideration both constructive and harmful risks that may influence the accomplishment of business goals (Beasley et al. 2017; Hohenwarter, 2014; Okhahlamba Local Municipality 2013; Simona-Iulia, 2014). Prior research studies confirm there are business enterprises still using conventional risk management, but many business entities have a holistic approach to risk management that (Ashkenas, 2015; Dornberger et al., 2014). This is specifically beneficial as an ERM approach assists with i) adhering to relevant laws, ii) multi- and cross-company risk management, and iii) minimising potential financial risks, among others (Havenga, 2006).

It has been found that ERM risk management influences the survival of businesses in a positive way (Dornberger et al., 2014), especially because an increased level of assurance is offered to the business in terms of attaining its business goals (Shortreed, 2010; Rao, 2007). Therefore, following the introduction of the COSO ERM system, specific ERM solutions were developed for a variety of business entities (Gilbert, 2007). As previously pointed out, there are various risk management frameworks available, for example, the COSO ERM Framework, the SME Risk Architecture Model, and the Fraud Risk Management Framework (Olson & Wu, 2008), which can be utilised by business organisations worldwide.

In a South African SMEs milieu, the COSO ERM Framework as well as the SME Risk Architecture Model could arguably be perceived as primary risk management frameworks/models. This research study placed more emphasis on the Fraud Risk

Management Framework as it was more relevant to the research topic in the sense that it focused solely on fraud risk with the intention to mitigate fraud risks (GAO, 2015). While other frameworks could be addressing risks, including fraud risks, the Fraud Risk Management Framework helps with combatting fraud and preserving integrity within the organisation; hence, the usage of such a framework would be useful to retail SMEs for mitigating fraud risks.

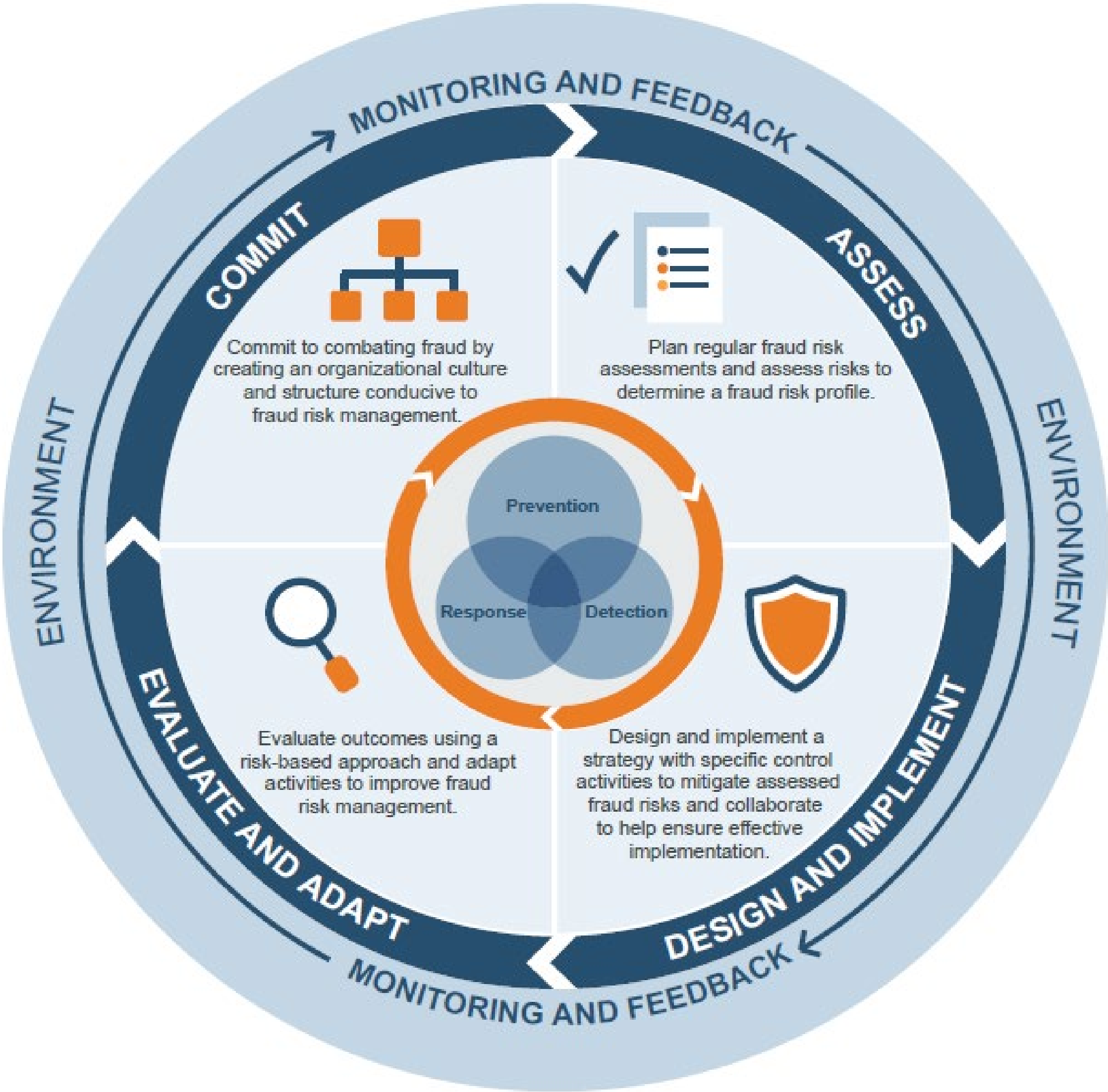
2.6 Fraud risk management framework

No organisation is immune to the risk of fraud regardless of size or complexity of operations. The risk of fraud is therefore inherent to every business sector or industry, and fraud has led to downfall of many organisations (COSO, 2016). SMEs are reported to have high cases of fraud activities. These business entities do not proactively combat the risks of fraud because they do not utilise a fraud risk management framework. Managers of SMEs in most cases devote more time to their business profit-making operations; as a result, risk management does not appear to be the priority. Nonetheless, the risk of fraud should be managed otherwise it will inevitably materialise, and its consequences are always negative to the business objectives and sustainability. For this reason, fraud risk management should be implemented to address the risk of fraud in terms of assisting management with identifying fraud and establishing effective mechanisms to better detect/prevent fraud.

COSO (2016) suggests that an effective fraud risk management system should consist of the following processes:

- **Communication of fraud risk management:** Management should demonstrate that it is committed to combat the risk of fraud by communicating a fraud risk management programme.
- **Performance of risk assessment:** This process looks at identifying fraud, assessing the likelihood of fraudulent activities, and implementing corrective actions to mitigate fraud risk.

Most literature have shown that a fraud risk management framework consists of the following elements as depicted in figure 1.4 below: control activities, organisational commitments, fraud risk assessment, programme design and implementation, monitoring and evaluation (Moeller, 2013; GAO, 2015; COSO, 2016; Hussaini et al., 2018).



Source: GAO. | GAO-15-593SP

Figure 2.4: Fraud risk management framework (GAO, 2015)

2.6.1 Control activities

Processes, policies, techniques and methods are control activities to ensure that the responses of management towards risk reduction uncovered during risk assessment processes are carried out (ISO 31000, 2023). In other words, control activities are actions taken to minimise risk. The control activities align with the response that management has on identified or potential risks. These control activities can be grouped into three categories: detective, preventive and corrective controls (Welch, 2018). Internal control actions fall into one of the five primary forms of company fraud listed below:

- **Adequate document usage and design:** Source documents are used to prove the existence of transactions and should include a variety of data (e.g., dates, signatures, and product/service descriptions, among others) as well as be pre-numbered. As a general rule, companies give original source documents to entities who receive items, services or cash, while duplicate source documents are preserved as proof by such business entities (e.g., tax invoice, receipt and goods received note, among others). Source documents may also be included as other documents (e.g., memorandums and reports).

- **Proper authorisation activities:** Any transaction must be properly authorised before it can take place. Management typically performs authorisation operations; however, management may assign power to non-managerial workers if appropriate.
- **Asset safeguarding** comprises the reduction of hazards that may have a negative impact on a business's facilities (where it is based), people (workers and customers), and equipment. This is often accomplished through the use of preventative or detective control measures (e.g., door locks, alarm systems, etc.).
- **Segregation of duties:** To reduce internal risks (such as collusion, theft and embezzlement), the person responsible for authorising a transaction (person 1) should not be the same person who conducts the transaction (person 2) or who records the transaction (person 3).
- **Independent checks:** Independent checks can be done to minimise risks by using random and/or periodic intervals. This can include physical stock counts, staff monitoring, staff supervision, doing quality checks, and conducting periodic employee reviews, among others.

The control measures that are employed to address the risk of fraud are generally grouped into three controls towards achieving its objectives, as explained below.

2.6.1.1 Fraud prevention control

Fraud prevention control is the first stage depicted in the fraud risk management framework; it requires the introduction of appropriate strategies that can prevent fraud risk within an entity (Hussaini et al., 2018). Fraud prevention control is aimed at mitigating the risk of fraud from occurring by having an anti-fraud programme, employees background checks, fraud awareness training, system edit checks, matching of data for eligibility, proactive analytics, rules of conduct, segregation of duties, and transactions limits (GAO, 2015, Deloitte, 2023).

Based on prior examination of why individuals commit fraud, it appears that one of the most successful approaches to combat the problem of fraud is to employ tactics that reduce motive, limit opportunity, and limit the capacity of potential fraudsters to rationalise their actions (Albrecht, et al., 2020). The goal of preventative measures in the case of purposeful acts of fraud is to decrease opportunity and eliminate temptation from potential perpetrators. To prevent fraud, prevention tactics include the implementation of rules, processes and controls, as well as activities such as training and fraud awareness. It is prudent to prevent losses, and fraud prevention operations can help maintain a company's stability and continuous existence (CIMA, 2020).

According to recent polls, however, many organisations do not have a structured approach to fraud prevention. Once a scam has happened, the chances of retrieving stolen monies from the criminal or through insurance are frequently slim. Based on the prior examination of why individuals commit fraud, it appears that one of the most successful approaches towards combatting the problem of fraud is to employ tactics that reduce motive, limit opportunity, and limit the capacity of potential fraudsters to rationalise their actions (CIMA, 2020).

2.6.1.2 Fraud detection control

Fraud detection entails policies and procedures designed to detect fraud before and after the occurrence (Hussaini et al., 2018). Fraud detection control is intended to enable the organisation to quickly and efficiently detect fraudulent activities that may have side stepped the preventive control, thus enabling the organisation to take corrective action (Hussaini et al., 2018). To effectively detect fraudulent activities, management should ensure that there is an auditing team, matching of data after a transaction, data mining, and having a fraud hotline in place to report all possible fraud activities (GAO, 2015). Because fraud prevention strategies may not deter all prospective criminals, organisations should ensure that procedures are in place to detect and report fraud in a timely way. This is accomplished by the identification of fraud.

According to CIMA (2020), a plan to detect fraud must include the application of analytics and other relevant techniques that recognise and uncover anomalies. The plan should furthermore implement reporting lines and channels that enable the communication of suspected fraudulent activities (CIMA, 2020). Fraud detection may bring to light ongoing fraud or offenses that have already occurred. Such schemes may be unaffected by the implementation of preventive tactics, and even if the fraudsters are thwarted in the future, the only way to recoup prior losses is through fraud detection. However, the potential recovery of losses is not the main goal of a detection programme, and fraudulent behaviour should not be overlooked just because there may be no recovery of losses. The identification of fraud also enables the enhancement of internal systems and controls (CIMA, 2020).

2.6.1.3 Responsive control

Responsive control includes corrective measures taken by management as remedy for the undesired outcome caused by fraud. Notably, fraud response measures affect the occurrence of fraud within the retail enterprise, therefore, the stronger the fraud response measures, the less the likelihood of fraud. According to KPMG (2016), fraud occurrence, depending on the extent, may negatively affect the survival of an organisation. It is therefore a prerequisite for an organisation to design, implement and maintain fraud risk management periodically (COSO, 2016).

2.6.2 Elements of a fraud risk management framework

2.6.2.1 Organisational commitments

A report by GAO (2015) shows that an effective fraud risk management framework requires organisational commitment towards combating fraud. Management can achieve this by creating an organisational culture to combat fraud at all levels, and by creating a dedicated entity structure to lead the fraud risk management activities (GAO, 2015). Furthermore, Myemane (2019) argues that management or the business should demonstrate commitment to integrity and ethical values.

2.6.2.2 Fraud risk assessment

A fraud risk assessment is a tool used by management to identify and understand risks to its business and weaknesses in controls that present a fraud risk to the organisation. Once a risk is identified, a plan can be developed to mitigate those risks by instituting controls or procedures and assigning individuals to monitor and effectuate the plan of mitigation (Mayeresky, 2017). According to GAO (2015), management is responsible for planning a regular fraud risk assessment programme. The aforesaid emphasises that management are responsible for conducting fraud risk assessments at regular intervals, pinpointing particular tools and sources for gathering information about fraud risk that includes data pertaining to fraud risks and trends from monitoring and detection activities (GAO, 2015). Moreover, management is responsible for identifying and assessing a fraud risk profile by discovering inherent fraud risks affecting the system, assessing the impact and likelihood of inherent fraud risks, determining fraud risk tolerance, and examining the appropriateness of existing fraud controls and prioritise residual fraud risks (GAO, 2015).

2.6.2.3 Programme design and implementation

Programme design and implementation include developing a framework that outlines how possible fraud risks could be dealt with and ensures the application of prompt and consistent responses (GAO, 2015). Moreover, management should establish collaborative relationships with respective stakeholders (internal and external), including the department responsible for control activities.

2.6.2.4 Monitoring and evaluation

Under the monitoring and evaluating activities, management is responsible for the following (GAO, 2015):

- Monitor and evaluate the usefulness of prevention measures, including fraud risk assessments and an anti-fraud programme.
- Follow a risk-based approach to monitoring by considering internal and external factors that can have an impact on the control environment, such as organisational improvement and emerging risks.
- Assign respective stakeholders responsible for particular fraud risk management activities within the monitoring and evaluation process.
- Measure outcomes in addition to the outputs of the fraud risk management activities.
- Make use of monitoring and evaluation results to improve the design and implementation of fraud risk management activities.
- Make use of identified fraud occurrence and fraud trends to improve fraud risk management activities, including prioritising and taking corrective actions and enhancing fraud risk awareness training.
- Communicate the results of monitoring and evaluation, including correction action taken (if any), to the appropriate stakeholders.

Given the ubiquity of fraud and the bad repercussions connected with it, it is imperative that organisations devote time and resources to combating fraud irrespective of nature and size. However, it is debatable whether resources should be dedicated to fraud prevention or fraud detection. SMEs are known to have insufficient or inadequate resources when it comes to internal controls. Both fraud prevention and fraud detection play important roles, and it is doubtful that one will be totally successful without the other. As a result, it is critical for organisations to consider both fraud prevention and fraud detection when developing an effective plan to minimise the risk of fraud (CIMA, 2020). According to CIMA (2009), an effective anti-fraud approach consists of four major elements: prevention, detection, deterrence, and response (Figure 2.5). These elements can be interconnected since they are all playing an important role in preventing fraud regardless of the anti-fraud strategy used.

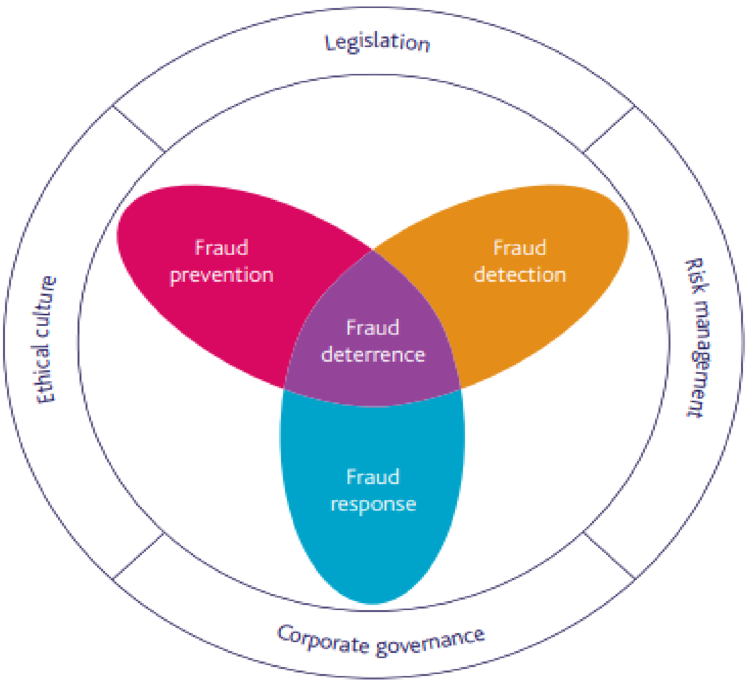


Figure 2.5: Anti-fraud strategy (Source: CGMA, 2012)

There are more reasons than ever to develop an effective fraud risk management strategy for the organisation. When it comes to combatting fraud, everyone in the organisation should be involved to effectively reduce the likelihood of fraud occurring. This involvement can be preceded by fraud awareness, the implementation of a fraud risk management framework, and anti-fraud programmes, among others, to ensure that the organisation’s environment is fraud resistant. The emphasis on individual accountability has shifted considerably, and employees now need to be educated on the risks and consequences. Fraud whistleblowing is one of the mechanisms to create an environment that combats fraud because even individuals who are aware that something fraudulent occurred can still not disclose it. Fraud is like a virus which can be widespread throughout the organisation and should therefore be avoided with appropriate attention since it can originate from both inside and outside the organisation. It may be viewed as a symptom of an organisation's culture, and as such, it necessitates maximum monitoring to prevent it from becoming endemic.

According to ACFE (2018), an effective fraud risk management framework should encompass the following:

- Determine your risk tolerance for fraud. Create a written declaration that can be converted into a risk-tolerance limit. A risk-tolerance limit is a measurable numeral that represents the highest amount the company is prepared to lose. The quantity is determined by elements such as prior history, the firm's eagerness and attitude.
- Ascertain that the corporate culture and structure are suitable and receptive of the management of fraud risk. Establish a framework with a specialised company, department or person in charge of all fraud risk management efforts.
- Plan for frequent fraud risk assessments to develop a fraud risk profile.
- Create and deploy a fraud hotline or reporting system. Determine risk responses and establish an anti-fraud strategy based on the fraud risk profile as part of monitoring the hotline. Build a plan explaining how to respond to reported instances of fraud. Remember to provide updates to stakeholders on a regular basis.
- Monitor and assess all elements of the fraud risk management framework using a risk-based approach. Concentrate on measuring outcomes and communicating the findings.

2.7 Gaps in literature

There were a few notable gaps in the literature for this research. Literature on the risk management framework focuses on large organisations. Furthermore, there is a gap in how local factors such as crime, social inequality and market dynamics influence risk perceptions and management strategies within Cape Town's retail SMEs and how they apply informal practices in their day-to-day operations. This therefore, entails limited literature on how these informal operations affect the implementation of the risk management framework especially within this retail sector.

Furter research is lacking on how retail SMEs in Cape Town incorporate technological tools such as digital monitoring, data analytics and artificial intelligence in their risk management practices. It follows that studying the gap in technological usage for risk management among these businesses, could reveal perceptions into barriers, cost and the value of technological driven framework.

There is also a gap in understanding how retail SMEs could incorporate sustainability risks such as environmental and social issues into their risk management framework. Additionally, the specific risk management measures these businesses use to adapt to rapid social economic changes, remain underexplored.

2.8 Chapter summary

Chapter 2 expanded on various applicable concepts introduced in Chapter 1. In addition, discussions guiding the study were presented, particularly in terms of an overview of the following: i) retail enterprises, ii) the global retail industry, iii) the South African retail sector, iv) South African SMEs, v) South African SME sustainability, vi) fraud, vii) the concept of risk, viii) fraud risk management, and ix) fraud risk management frameworks.

The creation of these businesses as SMEs were intended to create more employment prospects, lessen scarcity and poverty, and contribute towards economic growth in South Africa. Although SMEs are viewed as the engine of economic growth, past research has revealed that the country’s SME sustainability rate is depicted among the lowest in the world. South African SMEs operate in a challenging economic landscape, which implies that these SMEs are forced to conduct their operations in unfavourable conditions where they are vulnerable to many and diverse risks.

Fraud is rated among the most visible threats confronting South African SMEs on a daily basis. These results from South African SMEs not applying solid internal control actions to manage risks (including fraud risk), nor do they have an adequate fraud risk management framework to address their related risks. The lack of appropriate fraud risk management negatively affects these businesses in the achievement of key business objectives. In other words, their business objectives are impacted by strategic, operational and compliance risks, which can be attributed to fraud occurrences. The use of fraud risk management is an ideal way to appropriately manage these risks. The risk management efforts employed by South Africa’s SMEs were explored to better understand their risk management practices.

According to research literature, these commercial entities’ risk-management activities are customised, ineffective and/or insufficient. Despite the fact that risk management activities are typically related to fraud risk management initiatives, it is thought that these initiatives are implemented by happenstance rather than solid decision making. The next chapter explains the research methodology that was used in this study.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter discussed in detail key concepts emanating from various literature sources. This chapter focuses on the research methods and design employed to answer the research questions and achieve the research objectives. A quantitative approach was used to gather the necessary data.

