

Internal Audit and Ethics

The Case of the South African Social Security Agency

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ABSTRACT

The Institute of Internal Auditors requires internal auditors to comply with its stipulations on inter alia, ethics in the profession of internal auditing and the code of ethics for internal auditors. In this context, the study on which this article reports, considered among other things the importance of promoting ethics in the profession of internal auditing, as well as the role of the internal audit function in enhancing internal controls. The research design and methodology for the study was qualitative. Data was collected using the case study approach, wherein on the one hand, one-on-one interviews with senior managers were conducted and on the other, open-ended questionnaires were completed by junior managers. This article¹ suggests that, if all the necessary conditions under which an internal audit function can promote ethics in the profession, are not in place, the function itself also fails in improving ethical conduct/behaviour. In particular, the outcome of the research points to the importance of compliance with laws and regulations that govern the implementation of an internal audit function. The research findings indicate that compliance with rules and regulations by internal audit functions is one of the critical conditions that must be met for an internal audit function to contribute to the promotion of ethics in that profession as well as the enhancement of internal controls.

INTRODUCTION

The authors of this article depart from a premise that says if internal auditors do their work as expected, this will contribute to an ethical institution. However, in this article we will highlight the importance of promoting ethics in the profession of internal auditing as well as the role of the internal audit function in enhancing internal controls.

Existing literature points to important internal control mechanisms of the internal audit function that can be used to eliminate corruption. Unethical acts by public officials result in material losses to the state, which occur through criminal conduct, and ultimately disadvantages the public (Kuye, Thornhill & Fourie 2002:192–193; Pauw, Woods, Van der Linde, Fourie & Visser 2002:24; Myrick, Dawood & Maphiri 2008:68; Prechel & Morris 2010:333). An internal audit function is an important part of internal management controls, and it functions by reviewing, evaluating and making recommendations for the improvement of other controls within an institution (Allen, Hemming & Potter 2013:374). The role of internal auditing is thus two-fold: first, it provides the leader of a public institution with an objective and independent opinion on the trustworthiness of the operations of the institution. Second, the findings and recommendations of an internal audit function should provide management of a public institution with input that enables them to take corrective action in an effort to improve the effectiveness of its operations. However, internal audit functions do not always have that effect.

BACKGROUND AND RATIONALE

The role of an internal audit function is explained using agency as well as communication theory. First, agency theory postulates that an agency relationship, which is regarded as a contract that is entered into between leaders of an institution and its management, exists between the leaders and management (Al Mamun, Yasser & Rahman 2013:38; Khaled & Mustafa 2013:92). The managers are regarded as agents of the leaders because they perform work on behalf of the leaders. However, there is a possibility that the managers may deviate from conducting their duties in the manner expected, and instead pursue their own interests. This situation can be monitored by the presence of corporate governance mechanisms, such as audit committees, external and internal auditors, who can ensure that managers perform their duties as expected by the leaders (Al Mamun *et al.* 2013:38; Vafaei & Christopher 2014:7).

Second, communication theory argues that the existence of effective communication between internal auditors and auditees, as well as members of a public institution is important in strengthening internal audit effectiveness. To this end,

the manner in which internal auditors communicate their findings is critical. For example, if internal auditors communicate their findings in a way that auditees perceive as accusatory or only identifying weaknesses, this may break trust between internal auditors and auditees, which may in turn create communication barriers. Effective communication is thus critical, and the communication process should focus on relaying only necessary information in a clear, simple and meaningful way, as well as create mechanisms for feedback (Alzeban & Sawan 2013:445; Khaled & Mustafa 2013:94–95).

Evolution of the internal audit function

The profession of internal auditing emanates from the area of financial control according to Sarens and De Beelde (2006:453). Similarly, Willson and Root (1984:2) posit that records of accounting history show that the first audit function took place prior to AD 1500. The services then involved validating government transactions to avert the misappropriation of funds in treasuries of ancient rulers. The methodology involved two individuals who maintained records of the same transaction, to provide the ancient rulers with assurance that any attempted misappropriation of funds would be detected on time. The aforementioned illustrates that even in the earliest days of the function there was an intertwined relationship between internal control, auditing and assurance (Willson & Root 1984:2). Furthermore, during the early stages of the development of the profession, it was concerned with measuring and evaluating the effectiveness of various types of control, namely the correctness of financial transactions and ensuring that institutions complied with applicable laws and regulations. These functions were carried out to enable institution members to discharge their duties effectively (Sarens & De Beelde 2006:453).

The profession of internal auditing has since evolved and has shifted from merely examining financial records and fraud investigations, and now includes ensuring that efficiency, effectiveness and economy are achieved in institutions. Furthermore, the internal audit function now also includes a consultancy role, wherein the internal auditor provides institutions with recommendations for future action. The additional functions imply that the contemporary internal auditor has to determine whether institutional objectives have been achieved. The term given to the added aspects that are now part of the internal audit function, as highlighted above, is 'operational auditing' and in some instances it is called 'performance auditing' or 'value for money auditing' (Pollitt & Bouckaert 2011:86; Allen *et al.* 2013:378; Vafaei & Christopher 2014:4–6). In addition, the internal audit function has also extended to risk management, where institutional risks are assessed and monitored. The monitoring of risks is done in order to make recommendations on the controls that are necessary to mitigate against those risks, and raise them to an

acceptable level that enables institutions to achieve their objectives. The widening of the scope of the internal audit function, as highlighted above, is in response to an acknowledgement that modern audit and control systems must extend their focus beyond regulatory compliance. This is necessary in order for public institutions to cope with the increasing emphasis on performance management and accountability for results (Allen *et al.*, 2013:378).

