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Independent College

*“The importance of internal controls and process management as a tool
to develop small and medium companies”*

Franciele Goncalves de Pádua

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Supervisor: Declan Faughey

Nov 2022

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ABSTRACT

In a highly competitive world, companies must have processes that are clearly linked to their strategies, and internal controls help to promote efficiency, reduce the risk of asset loss, and ensure the reliability of financial statements and compliance with laws and regulations. Thus, successful organizations define performance measures that direct attention, identify and communicate success, foster organizational learning, and serve as a foundation for evaluation and reward. To be a high performer, organizations must examine their customers and all business stakeholders critically to determine how well they are meeting their needs, as well as continuously improving their services through asset accumulation, value creation, service quality and flexibility, and internal control. The perception of this tool as an essential component of business strategy remains a challenge for medium-sized businesses. The goal of this study is to learn about internal controls and how they are perceived by employees in medium-sized businesses in Ireland. The survey had 97 respondents and collected data via an online questionnaire, which was then analyzed using descriptive statistics. The findings show that, while most businesses have some basic internal control processes in place, there are still significant gaps to be filled, such as the clear design of communication flows, the establishment of internal processes, and clearer control guidelines.

Key words: Internal Control, Organizational Performance, Small and medium-sized enterprises

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CHAPTER 1 - INTRODUCTION

1.1 Introduction Background of research

While the severity of corporate accounting failures has increased across different sizes of companies, there has also been an increase in concerns about standards and guidelines to help organizations improve their corporate governance.

Despite their disparate origins, these standards and guidelines share a common thread in the principle of good corporate governance, which, by definition, necessitates effective internal control systems.

In a highly competitive world, companies must have processes that are clearly linked to their strategies, and internal controls help to promote efficiency, reduce the risk of asset loss, and ensure the reliability of financial statements and compliance with laws and regulations. Thus, successful organizations define performance measures that direct attention, identify and communicate success, foster organizational learning, and serve as a foundation for evaluation and reward. To be a high performer, organizations must examine their customers and all business stakeholders critically to determine how well they are meeting their needs, as well as continuously improving their services through asset accumulation, value creation, service quality and flexibility, and internal control.

Internal control enables the company to protect shareholders' investments and the company's equity. As a result, the company is constantly evolving. And, given that profits are, in part, the reward for successful risks, the goal of internal control is to assist in appropriately managing and controlling risk, rather than to eliminate it.

The perception of this tool as an essential component of business strategy remains a challenge for medium-sized businesses. The goal of this study is to learn about internal controls and how they are perceived by employees in medium-sized businesses in Ireland.

1.2 Rationale for the study

The goal is to investigate how internal controls and process management can be used to help small and medium-sized businesses develop, monitor, and control themselves. The Central Statistics Office (CSO) reports that there are 248,344 active Small, Medium, and Enterprises in Ireland. (Undated Association).

Unfortunately, it was discovered that due to a lack of information, employees in a portion of small and medium-sized businesses are unaware of the importance of internal controls. Most people, for example, have never heard of this topic or had it explained to them why certain processes must be strictly enforced.

I bring this up because, in my experience, many small/medium-sized businesses that I worked for in Brazil and Ireland do not have adequate internal controls or do not adequately transmit and explain the importance of adhering to them to employees.

Many people believe that internal controls and management processes should only be used by large corporations. This thought could have resulted from a lack of knowledge.

Given this scenario, I'd like to investigate and comprehend how internal controls and process management can improve efficiency, reduce risk, and profit the small business scenario.

Furthermore, I'd like to demonstrate the importance of these management mechanisms in influencing the failure of small and medium-sized businesses.

1.3 Statement of the research objectives

The literature research calls to several questions about how the object can be seen in each face of discipline that involves it, such as:

“How internal controls and process management contributes as a tool to develop small and medium companies?”

- Determine how internal controls are perceived and implemented

- Learn how midsize businesses use internal controls.
- Make recommendations on how internal controls can add value to the company's strategic goals

1.4 Information gathering & data collection

The target population for this study was workers from medium-sized businesses from various areas who lived in Dublin and approached the workers from small and medium enterprise. The questionnaire was also made available online.

Due to the research's goal of considering a specific sample, which was based on a snowball of contacts, we used non-probabilistic sampling by volunteering.

Expected Outcomes of the study

The expected outcomes of this research are to consolidate insights on how medium-sized businesses can use internal control tools as an ally to achieve their strategic goals. Employees must understand the importance of these.

1.5 Chapter by chapter Overview

This study is divided into five chapters, with the first, which concludes here, proposing to present the research proposal and its justification for carrying it out.

The second chapter contains a review of the literature on important topics related to the subject of study.

The methodological process is addressed in Chapter 3. The main findings and discussion are presented in Chapter 4. The fifth chapter concludes with conclusions, limitations, and recommendations.

CHAPTER 2: LITERATURE REVIEW

2.1.Internal controls

Companies can use a variety of tools to achieve effective and successful management. These tools are not only used by large corporations like multinational corporations; small and medium-sized businesses can also benefit from management tools that promote scale and standardized their processes.

Internal controls are processes used by businesses to ensure that organizational goals are met on a consistent basis in order to ensure operational efficiency. These controls affect all departments within an organization, not just the finance department. Internal controls are known to assist management and properly control risk, rather than eliminate it.

Hightower defines internal controls as "a set of activities, indicators, and interconnected procedures used to ensure compliance with management acts and to compete so that the established objectives and goals are met" (Hightower, 2009).

According to the framework enforced in the United Kingdom, internal controls within a company are essential for risk management in order to protect the company's assets (Council, 2005). Effective financial controls are an essential component of internal control because they aid in the prevention of financial risk and the detection of fraud. Internal control is defined as a company's support for its strategy in risk management (Page & Spira, 2005)

According to Graham (2015), the Committee of Sponsoring Organizations established a framework in 1985 to assist companies with control system evaluations. For this assessment, the Internal Control—Integrated Framework identifies five relevant components. According to the framework used in the United States, a company must evaluate its controls using the Control environment areas; risk assessment; control procedures; information and communication; and monitoring.

Controls can be built around procedures that are financially risky. According to the Cadbury Report, effective internal control is critical to the business's operation (Governance, 1992).

Internal controls are directly related to company risk management and the going concern concept, which aims to protect all of a company's tangible and intangible assets, according to the sources cited above, such as (Page & Spira, 2005), (Governance, 1992), and (Council, 2005).

Internal control is a tool used by administrators to exercise control over all acts performed and facts that occurred within the entity. It is a precautionary, inspection, and verification tool.

Accounting is the primary means of control available to an administration, but the internal control system extends beyond issues directly related to the accounting and finance departments. As a result, all administrative records, books, files, and other instruments are considered internal control instruments.

It is critical to maintain reasonable and accurate records of all transactions in the form of ledger books, records, and all account details (King, 2011).

Because directors are always aware of the company's situation, companies that manage business risks with relevance are more likely to succeed.

Potential uncertainties that arise during the various stages of an activity are referred to as business risks. These uncertainties are caused by external or internal factors such as market, reputation, credit, financial, and strategic risk, which can result in a loss or prevent the continuation of a productive activity.

Any company that is expected to meet its financial obligations on time is considered a going concern. This concept is based on the absence of any imminent threat of liquidation, which is typically a period of 12 months or an accounting period designated by the company (Bragg, 2022).

"A "going concern" is any entity whose management does not intend to liquidate or cease operations" (Council, 2013).

2.1.1 Risk management

Risk management seeks to provide an accurate analysis of the company in order to aid decision-making and reduce the risks to which the company may be exposed. (Kurt J. Engemann, 2012) defines an event as any incident that has a significant impact on the organization.

With the guidance, the company can calculate threats, assess risks, and develop action plans, such as having access to accurate information about potential business risks allows management to accurately calculate capital needs.

A risk management plan also works to improve processes, lower operating costs, and boost operational efficiency, such as integrated financial information, operational control, cost and fraud reduction, information flow optimization, accurate and timely information, and rework elimination.

According to Cooper et al. (2005), risk management in general assists managers in defining their priorities, better allocating resources, and implementing processes and actions aimed at reducing the risk that the company will not achieve its objectives. This management produces better results and facilitates decision-making.

One of the benefits of using the risk management approach, according to the authors (Kurt J. Engemann, 2012) and (Cooper, et al., 2005), is that it aids in decision making because the goal of management is to use the benefits of the risk approach to avoid any unfavourable circumstances.

2.2. Management of Finance and Strategy

Strategic financial management aids in the maintenance of a company's finances, analyses, forecasts, and planning. These subjects are part of a management process that requires research and sound decision-making. A company that is solely focused on profit may face significant challenges if it does not focus on the financial side.

Strategic management necessitates developing a plan and identifying goals, deadlines, budgets, standards, and risk assessment to determine which path to take.

Planning entails a thorough examination of the company's potential, weaknesses and strengths, customer products, internal processes, and so on.

The budget is one of the most important plans that a business must adhere to. The first step in determining how and how much to invest in a specific project is to plan for cash.

A budget is an essential tool for combining multiple activities into a single plan, as well as for strategic planning. Working on a budget within the company is like following a map; they aim to keep the business healthy and competitive.

"Budgeting is a process of planning with a logical beginning and end" (Smeur, 2007).