The aim of this study was to investigate the usage patterns of fraud risk management techniques in SMEs and to provide recommendations on how to manage and mitigate fraud risk particularly in the retail sector. Five research sub-questions were posed to answer the primary research question. In essence, this section describes how the research was designed and undertaken to achieve the research aim and objectives.

The research methodology used will be discussed under the following headings: i) overview of research design, methodology and methods, ii) research paradigm, iii) research approach, iv) research design, v) data collection instruments, vi) data collection/fieldwork, vii) data coding and analysis, ix), and ethical considerations and conclusion.

3.2 Overview of research design, methodology and methods

The research design is fundamental in addressing potential biases and ensuring ethical considerations, thus increasing the study's validity and replicability. The process generally involves selecting an appropriate design type, such as experimental, correlational, or descriptive, depending on the specific research objectives (Grad Coach, 2023).

3.3 Research paradigm

A research paradigm is defined as a set of beliefs and guidelines that affect and guide what should be examined, how research should be conducted, and how results should be evaluated by scientists in a given area (Du Plooy-Cilliers, 2014). The more relevant paradigms are presented below:

3.3.1 Positivism

Positivist researchers believe that valid knowledge is gained only from objective and/or empirical observation evidence. Therefore, only scientific knowledge that truly makes sense to them is considered. A positivist researcher aims to describe a causal relationship in an effort to control and predict the natural and social world. Positivists believe that a single objective reality exists (Du Plooy-Cilliers, 2014:24-25), and they follow a quantitative approach.

3.3.2 Interpretivism

Interpretivist researchers believe that social reality is dependent on subjective rather than objective knowledge, and the circumstances and the environment in which they find themselves, have an influence on them. Interpretivist researchers aim to gain in-depth understanding by having direct contact with participants to experience what it is like to be in the same position as the participants, and they only consider facts relevant to their study (Du Plooy-Cilliers, 2014:27-28). A qualitative approach is followed.

3.3.3 Critical realism

Critical realists hold that real structure exists independent of human consciousness a view similar to that of the positivists who believe that a single objective reality exists. Critical realists also have a similar view as interpretivists who believe that knowledge is a social construct. Critical realists aim to understand and explain rather than predict (Du Plooy-Cilliers, 2014:31). A mixed methodology is followed.

3.4 Research methods

According to Creswell (2018), there exist three types of research methods qualitative, quantitative and mixed methodologies further discussed below.

3.4.1 Qualitative research

Farnsworth (2019) opines that qualitative research generates non-numerical data and employs methods such as individual interviews, which are suitable for exploratory studies. Stumpfegger (2017) indicates that qualitative research is exploratory in character and seeks explanations.

3.4.2 Quantitative research

According to Goertzen (2017), quantitative research generates numerical data and hence focuses on measurable information that can be examined statistically. Farnsworth (2019) verifies this by stating that quantitative research focuses on numbers and figures in order to measure and uncover patterns (behaviour, emotion) in data. For this study a quantitative research was found to be the most appropriate method.

3.4.3 Mixed research

Mixed research includes both qualitative and quantitative data. Data are collected and analysed using both words and numbers (Creswell, 2018). This study adopted the philosophical and theoretical underpinnings of quantitative research, focusing on grounded theory as method of choice. Moreover, this empirical and descriptive study aimed to present the research problem in the form of a phenomenon. A positivist paradigm was assumed, as the study observed, identified and measured a specific phenomenon from one objective point of view (Park et al., 2019). This study sought the perspectives of SMEs retail owners and managers operating within Cape Town on the usage patterns of fraud risk management.

3.5 Research design

Research design refers to the structure of the research undertaken to solve the research problem. A questionnaire was used as research tool, consisting of a series of questions designed to elicit information from participants. A questionnaire can be carried out through a written interview, in person, over the phone, on a computer, or via email (Mcleod, 2023). A questionnaire consisting of open-ended and closed questions was designed by taking into consideration the aim of this study and the respective target population.

3.6 Sampling procedures

Appropriate research methods in alignment with the research design were applied in this study. The choice of research methods were influenced by the research paradigm as these methods aided the researcher in identifying approaches for selecting, collecting, analysing and interpreting data. Research methods, according to Yin (2018), are activities that must be carried out when undertaking a research study. In other words, research methods are tools used by the researcher to address a certain research topic. Non-probability sampling methods (Hassan, 2024a) were selected for this study as the size of the target population (the number of South African retail SMEs owners and/or managers) was unknown to the researcher. Furthermore, the purposive sampling technique was considered as it aligns with the non-probability sampling procedure.

3.6.1 Target population

Target population is defined as “all the persons and objects relevant to the study” (Kumar, 2019). This study focused on small retail businesses operating in Cape Town. The City of Cape Town (2024) comprises an area of 2,461 km² and is regarded as the centre of the Western Cape economy. The target population comprised small retail business owners and staff members in a managerial position. The term “small and medium enterprises” refers to economic units that fall below a specific threshold in terms of number of employees, annual revenue, and/or capital invested. These thresholds differ from country to country. Medium-sized firms are mostly limited to 250 people, while small enterprises have fewer than 50 employees. According to the South African National Small Business Amendment Act 26 of 2003 (South Africa, 2003), SMEs employs between 51 and 250 full-time working employees. The targeted participants for this study were small retail business owners and managers located in Table View, Table Bay, Century City (located in the north of Cape Town) as well as those businesses in the city centre, Greenpoint, and Sea Point (located in the west of Cape Town). These areas are shown in Figure 3.7.

Figure 3.7: City of Cape Town map (Source: Turkey Travel Guide, 2023)

3.6.2 Sampling technique

The purposive sampling technique was selected for this study. Purposive sampling is often utilised for a distinct motive (Creswell, 2023), for example, selecting individuals who are from a particular cluster, or those representing diverse perspectives on a concern. Purposive sampling adopts substantial approaches that assist with determining the characteristics of interest while ensuring that the population is still considered so that the sample adequately answers the research questions. Considering the foregoing, the researcher regarded purposive sampling as the appropriate sampling technique because it allowed the study to focus on a specific sample of retail business (such as a clothing store, supermarket, convenience store, mobile store, and street traders) owners and managers operating in Cape Town (see section 3.6.1 & Figure 3.1), to collect "rich data" as explained by Welman et al. (Etikan, 2023).

3.6.3 Sample size

A sample presents as a smaller dataset, chosen from a larger population, in a predefined manner (Bhat, 2019). The larger the sample size tested, the greater the representation is of the target population. Nevertheless, due to time constraints or other project-related issues, choosing a larger sample size is not always feasible. Beech (2015:84) supports this by asserting that there is insufficient trust in the outcomes when sample sizes are too small. Therefore, a sample size of 150 small retail businesses was approached to take part in the study. Upon visiting and briefing the potential participants, the management of 150 small enterprises formally agreed to participate in the research. The research questionnaires were distributed via email and in person to these businesses. The targeted group for this study was owners/managers within the retail industry (as specified in section 3.6.1) since they were deemed knowledgeable about the importance of risk management processes within the retail business sector.

3.7 Data collection instruments

Data collection is the process of gathering and measuring information on variables of interest, in an established and systematic fashion, which enables one to answer stated research questions, test hypotheses and evaluate outcomes (Nyakundi et al., 2014). This study used a structured questionnaire containing both open-ended and closed questions, and 150 questionnaires were distributed to participants. According to Nyakundi et al. (2014), a questionnaire is a data collection instrument that requires participants to respond to the number of items in writing. The researcher chose a questionnaire because it was deemed economical, and it made the participants comfortable during their participation. Furthermore, the questionnaire enabled the researcher to collect as significant amount of data.

3.8 Data collection/fieldwork

According to Quinlan et al. (2015), research fieldwork is the setting/delineation location in which data will be collected from, and fieldwork involves conducting an observation in the field, administering a questionnaire, or facilitating a focus group. The researcher visited the participants at their study location (as specified in section 3.6.1). The participants took part in the study in the role of SME owners and managers since they were deemed familiar with the concept of a risk management framework. A structured questionnaire was used to collect raw data. The purpose of the research and what the study expected from the participants were indicated in top section of the questionnaire.

3.9 Questionnaire design

As previously stated, this research used a questionnaire to obtain relevant responses from participants in order to answer the research questions and meet the research objectives. The following measurement scale was used:

- **Scale A:** 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree, 5 = Strongly Agree, 6 = I don't know/Not doing anything

To improve construct validity, the scale was coded from one (1) to six (6). The questionnaire was overseen by an expert statistician and the researcher's supervisor (a PhD holder) to provide reasonable confidence that the survey's contents were constructed clearly, logically, unambiguously and impartially and to achieve the objectives of the study.

The questionnaire was divided into three sections:

- **Section A**: Background information pertaining to South African retail SMEs.
- **Section B**: Risk management by South African retail SMEs.
- **Section C**: Factors contributing to undetected fraud within an organisation.

Section A consisted of five open-ended questions relating to the demographic background of South African small retail SMEs operating in Cape Town (Figure 3.1). The objective of Section A was to confirm that the participants were selected in accordance with the study's delineation criteria.

Table 3.1: Section A as depicted in the questionnaire

Question No.	Question type	Question			
1	Open-ended	In which business sector do you operate?			
2	Open-ended	How long has your business been in existence?			
3	Open-ended	How many staff members are hired by your business?			
4	Open-ended	What is your occupation/position in your organisation? (please indicate with an (X) as per options below):			
	Owner	Manager			
	Owner and manager				
	If other, please specify:				
5	Open-ended	How long have you been occupying this position?			
6	Closed	What is your highest level of education?			
		A. Matric Certificate		D. Degree	
		B. Higher Certificate		E. Master’s Degree	
		C. Diploma		F. Doctorate	
7	Closed	Where is your business located? Please indicate with an (X)			
		A. Cape Winelands		D. Garden Route	
		B. Central Karoo		E. Overberg	
		C. City of Cape Town		F. West Coast	
8	Closed	What is your annual turnover; please indicate with an (X)?			
		R0-7499999		R7500000-R2499999	
		R2500000-R79999999		R80 000000 or more	

Section B focused on fraud risk management of small retail enterprises to establish the extent to which small retail business owners and managers use fraud risk management frameworks in their business operations. Participants were given a list of possible Likert scale responses (Strongly Disagree, Disagree, Undecided, Agree, Strongly Agree, Do not know) from which they had to choose. See table 3.2 below for section B’s questions. A Likert scale is a commonly used tool in research, distinctly in social sciences, education, and psychology, for measuring attitudes, opinions, or perceptions. It provides a structured way for respondents to express their degree of agreement or disagreement, neutral and more with a series of statements related to the topic being studied.

Table 3.2: Section B of the questionnaire

Question No	Question type	Question
9.1 to 9.13	Likert scale	Statement: My organisation deals with the risk of fraud by means of: (please indicate with an X).
10.1 to 10.9	Likert scale	These factors motivate me to implement a fraud risk management framework (Mark all with an X).
11.1 to 11.3	Likert scale	How would you characterise the status of your fraud risk management framework? Please indicate with an (X).
12.1 to 12.5	Likert scale	How do you implement or plan to implement fraud risk management? Please indicate with an (X) next to the answer of your choice.

Section C dealt with the factors contributing to undetected fraud within an organisation, and the aim was to establish if small business owners are fully aware of the impact that undetected fraud events could have on business continuation. Participants were given Likert scale options to choose from as well as open-ended questions (Table 3.3).

Table 3.3: Likert scale and open ended questions

Question No.	Question type	Question
13.1 to 13.5	Likert scale	Factors contributing to undetected fraud within an organisation.
14.1 to 14.4	Likert scale	Impact of fraud on an organisation.
15.1 to 15.2	Open-ended	Why is fraud risk management important?

3.10 Pilot testing of research questionnaire

Pilot testing was done on the research questionnaire to determine whether the participants experienced any difficulty with completing the questionnaire, and to establish the time estimate that it would take to complete the questionnaire.

The test was performed with three individuals within the SMEs retail sector, located in the City of Cape Town, during the month of May 2023. The individuals selected for testing comprised two owners and a manager. Participants spent approximately 10 minutes to complete the research questionnaire without experiencing any difficulty.

3.11 The distribution of research questionnaire

Copies of the research questionnaire were distributed via email as well as in person to the sampled individuals who consented to partake in the study, using the sampling approach as previously outlined. During the months of June and August 2023, responses were collected by visiting the respective participants to whom the questionnaires were distributed in person, while the responses sent via email, were received electronically into the researcher's email address inbox. Data analysis was conducted on the responses received, which is discussed in Chapter 4.

3.12 Data coding and analysis

According to Prathapan (2014), the analysis of data is a procedure carried out by a researcher to transform data into meaningful interpretations. Information obtained from the completed research questionnaires was recorded by the researcher using a Microsoft Excel template. This recorded data was provided to the statistician for coding and analysis using SPSS software tool, which was essential for meeting the study's level of analysis required to address the research questions.

3.13 Validity and reliability

3.13.1 Validity

Callegaro et al. (2015:179) posit that when research is conducted, data validation is vitally important. To increase confidence in the data collected, the information should be free from mistakes and inconsistencies.

A research questionnaire served as the means of gathering data from the participants. The questionnaire's questions were extracted from the literature review to align with the study's primary and secondary research questions and research objectives. Participants could easily understand the designed questions. As stated in section 3.8, a pilot test of the questionnaire was conducted before distribution to the intended participants.

To verify the accuracy of the data collected, the researcher also carried out a correlation analysis.

3.13.2 Reliability

During the research process, data reliability is crucial, especially in a case where the analyses are performed by another researcher, because the accuracy of the findings is crucial (Collis & Hussey, 2014:217).

Data were obtained from participants who filled out a questionnaire in the comfort of their own space, exercising no pressure on them to complete the questionnaire. Cronbach's alpha was applied to analyse and evaluate the reliability of the collected data. Cronbach's alpha is "a measure of internal consistency, which is how closely related to a set of items are as a group" (UCLA, 2023).

3.14 Delimitations of the study

This research was limited to small retail enterprises operating in Cape Town (as indicated in section 3.6.1). Only responses from retail business owners and staff members in a managerial position of a clothing store, supermarket, convenience store, mobile store and street traders were considered since they are deemed knowledgeable about fraud risks affecting their business. For clarity, the delineation criteria for this study were set as follows:

- All participants should be retail business owners and staff members in a managerial position in their respective entities.
- All participants should be small retail business trading entities.
- All responses should be from SMEs involved in the buying and selling of goods and services.

3.15 Ethical considerations

Berg & Lune (2022) indicate that most organisations require the adherence to ethical principles when conducting research, especially when the research includes humans and/or animals. Resnik (2023) further mentions that ethics offer researchers guidelines on acceptable and/or unacceptable behaviour in the research world. The below ethical considerations were included and shared with the participants.

3.15.1 Informed consent

This principle ensures that all participants are fully informed on the contents of the research study. For this study, the researcher informed the participants in advance and clarified what the study required of them during their participation, how their identities/personal information would be protected, and how the results would be used.

3.15.2 Voluntary participation

This principle ensures that participants' participation in the study is wholly voluntarily. The researcher engaged only with those participants who were voluntarily willing to partake in the study, meaning that no one was forced or conditioned to participate.

3.15.3 Protection from harm

This principle ensures that those who are participating in the study are protected from physical harm. The researcher made sure that participants were not asked any sensitive questions.

3.15.4 Right to privacy

This principle ensures that those participating in the study are assured of the confidentiality of their information. The researcher assured the participants that their names or identities were not to be exposed anywhere in the study.

The above ethical considerations were necessary to comply with the requirements of the Cape Peninsula University of Technology's Ethics Committee, which approved the research and issued the ethical clearance certificate (see Appendix B)

3.15.5 Data management plan

With regard to the data management plan (DMP), data collected from this research are kept in a locked room, and the study only reported on the analysed data as a combined collective. Furthermore, only the researcher(s) involved in this study know the participants' individual questionnaire answers. The data collected via emails, were printed and stored accordingly.

3.16 Chapter summary

In this chapter, the research paradigm, research design and methodology, ethical issues, data collection tools, data coding and analysis tool, research survey design and research restrictions relevant to this study were discussed in greater depth. The above were used/applied/followed to address the research challenge and answer the research questions. The data analysis and presentation of associated outcomes is the focus of the next chapter.

CHAPTER 4: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

Data analysis is a methodical process followed to scrutinise, cleanse, transfigure and interpret raw data to obtain valuable perceptions, patterns and conclusions (Hassan, 2024b). This chapter avails the analysis of the survey results of the sampled population of owners and managers of retail stores, specifically speciality stores, department stores, supermarkets, convenient stores and e-commerce. The research aimed to establish usage patterns of the fraud risk management framework(s) in retail SMEs operating in Cape Town. This is against the backdrop of numerous small retail enterprises being affected by fraud risk and resulting in business failures (Tshepo, 2017). A survey was conducted through disseminating questionnaires to a sample population of 150 participants, targeting retail management and owners operating in Table View, Century City, Table Bay Mall, Sea Point, Green Point, and Cape Town CBD. The number of responses (N) yielded is 105 and the number of non-responses (NR) is 45, thus, a return rate of 70% as per the IBM SPSS statistics package implemented to analyse and summarise the collected data. This rate indicates the high level of engagement and typically provides a robust dataset that can yield reliable results and perspectives.

4.2 Questionnaire results

The questionnaire comprised of three sections. **Section A** focused on the background of retail SMEs, number of employees in a retail store, qualifications of the participants, estimated annual turnover for the various retail stores considered, and the types of retail sector in which the participants operate. **Section B** sought information on the fraud risk management technique (if any) implemented in retail SMEs and the internal controls and fraud risk frameworks for retail SMEs. **Section C** investigated factors leading to undetected fraud and the impact of fraud on the operational capacity of retail SMEs. The study implemented quantitative data analysis methods, that is, a combination of descriptive statistics and inferential statistics. Quantitative analysis comprises a methodical empirical inquiry into an observable phenomenon through numerical, statistical and computational methods (Saunders, 2020). Quantitative data were collected and coded, hence a quantitative analysis approach was deemed most appropriate to deduce conclusions about the usage patterns of risk management frameworks in SMEs in Cape Town. The analysed results are presented in the next sections.

4.3 Section A: Background information

4.3.1 Retail sector operation and background

The question related to this section sought to determine the retail sectors in which the participants operate. The analysis revealed that the most common types of retail businesses the study focused on, are supermarkets, departmental stores, convenient stores, specialty stores and e-commerce. The results are shown in table 4.1.

Table 4.1: Types of retail stores

Type of retail store	Count	Percentage (%)
Supermarket	37	35.24%
Convenient stores	18	17.14%
Specialty stores	14	13.34%
Departmental stores	18	17.14%
E-commerce	18	17.14%
Total	**105**	**100.00%**

N = 105

The table reveals that most of the participants operated (at the time of the study) in the supermarket retail business, constituting 37 stores (35.24%), while specialty stores were the least at only 14 (13.34%). Convenient stores, departmental stores and e-commerce totalled 18 (17.14%) each. Thus, the research study selected a fair distribution of SME retail stores as no monopolistic attributes presented themselves.

4.3.2 Duration of existence of the retail store in operation

The question related to this section was posed to determine the duration of existence of the selected SME retail stores. The data for the duration of existence were grouped into four clusters, where cluster 1 constituted the number of retail businesses that have been in operation for 1-10 years, cluster 2 for 11-20 years, cluster 3 for 21-30 years, and cluster 4 for 31-40 years. Figure 4.1 and table 4.2 show the results.

Table 4.2: Stores' duration of existence

Number of years in existence	Count	Percentage (%)
1-10 years	51	48.57%
11-20 years	27	25.71%
21-30 years	19	18.10%
31-40 years	8	7.62%
Total	**105**	**100%**

N = 105

The table depicts that, at the time of the study, most of the SME retail stores were relatively new in terms of operational existence (1 to 10 years), comprising 51 stores (48.57%), with the 11-20 years cluster comprising 27 stores (25.71%), and the 21-30 years cluster, 19 stores (18.10%). Finally, the minimum number of stores totalled 8 (7.62%), being operative for 31-40 years.

