



**Evaluation of the perceived effectiveness of internal
audit activity in selected government owned and
managed entities**

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Mini-dissertation submitted in partial fulfilment of the requirements for the degree *Master of Business Administration* at the Potchefstroom Campus of the North West University

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DECLARATION

I, **Pitso Linyelo**, declare that “**Evaluation of the perceived effectiveness of internal audit activity in selected government owned and managed entities**” is my own work and that all the sources I have used or quoted have been indicated and acknowledged by means of a complete reference list. This mini-dissertation has not previously been submitted by me or any other author to any other university.

Signature: _____

Date: _____

ACKNOWLEDGEMENT

First and foremost, I would like to thank the Almighty who gave me the courage, wisdom, strength to complete this study and for making all this possible.

I again would like to thank my wife and children for always being there and providing me with the necessary support.

To my parents, I would like to express my sincere thanks.

To conquerors quest members, you guys are the best. I will never forget “skhanjani” time.

Lastly, a special thanks to my supervisor Prof. Rikus de Villiers for his time, inputs and continued guidance and support.

ABSTRACT

Title: Evaluation of the perceived effectiveness of internal audit activity in selected government owned and managed entities

Keywords: Competence, Control, Effectiveness, Governance, Independence, Internal audit, Internal audit activity, Objectivity, Public Finance Management Act (PFMA), Risk management, Treasury Regulations

Internal audit is an independent assurance provider with its role being to review the effectiveness of risk management, controls and governance processes. Internal audit is the custodian of good governance and is trusted with reviewing and providing assurance on the effectiveness of governance processes within the organisation. Internal audit in the South African government owned and managed entities is critical in that it assists the Accounting Officers to effectively execute their responsibilities as noted in the Public Finance Management Act (PFMA). The PFMA's main focus among others is to promoting good governance and accountability. It is because of the PFMA that the establishment of internal audit in government owned and managed entities became mandatory.

Of late, the government owned and managed entities have been in the public light with all sort of wrongs emerging mostly as a result of issues related to weak governance. The Auditor General in the consolidated general report of 2016 stated that some of the challenges (uncompetitive and unfair procurement processes; increase in unauthorised and irregular expenditure; slow response by management in improving internal controls; and inadequate consequences for poor performance and transgressions) faced by government entities are attributed to weak governance and that effective internal audit activities can assist to curb these challenges.

The main focus of this study was to evaluate the perceived effectiveness of internal audit activity in selected government owned and managed entities. The Institute of Internal Auditors (The IIA) identified some core principles to be used in measuring the effectiveness of the internal audit activity. Accordingly, internal auditing is effective if it: *i) demonstrates integrity; ii) demonstrates competence and due professional care; iii) is objective and free from undue influence independent; iv) aligns with the strategies, objectives, and risks of the organisation;*

v) is appropriately positioned and adequately resourced; vi) demonstrates quality and continuous improvement; vii) communicates effectively; viii) provides risk based assurance; ix) is insightful, proactive, and future-focused; and x) promotes organisation improvement. The IIA further states that the factors should be present and be operating for the internal audit activity to be seen as effective. Much as the core principles make no mention of “management support”, management support is also a critical element which directly affects the effectiveness of an internal audit activity.

A quantitative research method was utilised where the two samples (internal auditors sample and management sample) were identified and applied at Entity A to source the results from the respondents. As the effectiveness of internal audit activity is pivotal in government owned and managed entities, the internal audit activity at Entity A was perceived to be ineffective as the core principles as listed above were present but not operating as they should. In addition, it was also noted that management does not entirely support the work of the internal audit.

In an attempt to add value and a start a process of ensuring that the internal audit is effective at government owned and managed entities, several recommendations were proposed which include amongst others, internal auditors strengthening their independence and objectivity; incorporation of organisation’s risks in internal audit plans to ensure broad coverage; internal audit being pro-active and future focused in their approach; to be insightful, deploying time to learn and understand the organisations’ processes and operation so to ensure that audit/engagement plans aligns to that of the organisation.

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LIST OF ACRONYMS

Acronym	Description
AC	Audit Committee
AO	Accounting Officer
BoD	Board of Directors
BRQ	Broad Research Questions
CAE	Chief Audit Executive
CEO	Chief Executive Officer
CoE	Code of Ethics
COSO	Committee of Sponsoring Organisations of the Treadway Commission
IoDSA	Institute of Directors South Africa
IPPF	The International Professional Practices Framework
ISPPIA	International Standards for the Professional Practice of Internal Auditors
King IV	Code of Corporate Governance
PFMA	Public Finance Management Act (2008)
PO	Primary Research Objectives
SA	South Africa
SA	South Africa
SAA	South African Airways
SABC	South African Broadcasting Corporation
SETA	Skills Education Training Authorities
SO	Secondary Objectives
The IIA	The Institute of Internal Auditors

CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION AND BACKGROUND

1.1.1 Introduction and background to the study

The internal audit profession has evolved over the years and plays a pivotal role in any organisation including the public sector and government owned and managed entities such as Eskom and South African Airways (SAA) (The Institute of Directors in Southern Africa, 2016:31). Traditionally, internal audit primarily focused on identifying policy violations and encouraging compliance to laws and regulations. However, currently internal audit stakeholders' (board, senior management, shareholders etc.) expectations and new view of risk management are forcing internal audit in organisations to refocus their efforts beyond regulatory compliance issues by following a risk-based approach in the execution of their roles and responsibilities (KPMG, 2007:1).

The Institute of Internal Auditors (The IIA) (The Institute of internal auditors, 2017:1) defines internal auditing as:

“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

This description of internal auditing is consistent with the definition above which states that internal auditing is an independent and objective activity that provides assurance as a degree of control over operations, and constitutes a guide to improve operations and contribute to value adding within an organisation (The IIA, 2012).

In line with the definition of internal auditing above, the role of internal audit in organisations includes providing reasonable assurance to management that their risk management system is effective, the system of internal control is efficient and effective and also that governance processes are effective (Gleim, 2004:104). According to the IIA (2009), internal audit is a key pillar in good governance as it provides an independent objective view of an organisation’s

control environment. This is echoed by Shamsuddin and Johari (2014:302) who noted that internal audit focuses on an organisation's internal control and compliance to policies and procedures.

According to King IV (Institute of Directors Southern Africa, 2016:31), internal audit as one of the assurance providers in organisations remains pivotal to good corporate governance. In South Africa (SA) specifically, the establishment of an internal audit activity is compulsory for all government owned and managed entities whether at national, provincial and municipal level or Skills Education Training Authorities' (SETA) to assist the Accounting Officers (AO's) and the Audit Committee (AC) in the effective discharge of their responsibilities (Treasury, 2014; Public Finance Management Act:38&60. The Public Finance Management Act (PFMA) (Act 1 of 1999) objective is to secure transparency, accountability and promote good governance in institutions to which the Act applies.

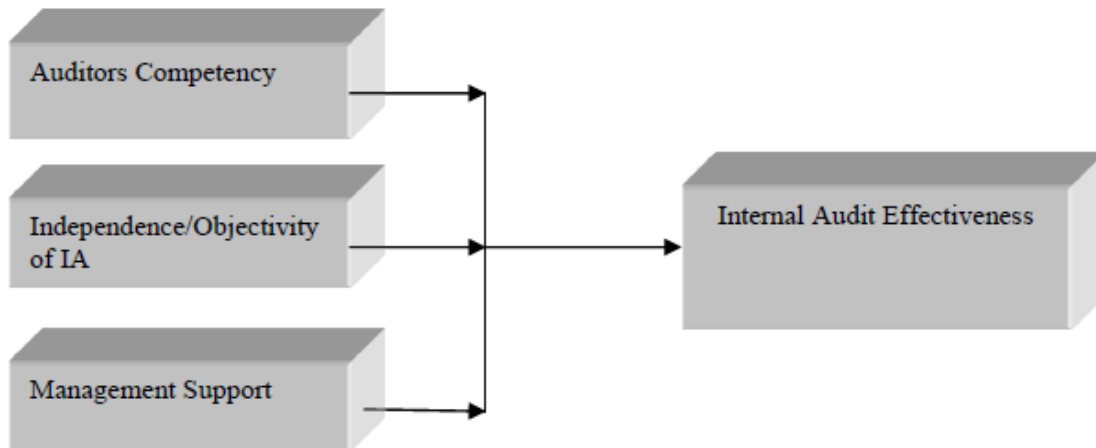
From the above, it is clear that the effectiveness of internal audit activity is paramount in ensuring that sound governance is preserved in both the private organisations and the public sector as well as in government owned and managed entities or organisations. The latter is also evident from recent allegations of mismanagement of funds in government owned and managed entities such as Eskom and SAA in South Africa specifically. In the next section, an overview of some of the previous research on the importance of internal audit in the public sector, and government owned and managed entities or organisations is provided.

1.1.2 Previous research

Research on the importance of internal audit in the public sector, including government owned and managed government entities or organisations has been performed on a global scale and is not only confined to the boundaries of SA. This indicates the importance and interest in this phenomenon internationally.

Globally, studies performed in Ethiopia (Mihret & Yismaw, 2012:482), Saudi Arabia (Alzebana & GwilliambaKing, 2014:81) and Malaysia (Shamsuddin & Bharathii, 2014), on the effectiveness of internal audit in the public sector concluded that the following factors, as depicted in Figure 1. 1, are associated with and contribute to the effectiveness of the internal audit activity.

Figure 1. 1: Internal audit effectiveness framework



Source: Akil *et al.* (2015:33)

Table 1.1 below summarizes the findings of some of the noteworthy research performed internationally on the effectiveness of internal audit over the last few years:

Table 1. 1: The journey so far on internal audit effectiveness

Years	Author and Title	Types of Research	Findings
2003	Dhamankar & Khandewale (2003). Effectiveness of Internal Audits.	Literature Review	The study found that it is accepted that internal audit is an important constituent of good corporate governance and effective internal auditing would be a strong tool in the hands of management.
2007	Mihret, D. G. & Yismaw, A. W. (2007). Internal audit effectiveness: an Ethiopian public sector case study.	Case study research	The study revealed that internal audit effectiveness is strongly influenced by internal audit quality and management support, whereas organisational setting and auditee attributes do not have a strong impact on audit effectiveness.

Years	Author and Title	Types of Research	Findings
2009	Ahmad, et al. (2009). The effectiveness of internal audit in Malaysian public sector.	Empirical research	The study reveals that that the lack of audit staff is ranked as the major problem faced by internal auditors in conducting an effective internal audit.
2010	IIA. (2010). Measuring Internal Audit Effectiveness and Efficiency. IPPF - Practice guide	Literature Review	The finding reveals that internal auditing plays a critical role in the governance and operation of an organisation. When effectively implemented, operated, and managed, it is an important element in helping an organisation achieve its objectives
2011	Unegbu, A.O & Kida, M. I.(2011) Effectiveness of Internal Audit as Instrument of Improving Public Sector Management.	Empirical research	The study showed that the internal audit function can effectively check fraud and fraudulent activities in the Public Sector and that Public Sectors in Kano State have significant numbers of Internal Audit Departments to function effectively.
2015	Zain, N. A., Akil, N. A., & Aziz, N. A. Perception of managers on the effectiveness of the internal audit functions: a case study in TNB.	Empirical research	The study revealed independence, management support and competence as important factors associated with effectiveness of Internal Audit function.

Source: Badara and Saidin (2013:343)

From Table 1.1 above, it is clear that research on internal audit in government or government owned entities has received some attention over the last decade. The importance of research within this field was explained by Pule (2014:91) who elaborated that internal audit effectiveness is associated with the following factors: quality of internal audit activity, support from management, understanding of the department and quality of the auditee. The findings of the study highlight that internal audit effectiveness is strongly influenced by internal audit quality and management support, whereas organisation setting and auditee attributes do not have a strong impact on audit effectiveness (Pule, 2014:91).

1.1.3 Motivation and problem statement

In SA, many government owned and managed entities have been in the spotlight for various issues including amongst others corruption, maladministration, fraud, weak governance and weak internal control (Corruption Watch, 2014; Corruption Watch, 2017; Eyewitness news, 2017; Mail and Guardian, 2017). Amongst the entities which have surfaced in the news during the last few years are SAA and South African Broadcasting Corporation (SABC) while serious questions are been asked about PRASA, Eskom and Transnet regarding the legality of some multi-billion rand procurement contracts (Corruption Watch, 2015; Timeslive, 2017). The question therefore is: what role does internal audit play in assisting these entities to ensure sound corporate governance?

The Auditor General's (AG) (2016) consolidated general report cite the following challenges faced by government entities:

- Uncompetitive and unfair procurement processes;
- Conflicts of interest not declared;
- Increase in unauthorised and irregular expenditure;
- Slow response by management in improving internal controls; and
- Inadequate consequences for poor performance and transgressions.

The Auditor General states that (The Auditor General, 2016:4):

“Internal audit activity can be effective if they are adequately resourced and collectively possess the required competencies; if AC's oversee and support their operations, and if AO's or authorities and senior management cooperate and timeously respond to their advice and recommendations”.

According to Mihret and Yismaw (2007:476), internal audit should be independent/objective and competent to provide useful findings and recommendations in order to be effective.

Not only is the importance of internal audit clear, however from the literature review provided above, it is also highlighted that not much research has been conducted on the effectiveness of internal audit activities at South African government entities specifically. The latter is still a very unexplored area within the boundaries of SA. The study therefore seeks to evaluate the perceived effectiveness of the internal audit activity within selected government owned and managed entities in SA in an attempt to start closing this knowledge gap within this research field.

A study of this nature is therefore required and imperative. The study will provide feedback on the perceived effectiveness of the internal audit activity in government owned and managed entities in SA especially in light of the current financial issues faced by government owned and managed entities. The findings of this study could also shed some light on whether the effectiveness of internal audit activity in selected government owned and managed entities are perceived to be a contributing factor to the several issues noted within government owned and managed entities as noted previously.

1.1.4 Research questions

In an attempt to investigate the problem statement, the broad research question (BRQ) below was formulated:

BRQ: Are the internal audit activities in selected government owned and managed entities perceived to be effective in the execution of their roles and responsibilities?

1.2 RESEARCH OBJECTIVES

The primary research objectives (PO) of this study was to:

PO1: Evaluate the perceived effectiveness of the internal audit activity in selected government owned and managed entities.

The following secondary objectives (SO) were formulated to achieve the PO.

SO1: Defining internal audit and the roles and responsibilities of internal audit in government owned and managed entities.

SO2: Identifying the factors affecting the effectiveness of the internal audit in government owned and managed entities.

SO3: Identifying the research methodology to be applied in this study.

SO4: Evaluating the perceived effectiveness of the internal audit activity in selected government owned and managed entities through analysis of the acquired results.

SO5: Formulating recommendations as to how internal audit activity in the public sector can improve its effectiveness as to ensure that it adds value and play a pivotal role in government owned and managed entities.

1.3 RESEARCH DESIGN AND METHODOLOGY

1.3.1 Research Approach

This study was quantitative in nature and a cross-sectional field survey design was used. A quantitative research method starts with a series of categories that are pre-determined and the

data collected from the pre-determined categories is used to make comparisons and generalisations (Terre Blanche *et al.*, 2006:96). The purpose of the quantitative research method is to determine if a relationship exists between one (independent) variable and another (dependent) variable in a population (Ronald, 2007:17).

A quantitative research method that is defined and conducted properly provides results that are statistically reliable and can be generalised to the entire population (Ronald, 2007:55). A limitation with the quantitative research method is that it does not provide an explanation or provide context that is often obtained by using a qualitative research method (Mcdougal III, 2011:282). Open ended questions in the questionnaires were included so to obtain context to the participants' answers to the questions as to add some depth to the research findings without following a mixed research method.

The questionnaires were developed from the literature review performed within chapter two and subsequently distributed to the targeted participants using the automated research tool of Survey Monkey. Numerical data was collected and analysed to measure the perception of the internal auditors, management and the chief audit executive (CAE) on the effectiveness of internal audit activities at the selected government owned and managed entities.

1.3.2 Research Method

1.3.2.1 Literature review

The main purpose of a literature review is to provide an introduction and background about the study as well as to obtain insights as to when internal audit activity is perceived to be functioning effectively. The following publicly available sources were consulted:

- Internet;
- Electronic books;
- Accredited academic journals;
- Published reports;
- Public Finance Management Act (PMFA);
- King Reports; and
- Commission for Sponsoring Committee (COSO) framework.

1.3.2.2 Research participants

Unit of analysis is defined as the object about which generalizations are made based on an analysis (Wegner, 2012). Unit of analysis is also an important idea in a research project. It is a major entity in which a researcher is analysing which can be individuals, groups, artefacts, and social interactions, among others. Unit of analysis is determined by an interest in exploring a specific phenomenon.

The target participants in this study included the following: internal auditors, chief audit executive and management of selected government owned and managed entities. The information concerning the targeted group of participants was obtained from the selected government owned and managed entities.

1.3.2.3 Measuring instrument(s)

Saunders *et al.* (2009:371) explain that a valid questionnaire is the questionnaire with the ability to measure what the researcher attempts to measure. Saunders *et al.* (2009:156) state that reliability is concerned with the extent to which the measurement instruments will yield consistent results under different times and different sampling conditions. As noted previously, a cross-sectional field survey was used to collect the data to perform an empirical analysis for this study.

1.3.2.4 Research procedure

Permission was sought from the AO/chief executive officer (CEO) of Entity A. Once granted, a list of internal auditors, CAE and management was obtained from the human resources unit. The lists contained, at minimum, the following details: name, surname, office number, cellphone number and email address. The questionnaires were distributed to the targeted participants using the automated research tool Survey Monkey via email.

1.3.2.5 Statistical analysis

The statistical analysis was performed by an independent statistician by making use of Minitab to analyse the information acquired.

1.3.2.6 Ethical considerations

Schurink (2005:43) define ethical issues as the concerns and dilemmas that arise over the proper way to execute research, more specifically not to create harmful conditions for the subjects of inquiry in the research process. According to Shamoo and Resnick (2009:62), ethics need to be considered to guarantee that the standards and moral values regulating the behaviours of the researcher are adhered to at all times. It is important to consider ethical issues that may surface during the research and find ways to deal with the issues that may surface (Greener, 2008:41). It is also imperative to follow ethical standards when designing the research (Shamoo & Resnick, 2009:65). Ethical standards promote the values that are crucial when conducting a research study.

In conducting this study, the ethical standards and behaviour that are acceptable were exercised. No information was shared without consent of the organisation nor that of the participants. The questionnaires were administered in a professional and ethical manner. Participants were informed beforehand that participation is voluntary and that nothing binds them to participating in the research. The research participants therefore voluntarily participated in the research process.

1.4 CHAPTER OVERVIEW

Chapter 1: Introduction and background

This chapter provides an introduction and background to the study. It also describes the problem statement, the research objectives, scope of the study and the research design.

Chapter 2: Literature review

Chapter two addresses SO 1 and SO 2. This chapter discusses the theoretical framework of the study and the applicable models relevant to the study. The literature review also provides the background on internal auditing, legislations and regulations applicable to the internal auditing profession, the roles and functions of the internal audit, and the expectations of stakeholder needs. In addition to the literature review, the different services offered by the internal audit

are described, as well as the differences between an internal audit and external audit. How this fits into government owned and managed entities is also elaborated on.

Chapter 3: Research methodology

Chapter three outlines in detail the research design followed for this study. The researcher used the quantitative research method and provides reasons for using this method. In addition, the sampling technique utilised is described. The data collection and data analysis chosen for this study are also discussed in detail this chapter. Chapter three therefore addresses SO 3.

Chapter 4: Research findings

Chapter four addressed SO 4. This chapter therefore contains a detailed evaluation of the results from the empirical study.

Chapter 5: Conclusions and recommendations

In this chapter, the research is concluded with regards to the research objectives. Recommendations for the research findings and suggestions for future research are made whilst addressing SO 5.

1.5 CHAPTER SUMMARY

This chapter presented the background and the problem statement relating to formulating the research objectives. The research design and methodology followed in an attempt to address the research objectives were outlined. The researcher also described the ethical consideration adhered to in conducting this research. The chapter that follows explores and discusses the relevant research that exists with regard to the effectiveness of internal audit activities in the government entities in an attempt to address SO 2 and SO 3.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter aims to address the following two of the five secondary objectives of the study (chapter one paragraph 1.2, page 7).

SO1: Defining internal audit and the roles and responsibilities of internal audit in government owned and managed entities.

SO2: Identifying the factors affecting the effectiveness of the internal audit in government owned and managed entities.

In order to achieve the two objectives above, the literature review begins by defining what internal auditing is, how internal audit activities are established in government owned and managed entities. The literature then proceed to define the roles, responsibilities and governance of internal audit in government owned and managed entities. Management's role in relation to their responsibilities towards internal audit is defined and an in-depth review on the relevant frameworks and legislation applicable to the internal auditing profession locally and globally is presented. The literature concludes by identifying the factors affecting the internal audit activities effectiveness, with specific focus on SA government entities.

2.2 DEFINING INTERNAL AUDIT

The IIA is an international professional association founded in 1941, with the global headquarters in Altamonte Springs, Florida, USA. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator. The IIA defines internal audit's mission as being to "enhance and protect organisation value by providing risk-based and objective assurance, advice and insight" (Auditors, 2017).

The mission articulates internal audit's aspirations in any organisation and thus is consistent with the definition of internal audit as defined by the institute. The IIA defines internal audit as (The Institute of Internal Auditors, 2017:1):

“an **independent, objective assurance** and **consulting** activity designed to **add value** and **improve an organisation’s operations**. It helps an organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of **risk management, control** and **governance processes**”.

Internal audit is a value adding service when providing an independent appraisal of the diverse operations and controls within an organisation to determine the accuracy and reliability of information. It aims at ensuring that enterprise risks are identified and minimised; regulations and legislation are complied with; resources are efficiently and economically utilised; and the organisation's objectives are effectively achieved (Ackers, 2011).

The following two key functions are identified from the definition above:

- Firstly, to provide an independent, objective assurance service to the management, board of directors (BoD), AC, focusing on reviewing the effectiveness of the **governance processes, risk management** and **controls**.
- Secondly, to provide advice through consulting services to management on **governance processes, risk management** and **control** matters.

It can therefore be depicted that there are three (3) key areas in which internal audit should play a significant role in any organisation, i.e. in the organisation’s **governance processes, risk management** and **controls**.

2.2.1 Internal audit’s role in governance processes, controls and risk management

2.2.1.1 Governance processes

Governance can be defined as operations/activities/structures set by the BoD to guide management and monitor activities of the organisation towards achieving an organisation’s objectives (Auditors, 2010:23). Sheng (2017:1) defines governance as the decision making process which lays out the decisions to be implemented. Hermanson and Rittenberg (2003:27) state that governance processes deal with the procedures utilise by the representatives of the organisation’s stakeholders to provide oversight of risk and control processes administered by management. The monitoring of organisation risks and the assurance that controls adequately mitigate those risks both contribute directly to the achievement of organisational goals and the

preservation of organisation value (Hermanson & Rittenberg, 2003:27). Those performing governance activities are accountable to the organisation's stakeholders for effective supervision (Hermanson Rittenberg, 2003:27).

