

**CUSTOMERS' PERCEPTIONS OF THE WORK PERFORMED BY THE
INTERNAL AUDIT FUNCTIONS IN THE PUBLIC SECTOR: A CASE
STUDY OF NATIONAL TREASURY**

By

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DECLARATION

Student number: 33324131

I declare that *Customers' perceptions of the work performed by the internal audit functions in the public sector: a case study of National Treasury*, is my own work and that all the sources I have used or quoted have been indicated and acknowledged by means of complete references.

SIGNATURE

Mr Nebbel Motubatse

DATE

DEDICATION

THE STUDY IS DEDICATED TO THE FOLLOWING INDIVIDUALS WHO HAVE
HAD A PROFOUND INFLUENCE ON MY LIFE:

- my deceased grandmother, Mrs Marungwane Sepadi
- my deceased father, Mr Morewane “Rooi” Motubatse
- my deceased father-in-law, Mr Mashego Nkadimeng
- my deceased mother-in-law, Mrs Lefalane Christina Nkadimeng
- my mother, Mrs Mamogalake Motubatse
- my aunt, Mrs Tlakale Leseilane Morwamoche
- my wife, Mpho Motubatse

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“And we know that all things work together for good, to them that love God, to them who are the called according to his purpose” (Romans 8:28).

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ABSTRACT

This study was conducted to generate an in-depth understanding of key internal audit function (IAF) customers' perceptions of the work performed by the Department of National Treasury's IAF. This study was further intended to address the absence of any qualitative study of IAF customers' experiences and expectations, and their perceptions of the challenges the IAF faces. The study had five research objectives, namely: to identify the role of the IAF in the public sector in relation to its customers; to discuss strategies to meet the expectations of IAF customers; to determine the experiences of the identified key IAF customers of the work performed by the IAF in the National Treasury; to determine the expectations of the identified key IAF customers of the IAF in the National Treasury, and to ascertain what the identified key IAF customers perceive to be challenges facing the IAF in the National Treasury. In order to achieve the research objectives, the study implemented a qualitative research design using the National Treasury as a case study. Data were collected through semi-structured interviews with participants selected from the key IAF customers' categories (comprising the audit committee (AC), executive and senior managers, programme and operating managers, and external auditors).

Three main themes emerged from the identified key customers' views. These were (1) *Experiences*, which revealed that the participants were reasonably satisfied with the work of the IAF in the National Treasury. Participants from the AC, the executive and senior managers, and the Auditor General of South Africa (AGSA) felt that the IAF does add value, while the programme and operating managers participants indicated that the IAF does not demonstrate a holistic view when it conducts evaluations. (2) *Expectations*, the AC participants expected the AGSA to be able to rely on the work of the IAF, that the IAF should maintain a findings register, and that it should demonstrate IT skills. Executive and senior managers participants expected the IAF to add value to the strategic direction of the National Treasury. Programme and operating managers participants expected the IAF to be open and consultative, to set realistic audit plans, to provide regular feedback, and to demonstrate knowledge of the business. The AGSA participants called for the IAF to demonstrate technical competencies as well as independence and objectivity. (3) *Challenges*,

participants perceived the IAF's lack of knowledge of the business, the limited reliance placed on its work by the AGSA, the lack of audit action monitoring processes and the lack of management support for the IAF as its biggest challenges.

This study could benefit the National Treasury's IAF by helping it to understand the changing needs and expectations of its customers, and to identify areas for improvement. It may also benefit professional audit bodies and the newly-established National School of Government by providing them with insights into the training needs of internal auditors, and the necessity of providing continuing professional educational programmes.

Key terms

Balanced scorecard; Batho Pele; customers of IAF in the public sector; internal audit function; performance measurement; public sector; service delivery; total quality management

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CHAPTER 1

INTRODUCTION TO THE STUDY

Firstly, I wish to start this study with the following quotation:

“A customer is the most important visitor on our premises; he is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favor by serving him. He is doing us a favor by giving us an opportunity to do so.” (Mahatma Gandhi).

1.1 INTRODUCTION

This chapter discusses the background and rationale for the study, the problem statement, the aim of the study, and the objectives of the research. It also provides a brief description of the research design and methodology, and the limitations of the study. The final section explains the terminology used in the study and presents the key ideas to be addressed in each of the subsequent chapters of this dissertation.