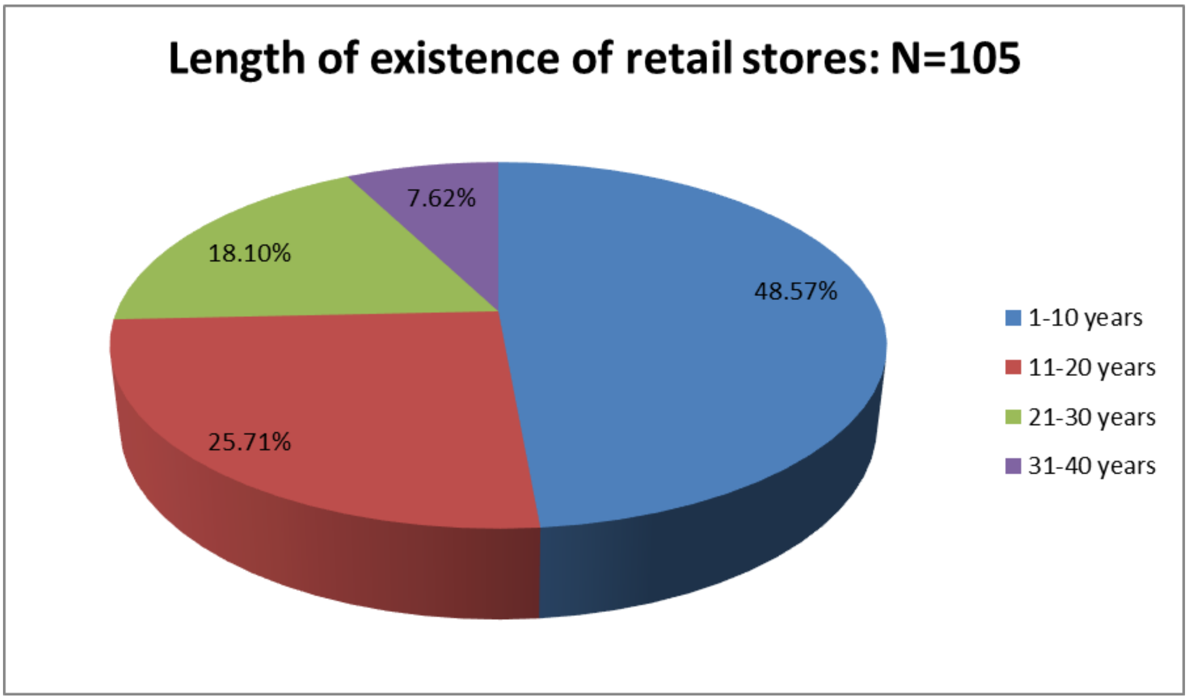


Figure 4.1: Tenure of business operations

The results of this analysis show that retail SMEs have been in operation for a long time, thus, a significant amount of information could and extracted from these managers. In the light of 48,57% of the retail stores being fairly new (1-10 years of existence), it is evident that the retail sector has grown over the years in number of SMEs across the area of study (Table View, Century City, Sea Point, Green Point, Table Bay Mall and Cape Town CBD).

4.3.3 Number of employees hired by the retail stores

The question related to this section was posed to determine the number of employees being employed by the respective stores (SMEs) at the time of the research. The analysis revealed the size of the SME retail businesses in various sectors. The information was grouped into five categories, namely: retail stores that employed 1-10 employees, 11-20 employees, 21-30 employees, 31-40 employees, and 41-50 employees. The information is presented in table 4.3.

Table 4.3: Staff employed by stores

Number of employees hired	Count	Percentage (%)
1-10 employees	60	57%
11-20 employees	30	29%
21-30 employees	10	10%
31-40 employees	2	2%
41-50 employees	3	3%
Total	**105**	**100%**

N = 105

The table shows that most of the participants, 60 (57%) in total, were from SME retail stores that employed 1-10 employees. Only 2 participants (2%) were from retail stores that employed 31-40 employees. Retail stores employing 11-20 employees, 21-30 employees, and 41-50 employees contributed 30 (29%), 10 (10%) and 3 (3%, respectively. A notable downward trend in the number of participants is visible as the size of a retail store increases. This indicates that as the size of a retail store increases, the confidentiality level also increases, which it statistically linked to the retail store size.

4.3.4 Position held in the organisation by participants

The question related to this section sought to establish the positions held by the participants. The main focus was on staff that held managerial or business ownership positions since they would be more knowledgeable about fraud. The results are shown in table 4.4:

Table 4.4: Position in organisation

Position held in organisation	Count	Percentage (%)
Manager	95	90.5%
Owners	10	9.5%
Total	**105**	**100%**

N = 105

A sample of 150 randomly selected managers and owners of various SME retail stores were approached, of whom only 105 participated in the survey. The distribution of the participants' shows that 10 (9.5%) participants were owners and 95 (90.5%) held managerial positions in the respective retail SMEs at the time of the research. The distribution and sample size of the participants were key in mitigating the probability of bias in the responses. Furthermore, the large sample size assisted in providing fair responses to the questionnaire.

4.3.5 Number of years respondent has been in managerial position

This question was posed to determine how long the participants have been in a managerial position as this would assist with determining whether the manager or owner had sufficient experience to know and understand the effects of fraud in the company. The results of the analysis are presented in table 4.5:

Table 4.5: Years in a managerial position

Number of years in a managerial position	Count	Percentage (%)
1-5 years	76	72%
6-10 years	20	19%
11-15 years	8	8%
16 years and above	1	1%
Total	**105**	**100%**

N = 105

The results of the analysis as presented in the table show that most of the managers and owners of the sample population, 76 in total (72%), indicated they have 1-5 years of experience in accounting. In addition, 20 participants (19%) held a managerial position for 6-10 years, and 8 participants (8%) had 11-15 years of managerial experience. A meagre 1% (1) constituted managers with a vast experience of 16 years and more. Thus, a fair distribution in terms of managerial experience was reached for this sample, since managers with diverse managerial experience partook in the study as participants.

4.3.6 Highest qualification of participants

This question was posed to establish the distribution of qualifications among the managers and owners in the sample population to determine the participants' knowledge about fraud in SME retail stores, the adequacy of control systems, and risk management frameworks to mitigate fraud. The results are presented in table 4.6.

Table 4.6: Qualifications

Highest level of qualification	Count	Percentage (%)
Matric/ Grade 12/ National Certificate	62	59%
Undergraduate/ Diploma	42	40%
Confidential	1	1%
Total	**105**	**100%**

N = 105

SME owners and managers with Matric or Grade 12 as their highest qualification formed the majority 62 (59%) of the participants, followed by 42 (40%) who held either a Diploma or an undergraduate qualification. One respondent (1%) withheld their response, stating this information as confidential. The results depict that the study selected a fair distribution of managers who could offer responses on fraud and possess basic knowledge of risk management frameworks and their importance to SME retail stores.

4.3.7 Location of the business

This question was posed to determine the selected SMEs' locations at the time of the study. The results revealed that a fair sample of businesses was randomly chosen from a total of six locations, namely: Table View, Century City, Cape Town City Centre, Table Bay, Sea Point, and Green Point (Table 4.7):

Table 4.7: Business locations

Business location	Count	Percentage (%)
Table View	19	18%
Century City	36	34%
Cape Town City Centre	16	15%
Table Bay	12	11%
Sea Point	11	10%
Green Point	11	10%
Total	**105**	**100%**

N = 105

The table illustrates that most of the businesses, 36 (34%) in total, were located in Century City. The lowest number of businesses was from Sea Point and Green Point, with 11 (10%) businesses each. Twenty-nine (18%) of the sampled businesses were located in Table View, and 16 businesses (15%) in the Cape Town City Centre. Finally, Table Bay was the location of 12 (11%) businesses that formed part of the sample study. Thus, most SMEs seemed to be located in the busiest malls, hence a significant contribution by the Century City business location.

4.3.8 Estimated annual turnover of the business

The question related to this section intended to establish business turnover over a one year financial period. This information assisted in reducing the size of the businesses based on turnover and level of operations. The sample was further divided into the following revenue level ranges: R0–R9 999 999, R10 000 000–R49 999 999, R50 000 000–169 999 999. Some of the participants withheld the information, stating it as confidential and classified because only internal management staff were privy to access information on turnover. Table 4.8 presents the results of the analysis.

Table 4.8: Business turnover

Estimated turnover	Count	Percentage (%)
R0–R9 999 999	50	48%
R10 000 000–R49 999 999	23	22%
R50 000 000–R169 999 999	15	14%
Confidential	17	16%
Total	**105**	**100%**

N = 105

The table illustrates that 50 (48%) businesses reported a turnover of below R10 000 000, followed by 23 (22%) businesses with a turnover above R10 million but lower than R50 million. The table further shows that 15 (14%) of the businesses from the sample population reported a turnover of more than R50 million but less than R170 million. A significant number of participants 17 (16%) withheld the information, stating it as confidential. The next section deals with the analysis of the fraud risk management frameworks, policies and internal controls.

4.4 Section B: Fraud risk management and policies

In this section, the aim of the questions posed was to investigate the fraud risk management practices and policies of SME retail stores. The participants had to choose by crossing out or ticking Likert scale questions with a range of options: **Strongly disagree, Disagree, Undecided, Agree, Strongly agree, Not doing anything.** The reliability test of the collected data was done using the *Chi-square goodness of fit* test. Table 4.9 is an extract of the questionnaire sample responses.

Table 4.9: Reliability and relationship test (Chi-square goodness of fit test)

Responses	Questionnaire Likert scale sampled questions				
	Question 1	**Question 2**	**Question 3**	**Question 4**	**Total**
Strongly Disagree	18	13	44	24	99
Disagree	16	12	27	17	72
Undecided	14	15	12	27	68
Agree	33	30	8	16	87
Strongly Agree	18	19	5	6	48
Not doing anything	6	16	9	5	36
Total Agree responses	{87 + 48} 135				
Total Disagree responses	{99+72} 171				
Total Expected responses	{87+48+99+72} 306 Apportionment for the test: 306/2= 153				
Chi-square goodness of fit test data outcome	0.03959(Ms Excel raised value)				
Cronbach's alpha test for the whole data set	0.8764				

The table illustrates a P-value of **0.03959,** which is less than the common significance level of **0,05**. This statistically confirms a significant association in the responses to the questionnaire. The Cronbach's alpha test value of 0.8764 was determined after testing responses from six sample questions. This means the data have a good reliability value compared to the normally acceptable Cronbach's alpha value of 0.7. Thus, a questionnaire restructuring by adding more questions was done to improve the reliability of the data. The results of the Likert scale section are presented below.

4.4.1 Likert scale questions

4.4.1.1 The organisation's code of ethics on handling fraud risk

For this section of the questionnaire, the study sought to determine whether SMEs have a comprehensive code of ethics to deal with fraud risk. A code of ethics in auditing refers to a structured framework established by professional bodies, such as the International Ethics Standards Board for Accountants (IESBA), which outlines the fundamental principles, values and ethical guidelines governing the behaviour and responsibilities of professionals (IESBA, 2021). The results are shown in Table 4.10.

Table 4.10: Code of ethics questionnaire coded responses

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	count	%	count	%	count	%	count	%	count	%
Organisation has set out a code of ethics that deal with fraud risk	30	29%	25	24%	2	2%	25	24%	15	14%	8	7%

N = 105

Figure 4.2: Code of ethics that deal with fraud risk

Table 4.10 and figure 4.2 show that a significant number of participants, 30 (29%) in total, strongly disagreed and 25 (24%) disagreed that their organisation had a code of ethics to deal with fraud risk. A meagre 2 (2%) remained neutral, while 25 (24%) of the participants agreed and 15 (14%) strongly agreed that their organisation had a code of ethics in place to manage fraud risk. Only 8 (7%) revealed that their organisations were not doing anything about a code of ethics to govern the fraud risk. The results further revealed that an average of 65 (62%) participants felt their businesses should attend to creating a code of ethics to deal with fraud risk.

The data presented shows mixed insight among participants regarding the presence and effectiveness of a code of ethics within the organisations for managing fraud risk. The majority of participants that were in disagreement is a total of 55 (53%). This suggest that many companies lack a code of ethics or do not communicate it effectively to their employees. Moreover, the results show that on average, 65 (62%) participants felt that businesses need to give more attention to creating a code of ethics to address fraud risks.

4.4.1.2 Policies and procedures to address fraud risk

For this section of the questionnaire, the study sought to acquire information on businesses using policies and procedures to address fraud risk. To advance the aim and objectives of an enterprise/institution, guarantee harmonised compliance with relevant laws and regulations, encourage operational competence and/or lessen institutional risk, a *policy* directs, authorises, or disallows conduct. An explanation or portrayal of the operational processes required to affect a policy, is called a *procedure* (University of Wisconsin-Madison, 2022). The results are presented in table 4.11 and figure 4.3:

The data shows a concerning trend regarding the presence and implementation of policies and procedures for managing fraud risk within the organisation's survey. A significant portion of participants, with 30 (29%) disagreeing and 23 (22%) strongly disagreeing, reveals that a large number of businesses are not taking steps to utilise policies and procedures to mitigate fraud risk. This highlights a potential gap in organisational risk management strategies and could imply that many organisations are not prioritising fraud prevention as part of operational framework. Moreover, the 8% of participants indicating that their organisations are not doing anything to address fraud risk are a critical concern. These businesses may not only be vulnerable to fraud but could also face regulatory scrutiny and reputational harm, especially in industries where fraud prevention is mandated by law or ethical guidelines. It is safe to say that without established policies and procedures, SMEs in retail sector expose themselves to potential financial loses, litigation cost and the erosion of stakeholder trust.

Table 4.11: Policies and procedures to manage fraud risk

Polices and procedures and address fraud risk coded responses		
Responses	**Count**	**Percentage**
Strongly Disagree	23	22%
Disagree	30	29%
Neutral	8	8%
Agree	22	21%
Strongly Agree	13	12%
Not doing anything	9	8%
Total	**105**	**100%**

N = 105

A large number of participants, 30 (29%) in total, disagreed that their businesses implemented policies and procedures to manage fraud risk. Twenty three (22%) participants strongly disagreed and 22 (21%) agreed with the assertion, while 9 (8%) participants were neutral or undecided on their company having implemented policies and procedures to address fraud risk. Only 13 (12%) of the participants strongly agree with the assertion, while a small number 9 (8%) of participants said their businesses were not doing anything about the policies and procedures to manage fraud risk.

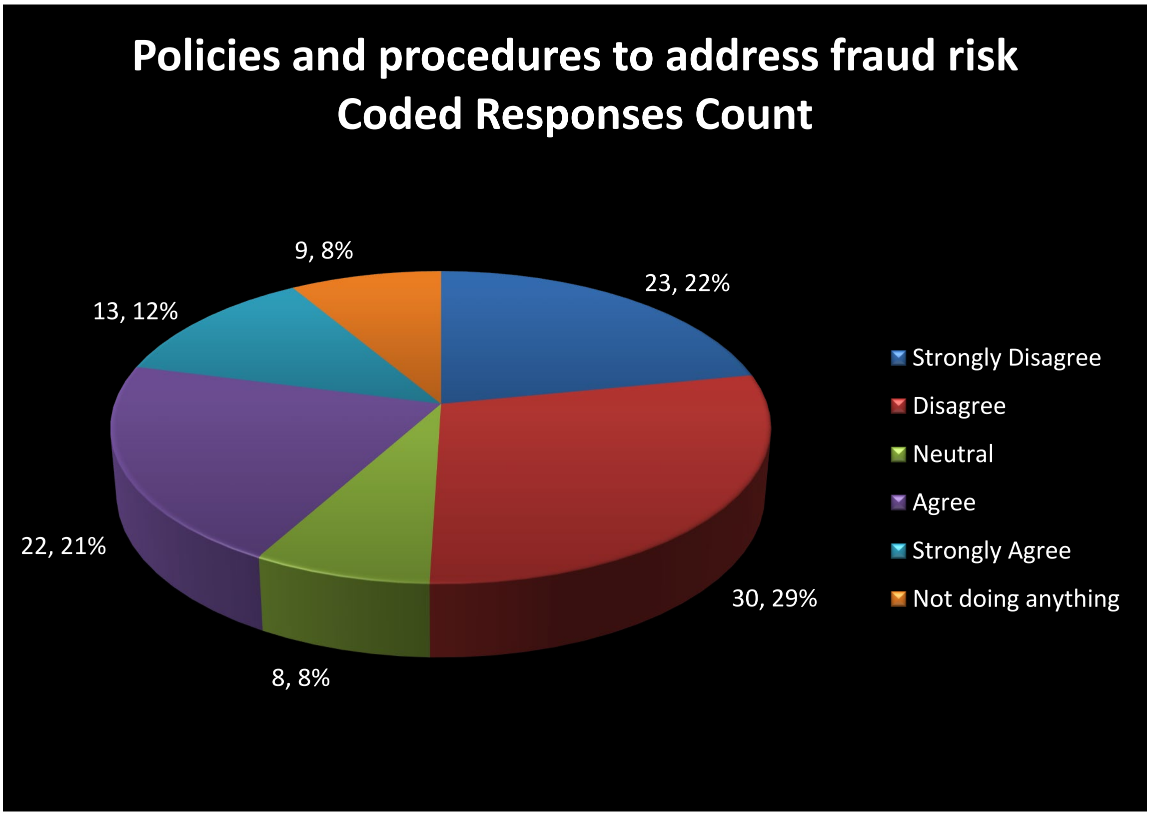


Figure 4.3: Policies and procedures to manage fraud risk

4.4.1.3 Risk appetite setting in fraud risk management

This Likert scale question was prompted to gather information on the company's implementation of a risk appetite setting as a fraud risk management tool. The level of risk an institution is willing to put up with at any instance in time is called risk appetite (Queensland Audit Office, 2020). The results are presented in table 4.12 below:

Table 4.12: Risk setting appetite coded responses

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	count	%	count	%	count	%	count	%	count	%
Organisation deals with risk of fraud by means of risk appetite setting	18	17%	19	18%	27	26%	19	18%	16	15%	6	6%

N = 105

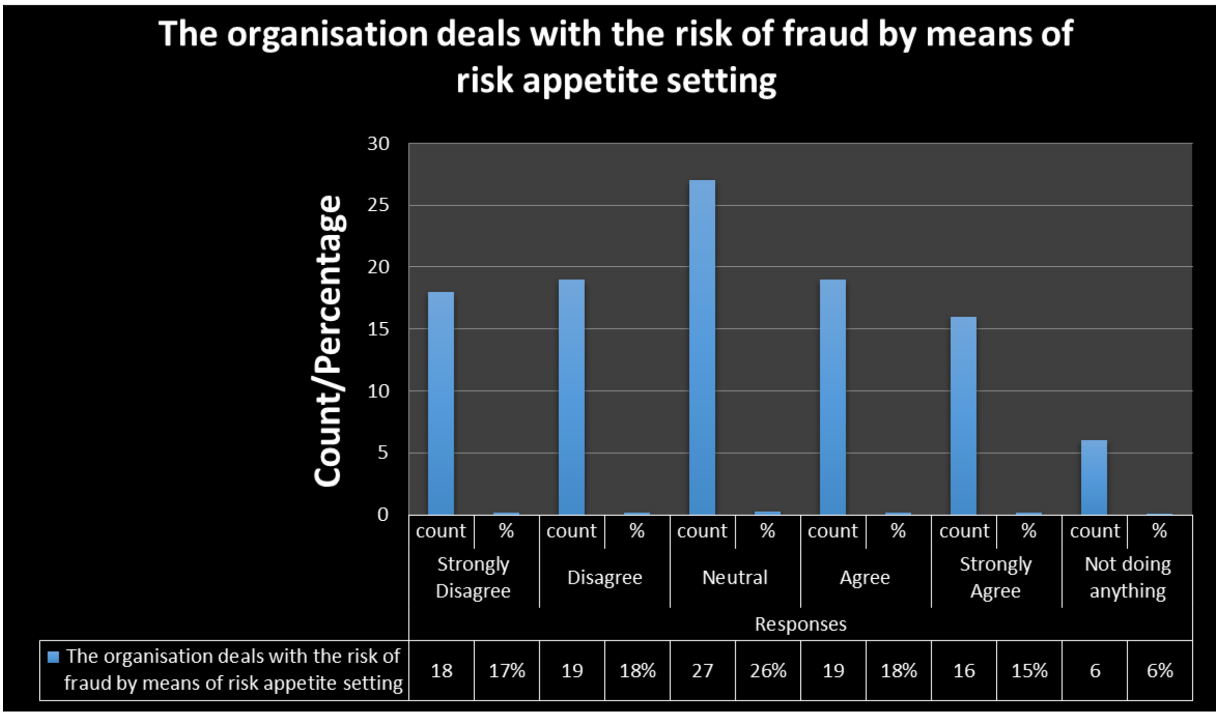


Figure 4.4: Risk appetite setting in fraud risk management

The analysis revealed that a considerable number of participants, 27 (26%) in total, were undecided about their business using a risk appetite setting to managing the fraud risk. Only 6 (6%) participants revealed that they were not doing anything about a risk appetite setting in the organisation. Moreso, 18 (17%) participants strongly disagreed and 19 (18%) disagreed to the usage of a risk appetite setting to manage fraud risk. Nineteen (18%) participants agreed that their business used a risk appetite setting, while 16 (15%) strongly agreed.

With the significant portion of participants, 27 (26%) were undecided on the implementation of risk appetite setting and managing fraud risk. This large group indicates that there's a lack of awareness about the concept of risk appetite setting.

This further suggests that the phenomena of risk appetite may not be clearly defined or communicated within their organisation, potentially leaving employees unclear about the level of fraud risk the organisation is willing to accept or tolerate.