Budgeting is viewed as a short-term plan that helps managers run the business and achieve its business strategic goals. Understanding budgeting necessitates knowledge of strategic planning. A strategic plan is typically divided into two parts, according to (McLaney & Atrill, 2020): short-term business planning and long-term business planning. The short one in this case is called a budget, and it is expressed in financial terms and lasts a year.

According to (Sangster & Wood, 2018), "by integrating strategic planning and budgeting, managers can reach a consensus about the trade-offs between short-term financial performance and long-term benefit." Budgeting, rather than just short-term planning, may be associated with long-term planning, according to the first author.

Budgeting can be beneficial to businesses in a variety of ways. For example, it can assist managers in comparing results to determine if there was a problem with those plans and whether a correction is required or not so that the business can meet its objectives. An example would be an unnecessary stock purchase. Budgeting also enables managers to identify potential problems and how to avoid them.

In order to create a budget, several steps must be taken, beginning with Step 1: Determine who will be in charge of budget creation. Step 2: Inform the appropriate managers about the budget guidelines.

Step 3: Identify the constraint. Step 4: Make a budget for the limiting factor area; Step 5: Make draught budgets for the remaining areas. Step 6: Review and coordinate budgets. Step 7: Create master budgets. Step 8: Make budgets available to all stakeholders. Step 9: Monitor progress in relation to the budget.

2.3.Decision-making

The process of selecting an alternative from among those that are currently available is known as decision-making. According to (Mukherjee, 2021), decision-making in a corporate setting is associated with choosing a path that leads to the best results, in a strategy and business objectives:

"Decision-making is central to management." It is a critical component of strategic management in which we establish goals and priorities, develop a plan to achieve the goals, and allocate resources for the various tasks to be completed (Shyama Prasad Mukherjee, 2021, p4)."

The primary goal of decision making is to try to reduce the uncertainties in the business in order to achieve financial growth and remain competitive in the market.

2.4 Difficulties in putting internal controls in place in small and medium-sized businesses

Many businesses have suffered massive losses and gone bankrupt in recent years as a result of failing to implement internal control systems. The internal control system is a critical process that business leaders use to improve their organization's operational goals, operational effectiveness, corporate existence, and competitiveness. The size and age of a company are two important determinants of internal control weaknesses (Aladejebi, 2017).

Internal control deficiencies are common in small businesses. Most internal control deficiencies can be attributed to insufficient accounting resources. Other causes of internal control deficiencies include a lack of qualified personnel, poor revenue recognition policies, and insufficient segregation of duties. For SMEs, the internal control unit is critical. The separation of duties is one of the most important aspects of a good internal control system. Because of limited staff and resources, most small businesses cannot afford to separate duties. Profitability and business continuity suffer as a result of a lack of internal control. Because most small business leaders have no more than five employees, they must pay close attention to internal controls. Internal control relies heavily on the separation of duties (Moldof, 2014).

Small businesses, in comparison to larger corporations, are more likely to disregard the establishment of internal controls that can prevent costly losses. Small business leaders are more likely to discover asset insecurity in companies where a single employee is in charge of finances. Human resources are a factor influencing the effective implementation of internal control policies in SMEs. Companies are underinvesting in internal control as a result of pressures to cut costs and protect profits (Aladejebi, 2017)

CHAPTER 3 :METHODOLOGY

3.1.Theoretical Paradigm / Philosophy employed

This is a quantitative analytical and cross-sectional survey study, which is defined as a type of research in which data and information are gathered from the characteristics and opinions of groups of people.

Descriptive, exploratory research with a quantitative approach, of the survey research type, characterized by direct questioning of people with the goal of learning about their behavior.

Using an inductive method paradigm for the analysis of the research object.

3.2. Justification for the adoption of method

According to Minayo & Minayo Gomez (2003), "no method is better than the other, the method, 'path of thought,' that is, the good method will always be the one capable of leading the investigator to the answers to his questions."

The current work arose from survey research as well as a bibliographic investigation of authors who discuss issues that comprise the main thematic axis. The exploratory nature of the research focuses on increasing familiarity with the studied phenomenon by utilizing elements related to the research theme to enable new understandings and qualitative and/or quantitative data on it (Minayo & Minayo Gomez, 2003).

The method was chosen based on the circumstances of the intended goal, as well as an evaluation of the project's feasibility, as the application of different methods was impracticable at this time, place, and circumstance.

When observing the nature of a non-probabilistic sample, a survey has a high potential for raising initial hypotheses, but it also has a high potential for recommending new research insights.

3.3. An outline of sampling technique and sample size

The population studied consisted of workers from various branches in Dublin, in medium business. There were 97 respondents in the sample who met the inclusion criteria, so the sample was non-probabilistic and lower in cost.

The research instrument was a questionnaire with closed and open questions, but the analysis was mostly quantitative, despite the presence of qualitative variables in the responses.

The questionnaire was created using Google Forms. There were no questionnaires that were not included. The anonymity of respondents was ensured, as were their responses. During the month of November 2022, the survey was conducted.

3.4 Explanation of what analysis method employed

The data from the responses was extracted in Google spreadsheets and treated to provide descriptive statistics data; the results are presented in the body of the work as graphs.

3.5 . Ethical Section

Ethical guidelines are followed. All participants were given the information requested by the Ethical Approval form, and data confidentiality and anonymity were also ensured.

CHAPTER 4 FINDINGS AND DISCUSSION

This chapter's goal is to present an analysis of the research conducted for this study. According to the questionnaire, this analysis will be presented in the text's body. In addition to the research objectives, which are supported by the research method chosen and the literature review, the information presented is based on questionnaire responses to provide a better understanding of the outcome. The sample size for the data collection instrument was 97 people working in Irish companies. The questionnaire's first section addressed sociodemographic profile questions such as age, nationality, and professional field.

In terms of nationality, it is possible to determine that 78% of the sample was made up of Brazilians, with 2% from Costa Rica, 2% from Ireland, and 2% from Italy (Chart 1). Given the characteristics of the sample and the researcher's network of contacts, this answer is plausible.

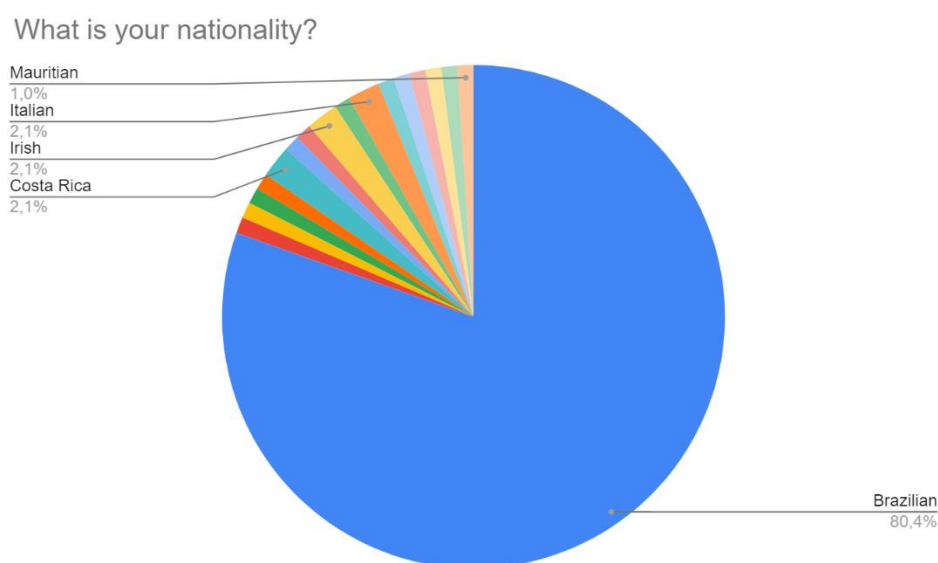


Chart 1 Nationality, Ireland 2022

Annual population and migration estimates show the highest levels of inland migration in fifteen years (more on these new statistics will come from us in the near future). According to recent data, non-Irish nationals accounted for just under half a million (495,100) people currently classified as "in

the workforce" from April to June 2022. This represents approximately 18.5% of Ireland's total workforce during this time period. Nearly 95% of those surveyed were employed, with the remainder unemployed. This represents an increase in employment of approximately 72,000 non-Irish nationals from April to June 2021. Around 15% of those in the workforce are UK nationals, 53% are EU nationals from outside Ireland, and 32% are from other parts of the world (EMN, 2022).

The majority of the group age was comprised of individuals classified as early middle age (32 - 38 years old) (44.3%) and young adult (25 - 31 years old) (43.3%), as shown in Chart 2.