1.2 BACKGROUND AND RATIONALE FOR THE STUDY

One of the intended outcomes of the establishment of democracy in South Africa in 1994 was the development of a new public sector financial management system. To achieve this end the South African government adopted the White Paper on Service Delivery in 1997 (RSA, 1997) in order to promote a culture (through the adoption of the recommended practices) of customer service in the public sector. The promulgation of the Public Finance Management Act 1 of 1999 (PFMA) (RSA, 1999) and the Municipal Finance Management Act 56 of 2003 (MFMA) (RSA, 2003a) led to further developments in the role of the public sector. These were introduced in an effort to improve service delivery by ensuring effective financial management and accountability in the public sector. The introduction of the Batho Pele (“People First”) strategy is a further example of the South African public sector placing greater

emphasis on service delivery (RSA, 2003b) than had previously been achieved. The culture of service delivery operates according to the principle that the customer is always an important source of information on the quality of products and services (Scott, 1999:193). Customers should therefore be afforded the opportunity to report on the products and services offered to them.

In the context of service delivery, sections 195(1) (b), (d) and (e) of Chapter 10 of the South African Constitution of 1996 (Constitution) require that all components of the public administration should be governed according to the principles of promoting the efficient, economic and effective use of resources; rendering services impartially, fairly, equitably and without bias; responding to the people's needs, and encouraging the public to participate in policy making (RSA, 1996:s 195). Hence Batho Pele requires the public sector to attend to customers' concerns about the efficacy of the products and services offered to them and in return, expects customers to make recommendations to improve the quality of those products and services (RSA, 1997; O'Hare & Smith, 2012:35).

The internal audit function (IAF) has a mandatory obligation to contribute to the improvement of the efficacy of systems that support government processes (Institute of Internal Auditors (IIA), 2010), and a statutory obligation in terms of the PFMA and MFMA (RSA, 1999; 2003a) and make service delivery possible (RSA, 2003b). It should be noted that, for the purposes of this study, the term IAF is used in preference to the term internal audit activity (IAA) as defined in the International Standards for the Professional Practice of Internal Auditing (Standards) of the IIA. This has been done due to the term's wide application in the literature, as for example in Nagy and Cenker (2002); Christopher, Sarens and Leung (2009); Kinsella (2010); Sarens and Abdolmohammadi (2011); Soh and Martinov-Bennie (2011). An awareness on the part of IAFs of the perceptions of their customers is vital in order to encourage the IAF to perform its work efficiently. The literature review revealed that, at the time of commencing this research, no study had been conducted in the South African public sector to generate an in-depth understanding of customers' perceptions of the work performed by the IAF. Formally identifying the perceptions of IAF's customers could allow the IAF to progressively implement policies which would contribute to the efficiency of the IAF and thus assist the IAF to

meet their customers' expectations. Throughout the study, the deliberations and discussions of customers' perceptions were conducted in the context of total quality management (TQM) and the balanced scorecard frameworks. In this context, the researcher confined the study to previously-identified key IAF customers, namely the audit committee (AC), the executive and senior managers, the programme and operating managers, and the external auditors in the Department of National Treasury (National Treasury).

The IAFs in the public sector are primarily evaluated on the basis of the quality of guidance and support they provide to IAF customers (RSA, 2009a). This study followed a qualitative approach in evaluating this guidance and support because the researcher wished, as reported in the literature, to gain insight into the National Treasury IAF's behaviour, concerns and motivations, as perceived by its customers (Lodge-Peters, 1988:7; Cobb & Forbes, 2002:197; Patton, 2002:4). These perceptions contributed towards an in-depth understanding of the experiences, expectations and challenges experienced by the IAF in the National Treasury.

According to section 216 of the Constitution (RSA, 1996:s 216), the National Treasury is required to prescribe measures to ensure transparency and expenditure control in each sphere of government by introducing: (1) generally recognised accounting practices; (2) uniform expenditure classifications, and (3) uniform treasury norms and standards. In response to this Constitutional mandate, the National Treasury has developed financial management instruments in support of the provisions of the PFMA and the MFMA to manage and regulate public funds in public service institutions (RSA, 1999; RSA, 2003a).

The central focus of the study is based on the requirements for establishing the IAF in the public sector as reflected in the PFMA, sections 38(1)(a)(ii) and 76(4)(e) (RSA 1999:ss 38 & 76), the MFMA, section 165(1) (RSA, 2003a:s 165) and the International Professional Practice Framework (IPPF) of the IIA (IIA, 2009a). The literature review was guided by these Acts and regulations and their theoretical frameworks for establishing the IAFs in the public sector (chapter 2 provides a detailed literature review that addresses this theme).

To understand customers' perceptions of the work performed by the IAFs in the public sector, the study provided a further literature review of publications that have examined the strategies followed by IAFs to meet their customers' expectations, the concept of TQM and the so-called balanced scorecard. This literature review is intended to highlight how customers' evaluations of these strategies could support and improve the IAF in the South African public sector (chapter 3 provides the detailed literature review underpinning to this theme).