4.4.1.4 Risk analysis approach to deal with fraud risk

The procedure of distinguishing and examining possible issues that could have a detrimental effect on primary business ventures is referred to as risk analysis. This analysis is performed to assist entities with avoiding or mitigating such threats (Yasar, 2023). The study sought to gather information on how businesses use risk analysis as tool/framework to manage fraud risk. Table 4.13 and figure 4.5 show the results:

Table 4.13: Risk analysis as a tool of fraud risk management

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not Doing Anything	
	count	%	count	%	count	%	count	%	count	%	count	%
Organisation deals with risk of fraud by means of risk analysis	29	28%	30	29%	18	17%	15	15%	8	7%	5	4%

N = 105

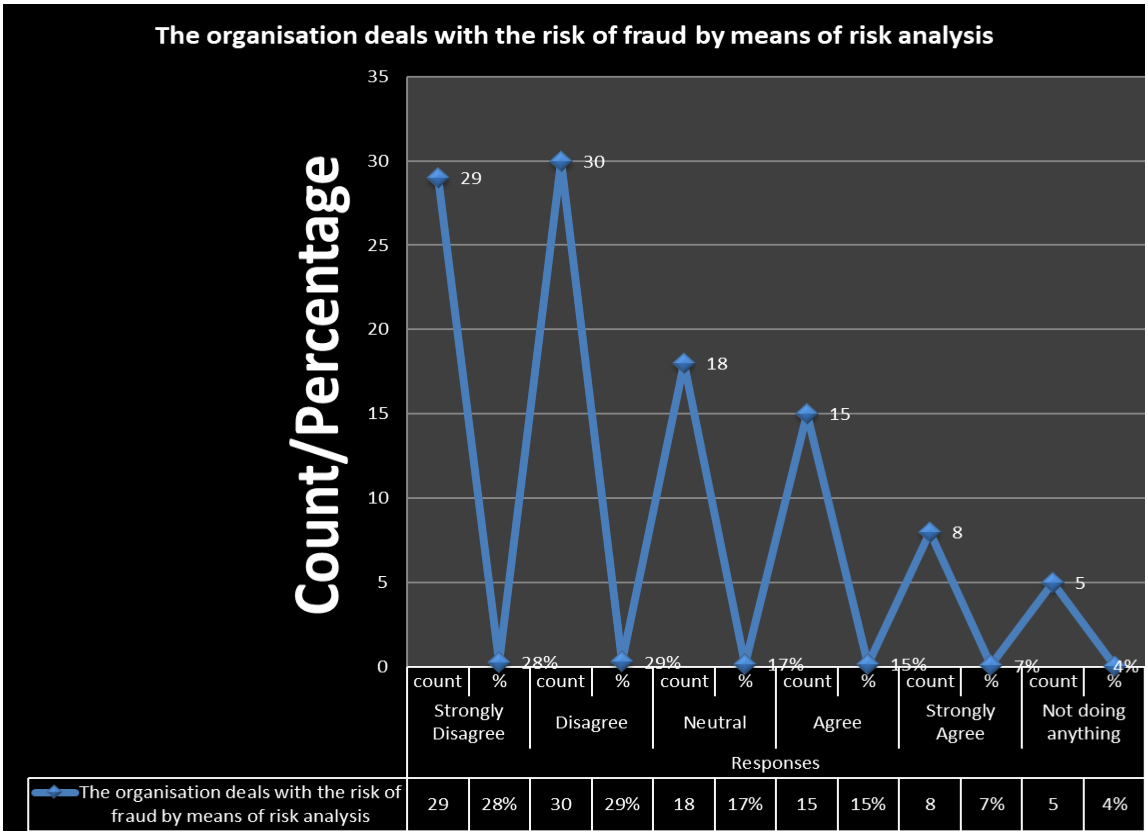


Figure 4.5: Risk analysis as a tool for fraud risk management

The tabulated results show that 30 (29%) of the participants disagreed and 29 (28%) strongly disagreed with the assertion of their business using risk analysis as a tool of fraud risk management. Five (4%) participants indicated that they were not doing anything about risk analysis. Furthermore, 18 (17%) of the participants were undecided, 15 (15%) agreed, and 8 (7%) strongly agreed to the notion that their company used risk analysis as a fraud risk management technique.

4.4.1.5 Risk evaluation as a fraud risk management tool

In this section, the information gathered sought to establish whether SME retail businesses use risk evaluation as a tool for fraud risk management. Risk evaluation comprises a comparison of risk analysis outcomes with set risk criteria to ascertain what extra (if any) action is needed (Law Business Research, 2021). The results are presented in Table 4.14 and figure 4.6.

Table 4.14: Risk evaluation as a fraud risk management tool

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	count	%	count	%	count	%	count	%	count	%
Organisation deals with risk of fraud by means of risk evaluation	24	23%	17	16%	27	26%	16	15%	16	15%	6	5%

N = 105

The majority 27 (26%) of the participants were undecided about the notion that their company was using evaluation as a tool for fraud risk management. A mere 6 (5%) participants strongly agreed and 16 (15%) agreed that their business was using business evaluation as a risk management tool to mitigate fraud risk. Seventeen 17 (16%) participants disagreed with the assertion, meaning their company was not using risk evaluation as a fraud risk management tool. Finally, a significant number of participants 24 (23%) strongly disagreed to the notion of their company using risk evaluation as a fraud risk management tool, which may be attributed to businesses not employing a risk management and internal controls specialist.

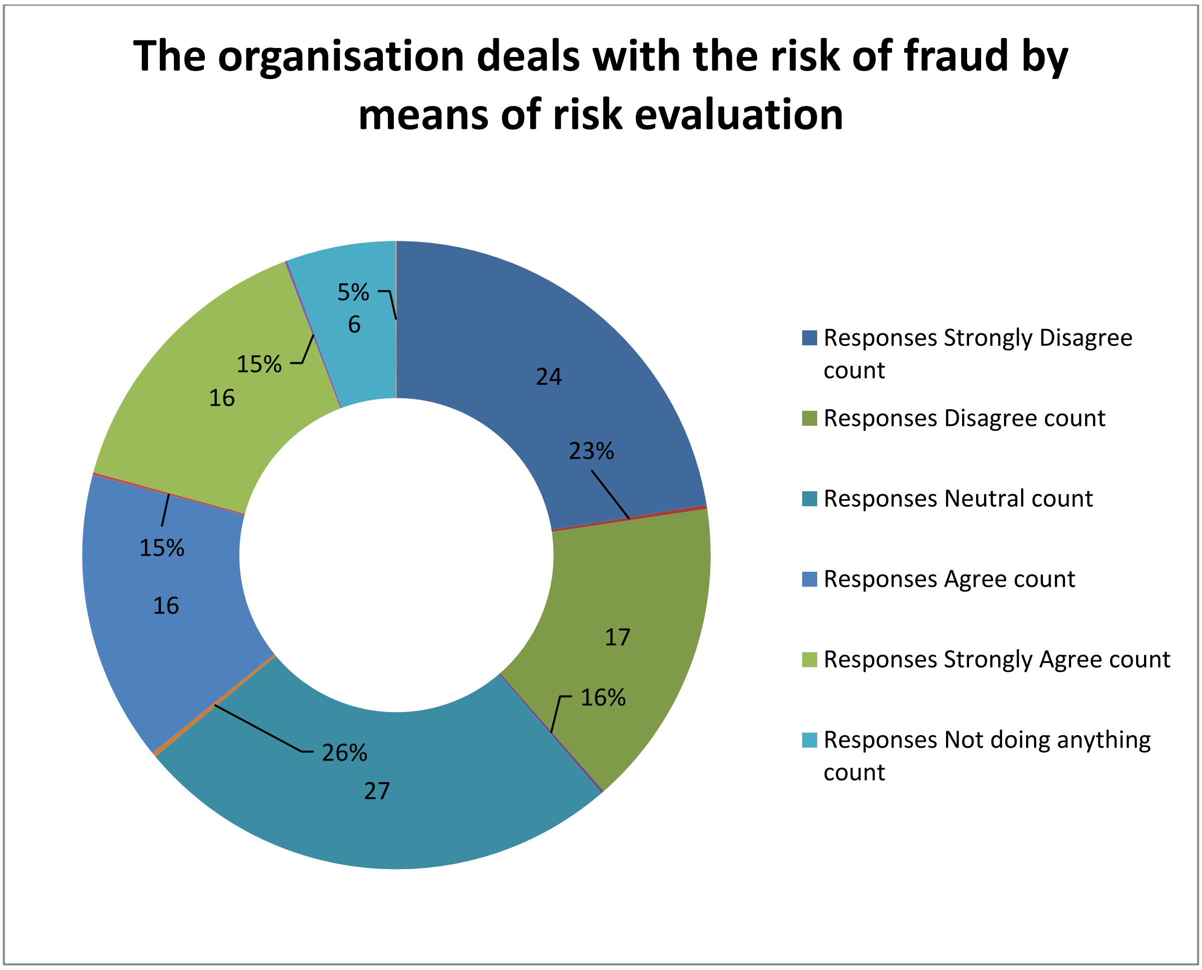


Figure 4.6: Risk evaluation tool for fraud

4.4.1.6 Company strategy as a fraud risk management tool

For this section of the questionnaire, the study sought to determine whether SME retail stores use a company strategy as a risk management tool. The results are presented in table 4.15 and figure 4.7:

Table 4.15: Company strategy as a fraud risk management tool

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	count	%	count	%	count	%	count	%	count	%
Organisation deals with risk of fraud by means of a company strategy	26	25%	25	24%	19	18%	8	7%	17	16%	10	9%

N = 105

A significant number 26 (25%) of participants strongly disagreed and 25 (24%) disagreed that their company implemented a company strategy as a tool to manage fraud risk. Eight (7%) participants agreed that a company strategy has been implemented as a tool to management risk. A significant number of participants, 19 (18%) in total, were undecided or neutral, while 17 (16%) strongly agreed to the notion of their business having implemented a company strategy as a fraud risk management tool. A cluster of 10 (9%) participants indicated that their company was doing nothing to manage fraud risk in terms of using the company strategy as an intervention tool.

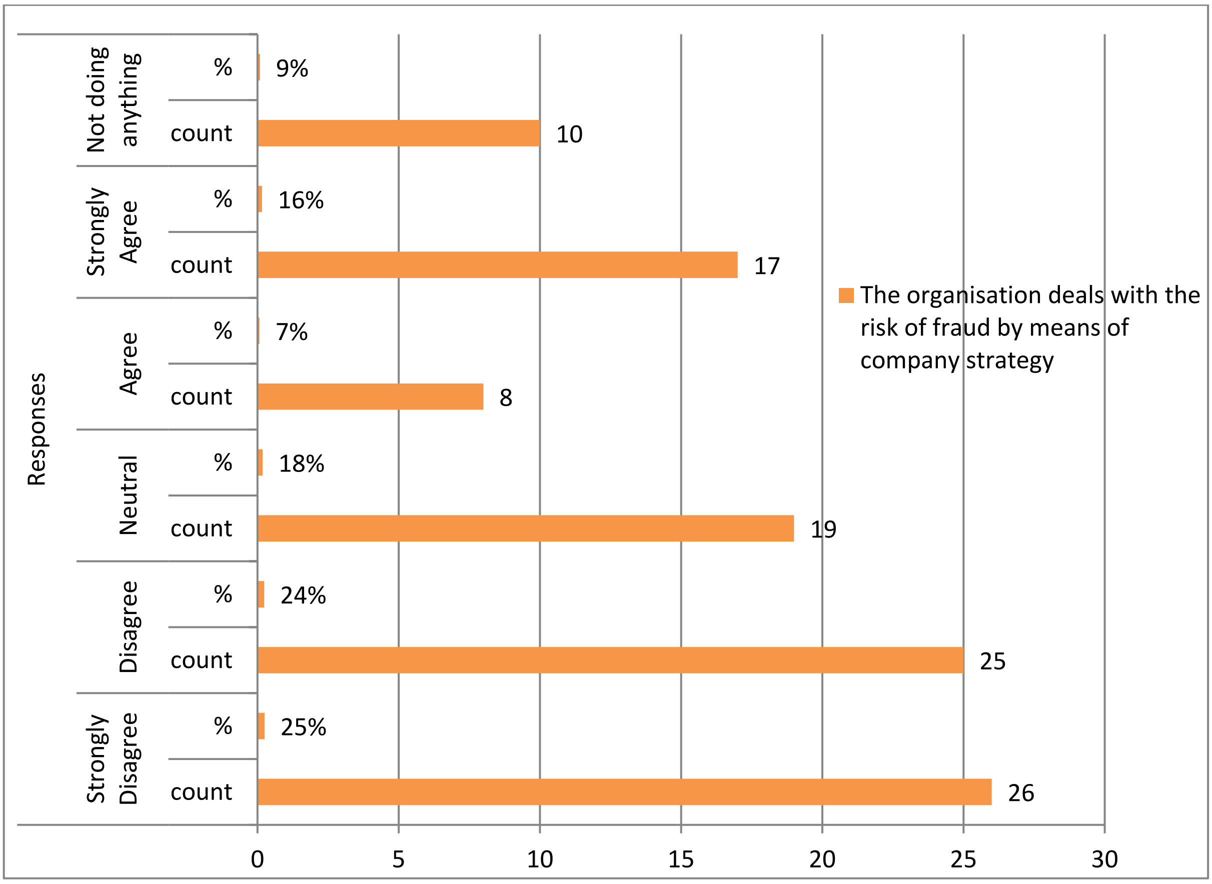


Figure 4.7: Company strategy as a fraud risk management tool

4.4.1.7 Risk treatment as fraud risk management tool

For this Likert scale question, the study sought to establish whether organisations implement risk treatment as a fraud risk management tool. Risk treatment entails establishing/developing mechanisms to minimise the frequency and effect of business risk on an enterprise. The results are presented in table 4.16.

Table 4.16: Risk treatment as a fraud risk management tool

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	Count	%	count	%	count	%	count	%	count	%
Organisation deals with risk of fraud by means of risk treatment	26	25%	18	17%	25	24%	14	13%	13	12%	9	8%

N = 105

The table illustrates that 26 (25%) of the participants strongly disagreed and 18 (17%) disagreed to their company using risk treatment as a fraud risk management tool. A significant number 25 (24%) of participants were undecided or neutral. Only 14 (13%) of the participants agreed and 13 (12%) strongly agreed with the assertion that their company has implemented risk treatment as fraud risk management tool. Only 9 (8%) of the participants indicated that their company was not doing anything about risk treatment as a key fraud risk management tool.

A substantial portion of participants, 26 (25%) strongly disagreed with the use of risk treatment as a tool for managing fraud risk, followed by 18 (17%) who disagreed. Together, these two groups account for significant 42% of the total responses. This suggests that a considerable number of businesses either do not recognise the importance of risk treatment in fraud risk management, or they have not adopted such measures.

4.4.1.8 Setting clear objectives to manage fraud risk

The study at this juncture sought to establish if organisations manage fraud risk by setting clear objectives. Objectives are a set of realistic, measurable and time bound goals that an organisation needs to achieve the organisation's mission and vision (Figure 4.8).

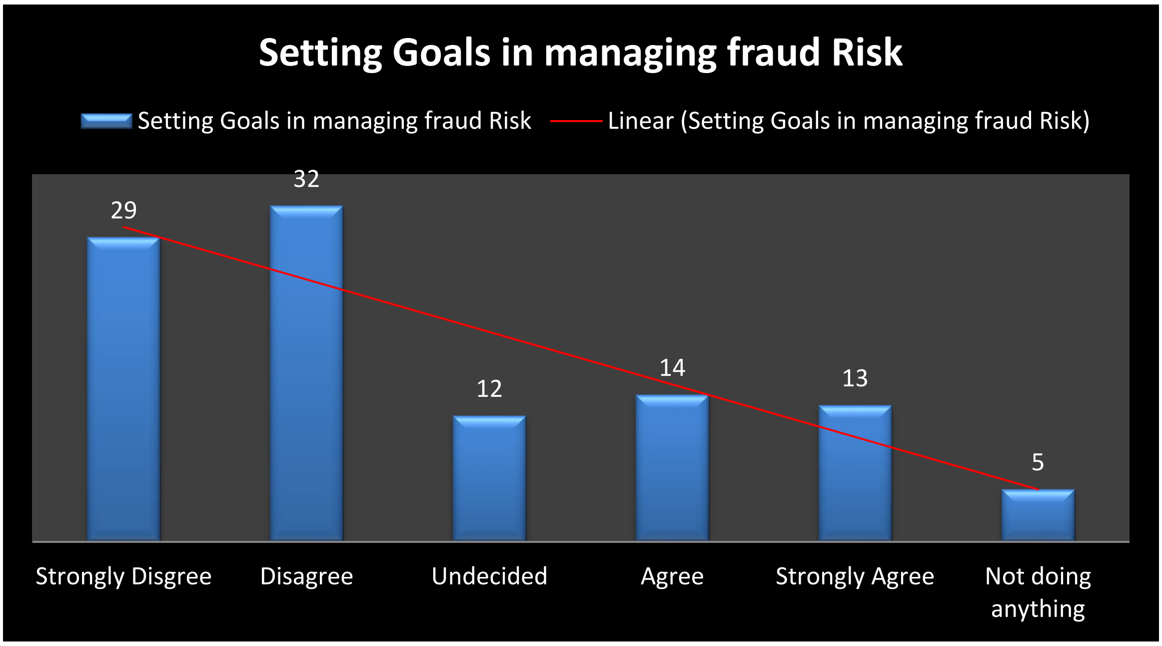


Figure 4.8: Setting clear business objectives

The figure above shows that the many of the participants, 32 (31%) in total, disagreed and 29 (28%) strongly disagreed to the notion of their company setting clear objectives as a method of managing fraud risk. The trendline reveals that the number of participants cascaded downwards to only 5 (4%) organisations not setting clear objectives. Furthermore, 14 (13%) participants agreed and 13 (12%) strongly agreed to their organisations dealing with fraud by means of setting clear objectives. Twelve (11%) participants were undecided or neutral about their organisation having clear objectives that assist in mitigating fraud risk.

4.4.1.9 Availability of controls to reduce the impact of fraud

This question intended to establish whether organisations have sufficient internal controls to reduce the impact of fraud on the business. Controls are critical techniques embedded in the operations of an organisation; Controls include standard procedures, policies and practices, with the main goal of minimising financial loss from risk. The results of the study are presented in Figure 4.9 below:

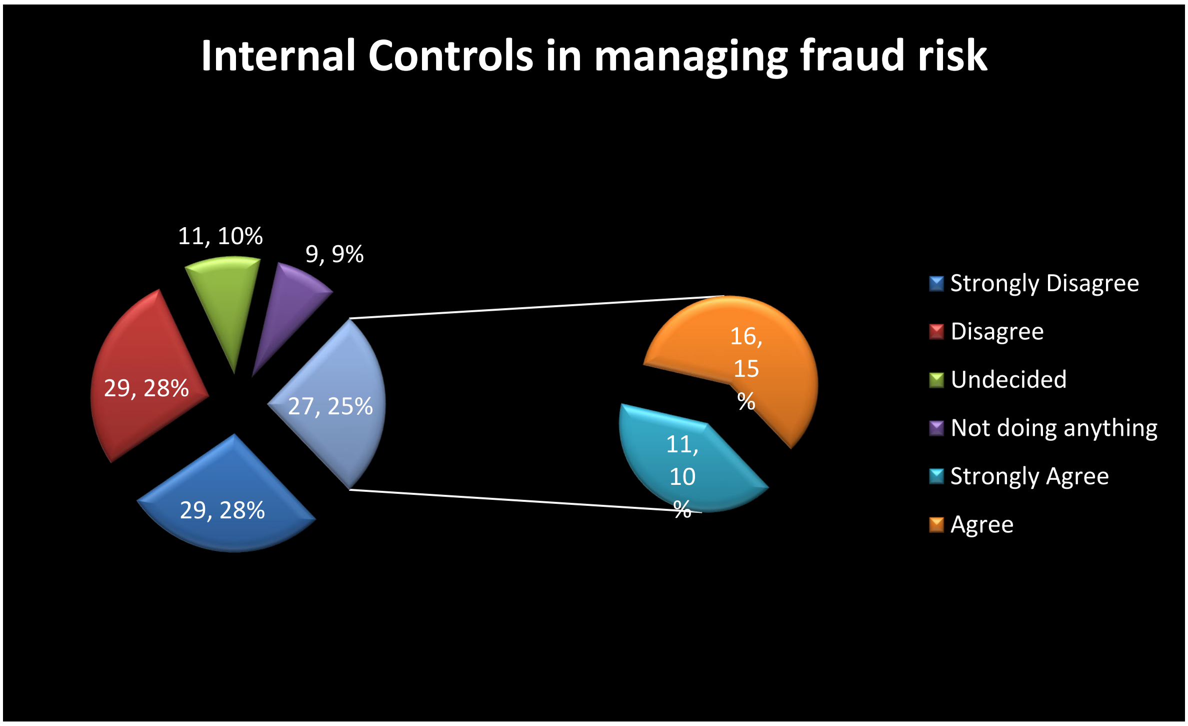


Figure 4.9: Internal controls in managing fraud risk

The figure illustrates that many of the participants, 29 (28%) in total, strongly disagreed and 29 (28%) disagreed to their organisation having internal controls to manage fraud risk. A total of 27 (25%) participants were agreement [i.e., 16 (15%) agreed and 11 (10%) strongly agreed] that their company has internal controls to manage fraud risk, while 11 (10%) were undecided. Finally, nine (9%) participants asserted that their organisations were not doing anything in terms of using internal controls as a tool to manage fraud risk.

A combined total of 56% of participants feel that internal controls are either insufficient or non-existence in their organisations. This suggests a significant gap in the implementation of internal controls, which are essential for preventing, detecting and addressing fraud risk. The absence of effective internal controls can leave SMEs vulnerable to fraud as fraudsters may exploit weak or non-existent controls to carryout undetected fraud.