It can be concluded that governance involves structures/processes put in place to ensure the smooth running of the organisation with the aim of achieving the organisation's objectives. Internal audit, therefore, needs to give assurance on the effectiveness of governance processes within the organisation. These can be achieved by evaluating the organisation's processes while providing advice on corporate governance matters consultatively.

2.2.1.2 Risk management

The corporate world is becoming increasingly complex due to new, evolving, and emerging risks (Grant Thornton, 2013). Ever since the 2008 financial crisis, regulatory and economic pressures, organisations are forced to be thorough when conducting organisation wide risk assessments (Grant Thornton, 2013). The internal audit's role in **risk management (RM)** becomes vital in ensuring that RM is adequately defined. RM is defined as a process effected by organisations board of directors, management and personnel, designed to identify potential events that may affect the organisation from achieving its objectives and/or manage the risk to be within tolerable risk appetite (COSO, 2013:2). Internal audit achieves these by examining organisation tolerance to risk, reviewing RM governance frameworks, strategies and methodologies.

2.2.1.3 Controls

According to the IIA, **controls** are actions taken by management and the BoD to manage the risks within the organisation, while increasing the likelihood that established objectives will be achieved (Auditors, 2010:21). The Business Dictionary (2017) defines controls as mechanism put in place to guide or regulate the activities of the organisation or system. It can thus be said that controls may be the policies or processes put in place to manage risk and increase the likelihood that employees work toward the same objectives and goals.

Internal audit assists management by evaluating controls and making recommendations which assist the organisation to be effective and efficient, by so, ensuring that set objectives are achieved (The Institute of Internal Auditors 2009). National Treasury (2009:49) on internal audit framework noted that internal audit should evaluate the existing controls in terms of their

adequacy and effectiveness, review changes in risk movement and develop recommendations for improvement.

From the above, it is clear that internal audit plays an important role in the successful management of an entity's governance processes, risk management and controls. This is also evident in the King IV report which highlights the pivotal role that internal audit has to play in an organisation. The next section elaborates on the requirements of King IV in relation to the roles and responsibilities of internal audit.

2.2.2 King IV

King IV recognises internal audit as an important assurance provider within organisations and that this function plays a pivotal role in corporate governance (Institute of Directors Southern Africa, 2016: 31). According to King IV, internal audit is a key component of the **combined assurance model**. King IV defines combined assurance as (Institute of Directors Southern Africa, 2016:10) "Incorporating and optimising all assurance services and function so that, taken as a whole, these enable an effective control environment, support for integrity of information used for decision making by management, the governing bodies and its committees and support for integrity of the organisation's external reports."

The model consists of the following three role players of assurance: **management**; **internal assurance**; and **external assurance** as depicted in Figure 1. 1, (page 3). Internal audit can therefore be an internal assurance provider in any organisation and this function is tasked with overseeing the combined assurance model (Barac & van Staden, 2014: 25).

Figure 2. 1: Combined Assurance Model



Source: PwC (2013)

From Figure 2.1 above, it can be noted how the different assurance levels work together to ensure that organisations risks are covered holistically and also to ensure that duplication of efforts are avoided and costs minimised. It is clear that internal audit has to work closely with management and the external assurance provider (i.e. auditors) to ensure that an entities governance, risk management and controls are operating effectively. By doing so, the aim of the combined assurance model will be i) to maximise the risk and governance oversight and control inefficiencies, and; ii) to optimise the overall assurance considering the company risk appetite, can be achieved (Deloitte Touch, 2013:4; IoD Southern Africa, 2016; PwC, 2013:13).

Furthermore, the combined assurance model provides a simple and effective way to enhance communications on risk management and control by clarifying essential roles and duties (KPMG, 2016: 1). Accordingly, i) management is the first line of defence in risk management, ii) the various risk control and compliance oversight functions are the second line of defence, while iii) independent assurance being the third (Deloitte Touch, 2013:7; KPMG, 2016:2).

Internal audit (third line of defense) is construed as providing comprehensive assurance to management and the BoD purely based of their highest level of independence and objectivities

within the organisation (Deloitte Touch, 2013:7). Refer to Figure 2. 2 for the Three Lines of Defence Model (page 17).

Figure 2. 2: The Three Lines of Defense Model



Source: Adapted from ECIIA/FERMA

Similarly to combined assurance model, the Three Lines of Defence Model reflect the various role players and their level of intervention in ensuring that an organisation’s controls and risks are communicated and addressed.

Stakeholders often confuse the internal audit with external audit, hence the differences between both the assurance providers are tabulated below. Both internal and external auditing are assurance providers as per the combined assurance model; however, there is a significant difference between the roles and status held by each of the two assurance providers (IIASA, 2015). Internal auditing has a broader scope in comparison to that of external auditing due to its multidimensional culture (IIASA, 2015). The table below depicts the differences between the internal audit and the external audit:

Table 2. 1: Differences between internal and external auditors

	Internal Auditors (IA's)	External Auditors (EA's)
Mandate	IA's have a duty to senior management and the BoD through the audit committee with regards to the state of governance, risk management, and control within the organisation.	EA's have a statutory obligation to shareholders and the public on the accuracy of the annual report and the financial statements.
Areas of focus	IA's focus on the whole organisation, all departments, functions, and operations.	EA's focus on finance and accounting.
Risk and Control	IA's are part of the organisation, but are independent of management. They provide internal audit assurance and report to the audit committee.	EA's are independent assurance providers to the organisation and have a statutory obligation.
Independence	IA's provide an independent view on the organisation's governance, risk management and control processes. They review the adequacy of control design to ensure that risks are effectively managed, and then test operations of key controls to ensure that they are operating as intended and therefore, are effective in managing the organisation's risk.	EA's identify risks and controls over financial reporting and place reliance on controls to the extent that they are practicable. Emphasis is on gaining sufficient audit evidence to conclude that the financial statement present a true and fair view.

	Internal Auditors (IA's)	External Auditors (EA's)
Objectivity	Evaluate and improve the effectiveness of governance, risk management and control processes. This provides members of the boards and senior management with assurance that helps them fulfil their duties to the organisation and its stakeholders.	Add credibility and reliability to financial reports from the organisation to its stakeholders by giving opinion on the report
Driving results	IA's make recommendations to improve the overall control environment and to improve the operational performance of the organisation as a whole.	EA's make recommendations to improve the financial control environment.
	IA's provides an opinion on the effectiveness of operational activities of the organisation.	EA's gives an opinion of the true and fair view of the financial statement.

Source: IIASA (2015)

Furthermore, internal audit must report to a level within the organisation that allows for fulfilment of its responsibilities, such level must have sufficient authority to promote independence and ensure broad coverage, adequate consideration of engagement communication and appropriate action on engagement recommendations (ISPPIA, Standard 1100:3). According to Treasury regulations, internal audit should report administratively to the AO and functionally to the AC. The internal audit is appropriately positioned if it reports to a level that promote for its independence.

It can thus be said that internal audit is a value adding activity/independent assurance provider within organisations with the purpose of assisting the organisation achieve its objectives. It is an important internal assurance provider as it provides organisations (both private and public sector) with the assurance and necessary defence to the organisation's system of governance, control and risk management. An effective internal audit activity is of paramount importance

in the public sector, hence the compulsory establishment of an internal audit activity in government owned and managed entities.

The following section introduces the requirements for the establishment of internal audit activity in government owned and managed entities.

2.3 ESTABLISHMENT OF INTERNAL AUDIT ACTIVITY IN GOVERNMENT OWNED AND MANAGED ENTITIES

From the previous section it is clear that internal audit is an important component of internal control, risk management and corporate governance as it provides the necessary assurance and advisory services to the organisation. In SA, the PFMA is applicable to all public entities, local and national departments (National Treasury, 2009:6). The purpose of this legislation (PFMA) is to provide guidance to public entities in order to promote sound financial practices to ensure that resources are used effectively, efficiently, and economically (Coetzee & Janse van Rensburg, 2011:62).

Section 38 (1)(a)(ii) of the PFMA prescribes the establishment and maintenance of the system of internal audit under the control and direction of the AC (Department of Labour, 2001:36). The AO of each South African government entity is tasked with ensuring that the entity has an effective internal audit activity.

The following section introduces the compulsory/mandatory compliance in which the internal audit activity in government owned and managed entities has to adhere to.

2.4 ROLES, RESPONSIBILITIES AND GOVERNANCE OF INTERNAL AUDIT IN GOVERNMENT OWNED AND MANAGED ENTITIES

2.4.1 Internal audit roles and responsibilities

Internal audit is a key factor in ensuring that an organisation is effectively managed and that its resources are not misused or misappropriated. In line with the definition of internal auditing noted earlier (paragraph 1.1.1, page 1), the role of internal audit in organisations, which includes government owned and managed entities, includes providing reasonable assurance to management that the **risk management** system is effective, the system **of internal control** is

efficient and effective and also that **governance processes** are effective (Gleim, 2004:104). Internal controls are not limited to financial matters but apply to organisations' operations as well. Essentially, it is a management system, a culture, and a set of values designed to ensure that the organisation is managed efficiently and effectively, with the appropriate policies and procedures that promote the achievement of its overall goals and objectives.

The role of internal audit is further emphasised in the Treasury Regulation (TR) 3.2.12 by stating that, the internal audit activity must assist the AO to achieve the objectives of the organisation by evaluating and developing recommendations for the enhancement or improvement of the processes through which:

- Objectives and values are established and communicated;
- The accomplishment of objectives is monitored;
- Accountability is ensured; and
- Corporate values are preserved.

In line with the definition of internal auditing and international standards, the internal audit has dual responsibilities in organisation namely: providing assurance and consulting services. Internal audit however has to have appreciation of fraud and corruption. Below is a brief discussion on the internal audit role on each service:

Assurance – internal audit provides assurance services by performing the following functions (National Treasury, 2017):

- i. Evaluating the governance processes of the organisation, including ethics, especially the 'tone at the top';
- ii. Performing an objective assessment of the adequacy and effectiveness of risk management and the internal control environment and processes;
- iii. Systematically analysing and evaluating business processes and associated controls; and
- iv. Providing a source of information, as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities.

With **consulting services**, internal audit has to first satisfy itself that: i) the nature of the services relates only to the improvement of governance, risk management and control

processes; ii) the scope and timing is agreed upon with management prior to commencement of the engagement; iii) its independence and objectivity will not be impaired; iv) there is sufficient time available to perform the service; and v) the resources, as well as the necessary skills are available in order to add value to the client, before it can accept the assignment (National Treasury, 2017).

2.4.2 Internal audit mandatory compliance in SA government owned and managed entities

Internal audit divisions operating in government owned and managed entities are required to comply with the following legislation and other regulations (National Treasury, 2009):

- The Constitution of the Republic of South Africa;
- The Public Finance Management Act, (Act No. 1 of 1999, as amended by Act 29 of 1999 (PFMA));
- The Treasury Regulations (TR) issued in terms of the PFMA;
- International Standards for the Professional Practice of Internal Auditing (ISPPIA);
- Code of Ethics;
- Core principles for the professional practice of Internal Auditing; and
- The COSO ERM framework.

The above requirements are discussed in brief below.

2.4.2.1 The Constitution of the Republic of South Africa

The Constitution of the Republic of South Africa (Act 8 of 1996), specifically Chapter 10, section 195(1) and (2) and Chapter 13, section 215 (1) lays out principles in which the internal audit must embed in their responsibilities of evaluating the organisations' controls, risk management and governance processes. In brief these include (National Treasury, 2009:4):

- Chapter 10, section 195 (1) and (2) refers: “Democratic values and principles that include, amongst others, a high standard of professional ethics; efficient, economic and effective use of resources; accountability and transparency must govern public administration. The principles apply to administration in every sphere of government, organs of state, as well as public enterprises.”

while

- Chapter 13, section 215 (1) states that: “National, provincial, and municipal budgets and budgetary processes must promote transparency, accountability, and the effective financial management of the economy, debt and Public Sector.”

2.4.2.2 Public Finance Management Act (PFMA)

Section 38 (1)(a)(ii) of the PFMA prescribes the establishment of internal audit activity and also emphasises the importance for public entities to have an effective internal audit activity (Department of Labour, 2001:36). The PFMA places a responsibility on the AO’s of government owned and managed entities to ensure that such institutions establishes and maintains the effective system of internal audit. The act further prescribe that internal audit; i) be under the control and direction of the AC; and ii) operate in accordance with regulations and instructions issued by the National Treasury, in a form of treasury regulations.

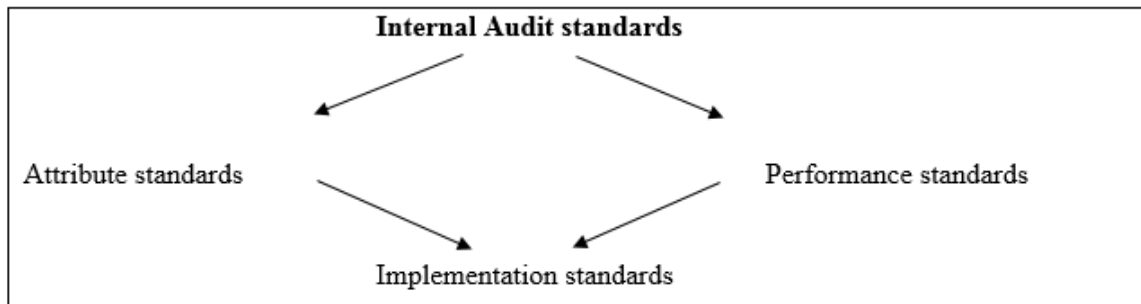
2.4.2.3 Treasury Regulations

Treasury Regulations are applicable to all government owned and managed entities, and its purpose is mainly to promote transparency and accountability within the public sector spheres (Coetzee & Janse van Rensburg, 2011:62). The regulations provide the necessary guidelines for the internal audit activity (Coetzee & Janse van Rensburg, 2011:62). Some of these include: i) establishment of the internal audit activity; ii) performance of risk assessment; iii) submission of the strategic annual and three year rolling to AC for approval; iv) independence of the internal audit; and iv) unrestricted access to information.

2.4.2.4 International Standards for the Professional Practice of Internal Auditing (ISPPIA)

The IIA is the principal body for the internal audit profession globally. Like many other professions in the world, internal audit is a profession with its own laws and regulations which guides the professional practice. The IIA has documented the ISPPIA which guides the practice of internal auditing. The standards are therefore compulsory for all internal audit activities irrespective of organisation size, mandate or complexity. Figure 2. 3 below depicts the structure of International Standards for the Professional Practice of Internal Auditing. Table 2. 2 that follows elaborates on each of these standards.

Figure 2. 3: International Standards for the Professional Practice of Internal Auditing



Source: The IIA, 2015

Table 2. 2: International Standards for the Professional Practice of Internal Auditing

Internal audit standards and description	
<p>Attribute Standards address the attributes of organisations and individuals performing internal auditing. Some of these include:</p> <ul style="list-style-type: none"> • Standard 1000 – which addresses the purpose, authority, and responsibility of the internal audit. • Standard 1100 – which addresses the independence and objectivity required of the internal audit. • Standard 1200 – which addresses the proficiency and due professional care expected of prudent internal audit. • Standard 1300 – which addresses the quality assurance and improvement program the internal audit is required to adhere to. 	<p>Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Some of these requirements include:</p> <ul style="list-style-type: none"> • Standard 2000 – which describes the process of managing the internal audit activity. • Standard 2100 – which describes the nature of work of the internal audit. • Standard 2200 – which describes the manner in which internal audit is required to plan its engagement Standard 2300 – which describes the manner in which internal audit has to perform its engagement.

Internal audit standards and description	
	<ul style="list-style-type: none"> • Standard 2400 – which describes the manner in which internal audit should communicate the results. • Standard 2500 – which describes the manner internal audit should monitor progress.
<p>Implementation Standards are provided to expand upon the Attribute and Performance standards, by providing the requirements applicable to assurance (A) or consulting (C) activities.</p>	

Source: The IIA (2015)

2.4.2.5 Code of Ethics

The IIA has documented the Code of Ethics (CoE) which promotes the ethical culture in the internal auditing profession. The CoE consists of the following two essential components which extends beyond the definition of internal auditing:

- Principles that are relevant to the profession and practice of internal auditing.
- Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The table below lists the IIA Code of Ethics principles and rules of conduct:

Table 2. 3: Code of Ethics

Principles	Rules of Conduct
<p>Integrity</p> <p>The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.</p>	<p>Internal auditors:</p> <ul style="list-style-type: none"> • Shall perform their work with honesty, diligence, and responsibility. • Shall observe the law and make disclosures expected by the law and the profession. • Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to

Principles	Rules of Conduct
	<p>the profession of internal auditing or to the organisation.</p> <ul style="list-style-type: none"> • Shall respect and contribute to the legitimate and ethical objectives of the organisation.
<p>Objectivity</p> <p>Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.</p>	<p>Internal auditors:</p> <ul style="list-style-type: none"> • Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation. • Shall not accept anything that may impair or be presumed to impair their professional judgment. • Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.
<p>Confidentiality</p> <p>Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.</p>	<p>Internal auditors:</p> <ul style="list-style-type: none"> • Shall be prudent in the use and protection of information acquired in the course of their duties. • Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.
<p>Competency</p> <p>Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.</p>	<p>Internal auditors:</p> <ul style="list-style-type: none"> • Shall engage only in those services for which they have the necessary knowledge, skills, and experience. • Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards).

Principles	Rules of Conduct
	<ul style="list-style-type: none"> • Shall continually improve their proficiency and the effectiveness and quality of their services.

Source: Auditors (2010)

2.4.2.6 Core Principles for the Professional Practice of Internal Auditing

The newly expanded mandatory International Professional Practices Framework (IPPF) now include core principles for the professional practice of internal auditing (The Institute of Internal Auditors, 2017). Previously, mandatory guidance only consisted of the three definition of internal auditing, code of ethics and standards. The institute has made a determination that for an internal audit activity to be effective, the following core principles need to be present and operating effectively (The Institute of Internal Auditors, 2017):

- Demonstrate integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement.

The IIA further states that failure to achieve any of these principles would imply that an internal audit activity is not as effective as it could be in achieving internal audit’s mission.

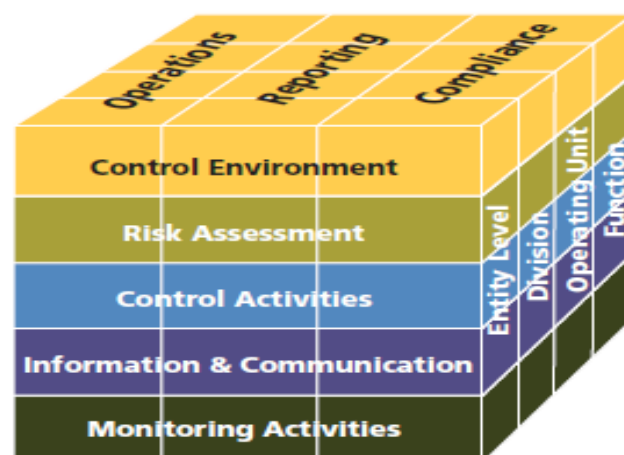
2.4.2.7 The Committee of Sponsoring Organisations (COSO) ERM Frameworks

The Committee of Sponsoring Organisations of the Treadway Commission (COSO) developed an **internal control** integrated framework which aims to assist the organisations to effectively and efficiently develop and maintains systems of internal control that can enhance the likelihood of achieving the entity’s objectives and adapt to changes in the business and operating environments (COSO, 2013:2). Gleim (2004:169) defines **internal control** as “a

process that is affected by an entity’s BoD, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance” while COSO posit that internal control assist organisations sustain and improve performance thereby achieving its objectives (COSO, 2013:2).The framework assists organisations to design and implement effective internal controls. The framework (Figure 2. 4, page 28) is fundamentally sound for designing, implementing, maintaining systems of internal control and assessing their effectiveness (COSO, 2013:3). The COSO framework is built around the following five interrelated components (COSO, 2013:3-5):

- **Control environment** which are referred to as set of standards, processes and structures that provide the basis for carrying out internal control across the organisation.
- **Risk assessment** which is a process for identifying and assessing risks related to achievement of a company’s objectives.
- **Control activities** are defined as actions that help ensure that management’s directives to mitigate risks are carried out, such as authorizations and approvals, verifications, reconciliations, business performance reviews and segregation of duties.
- **Information and communication.** This is the flow of information necessary to support the internal control function. It includes effective upstream and downstream communication within a company as well as communication with external parties such as customers, suppliers, regulators and shareholders.
- **Monitoring** it is an ongoing evaluation of the internal control system’s performance over time.

Figure 2. 4: COSO Framework



Source: COSO (2013:5)

The framework depicts the internal control that the internal audit should use in achieving its goals and ensuring value add towards an organisation's goals. The five components as in the framework can be applied or are applicable at all spheres i.e. at entity level, division, operating and function.

From the above, it is clear that there are several standards and legislation that govern internal audit activities. The mere presence of these highlights the importance of the internal audit function and its effective functioning. The next section lays out management responsibilities in relation to internal audit.

2.5 MANAGEMENT RESPONSIBILITIES IN RELATION TO INTERNAL AUDIT

Management is responsible for the implementation and monitoring of the specific internal controls of its operations. Management is required to establish the internal audit activity to assist with the review of the efficiency, effectiveness and economy of internal controls. Hermanson and Rittenberg (2003:33) emphasize a point that management should not use internal audit as a substitute for a strong internal control. Management is therefore expected to support the work of internal audit.

Section 51(1) (a) of the PFMA states that; "An accounting authority of a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of internal control and risk management." Management through its governance structures should ensure that the system of internal control exists, acceptable business practices implemented and complied to, and that effective governance is established (University of Nebraska–Lincoln - Office of Internal Audit, 2017).

Senior management should protect the internal audit activity from management or political interference or retaliation. Internal audit, therefore, should carry out their legitimate duties in accordance with ISPPA. Management who are subjected to internal audit review should:

- Participate in the opening conference, to provide contacts key to the engagement under review and provide inputs on the areas of concerns under auditable area. Such participation should result in agreement of the engagement scope.

- Provide internal auditors with supporting evidence required to perform independent examination.
- To provide the management comments, action plan and implementation date for the agreed findings.
- Upon completion of the review, formally discuss the internal audit recommendations and agree on the action plans and the timelines within which to implement recommendations.
- Implement the agreed upon recommendations and provide evidence that the recommendations are implemented.