1.3 PROBLEM STATEMENT

In its practice notes, the *King Report on Governance for South Africa 2009* (King III Report) recommends that "the performance of the IAF be evaluated every year to ensure that it is fulfilling its responsibility to assist and advise the AC, the executive and senior managers and the external auditors" (IOD, 2009). During such evaluations, customers' perceptions could be considered in order to improve the quality of products or services. For purposes of this study, the words "customer perceptions" refer to the perceptions expressed by the key customers of the IAF, namely the AC, the executive and senior managers, the programme and operating managers, and the external auditors (Anderson, 2003:99). This usage agrees with various interpretations in the literature (Luo, Liberatore, Nydick, Chung & Sloane, 2004; Manjunatha & Shivalingaiah, 2004; Andreassen & Olsen, 2008; Ma, Qu, Njite & Chen, 2011).

To date, no study has been done to obtain customers' perceptions of the work performed by the IAFs in the public sector. Hence, the problem addressed in this study is that customers' experiences and expectations and their perceptions of the challenges facing the IAF are unknown. Previous research on internal audit-related subjects in the South African public sector has focused on the obstacles to establishing and operating a public sector IAF (Van der Schyf, 2000:145-181), ACs in government departments from an IAF perspective (Van der Nest, 2005:75-84), performance auditing as a means to entrench a professional ethos in the public sector (Mpehle & Qwabe, 2008:258), the perceived effectiveness of ACs in the South African public service institutions (Van der Nest, 2008:175-188), and elements of the internal audit capability model in the South African public sector (Janse van

Rensburg & Coetzee, 2011:47-62). Since there is an existing gap in the literature, this study is relevant.

Based on the literature, it appears that the re-engineering of service delivery in the public sector starts in the back office (RSA, 2003b). The IAF, in its role of advising customers on services delivery issues in the public sector (RSA, 2003b), is regarded by its customers as the “back office” operation. It therefore appears that, by taking cognisance of customers’ experiences and expectations, as well as their perceptions of the challenges facing the IAF, the IAF, as an important “back office” role player, could indirectly contribute to the quality of service delivery in the public sector.

1.4 AIM OF THE STUDY

The aim of the study is to generate an in-depth understanding of key IAF customers’ perceptions of the work performed by the IAF in the National Treasury. Creswell (2013:48) explains that an in-depth understanding is a detailed understanding of issues. Within the context of the study, an in-depth understanding was achieved when the researcher talked directly with participants, allowing them to explain their experiences and expectations of the work performed by the IAF in the National Treasury, and to share their perceptions of the challenges facing the IAF. The value of the study is further explained in chapter 6, section 6.4.

1.5 OBJECTIVES OF THE RESEARCH

The objectives of the study were as follows:

- Objective 1: to identify the role of the IAF in the public sector in relation to its customers (discussed in chapter 2);
- Objective 2: to discuss strategies to meet the expectations of IAF customers (discussed in chapter 3);
- Objective 3: to determine the experiences of the identified key IAF customers of the work performed by the IAF in the National Treasury (discussed in chapter 5, guided by the methodology discussed in chapter 4);

- Objective 4: to determine the expectations of the identified key IAF customers of the IAF in the National Treasury (discussed in chapter 5, guided by the methodology discussed in chapter 4); and
- Objective 5: to ascertain what the identified key IAF customers perceive to be challenges facing the IAF in the National Treasury (discussed in chapter 5, guided by the methodology discussed in chapter 4).

1.6 RESEARCH DESIGN AND METHODOLOGY

According to Babbie (2010:117), research design involves a set of decisions about the topic to be studied, the population for the study's research survey, and the research methods to be used for a particular study. The researcher used a qualitative research design to generate an in-depth understanding of the IAF's key customers' perceptions of the work performed by the IAF in the National Treasury. The rationale for using qualitative research is that it is a field of inquiry in its own right and cuts across disciplines, fields and subject matter (Denzin & Lincoln, 2000:2). Chapter 4 provides further justification for the choice of the research design and methodology.

The study of key IAF customers' perceptions of the work performed by the IAF in the National Treasury was conducted as a case study. Yin (1984:23) defines a case study as an empirical inquiry that investigates a contemporary phenomenon in its real-life context, when the boundaries between the phenomenon and context are not clearly evident and in which multiple sources of evidence are used. In this study the researcher used the case study in a descriptive manner to highlight the perceptions of the key IAF customers. According to Zaidah (2007:3), descriptive case studies are compiled to describe a natural phenomenon that occurs in the data in question. Descriptive case studies require the researcher to support the description of the phenomenon with the theory they are employing to explain that phenomenon (Zaidah, 2007:3). The use of the National Treasury as the case study allowed the researcher to describe the impact of key customers' perceptions of the work

performed by the IAF in the public sector on that IAF. The rationale for choosing the National Treasury was that it plays a critical role of custodianship on policy guidelines and operational frameworks to guide the IAF's performance in the South African public sector (RSA, 2009a). Since the Constitution (RSA, 1996:s 216) mandates the National Treasury to ensure transparency, accountability and sound financial controls in the management of public finances, it is seen as a department that is instrumental in driving policy development, which further justifies its selection for this study.