4.4.1.10 Communicating fraud risk timely across the enterprise

In this section, the study sought to determine if communication on fraud risk across organisations is efficient (i.e., done in a timely manner). This assisted with understanding if employees and management are aware of the fraud risk faced by organisations. The results are shown in table 4.17:

Table 4.17: Communication of fraud risk

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	count	%	count	%	count	%	count	%	count	%
The organisation timely communicates fraud risk across the enterprise	34	33%	26	25%	16	15%	12	11%	7	6%	10	9%

N = 105

Many 34 (33%) of the participants strongly disagreed and 26 (25%) disagreed to communication on fraud being efficient across the organisation. Furthermore, 16 (15%) participants were neutral about efficient communication. Only 12 (11%) participants agreed, and a meagre 7 (6%) strongly agreed, to efficient communication of fraud risk across their organisation. Lastly, 10 (9%) participants revealed that the organisation was not doing anything pertaining to passing information on the risk of fraud across the entity.

4.4.1.11 Consulting risk management experts

This question endeavoured to establish whether organisations make use of the external assistance of risk management experts such as auditors, financial risk managers and enterprise risk management specialists to manage fraud risk. The results of this section of the analysis are presented in the chart (Figure 4.10) below:

Figure 4.10: Consulting risk management experts

Figure 4.10 illustrates that 36 (35%) participants were undecided about their organisation consulting risk management experts in managing fraud risk. A smaller number of participants, 12 (11%) in total, disagreed and 13 (12%) strongly disagreed to the notion of their business seeking risk management expertise externally. Nineteen (18%) participants agreed and 14 (13%) strongly agreed with the assertion. Only 10 (9%) stated that their organisation was not doing about consulting risk management expertise in managing fraud risk.

The distribution of the responses reveals an interesting landscape whereby a large portion of participants remained undecided about the use of risk management expertise. This uncertainty could suggest a lack of awareness about the benefits of expert consultation, limited resources to hire such expertise and/or perceived sufficiency in internal fraud management strategies. A cumulative 23% was opposed to seeking external expertise, this opposition could stem from perceived lack of necessity for external input, possibly due to confidence in in-house capabilities or budgetary constraints commonly faced by SMEs.

4.4.1.12 Performance appraisal as a fraud risk management tool

This prompt aimed to establish whether organisations are regularly conducting performance appraisals to deal with the fraud risk. Performance appraisal entails a detailed assessment of employee performance against pre-set targets, goals and departmental objectives. The results are presented in table 4.18. The table illustrates that many 38 (37%) of the participants strongly disagreed and 30 (29%) disagreed to the company effecting performance appraisals regularly. In addition, 10 (9%) participants were undecided or neutral about the assertion of undertaking performance appraisal regularly. Furthermore, 12 (11%) participants agreed and a minimal 6 (5%) strongly agreed with the assertion that their organisation has implemented performance appraisal as a tool for fraud risk management. Only 9 (8%) participants revealed that their organisation was not doing anything to manage fraud risk through performance appraisal.

Table 4.18: Performance appraisal in fraud risk management

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	count	%	count	%	count	%	count	%	count	%
The organisation regularly conduct performance appraisal to deal with fraud	38	37%	30	29%	10	9%	12	11%	6	5%	9	8%

N = 105

4.4.1.13 Performing separate evaluations

The section of the questionnaire sought to establish whether organisations deal with fraud risk by means of performing separate evaluations. Separate evaluations are processes of evaluating internal control deficiencies and recommending better risk management frameworks to an organisation (Flick, 2023). Figure 4.11 highlights the results:

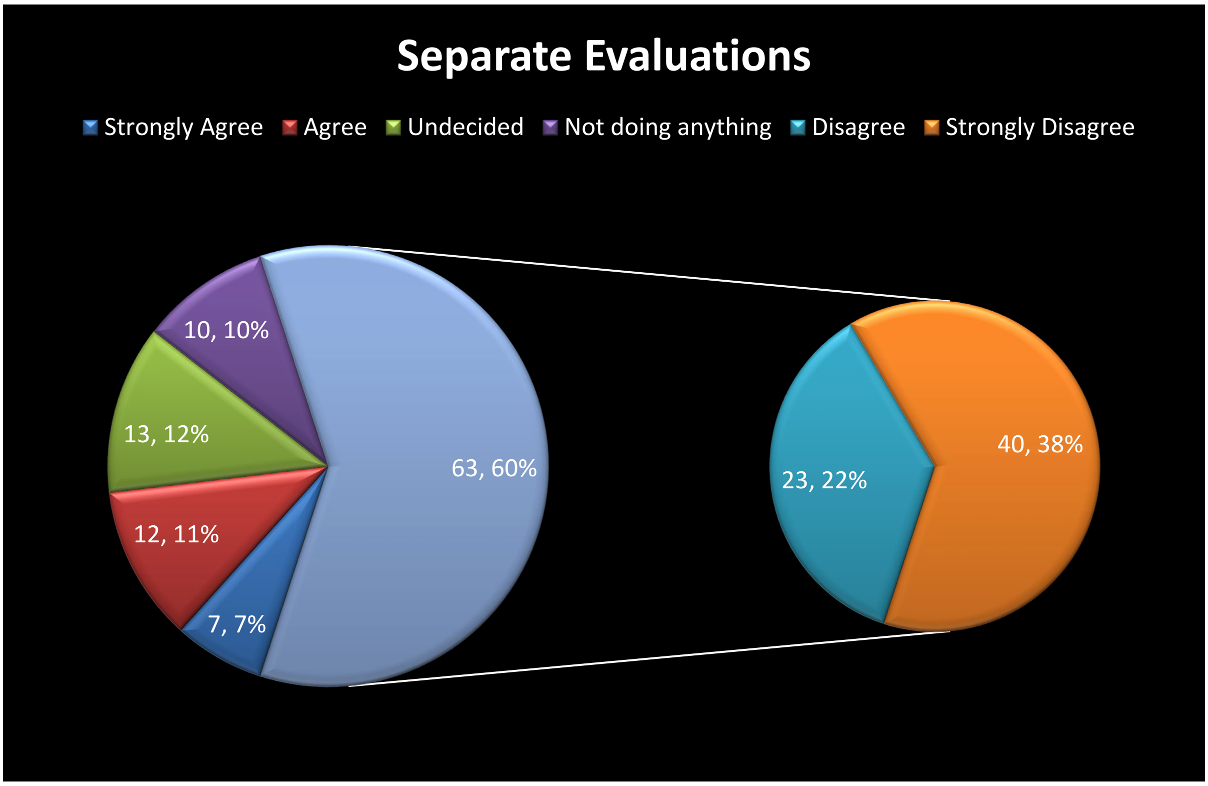


Figure 4.11: Separate evaluations in fraud

The chart (figure 4.11) illustrates that the largest number of participants, 63 (60%) in total, were in disagreement [i.e., 40 (38%) strongly disagreed and 23 (22%) disagreed] with the assertion that their organisation was performing separate evaluations to manage fraud risk. Thirteen (12%) participants were undecided on their organisation effecting separate evaluations, while 7 (7%) participants strongly agreed and 12 (11%) agreed with the assertion.

The next section covers the importance of a fraud risk management framework for retails stores. The causes of undetected fraud in an organisation as well as tools viable to manage the fraud risk in SME retail stores across the area of study (Table View, Century City, Sea Point, Green Point, Table Bay and Cape Town CBD), are analysed.

There is a strong consensus among participants against conducting separate evaluation to manage fraud risk within SMEs. With 60% of participants expressing disagreement, this avails that there is general reluctance or lack of prioritisation for separate fraud evaluation among the surveyed SMEs. This substantial proportion may suggest that these businesses lack the resources to implement integrated risk management approaches such as separate evaluation procedures.

4.4.2 Motivating factors to implement a fraud risk management framework

The investigation further raised a prompt on a fraud risk management framework, covering areas such as its importance to managing fraud risk, whether companies use fraud risk management frameworks, and if so, such a framework is used or implemented to mitigate the fraud risk. The results of this section are presented below:

4.4.2.1 Fraud risk management can improve profitability

For this prompt, the research sought to determine whether a fraud risk management framework would assist in profit maximisation. A fraud risk management framework is a structured approach used by organisations to identify, assess, prioritise, mitigate and monitor risks to minimise potential negative effects on their objectives (COSO, 2023). The results of the investigation on a fraud risk management framework assisting in the profitability of the company are presented in figure 4.12.

The figure illustrates that 30 (29%) participants agreed and 19 (18%) strongly agreed with the assertion that a risk management framework can assist in improving the profitability of an entity. In addition, 15 (14%) participants were undecided about the assertion, while 14 (15%) revealed that their organisation was not inclined to implementing risk management framework to better their profitability. The participants who disagreed and strongly disagreed made up a joint percentage of 23%.

A combined 47% of participants (29% agreeing and 18% strongly agreeing) believe that implementing risk management framework can improve their organisation's profitability. This perspective reflects an understanding among SMEs that risk management goes beyond merely mitigating loses and can actively contribute to business growth by fostering stability, reducing unexpected loses and enhancing strategic decision making.

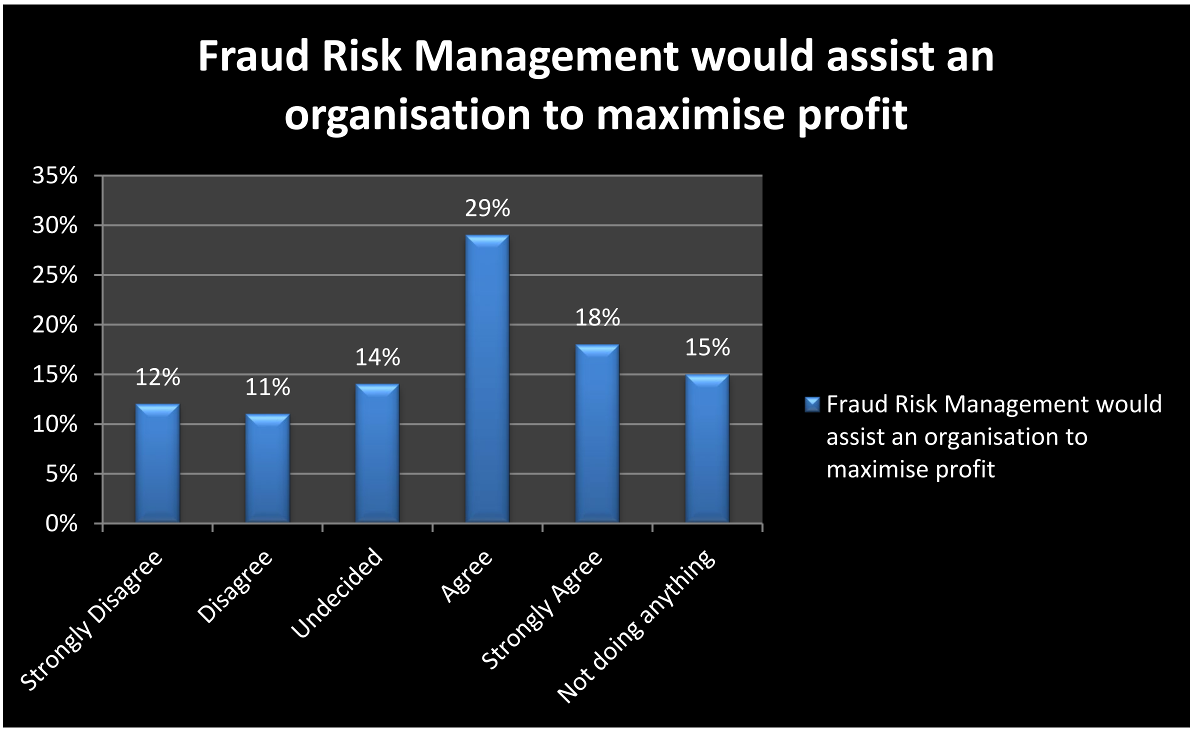


Figure 4.12: Risk management framework and profitability

4.4.2.2 Fraud risk management as a tool to safeguard assets

For this prompt, the study aimed to establish whether a fraud risk management tool would safeguard company assets. Assets refer to economic resources owned by an entity from which a flow of future benefits is expected, and these are divided into tangible and non-tangible assets. Figure 4.13 presents the results.

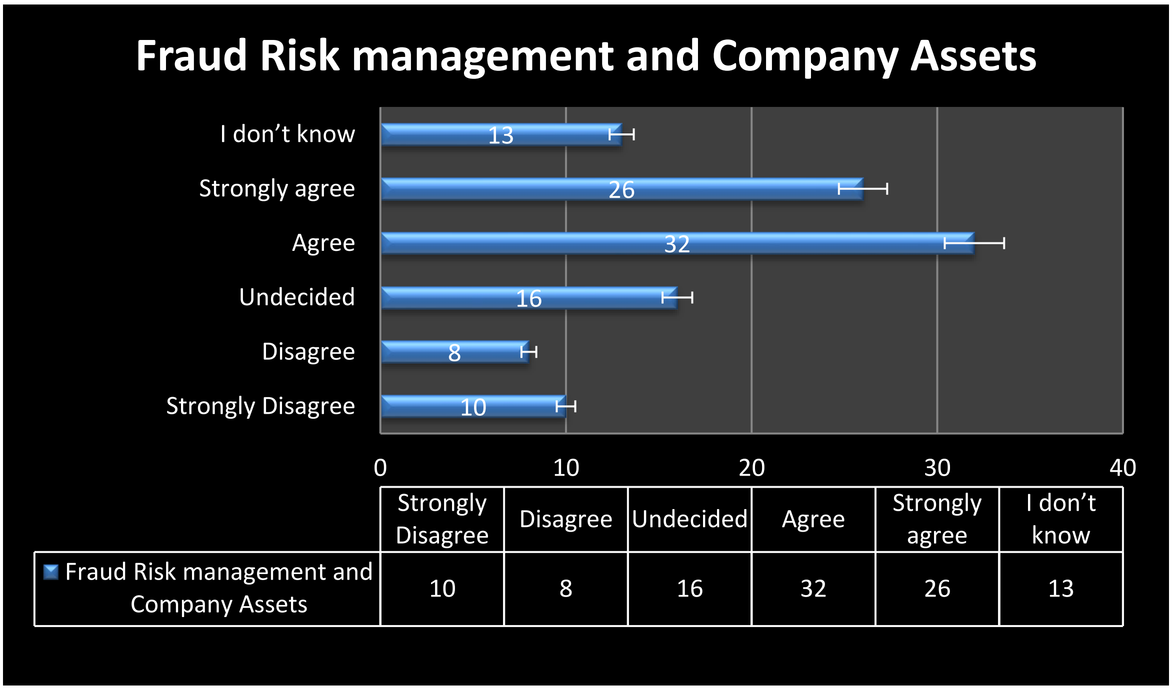


Figure 4.13: Fraud risk management framework and company assets

The figure illustrates that most of the participants were in agreement [i.e., 32 (31%) strongly agreed and 26 (25%) agreed] with the assertion that a fraud risk management framework can safeguard company assets. Only 8 (7%) participants disagreed with the assertion, while 10 (9%) strongly disagreed. Furthermore, 16 (15%) of the participants were undecided and 13 (12%) revealed that they did not know the nexus between fraud risk management and company assets.

The majority of participants (31% strongly agreed, 25% agreed) align with the assertion that a fraud risk management framework is an effective means of safeguarding company assets. This suggests a widespread belief in the importance of such frameworks for safeguarding organisational resources. Despite a small portion of participants who were skeptical about the importance of a fraud risk management framework as a tool to safeguard company assets, the dataset reveals that a fraud risk management framework is a fundamental tool in mitigating exposure of SMEs to fraud risk.

4.4.2.3 Fraud risk management framework as tool to detect and prevent fraud

In this section, the importance of a fraud risk management framework as a tool to detect and prevent fraud was established. Table 4.19 presents the results.

Table 4.19: Fraud Risk management framework and fraud detection

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	count	%	count	%	count	%	count	%	count	%
A fraud risk management framework would assist an organisation to prevent and detect fraud	13	12%	5	4%	14	13%	32	31%	26	25%	15	14%

N = 105

The table illustrates that 32 (31%) participants agreed and 26 (25%) strongly agreed that a fraud risk management framework could assist an organisation in fraud detection and prevention. However, a mere 5 (4%) participants disagreed and 13 (12%) strongly disagreed to this assertion. Furthermore, 14 (13%) participants were undecided and 15 (14%) revealed that they did not know the relationship between a fraud risk management framework and its capacity to detect and prevent fraud in an organisation.

A total of 56% believed that a fraud risk management framework plays a critical role in fraud detection and fraud prevention. This high level of support suggests that many participants recognise the value of a structured fraud risk management framework in identifying potential fraud risks early, setting up controls to prevent fraudulent activities and monitoring for signs of fraud over time. In conclusion, the data suggests that it is important for SMEs to optimise the impact of fraud risk management systems, SMEs should focus on educating employees, addressing scepticism, and ensuring that the frameworks are well implemented and understood across all levels of the organisation.

4.4.2.4 Fraud risk management and business continuity

The investigation assisted in establishing a nexus between a fraud risk management framework and business continuity. Business continuity refers to the business' ability to continue offering its services or products following a disruptive event or crisis. The results of the investigation are presented in figure 4.14.

The chart illustrates that 33 (32%) participants agreed and 25 (24%) strongly agreed with the assertion that a fraud risk management framework could assist an entity with business continuity. On the other hand, 8 (7%) participants disagreed and 14 (13%) strongly disagreed with the assertion. Only 13 (12%) of the participants did not know if a risk management framework could assist management with business continuity, while 11% were undecided.

A combined total of 32% agreed whilst 24% strongly agreed that a fraud risk management framework can assist with business continuity, which makes up 56% of participants in favour of this assertion. This is a strong indication that the majority of SMEs recognise the value of fraud risk management framework in ensuring that an organisation can maintain its operation in the face of fraud related risks. It can be inferred that participants who support this assertion likely understand that fraud risk management is not just about detecting and preventing fraud but also about protecting an organisation from the disruptions fraud can cause.

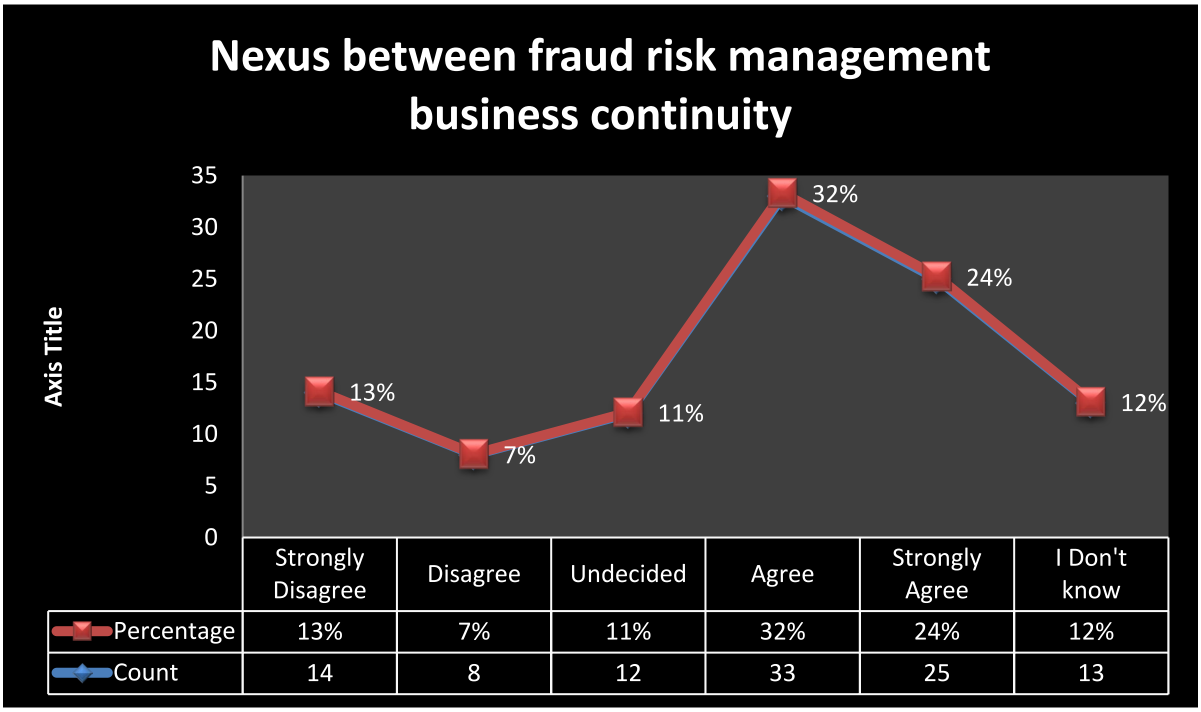


Figure 4.14: Fraud risk management and business continuity

4.4.2.5 Fraud risk management framework and regulatory compliance

For this prompt, the investigation sought to establish whether a fraud risk management framework would assist management in regulatory compliance, which is defined as an organisation's obedience towards laws, protocols, procedures, strategies and stipulations applicable to business processes (Cole, 2022). The results of the investigation are highlighted in Table 4.20.

The table illustrates that 32 (31%) of the participants strongly agreed and 31 (30%) agreed with the assertion that a risk management framework would assist management with regulatory compliance. Furthermore, only 6 (5%) of the participants disagreed and 11 (10%) strongly disagreed with the assertion. On the other hand, 12 (11%) participants were undecided or neutral, and 13 (12%) revealed that they had no knowledge about risk management frameworks being able to assist management with regulatory compliance.