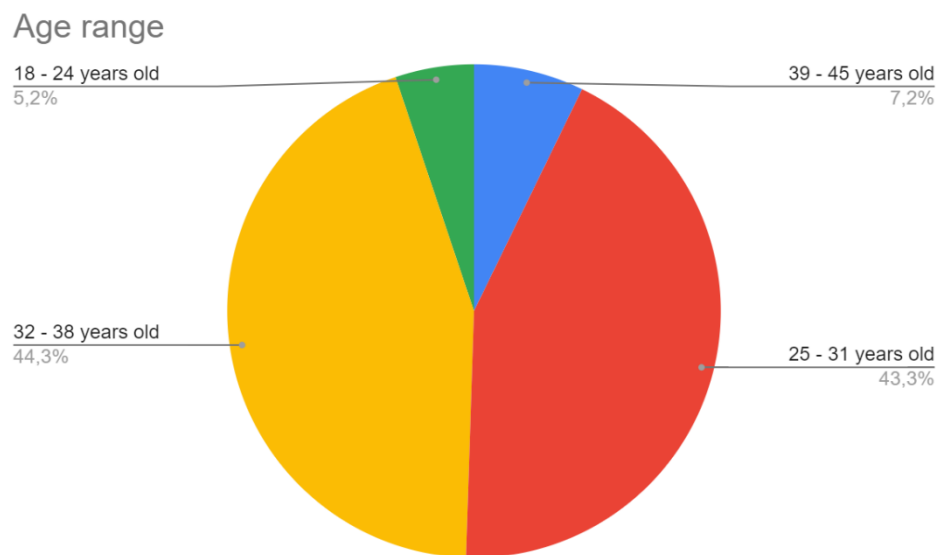


Chart 2: Age Group, Ireland 2022

In Chart 3 – We can appreciate the frequency results. This was an open question in which participants were asked to write their own free response about their field of work. The majority of people work in the hospitality industry (22% of the sample), followed by financial services (14%), education (10%), and technology (8%), as shown in the chart below (Chart 3).

What industry are you currently working for?

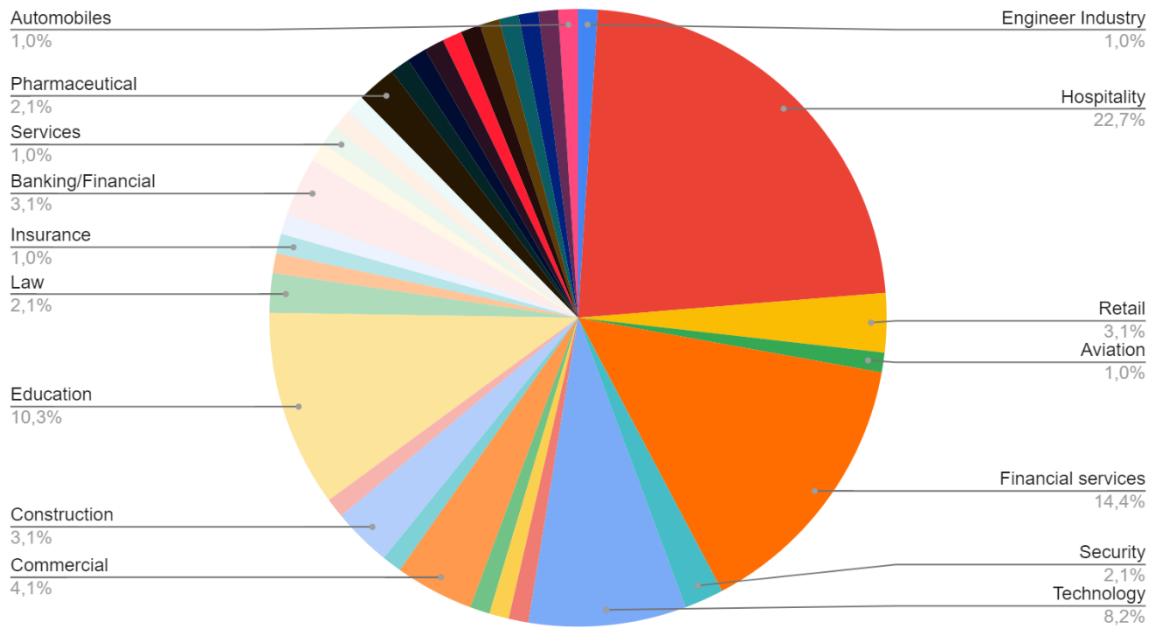


Chart 3 – Work area, Ireland 2022

Have you worked mostly for?

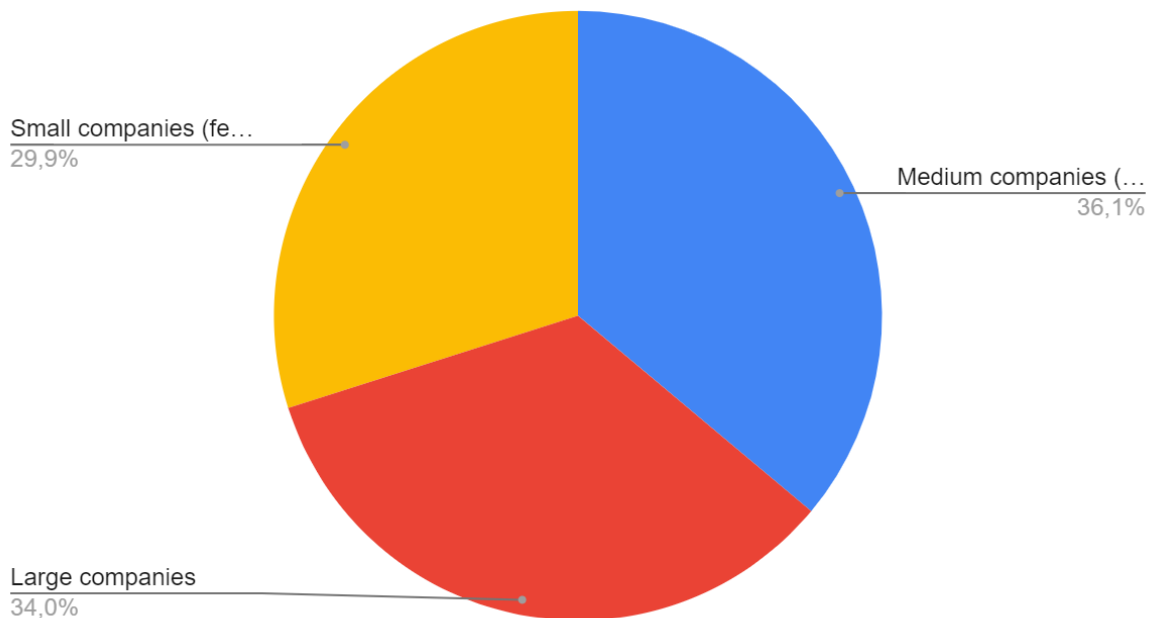


Chart 4: Size companies worked, Ireland 2022

In terms of the characteristics of the companies with which they had the most contact, respondents report that the majority of their jobs are performed outside of medium-sized businesses (36.1%) (Chart 4).

Irish SMEs account for 99.8% of all active businesses and 68% of all employees. The Irish government has put in place several measures to help SMEs deal with the consequences of COVID-19 restrictions, as well as to ensure that SMEs continue to have access to adequate liquidity. These include tax breaks and loan programs for small businesses, as well as direct assistance such as the Employment Wage Subsidy Scheme (EWSS) and the Covid Restriction Support Scheme (CRSS) (OECD, 2022).

Most small and medium-sized businesses lack a strong enough internal control mechanism, which is one of the primary causes of business failure. Since "internal control" is carried out by the board of directors, managers, and other personnel, it is intended to provide reasonable assurance as to the achievement of objectives in terms of the effectiveness and efficiency of operations (Khikmah *et al*, 2019).

Did you receive any training at most companies you worked for before you started working?

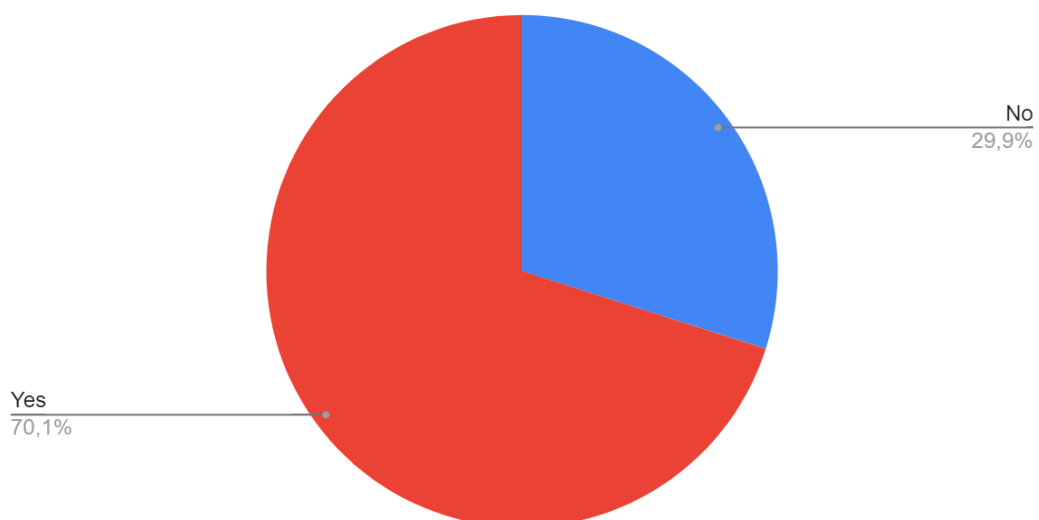


Chart 5- Training before begin work, Ireland 2022

When asked if he had received any training before starting work at most of the companies he worked for. The majority of respondents (70.1%) said yes, but 29.9% said no (Chart 5).

Most small and medium-sized business leaders hire employees who are not competent enough to improve internal control practices, so training personnel before and after implementation is critical for internal control and a determinant of success in the implementation of an internal control system, so entrepreneurs must ensure worker training and education (Kukreja, 2016; Moldof, 2014; Atu et al., 2014).