It must also be noted in this context, that the code of ethics for internal auditors exists for promoting an ethical culture in the profession of internal auditing, as the profession is based on a trust relationship that must exist between the function and the auditees (Allen *et al.* 2013:378–379). Furthermore, Khaled and Mustafa (2013:92) point out that research that evaluates the effectiveness of the internal audit function when compared to external auditing, is lacking. There is thus a need for research in this area, especially in developing countries, where the internal audit function can play a critical role in preventing unethical acts, such as fraud (Khaled & Mustafa 2013:92; Badara & Saidin 2014b:177).

This study aimed to address this gap, using SASSA as a case study. After 23 years of democracy and 18 years after the promulgation of the Public Finance Management Act (PFMA) Act 1 of 1999, it seemed to be an opportune time for this study to be conducted. In addition, the study was conducted at an important institution, namely SASSA, where similar research has not been conducted previously. The context of this study was the distribution of social grants, since SASSA is an agency of the Department of Social Development, tasked with distributing social grants to about 31% of the country's population (SASSA 2015/16a:12). The Overseas Development Institute (2011:3) notes that South Africa has the largest and best developed social security system in Africa, where social assistance programmes amount to around 3.4% of the gross domestic product (GDP) (SASSA 2011/12:18; National Treasury 2013:86). The importance of the work done by SASSA makes it necessary for the internal audit function of the institution to prioritise promoting ethics in its profession.

Consequently, the main research question for the article is, *What are the necessary conditions under which an internal audit function could improve ethics in the profession?* The sub-questions were as follows:

- What are the functions of internal audit?
- What is known from the literature about the effects of an internal audit function on ethics?

Henceforth, the article proceeds as follows: we provide a consideration of the theoretical perspectives in the domain of ethics and governance. This is followed by a brief description of the research design and methodology of the study, and a discussion of the results of the case study. The conclusion of the study follows, provides an overview and closes the research.

THEORETICAL PERSPECTIVES

The next section provides theoretical perspectives in the domain of ethics and governance.

Ethics and accountability in public administration

Ethics in the public sector refer to what is considered right and proper behaviour of political office bearers and public officials as well as the moral requirements of public officials in the course of their duties (Kuye *et al.* 2002:192–193; Pauw *et al.* 2002:329; Maserumule 2014:969). As such, the personal morality of officials, codes of conduct and what is permissible and not permissible in public life are important considerations. Additionally, Maserumule (2014:969) points out that being ethical does not only encapsulate actions, but includes how officials make decisions when faced with choices that have an ethical implication.

Ethics are therefore, the foundation and reason for corporate governance, because an ethical culture ensures that an institution is administered ethically, which also puts it in good standing with its stakeholders (Nevondwe, Odeku & Tshoose 2014:267). Furthermore, Section 195 of the *Constitution of the Republic of South Africa*, 1996 asserts that there must be a high standard of professional ethics in the public sector (South Africa 1996:67). Public officials are thus expected to act in a manner that is acceptable, effective, efficient, proper and fair while performing their duties, as well as being accountable for their actions.

Accountability, which is closely linked to ethics, is regarded as holding elected or appointed individuals and institutions that have a public mandate, to account to the public for the actions, activities and decisions that they make and/or take. Accountability by political office bearers is necessary, because these incumbents derive their mandate from the electorate. Accountability from a financial management perspective, therefore, focuses on the ability to account for the allocation, use and control of public spending and resources according to legally accepted standards concerning budgeting, accounting and auditing (Gildenhuis 1997:56; Khalo & Fourie 2003:134; Bovens, Schillemans & Hart 2008:225).

The PFMA states that an accounting authority of a public institution is accountable for all financial matters pertaining to that institution. An accounting authority thus has the responsibility of ensuring that the finances of an institution are managed as stipulated in the PFMA. However, accounting authorities are dependent on other managers within the institution, who are accountable to them in terms of managerial accountability. Managerial accountability is concerned with the delegation of responsibilities by an accounting authority to line managers in terms of legislation, such as the PFMA. The aim of managerial accountability is to ensure that public institutions deliver services effectively, efficiently and

economically, and that the necessary controls and procedures are adhered to (Kuye *et al.* 2002:123; Pauw *et al.* 2002:30; Fölscher & Cole 2006:21).