Internal audit in turn is responsible to educate clients about their role and the role of management towards internal audit. Based on the above, management has a pivotal role to play in ensuring the effective functioning of internal audit, specifically in connection with the organisation's (public and/or non-public) governance, risk management and controls.

Internal audit effectiveness, which is the bone of contention for this study, is discussed in brief in the section to follow.

2.6 DEFINING INTERNAL AUDIT EFFECTIVENESS

Researchers around the globe have studied the effectiveness of internal audit, many whom agree that there has not been sufficient research done or consensus reached about the internal audit effectiveness framework (Endaya & Hanefah, 2013:92). The topic **internal audit effectiveness** has become fruitful over the decades, (Mu'azu Saidu BADARA, 2013:343) simply because internal audit has become an important role player for management in reviewing the organisation's (public and/or non-public) governance, risk management and controls.

The IIA uses the words, "**effectiveness**" and "**internal audit effectiveness**" - interchangeably, and thus define both "as the degree to which established objectives are achieved" (Vijayakumar & Nagaraja: 2012:6). Blackburn (2003:1) defines effectiveness as the achievement of intended goals. According to Oxford dictionary (2017), "**effective**" is demarcated as "successful in producing a desired or intended results", while Omar (2007:1) defines effectiveness as the

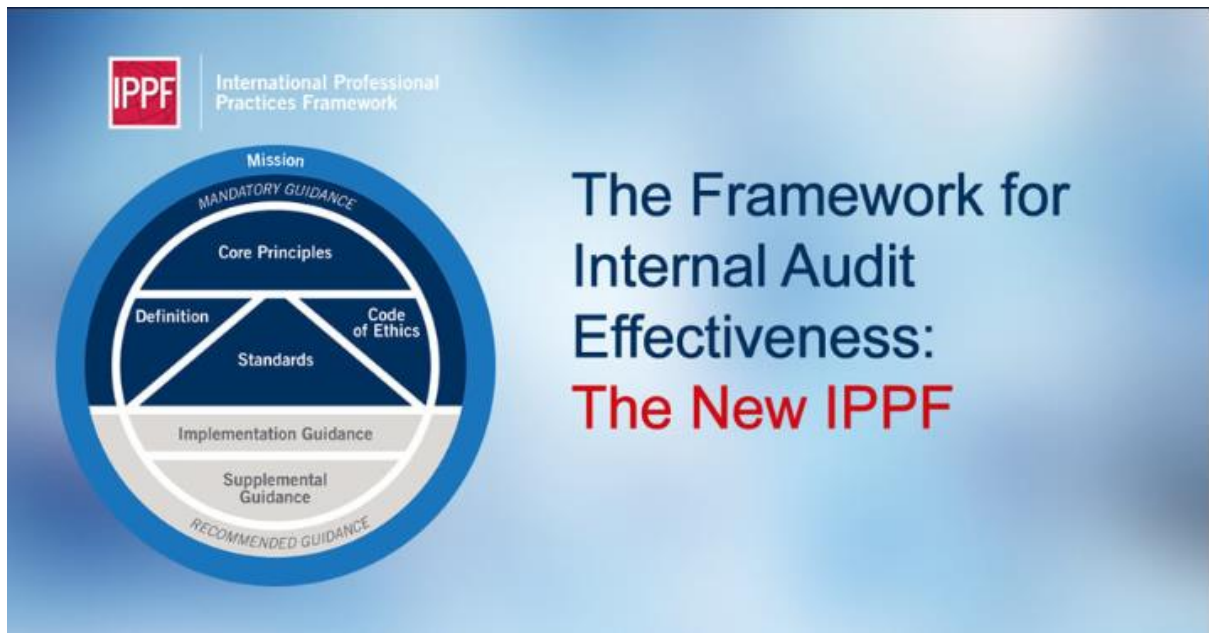
ability to achieve the objectives and goals. It can thus be said that effectiveness is the ability to ensure that a process followed produces the anticipated results.

From the definition provided by the IIA, the conclusion can be drawn that internal audit effectiveness can be as a result of internal auditors achieving the established/set objectives within the organisation, **while** Ussahawanitchakit and Intakhan (2011:5), state that internal audit effectiveness mirrors the outcome of the work or activities, professional practices, commitments to standards, goals and policies done by the internal auditors. Mizrahi and Ness-Weisman (2007:196) posited that internal audit effectiveness relates to the number and scope of deficiencies corrected following the audit process.

Unegbu and Kida (2011:304), suggest that effective internal audit is necessary as it brings perfection in the government organisational activities. Suggestions are made that an operation is regarded as effective if it produces desired results which are consistent with the established objective (Ahmad *et al.*, 2009; Intakhan, & Ussahawanitchakit, 2011). According to Sawyer (1995:54), internal audit is effective if it meets the intended outcome.

There are attributes associated with effectiveness of internal audit activity. In SA, the National Treasury in the Internal Audit framework of 2009, which applies to all public entities, has not clearly defined the measurement for the effectiveness of internal audit. The IPPF, however, is believed to provide necessary impetus for a sustainable and effective internal audit mechanism in government (National Treasury, 2009:3). The IIA, through an introduction of the Core Principles in the new IPPF, states that for internal audit activity to be effective, the core principles has to be present and operating effectively (America, 2017). The figure below depicts currently updated Internal Audit Effectiveness Framework.

Figure 2. 5: The Framework for Internal Audit Effectiveness: The New IPPF



Source: The IIA (2001)

The newly updated framework provides mandatory guidance as well as recommended guidance that the internal audit activity must use to ensure that it achieves its mission. The mandatory guidance include; i) core principles; ii) definition of internal auditors; iii) standards; and iv) code of ethics *while* implementation and supplemental are the recommended guidance. The framework is thus referred to as internal audit effectiveness.

The factors for effective internal audit activity are discussed in the next section.

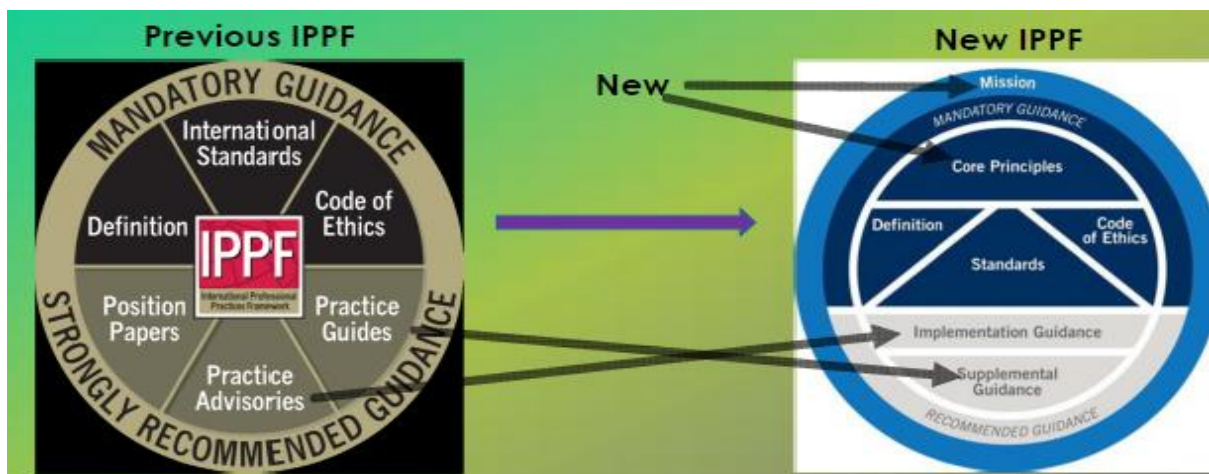
2.7 FACTORS THAT DETERMINE THE EFFECTIVENESS OF INTERNAL AUDIT ACTIVITIES

There has not been a consensus amongst researchers about the factors that influence the effectiveness of internal audit activity or on the measurement for such (Endaya & Hanefah, 2013:92). This is echoed by Alzeban and Gwilliam (2012:3) that there is no definitive measure of internal audit effectiveness or uniformity in terms of measuring the effectiveness of the internal audit activity.

The need for researchers to explore the topic “internal audit effectiveness” has since been advanced more especially for the developing countries across the globe (Al-Twaijry et al., 2003; Mihret & Yismaw, 2007; Arena & Azzone, 2007; Arena & Azzone, 2009; Ahmad et al., 2009; Endaya & Hanefah, 2013:92).

There has not been a model developed to measure the effectiveness of internal audit until recently when the IIA introduced the mandatory core principles which address the effectiveness of internal audit. Figure 2. 6 below illustrates the changes made to the IPPF. The current IPPF in force include the “mandatory” core principles which articulate internal audit effectiveness. It is said that all the **principles** should be present and operating effectively for an internal audit activity to be considered effective.

Figure 2. 6: Changes in IPPF



Source: IIA (2015)

According to Oxford dictionary (2017), principles are defined as the fundamental proposition that serves as the foundation for a system of belief or behaviour or chain of reasoning, while Khan (2016:88) defines principles as the fundamental norms, rules or values that represent what is desired and positive for a person, group or organisation. It is further said that principles assist in determining the rightfulness or wrongfulness of actions (Mohammed, 2013:14). Principles are therefore beliefs, values and structure created, they also determine how effectively the team balances tasks with relationship and leaning.

Internal audit should adhere to the following principles for it to be perceived as being operating effectively and these principles should be present and working (The Institute of Internal Auditors, 2017):

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independence).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

The core principles by the IIA are an expansion of factors which the various researchers have already associated with the effectiveness of internal audit. A point was made that there has not been a uniform model developed to measure the effectiveness of internal audit activity. The principles are therefore discussed below not in any particular order.

2.7.1 Independence

Shamsuddin and Bharathii (2014) in their findings state that the **independence** of the internal auditors very much affects the effectiveness of the internal audit and that lack of independence by the internal auditors when conducting their work may lead to the output report that may be biased and in turn become useless in improving systems and processes of the public sector. Alzeban and Gwilliam, (2012:8) state that without independence, internal audit becomes party to management and loses ability to become objective. Alzeban and Gwilliam (2012:8) as well as Shamsuddin *et al.* (2015) associate auditors' independence to effectiveness of internal audit activity. According to ISPPA Standard 1100 – Independence and Objectivity (Auditors, 2010): “Internal audit activity must be independent, and internal auditors must be objective in performing their work”. It is further expatiated that independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out its responsibilities in an unbiased manner (Pickett, 2011).

Independence cannot be read in isolation from objectivity as ISPPIA Standard 1100 specifically make mention of, i) independence, and; ii) objectivity. The IIA define objectivity as an unbiased mental attitude that allows internal auditors to perform their work proudly and without compromising the quality (Auditors, 2010) The definition of internal auditing characterise internal audit as an independent and objective assurance provider (The Institute of Internal Auditors, 2016) as noted previously (paragraph 1.1.1, page 1) which is in line with the standard.

The internal audit accomplishes both independence and objectivity under conditions documented in the table below:

Table 2. 4: Independence vs. Objectivity

Independence	Objectivity
When internal audit reports functionally to the Board/AC (at organisational level) (The IIA, TRIAF).	When IA’s are impartial, unbiased in performing their work.
When internal audit allowed space or is free from interference from management in determining its scope of work.	When internal audit avoid any conflict of interest. The IIA define conflict of interest “as a situation in which an IA’s in a position of trust has a competing interest either professionally, personally or otherwise”
When internal audit has direct access to the Board/AC, Accounting Authority and Executive Authority.	
When internal audit does; i) not have operational authority over the activities reviewed, ii) develop systems, procedures etc; and iii) nor approve accounting records (TRIAF).	

Source: The Institute of Internal Auditors (2017)

Mihret and Yismaw (2007:480) infer that independence is of vital value in providing effective internal audit service to the management as it allows an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited.

To further strengthen the independence of the internal audit, Standard 1000 – Purpose, Authority and Responsibility, requires that internal audit formally document internal audit charter which clearly defines its purpose, authority and responsibility (The Institute of Internal Auditors, 2016:15). The charter should be presented to senior management and BoD/AC for approval. Internal audit charter is defined as a formal document which establishes the internal audit activity's position within the organisation; reporting protocols; authorises access to records, personnel and physical properties relevant to the performance of the engagements; and defines the scope of internal audit activities (The Institute of Internal Auditors, 2016:15). The three (3) mandatory parts of the charter are discussed below:

2.7.1.1 Purpose

The purpose of the internal audit activity is to achieve its mission in accordance with the following National Treasury regulations sections 3.2.11 and 3.2.12 (National Treasury, 2009):

- Assist the AO's in maintaining efficient and effective controls by evaluating those controls to determine their adequacy, effectiveness and efficiency, and providing recommendations for enhancement or improvement. The controls subject to evaluation should encompass the following (National Treasury, 2009):
 - a) the information systems environment;
 - b) the reliability and integrity of financial and operational information;
 - c) the effectiveness of operations;
 - d) safeguarding of assets; and
 - e) compliance with laws, regulations and controls.
- Assist the AO's in achieving the objectives of the institution by evaluating and developing recommendations for the enhancement or improvement of the processes through which (National Treasury, 2009):
 - a) objectives and values are established and communicated;
 - b) the accomplishment of objectives is monitored;
 - c) accountability is ensured; and
 - d) corporate values are preserved.

2.7.1.2 Authority

The internal audit activity authority include amongst others, unrestricted access to the organisation's management, financial and operational activities, records (either manual or electronic), physical properties and personnel relevant to a review, but subject to strict accountability for safekeeping and confidentiality thereof (National Treasury, 2009:84). The internal audit activity must have free and unrestricted access to the AO, AC and the Executive Authority (EO) (National Treasury, 2009:84).

2.7.1.3 Responsibilities

The scope of internal audit should encompass, but not be limited to the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organisations' stated goals and objectives (National Treasury, 2009).

As noted above, authors agree that internal audit activities / internal auditors must be independent for the internal audit to be considered effective. Accordingly, the IIA in the core principles also states that internal audit should be objective and free from undue influence (independence) (The Institute of Internal Auditors, 2017). It is thus clear that independence is of paramount importance for an internal audit activity to operate effectively.

2.7.2 Competence

Competence is defined as the ability to do something successfully or efficiently (Oxford dictionary, 2017) while Teodorescu and Binder (2004:10) define competence as being the desired end state for individual performance. Competence of internal audit is directly associated with its effectiveness (Cohen & Sayag, 2010; George *et al.*, 2015:115; Mousa, 2005; Salehi, 2015). Internal auditors are considered important in organisations as they contribute to the organisation achievement of goals and objectives hence the need to be competent (Cohen & Sayag, 2010). Shamsuddin *et al.* (2015) state that internal auditors should be competent and apply due care in their assessments. Standard 1200 – Proficiency and Due Professional Care refers: “engagement must be performed with proficiency and due professional care”. It means that internal auditors performing the work must collectively possess the skills knowledge and competence needed to perform the individual responsibilities. Competence is one of the CoE's

(paragraph 2.4.2.5, page 25) principles that internal auditor should adhere/comply to as noted previously.

According to the CoE – rules of conduct, internal auditors shall (The Institute of Internal Auditors, 2017):

- Engage only in those services for which they have the necessary knowledge, skills, and experience;
- Perform internal audit services in accordance with the ISPPIA; and
- Continually improve their proficiency and the effectiveness and quality of their services.

Also the core principles requires that internal auditors demonstrates competence and due professional care.

Internal auditors should possess the technical competence and continuous training, as the two are considered essential for the internal audit effectiveness (Mihret & Yismaw, 2012). Seol and Sarkis (2005) suggest the two skills relevant for the internal auditor, namely: cognitive skills (technical, analytical and appreciative) and behavioural skills (interpersonal and organisational). Standard 1200, (sub 1210 – proficiency; 1210.A1) states that internal auditors must possess the knowledge, skills and other competencies required to effectively execute their professional responsibilities (ISPPIA, 2017). The responsibility is delegated to the CAE to ensure that internal auditors have the necessary skills/knowledge/competencies required (ISPPIA). Standard 1220 – Due Professional Care, internal auditors must apply care and skill of a prudent and competent auditor, it further state that due professional care does not imply infallibility.

2.7.3 Quality and Continuous Improvement

Standard 1230 of the ISPPIA - Continuing Professional Development requires that internal auditors enhance their knowledge, skills and competencies required so to ensure collective mix of internal audit resources. Internal audit is therefore adequately resourced if it contains a mix of skills required to execute its annual plan. This is consistent with the core principle that internal audit should be adequately resourced. As per Standard 2030 – Resource Management, it is of utmost importance that resources are appropriate, sufficient and effective deployed to

achieve the internal audit plan (Auditors, 2010). One core principle is that internal audit should demonstrate quality and continuous improvement, this is consistent with standard 1230.

According to standard 1300 – Quality Assurance and Improvement Programme (QAIP), the CAE should develop and maintain a QAIP (Auditors, 2010), the programme must include both internal and external assessment. Internal assessment include ongoing monitoring performance and periodic self-assessment while external assessment should be conducted at least once every five years by a qualified or independent reviewer from outside the organisation (Auditors, 2010).

2.7.4 Positioning and resources

Another core principle by the IIA reads that internal auditing “is appropriately positioned and adequately resourced”. Positioning of internal audit is prescribed and according to ISPPA, internal audit is required to report to a highest level with sufficient authority that enables for the fulfilment of its responsibilities. Such level must have sufficient authority to promote independence and to ensure broad coverage, adequate consideration of engagement communication and appropriate action on engagement recommendations (Auditors, 2010). According to Treasury regulations, internal audit should report administratively to the AO and functionally to the AC. The internal audit is appropriately positioned if it reports to a level that promotes its independence (Auditors, 2010). The core principle (is appropriately positioned and adequately resourced) is an extension of the requirement of: Standard 1100 - Independence and Objectivity; and Standard 1230 - Continuing Professional Development.

2.7.5 Integrity

Another attribute of highly effective internal audit as alluded by Chambers and McDonald (2013:217) is **integrity** which is also one of the core principles that internal auditors need to demonstrate (The IIA, 2015, CoE: 2015). Integrity is defined as consistently doing what is right, what is expected in a transparent, honest and ethical manner (Long, 2017). It is said that the character “trust” is closely associated with integrity. CoE require that internal auditors establishes trust and provide basis for the reliance to their judgement. As per the rules of conduct, internal auditors should not be party to illegal activities, rather contribute to the legitimate ethical objectives of the organisations (The Institute of Internal Auditors, 2017).

Research performed by Chambers and McDonald (2013:217) identified integrity as one of the attributes that internal audit should possess in order to add value to the organisation to which they provide internal audit services. It is therefore clear that the integrity for internal auditors is of paramount importance to be perceived as being effective.

2.7.6 Communications

According to Mihret and Yismaw (2007), effective **communication** is a part of the internal audit quality, and can be said to be one of the important factor influencing the effectiveness of internal auditing. Chambers and McDonald (2013:6) identify communications as one of the attributes of highly effective internal audit. (Refer to Figure 2. 7 below for the seven (7) attributes areas for highly effective internal auditors). Communication skills of internal auditors with management and stakeholders directly affects the effectiveness of internal audit (EY, 2016:1). Chambers and McDonald (2013:7) argue that communication skills extend beyond the written report and rather verbal communication skills are equally important. The core principle require that internal audit communicate effectively. Figure 2.7 below depicts the attributes of highly effective internal auditors.

Figure 2. 7: Attributes of highly effective internal auditors



Source: Plant and Steyn (2010)

According to Standard 2420 - Quality of Communications, internal audit must be accurate, fair, objective, clear, timely, concise, constructive, complete, impartial or unbiased, avoid unnecessary use of technical language, and be rather straight to the point in communicating the observations, recommendations and conclusions (Auditors, 2010:18). Internal audit reports

issued on time are opportune and expedient, depending on the significance of the issue, allows management to take appropriate corrective action (Auditors, 2010:18).

2.7.7 Risk based approach

As explained earlier (paragraph 1.1.1, page 1) that internal audit's role has changed over the years and is continuing to evolve, internal audit activity is now required to follow a risk based approach (The Institute of Internal Auditors, 2017; KPMG, 2007:2). In line with Standard 2010 and 2100 – the CAE is to establish a risk-based plan which is consistent with the organisation's goals, objectives and risks of the organisation (The Institute of Internal Auditors, 2017; Woller, 2017).

Internal audit in developing their plans should also consider inputs, risks or concerns from management (National Treasury, 2009:83). The mission of internal audit is very specific in that it needs to provide risk-based and objective assurance in order to protect and enhance organisational value (The Institute of Internal Auditors, 2017). Internal audit, in applying the risk based approach, should also consider the organisation's risk framework and risk appetite set by management (Benli & Celayir, 2014:9). It is important for internal audit to consider emerging risks when developing their plans and proactively sharpen their focus (EY, 2016).

2.7.8 Alignment with organisation strategies, objectives and risks of the organisation.

Alignment with the organisational strategies and objectives is to be demonstrated at all spheres of the internal audit value chain e.g. planning, when managing the internal audit activity, reporting and control (Benli & Celayir, 2014:11). In line with Standard 2010 and 2100 – the CAE is to establish a risk-based plan which is consistent with the organisation's goals, objectives and risks of the organisation (The Institute of Internal Auditors, 2017; Woller, 2017).

Further, public sector requirement is that, internal audit activity must produce an annual internal audit opinion, this opinion should provide assurance that internal audit plan aligns to organisation's objectives and priorities (The Institute of Internal Auditors, 2016). Standard 2010.A1 requires that internal audit activity plan of engagement be based on a documented risk assessment at least taken once annually (The Institute of Internal Auditors, 2017:24).

Standard 2210.C1 and 2210. C2, requires that internal audit activity ensures that their engagement in consulting activities must address governance, risk management and control

processes and that consulting engagement objectives must be consistent with organisation's values, strategies and objectives (The Institute of Internal Auditors, 2016:27).

2.7.9 Insightful, proactive and future focused

As per the core principles, in an advisory role, internal audit needs to be insightful, proactive and future focused. Organisations grow and innovate, that means constant change and new venture on the horizon (Deloitte, 2015:3). The internal audit therefore needs to move away from traditional audits and engagement in projects related to strategy and be innovative about new ventures hence the importance of internal audit. It is also important for internal audit activity to keep up with the risks and controls of the organisation as it evolves into a business of tomorrow (Deloitte, 2015:3). Amongst audits being carried by the internal audit activity are data analytics; global internal audit fraud prevention controls; cyber-crimes; and people risk.

The performance standards (2010: Planning; 2120: Risk Management, and 2060; Reporting to Senior Management and the Board) specifically guide the internal auditors on which standards to apply in order to be pro-active, insightful and future focused.

2.7.10 Organisation improvement

According to standard 2130 – Control: “The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement” (Auditors, 2010). To ensure that organisation processes, system of risk management and governance processes are improved, internal audit activity need to effectively implement the quality assurance and improvement program. This will ensure that all the audits are performed at the standard required by the internal audit institute.