Table 4.20: Risk management framework and regulatory framework

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	count	%	count	%	count	%	count	%	count	%
A fraud risk management framework would assist management with regulatory compliance	11	10%	6	5%	12	11%	31	30%	32	31%	13	12%

N = 105

4.4.2.6 Fraud risk management framework and internal compliance

This section of the questionnaire endeavoured to establish whether a fraud risk management framework would assist management with internal compliance. The results of the investigation are highlighted in figure 4.15:

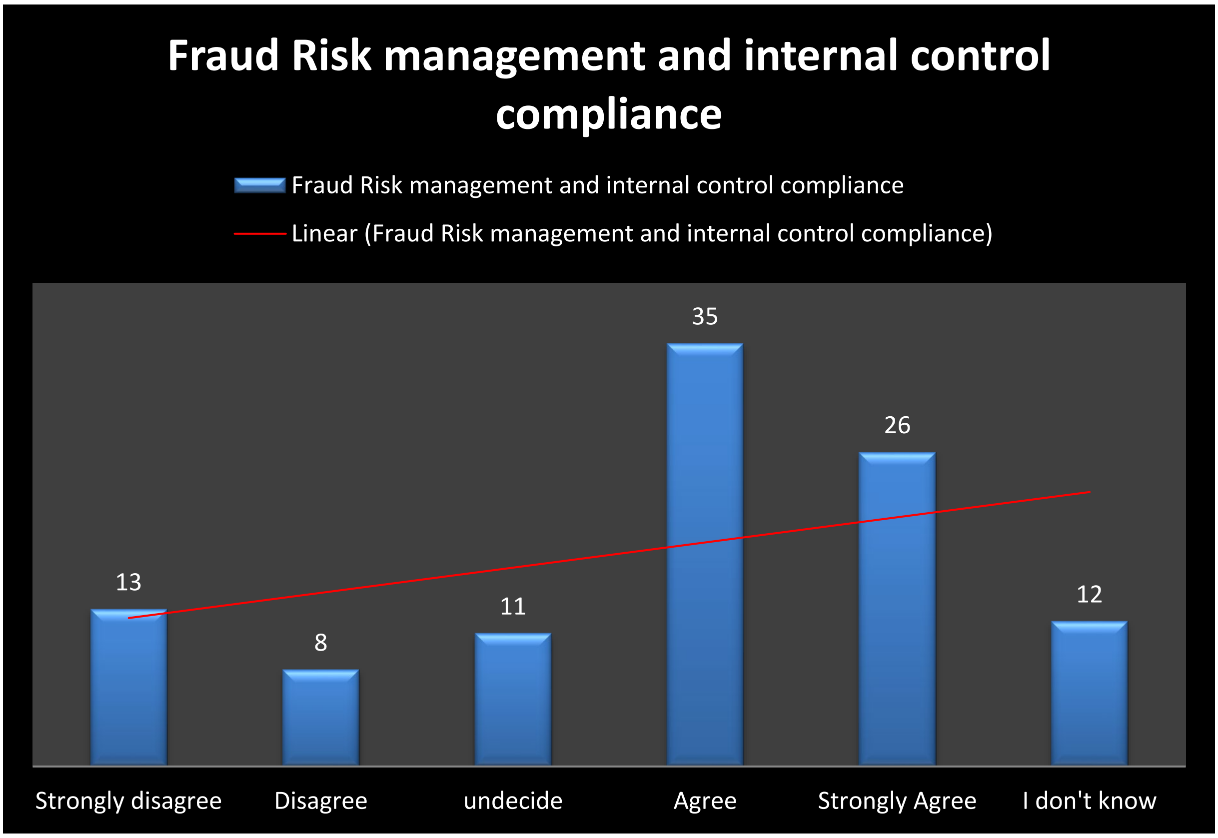


Figure 4.15: Fraud risk management framework and internal compliance

The chart reveals that 35 (34%) of the participants agreed and 26 (25%) strongly agreed with the assertion that a fraud risk management would assist management with internal compliance. On the other hand, 13 (12%) participants strongly disagreed and 8 (7%) disagreed with this assertion. In addition, 12 (11%) participants revealed that they did not know if a fraud risk management framework would assist management with internal compliance, while 11 (10%) of the participants were undecided.

The data reveals a positive perception among participants regarding the potential of a fraud risk management framework to assist SMEs with internal compliance. A combined 59% (35 agreed and 26 strongly agreed) of participants support this assertion, indicating a majority consensus on its utility. This suggests that most participants recognise the value of fraud risk management in fostering adherence to internal policies and regulations, which could be attributed to its role in mitigating risks and ensuring organisational integrity. Despite a minority of participants expressing uncertainty to the assertion, with 12% strongly disagreeing and 7% disagreeing, the data presents that SMEs require a risk management framework in order to achieve internal regulatory compliance.

4.4.2.7 Fraud risk management framework and minimising unforeseeable events

This questionnaire prompt sought to establish whether a fraud risk management framework would minimise the occurrence of unforeseeable events. The results of this investigation are presented in figure 4.16:

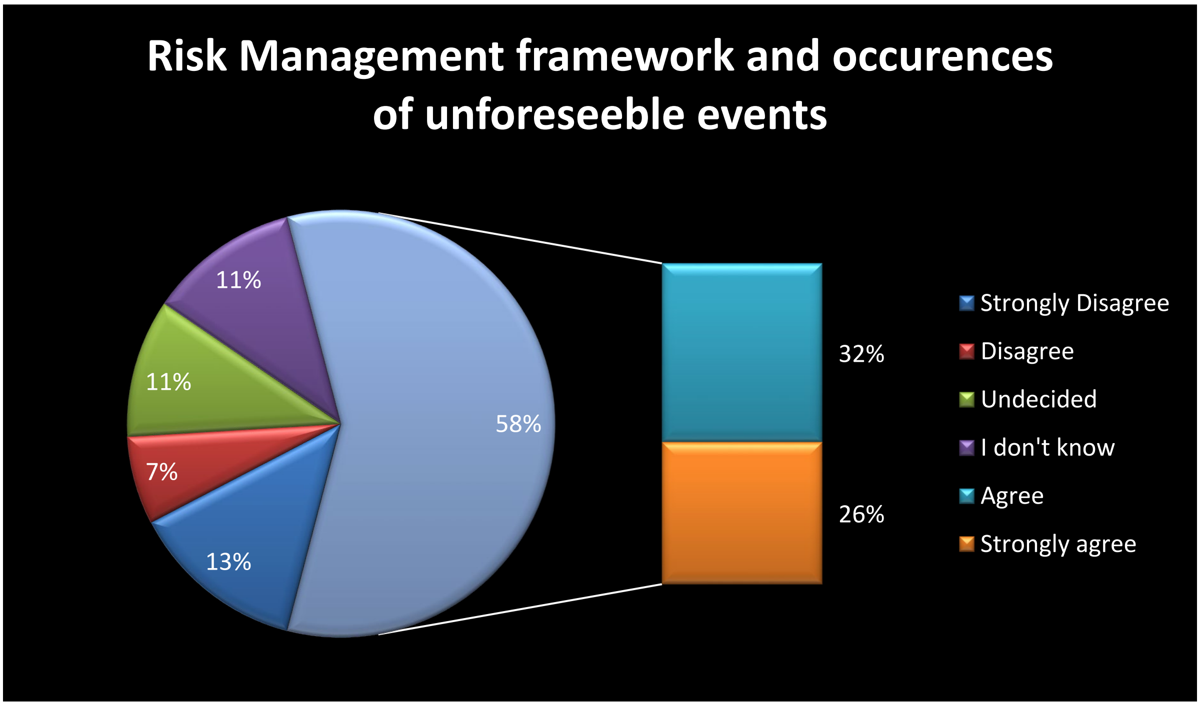


Figure 4.16: Risk management framework and occurrences of unforeseeable events

The chart shows that the majority (58%) of the participants were in support of the assertion, that is, 34 (32%) agreed and 27 (26%) strongly that a fraud risk management framework would minimise the occurrences of unforeseeable events in the company. A small number of participants, only 8 (7%) in total, disagreed and 14 (13%) strongly disagreed with the assertion. Outliers totalled to 23 (22%) participants, which is a combined responses of 12 (11%) who did not know if a risk management framework could assist in mitigating occurrences of unforeseeable events and 11 (11%) who were undecided about the assertion.

The data highlights a positive perception towards the assertion that a fraud risk management framework could minimize the occurrence of unforeseeable fraudulent events in SMEs. A significant majority of participants, 58% express support for this claim. This indicates a clear acknowledgement among most participants of the value such framework offers in enhancing SMEs predictability and stability by addressing potential risk proactively. However, a minority of participants, which is a combined 20% disagreed. This group may perceive a fraud risk management framework as either ineffective or insufficient in addressing unforeseeable events. This underscores the need for SMEs to provide targeted education, showcasing success stories and ensuring robust implementation to reinforce confidence in the framework’s capabilities.

4.4.3 Status of the organisation's fraud risk management framework

The section of the questionnaire intended to ascertain whether retails stores have a fraud risk management framework in place. The results are presented below.

4.4.3.1 Availability of a fraud risk management framework

Table 4.21 illustrates that a large number of participants, 44 (43%) in total, strongly disagreed that their organisation has a fraud risk management framework in place, while 27 (26%) disagreed with the assertion. Furthermore, only 8 (7%) of the participants agreed and 5 (5%) strongly agreed to the notion that their organisation has a fraud risk management framework in place. Nine (8%) participants revealed that they did not know, while 12 (11%) participants were neutral or undecided about the characteristics and availability of a fraud risk management framework in their organisation.

The dataset reveals a concerning trend regarding the implementation and awareness of a fraud risk management framework within the surveyed retail SMEs. A massive number of participants, a cumulative 69% disagreed to implementation of a fraud risk management framework within their organisations. This suggests a critical gap in retail SMEs approach to mitigating fraud risk. This leaves them vulnerable to fraudulent activities and related financial or reputational losses. In summary, the findings illustrate a pressing need for organisations to prioritise the establishment, communication and education around a fraud risk management framework.

Table 4.21: Status and availability of a fraud risk management framework

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	count	%	count	%	count	%	count	%	count	%
How would you characterise the status of your fraud risk management? *We have a risk management framework in place.*	44	43%	27	26%	12	11%	8	7%	5	5%	9	8%

N = 105

4.4.3.2 Implementation of a fraud risk management framework

This prompt sought to establish whether organisations plan to implement a fraud risk management framework in the near future to reduce and detect the impact of fraud on the organisation. The results of this part of the investigation are presented in table 4.22.

Table 4.22: Implementation of a fraud risk management framework

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	count	%	count	%	count	%	count	%	count	%
How would you characterise the status of your fraud risk management framework? *We do not have a fraud risk management framework in place but are planning to implement one.*	18	17%	16	15%	14	13%	33	31%	18	17%	6	6%

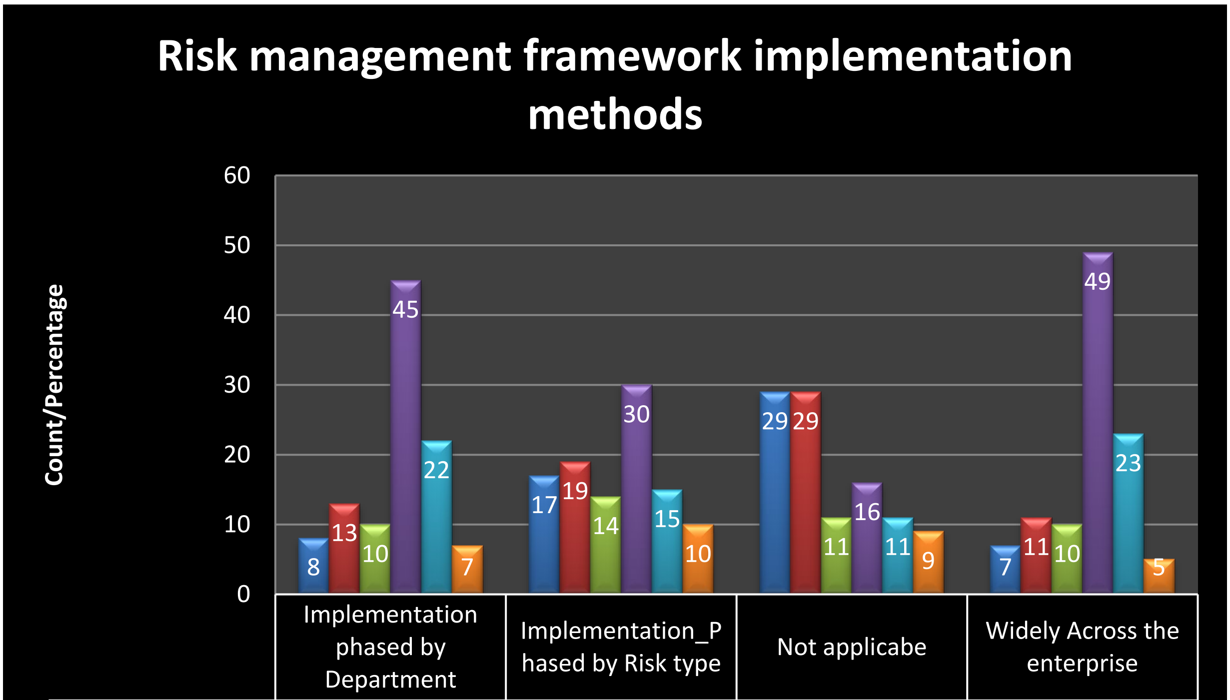
N = 105

The results of the analysis show that a significant number of participants, 33 (31%) in total, agreed with the assertion that their company does not having a fraud risk management framework in place but is planning to implement one in the near future, and 18 (17%) strongly agreed. In addition, 14 (13%) participants were undecided or neutral about the assertion. Furthermore, 18 (17%) participants strongly disagreed and 16 (15%) disagreed with the assertion that their company does not have a fraud risk management frame in place. Six 6 (6%) revealed that they did not know.

4.4.4 Fraud risk management framework implementation methods

This section assisted in assimilating and establishing the methods that can be used when implementing a fraud risk management framework. The methods assessed include the following: implementation of a fraud risk management framework phased by department or function, implementation of a fraud risk management framework phased by risk type, and non-applicable. The results of the investigation are presented in figure 4.17.

The figure illustrates that the majority of the participants chose to implement a fraud risk management framework widely across the enterprise, that is, 49 (48%) agreed with this assertion. Implementation phased by department yielded support from 45 (44%) participants who agreed with the assertion, while implementation by risk type constituted 30 (29%) of the participants who agreed in support of this method. Further research revealed that 29 (28%) of the participants strongly disagree with the assertion that a risk management framework is not applicable in their organisation.



	Implementation phased by Department	Implementation_Phased by Risk type	Not applicabe	Widely Across the enterprise
Strongly Disagree	8	17	29	7
Disagree	13	19	29	11
Undecided	10	14	11	10
Agree	45	30	16	49
Strongly Agree	22	15	11	23
I don't Know	7	10	9	5

Figure 4.17: Fraud risk framework implementation methods

4.5 Section C: Factors contributing to undetected fraud within an organisation

4.5.1 Undetected fraud and anti-fraud programmes

This section aimed to establish a link between undetected fraud issues and the absence of anti-fraud programmes. Undetected fraud refers to fraudulent activities or schemes that have not been identified or caught by the usual detection methods or internal controls within a system or organisation (Wells, 2022). The results of this investigation are presented in figure 4.18.

The majority (51%) of the participants [35 (33%) agreed and 19 (18%) strongly agreed] that the lack of anti-fraud programmes in an organisation results in undetected fraud. Only 8 (8%) participants did not know the impact of the absence of anti-fraud programmes in an organisation, while 13 (12%) were neutral about the assertion. On the other hand, 16 (15%) of the participants disagreed and 14 (13%) strongly disagreed with the assertion.

A cumulative 51% of the participants perceived a clear link between the absence of the anti-fraud program and the heightened risk of fraud going unnoticed. This aligns with established research and best practices, which emphasise that structured anti-fraud measures are instrumental in fraud detection and deterrence. On the other hand, a minority of participants (23%) vouched for retail SMEs to rely on alternative methods for managing fraud risk, such as reliance on general internal controls, ethical code, or ad-hoc interventions. This position reflect a lack of understanding of the comprehensive benefits that anti-fraud framework programs provide beyond basic detection, such as fostering the culture of integrity.

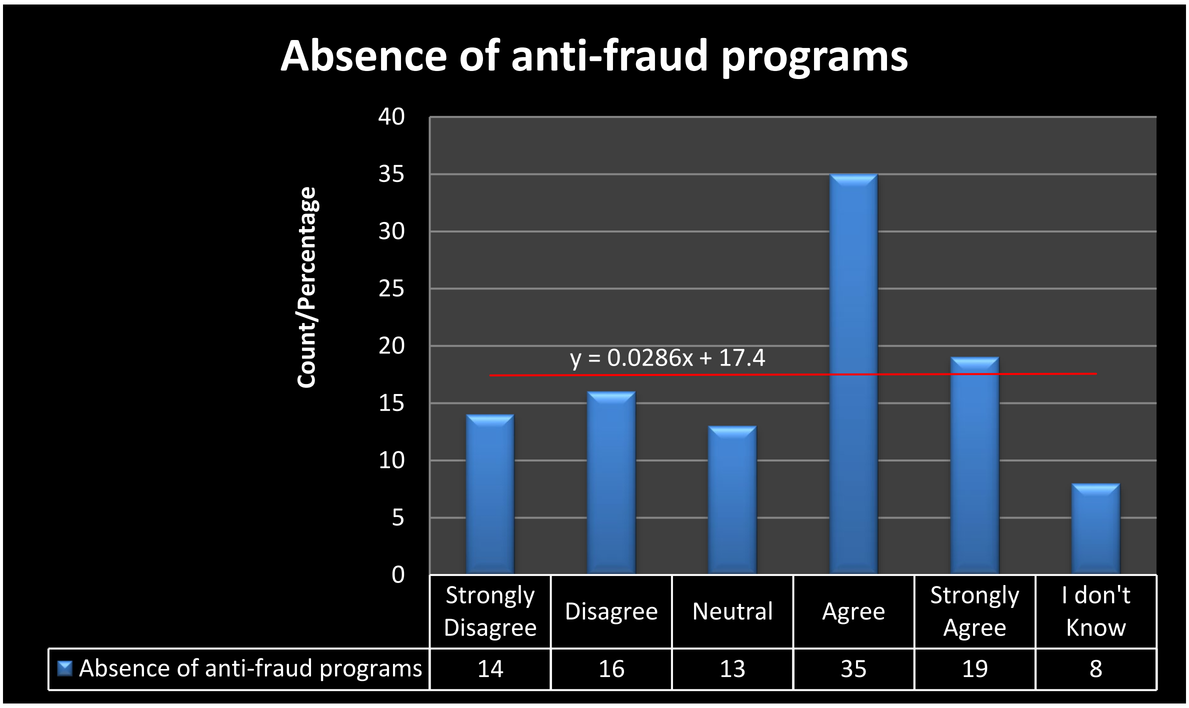


Figure 4.18: Absence of anti-fraud programme

4.5.2 Undetected fraud and fraud prevention policy

This prompt sought to establish whether the lack of a fraud prevention policy leads to undetected fraud in the organisation. Table 4.23 presents the results.

Table 4.23: Undetected fraud and fraud prevention policy

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	count	%	count	%	count	%	count	%	count	%
One of the factors contributing to undetected fraud within an organisation is lack of a fraud prevention policy	10	10%	11	10%	10	10%	41	39%	26	25%	7	7%

N = 105

A significant number of participants, 41 (39%) in total, agreed that the lack of a fraud detection policy in an organisation results in undetected fraud, while 26 (25%) strongly agreed with the assertion. Ten 10 (10%) participants strongly disagreed, 11 (10%) disagreed, and 10 (10%) were neutral about the assertion, resulting in an equal distribution.

The data highlights a strong consensus among the participants regarding the critical impacts of a fraud detection policy, on mitigating undetected fraud within organisations. A combined 64% agreed to the assertion. This majority suggest and understand that such policies play a vital role in identifying fraudulent activities that might otherwise go unnoticed, supporting the notion that proactive measures are necessary for effective fraud risk management.

4.5.3 Undetected fraud, poor communication and training

This section sought to establish a link between undetected fraud and poor communication and training in an organisation. The results of the investigation are presented in table 4.24.

Table 4.24: Undetected fraud attributed to poor communication and training

Statement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	count	%	count	%	count	%	count	%	count	%
One of the factors contributing to undetected fraud within an organisation is poor communication and training	16	15%	15	14%	13	12%	33	31%	21	20%	7	7%

N = 105

A total of 33 (31%) participants agreed and 21 (20%) strongly agreed with the assertion that poor communication and training result in undetected fraud in an organisation. Contrary to this, 16 (15%) participants strongly disagreed and 15 (14%) disagreed with the assertion. In addition, the outliers constituted 7 (7%) participants who revealed that they did not know the relationship between poor training and communication and undetected fraud, while 13 (12%) were neutral or undecided about the assertion.