Developments pertaining to public sector ethics

A number of authors emphasise that there has been an increase in the number of cases of unethical behaviour by public officials in the South African government. The transition that has taken place from apartheid to democracy, whereby the democratic government has allocated a sizeable budget for social assistance programmes and various infrastructure projects, wherein in the main, the government partners with private companies to deliver these programmes/projects, has created opportunities for corrupt acts or corruption vulnerabilities to thrive (Anechiarico & Jacobs 1995–1996:173; Fijnaut 2002:9; Pauw *et al.* 2002:329). The various infrastructure and social programmes are mainly aimed at addressing deficiencies of the former apartheid government. In this regard, Kolthoff, Huberts and Van den Heuvel (2006/7:20) note that when government does business with private companies, government should ensure that this takes place in an effective and ethical manner. In such cases, an internal audit function can play the role of assisting management with identifying substantial control failures and formulating recommendations for improvement (Sarens & De Beelde 2006:464). Similarly, Walker and Mengistu (1999:69) suggest that sound financial management practices, which include timely and efficient accounting systems, coupled with regular reviews by internal and external auditors, play a crucial role in the prevention of corrupt activities in the public sector.

Causes of unethical behaviour

Unethical behaviour, such as corruption in the public sector, is caused by personal greed and dishonesty, according to Kuye *et al.* (2002:194).

Fijnaut (2002:4) notes that the political causes of corruption are the values and norms of politicians and public officials, as well as their lack of commitment to public integrity. Furthermore, the organisational quality of the public sector has an influence on the prevalence of unethical behaviour in a public institution. Organisational quality of the public sector, which is impacted by both internal and external factors refers to the working conditions, control and auditing, the relationship between government and the private sector, and other social factors, for example the prevalence of organised crime in societies. Moreover, it is emphasised that when public officials are not paid well, and when their working conditions are not favourable, chances of those officials behaving ethically are low (Fijnaut 2002:4; cf. Kuye *et al.* 2002:194–195).

The section on governance highlights the potential role of an internal audit function in enhancing internal controls.

The Place of Internal Audit in Governance

Governance as an alternative to public administration first came to the fore in the mid-1970s, when it emerged that people wanted less government and more governance (Frederickson 2004:3). The approach emphasises the analysis of management problems in a strategic manner through a cycle of defining goals and objectives, identifying strengths and weaknesses, developing strategies, formulating action plans as well as implementing and monitoring the action plans. Governance in the public sector aims to ensure that government delivers services in an equitable, efficient, effective and affordable manner, as well as increase management accountability (Van Wyk 2003:16; Nevondwe *et al.* 2014:263; Vafaei & Christopher 2014:3).

Vafaei and Christopher (2014:3) refer to governance as a system for directing and controlling a public institution (cf. Frederickson 2004:6–7). ‘System’ in this context refers to several governance control processes that are developed and implemented by management to make sure that institutions are managed efficiently, effectively and economically. The system therefore affects the ability of an institution to achieve its goals, to monitor and assess risks as well as to optimise performance of the system.

In the context of SASSA, the strategic objective of the agency’s internal audit and risk management directorate is to promote good governance in the administration of the agency (SASSA 2013/14:13). The internal audit function of the agency is located at its head office in Pretoria, and is responsible for providing internal audit services to the nine regional offices of the agency, that is, one regional office in each province (SASSA 2015/16a:53). In addition, SASSA (2015/16b:3) highlights that one of the roles of its internal audit function is to promote ethics and values.

Several authors further highlight the importance of effective internal controls, and specifically internal audit functions, as these are a critical part of governance and have a significant positive influence on good governance (D’Silva & Ridley 2007:114; Coram, Ferguson & Moroney 2008:553; Badara & Saidin 2014a:77; Vafaei & Christopher 2014:3). Moreover, Nevondwe *et al.* (2014:272) posit that the achievement of good governance is reliant upon effective leadership in an institution, and that public sector governance will improve when principles of accountability are promoted and practised. Good governance requires that appropriate internal reporting and monitoring practices that support sound governance be embedded and implemented in public institutions (Seal 2006:390).

Governments are thus recognising the importance of effective internal controls, and specifically their internal audit functions, as these have a significant positive influence on good governance (Badara & Saidin, 2014a:77; Vafaei & Christopher, 2014:3). Coetzee (2014:830) posits that governance is regarded as sound when

a government achieves its goal of creating conditions for good and satisfactory quality of life for all citizens. Coetzee (2014:830) further emphasises that good governance involves fairness, accountability, responsibility and transparency. Key to maintaining good governance is an independent audit committee in the form of a board-level committee, which consists of a majority of independent members with the responsibility of providing oversight over management practices in key governance areas (Institute of Internal Auditors [IIA], 2014:4). Internal controls, such as an internal audit function, therefore, are key pillars of good governance that guard against improprieties (Allen *et al.* 2013:374). Similarly, Kuye *et al.* (2002:195) and Pauw *et al.* (2002:332) emphasise that there is a strong correlation between unethical behaviour and the non-existence of internal controls. In this case, an internal audit function plays a crucial role in ensuring that such controls are in place (Sarens & De Beelde 2006:464). The present study was located at this juncture, as it considered *inter alia*, the role that an internal audit function can play in enhancing internal controls.

RESEARCH METHODS

The research design and methodology for the study was qualitative, as this was found to be the most suitable methodology to address the research questions, which fell within the realism philosophical paradigm. According to Krauss (2005:761), realism is a philosophical paradigm that is used by qualitative researchers, who consider a number of perceptions relating to one reality. Knowledge about a reality is a result of social conditioning, and as such, it cannot be fathomed without considering the social actors involved in the process. The main research approach that is used within the paradigm is case studies, wherein the data collection techniques that get employed, include *inter alia* interviews (Healy & Perry 2000:119). In this study, data was collected in the context of the case study approach, and the two data collection techniques employed were personal one-on-one interviews and questionnaires that comprised open-ended questions. The study respondents (senior and junior managers) were selected using purposive sampling, to ensure that some diversity was included in the sample, in order to allow for the influence of differences in respondents' views, due to the positions that they occupy (Ritchie & Lewis 2003:79).