Participants were also questioned about their role within the company. As shown in the chart below, the majority of the sample population (41.2%) has a financial area of expertise, followed by customer service (20%) and commercial (11%). 25% of those polled stated that they have other areas of expertise (Chart 6).

What is your area of expertise?

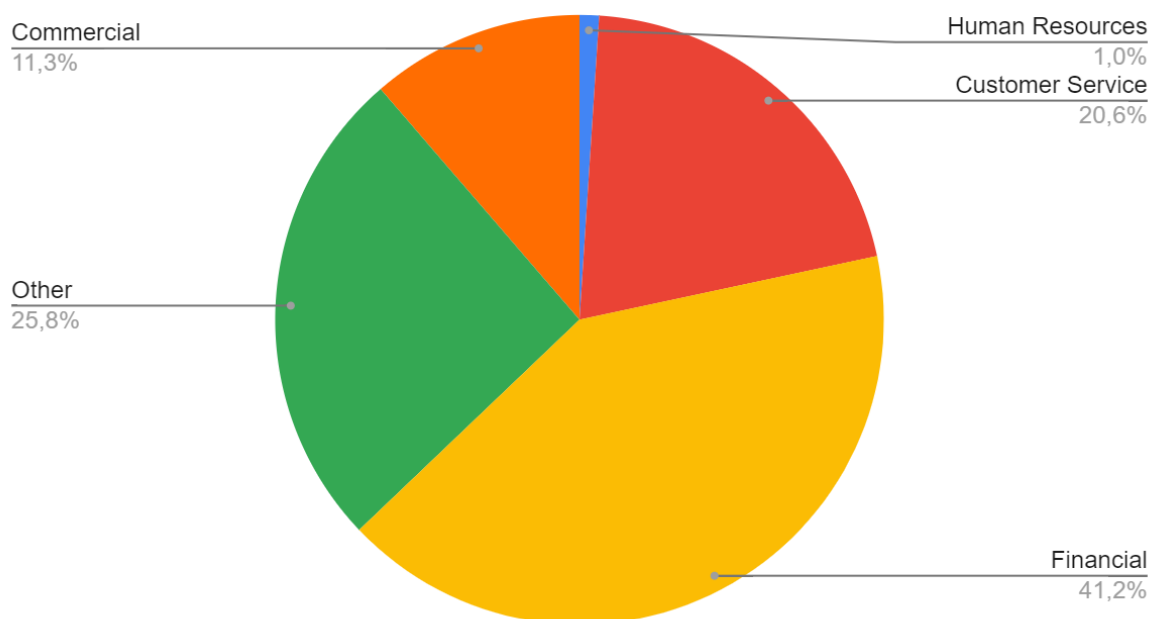


Chart 6 – Area of expertise, Ireland 2022

When asked if their direct manager/supervisor always provides complete information about the company's processes, it could be observed that not always, but they demonstrate commitment to

seeking sources (48.5%) and 34% state that their leader has a good repertoire on the subject (Chart 7).

According to Tam and Tuan (2021), the Impact of Internal Control on Performance Principles and Policies are frequently overlooked. As a PME, you must consider and plan relevant activities, as well as solid information and communication systems, and organizational monitoring systems. For this reason, upper management in businesses must be well-versed in control activities as well as information and communication systems in order to improve their assessment capabilities.

About the company having an integrated business management system such as SAP/CRM 61.8% say yes, the company has (Chart 8).

Information and communication technology is the fourth COSO component of the internal control framework. Given that information technology is a primary competitive and strategic competency for the majority of businesses, it is highlighted that An important part of operations within businesses that use computers to process information and affects all aspects of accounting, including financial reporting, management accounting, auditing, and tax. Every organization must establish effective information technology governance to meet the needs of the internal control system (Rubino, Vitolla, & Garzoni, 2017).

When asked whether their company practices internal controls and makes employees aware of the importance of maintaining standards, respondents stated that 48.5% do so frequently, but 34% point out that this practice is occasional (Chart 9).

According to Xiaofang and Huili (2018), for an internal control system to be effective, leaders' risk management awareness must be raised comprehensively in order to strengthen overall risk management awareness. Another important point is to conduct research and training on technologies and internal control knowledge. They also state that "clearing the responsibility of business leaders," that is, decentralizing, is required to allow all employees to work together to meet internal control

requirements with high performance. However, promoting a good corporate culture should improve the internal control environment, particularly for small and medium-sized businesses.

Does your manager/supervisor always provide you with complete information regarding the company processes?

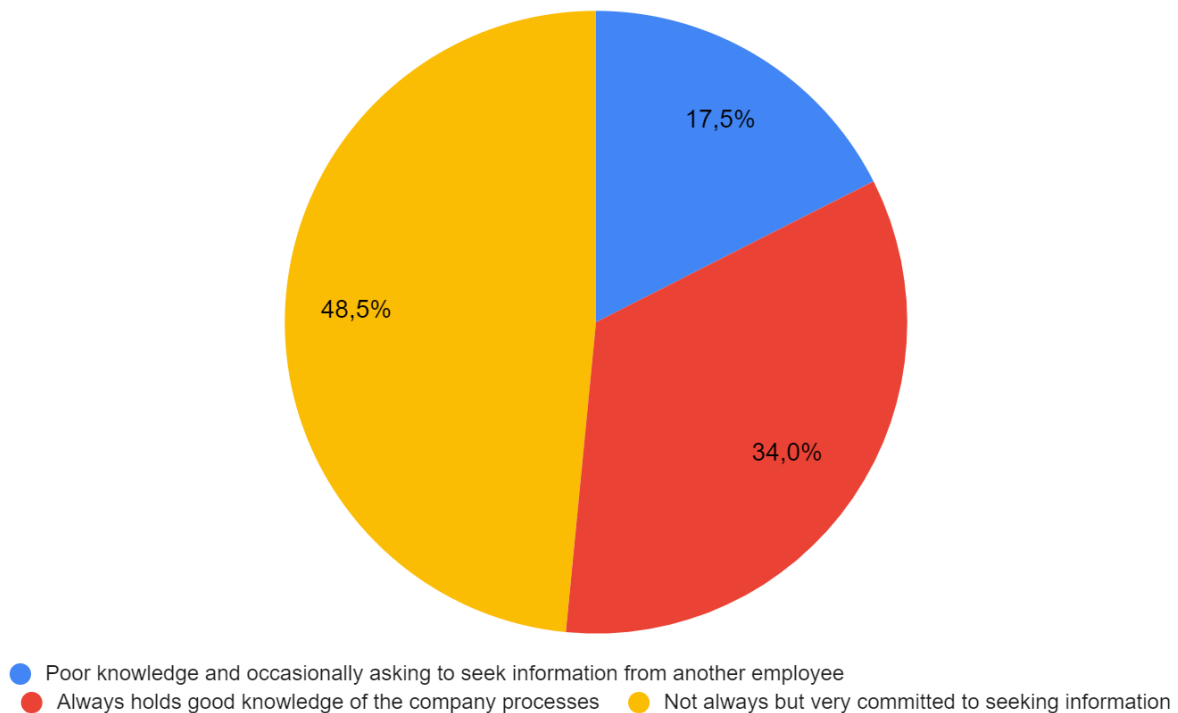


Chart 7 – Information process, Ireland 2022

Other relevant points for the establishment of effective internal controls, according to Xiaofang and Huili (2018), are in the construction of a rational structure. With a clear definition of roles and responsibilities, the containment mechanisms, democratic management rules, transparent decision-making process, strict and efficient enforcement system, and solid and effective monitoring system can all help. To regulate the construction of the business process through key process management as performance evaluation indicators.

Does the company have an integrated business management system as SAP / CRM ?

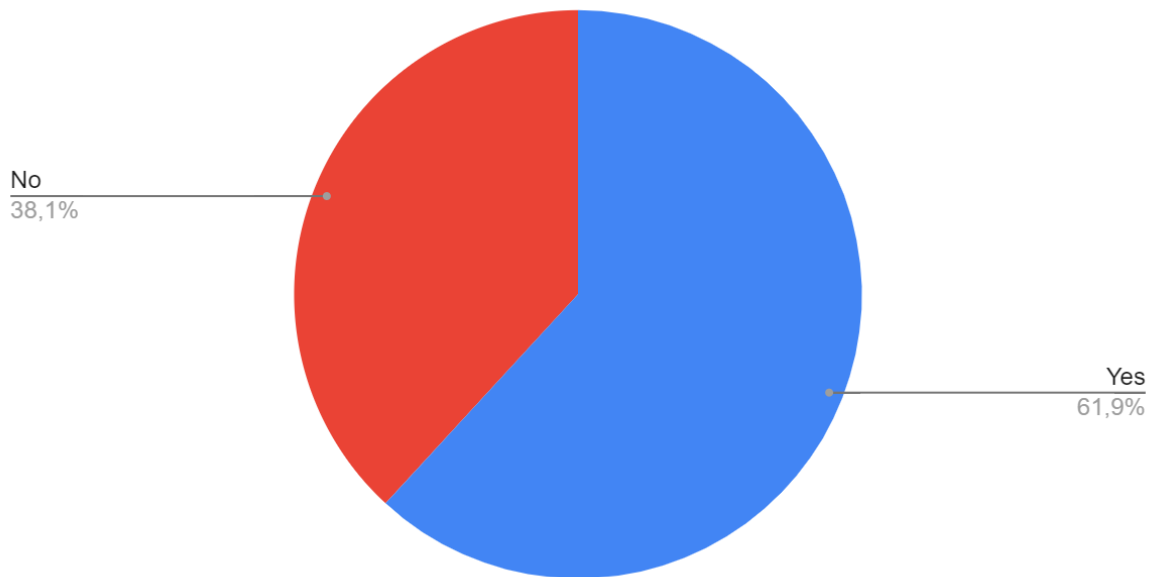


Chart 8- SAP/CRM, Ireland 2022

Does your company practice internal controls and make employees aware of how important it is to maintain standards?