The researcher opted for a non-probability sampling method, with a combination of purposive and snowball sampling to collect data. The rationale for using both types of non-probability sampling was to generate an in-depth understanding of key IAF customers' perceptions of the work performed by the IAF in the National Treasury, including their experiences and expectations, and their perceptions of the challenges the IAF faces. Non-probability sampling refers to any procedure in which elements have an unequal chance of being included (Dane, 2011:121). This allowed the researcher to select participants in the study from the key IAF customers in the National Treasury, specifically those able to exercise decision-making powers on the implementation of the National Treasury IAF's recommendations. The participants were selected from the AC (the chairperson and any member who had been mandated to provide oversight over the work of the IAF), the executive and senior managers (individuals responsible for ensuring that the management in the National Treasury functions within the context and parameters of the PFMA), the programme and operating managers (individuals with delegated responsibility from the accounting officer (AO) to head the divisions in the National Treasury), and the external auditors (employees of the Auditor General South Africa (AGSA) who are directly assigned to perform the audit in the National Treasury).

The researcher played a pivotal role in the data collection, data analysis, and data coding, as well as in the preparation and presentation of the findings. The role of the researcher is further discussed in chapters 4 and 5 (section 5.4). Owing to the nature of the study, the researcher was able to interact personally with the selected key IAF customers of the National Treasury IAF during the semi-structured interviews (conducted to gain a clear understanding of the participants' beliefs about, and

perceptions of, the particular phenomena being investigated) (De Vos, Strydom, Fouché & Delpont, 2005:296). The data collected through the semi-structured interviews were analysed using Atlas.ti as the main data coding tool. The researcher used triangulation to strengthen the trustworthiness of the data utilised in this study (refer to section 4.6 in chapter 4).

In this study, the researcher adhered to the ethical requirements of, and obtained approval from, the University of South Africa's ethics committee and also obtained permission from the National Treasury to conduct the study of key IAF customers' perceptions of the work of the IAF (see detailed discussion in chapter 4).

1.7 LIMITATIONS OF THE STUDY

The study was conducted within the parameters of determining the key customers' perceptions of the work performed by the IAF in the public sector, with specific reference to the National Treasury, the chosen case study. The empirical results of this study cannot be generalised, because there is always an element of subjectivity in qualitative research, and because the context (the National Treasury) is different from other public sector departments. Semi-structured interviews were conducted with participants selected from the AC, the executive and senior managers, the programme and operating managers, and employees from the AGSA directly involved with the audit of the National Treasury. These categories of participants were selected because they are regarded as key IAF customers (Cosmas, 1996:20-21) as they have decision-making powers on the implementation of the IAF's recommendations in the National Treasury. A limitation of this study was therefore the exclusion of some IAF customers, such as operating employees, who for the purpose of this study are not regarded as *key* IAF customers as they do not exercise decision-making powers on the implementation of the National Treasury IAF's recommendations.

1.8 TERMINOLOGY

The following key concepts are defined here to ensure consistency of meaning and interpretation throughout the study:

Balanced scorecard. This is a strategic planning and management system used in business and industry, government and non-profit organisations to align business activities to the vision and strategy of the organisation, improve internal and external communications and to monitor an organisation's performance against strategic goals (Kaplan & Norton, 1996a:24). The balanced scorecard is discussed in chapter 3, section 3.5.3.

Batho Pele. (From the Sesotho meaning "People First"). This is a government service delivery strategy intended to promote the notion of putting people first and to encourage public servants to be service-oriented, to strive for excellence in service delivery, and to commit to continuous service delivery improvement. It is a simple, transparent mechanism which allows the customers to hold public servants accountable for the type of services they render (RSA, 2003b).

Customers in the public sector. These customers generally include programme clients, external customers, internal customers (e.g. employees who depend on the service of other employees in the same public service institution) and citizens (Berman, 1998:294).

Internal audit function (IAF) or internal audit activity (IAA). These terms are used interchangeably in the literature. However, in order to avoid confusion the term *internal audit function* or IAF is preferred in this study. The IAF is an "independent and objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes" (IIA, 2009a). This definition is discussed in chapter 2, section 2.2.

Key internal audit function (IAF) customers. This refers to the AC, executive and senior managers, programme and operating managers and external auditors (Cosmas, 1996:20-21), who are all able to exercise decision-making powers on the implementation of the National Treasury IAF's recommendations.