In consultation with SASSA's General Manager: Internal Audit, five senior internal audit managers were identified. Three out of the five senior managers were interviewed at SASSA's head office in Pretoria, where the agency's internal audit function is situated. In consultation with the General Manager: Finance, 10 more senior managers in certain of the areas in the agency that have been identified as strategic high risk areas, were also identified and interviewed at

SASSA's head office in Pretoria, as well as at the agency's regional office in Johannesburg, thus incorporating the agency's operations in Gauteng. On average, the duration of each interview was one and a half hours (total 19.5 hours). Questionnaires, which comprised open-ended questions, were completed by eight of the 14 junior managers in the agency's internal audit department. A qualitative data expert approved the data collecting instruments. Furthermore, a pilot study was conducted, and this gave the researchers an opportunity to refine the questionnaire.

The literature review and relevant empirical documents formed the basis on which the questions for both interviews and the questionnaire were conceptualised. The interview guide used for the interviews with senior internal audit managers as well as the questionnaire that was completed by junior internal audit managers, had similar content. This was necessary, in order to observe any differences in the views of the two groups of respondents, in an effort to achieve the objectives of purposive sampling, as noted above. However, certain items that were believed to be privy only to senior managers, were excluded from the questionnaire completed by the junior managers. The interview guide used for the interviews with the other senior managers, also contained similar questions to the one for senior internal audit managers. The other senior managers were a necessary inclusion in the population for the study as they were the recipients of internal audit services in the agency.

The data from the interviews and completed questionnaires was analysed using the ATLAS.ti Qualitative Data Analysis software. All research respondents had been assigned names to highlight differing opinions or minority views (SA=senior internal audit manager, SO=other senior managers, JA=junior internal audit manager). When analysing qualitative data, once the coding process is completed, conclusions can be drawn from themes that emerge from the data (Ritchie & Lewis 2003:203). The data for the present study is organised in accordance with non-cross-sectional data organisation and analysis, and as such, answers to questions were looked at individually and conclusions were drawn on the themes that emerged from answers to individual questions.

FINDINGS AND DISCUSSION

The findings are presented according to the internal auditors' code of ethics, the competencies of professional ethics, communication as well as governance, risk and control. In this section, the opinions of the majority of the respondents are presented. In addition, evidence for minority responses, where this applies, will be indicated by SA 1–3 for senior internal audit managers; SO 1–10 for other senior managers and JA 1–8 for junior internal audit managers.

Internal auditors' code of ethics

Table 1 presents findings on the four main areas of internal auditors' code of ethics, namely integrity, objectivity, competency and confidentiality (IIA, 2000:1). The purpose of the code of ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary in the internal auditing

Table 1: Elements of internal auditors' code of conduct

Concept	Opinions of senior managers – internal audit (SA 1–3)	Opinions of other senior managers (SO 1–10)	Opinions of junior managers – internal audit (JA 1–8)
1. Integrity of internal auditors	The common themes that emerged from the data indicated that screening of the internal auditors at application stage, by SASSA helped in identifying suitable candidates. However, it was also pointed out by SA 3 that there had been reports of unauthorised information disclosure by the internal auditors.	The majority of other senior managers were of the view that the internal auditors had integrity. They said that the internal auditors did not try to find fault; they emphasised that their role was to assist and suggest solutions.	The junior internal audit managers emphasised that internal auditors followed rules and avoided using information for personal gain.
2. Objectivity of internal auditors	The respondents believed that the internal auditors were always objective, and that their work was informed by the risk registers and engagements with management. Additionally, internal audit reports incorporate everything that was discovered during audits.	The opinions of the other senior managers were that the internal auditors were objective, and this was seen in their reports, which objectively detailed the findings of audits conducted.	The junior internal audit managers remarked that the internal auditors were not influenced by others to form a judgement.
3. Competency of internal auditors	In general, the theme that emerged was that the internal auditors were competent. Where gaps were identified in their knowledge or expertise, these were addressed by training.	The overall impression was that the internal auditors were competent and that they had the required qualifications. However, it was also mentioned by SO 8 that the internal auditors were lacking in terms of linking theory to practice.	The view was that the internal auditors had the necessary qualifications and experience to conduct audits.