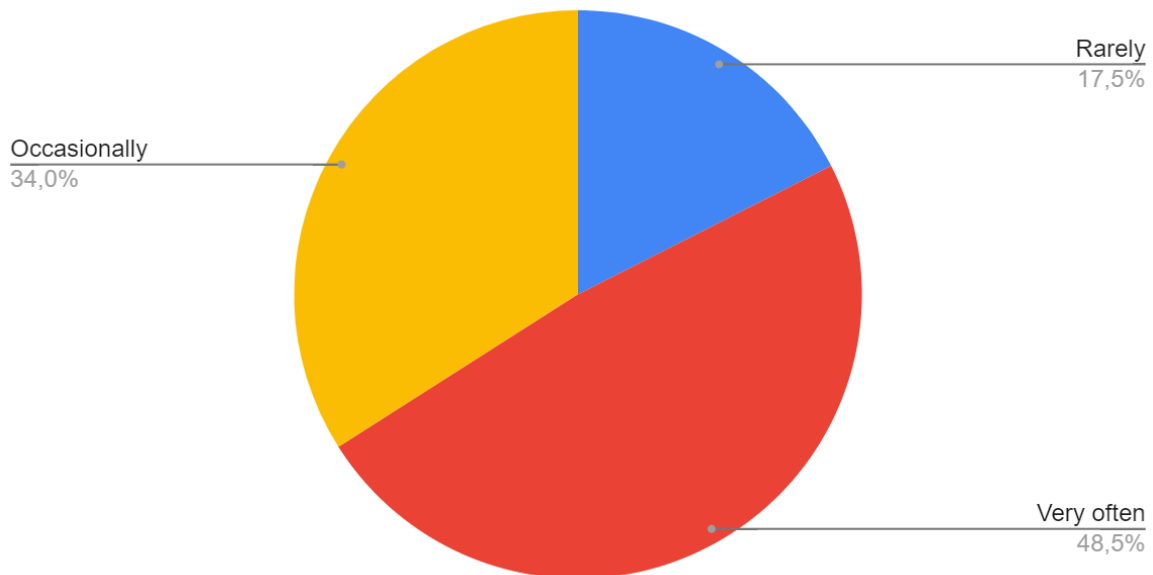


Chart 9 – Internal Controls, Ireland 2022

Does the company have accurate information that allows employees to maintain internal controls?

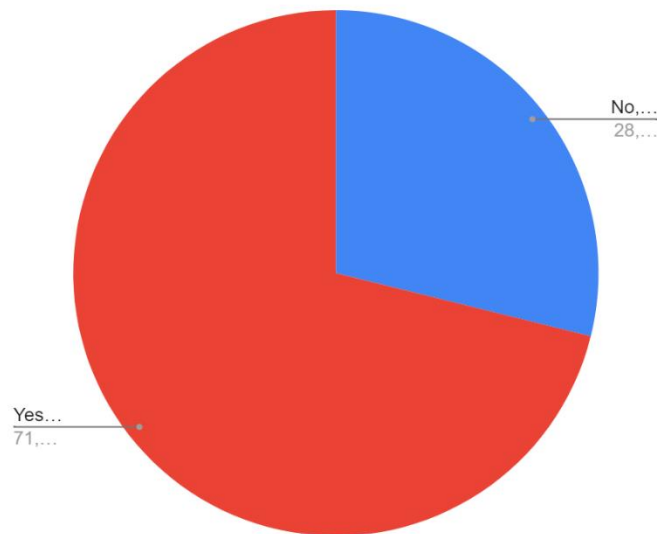


Chart 10 - Internal controls information, Ireland 2022

About 71% say yes, the company has accurate information that allows employees to maintain internal controls (Chart 10).

When asked if the company issues invoices and receipts for all commercial transactions, 82.5% say they do, but 17.5% say they do not (Chart 11).

An open question was asked in question 13 of the questionnaire, asking how the respondent briefly describes his opinion on the centralization of power and decision-making within the company. Answers containing only one to three words were disqualified. And, as shown on Board 1, 40 valid responses were computed. The responses were not unanimous, but shared themes such as: decision-making should be shared and co-created with teams; there is a centralization in higher leadership roles; and centralization is detrimental to business growth.

Team-wide internal control is a comprehensive internal risk management program in which company leadership and functional departments must participate. Building on the principles of unified management, mutual cooperation, and levels of responsibility, participation of all departments and employees at all levels (decision-making, management, and staff) is required. To achieve comprehensive internal control concepts, we must establish internal risk management as a corporate

culture, and thus all employees must be involved in order to form a good culture (Xiaofang & Huili, 2018)

Can you briefly describe your opinion regarding the centralization of power and decision making in a single person within the company?		
1	<i>I believe that leaders should delegate some functions so that the process takes place in a better way and without much centralization of power.</i>	21 <i>The decision making process should be realisability of the senior level, however depending of what kind of decision, a segregation o duties is important to avoid bias, error and also fraud.</i>
2	<i>In my opinion, I think that it is not good to have centralization of power because there will be a lack of supervision and the person who will solve the problems will be overworked.</i>	22 <i>This is part of hierarchy process that are made in the company. In my opinion, make a sense, because each responsibility in the job description are been aligned on the process the company.</i>
3	<i>It's not good given the person might have different opinions about processes and other staff</i>	23 <i>It's extremely frustrating and not healthy for the company, if this person leaves the company could be in a very complicated situation</i>
4	<i>It is not good for business to keep it in just one person.</i>	24 <i>It's my reality now. Having worked for big companies before, it is a real challenge to work for a small company in which the centralization of power is present. The owner tries to concentrate all the decision power with him, and the staff has no autonomy at all. We are not even allowed to deal with the clients or send e-mails without prior revision and approval. It results in a lot of time wasted, stressful situations and disorganisation (because only one person is never able to control everything).</i>
5	<i>I don't find this right. Being dependent on a single person does not improve corporate culture.</i>	25 <i>In my opinion it makes the internal control weak, as the same person Normally create the action and approve as well.</i>
6	<i>It can be a problem in the future.</i>	26 <i>Centralization of power in a single person it's never positive.</i>
7	<i>When one person has all the power in a company it leads to failure, because fraud and mistakes are not checked by anyone else</i>	27 <i>I BELIEVE THAT ALL DECISION MAKING SHOULD BE MADE AS A TEAM</i>
8	<i>No chance to creativity or freedom</i>	28 <i>Bad, because the power in one hand turns the process slow and depending on one person.</i>
9	<i>I think it is important to have a hierarchy, but should have more than once people for each level</i>	29 <i>It often leads to mistakes and injustices. Preferably decisions should be made by a group.</i>
10	<i>Following the hierarchy other people need to be listening, just one in charge of everything is risky.</i>	30 <i>In my opinion decision making should be distributed throughout departments and not centralised within one single person. It encourages creativity and empowers employees.</i>
11	<i>In my opinion is not so bad the centralization of power in a single perso, because if it is shared with more people you won't know for who to report an issue and etc.</i>	31 <i>It is very dangerous for the company since mostly decision are taken by a single mind</i>

12	<i>I think it could be totally fine depending on the size and complexity of the business you are doing</i>	32	<i>It's suitable in a small business, in order to have a better control, however at the same time, as this single person is the decision maker, the activities and processes can be delayed whenever the person is not available.</i>
13	<i>I think it's a dangerous always when the power is concentrated, specially for medium and large companies, the chance to make mistake is huge and people who are around that people most of the time are afraid to disagree with the person in charge.</i>	33	<i>My opinion the power and decision will be in more than one person</i>
14	<i>I think our directors make decisions together</i>	34	<i>That's very old school style of management and can hardly affect the team as people may get stuck with no decision power</i>
15	<i>Usually centralisation of power within a single person provides a easier way of solving matters, especially on small companies. Anyhow, I also believe that after some point, when a company reaches a bigger size, the company's department's should have a autonomy on the matters regarding their own policies and subjects, but all under the decision of the company board or head.</i>	35	<i>On my opinion centralization shouldn't happen, more people should have power so a better decision making would happen for the company</i>
16	<i>It slows the processes once one cannot act on all demands that are required.</i>	36	<i>I believe that centralization of power brings delays in work and lack of employee loyalty.</i>
17	<i>Attributing all the decisions to only person limits the possibilities of good ideas</i>	37	<i>Bureaucratic leadership, inflexible, limits communication, slow Work and decreased efficiency</i>
18	<i>I think it is really important having one person to organize or, however, it is important to distribute duties to different people due to a better management and results</i>	38	<i>It can lead to various problems, especially when employees' experiences and opinions of decisions are not taken into account. It can be difficult to navigate for employees and made have an impact on their morale.</i>
19	<i>I don't think there is a centralization of power at my company.</i>	39	<i>This is not a good way to go because collective work should be done, involving a larger group in plans and decisions</i>
20	<i>It's very messy and it can become a problem when this employee decides to leave</i>	40	<i>I think true, a person need decision</i>

Board 1 - Open question valid answers for the 13 question: Can you briefly describe your opinion regarding the centralization of power and decision making in a single person within the company?