4.5.4 Undetected fraud and internal control systems

In asserting that the factors contributing to undetected fraud within an organisation are linked to the inadequacy of internal control systems, the participants had differing opinions, which are presented in table 4.25. The table illustrates that a significant number of participants, 37 (36%) in total, agreed with the assertion that inadequate internal control systems leads to undetected fraud, while 24 (23%) strongly agreed with the assertion. Only 7 (7%) participants did not know the impact of inadequate internal control systems on undetected fraud. Thirteen (12%) participants strongly disagreed and 12 (11%) disagreed with the assertion that one of the factors contributing to undetected fraud within an organisation is inadequacy of internal controls. Furthermore, 12 (11%) participants were neutral or undecided about the assertion.

A significant proportion of participants, collectively accounting for 59% agreed to a nexus between inadequate of internal control systems and the occurrence of undetected fraud within retail SMEs. This consensus aligns with a broader understanding that internal controls serve as a critical defence mechanism against fraudulent activities by ensuring accountability, reducing opportunities, and enabling timely detection. A combined 23% opposed the assertion. This minority represent retail SMEs that will not fully attributes the risk of undetected fraud to weakness the internal control systems. Nevertheless, integrating internal controls with broader risk management frameworks could help address concerns and enhance their overall effectives in reducing undetected fraud.

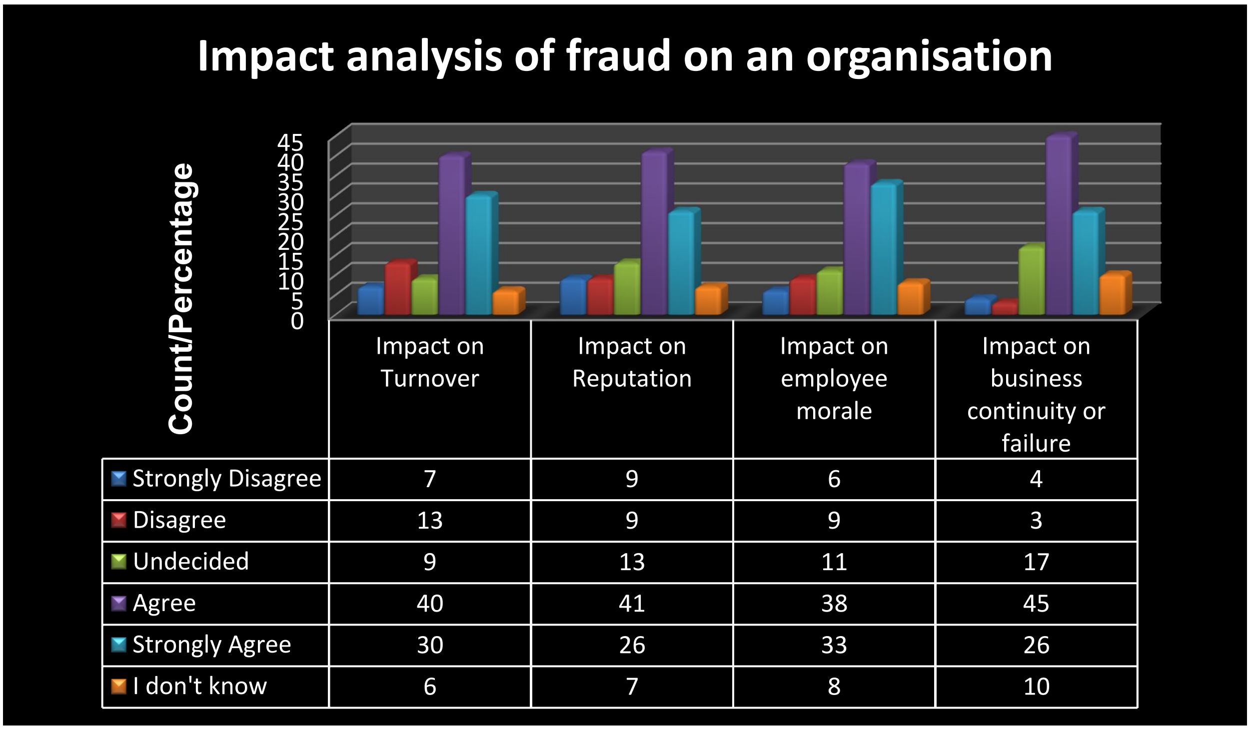
Table 4.25: Undetected fraud and internal control systems

St atement	Responses											
	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Not doing anything	
	count	%	count	%	count	%	count	%	count	%	count	%
One of the factors contributing to undetected fraud within an organisation is inadequacy of internal controls	13	12%	12	11%	12	11%	37	36%	24	23%	7	7%

N = 105

4.6 Impact of fraud on an organisation

The investigation sought to establish the impact of fraud on turnover, reputation, employee morale, and business continuity or failure. The impact of fraud on these factors differ. The results of the investigation are presented in figure 4.19:



	Impact on Turnover	Impact on Reputation	Impact on employee morale	Impact on business continuity or failure
Strongly Disagree	7	9	6	4
Disagree	13	9	9	3
Undecided	9	13	11	17
Agree	40	41	38	45
Strongly Agree	30	26	33	26
I don't know	6	7	8	10

Figure 4.19: Impact of fraud on an organisation

The figure illustrates that 45 participants agreed with the assertion that fraud negatively affects business continuity, followed by 41 participants who agreed that fraud also affects the business's reputation. The mean of the data distribution is equal to 18 responses, meaning that all responses above the quantified mean of 18, such as the strongly agree and agree clusters, reveal that fraud affects all assessed aspects immensely. Only 26 participants strongly disagreed with the assertion, while 52 participants were undecided about how fraud affects turnover, reputation, employee morale, and business continuity in their organisation.

4.7 Participants' comments on the importance of fraud risk management

As illustrated in table 4.26 below, many of the participants, 22 (21%) in total, commented that fraud risk management assists in fraud detection and reduces occurrences of fraudulent activities. This was followed by 17 (16%) of the participants who commented that fraud risk management contributes to a company running smoothly, having lower costs and higher profits. Fourteen (13%) participants commented that fraud risk management guides a company towards being internally and regulatory compliant. Thirteen (12%) participants indicated that fraud risk management prevents loss of capital, while 12 (11%) said fraud risk management provides the expected outline for the business and the employees in terms of informing all parties of the consequences of any detected fraudulent activities. In addition, 15 (14%) of the participants commented that risk management assists with lowering reputational risk and the impact on loss of revenue.

Table 4.26: Respondent comments on the importance of fraud risk management

Descriptive Statement:	**1. Importance of fraud risk management 0n an organisation.** **2. What does fraud risk management contribute to the objectives of an organisation?**	
Participants' comments	**Count**	**Percentage**
To lower reputational risk and impact of loss of revenue.	15	14%
Reduces the occurrences of fraud and it assist in fraud detection timely and avert further impact on business.	22	21%
It is important in order for the company to run smoothly, with lower costs and higher profit. The framework will also assist the company in filtering out any potential risk.	17	16%
To oversee the operations and alert management when there is unethical behaviour within the organisation.	12	11%
It prevents loss of capital caused by fraud in and out of the company.	13	12%
It provides the expected outline for the business and the employees related to fraud and therefore, informing all parties of the consequences for any detected fraudulent activities.	12	11%
It leads a company to be both regulatory and internally compliant.	14	13%
TOTAL	**105**	**100%**

4.8 Chapter summary

In this chapter, the analysis of the questionnaire was presented. Both the reliability and the correlation of the collected data were done using the Chi-square goodness of fit test and the Cronbach alpha test. Analysis of the methods to deal with fraud was discussed and graphically presented using quantitative analysis methods. In addition, the methods of implementing a risk management framework were fully analysed. A comparison was drawn between implementing a fraud risk management framework phased by department, phased by type of risk, and across the enterprise. It was found that the most effective method of implementing a fraud risk management framework is to do so across the enterprise. Comments by the participants on the importance of fraud risk management and its contribution to the objectives of the organisation, were stated. Recommendations, findings and conclusions are presented in Chapter 5.

CHAPTER 5: FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study was effected with the fundamental goal of addressing the identified research problem (refer to section 1.2) through answering the primary research question as well as the five investigative questions. These questions were aligned to the research objectives (see to section 1.3.2). The research objectives were achieved and the investigative questions were answered through an informative and empirical literature review (refer to Chapter 2) as well as an in-depth analysis of the collected data and deriving relevant findings (refer to Chapter 4).

The foundation for the research was established through conceptualising literature on the following:

- The South African retail sector (see section 2.2.4).
- Fraud and fraud risk (see section 2.3).
- The concept of risk (see section 2.4).
- Fraud risk management (see section 2.5).
- Fraud risk management framework (see section 2.6).

The literature review furthermore explained key concepts in the context of this research. In addition, the literature review was useful in developing the questionnaire, which was essential to collecting data from the owners and managers of the selected SME retail stores. The number of participants targeted in this research was 150, which was a fair representation of the total sample population of various retail SMEs located in Table View, Table Bay, Green Point, Sea Point, Century City and the Cape Town City Centre.

The analysis of the collected data was undertaken through a combination of descriptive and inferential analysis. The data was presented and discussed in Chapter 4 to draw deductions and conclusions. The main headings of the data presentation and discussion included:

- Background to the selected SME retail stores (demographics), which covered the participants, turnover of the store, number of employees in the store, highest qualification of the participants, and the location of the stores.
- Fraud risk management and policies of SME retail stores.

- Fraud risk management frameworks implemented in the context of SME retail stores.
- Status and implementation of a fraud risk management framework in SME retail stores.
- Undetected fraud and anti-fraud programmes.
- Impact of fraud on an organisation.

In making deductions and drawing conclusions from the research conducted, the problem statement, research questions and objectives, and the contribution of the study were revisited. The revisited topics were aligned to the data analysis and presentation of the results to ascertain whether the study's objectives have been attained and that the presented results were pertinent to the research study.

5.2 Research problem revisited

The research study sought to address the following research problem (refer to chapter 1, section 1.2):

Managers and owners of small retail enterprises currently operating in Cape Town do not make use of risk management framework(s) for controlling the risk of fraud within their organisations, leading to loses through fraudulent activities.

The background to the research led to the notion that managers and owners of small retail enterprises operating in Cape Town (delimitated to Century City, Table View, Sea Point, Green Point, Table Bay and Cape Town City Centre) do not make use of risk management frameworks to control the risk of fraud within their organisation, and this has resulted in financial losses through fraudulent activities. This perception was as articulated in the literature review as follows:

- SME retail stores are affected by a plethora of fraud risk classes categorised as corruption, asset misappropriation and financial statement fraud (ACFE, 2020).
- Fraud risk is high in the SME retail sector, which can be attributed to a lack of segregation of duties and undefined policies and procedures; furthermore, the risk emanates both internally and external to the organisation (Smith, 2022:293-307).

- Most SME retail stores incur huge financial losses due to fraud because of a lack of commitment in terms of prioritising risk management and fraud risk management controls within the organisation (Myemane, 2019).
- Negating the implementation of the enterprise risk management approach and relying on traditional risk management methods have limited SME retail stores' capacity to detect fraud timeously, resulting in unprecedented losses crippling most firms (McKinsey, 2018).

Fundamentally, most retail stores in Cape Town (delimitated to the selected research locations) do not implement risk management frameworks in their organisations, and this has resulted in financial and material losses. It is therefore imperative that these organisations develop and continuously apply fraud risk management controls and frameworks to minimise and deter losses.

5.3 Primary question and research objectives revisited

This study was initiated to address the identified research problem. The following primary research question was presented to assist in in finding sufficient and empirical information requisite to addressing the research problem:

> *PRQ: To what extent is a risk management mechanism used to identify, examine and monitor fraud risks within small retail enterprises operating in Cape Town?*

The primary research question aimed to establish the usage patterns of risk management frameworks in SME retail stores operating in Cape Town to manage fraud risks. Additional investigative research questions and related objectives were compiled to address and answer this research question.

5.4 Research sub-questions and research objectives revisited

This study focused on five investigative research questions (also called research sub-questions) and a complement of the respective research objectives to assist with acquiring sufficient information to address the identified research problem. The research objectives and research sub-questions were revisited in tandem. Each investigative question together with the respective objective are outlined and revisited in the sections below.

5.4.1 First research sub-question and respective objective revisited

To answer the primary research question, the first investigative question was framed as follows:

RSQ 1: What risk management frameworks are available for the mitigation of fraud risk in small business operations?

RSQ 1 was posed to achieve the following objective:

- *To investigate risk management frameworks applied by SMEs for the mitigation of fraud risk in their operations*.

SME retail stores are faced with high cases of fraud activities, leading to huge financial losses and the closure of some of the stores. Meanwhile, owners and managers of these small retail stores devote much of their time and effort chasing business profit but negating the fact that a business is an ongoing concern, hence the need to prioritise fraud risk management. It is evident from the sampled group of owners and managers that a minimal number of retail stores implement fraud risk management frameworks to mitigate losses ascribed to fraudulent activities.

Fraud risk can be either internal or external. It is therefore essential to implement a stringent risk management framework to manage fraud risk, as this type of risk is at times difficult to detect. An appropriate risk management framework will assist SMEs in communicating fraud risk effectively, as a well-communicated fraud risk management programme will enhance the level of commitment to combat fraud risk within retail stores.

Thus, a fraud risk management framework will affect thorough risk assessment, which will assist in identifying fraud, assessing the risk of fraudulent activities, and implementing corrective actions to mitigate fraud risk.

5.4.2 Second research sub-question and respective objective revisited

To answer the primary research question, the second investigative question was framed as follows:

RSQ 2: To what extent do small retail business owners and managers use a fraud risk management framework in their business operations?

RSQ 2 was posed to achieve the following objective:

- *To establish the extent to which small retail business owners and managers use fraud risk management frameworks in their business operations.*

Managers and owners of SME retails stores are not knowledgeable on the implementation of risk management frameworks. A risk management framework assists with building vibrant internal controls to further detect and minimise losses that might arise from fraud risk. Moreso, a risk management framework, if well-implemented, assists with both internal and regulatory compliance. It also goes without saying that a risk management framework contributes greatly to the continuity of a business as malicious financial losses will be mitigated in the process.

However, as per the sampled SME retail stores; there is minimal implementation of a fraud risk management framework within the organisation. This implies the need to educate SME managers and owners on the importance of implementing a fraud risk management framework as most of the participants revealed that they do not have a fraud risk management framework in place, or they do not know if their organisation has implemented a risk management approach to mitigate fraud risk.

Furthermore, the sampled SME managers and owners indicated that their firm is planning to implement a fraud risk management framework in the future, and the approach of implementation is mostly aligned to the enterprise-wide approach. In conclusion, it can be said that a fraud risk management framework is not well-implemented in SME retail stores, and this accumulates to financial losses and even closure of the business.

5.4.3 Third research sub-question and respective research objective revisited

To answer the primary research question, the third investigative question was framed as follows:

RSQ 3: Are small business owners/managers fully aware of the impact that undetected fraud events could have on the business continuation?

RSQ 3 was posed to achieve the following objective:

- *To establish if small business owners are fully aware of the impact undetected fraud events could have on business continuation.*

SME retail stores face undetected fraud issues, worsened by the absence of anti-fraud programmes and resulting in fraudulent activities. Moreover, the undetected fraud can be attributed to poor communication and training in the context of fraud risk within the retail stores. Since most of the sampled SMEs have insufficient internal control systems, it further follows that a high severity and frequency of undetected fraud can be linked to losses in the company.

The sampled SMEs stores revealed that undetected fraud has a negative on their turnover. In addition, undetected fraud affects the reputation of the organisation, which in turn entails that stakeholders such as suppliers, banks and creditors might not want to associate with the business in the future. Furthermore, employee morale is also negatively affected by incidents of undetected fraud. Thus, business continuity is endangered as undetected fraud thwarts operations and leads to financial losses, with a likelihood of business closure. It is therefore imperative to manage incidents of undetected fraud the implementation of a robust fraud risk management framework.

5.4.4 Fourth research sub-question and respective research objective revisited

To answer the primary research question, the fourth investigative question was framed as follows:

RSQ 4: What is the extent to which small retail businesses use a risk management framework as tools for the mitigation of fraud?

RSQ 4 was posed to achieve the following objective:

- *To determine the extent to which small retail businesses make use of risk management frameworks as a tool for the mitigation of fraud.*

The managers and owners of the sampled retail SMEs stores revealed that most of them do not have a fraud risk management framework in place, and this is primarily attributed to a lack of knowledge on the importance of fraud risk management and its impact on their operations. They have not implemented any robust framework to mitigate fraud occurrence or to promptly detect and manage fraudulent activities within their organisation. This means the SMEs are exposed to a high risk of financial and asset losses arising from fraud.

The situation is further exacerbated by a lack of adequate internal controls to mitigate fraud linked losses such as refund abuse, vendor theft, discount abuse, and cash register tampering, among others. It is evident that there is a need for SMEs to implement a fraud risk management framework as tool for mitigating fraud risk, which will greatly contribute to reducing the frequency and severity of fraud-linked losses.

In conclusion, it is evident that the implementation of a fraud risk management framework in SMEs as a tool to mitigate fraud risk is a new phenomenon, and many stores need to make use of experts in risk management and internal control systems to build robust fraud mitigating programmes as the SMEs cannot implement a fraud risk management framework without the requisite knowledge. Thus, from the analysis it is safe to say that most of these retail stores operate without fraud mitigation measures. Furthermore, some of the losses are not detected as there are inadequate mechanisms within the SMEs to effect risk assessments, separate evaluation, performance evaluation, and internal policy setting.

5.4.5 Fifth research sub-question and respective research objective revisited

To answer the primary research question, the fifth investigative question was framed as follows:

RSQ 5: What is the adequacy and effect of existing frameworks applied to fraud risk management within small retail businesses in Cape Town?

RSQ 5 was posed to achieve the following objective:

- *To determine whether the methods applied to fraud risk management are adequate and effective within the existing framework.*

The retail stores sampled show that a few of them has a risk management framework and additional control measures to detect fraud. The organisations are primarily relying on traditional methods of fraud risk management, which comprise aligning company strategy, company policies and internal controls. Other measures and tools such as separate evaluations, performance appraisals, and separation of duties are not fully implemented because of the lack of knowledge and expertise to implement these tools.

From the analysis and findings of this research it is evident that the methods applied in SMEs to manage fraud risks are not adequate are continued losses and occurrences of fraudulent activities are reported. In addition, some of the fraud risks remain undetected, which can be attributed to the inadequacy of control measures being implemented by the retail stores. Fraud risk remains a challenge to the continuity of SME retail stores, and therefore fraud risk management programmes are of great importance.

The sampled stores revealed that fraud risk management procedures such as risk assessment and risk analysis to detect fraud and mitigate losses are not fully implemented. This is attributed to a lack of knowledge on the importance fraud risk management frameworks, on how to implement such a framework, and the inability of the SME retail stores to hire internal control and risk management specialists. Having mentioned the above, it is vitally important for the SMEs to have risk management consultants on their staff or to outsource the services of specialist in internal controls and risk management.

In light of the challenges of fraud risks and fraud-linked losses, it is safe to infer that the retail stores who took part in the study do not have adequate and effective risk management frameworks in place as most of them revealed that they are still planning to implement robust frameworks in the future. Linking this research to several other studies on fraud risk management in SMEs across South Africa, it is imperative that retail stores take note of these studies and implement the recommendations suggested as this will greatly assist in managing their operations and implementing better risk management programmes (Asisa, 2023).

5.5 Research findings

The research findings summarised below in sections 5.5.1 to 5.5.5 were derived from the analysed data (presented in Chapter 4), based on the five investigative questions and respective objectives stated in sections 1.3. This section confirms that all five objectives (re-visited in section 5.4) have been achieved.

5.5.1 What risk management frameworks are available for the mitigation of fraud risk in small business operations?

Fraud risk management frameworks entail robust approaches, programmes and strategies backed by internal controls implemented in a business to detect, mitigate and/or combat fraud risks. Implementing a fraud risk management framework assists the company with protecting company assets, increasing profitability, and assuring business continuity. It creates a business environment that is conscious of the risk of fraud and its marauding effects on business operations and business reputation at large.

Basing on the analysis, the sampled SME retail stores are unable to combat and timely detect fraud as they lack a fraud risk management framework. Fraud risk management strategies and frameworks that small enterprises could adopt include, but are not limited to, COSO frameworks, the COBIT framework, ISO 31000, Fraud Triangle, internal controls, and a whistle blower policy.

5.5.2 To what extent do small retail business owners and managers use a fraud risk management framework in their business operations?

Risk management frameworks are key tools in combating fraud risk in the daily operations of SMEs in Cape Town. It goes without saying that most of the small retail enterprises rarely make use of risk management frameworks to managing fraud risk, which results in huge financial losses and/or eventual business closure.

The findings established as per the sampled SMEs pertaining to the implementation of fraud risk management frameworks is that SME retail stores have limited resources in terms of finances and personnel. As a result, implementing a comprehensive fraud risk management framework may not be a top priority, given the competing demands for resources. In addition, it has been established that many small retail stores rely on informal practices rather than formalised frameworks to manage fraud risks. Regular practices such cash reconciliations, oversight by the owners or managers, and informal checks and balances are not adequate to mitigate fraud risks.

The study's analysis furthermore revealed that small retail enterprises lacks external support from risk management specialists such as accountants, consultants and/or industry associations for guidance on fraud risk management. This is exacerbated by a lack of awareness and the tendency of underestimating the prevalence and impact of fraud on business operations, resulting in SMEs not prioritising a fraud risk management framework.