Concept	Opinions of senior managers – internal audit (SA 1–3)	Opinions of other senior managers (SO 1–10)	Opinions of junior managers – internal audit (JA 1–8)
4. Respect for confidentiality by internal auditors	The common view was that due to the above, internal auditors are required to sign a declaration of independence and confidentiality at the beginning of every year. This plays a role in ensuring that information collected during audits is kept confidential and cannot be used for anything outside the workplace. Furthermore, all team members are vetted by SASSA. In addition, all internal audit reports are marked 'confidential'.	The other senior managers believed that internal auditors kept all information confidential, as they were not aware of any confidential information that had been leaked in the past.	The junior internal audit managers confirmed some of the information that was provided by the senior internal audit managers. They indicated that internal auditors in SASSA signed an oath of secrecy when appointed, and they are vetted to obtain security clearance. This function ensures that information cannot be used for personal gain or in a manner that will be contrary to the law or detrimental to the legitimate and ethical objectives of the institution. All final internal audit reports are marked 'confidential', and indicate that they are for the use by SASSA only. Furthermore, the internal audit unit reports are also shared with only a limited number of officials, such as regional executive managers, executive managers at head office and the audit committee, in order to control who is privy to the information contained in the reports.

profession as the profession is based on a trust relationship that must exist between the function and the rest of the institution (Allen *et al.* 2013:378–379).

The above findings are mainly in line with the requirements of the code of ethics for internal auditors (Allen *et al.* 2013:378–379). It is important for internal auditors to have integrity, for the following reasons:

- It gives their clients the assurance that they can rely on their judgement.
- When internal auditors are objective, this assures their clients that their assessment is balanced and not influenced by their own interests.

- When internal auditors are competent, this gives auditees confidence that the internal auditors have the necessary skills and knowledge to make thorough judgements. However, the assertion that the internal auditors are lacking when it comes to linking theory to practice, points to perceived weaknesses of the function by its clients.
- It is critical for internal auditors to keep information they use for audits confidential and not disclose it without the necessary authority.

Reports of unauthorised information disclosure by the internal auditors as noted above, are thus concerning. The IIA (2000:1) states that internal auditors who breach the code of ethics, are subject to disciplinary action by the IIA. As such, SASSA should subject auditors who are found to have violated the code of ethics to disciplinary processes of the IIA.

Competency of communication

The competency of communication is one of the 10 core competencies that all internal auditors are required by the Institute of Internal Auditors to have and apply. Internal auditors need to understand the effect of their communication on others (IIA 2013:12). This is also in line with the principles of communication theory, as highlighted above. In response to the way internal auditors in SASSA communicate, the opinions of senior internal audit managers indicated that the managers stated that the internal auditors always communicate in a positive manner, and their work is always supported by evidence. If managers do not agree with outcomes of audits, they are given an opportunity to present counter-evidence. Opinions of other senior managers suggested that communication is professional, information is requested in writing and responses are also in writing. The communication emphasises that internal auditors are there to assist. Opinions of junior internal audit managers indicated that internal auditors communicate in a positive manner. The internal audit function has a survey, which is completed by management after every audit assignment. The survey allows management to provide feedback on how they experienced their interactions with the internal auditors.

In response to the question about promotion of open communication, senior internal audit managers stated that there is open communication, whereby managers in the different departments that are audited are given a chance to look at draft reports before these are finalised. Senior internal audit managers also have a standing invitation to all strategic and operational meetings of the agency. Opinions of other senior managers suggest that internal auditors promote transparency. This transparency is demonstrated when audit findings are made. These are discussed with affected managers to get their input before a report is finalised. Junior managers indicated that senior internal audit managers are always available

to assist when required to do so. In addition, before final audit reports are issued, preliminary reports are discussed with management, and managers are able to give input.

The feedback presented by respondents on the competency of communication indicated that SASSA's internal audit function communicates positively in their dealings with their clients. This is in line with communication theory, which postulates that the existence of effective communication between internal auditors and auditees is important in strengthening internal audit effectiveness (Alzeban & Sawan 2013:445; Khaled & Mustafa 2013:94–95).

Competency of professional ethics

Table 2 depicts findings on the professional ethics competency, which is another of the 10 core competencies that all internal auditors are required to have (IIA 2013:6). The competency of professional ethics aims to promote and apply professional ethics in the internal audit profession.

Table 2: Competency of professional ethics

Concept	Opinions of senior managers internal audit (SA 1–3)	Opinions of other senior managers (SO 1–10)	Opinions of junior managers –internal audit (JA 1–8)
1. Ethics of internal auditors	The common theme that emerged was that internal auditors in SASSA do discharge their duties according to the agency's internal audit charter and code of conduct, and that they are ethical.	The other senior managers said that the internal auditors did their work according to instructions, and that they were professional in all audit engagements. At the same time, they promote <i>Batho Pele</i> principles. On the other hand, SO 3 remarked that the internal auditors did not follow the audit plan, but they focus on ad hoc requests by executives. The perception was that internal auditors were used as investigators, when managers suspected fraud. In addition, their audits clashed with those of external auditors.	The junior internal audit managers were of the view that internal auditors are ethical as they work towards ensuring that the following principles of the IIA code of ethics are observed: integrity – ensures reliance on their judgement; objectivity – shows that they are not unduly influenced by others to form a judgement; confidentiality – prohibits auditors from sharing any information unless required by law; and competency – ensures that auditors do not audit projects that they do not understand.