2.7.11 Management support

Although the core principles are silent on support from management, researchers regard “management support” as another factor associated with internal audit activity effectiveness (Mu'azu Saidu BADARA, 2013; Alzebana & GwilliambaKing, 2014:79; George, *et al.*, 2015:115). Ibrahim *et al.* (2014) concluded that management support to internal audit is one of the key determinants of effective internal audit. It is said that internal audit is most effective if it has support from senior management (Soh & Martinov-Bennie, 2011; Ahmad *et al.* (2009). Internal auditors are expected to provide management with the status of their activities, advance

recommendations and conclusions reached (Badara & Saidin, 2012), while management should in turn implement the internal audit recommendations (Ibrahim, et al., 2014).

Success of internal audit depends on the support management provide to internal audit, hence if management fails or do not prioritise implementation of the recommendations, internal audit is rendered ineffective (Shamsuddin, et al., 2015). Alzeban and Sawan (2013) state that management needs to create an environment that allows for internal audit to perform its duties and responsibilities. Management support to internal audit signals the role and the value of internal audit throughout the organisation and is paramount to the effectiveness of internal audit (Shamsuddin, et al., 2015).

From the above, it is evident that there are a variety of factors that influence the effectiveness of internal audit. Internal audit divisions therefore have to ensure that they meet the above requirements if they are to be perceived effective.

2.8 CHAPTER SUMMARY

This chapter commenced by defining internal audit and noted that internal audit as an internal assurance provider with the aim of assisting the organisation achieve its strategic objectives. This was followed by a discussion on the conceptual framework of internal auditing. The role internal audit plays in the combined assurance model and how the internal audit play the defense in organisation's internal control and risk management were also highlighted. The establishment and roles of internal audit in SA government owned and managed entities were discussed in detail and it was noted that internal audit activities in government owned and managed entities are mandatory and are aimed at assisting the AO's to ensure an effective system of risk management, control and governance processes.

The legislations and frameworks applicable and relevant to internal auditing in SA government owned and managed entities were also discussed. It was noted that legislations and frameworks such as the COSO framework, IPPF, Treasury Regulations, PFMA and The Constitution of the Republic of South Africa all play an important role in the effective functioning of an internal audit function within a government owned and managed entity.

The chapter further highlighted the role of management in relation to the responsibilities towards internal audit activities. Finally, the chapter elaborated on the factors affecting the effectiveness of internal audit activities in government owned and managed entities. This included, internal audit; i) demonstrating integrity; ii) demonstrating competence and due professional care; iii) being objective and free from undue influence (independence); iv) aligning with the strategies, objectives, and risks of the organisation; v) being appropriately positioned and adequately resourced; demonstrating quality and continuous improvement; vi) communicating effectively; vii) providing risk-based assurance; ix) being insightful, proactive, and future-focused; x) promoting organisational improvement and lastly, management support.

The next chapter elaborates on the research methodology followed in this study.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

In the previous chapter attention was given to the theoretical underpinning of this study. The purpose of chapter three is to address the third secondary objective as noted in chapter one (paragraph 1.2, page 7) which is:

SO3: Identifying the research methodology to be applied in this study.

In this chapter of the study some attention is given to the philosophical underpinnings of the research process. The researcher begins by defining the theoretical paradigms, then the different types of research. The researcher proceeds to define the population and sampling employed including highlighting the reasons for selecting a specific approach, and sample method. In addition, data collection tools and analysis methods are described. Finally, the ethical considerations applied in performing this study to address the research objectives are discussed.

3.2 THEORETICAL PARADIGMS

According to Muijs (2010), there are two fundamentally different worldviews underlying quantitative and qualitative research, thus suggesting that **quantitative** views are described as being 'realist' or 'positivist' while the worldview of **qualitative** research is viewed as being subjective.

Babbie (2007) points out that there is a difference between theories and paradigms: theories seek to explain, whereas paradigms provide ways of looking. Positivism epistemology is associated with several social theories and structural-functional, rational choice and exchange-theory frameworks (Neuman, 2014). The positivist paradigm asserts that real events can be observed empirically and explained with logical analysis (Aliyu *et al.*, 2014:82). A positivistic paradigm was therefore adopted in this study, which prefers precise quantitative data, also often using surveys and statistics (Neuman, 2014).

3.3 TYPES OF RESEARCH

According to Durrheim *et al.* (2006:44), there are three types of research. These research types can be categorised as follows:

- Exploratory, descriptive and explanatory research;
- Quantitative and qualitative research; and
- Applied and basic research.

The different research types are discussed below.

3.3.1 Exploratory, descriptive and explanatory research

According to Burns and Groove (2001:374), **exploratory research** is defined as the research conducted to explore a new phenomenon, gain new insight or where little is known or it is a discovery of a new idea. Kumar (2011:11) states that the exploratory research is conducted to investigate the possibility of a particular study. It can be said that exploratory research is research conducted to explore the existing theory.

Descriptive research involves direct exploration, analysis and description of a particular phenomena as free as possible from unexplained presuppositions, aiming at maximum intuitive presentation (Streubert & Carpenter, 2011). Descriptive studies are used to document the phenomenon of interest in the real situation (Marshall & Rossman 1995:41). The aim of descriptive research is, therefore, an attempt to explore and provide additional information about the topic. The purpose of descriptive research is to provide a picture of a phenomenon as it naturally occurs (Hendrick *et al.*, 1993).

Explanatory research is conducted in an attempt to connect ideas of understanding by analysing the cause and impact with the purpose of explaining the current situation (Streubert & Carpenter, 2011). Bless *et al.* (2006:43) state that explanatory research provides proof of relationships between dependent and independent variable.

Little is known regarding the factors that affect the effectiveness of internal audit activity in government owned and managed entities. This research seek to explore the existing knowledge and provide a new insight. This research is therefore exploratory in nature.

3.3.2 Quantitative and qualitative research

Creswell (2014) defines **quantitative research** as a method in which surveys are used to collect data. Mcdougal III (2011) states that quantitative research involves the use of numbers to study a phenomenon or theory. Leacon *et al.* (2009) on the other hand state that this method involves the use of rating scales and survey that results in numerical data. A quantitative research method that is defined and conducted properly provides results that are statistically reliable and can be generalised to the entire population (Ronald, 2007:55). The use of the quantitative research method can be limited in that it can lack the in-depth explanations and context as opposed to the qualitative research method (Mcdougal III, 2011:282).

Qualitative research is defined as multi-method which involves an interpretive natural approach to its subject matter (Arsenault & Anderson, 1998:119). In addition, Starman (2013:30) state that qualitative research is “characterised by an interpretative paradigm, which emphasizes subjective experiences and the meanings they have for an individual”. It involves the use and collection of a variety of empirical material namely case studies, life-stories, interviews and observation (Denzin & Lincoln, 2011:401).

The table below depicts the differences between quantitative and qualitative research:

Table 3. 1: Difference between quantitative and qualitative research

	Quantitative	Qualitative
Scientific method	Deductive or top-down	Inductive or bottom-up
Views of human behaviour	Behaviour is regular and predictable	Behaviour is fluid, dynamic or situational
Research objectives	Description, explanation and prediction	Description, exploration and discovery
Focus	Narrow-angle lens	Wide angle and deep angle lens

	Quantitative	Qualitative
Nature of observation	Study behaviour under controlled conditions	Study behaviour in natural environment
Nature of reality	Objective	Subjective
Form of data collection	Quantitative data	Qualitative data
Nature of data	Variable	Words, images, categories
Data analysis	Identify statistical	Search for patterns
Results	Generalised findings	Particularistic findings
Form of final report	Statistical report	Narrative report

Source: Christensen & Johnson (2016)

For this study, a **quantitative** analysis was performed to illustrate the effect of the core principles and management support in internal auditing as discussed in chapter two (paragraph 2.7, page 32) that affect the effectiveness of internal audit activities.

3.3.3 Applied and basic research

According to Neuman (2014:21), basic research is used in an instance where a researcher is concerned with seeking an understanding the fundamental nature of social reality. Durrheim *et al.* (2006:45) state that basic research is useful as it enhances knowledge about the world.

The researchers that want to apply and tailor knowledge to answer a specific practical issue will use applied research (Neuman, 2014:21). Applied research is defined as an inquiry developed intentionally within a context of decision making and is directed towards the interest of one or more clients (Chambers, 2000:852). Applied research is applied when solving a problem and is characterised by its concern with problems and solutions (Moore, 2000:ix).

This research is aimed at solving matters that are practical in nature; therefore, applied research is followed in this study.

3.4 POPULATION AND SAMPLING

In this section attention is given to the population and sampling method used within the study.

3.4.1 Population

Population, in research has been defined in several ways. Hair *et al.* (2006:170) refers to **population** as “the total of all elements that share some common set of the characteristics”. On the other hand, Greener (2008) defines population as a set of data from which a sample is selected. Adams *et al.* (2009:96) refer to population as a defined group of elements or characteristics. Welman *et al.* (2005:52) state that population is the whole collection of all the units in which the researcher can select a sample and draw conclusion from. According to Vosloo (2014:302) the study population is the aggregation of elements from which the sample is actually selected. It can then be said that population is a whole collection of events or research objects from which the researcher selects a sample from and draws conclusions on.

The **population** for this study was all South Africa National Government Entities. The Government of South Africa has one-hundred and fifty four (154) national entities (National Treasury, 2017).

3.4.2 Sampling

Sampling is referred to by Brynard and Hanekom (2010:54) as a method to select a small group out of a large population in order to reach a conclusion about the whole population. Scott and Morrison (2007:219) state that sampling refers to the selection of a subset of persons or objects from a larger population.

The primary goal of sampling is to obtain a representative sample from a much larger collection or population. The benefit is that the researcher can study the smaller group and produce accurate generalizations about the larger group (Brink 2001:133). A representative sample ensured that the findings identified in this study can be generalised and also that an inference can be made with regards to the whole population (Greener, 2008). It can therefore be deduced that a sample is data selected from a population, which is representative of the population, by a defined procedure, to which the results can be generalised.

In research, sampling methods are categorised as: probability or non-probability sampling. **Probability sampling** is one of the common methods that have been devised for this purpose. According to Saunders *et al.* (2009), using probability sampling improves the ability to generalise the findings of the study to the population from which the data was collected. Saunders *et al.* (2009) further state that when the sample size is large, it is likely that the error will be lower when generalising to the population.

The table below depicts and defines the different types of probability sampling techniques:

Table 3. 2: Types of probability sampling techniques

Category	Explanation
Simple random sampling	In simple random sampling, a type of sampling where a researcher first develops an accurate sampling frame then selects elements from the sampling frame according to a mathematically random procedure and lastly locates the exact element that was selected for inclusion in the sample, is called simple random sampling. This sample method is recommended as it eliminates bias. It thus provides independent opportunity for all elements to be selected.
Systematic sampling	Involved randomly selecting elements using a sampling interval. For example, in a sample size of 150, the researcher would chose to select every 15 th object from the sample.
Stratified sampling	In stratified random sampling, a researcher first divides the population into subpopulations on the basis of supplementary information. After dividing the population into strata, the researcher draws a random sample from each subpopulation. In general, stratified sampling produces samples that are more representative of the population than simple random sampling if the stratum information is accurate.
Cluster sampling	Cluster sampling is used in large surveys and is meant to addresses two problems. In cluster sampling, a researcher

Category	Explanation
	<p>randomly select clusters and then samples elements in all the clusters.</p> <p>A cluster is defined a unit that contains final sampling elements but can be treated temporarily as a sampling element itself.</p>

Source: McLeod (2014)

Non-probability sampling is a sampling technique where the odds of any member being selected for a sample cannot be calculated (Saunders *et al.*, 2009). An advantage with non-probability sampling is that as compared to probability sampling, it is very cost-and-time effective. It is easy to use and possible even when the population is very small (Saunders *et al.*, 2009). One disadvantage of non-probability sampling is that it is difficult to know how well you are representing the population (Saunders *et al.*, 2009) as the researcher cannot calculate confidence intervals and margins of error.

The table below depicts and defines the different types of non-probability sampling techniques:

Table 3. 3: Types of non-probability sampling techniques

Category	Explanation
Haphazard, Accidental, or Convenience sampling	In haphazard sampling the researcher selects convenient cases which may result in biased results and misrepresent the sample which is not representative of the population.
Quota sampling	In quota sampling, a researcher first identifies relevant categories of respondents, then decides on a number of respondents in each category.
Purposive or Judgmental sampling	Purposive sampling is a suitable or acceptable type of sampling specifically for special situations such as conducting research on business executives. A researcher can use judgement in selecting cases or selects cases with a specific

Category	Explanation
	purpose in mind. Purposive sampling is ideal when a difficult-to-reach population needs to be measured.
Snowball sampling	Snowball sampling is a method for identifying and sampling the cases in a network. It begins with one or a few people or cases and spreads out on the basis of links to the initial cases.

Source: McLeod (2014)

The sample for this study was drawn from government owned and managed entities. Non-probability sampling by applying purposeful sampling was applied in order to obtain the data for the study. This sampling method was used due to the fact that the population is unique and access to the population is restricted. A request was sent to several government owned and managed entities to obtain the approval to undertake the research. Written approval and consent to take part in this study was only obtained from one government owned and managed entity. Hereafter referred to as **Entity A**.

Entity A is a government component that reports to the Minister of Finance. It administers funds and schemes on behalf of the Government Employees Pension Fund (GEPF), the largest pension fund in Africa (GPAA, 2017). It thus administers the pension affairs of approximately 1.7 million government employees and pensioners, as well as the affairs of their spouses and dependants (GPAA, 2017). Entity A employs approximately 1197 employees both on a permanent and contract basis (GPAA, 2017). From the population, two samples of data were selected, the first being the management of Entity A followed by the internal audit department at Entity A.

The table below present the management sample for this study

Table 3. 4: Management sample

No	Respondents per levels	Number
1	Level 9 - level 15	284

Source: Own research

Management constitutes **23%** of the total work-force at Entity A. The sample consist of managers from level 9 to level 15.

The table below presents the internal auditors sample for this study;

Table 3. 5: Internal auditors sample

Number	Respondent per designation	Respondents per level
1	Internal Auditor	2
2	Senior Internal Auditor	3
3	Assistant Audit Manager/Supervisor	3
4	Internal Audit Manager	5
5	Senior Internal Audit Manager	0
6	Chief Audit Executive	1

Source: Own research

3.5 DATA COLLECTION AND ANALYSIS

In this section, attention is given to the data collection and data analysis.

3.5.1 Data collection method

Fernandez and Rainey (2006) state that in choosing a data collection instrument, the decision is solely based on the results the selected instrument is capable of producing. Various data collection methods exist when performing quantitative research which includes: observations, interviews, questionnaires, scales and physiological measurement (Strydom, 1998:179). All these methods are geared towards numerical collection. Two (2) questionnaires [one (1) for the internal auditors at Entity A, and the other for management of Entity A] were used in this study (please refer to

APPENDICES, page 116 & 124) to obtain the data from the two samples elaborated on later (paragraph 4.2, page 59). The questionnaires consisted mainly close-ended questions and few open-ended questions. The use of some open ended questions was to obtain some rational from the respondents on why they answered in a specific manner. The researcher opted for the use of questionnaire instead of other methods, as the questionnaire is convenient and allows respondents to complete at their convenience.

Yozi (2009) views the use of questionnaires as motivated by the fact that it is time saving and that the researcher is able to better obtain a response by participants. Due to time constraints, the researcher was unable to pilot the questionnaire. The questionnaires were automated on Survey Monkey and a link sent to the respondents by email to complete. It was highlighted to the respondents that the completion of the questionnaire is completely voluntary and that their responses will be kept confidential at all times.

Seven (7) steps are involved in designing the questionnaires (Fox *et al.*, 2009:20). The researcher decides on the information required to achieve the set objectives on the proposal; document roughly the questions that can go into the questionnaires; refine the questions; decide and develop response format; decide on the sequence of the questions; finalise the questionnaire layout; pretest or pilot the questionnaire (Fox *et al.*, 2009:24). It is said that the following should be considered when developing the questionnaire: client; researcher; interviewer, respondents and data processor.

In developing the questionnaire, the researcher considered the objective of the survey while ensuring that the questions are not biased. Questions were specific, no use of jargon words were used and the questions were not negative in nature.

The measurements used by the researcher were nominal and was labeled by numbers. In measuring the perception of the respondents, the researcher used likert scale type questions. The researcher used Minitab system in order to analyse and summaries the results quantitatively. The data analysis and interpretation of the results were performed with the assistance of a qualified statistician.

3.5.2 Validity and reliability

Validity

According to MacMillan and Schumacher (2001:407), validity is the degree to which the interpretations and concepts have mutual meanings between the participants and the researcher. On the other hand, Muijs (2010) define validity as the extent to which any measuring instrument measures what it is intended to measure (Muijs, 2010). Neuman (2014) summarised validity as “absence of self-contradiction”. Essentially, validation is related to the extent to which the research method describes what it is supposed to measure.

In order to ensure validity of the content of the two questionnaires, the management questionnaire was sent to one (1) manager at Entity A and the one (1) internal audit questionnaire was sent to internal audit manager at Entity A for peer review. Peer review is the review of the data and research process by someone who is familiar with the research or the phenomena being explored (Creswell & Miller, 2000:128). A peer reviewer provides support, plays devil’s advocate, challenges the researcher’s assumptions, pushes the researcher to the next step, and asks in-depth questions about methods and interpretations (Lincoln & Guba, 1985). Secondly, the two questionnaires were sent to the statistician for review. The feedback from the statistician, a manager and the internal audit manager demonstrated that the questionnaires did not contain any confusing items and that the respondent found it easy and quick to complete.

Reliability

Reliability is explained as the test of consistency of results and is concerned with the amount of random error that is the measurement (Babbie, 2007). The reliability of the questionnaire is more to do with the consistency of the responses by respondents to the questions (Babbie, 2007).

Gill and Johnson (2002) also echoed that the reliability of the questionnaire is concerned with the consistency of the responses to the questions. It can thus be said that reliability is concerned with how much random error there is in the measurement. In order to test the reliability of information, Cronbach’s Alpha tests were performed on both the internal auditors and management questionnaires. Cronbach Alpha is used to measure the internal consistency of a test or scale and is expressed as a number between 0 and 1 (Tavakol & Dennick, 2011:53).

Field (2009:674) state that for variables to be seen as reliable, they should have an outcome of 0.7 and more. The below tests were both above 0.7 and can therefore be classified as reliable.

Table 3. 6: Cronbach’s alpha

Internal auditor’s data	Management data
Cronbach’s Alpha	Cronbach’s Alpha
Alpha	Alpha
<hr/> 0,8054	<hr/> 0,9227

Source: Own research

The reliability of the questionnaire used in this study was ensured by calculating the Cronbach’s Alpha for both the questionnaires (Internal auditors and management) and the outcome was over 0.7 which is considered to be sufficient (Delpont *et al.*, 2013:177; Peterson, 1994:382; Van der Merwe, 2013:116). The results obtained from the questionnaires can, therefore, be regarded as reliable.

3.6 ETHICAL CONSIDERATION

Burton (2000:299) states that in all research designs, there are ethical concerns and these ethical concerns can go beyond data collection to include analysis and publication (Burton, 2000: 299). These issues were in the forefront of the researcher’s mind throughout the research process.

The researcher undergone an ethical review and subsequently obtained ethical clearance from the North-West University. The researcher compiled a memorandum wherein a request to conduct the research was sought and approved by the CEO of Entity A as noted earlier. To ensure that the research project was characterised by privacy and confidentiality, the questionnaires sent to the respondents included a cover letter which clearly ensured the privacy and confidentiality of the respondents. The cover letter stated the purpose of the research project and the voluntary nature to participation. The respondents were not requested to disclose their personal details when responding to the questionnaires.

3.7 CHAPTER SUMMARY

The purpose of this chapter was to outline the research paradigm, provide the population, sampling method used and the data collection approach followed. The chapter commenced by stipulating the research paradigm to which this research pertains. This was followed by a discussion on the different types of researches namely: i) Exploratory, descriptive and explanatory research; ii) Quantitative and qualitative research; and iii) Applied and basic research. It was concluded that the researcher applied an applied exploratory quantitative research methodology within this study.

The data collection methods used within quantitative research was also visited. It was mentioned that a questionnaire was used to obtain the data for this study. The populations and sample was defined followed by a discussion on how the validity and reliability of the study was ensured. It was concluded that reliable and accurate research instruments were employed. The researcher also discussed ethical issues that were considered in this study. The next chapter provides the data analysis and results obtained from the data collected.

CHAPTER 4

RESEARCH FINDINGS

4.1 INTRODUCTION

The main research objective of this study was to evaluate the effectiveness of the internal audit activity in selected government entities. In order to achieve this, several secondary objectives were formulated in chapter one (paragraph 1.2, page 7) of which each of the first three secondary objectives being addressed within chapters two (page 12) and three (page 45).

The purpose of this chapter is to address the fourth secondary objective as noted in chapter one (paragraph 1.2, page 7) which is to:

SO4: Evaluate the perceived effectiveness of internal audit activity in selected government entities through analysis of the acquired results.

In an attempt to answer the secondary research objective above, this chapter presents and analyses the collected data. The data analysis and results being presented in this chapter are based on the data collected from the two questionnaires (one: internal auditors and the other to management) utilise as discussed in chapter three (paragraph 3.5, page 53).

This discussion commences with data presentation and analysis by providing the biographical characteristics of both the respondents, which included: gender; race; age; qualification; employment level and experience. The chapter then proceeds to provide an analysis per survey starting with responses by the internal auditors. The following areas are presented: integrity; independence and objectivity; competence and due care; alignment to strategies, objectives and organisational risks; positioning and resources; quality and continuous improvement; communications; risk based assurance and then management support. The second part of the analysis is the responses from management. In addition, the researcher also documented the challenges faced by both management and internal auditors as obtained from the data gathered.

4.2 DATA PRESENTATION AND ANALYSIS

4.2.1 Response rate

Two (2) sets of questionnaires were developed and sent to the respondents. One (1) was sent to the internal auditors of Entity A and the other one (1) to Entity A's management as noted in chapter three (paragraph 3.4.2, page 49). The internal auditor questionnaire was sent using Survey Monkey to all fifteen (15) internal auditors. Only 57% questionnaires were received from the internal auditors. This was deemed enough as the majority of the sample responded.

The other questionnaire was also sent using Survey Monkey to the two hundred and eighty-four (284) management members of Entity A. Thirty-eight (38) management questionnaires were received which represents 13% of the total management. Although the response rate was lower than expected, the researcher was confident that enough responses from various levels of management and internal auditors were obtained in order to measure their perceptions of the effectiveness of internal audit in selected government owned and managed entities. This is evident from the biographical results discussed below. Furthermore, the fact that responses from various levels of management and internal auditors were obtained, also limits the bias that may be present within the results obtained to a specific segment of the population.