Performance measurement. This relates to the production of information about an organisation's performance (for example, inputs, outputs, outcomes and efficiency) with regard to products and services. Such performance information is derived from the organisation's mission, goals and objectives (De Lancer-Julnes, 2003:901).

Public sector. This sector comprises all spheres of government (local, provincial and national) and state-owned entities (Pauw, Woods, Van der Linde, Fourie & Visser, 2009:1). The state owns all resources in this sector and uses them to achieve its goal of promoting the well-being of society as a whole (Fox & Meyer, 1995:107), and delivery of services to the public is the main measure of success.

Public service institutions or public service organisations. These terms are used more or less interchangeably in the literature. Throughout this study, however, the term public service institution(s) is used in preference to the term public service organisation(s). These are the institutions to which the PFMA applies (for example, departments and public entities listed in Schedule 2 or 3 of the PFMA, constitutional institutions and provincial legislatures) (RSA, 1999) and to which the MFMA applies (for example, all municipalities, municipal entities, and national and provincial organs of state to the extent of their financial dealings with municipalities) (RSA, 2003).

Service delivery. This refers to the provision of public services and related activities and benefits, and the satisfaction (or absence thereof) arising from this activity. For example, services relate to both the provision of tangible public goods and intangible services (Fox & Meyer, 1995:118). In this study, the term refers to the essential public services provided by the public sector to the general public, with due cognisance of the prescribed time to meet customers' needs.

Total quality management (TQM). This is a customer-focused, quality-centred, fact-based, team-driven process led by senior management to achieve an organisation's strategic imperative through continuous process improvement (Biech, 1994:1). TQM is explained in chapter 3, section 3.5.1.

Work performed by the internal audit function. This entails, among other things, the examination, evaluation and monitoring of the adequacy and effectiveness of internal control systems in the organisation (IIA, 2009a; SAICA, 2012/2013).

1.9 CHAPTER LAYOUT

Chapter 1: *Introduction to the study* has introduced the study and discussed the background and rationale, the problem statement, the research aim and objectives, research design and methodology, and the limitations and terminology.

Chapter 2: *Theoretical framework for internal audit functions in the public sector* discusses the first objective of the research, namely the role of the IAF in relation to its customers. This chapter shows that the role of the IAF in the public sector is supported by regulatory frameworks, specifically the PFMA, the MFMA, the Treasury Regulations, the King III Report and the Constitution. This chapter further discusses how the Committee of Sponsoring Organisations' (COSO) framework for internal control and risk management directs the IAF to fulfil its duties and responsibilities in the public sector. Although internal control and risk management are largely the responsibility of every manager in the organisation, this chapter explains how the IAF can be used to render broader services by assisting and advising managers to focus on the organisational strategic objectives.

Chapter 3: *Meeting the expectations of the customers of the internal audit function in the public sector* discusses the second objective of the research, which is concerned with meeting the expectations of the IAF customers in the public sector. The discussion focuses on the public service delivery mandate, the internal audit profession's perspective on service delivery, the criteria against which the expectations of IAF customers are measured, TQM, performance evaluation, the balanced scorecard as a means to enhance satisfaction, and the monitoring of performance evaluation in the public sector. The IAF in the public sector has a mandatory obligation to improve the efficacy of the systems in order to support government processes and to make service delivery possible, and this chapter further discusses how the IAF is used in the public sector to this end.

Chapter 4: *Research design and methodology* discusses how the research design and methodology support the aim of the study discussed in chapter 1 and how the research objectives are achieved. The research design, the research technique or method, the descriptive nature of the study, the research instrument, the pretesting of the research instrument, data collection, data analysis, data coding, the limitations of the study, the ethical procedures followed, measures to ensure trustworthiness of results, and the researcher's role are discussed.

Chapter 5: *Data analysis, interpretation and presentation of the results* discusses the third, fourth and fifth research objectives. This chapter deals with the data analysis, interpretation and presentation of the results of the study of key IAF customers' perceptions of the work performed by the IAF in the National Treasury. The chapter also discusses the three main themes (experiences, expectations and challenges), which were divided into sub-themes that emerged from analysing the research findings.

Chapter 6: *Conclusions and recommendations* discusses the achievement of the research aim and objectives, summarises the findings and contributions, makes recommendations arising from the research and suggestions for further research, and draws final conclusions from the results of the study.

1.10 CONCLUSIONS

This chapter introduced and provided the background and rationale for conducting this qualitative study. The problem statement, aim and objectives were also formulated against the backdrop of the topic under investigation.

The study implemented a qualitative research design and methodology in an effort to generate an in-depth understanding of key IAF customers' experiences and expectations of the work of the IAF in the National Treasury and perceptions of the challenges the IAF faces.

Next, chapter 2 reviews the literature in order to identify the role of the IAF in the public sector in relation to its customers.