SME retail stores rarely follow the regulatory compliance requirements related to fraud risk management practices, and this affects the effectiveness of the fraud risk management approaches implemented by these firms. Drawing conclusions from the analysis and data presented in Chapter 4, a significant number of participants (43%) strongly agreed that their company does not have a fraud risk management framework in place, while 8% of the participants revealed they do not know whether their organisation has a risk management framework in place. This suggests that SMEs do not utilise or prioritise the use of a risk management framework in the business operations.

5.5.3 Are small business owners/managers fully aware of the impact that undetected fraud events could have on the business continuation?

Undetected fraud remains an immense challenge to SME retail stores operating in Cape Town. Major financial losses occur because of undetected fraudulent activities within the organisation, as these activities elude casual, traditional risk management methods and controls. The sampled SMEs lack anti-fraud programmes and/or fraud management policies, resulting in a negative impact on the operations of the SME retail stores.

Moreso, it has been established that the lack of a fraud prevention policy results in occurrences of undetected fraud. Drawing from the participants on the assertion of undetected fraud, an accumulated 67% of the participants were in agreement that the lack of prevention policies is a major cause of the undetected fraud within the organisation. This is aggravated by a lack of communication and training; thus, SME managers and owners are not fully informed about the impact of undetected fraud on the effective operation of the organisation. A major finding on the impact of undetected fraud is that it negatively affects turnover, reputation, employee morale, and business continuity or failure.

5.5.4 What is the extent to which small retail businesses use a risk management framework as tool for the mitigation of fraud?

Analysis of the data collected from the sampled SMEs operating in the delimited areas of the City of Cape Town has revealed that that the use of a fraud risk management framework is an essential tool for mitigating fraud in the company.

Forty-seven percent of the participants were in agreement that a fraud risk management framework can assist in improving the profitability of an entity. In addition, 56% of the participants confirmed that a fraud risk management framework can assist an organisation with fraud detection and prevention. Furthermore, most of the participants agreed/strongly agreed with the assertion that a fraud risk management framework can safeguard company assets.

Although business evaluation is also a fraud risk management tool, a mere 20% of the participants indicated that their company uses this tool. A similar result was obtained for company strategy, as only 23% of the participants stated that their company implement a company strategy as tool to mitigate fraud risk. Similarly, only 25% of the participants agreed/strongly agreed with the assertion that their company has implemented risk treatment as fraud risk management tool. This trend continues with a minimal 16% of the sampled SMEs applying performance appraisal as a tool for fraud risk management. Finally, only 25% on the participants indicated that their organisation deals with fraud by means of setting clear objectives.

Thus, in conclusion, although many participants confirmed the importance of using a risk management framework as a tool for mitigating fraud, not many of the sampled SMEs make use of these tools.

5.5.5 What is the adequacy and effect of existing frameworks applied to fraud risk management within small retail businesses in Cape Town?

In the tapestry and taxonomy of fraud in SME retail stores, it was found that huge financial losses and hindrances to business continuity are a continuous hazard and threat to small retail businesses in Cape Town. This is attributed to the inadequacy and inefficacy of the existing framework for fraud risk management within small enterprises. According to the sampled SME retail stores, approaches to fraud risk management are hindered because most of the retail stores do not follow the regulatory compliance requirements. An Interplay of inadequate control factors, professional external support and strategic fraud risk management frameworks entails that the existing frameworks applied by small retail businesses in Cape Town are inadequate and ineffective. Drawing from the analysis and presentation of data in Chapter 4, only an accumulated 12% of participants agreed that they do have a risk management framework in place in their organisation. Furthermore, the fact that these SMEs face greater challenges of undetected fraud further reveals that they do not have effective and robust risk management practices and approaches to manage fraud risk.

5.6 Recommendations

To resolve the challenges and financial losses arising from fraud risk and ensuring positive usage patterns of fraud risk management frameworks within small and medium enterprises operating in Cape Town, the following recommendations are proposed:

- There is need for owners and managers of small enterprises to prioritise training in the context of fraud risk management and internal controls for the effective and efficient running of their organisations. The training must be focused primarily on fraud risk analysis, detection and internal control factors that will reduce the impact of fraud on the organisation. The training should also involve staff members to enhance their commitment towards fraud risk management across the enterprise.
- Small enterprises should establish committees for networking and collaboration; exchange information and knowledge on enterprise risk management and define challenges such as fraud that impede on their day-to-day operations.
- SMEs operating in the retail sector should furthermore engage external expertise in risk management, such as auditors, tax practitioners and accountants for consulting services and rebuilding robust risk management frameworks and internal controls to mitigate the fraud risk.
- Managers and owners should utilise artificial intelligence to build a comprehensive fraud risk management framework that are easy to implement and affordable to SME retail stores. Such artificial intelligence-based risk management frameworks will assist in re-visiting cyber security against cyber fraud and thwarting the impact and severity of fraud losses.

- Introduce a confidential whistle blower mechanism such a hotline or email that will protect and reward whistle blowers for detecting and availing fraudulent activities within the organisation.
- Encourage SMEs authorities such as SEDA to continuously avail training programmes and financing SMEs in the context of fraud risk management.

5.7 Theoretical implications of the study

The findings of this study reinforce prior literature highlighting the resource limitation and informal strategies often employed by retail SMEs in managing fraud risks (Smith et al, 2018, Zhang & Tan, 2020). However, this study contrast with these works by revealing a growing inclination among Cape Town SMEs to incorporate technology driven fraud detection tools, a trend not previously documented in literature in the context of South African retail SMEs. Furthermore, the study extends the fraud risk management literature by introducing a context sensitive adaptation of existing fraud risk management frameworks, suggesting that SMEs are in need of robust and well-articulated frameworks to mitigate risks. The risk management framework to be adopted by retail SMEs must be well aligned with socio-economic dynamic issues and environment. These theoretical insights underscore the importance of contextualising fraud risk management strategies within specific regional and industry context, contributing to a better understanding of SMEs risk behaviour globally.

5.8 Areas of further research

This research was limited to small retail enterprises operating in Cape Town as explained in 3.14. Only responses from retail business owners and staff members in a managerial position of a clothing store, supermarket, convenience store, mobile store and street traders were considered since they are deemed knowledgeable about fraud risks affecting their business.

In undertaking this research, areas for further research were identified and include, but are not limited to:

- Investigate the long-term impact and sustainability of fraud risk management initiatives by SMEs.
- Evaluate the effectiveness of training and education programmes on fraud awareness and prevention in SMEs.
- Investigate the integration of fraud risk management frameworks with broader corporate governance practices in SMEs.

- Explore the nexus between enterprise risk management and fraud risk management frameworks as implemented in SMEs.
- Analyse the effectiveness of internal controls being implemented by SMEs in combating fraud risk.
- Investigate the possible implementation of artificial intelligence-based risk management frameworks in mitigating fraud losses in SMEs.

The above research avenues could contribute greatly to the scientific body of knowledge and further enhance fraud risk management practices within SMEs operating in the South African retail sector as well as across the globe. The avenues could further serve as a guideline to the managers and owners of stakeholders regarding the priority of implementing of fraud risk management framework to mitigate fraud risk in their organisations.

5.9 Conclusion

This research focused on the usage patterns of fraud risk management frameworks by SMEs operating in Cape Town. The sector of focus comprised retail stores. Small and medium enterprises are defined as small businesses operating in various sectors of the economy. These businesses contribute greatly to economic growth globally and in South Africa. SMEs create employment, produce domestic products, and are good grounds for innovative ideas in the business arena. It is imperative that SMEs are supported financially since they are resilient, and contribute 30% to the GDP, and provide employment to more than 70% of the populace.

SMEs face a plethora of risks that hinder their full potential and top of the list in terms of fraud risk, resulting in asset and financial losses. Fraud risk leads to occurrences of unanticipated losses, be it financial, reputational or material, and can include internal and/or external fraudulent activities, caused by staff or external business stakeholders, respectively. Such losses affect an SME’s capacity in terms of business continuity and sustainability as most of the business eventually closes down due to exacerbated losses from fraudulent activities. Major fraudulent activities affecting the operations of SMEs include occupational fraud (which involves corruption}, asset misappropriation, and financial statement fraud. More so, SMEs are affected by corporate retail fraud activities such as staff theft, supplier and warehouse crimes, and customer theft. Thus, SMEs are inundated by fraud risk and as such, the research study revealed the importance of SMEs implementing a robust risk management framework to mitigate losses.

In light of the reported losses attributed to fraudulent activities within SMEs in the retail sector, it stands to reason that these firms operate without adequate internal controls and fraud risk management approaches. The sampled SMEs revealed that some of the fraudulent losses remain undetected, and this has an enormous impact on turnover, profitability and company assets. Against the backdrop of a dwindling South African economy and the aftereffects of COVID-19 to the economy, SMEs face a tall order to sustain operations as they are internally affected by fraud. This therefore suggests that SMEs need to pursue the implementation of fraud risk management frameworks such as COSO, COBIT and ISO 37001.

A fraud risk management framework will assist in assessing, analysing and setting up appropriate strategies and programmes to reduce the effects of fraud on firms. Additionally, SME stakeholders such as managers and owners are required to commit to training their staff on fraud and fraud risk management and instilling a no-fraud tolerance attitude within the organisation. Furthermore, inadequate internal controls and a lack of professional expertise on fraud risk and risk management add to the challenges faced by SMEs in managing fraud risk. Concluding from the analysis of data collected form the sampled SMEs, traditional approaches to fraud risk management such as cash reconciliations, working on trust, and the separation of duties are deemed ineffective. Robust controls such as stress testing, separate evaluation, company strategy setting, policy setting, and performance appraisal need to be implemented to detect fraud. In addition, the need for internal and regulatory compliance in the context of fraud is lacking, which further enables fraudulent activities to occur continuously in SMEs. Empirical evidence has confirmed that SMEs do not implement effective internal controls and fraud risk management frameworks in their operations.

The research findings and recommendations of this study confirm that the research was indeed necessary and relevant. The outcomes encourage SMEs owners and managers to utilise fraud risk management frameworks effectively to mitigate losses from fraudulent activities. The research also enlightens SMEs stakeholders on the various types of fraud risk faced by SMEs as well as the mechanisms that can be implemented to detect fraud and manage its impact on reputation, company assets and revenue. In conclusion, managers and owners of SMEs need to prioritise the implementation of fraud risk frameworks and robust fraud mitigation tool to ensure business continuity of their organisations.

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APPENDIX A: QUESTIONNAIRE

RESEARCH QUESTIONNAIRE

Dear participants

I would like to invite you to participate in a research study entitled "**Usage patterns of the fraud risk management framework within Small Retail enterprises operating in Cape Town".**

RESEARCHER'S DETAILS		
Surname	Efile	
First Names	Jonathan	
Student number	215013638	
Tel. (W)	**Cell**	**E-Mail**
	+27624464105	Jonathanefile9@gmail.com
CONFIDENTIALITY AND ANONYMITY		
Your participation in this research project is voluntary. You may decline altogether or leave blank any question that you do not wish to answer. There are no known risks to participation beyond those encountered in everyday life. Your responses will remain confidential and anonymous. Data from this research will be kept under a locked room and only report them as a collective combined total. No one other than the researchers involved in this study, will know your individual answers to this questionnaire.		
HOW TO COMPLETE THIS QUESTIONNAIRE		
This survey consists of mostly closed-ended questions which you are required to fill in a numerical digit and/or mark an 'x' in the most appropriate boxes as indicated under each section. For clarity, instructions are provided for each question under each section. If you do not understand a specific question, please feel free to contact either the researcher and/or supervisor indicated on this front page. By completing and submitting this survey questionnaire, you are providing informed consent to participate in the research.		
PRIMARY OBJECTIVE OF THIS SURVEY		
The purpose of this survey is to collect data that will assist the researcher in investigating the usage patterns of the fraud risk management framework that are currently in use within Small and Medium Enterprises (SMEs) that are specifically operating in the retail sector. This research is for academic purpose and is carried out as a full fulfilment for		

award of Master’s Degree in Internal Auditing in the Faculty of Business at the Cape Peninsula University of Technology

SECTION A: BUSINESS IDENTIFICATION			
1) In which business sector do you operate?			
2) How long has your business been in existence?			
___________ years			
3) How many staff members are hired by your business?			
___________ number			
4) What is your occupation / position in your organisation (please indicate with an (X) as per options below):			
Owner		Manager	
Owner and manager		Other	
If other please specify			
5) How long have you been occupying this position?			
6) What is your highest level of education?			
A. Matric Certificate		D. Degree	
B. Higher Certificate		E. Master’s Degree	
C. Diploma		F. Doctorate	
7) Where is your business located? Please indicate with an (X)			
A. Cape Winelands		D. City of Cape Town	
B. Central Karoo		E. Overberg	
C. Garden Route		F. West Coast	
8) What is your annual turnover; please indicate with an (X)?			
R0–7499999		R7500000–R2499999	
R2500000–R79999999		R80 000000 or more	

SECTION B: RISK MANAGEMENT BY SMALL RETAIL ENTERPRISES

Please read the following statements and indicate your preference according to the legend below:

Legend

1	2	3	4	5	6
STRONGLY DISAGREE	DISAGREE	UNDECIDED	AGREE	STRONGLY AGREE	NOT DOING ANYTHING

9) Statement: **My organisation deals with the risk of fraud by means of:**		DEGREE OF PREFERENCE					
(Please indicate with an (x) in the appropriate column per item)		**1**	**2**	**3**	**4**	**5**	**6**
9.1	Code of ethics (a set of rules or principles that give guidelines to employees)						
9.2	Risk policies and procedures						
9.3	Risk appetite setting						
9.4	Risk analysis						
9.5	Risk evaluation						
9.6	Company strategy						
9.7	Risk treatment (s)						
9.8	Setting of clear objectives						
9.9	Implementing controls to reduce the impact of risks						
9.10	Timely communication of risks						
9.11	Consulting risk management experts						
9.12	Conducting performance appraisals regularly						
9.13	Performing separate evaluations						
10) These factors motivate me to implement a fraud risk management framework:							
Please mark with an (X) 1= Strongly disagree, 2= Disagree, 3= Undecided, 4= Agree, 5= Strongly agree, 6= I don't know		**1**	**2**	**3**	**4**	**5**	**6**
10.1	Minimise cost						

10.2	Maximise profit						
10.3	Reliable business information						
10.4	Safeguarding of assets						
10.5	Regulatory compliance						
10.6	Fraud prevention and detection						
10.7	Continuity of operation						
10.8	Internal compliance						
10.9	Minimise the occurrence of unforeseeable events						
11) How would you characterise the status of your fraud risk management framework? Please indicate with an (X) 1= Strongly disagree, 2= Disagree, 3= Undecided, 4= Agree, 5= Strongly agree, 6= I don't know							
	Statement: To adequately and effectively manage fraud risks:	**1**	**2**	**3**	**4**	**5**	**6**
11.1	We have a fraud risk management framework in place						
11.2	We do not have a fraud risk management framework in place, but are planning to implement one						
11.3	We do not have a fraud risk management framework in place and are not planning to implement one						
12) How do you implement or plan to implement fraud risk management? Please indicate with an (X) next to the answer of your choice.							
		1	**2**	**3**	**4**	**5**	**6**
12.1	Widely-across the entire enterprise						
12.2	Phased-by department/function						
12.3	Phased-by type of risk						
12.4	Phased – other						
12.5	Not applicable						

12.6 If other, please specify

……………………………………………………………………………………………………
……………………………………………………………………………………………………

SECTION C: FACTORS CONTRIBUTING TO UNDETECTED FRAUD WITHIN AN ORGANISATION							
13) Please indicate with an (X) 1= Strongly disagree, 2= Disagree, 3= Undecided, 4= Agree, 5= Strongly agree, 6= I don't know							
		1	**2**	**3**	**4**	**5**	**6**
13.1	Absence of anti-fraud programme						
13.2	Lack of fraud prevention policy						
13.3	Poor communication and training						
13.4	Inadequate internal control system						
13.5	Absence of plan of action to respond to fraud						

13.6 If other, please specify

……………………………………………………………………………………………………
……………………………………………………………………………………………………

14. Impacts of fraud on an organisation							
Please indicate with an (X) 1= Strongly disagree, 2= Disagree, 3= Undecided, 4= Agree, 5= Strongly agree, 6= I don't know							
		1	**2**	**3**	**4**	**5**	**6**
14.1	A decline in revenue						
14.2	Reputation damage						
14.3	Lower employee morale						
14.4	great contribution to business failures						

15) Why is fraud risk management important?

15.1 Why is it important for an organisation to have a fraud risk management framework?

……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………

15.2 What contribution (s) does fraud risk management framework make to an organisation's objective (s)?

……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………

SECTION D: Thank you for your participation
Thank you for participating in this study, if you would like to get feedback on the outcome, please email me at 215013638@mycput.ac.za / Jonathanefile9@gmail.com

APPENDIX B: CPUT ETHICAL CLEARANCE

Cape Peninsula University of Technology

P.O. Box 1906 | Bellville 7535 Symphony Road Bellville 7535 South Africa

Tel: +27 21 4603291

Email: fbmsethics@cput.ac.za

Office of the Chairperson Research Ethics Committee	FACULTY: BUSINESS AND MANAGEMENT SCIENCES

The Faculty's Research Ethics Committee (FREC) on **02 March 2021**, ethics **APPROVAL** was granted to **Jonathan Ebombo Efile (215013638)** for a research activity for **Master of Internal Auditing** at Cape Peninsula University of Technology.

Title of dissertation / thesis / project:	**Usage patterns of the fraud risk management framework within Small Retail enterprises operating in Cape Town** Lead Supervisor (s): Dr J. Dubihlela

Decision: APPROVED

Signed: Chairperson: Research Ethics Committee	16 MARCH 2021 Date

The proposed research may now commence with the provisions that:

1. The researcher(s) will ensure that the research project adheres to the values and principles expressed in the CPUT Policy on Research Ethics.

2. Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study requires that the researcher stops the study and immediately informs the chairperson of the relevant Faculty Ethics Committee.

3. The researcher(s) will conduct the study according to the methods and procedures set out in the approved application.

4. Any changes that can affect the study-related risks for the research participants, particularly in terms of assurances made with regards to the protection of participants' privacy and the confidentiality of the data, should be reported to the Committee in writing accompanied by a progress report.

5. The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study. Adherence to the following South African legislation is important, notably compliance with the Bill of Rights as provided for in the Constitution of the Republic of South Africa, 1996 (the Constitution) and where applicable: Protection of Personal Information Act, no 4 of 2013; Children's act no 38 of 2005 and the National Health Act, no 61 of 2003 and/or other legislations that is relevant.

6. Only de-identified research data may be used for secondary research purposes in future on condition that the research objectives are similar to those of the original research. Secondary use of identifiable human research data requires additional ethics clearance.

7. No field work activities may continue after two (2) years for Masters and Doctorate research project from the date of issue of the Ethics Certificate. Submission of a completed research ethics progress report (REC 6) will constitute an application for renewal of Ethics Research Committee approval.

Clearance Certificate No | 2021_FBMSREC_013

APPENDIX C: CONSENT LETTER

Cape Peninsula
University of Technology

Dear potential participant,

I would like to invite you to participate in a research study entitled "**Usage patterns of the fraud risk management framework within Small Retail enterprises operating in Cape Town**".

The purpose of this survey is to collect data that will assist the researcher in investigating the usage patterns of the fraud risk management frameworks that are currently in use within Small and Medium Enterprises (SMEs) operating specifically in the retail business sector. This research is conducted for academic purpose and is carried out as full fulfilment for award of Master's Degree in Internal Auditing in the Faculty of Business and Management Sciences at the Cape Peninsula University of Technology.

There are no known risks to participation beyond those encountered in everyday life. The researcher pledge that all the survey data will be aggregated, and organisational information will be treated with the strictest confidence; and that you are under no obligation to participate. All the information obtained will be used for research thesis and research publication purposes only. The final report will not include any identifying information of your organisation. Your participation in the research project will be most appreciated.

Your participation will consist of responding to the questionnaire of this study, which should take you approximately 10 - 15 minutes to complete.

For any query, please contact the researcher, Jonathan Efile, on 0624464105 or email at jonathanefile9@gmail.com.

If you consent to participate in this study, please sign this letter to indicate that you have consented voluntarily to participate in this research study.

Name of the enterprise:…..

Respondent's Signature:…………………………………

Date...................

Re: Permission Letter

Dear Sir/Madam

Please note that Mr. Jonathan Efile, CPUT Master Student, has the permission of ………………………………….to conduct a research survey questionnaire entitled "**Usage patterns of the fraud risk management framework within Small Retail Enterprises operating in Cape Town**".

If you have any query, please contact me on ……….............................. between ……………… and ………….

Signed…………………………………………

APPENDIX D: SIMILARITY REPORT

Masters 19 Jun

ORIGINALITY REPORT

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13 June 2024

JONATHAN EBOMBO EFILE
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CERTIFICATE - EDITING OF MASTER'S THESIS

I, the undersigned, herewith confirm that the editing of the Master's thesis of **Jonathan Ebombo Efile**, *"USAGE PATTERNS OF THE FRAUD RISK MANAGEMENT FRAMEWORK WITHIN SMALL RETAIL ENTERPRISES OPERATING IN CAPE TOWN"* has been conducted and concluded.

The finalised dissertation was submitted to Jonathan on 13 June 2024.

Sincerely

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