4.2.2 Biographical characteristics of respondents

4.2.2.1 Analysis of Internal Auditors biographical characteristics of respondents

Figure 4.1 below indicates the gender of the respondents who participated in the survey. The largest proportion of the respondents were female, representing 75% of the respondents while male respondents were 25%. The female gender dominate the internal audit division within the Entity A.

Figure 4. 1: Gender of respondents

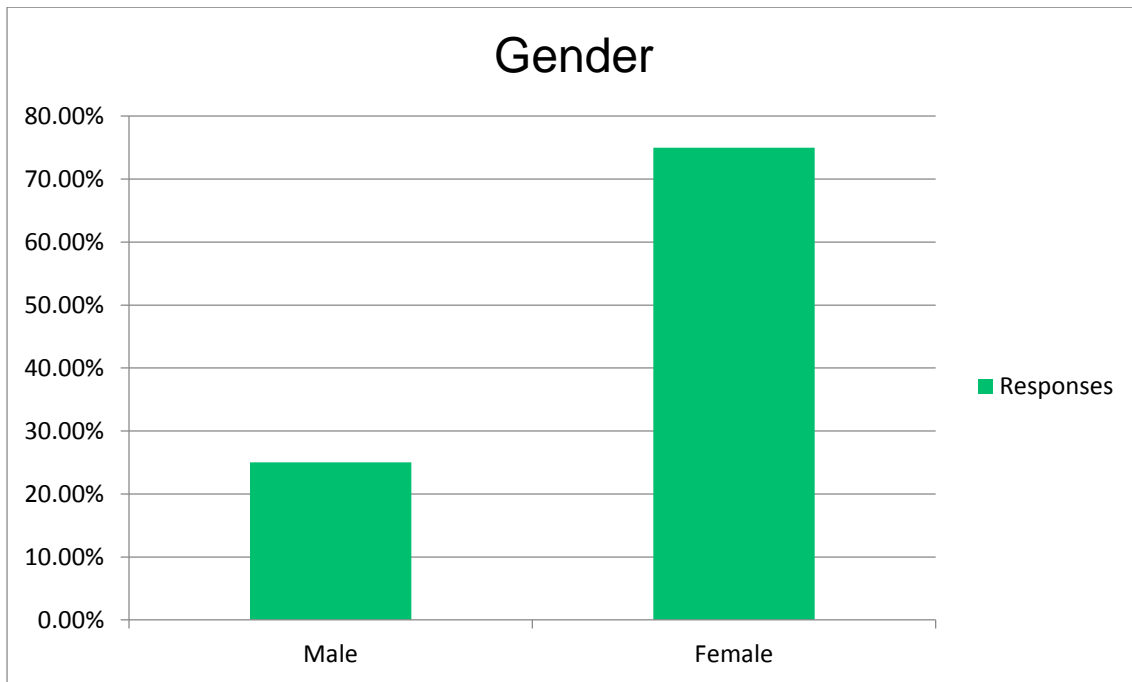


Figure 4.2 depicts the race of all the respondents who participated in the study, 100% of the respondents were black.

Figure 4. 2: Race of respondents

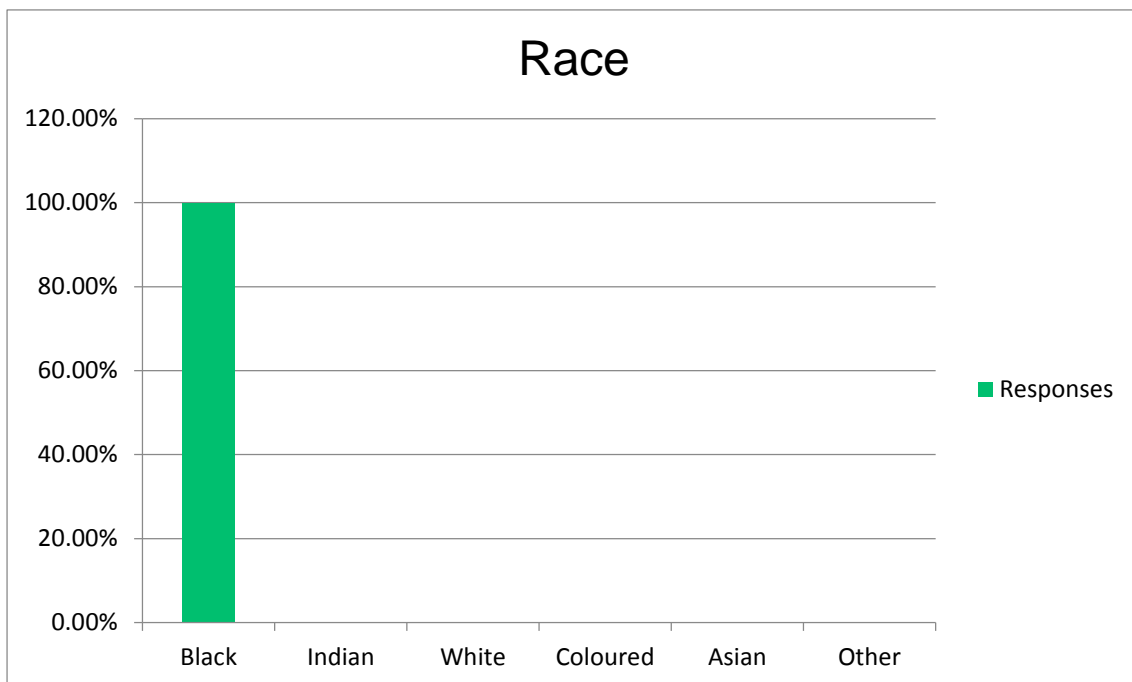
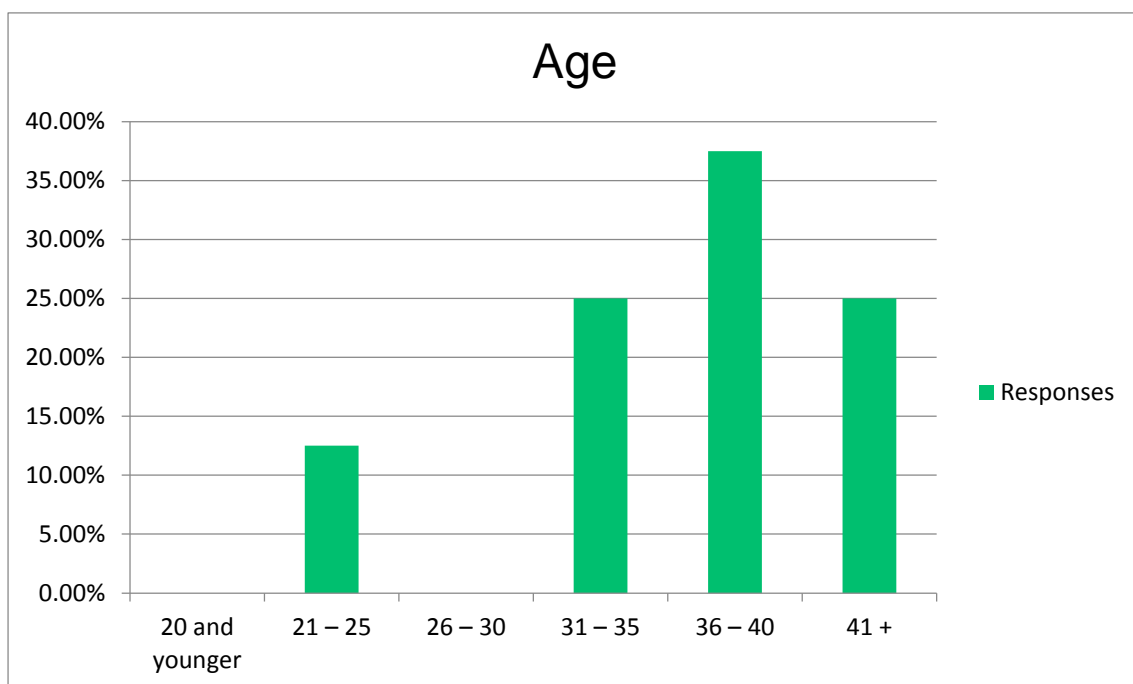


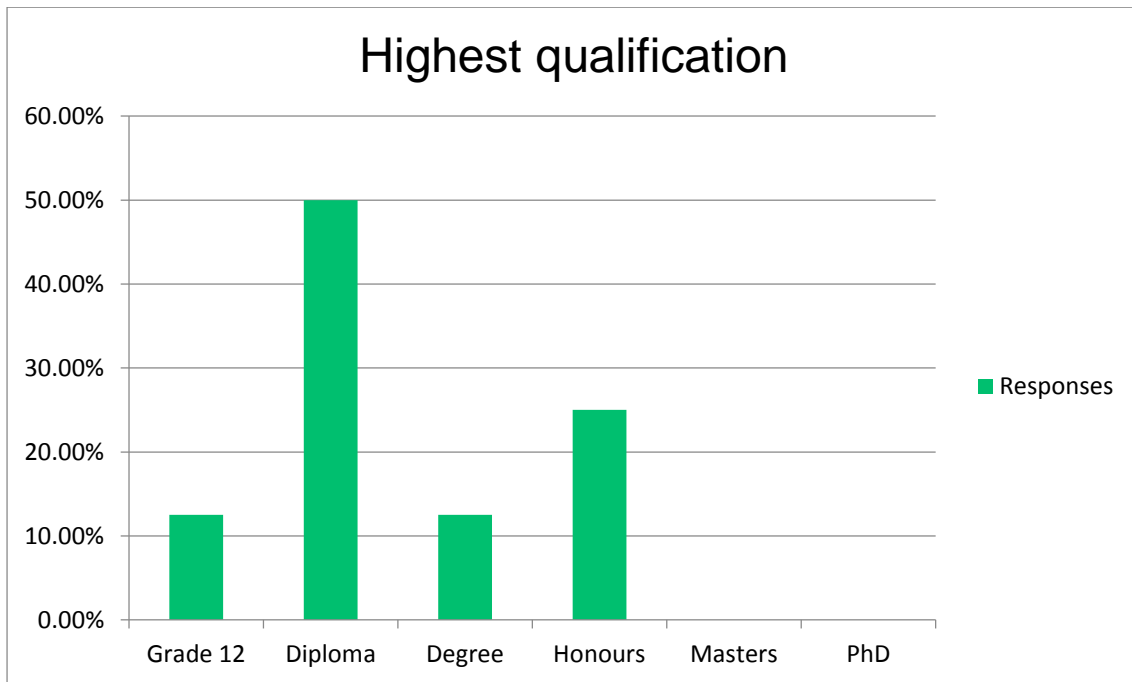
Figure 4.3 below indicates the age distribution of the respondents who participated in the survey. The age group with the largest proportion of respondents was the 36-40 years category, representing 37.5% of all respondents. On the other hand, the respondents over the age of 41 and 31-35 categories constituted 50% (31 -35: 25% and 41+: 25%). Considering the 36 - 40 category, these patterns show that more than 80% of the internal auditors who participated in the study are over the age of 31. Only 12.5% of the respondents are between the ages of 21 and 25 participated in the study.

Figure 4. 3: Age of respondents



According to Figure 4.4 below, 62.5% (Diploma: 50% and Degree: 12.5%) of the respondents possesses undergraduate (first degree/degree) qualification while 25% has a postgraduate qualification. The remaining 12.5% only possess a matric certification. It is an indication that majority of the respondents' possesses the minimum required qualification.

Figure 4. 4: Education profile of respondents



According to Figure 4.5, the results indicate that the different employment levels is represented by equal (+25% in each category) number of respondents. This may suggest a good coverage from the various levels of internal audit at the Entity A was obtained which limits biased results.

Figure 4. 5: Employment levels occupied by respondents

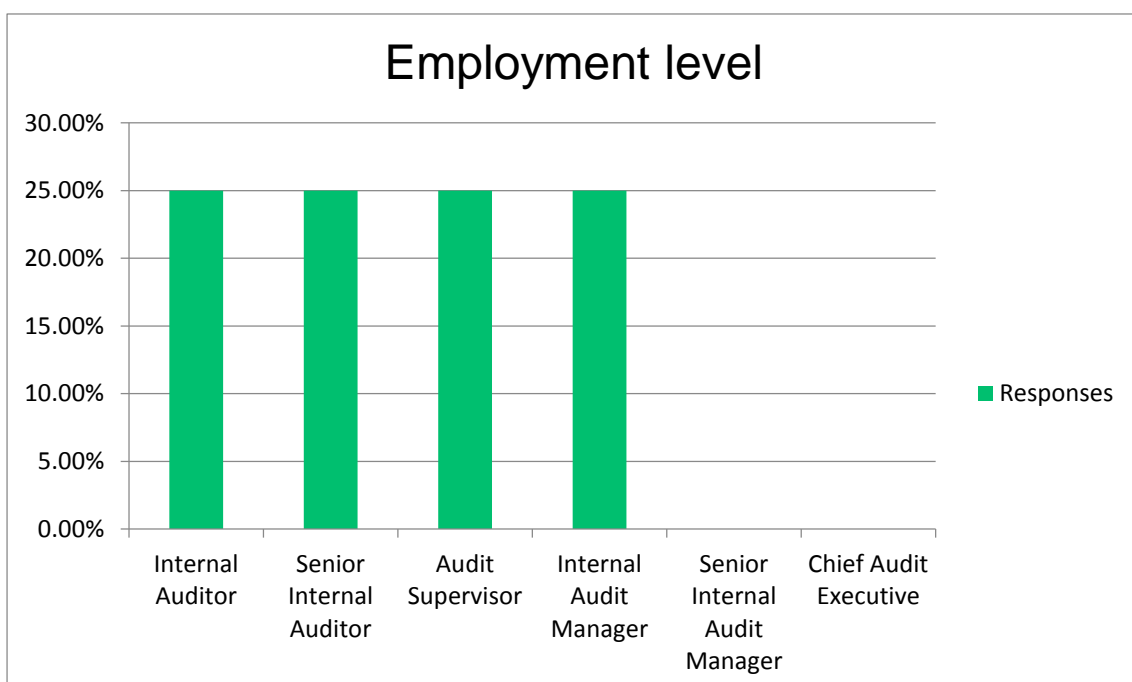
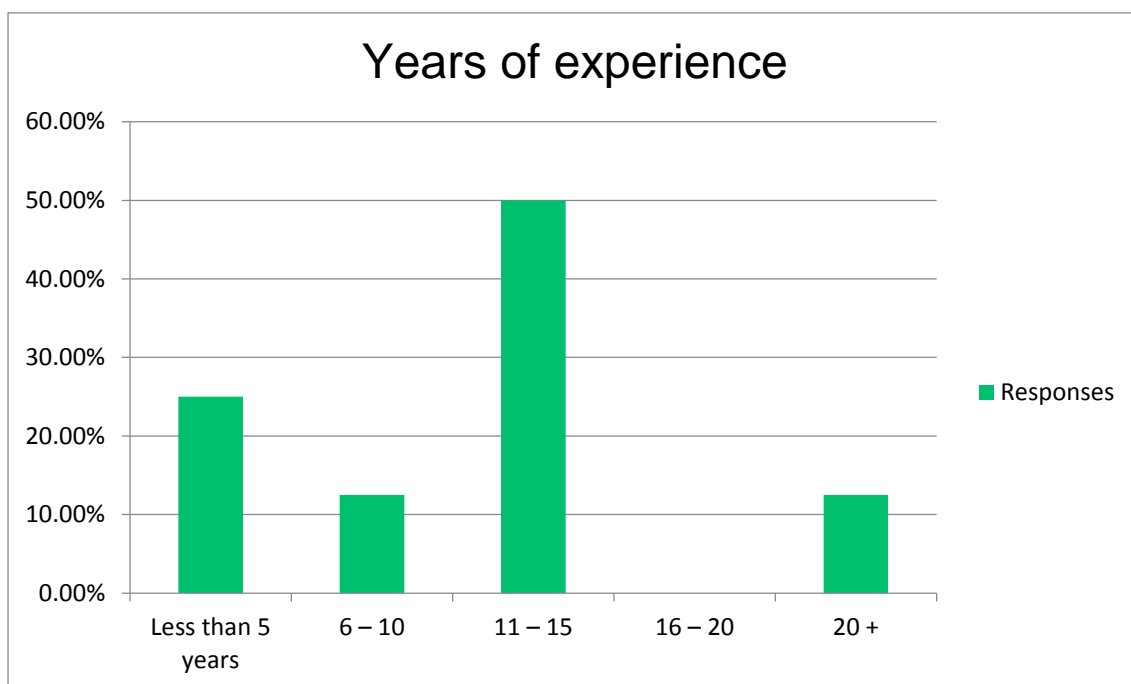


Figure 4.6 below depicts the respondents' years of experience in internal audit. The majority of respondents had been practising internal audit for over eleven (11) years, this represent 62.5% (11 – 15: 50% and 20+: 12.5%). The number of respondents with less than five (5) years of experience were 25% while 12.5% respondents only had 6 – 10 years of experience. From the analysis, it can be said that the internal auditors have reasonable experience in internal auditing.

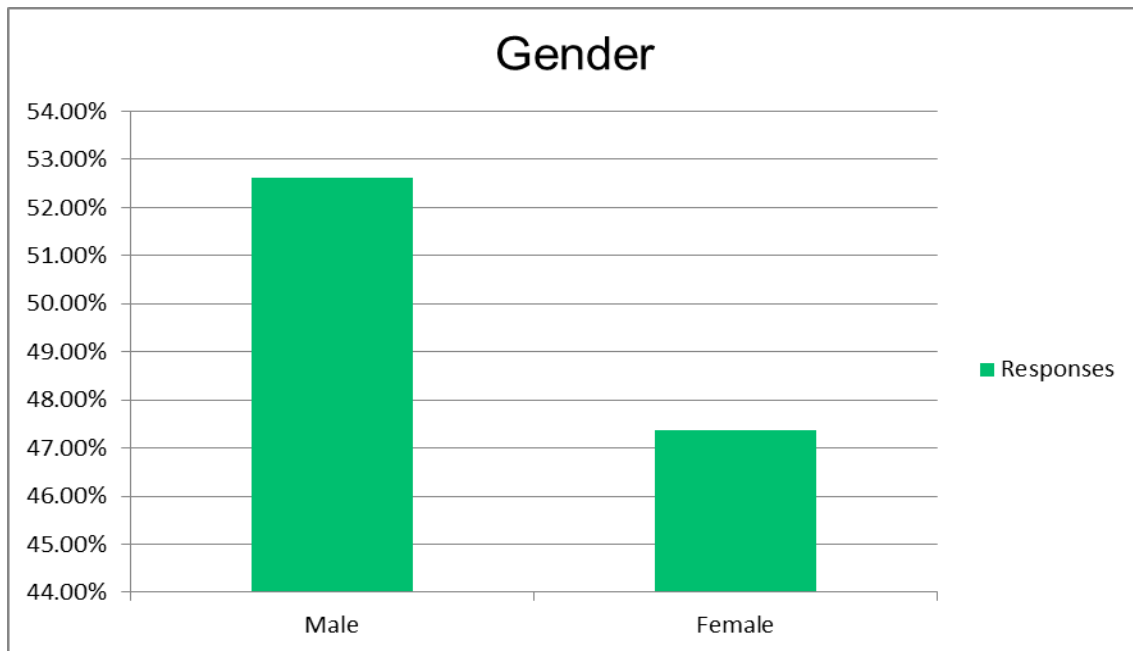
Figure 4. 6: Years of experience



4.2.2.2 Analysis of Management biographical characteristics of respondents

As opposed to internal audit respondents where majority were female, Figure 4.7 below illustrates that in the management questionnaires completed, male respondents represented 53% of the respondents while the female counterparts make up 47%.

Figure 4. 7: Gender of respondents



From Figure 4.8, it can be concluded that Entity A management are mostly Black, followed by the White colleagues and then Coloured.