CHAPTER 2

THEORETICAL FRAMEWORK FOR INTERNAL AUDIT FUNCTIONS IN THE PUBLIC SECTOR

2.1 INTRODUCTION

This chapter provides a framework for the establishment of internal audit functions (IAFs) in the public sector in South Africa by examining the theoretical aspects of internal audit as prescribed in the existing legislative and regulatory framework. This regulatory framework comprises the Public Finance Management Act (PFMA), the Municipal Finance Management Act (MFMA), the Constitution of the Republic of South Africa (Constitution), the Treasury Regulations and the *King Report on Governance for South Africa 2009* (King III Report). This chapter then provides an overview of the current roles of IAFs in the public sector and identifies the customers of IAFs. Against this backdrop, the chapter provides an overview of the value added by IAFs, the expectations of IAF customers, and the products and services offered by IAFs.

2.2 BACKGROUND ON THE OPERATION OF IAFs IN THE PUBLIC SECTOR

The implementation of the PFMA in public service institutions meant that IAFs became part of the financial management system in the public sector environment, with an important potential to influence the management of public services (RSA, 1999:s 76). Sections 38(1)(a)(ii) and 76(4)(e) of the PFMA, which define the role and the expectations of the accounting officers (AOs) of public service institutions, form the basis of IAFs' operations. Section 38(1) requires that AOs ensure that their departments have effective, efficient and transparent systems of financial and risk management and internal control. Section 76(4) requires the National Treasury to make regulations and to issue instructions to public service institutions' AOs on how to establish IAFs and define and manage their activities (RSA, 1999:ss 38(1) & 76(4)).

The International Professional Practice Framework (IPPF) for internal auditing - a professional guidance document issued and updated by the Institute of Internal Auditors (IIA) (2009a) - defines internal auditing as

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

This definition emphasises that internal auditing is an activity that contributes to the effectiveness of internal control, risk management and governance (Van Gansberghe, 2005a:1), by providing the organisation with an appropriate level of assurance, and renders advisory services to the management of the organisation.

The fundamental purpose of IAFs in the public sector is to assist AOs in maintaining efficient and effective control in public service institutions, both by evaluating the existing controls in order to determine their effectiveness and efficiency, and by making recommendations for the enhancement and improvement of these controls (Van der Schyf, 2000:146; Fourie, 2007:733). The framework in which IAFs in the public sector function, their role, the value they add, their customers and the benefits IAFs create, the expectations of their customers, and their products and services are discussed below.

2.3 LEGISLATIVE AND REGULATORY FRAMEWORK

As a general principle, it is desirable that the applicability of internal auditing to the public sector should be written into law (Van Gansberghe, 2005b:72). In the South African context, internal auditing is recognised in the regulatory framework adopted by the public service, broadly covered by the PFMA, the MFMA, the Constitution, the Treasury Regulations and the King III Report, which are applicable to all institutions. In the South African public sector, all public service institutions are required to establish an IAF. These IAFs derive their mission of improving governance

processes in the public services from the vision and principles of accountability laid out in the aforementioned regulatory framework.

According to Reding, Sobel, Anderson, Head, Ramamoorti and Salamasick (2007:3(2)), legislators and regulators should establish rules which provide impetus for the management of an organisation to manage and control systemic risks. Hass, Abdolmohammadi and Burnaby (2006:837) argue that IAFs are in an advantageous position to help management comply with such regulations and to do much of the work documenting and testing internal financial reporting controls. IAFs' participation in the development of control documentation, and their role in assuring compliance with regulatory and financial reporting requirements, helps external auditors and management to understand and monitor high-risk areas (Hass, et al. 2006:837). Hence IAFs make a vital contribution to public service institutions' compliance with laws and regulations, and to the effectiveness of said institutions' internal controls, risk management and governance processes.

According to Dittenhofer (2001:459), IAFs can help public officials to understand the role of internal auditing. When assisting public officials, part of IAFs' role is to provide assurance on the adequacy and effectiveness of internal controls, governance and risk management. It is necessary for IAFs to closely study each component (PFMA, MFMA, Constitution, Treasury Regulations and King III Report) of the legislative and regulatory framework for internal auditing in the South African public sector, so that they are able to effectively promote public officials' understanding of these documents.

2.3.1 PFMA

Sections 38(1)(a)(ii) and 76(4)(e) of the PFMA prescribe the establishment of IAFs in public service institutions, such as national departments, constitutional institutions, and provincial departments (RSA, 1999:ss 38(1) & 76(4)). In terms of section 38(1)(a)(ii) of the PFMA, the AO must ensure that the department has and maintains "a system of internal audit under the control and direction of an audit committee (AC) complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77". Section 77 of the PFMA makes specific

provision for the establishment of an AC, consisting of at least three persons, in all national and provincial departments.