Concept	Opinions of senior managers internal audit (SA 1–3)	Opinions of other senior managers (SO 1–10)	Opinions of junior managers –internal audit (JA 1–8)
2. Discussions about unethical occurrences, such as fraud with the chief executive officer (CEO)	The overall feedback was that SASSA has a separate unit that deals with fraud and compliance, which is not part of the internal audit function. It is as such not the responsibility of the internal audit function to uncover fraud. However, in the event that an internal audit report indicates a possibility of fraud, this is brought to the attention of management/CEO and the audit committee.	N/A	The junior internal audit managers confirmed the feedback provided by their senior counterparts by mentioning that cases of suspected fraud in the agency are communicated to the CEO in the form of reports, after each audit assignment. However, the internal audit function can only report on suspected fraud but cannot draw a conclusion that fraud is occurring. A recommendation is forwarded to the agency’s fraud & compliance unit for further investigation.
3. Discussions about unethical occurrences such as fraud with management	The responses provided indicated that if internal auditors suspect/uncover any fraud during audit reviews, this is discussed with the head of the particular department, as well as noted in internal audit reports, which are made available to management.	The opinions of the other senior managers were that after each audit engagement, if any unethical occurrences had been identified, these are discussed when findings are presented to management. However, SO 3 was of the view that unethical occurrences were not formally discussed, and that this only happened if the manager concerned knew someone in the internal audit department.	The opinions here were that, if at times management suspects fraudulent activities, they request ad hoc audits to be conducted by the internal audit function. Once these have been finalised, the findings are communicated to them.

Concept	Opinions of senior managers internal audit (SA 1–3)	Opinions of other senior managers (SO 1–10)	Opinions of junior managers –internal audit (JA 1–8)
4. Investigations focusing on institutional unethical occurrences, such as fraud	It was reiterated that SASSA has a separate unit that deals with fraud. However, during audits, such as grant audits, internal audit has picked up potential fraud cases in medical assessment reports that were submitted by beneficiaries, as well as instances where it appeared as if the same beneficiary was claiming under different identity numbers. These cases were referred to the agency's fraud unit for further investigations.	The views expressed were that the internal audit function focuses on compliance with processes, in line with policies and procedures. However, fraud investigations are done by independent bodies and the agency's fraud & compliance unit.	It was again echoed that the agency's fraud & compliance unit is the one that investigates fraud, which may have been identified/suspected by internal auditors during audits.
5. Remedial actions for institutional unethical occurrences	The overarching opinion was that auditors suggest measures for resolution in the internal audit reports. These reports indicate the findings, causes, risks/potential effect, recommendations and proposed management action plans to address the risks and findings.	The other senior managers indicated that if internal auditors identify any issues, these are first discussed with management, thereafter suggestions regarding controls aimed at mitigating the risks are made. However, the view of SO 3 was that the measures for resolution are made to executives following ad hoc requests and not to the senior managers.	The opinions here were that measures for resolutions in the form of recommendations are presented once audit assignments have been concluded.

Governance, risk and control

Table 3 presents findings on the competency of governance, risk and control. Internal auditors are required to have this competency as well as apply it in the institutions where they work (IIA 2013:10).

The views of the majority of the respondents as presented in Table 2 indicate that SASSA's internal auditors are competent in the competency of professional ethics. On the competency of governance, risk and control, as shown in Table 3, positive and negative feedback was provided. By way of example, the positive feedback provided was that the internal auditors do understand their role in the

Table 3: Competency of governance, risk and control

Concept	Opinions of senior managers – internal audit (SA 1–3)	Opinions of other senior managers (SO 1–10)	Opinions of junior managers – internal audit (JA 1–8)
<p>1. Promotion of good governance</p>	<p>The opinions of the senior internal audit managers were that the internal auditors do play a role in the promotion of good governance. They said that this is demonstrated by the audits, which cover governance, internal control and risk management. Additionally, senior management in the internal audit function are active in communicating to staff about how to deal with fraud and report it.</p>	<p>The views expressed were that the internal auditors do understand their role concerning promoting good governance. However, the way audits are done makes it difficult for the agency to implement the findings and improvements. It was also remarked that the internal auditors conduct audits at the same time with the Auditor-General, leaving no time for implementation. In addition, it was noted that the internal auditors do not communicate on time when audits are done. SO 3 and SO 7 were also of the view that senior managers within the agency have a tendency of forcing the internal auditors to do ad hoc audits, and this has a negative influence on the internal audit plan.</p>	<p>The junior internal audit managers were in agreement that internal auditors do promote good governance. This, they said, is done through ensuring that the governance structures within the agency are in place. In addition, internal audits are risk-based and informed by the risk assessments performed by the agency’s risk management unit.</p>