Figure 4. 8: Race of respondents

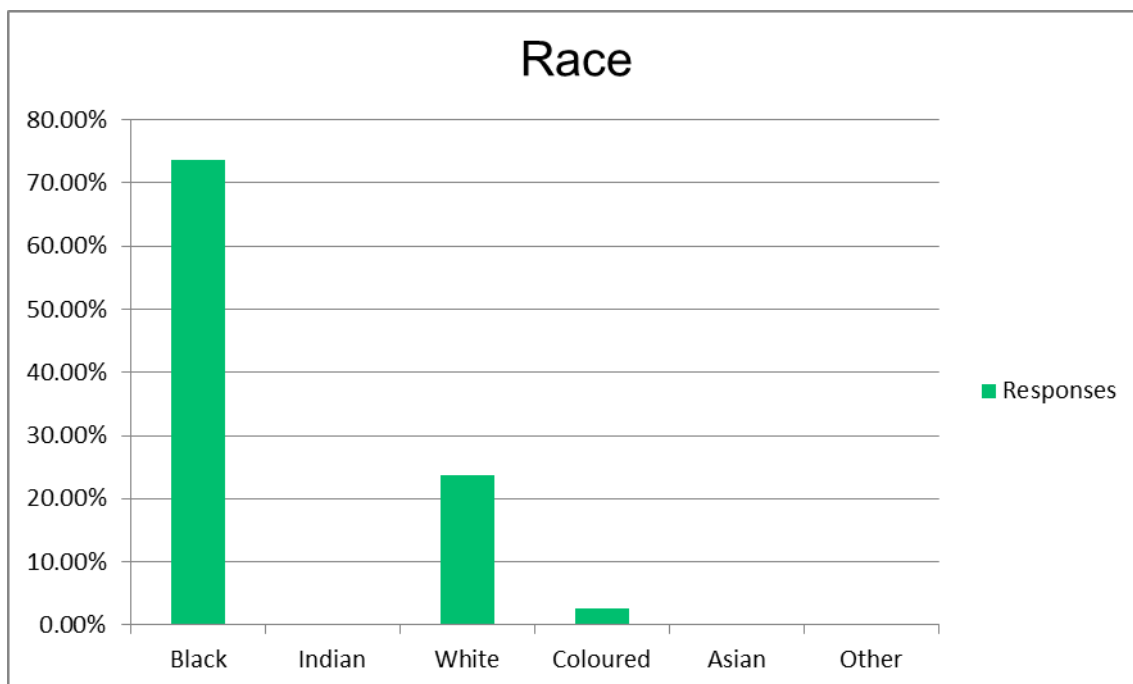
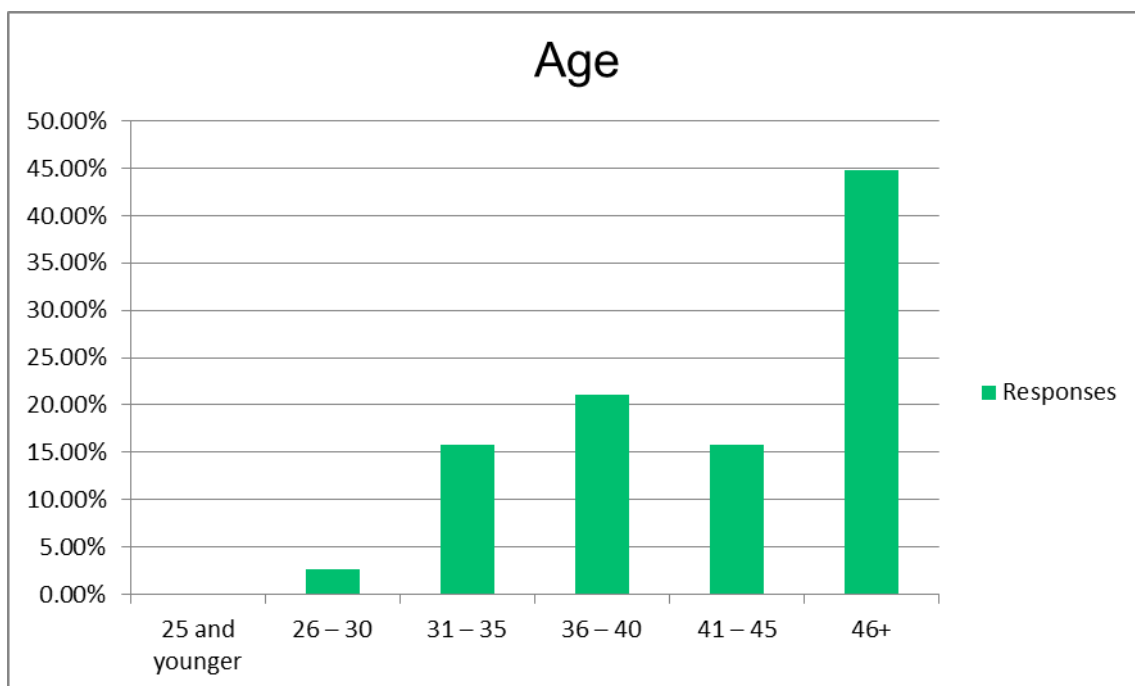


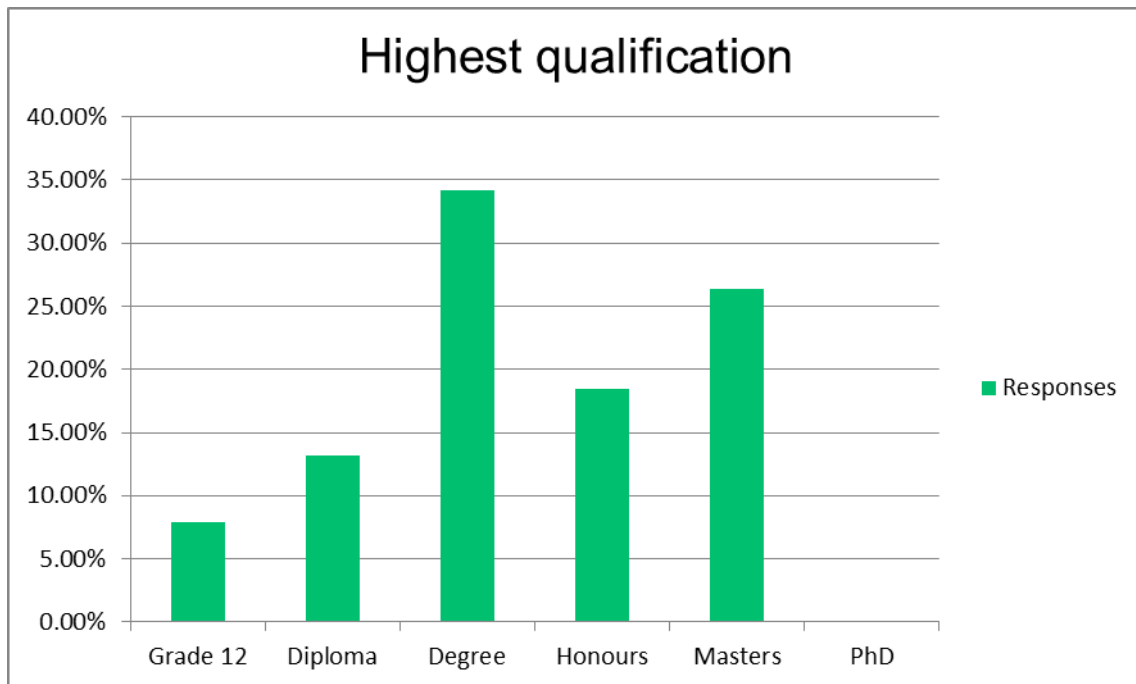
Figure 4.9 indicates the age distribution of the management respondents who participated in the survey. The age group with the largest proportion of respondents was the 46+ category, representing 45% of all the respondents. The age category 36 – 40 followed second at 21% while the age categories 31 – 35 and 41 – 45 represented 32% (16% each). The lowest responses were received from the age category 26 – 30 representing 2.5%.

Figure 4. 9: Age of respondents



The educational profile of the respondents is depicted in Figure 4.10. Those who obtained a national diploma accounted for 12.5%. The proportion of those who had a degree was 39%, whereas those with a postgraduate qualification had a proportion of 44% (Honours: 18% and Masters: 26%). The respondents in the highest percentage were those with degrees.

Figure 4. 10: Qualification overview



According to Figure 4.11, the majority of the respondents were in Middle Management representing 69% of all the respondents, followed by Senior Management at 12.5%. The lowest responses were from the Executives at 2% while the junior management represented 12% of the respondents. From these trends, there are few respondents in key management positions such as Senior Management and Executives.

Figure 4. 11: Employment levels

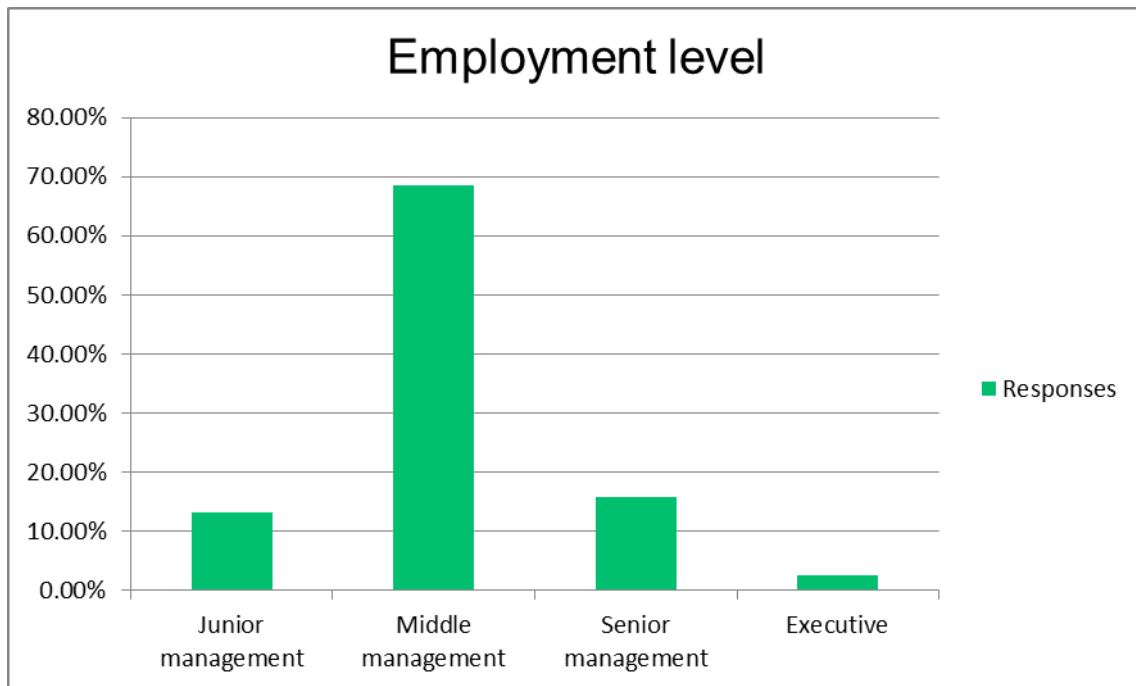
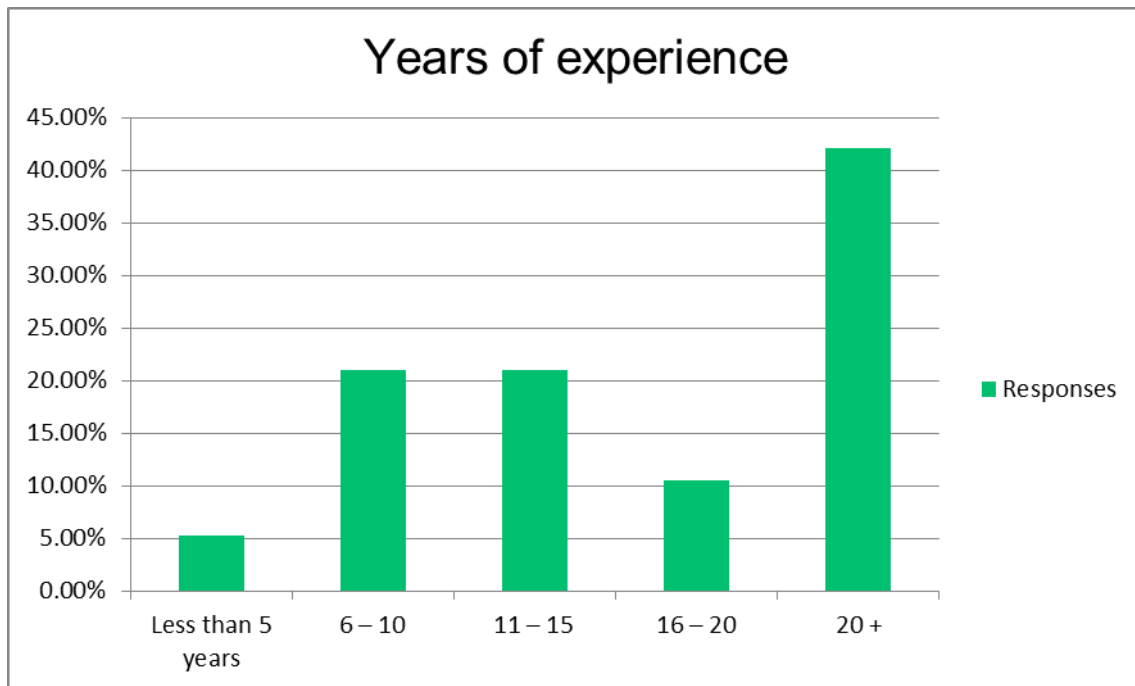


Figure 4.12 provides details in terms of the number of years of experience of the respondents. The working experience of respondents varied across age groups. Respondents with working experience of less than five (5) years accounted for 5%. The largest proportion of respondents were in the age category of 20+ which represented 42.5% of respondents, while the categories 6 – 10 and 11-15 years group were represented by 21% and 21% of respondents respectively. The second lowest represented category was category 16 – 20 at 11.5%.

Figure 4. 12: Experience



4.2.3 Data analysis and presentation per the survey

This section deals with the analysis of data and presents the findings on the internal audit core principles that determine the effective internal audit activity as discussed in chapter two (paragraph 2.4.2.6, page 27). This is done by first presenting the findings of the questionnaire completed by the internal audit department at Entity A, followed by the results of the questionnaire completed by the management at Entity A.

RESPONSES FROM INTERNAL AUDIT DEPARTMENT:

4.2.3.1 Integrity

Objective of the analysis

The objective of this part of the analysis was to determine the perceived views on the integrity of internal auditors.

Findings

Table 4.1 provides a summary of respondents' views regarding the integrity of the internal auditors.

Table 4. 1: Integrity of internal auditor

Questions	To an extreme extent	To a large extent	To a moderate extent	To a small extent
Do internal auditors perform their work diligently, responsibly and with honesty?	25.00%	50.00%	25.00%	0.00%
Internal audit engages in acts that are discreditable to the internal audit profession.	0.00%	0.00%	25.00%	75.00%

Discussion of the findings

Majority (50%) of the respondents agree that to a large extent, the internal auditors perform the work diligently, responsibly and honestly while 25% are moderate. Only 25% of the respondents agree that the internal auditors perform the work diligently, responsibly and honestly to an extreme extent. 75% of the respondents in this study agree that internal audit does not engage in acts that are discreditable to the internal audit profession. The worrying response is the 25% who are unsure whether internal auditors engage in acts which are discreditable to the internal audit profession. The internal audit CoE (paragraph 2.4.2.5, page 25) clearly states that the internal auditors shall not engage in acts which are discreditable to the internal audit profession, they therefore need to establish trust and provide the basis for reliance on their judgement.

Table 4. 2: Internal auditors knowingly party to illegal activities

Questions	Strongly disagree	Disagree	Agree	Strongly agree
Are internal auditors knowingly party to illegal activities?	37.50%	25.00%	25.00%	12.50%

Discussion

According to table 4.2 above, a worrying statistics by 37.5% of the respondents agree that internal auditors are knowingly party to illegal activities while 62.5% does not agree. Rules of conduct: integrity (paragraph 25, page 25) state that internal auditors: shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.

4.2.3.2 Independence and objectivity

Objective of the analysis

The objective of this part of the analysis was to determine the perceived independence and objectivity of the internal auditors.

Findings

Table 4.3 provides a summary regarding the perceived independence and objectivity of internal audit in conducting the audit work.

Table 4. 3: Independence and objectivity of internal auditors

	To an extreme extent	To a large extent	To a moderate extent	To a small extent
Internal audit report administratively to the highest level within the organisation that allows for the execution of their duties; and functionally to the Audit Committee.	62.50%	37.50%	0.00%	0.00%
Internal auditors are impartial, unbiased when performing their work.	25.00%	62.50%	0.00%	12.50%
Internal auditors have free access to all the divisions and employees in the organisation.	25.00%	37.50%	37.50%	0.00%
Internal audit rarely face interference by management when conducting their work.	25.00%	12.50%	50.00%	12.50%

	To an extreme extent	To a large extent	To a moderate extent	To a small extent
Conflict of interest is rarely present in the work of internal auditors.	0.00%	50.00%	37.50%	12.50%
Internal audit engages in activities in which they had operational responsibility.	0.00%	12.50%	37.50%	50.00%

Discussion of the findings

According to the IIA, independence of internal audit is achieved by amongst others, the CAE reporting to a level within the organisation that allows internal audit to fulfil its responsibilities (paragraph 2.7.4, page 39). 100% of the respondents state that internal audit report to the level within the organisation that allows for it to fulfil its responsibilities.

Of all the respondents, 87.5% contend that internal auditors are impartial and not biased when performing their work, 12.5% are not in agreement with the statement.

The internal audit charter should properly document the internal audit's unlimited access to the organisation's records, division and employees (paragraph 2.7.1, page 34). 62.5% of the respondents agree that internal audit has unlimited access to the division and employees, while 37.5% are moderate about the matter. When looking at the picture painted on the interference by management on the work of the internal auditors, 37.5% (25% + 12.5%) agree that to a large and extreme extent, that there is interference from management. 62.5% of the respondents does not believe there is interference. These statistics may signal that this interference may create non-conducive atmosphere between management and internal audit, which may impact the effectiveness of internal audit in selected government owned and managed entities.

4.2.3.3 Competence and due professional care

Objective of the analysis

The objective of this part of the analysis was to determine the perceived competence of internal auditors and how the internal auditors apply due professional care when conducting their work.

Findings

Table 4.4 provides a summary with respect to competence and due professional care a prudent and competent internal auditor must apply.

Table 4. 4: Competence and due professional care of internal auditor

	To an extreme extent	To a large extent	To a moderate extent	To a small extent
Internal audit possess both technical and interpersonal skills.	25.00%	62.50%	12.50%	0.00%
Internal audit only engages in reviews or projects which they have the necessary skills, knowledge and experience.	12.50%	37.50%	37.50%	12.50%
Internal audit perform their work in accordance with the International Standards for the Professional Practice of internal auditing.	12.50%	62.50%	25.00%	0.00%
Internal auditors plan and perform their work with due professional care.	12.50%	37.50%	50.00%	0.00%
Internal audit make use of technology based auditing.	12.50%	50.00%	37.50%	0.00%
Internal audit are alert to significant risks that may affect the organisation's objectives and operations.	37.50%	37.50%	25.00%	0.00%

Discussion of the findings

Internal auditors are required to possess both technical and interpersonal skills (refer to paragraph 2.7.2, page 37). The statement is concurred by 87.5% of the respondents to this survey that the internal auditors at Entity A possesses both technical and interpersonal skills required of a prudent auditor. Only 12.5% are moderate about the statement. There is a conflicting response by the respondents regarding internal auditor's engagement in projects in which they have the necessary skills, knowledge and experience. The 37.5% respondents are moderate on whether the internal auditors only engage in projects/reviews in which they have the skills, knowledge and experience. The 12.5% respondents is of a view that internal auditors engage in reviews where they lack knowledge, skills and do not have necessary experience. Where internal auditors only engage in reviews which they have necessary knowledge, skills and experience is represented by 50% of the respondents. This lack of knowledge and skills may be indicative of ineffective internal audit departments in government owned and managed entities.

Compliance to International Standards for the Professional Practice of Internal Auditing is mandatory, this is according to the IIA (refer to paragraph 2.4.2 & 2.4.2.4). 75% of the respondents agree that internal auditors conduct their work in accordance the internal auditing standards. Only 25% of the respondents are moderate on whether internal auditors complies with the standards or not, which in itself is also a worrying finding.

Prudent internal auditors need to apply care and skills expected (refer to paragraph 2.7.2, page 37). It is also said that "due professional care does not imply infallibility" (refer to paragraph 2.7.2, page 37). Half of the respondents believe that they apply due care when performing their while the other half are moderate. This perceived lack of due care in the internal audit department at Entity A may be indicative of an ineffective internal audit department.

In order to increase efficiency, technology based auditing is recommended. Majority of the respondents (62.5%) agree to the use of technology based auditing, while 37.5% are moderate about the use of technology when doing audit work. Statistically, 75% of the respondents agree that internal auditors are alert to risks that affect achievement of organisation's objectives and operations while the 25% are unsure.

4.2.3.4 Alignment to strategies, objectives and organisational risks

Objective of the analysis

The objective of this part of the analysis was to determine the perceived extent to which internal audit aligns its plans and strategies to that of the organisation, also the extent to which organisations risks are incorporated and prioritised in audit plans.

Findings

Table 4.5 provides a summary by the respondents in internal audit alignment to strategies, objectives and organisational risks.

Table 4. 5: Alignment to strategies, objectives and organisational risks

	To an extreme extent	To a large extent	To a moderate extent	To a small extent
Internal audit aligns its plans to the organisations' strategies, objectives and risks.	25.00%	50.00%	12.50%	12.50%
Internal audit reviews operations and programs to ascertain whether results are consistent with established organisational objectives and goals.	25.00%	37.50%	25.00%	12.50%

Discussion of the findings

When developing the annual plan, internal audit should consider inputs from management and the board, as well as from organisational strategies, objectives and risks (refer to paragraph 2.7.7, page 41). A large proportion (75%) of the respondents believe that internal audit aligns its plans to the organisation's strategies, objectives and risks. According to 12.5% of the respondents, internal audit plans are not in line with organisation's strategies, objectives and risks, while the other 12.5% are of the opinion that this is only done to a moderate extent.

In accordance with its plans, 62.5% respondents state that internal audit reviews operations and programs with the intention to establish whether those programs and operations align to the

organisation’s objectives and goals, 25% are moderate about the statement, while 12.5% do not agree with the statement. Internal audit’s role is to ensure that organisational objectives and goals are achieved by ensuring that all operations of the organisation contribute to the achievement of the organisation set objectives (paragraph 2.4.1, page 20). It is therefore concerning that the perception is that the effectiveness of internal audit may be compromised in this regard.

4.2.3.5 Positioning and resources

Objective of the analysis

The objective of this part of the analysis was to determine and assess the positioning of the internal audit as well as whether the internal audit has resources to enable it to effectively execute its mandate.

Findings

Table 4.6 provides a summary into the positioning and the resources of the internal audit.

Table 4. 6: Positioning and resources of the internal audit activity

	To an extreme extent	To a large extent	To a moderate extent	To a small extent
Internal audit is correctly positioned to allow for execution of its duties.	37.50%	37.50%	25.00%	0.00%
Internal audit has sufficient resources to execute its duties and responsibilities.	12.50%	25.00%	25.00%	37.50%
Internal audit has sufficient budget to successfully carry out its duties and responsibilities.	0.00%	37.50%	37.50%	25.00%
Internal audit collectively possess the necessary skills, knowledge and competency needed to perform their responsibilities.	12.50%	62.50%	25.00%	0.00%

Discussion of the findings

For an internal audit to be seen to be independent, it has to report to levels that allow for execution of its duties without interference (refer to paragraph 2.7.4, page 39). One of the mandatory internal audit principles requires that internal audit be correctly positioned (refer to paragraph 2.4.2.6& 2.7.4, page 27 & 39). Most of the respondents agree that internal audit is correctly positioned and is able to execute its duties. Only 25% of the respondents are moderate about the statement.

Although the statistics indicate that internal audit is correctly positioned and execute its duties, a concern is that there are lack of resources to enable them to execute their responsibilities, this is represented by 37.5% of the respondents. The respondents who state that internal audit has resources are at 42.5% and the ones unsure constitute 25% of the total respondents.

According to 25% of the respondents, there is not sufficient budget allocated to internal audit to enable them to successfully carry out its duties and responsibilities, while 37.5% of the respondents are moderate. The respondents who agree to a large extent are 37.5%, and no respondents agree to an extreme extent. This may be an area that will need to be closely looked at to improve the effectiveness of internal audit.

The majority of the respondents agree that internal audit collectively possess the necessary skills, knowledge and competence required to perform internal audit responsibilities, only 25% are moderate with the statement. This may be an indication that the internal auditors at Entity A possess the necessary knowledge and skills to execute their roles and responsibilities.

4.2.3.6 Quality and continuous improvement

Objective of the analysis

The objective of this part of the analysis was to determine the perceived extent to which the internal auditors enhance their knowledge, skills and competencies so to remain relevant.

Findings

Table 4.7 provides summary with respect to the internal auditors' drive to enhance their skills, knowledge and competencies.

Table 4. 7: Quality and continuous improvement

	To an extreme extent	To a large extent	To a moderate extent	To a small extent
Internal auditor's continually enhances their knowledge, skills and required competencies.	25.00%	50.00%	12.50%	12.50%
Internal auditors attend educational seminars for continuous training.	25.00%	50.00%	12.50%	12.50%
Audit reviews/projects are monitored for performance on an ongoing basis.	37.50%	37.50%	12.50%	12.50%

Discussion of the findings

Similar responses are observed on the two statements on, i) continuous enhancement of knowledge, skills and required competency; and ii) attendance of educational seminars for continuous internal audit training. 75% of the respondents agree definitely with the two statements, while 12.5% are moderate. The remaining respondents are not in agreement with the statements which may indicate a lack of commitment to life-long learning, which in effect may impact on the effectiveness of internal audit at Entity A.