Thus, sections 76 and 77 of the PFMA provide for the creation of ACs which are intended to function as independent advisory bodies to the public sector AOs in relation to risk management, financial internal controls, IAFs, information technology controls, effective governance, compliance with government regulations, and fraud-related matters. These sections of the PFMA also mandate that public service institutions must each establish an IAF (RSA, 1999:ss 76 & 77).

2.3.2 MFMA

Section 165(1) of the MFMA requires that each municipality and municipal entity has an IAF (RSA, 2003a:s 165). Section 165(2)(b)(i)-(vii) requires municipality and municipal entity IAFs to advise the AO and report to the AC on the implementation of the internal audit plan and matters relating to internal auditing, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control, and compliance with the MFMA, the annual Division of Revenue Act and any other applicable legislation (RSA, 2003a:s 165).

2.3.3 Constitution

Section 216(1) of Chapter 13 of the Constitution provides the basis for the National Treasury to prescribe measures to ensure transparency and expenditure control in each sphere of government (RSA, 1996:s 216). The following criteria should be applied (RSA, 1996:s 216): generally recognised accounting practices, uniform expenditure classifications and uniform treasury norms and standards.

The establishment of an IAF in government is seen as an integral part of the aforementioned criteria, as prescribed by section 216(1) of the Constitution. This is intended to enhance transparency and improve financial management (RSA, 1996:s 216). An IAF plays a fundamental role in the improvement of financial management, in accordance with Van Gansberghe's (2005b:72) suggestion that internal auditing should be part of legislative efforts targeting public finance management.

2.3.4 Treasury regulations

In 2005, the National Treasury developed Treasury Regulation 3.2 (RSA, 2005:para 3.2). This regulation sets forth the guidelines for establishing an IAF and indicates how it should function in the public sector. The Treasury Regulations are applicable to all national and provincial departments and government institutions. Treasury Regulations are intended to guide AOs to gain a general understanding of the PFMA and assist in its smooth implementation. The following paragraphs of Treasury Regulation 3.2 relate to compliance with the regulations governing the establishment of IAFs in the public service institutions (RSA, 2005:para 3.2):

- Paragraph 3.2.2 states that “each institution to which these regulations apply must have an IAF.”
- Paragraph 3.2.6 states that “internal audit engagements must be conducted in accordance with the standards set by the IIA.”
- Paragraph 3.2.9 states that “an IAF must report directly to the AO and shall report at all AC meetings. The function must be independent of activities that are audited with no limitation on its access to information.”
- Paragraph 3.2.10 states that “the IAF must co-ordinate with other internal and external providers of assurance to ensure proper coverage and to minimise duplication of effort.”
- Paragraph 3.2.11 states that “the IAF must assist the AO in maintaining efficient and effective controls by evaluating those controls to determine their effectiveness and efficiency and by developing recommendations for enhancement or improvement. The controls subject to evaluation should encompass the following: the information systems environment; the reliability and integrity of financial and operational information; the effectiveness of operations; safeguarding of assets; and compliance with laws, regulations and controls.”

- Paragraph 3.2.12 states that “the IAF must assist the AO in achieving the objectives of the institution 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.”

It is clear that the Treasury Regulations make provision for the establishment in public service institutions of an independent IAF conducting its affairs in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards) issued by the IIA, thereby contributing to efficient and effective controls, processes and systems in a public service institution.

2.3.5 King III Report

The King III Report (IOD, 2009) applies to all entities, regardless of the manner or form of their incorporation. King III encompasses ethical leadership and corporate citizenship, boards of directors, ACs, the governance of risk, the governance of information, communication and technology, compliance with laws, rules and standards, internal audit, stakeholder relationships, and integrated reporting and disclosure. The King III Report (IOD, 2009) differs from the King II Report (IOD, 2002) in that it recommends that boards of directors justify any decision not to establish an IAF, and also to explain how assurance of effective internal controls, processes and systems will be obtained in its absence.

According to Zain, Subramaniam and Stewart (2006:5), IAFs are a necessary part of an organisation’s governance mechanisms, a notion supported by the King III Report (IOD, 2009), which recommends that organisations establish IAFs in order to provide assurance on the organisation’s governance, risks and controls. IAFs are tasked with assisting the AC and management in monitoring the adequacy and effectiveness of the organisation’s risk management processes, and maintaining an effective internal control environment. IAFs are further tasked with determining whether the organisation’s internal controls are adequately designed, operating efficiently and effectively, recommending improvements, and contributing to the provision of combined assurance (IOD, 2009).