Does the company issue invoices and receipts for every commercial transaction?

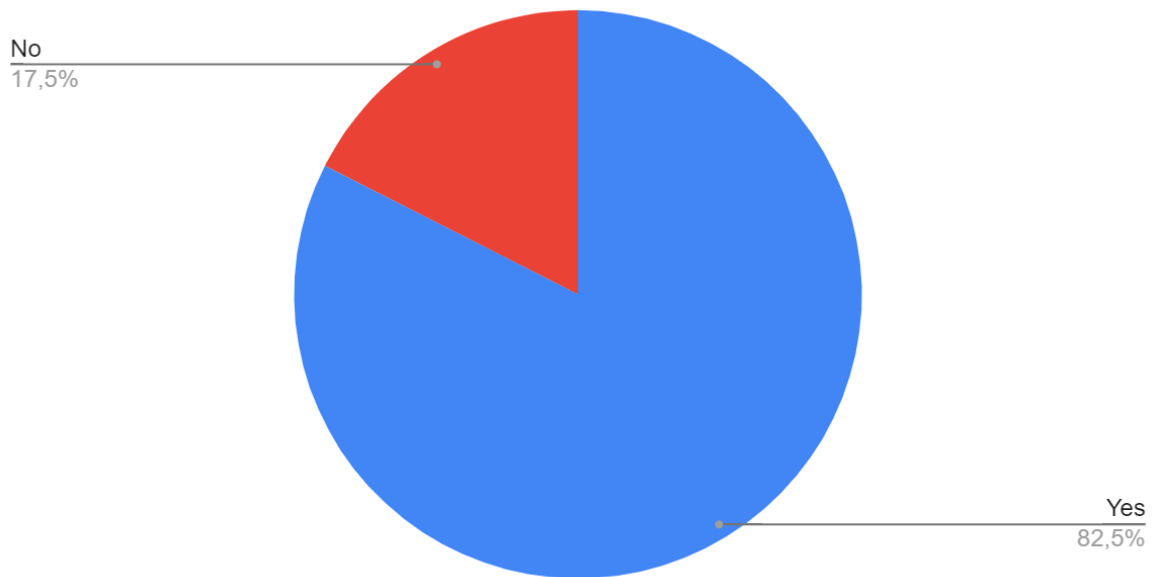


Chart 11- Commercial transactions, Ireland 2022

When asked if he was aware of whether his company had a planned budget for a department or project, there was a split in responses, with 55.6% saying they were aware, but 44.3% saying they were unaware (Chart 12).

In terms of whether the company they work for plans a project before starting it or whether the decision is largely based on the owner's personal opinion, 69.1% believe it is the latter (Chart 13). Internal controls can be used effectively to track costs incurred while running a small business. Knowledge of these costs is frequently useful in planning and decision-making in order to reduce or eliminate some of the costs (Khikmah *et al*, 2019).

Have you ever heard if your company has a budget planned for any department or project?

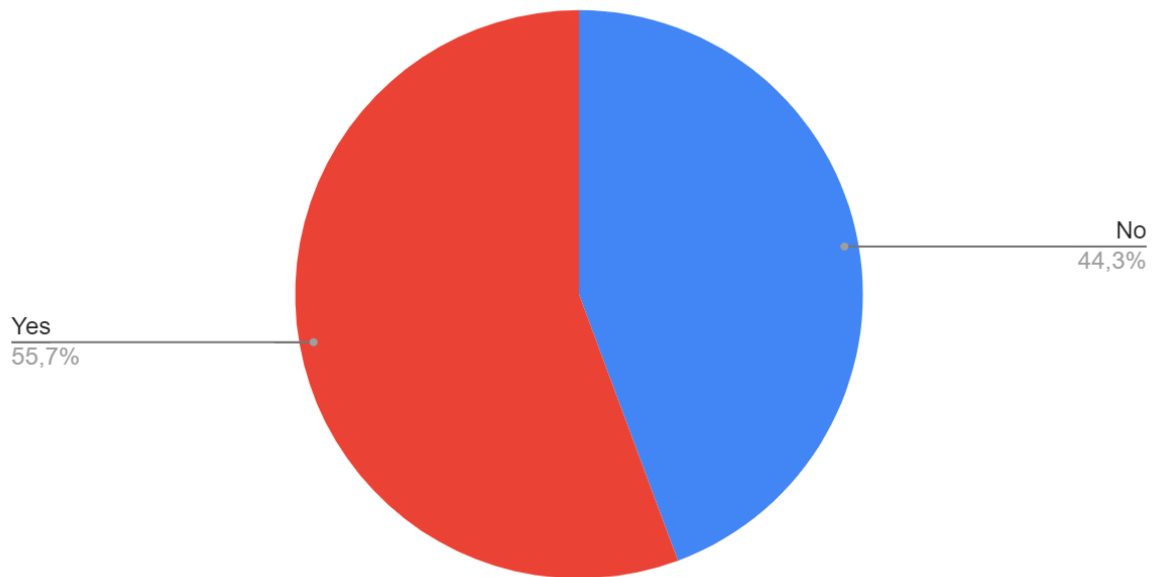


Chart 12 – Budget planned, Ireland 2022

In Tam and Tuan's (2021) study, control activities and information and communication systems had a negligible impact on the performance of small and medium-sized businesses, implying that high-level management in PME's is not paying enough attention to financial information systems. According to the author's research, many SME currently have dual reporting systems, with one reporting for official purposes and the other for internal monitoring. This may result in a lack of integrity in the reporting system, a reduction in the quality of financial information, and an increase in the risk of distortions. According to Kamau (2016), internal control activities have a positive influence on performance in SMEs.

Do you believe the company you work for plans a project before it starts, or is the decision largely based on the owner's personal opinion?

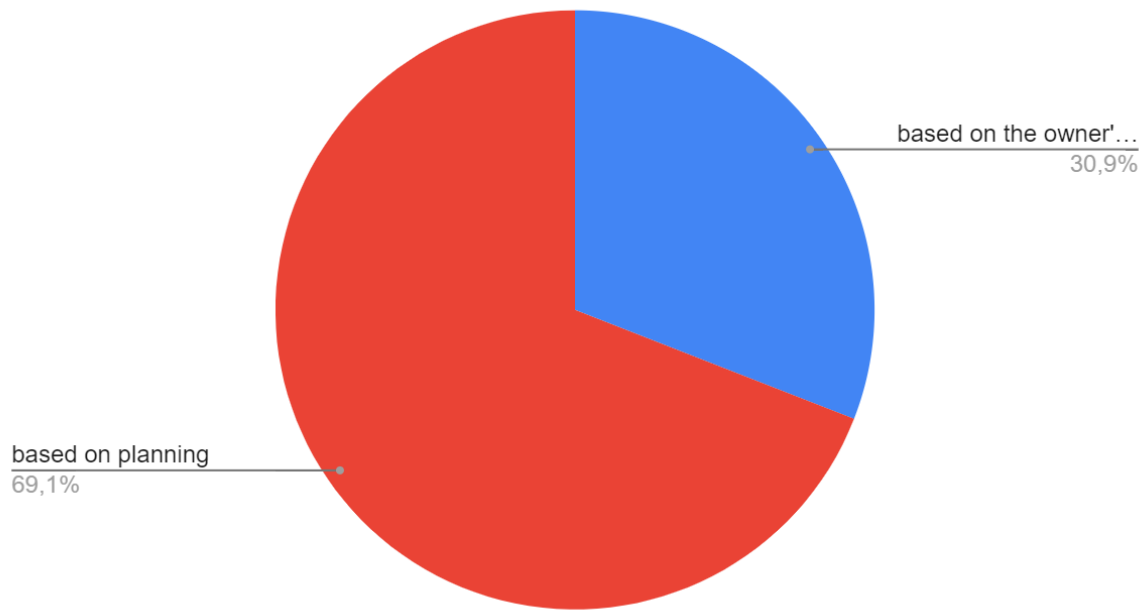


Chart 13 – Projects based on, Ireland 2022

Regarding the perception of business planning as an important and strategic tool for small and medium-sized businesses, 68.1% strongly believe that it is (Chart 14).

Regarding whether the direct leader meets with the team on a regular basis for alignment and focus on the week/month objectives, there were roughly a quarter of respondents for each statement, with the majority (26.1%) saying that these rituals occur frequently. However, a significant portion claims that they occur only rarely or infrequently (Chart 15).

Do you consider business planning as important and strategic tool for small and medium companies?