Concept	Opinions of senior managers – internal audit (SA 1–3)	Opinions of other senior managers (SO 1–10)	Opinions of junior managers – internal audit (JA 1–8)
2. Alignment between audit activities and institutional risks	The senior internal audit managers were of the view that the agency's audit plan, which is drafted in consultation with management and the Auditor-General, is based on risk assessments of the institution. As such, audits focus on high-risk areas. This feedback is confirmed in SASSA (2015/16b:13), where it is noted that the agency's internal audit plan is risk-based, and is informed by the results of the agency's strategic and operational risks, whereby input was sought from the reports of the Auditor-General and senior management.	The other senior managers agreed that most audit activities are based on the Agency's three-year rolling internal audit plan, which is informed by risk registers. SO 3 was also of the view that leadership in the internal audit function does not have a good understanding of the institution and is often told what to do by other senior managers.	The junior internal audit managers also believed that risk assessments performed by the agency's risk management unit, inform internal audit activities, that is, the internal audit function develops its plan from the risk register provided by the risk management unit. It was noted that the plan constitutes ratings, for each risk that is assessed. Risks that are rated as 'high risks' are given priority and they are incorporated in year one of the audit plan. Risks that are not rated as high, are incorporated into years two and three of the agency's three-year rolling strategic internal audit plan.
3. Submission of internal audit reports	The feedback provided by senior internal audit managers pointed to the fact that the submission of reports varies, and is as per approved audit plans/schedules and audit assignments per branch/region. After each audit assignment, reports are brought to the attention of the managers concerned. In addition, on a quarterly basis, progress against planned audits is tabled at audit committee meetings.	It was noted that reports are submitted to senior management as and when audits have been completed. However, SO 3 said that in his/her area, internal audit reports had not been submitted before.	It was also believed that reports are submitted after the completion of each audit assignment, and quarterly to the audit committee.

Concept	Opinions of senior managers – internal audit (SA 1–3)	Opinions of other senior managers (SO 1–10)	Opinions of junior managers – internal audit (JA 1–8)
4. Promotion of a culture of fraud risk awareness	The senior internal audit managers indicated that the agency's fraud management unit is the one responsible for doing road shows on fraud prevention. As such, the internal audit function is not actively involved. This feedback is not in line with the requirements of the PFMA. This shortcoming is discussed below.	The other senior managers stated that the agency's fraud & compliance unit is the one that promotes a culture of fraud risk awareness.	The junior internal audit managers reiterated that it was the responsibility of the agency's fraud & compliance unit to promote a culture of fraud risk awareness. However, the internal audit function provides advice if they pick up any suspected fraud during audits.
5. Evaluation of potential fraud risks	The senior internal audit managers indicated that, during the planning of audits and when audit assignments are carried out, the adequacy of internal controls is evaluated, and areas of concern are highlighted.	N/A	The junior internal audit managers mentioned that the internal audit function only provides advice and recommendations on suspected fraud.
6. Common types of fraud risks associated with the institution	The senior internal audit managers noted that the common types of fraud that have been identified through audits conducted in the agency included fraudulent medical assessments, fraudulent identity books and ghost beneficiaries.	N/A	It was stated that in ascertaining common types of fraud risks associated with SASSA, internal auditors look at signals that fraud may be occurring based on the controls that are currently in place. The junior internal audit managers were of the view that the most common type of fraud in the agency relates to embezzlement of funds/grants.

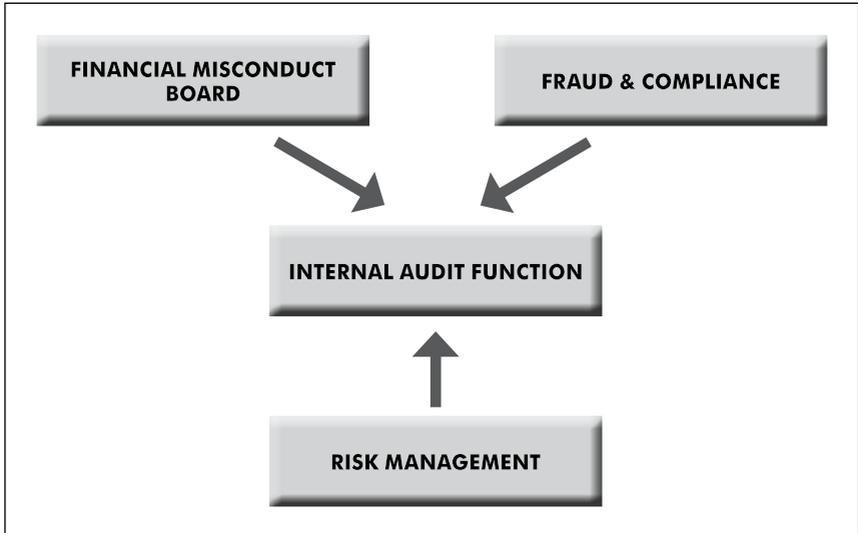
Concept	Opinions of senior managers – internal audit (SA 1–3)	Opinions of other senior managers (SO 1–10)	Opinions of junior managers – internal audit (JA 1–8)
7. Professional ethics by audit committee members	The senior internal audit managers are the ones who deal directly with the audit committee. They were of the view that the audit committee members conduct themselves ethically and are independent. This finding is confirmed in SASSA (2015/16a:54), where it is noted that during the year under review (2015/16), the agency’s audit committee continued with its role of providing independent advice to management as well as overseeing the work of the internal audit function.	N/A	N/A

promotion of good governance. On the other hand, the respondents consistently said that the internal audit function was not responsible for promoting a culture of fraud risk awareness, as this was the responsibility of the agency’s fraud & compliance unit. This finding is not in line with the requirements of the IIA and the PFMA. First, although SASSA’s internal audit function works with internal stakeholders, as shown in Figure 1 below, Treasury Regulations: PFMA require that in the three-year rolling strategic internal audit plans, internal audit functions should take into account an institution’s operations, including its risk management strategy, which must include a fraud prevention plan (National Treasury 2005:81–82).

