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## **Internal control weaknesses in a cooperative body: Malaysian experience**

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**Abstract:** The purpose of this study is to examine the current state of the internal control practices in the cooperative body, an organisation area that has always been neglected in governance empirical research. This study also provides recommendations to overcome those weaknesses. A case study approach was selected for this study by selecting one cooperative body as a case. This study employed document analysis as the method of data collection and the data were analysed by using the latest COSO Internal Control – Integrated Framework. This study found that the selected cooperative body had very poor internal control. There was low data integrity where too many errors were detected in both the financial and non-financial data, while its daily transactions were recorded by using manual tools but without proper security leading to possible fraud. Furthermore, the effort to automate the system by acquiring a new software program has miserably failed due to incompetency of the workforce. To worsen matters, the employees also did not appreciate the importance of internal control.

**Keywords:** internal control; cooperative; fraud; risk; Malaysia.

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## 1 Introduction

A cooperative is an association of a group of people, voluntarily united to meet certain objectives via jointly owned and democratically controlled organisation. The members own and run the business by themselves (MacPherson, 1995; International Co-operative Alliance, n.d.). Besides, these cooperatives also have well-established organisational infrastructure supporting a cooperative ideology (Boone and Özcan, 2014). Cooperatives, particularly in rural areas, are able to reduce unemployment, decrease poor rural infrastructure, improve living conditions (Garnevska et al., 2014), and alleviate poverty (Yang and Hung, 2014).

A report from the 2015 World Cooperative Monitor produced by the European Research Institute on Cooperative and Social Enterprises (International Co-operative