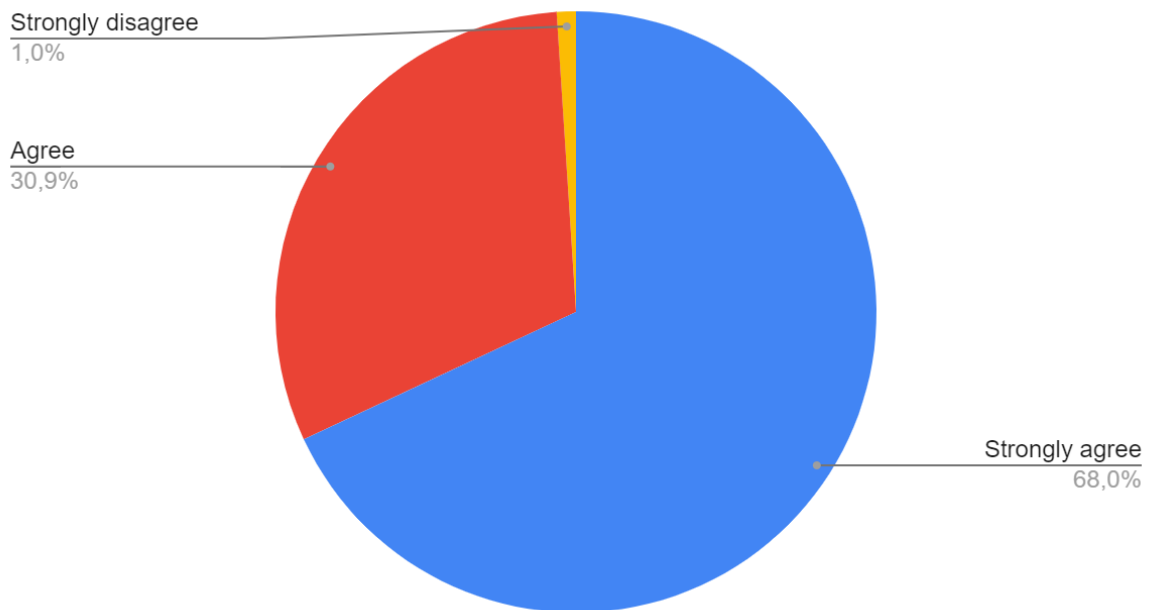


Chart 14 -Planning like strategic tool, Ireland 2022

Does your leader hold frequent meetings with the team to align and focus on the week/month objectives?

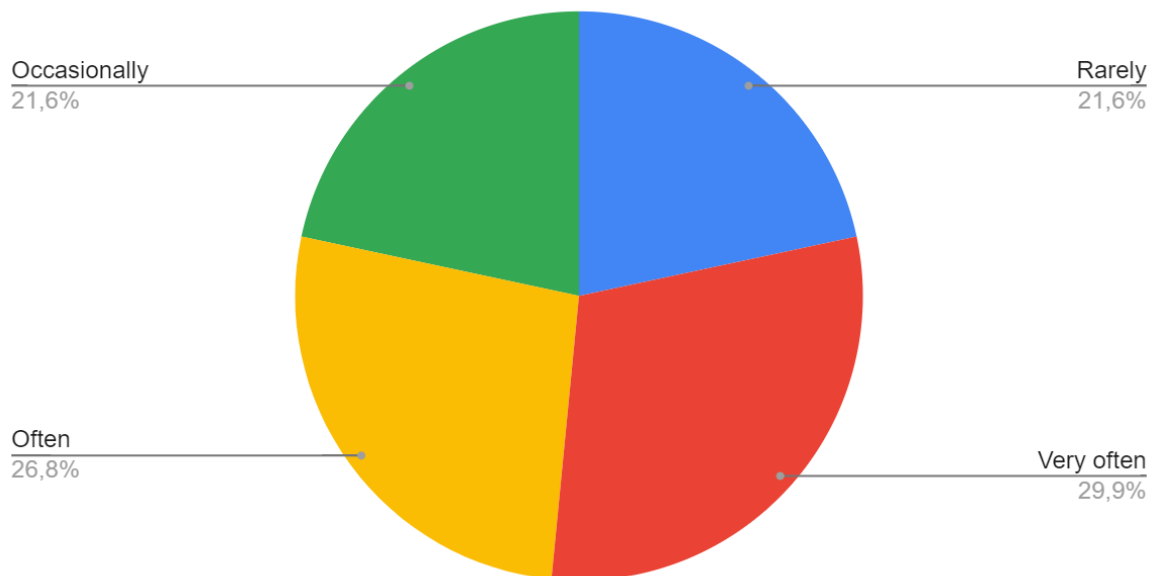


Chart 15 – Meetings for align objectives, Ireland 2022

In the questionnaire's final question, an open question was asked about the respondent's opinion on the main areas of internal control failure for small and medium-sized businesses. Word rain was chosen for this analysis because it had the highest frequency of communication, control, and process, all of which were identified as deficiencies. As illustrated in Figure 1.

Figure 1- Word Cloud with the frequencies of answers to the open question - In your opinion what are the main areas of internal control failure for small and medium-sized businesses?

Internal Control Components (COSO, 2013) state that when listing the information required to ensure that the company carries out its internal control responsibilities in order to achieve goals. Communication is a strong suit, as it occurs both internally and externally, providing necessary information while implementing daily internal controls. For the communication component, three principles must be considered: a) how the organization obtains and uses relevant and quality information to support the roles of other components in internal control; b) how the organization communicates information internally, including internal control objectives and responsibilities, to support the functions of other components.

c) How organizations communicate with external parties about issues that affect the roles of other internal control components.

Kamau (2016) claims that internal control has proven to be important in SME operations. The internal control system of an organization is intended to provide a reasonable assurance tool for achieving the SME's objectives. SME's goals include operational effectiveness and efficiency, reporting dependability, and adherence to laws and regulations (COSO, 2013).

Internal control has been highlighted as an effective tool that has helped to improve corporate governance, achieve goals, and eliminate risks, in addition to creating a competitive advantage, as a company with a good internal control system would be more capable of dealing with business risks.

According to Kamau (2016), the implementation of internal controls had an impact on SME results from a financial standpoint. Most of the research on the link between internal control and performance focuses on financial or operational performance. In general, control has a significant impact on the performance of SMEs.

CHAPTER 5: CONCLUSIONS LIMITATIONS RECOMMENDATIONS

Today, as SMEs find themselves in an environment of constant competition, the pursuit of competitive advantages is critical to the development of businesses, I believe that well-defined internal control structure will aid in success. For that reason, internal control, it is required that all businesses, regardless of size, use it.

Based on the findings, the study concludes that key control procedures, such as proof of all payments, segregation of duties, close supervision, and planning, to name a few, are in place in the companies of the respondents, despite the fact that they are from various companies and areas. The study also discovered that controls like monthly plans are underutilized.

We see a lack of knowledge about budget lines in the companies where they work, as well as a lack of transparency about how the organization monitors its budgetary performance and how this information reaches the operation.

It is well known that several factors influence a company's performance, but the absence of clear control processes and communication gaps can have a significant impact on small and medium-sized businesses, where shared decision-making can even have a greater effect on employee loyalty and fidelity to stronger cultural parameters, which are required for a company's growth and development. When we look at the responses in general, it is clear that, while there are internal control processes, they are not as visible as they should be for all employees, in different contexts and companies, and that more efforts should be made to strengthen the internal control system, resulting in better company performance.

Companies must adopt a culture of greater transparency that allows an overview of processes, facilitating the process of internal control and lead a construction of internal control system Based on comprehensive risk management.

Companies should always practice transaction record.

Managements must improve transparency about budgets and planning rituals.

Improve the education process on internal controls and their importance for leaders and for the operation.

As a limitation, three points should be highlighted: the non-probabilistic nature of the sample prevents generalization processes of inferences for the population, which does not invalidate the research findings, but it is an important limitation to be aware of.

The respondents' heterogeneity can also be listed as a limitation, as their lack of knowledge of the various scenarios in which they are inserted, as they are from different companies, makes qualitative data analysis difficult.

The researcher perceived the structure of the questionnaire and the listed questions as being subject to major improvements or better structure drivers to better achieve the objectives, but this analysis, as is often the case, came late in the application.

As recommendations for future studies, it is suggested that qualitative methodologies, or quantitative analysis but with probabilistic analysis, be used in order to obtain inferences that can be extrapolated to the population or more sensitive qualitative elements for analysis.

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APPENDICES

APPENDIX I - QUESTIONNAIRE

29/11/2022 23:06

How internal controls and process management contributes as a tool to develop small and medium companies?

How internal controls and process management contributes as a tool to develop small and medium companies?

The purpose of this research project is to analyze and understand the impact of well-developed internal controls and management process in SMEs as tools for growth and value creation.

This research is being carried out by **Franciele Goncalves de Padua** as a part of a Degree in Accounting and Finance at Independent Colleges Dublin. The study is being conducted under the supervision of **Prof Declan Faughey** and **Dr. Daniel O'Sullivan** (School of Business ICD) and has been granted ethical approval by Independent College Dublin.

Your participation is voluntary and you:

May decide to stop being a part of the research study at any time without explanation required from you. You have the right to ask that any data you have supplied to that point be withdrawn / destroyed.

Have the right to omit or refuse to answer or respond to any question that is asked of you.

Have the right to have your questions about the procedures answered (unless answering these questions would interfere with the study's outcome. A full de-briefing will be given after the study).

The data I collect does not contain any personal information about you except your age and nationality. Your participation is anonymous, and your responses will be kept confidential.

Please support me in this study by completing the survey by October 16th.

If you have any questions about the research study, please contact Dr. Daniel O'Sullivan

daniel.osullivan@independentcolleges.ie

This research has been reviewed according to Independent College Dublin procedures for research involving human subjects.