As part of quality assurance as required by standard 1300 of the professional practice of internal auditing, part in internal assessment include ongoing monitoring of internal audit projects (refer to paragraph 2.7.3, page 38). From the results presented in table 4.7 above, it is evident that 75% of the respondents agree that audit project is continuously monitored for performance, while 12.5% are moderate with the assertion. Another 12.5% disagree with the statement. This may indicate effective monitoring of internal audit projects and that internal auditors are therefore seen as effective in ensuring quality and continuous improvement.

4.2.3.7 Communications

Objective of the analysis

The objective of this part of the analysis was to determine the perceived communication between internal audit and the clients

Findings

Table 4.8 provide an overview with respect to how internal audit communicate with their clients.

Table 4. 8: Communication between audit and auditee

	To an extreme extent	To a large extent	To a moderate extent	To a small extent
Internal audit communicates timely the engagement results.	12.50%	0.00%	37.50%	50.00%
Internal audit makes appropriate recommendations for improving the organisational processes.	12.50%	37.50%	50.00%	0.00%
Internal audit establishes a follow-up process to ensure that corrective actions have been effectively implemented.	25.00%	37.50%	37.50%	0.00%

Discussion of the findings

Internal audit results need to be communicated on time so as to avoid being irrelevant (refer to paragraph 2.7.6, page 40). 50% of the respondents indicated that internal auditors do not communicate the engagement results on time. The other respondents (37.5%) are moderate. The statistics raises no doubt that communication by internal audit is not effective. Standard 2420 (IIA 2012:19) directs that the quality of communications must be “accurate, objective, timely, clear, concise, constructive and complete” (refer to chapter two paragraph: 2.7.6 above). Internal audit report which are not communicated on time diminishes the value of the report and that of the internal audit.

A worrying concern is the 50% respondents who are moderate on whether the recommendations advanced do help improve organisational processes. Half of the respondents believe that audit recommendations do indeed assist in improving organisational processes. One of the internal audit duties to the organisation is to assist in reviewing the organisation's processes and programs to ensure that they are in line with organisations strategic objectives and goals (paragraph 2.4.1 & 2.7.7, page 20 & 41).

Recommendations and action plans agreed by the audit and the auditee needs to be monitored and followed up by the internal audit so as to ensure that the organisation is not exposed to risk. Majority of the respondents indicate that internal audit does follow-up on findings previously raised to ensure that they are corrected while 37.5% are moderate.

Considering the respondents, internal audit is not effective to ensuring that it communicates the engagement results of time. The recommendations thereof are also not perceived to be helping the organisation improve its processes.

4.2.3.8 Risk based assurance

Objective of the analysis

The objective of this part of the analysis was to determine the perceived approach followed by internal audit in developing their annual plans. This includes the perceived extent to which internal audit is pro-active and future focused in their approach.

Findings

Table 4.9 provides a summary with respect to the approach followed by internal audit in formulation of their annual plans.

Table 4. 9: Internal audit approach

	To an extreme extent	To a large extent	To a moderate extent	To a small extent
Internal audit consider input from management and the board; organisation strategies; business objectives; business risk and risk management process when developing the annual plan	25.00%	62.50%	0.00%	12.50%
Internal audit develops risk-based annual plan to determine prioritise of the internal audit activity.	37.50%	25.00%	12.50%	25.00%
Internal auditors are proactive and future focused in their approach.	25.00%	12.50%	62.50%	0.00%
Internal auditors have a good understanding of the operations of the organisation.	25.00%	75.00%	0.00%	0.00%
Internal audit improves organisational performance.	12.50%	37.50%	50.00%	0.00%
Internal audit adds value to organisation's processes.	12.50%	37.50%	50.00%	0.00%
Internal audit improve the effectiveness of organisations' risk management, control and governance processes.	25.00%	37.50%	37.50%	0.00%

Discussion of the findings

From the statistical analysis above, it is clear that that internal audit does consider inputs from various stakeholders (management and board) when developing their annual plan, these is evident by 87.5% (25% + 62.5%) respondents agreeing with the notion. Only 12.5% respondents are not in agreement. It can thus be said that internal audit does consider input from management and the board, they further consider organisational strategies, business objectives, business risk and input from risk management when developing the annual plan.

Although most (62.5%) of the respondents agree that internal audit develops plan which is risk based, 25% are not in agreement while 12.5% are moderate about it. When considering that the majority agree that internal audit considers inputs from management and risk management, concern should be raised on the development of risk based plan where 25% are not in agreement and further 12.5% which are moderate.

Internal audit is no longer a traditional function within the organisation, the respondents raise scepticism about internal audit being pro-active and future orientated, these is represented by 62.5% of the total respondents, while 12.5% to a large extent agree that internal audit are pro-active and future oriented. 25% of the respondents are certain that the internal audit is pro-active and future focused.

There is no doubt that the internal audit understands the operations of the organisations, 100% of the respondents agree that internal auditors have a good understanding of the organisations' operations. A point to note is that 50% of the respondents are moderate on whether internal auditor adds value or improves organisations performance. The other 50% of the respondents agree that internal auditors do improve organisational performance while adding value to organisations processes.

4.2.3.9 Management support

Objective of the analysis

The objective of this part of the analysis was to determine the perceived manner in which management support the internal audit activity so to ensure that they create an environment to allow for execution of their duties and responsibilities.

Findings

Table 4.10 provides a statistical analysis of the respondents on how management provide support to internal audit.

Table 4. 10: Management support towards the internal audit activity

	To an extreme extent	To a large extent	To a moderate extent	To a small extent
Senior management is aware of the needs of internal audit.	25.00%	37.50%	37.50%	0.00%
Senior management supports internal audit to perform its duties and responsibilities.	25.00%	12.50%	50.00%	12.50%
Senior management provide the internal audit with inputs/management requests on the high risk areas or important opportunities.	25.00%	25.00%	37.50%	12.50%
Senior management respond promptly to the internal audit by implementing the recommendations.	12.50%	37.50%	37.50%	12.50%
Senior management keep internal audit informed on organisational plans and changes.	12.50%	37.50%	37.50%	12.50%

Discussion of the findings

The table above provides a statistical analysis of how internal auditors view management support towards the internal audit activity. Of all the respondents, 62.5% concur that senior management is aware of the needs of internal audit. The other 37.5% are moderate about managements support.

Although the majority of the respondents state that management is aware of the needs of internal audit, 12.5% state that management does not support internal audit in performing its duties. The 50% are moderate meaning that they can lean towards either side (small/large extent), only 37.5% agree that senior management are supportive towards internal audit to perform its duties and responsibilities.

With reference to inputs from management/management requests, 50% of the respondents place that management does provide inputs or request assistance on high risk areas or important

opportunities. 12.5% are of a view that management does not provide inputs on high risk areas while 37.5% are moderate.

Similarities were noted on the following responses: i) management prompt response to implementation of audit recommendations; and ii) management keeping internal audit up-to-date on organisational plans and changes. For both, 50% respondents are in agreement with the two statements. 37.5% are moderate which can mean that the respondents are unsure or slightly agree, 12.5% respondents do not agree that management is not responsive in implementing the audit recommendations also that management does not keep internal audit informed of organisational plans and changes.

As noted previously (paragraph 1.3.1, page 7), the questionnaire also included some open-ended questions that attempted to obtain information about the main challenges faced by internal auditors, what system they use in performing their work, as well as how they perceive the relationship between the internal auditor and their client (Entity A).

The respondents indicated that internal audit document its work on TeamMate system and ACL. The respondents further indicated that amongst the challenged faced by the internal audit are the following:

- “Delays in submission of reports”.
- “Non-cooperative clients in obtaining information”.
- “Lack of marketing the unit resulting in clients not understanding the audit mandate”.
- “Budget, staffing and training”.
- “CAE competence”.
- “Client resistance to findings”.
- “Lack of resources to execute the plan”.
- “Lack of audit committee support”.
- “High staff turnover”.
- “Lack of management buy-in”.
- “Management not implementing recommendations by internal auditors”.
- “Some in management not understanding the role of internal audit thinking it is only there to verify compliance”.

- “Defensive clients not accept findings”.
- “Delays response by management to provide requested information”.

The respondents outlined the relationship between audit and the auditee as follows:

- “Good however challenging as the client are non-cooperative at times”.
- “Varies, good with some of the client and not so good with the others, they think internal auditors do not know what they are doing. Also that internal audit is not adding as much value as it should”.
- “Fairly cordial”.
- “Needs improvement”.
- “There is lack of trust between the two, the client seems to be of the opinion internal audit is only there to highlight their mistakes”.

MANAGEMENT RESPONSES IN RELATION WITH THEIR EXPERIENCE WITH INTERNAL AUDIT ACTIVITY:

Objective of the analysis

The objective of this part of the analysis was to determine management’s perception with regard to its experience and views with internal audit activity. Another objective is to assess management’s confidence towards internal audit to providing value to the organisation (refer to page 29).

Findings

Table 4.11 provides a summary of management responses in relation to the experience with internal audit.

Table 4. 11: Management responses towards their experience with internal audit

	To an extreme extent	To a large extent	To a moderate extent	To a small extent
Internal audit has an understanding of the organisation’s process and operations.	6.45%	45.16%	38.71%	9.68%

	To an extreme extent	To a large extent	To a moderate extent	To a small extent
Internal audit is free to decide which areas to audit.	19.35%	45.16%	19.35%	16.13%
Internal audit is free of interference from senior management including the CEO.	3.23%	41.94%	25.81%	29.03%
Internal audit performs its work in an impartial and unbiased manner.	3.23%	41.94%	38.71%	16.13%
Internal audit is free from conditions that threaten its independence.	3.23%	45.16%	29.03%	22.58%
Internal audit has direct and unrestricted access to senior management and the board.	16.13%	35.48%	38.71%	9.68%
Senior management support the internal audit.	12.90%	41.94%	29.03%	16.13%
Internal audit evaluates and improves the effectiveness of risk management, governance and control.	12.90%	41.94%	25.81%	19.35%
Internal audit reviews the economical, effective and efficient use of resources.	3.23%	41.94%	22.58%	32.26%
Internal audit reports are factual, irrespective of whom the findings affects.	6.45%	45.16%	32.26%	16.13%
Internal audit communicates timely the engagement results.	0.00%	32.26%	29.03%	38.71%
Management prioritise and implement the internal audit recommendations.	6.45%	45.16%	35.48%	12.90%
Internal audit adequately follow-up on agreed corrective action by management.	6.45%	54.84%	22.58%	16.13%
Internal audit adds value to the organisation.	9.68%	41.94%	32.26%	16.13%
Internal audit improves organisational performance.	6.45%	35.48%	45.16%	12.90%
Management rely on the work of internal audit to can provide the value.	0.00%	32.26%	32.26%	35.48%

	To an extreme extent	To a large extent	To a moderate extent	To a small extent
The results of the work done by internal audit aligns to the organisation's objectives and goals.	3.23%	51.61%	35.48%	9.68%

Discussion of the findings

The most valuable asset of internal audit is its reputation as it is the trusted custodian of good governance. Its credibility and integrity within the organisation are therefore of utmost importance.

The majority of the respondents believe that internal auditors understand the processes and operation of the organisations. Over one third of the respondents are moderate about the statement. This may be an indicative of lack of confidence by management that internal audit fully understand the processes and operations. Almost 10% does not believe internal audit understand organisation processes and operations.

Over 36% of the respondents are not convinced that internal audit is free to decide on their engagement plans, the majority agree that internal audit are free to decide. Internal audit is an independent objective assurance and consulting activity, and should thus be free to decide on their engagement plans (refer to paragraph 1.1.1 & 2.7.1, page 1 &34).

The majority of the respondents believe that there is interference from management on the work of internal audit. This is very worrying statistics as internal audit should be free from interference. Only 45% believe that internal audit are free from interference.

Almost half of the management in their responses are of the opinion that internal auditors conduct their work in a partial and biased manner. This combined with their view on perceived interference from management paints an extreme worrying picture. Slightly over half of the respondents believe internal auditors are impartial and unbiased.

Over 50% of the respondents indicate possible independence conflict by internal auditors. They are not free from the conditions that may affect their independence. 48% of the respondents believe that auditors are free from the conditions that may affect their independence. According to the CoE (paragraph 2.4.2.5, page 25, it is mandatory for the internal auditors to remain independent and refrain from the conditions that may affect their independence.

Another point of concern is internal audit's access to senior management and the board, as 47% of the respondents are of a view that internal audit does not have access to senior management and the board. The remaining 53% agree with the statement. 55% of the respondents believe that senior management support the work of the internal auditors, 29% are moderate while 16% are not in agreement.

Considering management response with respect to its view on internal audit understanding of organisation operations, it is not surprising to notice the similarities in terms of the following: i) Internal audit evaluates and improves the effectiveness of risk management, governance and control; ii) Internal audit reviews the economical, effective and efficient use of resources; and iii) Internal audit reports are factual, irrespective of whom the findings affects. The statements above relates with competence of internal auditors and below are the statistical responses:

- 49% of the respondents do not believe internal audit assist organisations with improving the effectiveness of risk management, governance and control.
- 49% of the respondents state that internal audit reports are not factual.
- The majority of the respondents (55%) state that internal audit do not review processes for economy, efficiency and effectiveness.

Internal auditors in their responses conceded that their reports are not timely. This is also validated by management responses (67%) that internal audit do not communicate their engagement results on time.

Another competence matter, which also shares the same trend as the others previously discussed is that 48% of the respondents do not believe that internal audit adds value to the organisation. Also, 68% respondents state that management does not rely on the work of internal audit to provide value to the organisation. 58% do not believe internal audit improves organisation performance.

60% of the respondents are of the opinion that internal audit properly follow up on audit recommendations agreed upon with management. A concern may be whether the results of follow ups are communicated on time. Responding to alignment to organisations objectives, 55% of the respondents indicate that internal audit plans aligns to that of the organisation objectives and goals.

Management in its response is not convincing as only 52% agree that they implement the internal audit recommendations, 48% of the respondents do not implement the internal audit recommendations. This may be indicative that management as previously stated do not rely or do not have confidence on internal audit work.

The table below lists some of the challenges outlined by the respondents as obtained from the open-ended question in the questionnaire sent to the management of Entity A. These are the challenges the respondents believe internal audit faces when performing its work which may hinder the effective functioning thereof. The researcher classified the challenges for ease understanding.

Table 4. 12: Challenges identified by management respondents with regard to internal audit

No	Challenge	Classification
1	Delays in the communication of final findings as it takes almost five (5) months.	Communications
2	A final report for an audit conducted takes too long to be finalised.	Communications
3	Lack of understanding operational challenges in a particular environment.	Competence
4	Lack of ICT knowledge.	Competence
5	IA is looking for findings that is not value adding.	Competence
6	Time consuming.	Competence

No	Challenge	Classification
7	The timing of audits. It appears that there is not efficient planning and execution.	Competence
8	Internal audit need to understand the business and its processes.	Competence
9	Knowledge of the different sections and products Entity A offers.	Competence
10	Internal audit sometimes seem not sure of their mandate.	Competence
11	Understanding by the CEO the use of Internal Audit.	Management support
12	Internal audit is not getting support from senior management.	Management support
13	Support from business with regards to cooperation and coordination.	Management support
14	Management do not prioritise and implement the internal audit recommendations.	Management support
15	Cooperation from management and for audited department to take the recommendations seriously.	Management support
16	Openness from management to review its processes. There tends to be a defensive element as management in this organisation are not willing to take constructive criticism and improve. It is always about protecting self than taking the organisation forward.	Independence and objectivity
17	The relationship between management team and the internal audit can impair independence and result in internal audit overlooking certain risky arrears/risks which might negatively affect the performance of the entity in the long run.	Independence and objectivity
18	Lack of integrity, ethics and ill-treatment of whistle-blowers.	Integrity

No	Challenge	Classification
19	There is not enough interaction with internal audit and they have a low profile in the organisation.	Positioning
20	Internal audit lack sense of purpose. Misalignment to the strategic mandate.	Reputation
21	Lack of prioritisation of program 2.1.	Risk based approach

From the table above, competence of internal audit is indicated as the major concern raised by management followed by management support. Communication and independence of internal audit is also highlighted as an area of concern. The other areas highlighted are: integrity, positioning and risk based. The respondents also highlighted reputation of internal audit.

4.3 CHAPTER SUMMARY

This chapter presented the analysis of the data collected from the two questionnaires namely: i) internal auditors' questionnaires; and ii) management questionnaires. The aim was to evaluate the perceived effectiveness of the internal audit activity in government owned and managed entities. The findings from the data were presented and analysed.

The biographical profile of the respondents were analysed and the following were noted. All the internal auditors' respondents were black employees, majority whom were female over the age of thirty one (31). The respondents possesses an undergraduate qualification. 50% had over eleven (11) years internal audit experience. The respondents were a mix of internal auditors, senior internal auditors, audit supervisor and internal audit management. Contrary to the internal audit respondents, the management respondents were majority black male. 95% of the respondents are over the age of thirty-one (31) years. The bulk majority of the management respondents possesses qualifications varying from diploma to masters degree. Over 40% of the management respondents possesses more than twenty-one (21) years' experience.

With regard to integrity of internal auditors, 37.5% respondents are of the opinion that internal auditors are knowingly party to illegal activity and also that the internal auditors are moderately diligent, responsible and not honest when performing their work.

Regarding the independence and objectivity, the respondents believe that internal audit report to an appropriate level within the organisation that allows for the fulfilment of its roles and responsibilities while functionally reporting to the AC. The respondents, although not the majority do indicate that there is interference from management on the work of internal auditors.

With regard to competence and due professional care, the respondents stated that internal auditors possesses the technical and interpersonal skills however concern is that the internal auditors engages in reviews in which they do not have the necessary skills, knowledge or experience. The respondents further indicated that the internal auditors do not apply necessary professional care when performing their work. Another concern highlighted by over one third of the respondents is that internal auditors do not make use of technology based auditing.

Other common issues which were of concern included; internal audit competence and due professional care, internal audit inability to communicate timely the engagement results as well as a lack of management support. The other areas analysed and discussed were the following: risk based approach, proactive and future focused approach, alignment of audit plans to that of the organisation's objectives and goals. Mixed results were also obtained for these.

The respondents raised a concern that internal auditors do not review operation and programs to establish whether the results are consistent with the organisation's objectives and goals.

With regard to the resources, the respondents indicated a lack of resources and budget as a concern to successfully carry out the set duties and responsibilities. Another slight concern is that, the internal auditors collectively do not possess the skills, knowledge and competency required to perform their responsibilities.

In ensuring quality and continuous improvement, a quarter of the respondents are concerned with the following:

- Internal auditors continuous enhancing the knowledge, skills and experience;
- Internal auditor's attendance of educational seminars; and
- Internal auditors monitoring of projects on an ongoing basis.

With regard to communication, the respondents raised a concern that internal auditors do not communicate the engagement results on time and that the recommendations proposed do not improve the organisation's processes. The respondents also are concerned with the internal audit following up on action plans agreed upon.

The respondents are concerned with the internal auditors approach in that the internal auditors are not pro-active and that they are not future focused. Their concerns are that internal auditors do not add value to the organisation nor improve organisation's performance and also that they do not improve the effectiveness of risk management, control and governance processes.

The internal audit department also does not believe that senior management fully understands internal audit needs nor support them. The respondents also indicated the following:

- That senior management implement the internal audit recommendations;
- That senior management keep internal audit informed of organisational plans or changes; and
- That senior management furnishes internal audit with inputs regarding high risk areas.

With regard to management respondents, the following concerns were raised:

- Internal audit understanding of the organisation's processes and operations;
- Ability of the internal audit to freely decide on which areas to audit;
- Interference by the CEO in the work of internal audit;
- Internal audit's impartiality and biasness in conducting their work;
- Internal audit access to senior management i.e diminishes access by the internal audit to senior management;
- Inaccurate reports from the internal audit;
- Untimely communications of internal audit reports by the internal auditors;
- Inability by the internal audit to add value to the organisation and improve the organisational performance;
- Internal audit competence with regard to improving the effectiveness of risk management, controls and governance processes;
- Management indicated that they cannot rely on the work on internal audit; and

- That there is disjuncture between internal audit work and the organisation's objectives and goals.

Over and above, both management and the internal auditors indicated the challenges they face as well the relationship and affect it has between both parties.

Areas which are on top of management concerns are internal audit's competence, management support, and communications. The other areas of concerns were: integrity, positioning of internal audit and risk based.

It is clear from the findings of the study that numerous factors are present which prevent Entity A's internal audit department to function effectively. The latter concerns should be addressed if the internal audit department is to function as intended.

The next chapter summarises the study and concludes on the research objectives of the study.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

In this chapter, the researcher revisits the research objective as outlined in chapter one and concludes on the main research objectives of the study which was to (paragraph 1.2, page 7):

PO1: Evaluate the perceived effectiveness of the internal audit activity in selected government entities.

To achieve the primary objective, the following secondary objectives were formulated as noted in chapter one (paragraph 1.2, page 7) and addressed until this point:

SO1: Defining internal audit and the roles and responsibilities of internal audit in government owned and managed entities (Chapter two paragraph 2.4, page 20).

SO2: Identifying the factors affecting the effectiveness of the internal audit in government owned and managed entities (Chapter two paragraph 2.7, page 32).

SO3: Identifying the research methodology to be applied in this study (Chapter three paragraph 3.3, page 46).

SO4: Evaluating the perceived effectiveness of the internal audit activity in selected government owned and managed entities through analysis of the acquired results (Chapter four, page 59).

This chapter provides a summary of the findings, formulate conclusions and suggest recommendations to improve the effectiveness of internal audit activity in government entities.

This will assist in meeting the last secondary objective which is to:

SO5: Formulating recommendations as to how internal audit in the public sector can improve its effectiveness as to ensure that it adds value and play a pivotal role in managing the government owned and managed entities.

The researcher also highlight and discuss the areas for future research and the limitations to the study. The next sections present the summary of findings as discussed in chapters two to four (2-4).

5.2 SUMMARY OF FINDINGS AND CONCLUSIONS ON SECONDARY RESEARCH OBJECTIVES

In line with the problem statement for the study, the research objectives were evaluated and a conclusion on both the main and secondary objectives is provided below in order to address the research problem stated.

5.2.1 Defining internal audit and the roles and responsibilities of internal audit in government owned and managed entities (Chapter two).

Chapter two (page 12) which reviewed literature commenced by defining internal audit and then proceeded to discussing the roles and responsibilities of internal audit in government owned and managed entities.