Figure 1 was constructed by the authors to illustrate the various units/directorates who work with the internal audit function, in its work of ensuring that there are adequate controls to mitigate the occurrence of unethical acts. The fraud & compliance function is responsible for implementing the agency’s fraud prevention plan, through fraud awareness campaigns that focus on training officials on fraud prevention. Although the role of the internal audit function in the promotion of a culture of fraud risk awareness is a secondary one, the views of the respondents point to that the function does not get involved at all in this regard.

The financial misconduct board is a governance structure, which was created to investigate cases of financial misconduct, and take appropriate action against those found guilty of financial misconduct. The risk management function falls

Figure 1: Internal stakeholders to the internal audit function



within the same branch as the internal audit function, and both functions report to the agency's audit committee. The risk management function is responsible for co-ordinating the process of risk identification, and ensuring that new and emerging risks are recorded in the agency's risk register (SASSA, 2015/16a:52–55).

Second, in line with the description of the risk management function provided above, the respondents mentioned that internal audit plans in the agency are developed from risk registers provided to the internal audit function by the agency's risk management unit, indicating that the internal audit function is not actively involved in the identification of risks. On this point, Treasury Regulations: PFMA require internal audit functions to develop three-year rolling strategic internal audit plans, based on the assessment of key risks in the institution by the internal audit function (National Treasury 2005:82). In addition, SASSA (2015/16b:4) notes that the agency's internal audit function should assist the agency with identifying, evaluating and assessing institutional risks as well as provide assurance on the effectiveness of internal controls. Although the research findings indicate that the work of SASSA's internal audit function is informed by risk registers, the risk registers are not developed in consultation with the internal audit function as required by Treasury Regulations: PFMA and as noted in SASSA's 2015/16 annual internal audit plan, but the process is facilitated by the risk management unit. This status quo is out of line with the PFMA, and may indicate a lack of understanding of the content of the prescript that governs internal audit functions in the public sector, that is, the PFMA.

In addition, various authors emphasise that in public financial management, 'internal control systems' refer to various management tools, such as an internal audit function. Management tools aim to achieve, among other things, compliance with rules and regulations as well as to ensure that an institution's operations run effectively and efficiently. A sound internal control framework is thus aimed at assuring the public that government operations have achieved basic fiduciary standards in areas such as averting the misuse and inefficient use of financial and human resources, preserving assets, achieving budget objectives, avoiding fraud and also ensuring that financial information is produced on time and is reliable (Sarens & De Beelde 2006:463; Allen *et al.* 2013:374). It is of utmost importance that, in order for SASSA's internal audit function to play the above role, it must fully comply with rules and regulations that govern the function itself.

CONCLUSION

In modern times, the main function of internal audit functions in the public service is to assist institutions in achieving their objectives by promoting good governance and ethical behaviour/conduct. This research is distinct because no similar study has been conducted previously. Internal audit functions in the public sector operate within the parameters of the PFMA, as such the authors considered the study necessary, 18 years after the promulgation of this act.

The authors argue that, if the necessary conditions under which an internal audit function can be deemed as promoting the function's professional ethics are not present, the function itself also fails to improve ethical conduct/behaviour. In answering the primary research question, *What are the necessary conditions under which an internal audit function could improve ethics in the profession?* there are six main conditions, which need to be in place:

- compliance with the code of ethics for internal auditors;
- active promotion of an ethical culture in the internal audit profession;
- competency in and application of the competence of governance, risk and control;
- compliance with the PFMA and Treasury Regulations: PFMA;
- good communication skills by internal auditors; and
- an independent audit committee.

First, on the condition of the presence of the different aspects of the **code of ethics for internal auditors**, which are integrity, objectivity, competency and confidentiality, the findings of the research were as follows: The research respondents answered positively on some questions relating to these aspects of the code of ethics. However, reports of unauthorised information disclosure by the internal

auditors were concerning, and those found in breach of the code of ethics, should be subjected to disciplinary action. In addition, the perception that internal auditors have qualifications but lack the ability to link theory to practice indicates a lack of understanding of the institution on the part of the internal auditors. Second, the research findings indicated that SASSA's internal auditors are ethical. However, on the competence of **governance, risk and control** both positive and negative feedback was provided. By way of example, the positive feedback provided pointed to that the internal auditors do understand their role in the promotion of good governance. On the other hand, the findings of the research also pointed out that the internal audit function in SASSA did not play a role in the identification of risks in the Agency. It was thus noted that this finding is out of line with Treasury Regulations: PFMA which require internal audit functions to develop three-year rolling strategic internal audit plans, based on their assessment of key risks in the institution.

Third, the research found that **communication** by the internal auditors was effective. Fourth, the agency's **audit committee** was found to be independent when discharging its duties.

In future, evidence-based research that carefully considers research that has been conducted on the promotion of ethics in the internal audit profession needs to be undertaken. This could be relevant in order to identify gaps for future research, especially from a South African perspective. In closing, the authors believe that if all of the above conditions are met, an internal audit function could be one of the strategic functions that can be used to promote ethical behaviour/conduct in public institutions.

NOTE

- * The article is part of the primary author's doctoral thesis, provisionally entitled: *Internal Audit and Financial Misconduct: The Case of the South African Social Security Agency*.

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