1. **ELETRONIC CONSENT: Please select your choice below.** *

Clicking on the "agree" button below indicates that:

- you have ready the above information
- you voluntarily agree to participate
- you are at least 18 years of age if you do not wish to participate in the research study, please decline participation by clicking on the "disagree" button.

Marcar apenas uma oval.

☐ Agree

☐ Disagree

How internal controls and process management contributes as a tool to develop small and medium companies?

2. 1. What is your nationality? *

3. 2. Select your age range *

Marcar apenas uma oval.

☐ 18 - 24

☐ 25 - 31

☐ 32 - 38

☐ 39 - 45

☐ 46 - 52

☐ 53+

4. 3. What industry are you currently working for? *

5. 4. What is your area of expertise? *

Marcar apenas uma oval.

- ☐ Customer Service
- ☐ Financial
- ☐ Commercial
- ☐ Human Resources
- ☐ Other

6. 5. Have you worked mostly for? *

Marcar apenas uma oval.

- ☐ Small companies (fewer than 50 employees)
- ☐ Medium companies (fewer than 250 employees)
- ☐ Large companies

7. 6. Did you receive any training at most companies you worked for before you started working? *

Marcar apenas uma oval.

- ☐ Yes
- ☐ No

8. 7. Does your manager/supervisor always provide you with complete information regarding the company processes? *

Marcar apenas uma oval.

- ☐ Always holds good knowledge of the company processes
- ☐ Not always but very committed to seeking information
- ☐ Poor knowledge and occasionally asking to seek information from another employee

9. 8. Does the company have an integrated business management system as SAP *
/ CRM ?

Marcar apenas uma oval.

☐ Yes

☐ No

10. 9. Does your company practice internal controls and make employees aware of *
how important it is to maintain standards?

Marcar apenas uma oval.

☐ Very often

☐ Occasionally

☐ Rarely

11. 10. Does the company have accurate information that allows employees to *
maintain internal controls?

Marcar apenas uma oval.

☐ Yes the company is very concerned about it

☐ No the company is not very concerned with it

12. 11. Do the organization's departments communicate frequently with each *
other?

Marcar apenas uma oval.

☐ Yes

☐ No

13. 12. Does the company issue invoices and receipts for every commercial transaction? *

Marcar apenas uma oval.

☐ Yes

☐ No

14. 13. Can you briefly describe your opinion regarding the centralization of power and decision making in a single person within the company?

15. 14. Have you ever heard if your company has a budget planned for any department or project? *

Marcar apenas uma oval.

☐ Yes

☐ No

16. 15. Do you believe the company you work for plans a project before it starts, or * is the decision largely based on the owner's personal opinion?

Marcar apenas uma oval.

☐ based on planning

☐ based on the owner's opinion

17. 16. Do you consider business planning as important and strategic tool for small and medium companies? *

Marcar apenas uma oval.

- ☐ Strongly agree
- ☐ Agree
- ☐ Disagree
- ☐ Strongly disagree

18. 17. Does your leader hold frequent meetings with the team to align and focus on the week/month objectives? *

Marcar apenas uma oval.

- ☐ Very often
- ☐ Often
- ☐ Occasionally
- ☐ Rarely

19. 18. In your opinion what are the main areas of internal control failure for small and medium-sized businesses?

APPENDIX II - Informed Letter of Consent Plain Language Statement

How internal controls and process management contributes as a tool to develop small and medium companies?

The purpose of this research project is to analyze and understand the impact of well-developed internal controls and management process in SMEs as tools for growth and value creation.

This research is being carried out by **Franciele Goncalves de Padua** as a part of a Degree in Accounting and Finance at Independent Colleges Dublin. The study is being conducted under the supervision of **Prof Declan Faughey** and **Dr. Daniel O'Sullivan** (School of Business ICD) and has been granted ethical approval by Independent College Dublin.

Your participation is voluntary and you:

May decide to stop being a part of the research study at any time without explanation required from you. You have the right to ask that any data you have supplied to that point be withdrawn / destroyed.

Have the right to omit or refuse to answer or respond to any question that is asked of you.

Have the right to have your questions about the procedures answered (unless answering these questions would interfere with the study's outcome. A full de-briefing will be given after the study).

The data I collect does not contain any personal information about you except your age and nationality. Your participation is anonymous, and your responses will be kept confidential.

Please support me in this study by completing the survey by October 16th.

If you have any questions about the research study, please contact Dr. Daniel O'Sullivan

daniel.osullivan@independentcolleges.ie

This research has been reviewed according to Independent College Dublin procedures for research involving human subjects.

ELETRONIC CONSENT: Please select your choice below. *

Clicking on the "agree" button below indicates that:

- you have read the above information
- you voluntarily agree to participate
- you are at least 18 years of age if you do not wish to participate in the research study, please decline participation by clicking on the "disagree" button.

☐ Agree

☐ Disagree

APPENDIX III- ETHICAL APPROVAL

Form A: Application for Ethical Approval	
Undergraduate/Taught Postgraduate Research	
This form should be submitted to the module leader for the relevant initial proposal and/or the relevant supervisor is the proposal has already been accepted.	
Please save this file as <i>STUDENT NUMBER_AEA_FormA.docx</i>	
Title of Project	"How do internal controls and process management contributes as a tool to develop small and medium companies?"
Name of Learner	Franciele Gonçalves de Padua
Student Number	51706440
Name of Supervisor/Tutor	Dr. Daniel O'Sullivan

Check the relevant boxes. All questions must be answered before submitting to the relevant lecturer / supervisor. Note: only one box per row should be selected.

Item	Question	Yes	No	NA
1	Will you describe the main research procedures to participants in advance, so that they are informed about what to expect?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
2	Will you tell participants that their participation is voluntary?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
3	Will you obtain written consent for participation (through a signed or 'ticked' consent form)?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
4	If the research is observational, will you ask participants for their consent to being observed.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Will you tell participants that they may withdraw from the research at any time and for any reason?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
6	Will you give participants the option of not answering any question they do not want to answer?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Will you ensure that participant data will be treated with full confidentiality and anonymity and, if published, will not be identifiable as any individual or group?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
8	Will you debrief participants at the end of their participation (i.e., give them a brief explanation of the study)?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
9	If your study involves people between 16 and 18 years, will you ensure that passive consent is obtained from parents/guardians, with active consent obtained from both the child and their school/organisation?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
10	If your study involves people less than 16 years, will you ensure that <u>active</u> consent is obtained from parents/guardians <u>and</u> that a parent/guardian or their nominee (such as a teacher) will be present throughout the data collection period?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
11	If your study requires evaluation by an ethics committee/board at an external agency, will you wait until you have approval from both the Independent College Dublin and the external ethics committee before starting data collection.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Item	Question	Yes	No	NA
12	If you are in a position of authority over your participants (for example, if you are their instructor/tutor/manager/examiner etc.) will you inform participants in writing that their grades and/or evaluation will be in no way affected by their participation (or lack thereof) in your research?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	If you are in a position of authority over your participants (for example, if you are their instructor/tutor/manager/examiner etc.), does your study involve asking participants about their academic or professional achievements, motivations, abilities or philosophies? (please note that this does not apply to QA1 or QA3 forms, or questionnaires limited to market research, that do not require ethical approval from the IREC)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
14	Will your project involve deliberately misleading participants in any way?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
15	Is there any realistic risk of any participants experiencing either physical or psychological distress or discomfort?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
16	Does your project involve work with animals?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
17	Do you plan to give individual feedback to participants regarding their scores on any task or scale?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
18	Does your study examine any sensitive topics (such as, but not limited to, religion, sexuality, alcohol, crime, drugs, mental health, physical health, etc.)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
19	Is your study designed to change the mental state of participants in any negative way (such as inducing aggression, frustration, etc?)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
20	Does your study involve an external agency (e.g. for recruitment)?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
21	Do your participants fall into any of the following special groups?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
		<input type="checkbox"/>	<input type="checkbox"/>	
		<input type="checkbox"/>	<input type="checkbox"/>	
		<input type="checkbox"/>	<input type="checkbox"/>	
		<input type="checkbox"/>	<input type="checkbox"/>	
	<i>(except where one or more individuals with such characteristics may naturally occur within a general population, such as a sample of students)</i>			

<p>If you have ticked any of the shaded boxes above, you should consult with your module leader / supervisor immediately. You will need to fill in Form B Ethical Approval and submit it to the Research & Ethics Committee instead of this form.</p> <p>There is an obligation on the researcher to bring to the attention of the Research & Ethics Committee any issues with ethical implications not clearly covered by the above checklist.</p>	
<p>I consider that this project has no significant ethical implications to be brought before the relevant Research & Ethics Committee. I have read and understood the specific guidelines for completion of Ethics Application Forms. I am familiar with the codes of professional ethics relevant to my discipline (and have discussed them with my supervisor).</p>	<input checked="" type="checkbox"/>
Name of Learner	Franciele Gonçalves de Padua
Student Number	51706440
Date	18/05/2022
<p>I have discussed this project with the learner in question, and I agree that it has no significant ethical implications to be brought before the Research & Ethics Committee.</p>	<input checked="" type="checkbox"/>
Name of Supervisor/Lecturer	Dr Daniel O'Sullivan
Date	18/05/2022