Internal audit is defined as a value adding activity/assurance provider within organisations with the purpose to assisting the organisation achieve its objectives. It is an important independent assurance provider which provides organisations (both private and public sector) with the assurance and necessary defense to the organisation's system of governance, control and risk management. Internal audit is the custodian of the combined assurance model and is tasked with overseeing the model.

Internal audit plays a critical role in improving the effectiveness of organisation's RM, controls and governance processes. With regard to RM, its role is to review the RM governance frameworks/strategies/methodologies, while examining the organisation's tolerance to risk. Internal audit is further trusted with assisting management to achieve the set objectives efficiently and effectively, thereby evaluating the controls and providing the value adding recommendations to the organisation. As a custodian of good governance, internal audit is required to review and give assurance on the effectiveness of governance processes within the organisation.

The PFMA, section 38 (1) (a)(ii), requires the establishment of internal audit activity in government owned and managed entities. Internal audit is therefore required to comply with the following: i) the Constitution of the Republic of South Africa; ii) the Public Finance Management Act, (Act No. 1 of 1999, as amended by Act 29 of 1999 (PFMA)); iii) the Treasury Regulations (TR) issued in terms of the PFMA; iv) International Standards for the Professional Practice of Internal Auditing (ISPPIA); v) code of ethics; vi) core principles for the professional practice of internal auditing; and vii) the COSO ERM framework.

Its role and responsibility is to assist the AO in SA government owned and managed entities to achieve the objectives of the organisation by evaluating and developing recommendations for the enhancement or improvement of the processes. It can therefore be concluded that this secondary research objective was met.

The factors affecting the effectiveness of internal audit activities in government owned and managed entities are discussed next.

5.2.2 Identifying the factors affecting the effectiveness of the internal audit activity in government owned and managed entities (Chapter two).

The factors affecting the effectiveness of the internal audit activity in government entities were identified in the literature review. Prior to identifying the factors affecting the effectiveness of the internal audit activity, the researcher first defined internal audit effectiveness as the degree to which established objectives are achieved. It is also suggested that internal audit effectiveness relates to the number and scope of deficiencies corrected following the audit process.

In line with the literature review as provided in chapter 2, the factors that affect the effectiveness of internal audit were discussed. The IIA in 2015 released the new mandatory core principles which addresses the effectiveness of internal audit activity. Accordingly, 10 principles [*i) demonstrates integrity; ii) demonstrates competence and due professional care; iii) is objective and free from undue influence independent; iv) aligns with the strategies, objectives, and risks of the organisation; v) is appropriately positioned and adequately resourced; vi) demonstrates quality and continuous improvement; vii) communicates effectively; viii) provides risk based assurance; ix) is insightful, proactive, and future-focused;*

and x) promotes organisational improvement.] are said to be affecting the effectiveness of internal audit. The literature further identified management support to be pivotal in the effectiveness of internal audit activity.

The IIA further states that to achieve the internal audit mission, the internal auditor and the internal audit activity is required to demonstrate achievement of the core principles failing which can be viewed as not being effective. Although core principles do not make mention of management support, literature review points to “management support” as a critical element which directly affects the effectiveness of an internal audit activity.

It can therefore be concluded that the core principles (issued by The IIA) as well as management support affect the effectiveness of internal audit activity. It can therefore be concluded that this secondary research objective was met.

The next section discusses the research methodology followed and applied for this study.

5.2.3 Identifying the research methodology to be applied in this study (Chapter three).

Chapter 3 of this study identified the research methodology to be applied in this study. The chapter commenced by discussing the different types of research namely i) Exploratory, descriptive and explanatory research; ii) Quantitative and qualitative research; and iii) Applied and basic research. Exploratory research and applied research method were used. Use of quantitative research method was selected.

The researcher then identified the population and sampling within Entity A. An approval to conduct an academic research at Entity A was sought in writing from Entity A’s CEO. The two samples namely; i) internal auditors sample; and ii) management from level nine (9) and above, were identified.

The researcher proceeded to discuss the various data collection methods as well as the validity and reliability of the research. The various data collection methods were discussed and questionnaires with open-ended questions were used. The rationale behind the use of open-ended questionnaires was to obtain the respondents’ views on the manner in which they

respond. The questionnaires were automated on SurveyMonkey and a link was sent to the respondents by email to complete.

The validity and reliability of the questionnaire was ensured. Validity was through peer review and review by the statistician and Cronbach's Alpha tests were performed to ensure reliability.

The researcher concluded by discussing the ethical considerations for this study. The researcher obtained the ethical clearance from the North-West University. The researcher indicated that participation to the study was voluntary and that privacy and confidentiality were ensured. Anonymity of the respondents was also ensured in that respondents were not requested to disclose their personal details. It can, therefore, be concluded that the secondary research objective addressed in chapter three was met.

The next section provides a summary of the findings as discussed in chapter 4 above.

5.2.4 Evaluating the perceived effectiveness of internal audit activity in selected government owned and managed entities through analysis of the acquired results (Chapter four).

Chapter 4 presented the assessment and discussion on the perceived effectiveness of internal audit activity done through an analysis of the acquired results in chapter four.

In evaluating, the perceived effectiveness of the internal audit activity, the majority of the respondents surveyed (as documented in chapter 4, page 68, 68, 70, 72, 74, 75, 76, 78, 79, 81) indicated that internal auditors are diligent and honest when performing their work. They are also not involved in acts that are detriment to the profession. Integrity of internal auditors is however not a compromise as auditors are the trusted custodian on good governance. A concern is however that 25% of the respondents do not believe that internal auditors uphold/demonstrate integrity. A worrying concern is that 37.5% of the respondents are of the view that internal auditors are involved in illegal activities.

Reputation of internal audit is a key element of the governance and risk framework. Internal auditors who are not independent or objective, face an adverse reputational risk from their clients. The respondents (internal auditors) largely question interference by management on

the work of the internal auditors. The results also indicated that internal audit are prone to a conflict of interest. Only 12.5% of the respondents stated that internal auditors engages in activities in which they previously had operational responsibilities. The respondents indicated that internal audit's access to the audit committee is limited.

Competence of internal audit is acknowledged by both the internal auditors and management. Both the respondents question internal audit skills, knowledge and experience in execution of reviews and projects. Lack of use of technology based auditing and inability to apply care required of a prudent auditor were highlighted strongly. The management respondents indicated that internal audit does not understand organisation's processes and operations. They also raised a pertinent concern about internal auditor's impartiality and biasness when conducting their work.

To assist the organisation, internal audit plans should be aligned to the organisations objectives and strategies. It is however indicated that it is not the case with the internal auditors, the engagement results to a large extent do not align to organisation objectives and goals. This is an indication of a lack of agreement between internal audit plans and the organisations strategic objectives and goals.

When it comes to resources, concerns were raised on internal audit resources, more especially the budget to enable them to carry out their duties and responsibilities. The respondents indicated that internal audit do not have sufficient budget to enable them to successfully carry out its duties and responsibilities. The respondents also indicated an approval that internal auditors continuously enhances their knowledge, skills and competencies, and that they attend educational seminars, this is represented by 25% of the respondents.

Communications was indicated as the worst element the internal audit lack. The results show that internal auditors do not communicate the engagement results on time. In some cases, the report/s are issued in approximately five months. Further to that, the respondents indicated that in some cases, the internal audit report contains the recommendations which do not improve the organisation processes nor add value to the organisation. Almost half of management respondents indicated that internal audit reports are not factual. They further stated that they cannot rely on the work of internal audit or request advice from internal audit.

The respondents indicated that internal auditors are not insightful, proactive or future focused in their approach. The respondent further stated that the internal auditors do not contribute to the improvement of risk management, control and governance processes within the organisation.

When it comes to management support, both the respondents indicated that senior management does not support the internal audit activity. They therefore make it difficult for internal audit to perform their duties and responsibilities effectively. This is further exacerbated by the results that management does not implement the internal audit recommendations or keep audit up to date on any organisational plans and changes.

Based on the research results, it can be concluded that most of the core principles which affect the effectiveness of internal audit activity are present; however, they are not perceived to be operating effectively. The IIA require all principles to be present and operating effectively for an internal audit activity to be viewed as effective.

Management further stated that internal audit do not understand the organisation's processes and operations. The latter raises a doubt about internal audit ability to add value to the organisation. Almost one third of management respondents do not believe that internal audit is free to decide on auditable areas. Meaning that the management may interfere in the internal audit plans. Access by internal audit to senior management and the board was also highlighted as a concern in that internal audit does not have unrestricted access to senior management and the board. Almost half of management respondents conceded that they do not prioritise the implementation of internal audit recommendations. Considering the above, it can be concluded that there is a perceived evident lack of support from senior management in enabling the internal audit to perform their duties and responsibilities.

The next section outlines the recommendations for improving the effectiveness of internal audit activities in the government entities.

5.3 RECOMMENDATIONS

Based on the findings of the study, the following recommendations can be made as to how internal audit in the government owned and managed entities can improve its effectiveness to ensure that it adds value and play a pivotal role:

- Internal auditors should refrain from engaging in acts which may discredit the internal audit profession, this may include being party to illegal activities. The government should continuously perform a vetting on all its internal auditors, this will help identify internal auditors whom may be involved in acts not acceptable in the profession and to which the action must be taken against.
- Internal auditors need to strengthen their independence and objectivity within the organisation. They should not subordinate their judgement on matters to that of the others. Internal audit should refrain from assuming the operational responsibilities within the organisation. This may compromise the ability to provide assurance in the organisation.
- In order to provide relevant advisory and assurance services to their clients, internal auditors need to deploy time to better understand the organisation's processes and operations. The internal auditors should obtain an intimate knowledge and understanding of the organisation's processes, systems, and regulations. This can be achieved by ensuring that they put time budget for research in their annual plans.
- The internal audit should ensure it incorporates emerging and organisation's operational and strategic risks in their annual and engagement plans. The management of internal audit should be trusted in reviewing the engagement or annual plans so as to ensure that the risks are incorporated.
- The management of internal audit should, in addition, ensure that the internal audit plans are in line with that of the organisation, i.e strategies, plans or programs.
- The internal audit should also coordinate with the organisation's governance, risk and compliance activities, so as to improve the likelihood that risks are well covered across the lines of defence thus resulting in greater satisfaction with how well risks are managed.
- The internal audit management should canvass for additional financial budget and make it available to the unit so as to enable internal auditors to carry out their duties and responsibilities. This may include acquiring additional resources to sufficiently ensure collective mix of the necessary skills, knowledge and competency needed.

- The management should encourage the enhancement of knowledge, skills and competencies. This may be achieved through identification of skills gap within the unit and properly planning to address the skills gap by either providing/attendance of the trainings/workshop, on-job training or through educational seminars.
- Internal audit needs to improve on the manner in which it reports, that is, ensuring that the reports contain the content which is meaningful to the organisation and is seen as improving the organisation's processes.
- Internal audit, through the assistance of the CAE, needs to improve in its communications with the clients by ensuring that reports are finalised and engagement results communicated on time.
- The internal audit should partner with its clients by providing proactive advice and insights and actively engaging with management in organisational initiatives.
- To correct the negative perception or the reputational issue, internal audit should ensure that it reports the engagement results timeously to the client. This will help to elevate and enhance its status within the organisation while also rebuilding the reputation of the internal audit unit.
- Internal audit should continuously engage in educational drives within the organisation so as to educate the organisation's management about their roles and responsibilities, the importance of constant communication between internal audit and management, the importance of management sharing or keeping internal audit informed of the plans or changes as well as management responsibilities towards internal audit. This may assist in ensuring that management fully understands the role and needs of the internal audit which ultimately may result in management providing support to the internal audit.
- Successful implementation of the above recommendations as well as team building efforts between internal audit and the rest of the organisation would result in enhanced internal audit reputation. The reputation of the internal audit is critical as internal audit is an integral part of the organisation.

The above recommendations should assist in improving the effective functioning in government owned and managed entities. It can therefore be concluded that the last secondary objective has been met.

5.4 RESEARCH LIMITATIONS

This study was subject to the following limitations:

- The scope of this research was limited to evaluating the perceived effectiveness of internal audit activity in government owned and managed entities only.
- The approval to conduct research was only obtained from one organisation, thereby confining the research to one organisation.
- The analysis done was based on quantitative questionnaires and not extended to reviewing the audit hardcopy files.
- The sample was limited to the internal auditors and management of Entity A from level 9 upwards.

It is subjected that the generalisation of the findings of this study may therefore not be applicable to other government owned and managed entities as non-probability purposeful sampling was applied which limits the generalisation of the results found.

5.5 AREAS FOR FURTHER RESEARCH

Areas for future research include:

- Research should be performed to evaluate the relationships between the factors/principles affecting the effectiveness of internal audit activity.
- A comprehensive study that will take into account the actual internal audit work should be performed to evaluate the effectiveness of internal audit activities.
- The research should be extended to government national departments, provincial departments and the municipalities.

5.6 CONCLUSION

This study evaluated the perceived effectiveness of internal audit activity in selected South African government owned and managed entities. From this study, it can be concluded, specifically at Entity A, that the internal audit at this government owned and managed entity is not perceived to be effective. The findings of this study could therefore be indicative of issues at the internal audit departments at other government owned and managed entities, although

this study was limited in this context. Finally, the importance of an effective internal audit department, and the challenges the current internal audit departments in government owned and managed entities are facing should be amplified and addressed so as to ensure the effective functioning of the internal audit departments in the South African government owned and managed entities. This would enhance the economic growth ability of this diverse country and start addressing the needs of a country that is in desperate need of an economic uprising.

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APPENDICES

Annexure A – Internal Auditor Questionnaires

Research title: Evaluation of the effectiveness of internal audit activity in selected government entities

Dear participant

My name is Pitso Linyelo. I am a final year MBA student at the North West University (NWU) Potchefstroom Business School (PBS) - School of Business and Governance.

The objective of this research is to evaluate of the effectiveness of internal audit activity in selected government entities.

The questionnaire should take approximately 10 minutes to complete.

Your participation in this survey is voluntary and all information collected will be kept strictly confidential.

Please answer all questions as accurately as possible and to the best of your knowledge. You may contact myself on my mobile: 074 032 4942 or alternatively email: pitso.linyelo@gmail.com should you require further clarity on this study.

Thank you in advance for your assistance in this research project.

Kind regards

Pitso Linyelo

Section A: Demographic information

Please answer the following questions by marking the relevant selection

NB: Mark the applicable block with a cross (X). Complete all the questions.

1.1 Gender

M	F
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1.2 Race

Black	1
Indian	2
White	3
Coloured	4
Asian	5
Other	6

1.3 Age

20 and younger	1
21 – 25	2
26 – 30	3
31 – 35	4
36 – 40	5
41 +	6

1.4 Highest qualification

Grade 12	1
Diploma	2
Degree	3
Honours	4
Masters	5
PhD	6

1.5 Employment level

Internal Auditor	1
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Senior Internal Auditor	2
Audit Supervisor	3
Internal Audit Manager	4
Senior Internal Audit Manager	5
Chief Audit Executive	6

1.6 Years of experience

Less than 5 years	1
6 – 10	2
11 – 15	3
16 – 20	4
20 +	5

Section B

This section has 4 parts namely: Part A, Part B, Part C and Part D

Part A: Relate to individual IA principles and collectively to the IIA

Please provide an answer (X) to each of the following questions according to the scale below:

1	2	3	4
To an extreme extent	To a large extent	To a moderate extent	To a small extent

Number	Question	1	2	3	4
Integrity					
1	Do internal auditors perform their work diligently, responsibly and with honesty.				
2	Internal audit engages in acts that are discreditable to the internal audit profession.				

3. Are internal auditors knowingly party to illegal activities?

1	2	3	4
Strongly agree	Agree	Disagree	Strongly disagree

Please provide an answer (X) to each of the following questions according to the scale below:

1	2	3	4
To an extreme extent	To a large extent	To a moderate extent	To a small extent

Independence and objectivity					
4	Internal audit report administratively to the highest level within the organisation that allows for the execution of their duties; and functionally to the Audit Committee.				
5	Internal auditors are impartial, unbiased when performing their work.				

Number	Question	1	2	3	4
6	Internal auditors have free access to all the divisions and employees in the organisation.				
7	Internal audit rarely face interference by management when conducting their work.				
8	Conflict of interest is rarely present in the work of internal auditors.				
9	Internal audit engages in activities in which they had operational responsibility.				
Competence and due professional care					
10	Internal audit possess both technical and interpersonal skills.				
11	Internal audit only engages in reviews or projects which they have the necessary skills, knowledge and experience.				
12	Internal audit perform their work in accordance with the <i>International Standards for the Professional Standards of Internal Auditing</i> .				
13	Internal auditors plan and perform their work with due professional care.				
14	Internal audit make use of technology based auditing.				
15	Internal audit are alert to significant risks that may affect the organisation's objectives and operations.				

Part B: Relate to the IIA principles and its processes

Please provide an answer (X) to each of the following questions according to the scale below:

1	2	3	4
To an extreme extent	To a large extent	To a moderate extent	To a small extent

Number	Question	1	2	3	4
Alignment to strategies, objectives and risks (organisation)					

Number	Question	1	2	3	4
1	Internal audit aligns its plans to the organisations' strategies, objectives and risks.				
2	Internal audit reviews operations and programs to ascertain whether results are consistent with established organisational objectives and goals.				
Positioning and resources					
3	Internal audit is correctly positioned to allow for execution of its duties.				
4	Internal audit has sufficient resources to execute its duties and responsibilities.				
5	Internal audit has sufficient budget to successfully carry out its duties and responsibilities.				
6	Internal audit collectively possess the necessary skills, knowledge and competency needed to perform their responsibilities.				
Quality and continuous improvement					
7	Internal auditor's continually enhances their knowledge, skills and required competencies.				
8	Internal auditors attend educational seminars for continuous training.				
9	Audit reviews/projects are monitored for performance on an ongoing basis.				
Communications					
10	Internal audit communicates timely the engagement results.				
11	Internal audit makes appropriate recommendations for improving the organisation processes.				
12	Internal audit establishes a follow-up process to ensure that corrective actions have been effectively implemented.				

Part C: Relate to the outcomes or results of the IIA

1	2	3	4
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To an extreme extent	To a large extent	To a moderate extent	To a small extent
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Number	Question	1	2	3	4
Risk-based assurance					
1	Internal audit consider input from management and the board; organisation strategies; business objectives; business risk and risk management process when developing the annual plan				
2	Internal audit develops risk-based annual plan to determine prioritise of the internal audit activity.				
3	Internal auditors are proactive and future focused in their approach.				
4	Internal auditors have a good understanding of the operations of the organisation.				
5	Internal audit improves organisational performance.				
6	Internal audit adds value to organisation's processes.				
7	Internal audit improve the effectiveness of organisations' risk management, control and governance processes.				

Part D: Relate to the support provided by management to the IIA

1	2	3	4
To an extreme extent	To a large extent	To a moderate extent	To a small extent

Number	Question	1	2	3	4
Management Support					
1	Senior management is aware of the needs of internal audit.				
2	Senior management supports internal audit to perform its duties and responsibilities.				
3	Senior management provide the internal audit with inputs/management requests on the high risk areas or important opportunities.				

Number	Question	1	2	3	4
4	Senior management respond promptly to the internal audit by implementing the recommendations.				
5	Senior management keep internal audit informed on organisational plans and changes.				

What to you are the main challenges internal audit experiences?

What audit systems does internal audit utilise in executing their work?

How would you describe the relationship between internal audit and their clients?

Thank you very much for your time and effort.

Annexure B – Management Questionnaire

Research title: Evaluation of the effectiveness of internal audit activity in selected government entities

Dear participant

My name is Pitso Linyelo. I am a final year MBA student at the North West University (NWU) Potchefstroom Business School (PBS) - School of Business and Governance.

The objective of this research is to evaluate of the effectiveness of internal audit activity in selected government entities.

The questionnaire should take approximately 10 minutes to complete.

Your participation in this survey is voluntary and all information collected will be kept strictly confidential.

Please answer all questions as accurately as possible and to the best of your knowledge. You may contact myself on my mobile: 074 032 4942 or alternatively email: pitso.linyelo@gmail.com should you require further clarity on this study.

Thank you in advance for your assistance in this research project.

Kind regards

Pitso Linyelo

Section A: Demographic information

Please answer the following questions by marking the relevant selection

NB: Mark the applicable block with a cross (X). Complete all the questions.

1.1 Gender

M	F
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1.2 Race

Black	1
Indian	2
White	3
Coloured	4
Asian	5
Other	6

1.3 Age

25 and younger	1
26 – 30	2
31 – 35	3
36 – 40	4
41 – 45	5
46+	6

1.4 Highest qualification

Grade 12	1
Diploma	2
Degree	3
Honours	4
Masters	5
PhD	6

1.5 Employment level

Junior management	1
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Middle management	2
Senior management	3
Executive	4

1.6 Years of experience

Less than 5 years	1
6 – 10	2
11 – 15	3
16 – 20	4
20 +	5

Section B

Please provide an answer (X) to each of the following questions according to the scale below:

1	2	3	4
To an extreme extent	To a large extent	To a moderate extent	To a small extent

Number	Question	1	2	3	4
1	Internal audit has an understanding of the organisation's process and operations.				
2	Internal audit is free to decide which areas to audit.				
3	Internal audit is free of interference from senior management including the CEO.				
4	Internal audit performs its work in an impartial and unbiased manner.				
5	Internal audit is free from conditions that threaten its independence.				
6	Internal audit has direct and unrestricted access to senior management and the board.				
7	Senior management support the internal audit.				
8	Internal audit evaluates and improves the effectiveness of risk management, governance and control.				
9	Internal audit reviews the economical, effective and efficient use of resources.				
10	Internal audit reports are factual, irrespective of whom the findings affects.				
11	Internal audit communicates timely the engagement results.				
12	Management prioritise and implement the internal audit recommendations.				
13	Internal audit adequately follow-up on agreed corrective action by management.				
14	Internal audit adds value to the organisation.				
15	Internal audit improves organisation performance.				
16	Management rely on the work of internal audit to can provide the value.				

Number	Question	1	2	3	4
17	The results of the work done by internal audit aligns to the organisation's objectives and goals.				

What to you are the main challenges internal audit experiences?

Thank you very much for your time and effort.

Annexure C – Permission to conduct a research study letter



Annexure D – Language editing certificate



P Linyelo_edit
certificate.pdf



Department of Academic Literacy

12th March 2018

Private Bag X2046

Mmabatho

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TO WHOM IT MAY CONCERN

CERTIFICATE OF EDITING A DISSERTATION

This serves to confirm that I have read and edited Mr. Pitso Linyelo's dissertation titled: **Evaluation of the perceived effectiveness of internal audit activity in selected government owned and managed entities**. The candidate corrected the language errors identified. The document is of an acceptable linguistic standard.

Thank you

Yours Faithfully



J.R. Moletsane (Subject Head Academic Literacy)

Accr. No. 1002708

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