In addition to the requirements of the PFMA, the MFMA and the Treasury Regulations regarding IAFs, the King III Report (IOD, 2009) recommends that internal auditing be risk based, and that IAFs should furnish an assessment to the AC on the adequacy of internal control. The King III Report (IOD, 2009) further recommends that the AC should provide the board of directors with a comprehensive report on its conclusions pertaining to the internal audit assessment.

The AC has specific responsibilities concerning the IAF. These include being responsible for the appointment, performance assessment, and dismissal of the head of the IAF (the chief audit executive (CAE)); ensuring that the IAF is sufficiently resourced and has an appropriate budget to allow it to meet the organisation's expectations, and ensuring that the IAF is subject to an independent quality review as and when the AC deems this appropriate (IOD, 2009).

The King III Report shares many principles of good governance with the public sector legislative framework, such as the principles of accountability, fairness, transparency and responsibility (IOD, 2009). It furthermore emphasises ethics in governance, requiring all decisions and actions of the board of directors and executive management to be based on the following four ethical values that underpin good governance (IOD, 2009):

- *Responsibility.* The board of directors should assume responsibility for the assets and actions of the company and should be willing to take corrective action to keep the company on its strategic path.
- *Accountability.* The board of directors should be able to justify its decisions and actions to the company's shareholders.
- *Fairness.* In its decisions and actions, the board of directors should ensure that it gives fair consideration to the interests of all the company's stakeholders.

- *Transparency.* The board of directors should disclose information in a manner that enables stakeholders to make an informed analysis of the company's performance.

The above-mentioned ethical values are equally applicable to the public sector in that the responsibility for leadership is assigned to the executive authority in terms of section 3(1)(a) and (b) of the Public Service Act of 2007. This section requires the executive authority for a public service institution to establish norms and standards relating to the functions of that public service entity, the organisational structures and establishments of the departments, as well as other organisational and governance arrangements in the public service (RSA, 2007a:s 3).

The ethical values discussed by the King III Report (IOD, 2009) relate to section 195 of Chapter 10 (Public Administration) of the Constitution (RSA, 1996:s 195), which outlines the basic values and principles governing public administration, namely efficiency, economic and effective use of resources, development orientation, accountability, transparency, accuracy of information, and the cultivation of sound human resource management (RSA, 1996:s 195). The PFMA and the MFMA have established many of these governance practices in the public sector, and support the role of internal auditing as suggested by the King III Report. The PFMA (RSA, 1999) emphasises that the key objectives of IAFs are to modernise the system of financial management, to enable the AOs to be more accountable, to ensure the timely provision of quality information, and to eliminate wastage and corruption in the use of public assets. However, the MFMA (RSA, 2003a) additionally states that the AC and the municipal managers are responsible for the effective, efficient, economical and transparent use of resources. IAFs have a role to play in the fulfilment of these mandates, which is elucidated in the next section.

2.4 THE ROLE OF IAFs IN THE PUBLIC SECTOR

The role of IAFs in the South African public sector is discussed in terms of the regulatory environment, global best practices, and the IAFs' duties and responsibilities as presented in various IIA guidance documents.

2.4.1 Regulatory environment

As indicated above, the importance of internal auditing has been recognised in the PFMA (RSA, 1999:s 38(1) & 76(4)), Treasury Regulation 3.2 (RSA, 2005:para 3.2) and the MFMA (RSA, 2003a:s 165), all of which are compatible with the Constitution (RSA, 1996:s 216). The regulatory framework for the establishment of IAFs in the public service is also outlined in the Internal Audit Framework of the public sector (RSA, 2009a:2), which aims to provide the minimum guidelines for the development and operation of internal auditing in the public service. This framework provides guidance for IAFs in the public service and is intended to ensure that IAFs comply with the requirements of the Constitution, the PFMA, the Treasury Regulations, the MFMA, the IPPF, and the Committee of Sponsoring Organisations' (COSO's) framework on internal control and risk management (RSA, 2009a:2).

The King III Report (IOD, 2009) does not recommend a one-size-fits-all approach towards internal auditing, preferring that it remain flexible in order to accommodate different organisations. In other words, organisations should decide how to apply King III's principles of good governance in their environments. The King III Report states that internal auditing plays an integral role in providing management with reasonable assurance about the effectiveness of the organisation's governance, risk management and systems of internal control (IOD, 2009). While the King II Report (IOD, 2002) also supported an IAF as one of the mechanisms for implementing checks and balances in organisations, the King III Report describes the following key roles of the internal auditing function (IOD, 2009):

- performing reviews of an organisation's governance processes with an emphasis on ethical behaviour, especially the "tone at the top";
- performing an objective assessment of the adequacy and effectiveness of risk management and all other elements of the internal control framework;
- systematically analysing and evaluating business processes and associated controls, and

- being a source of information, where necessary, regarding instances of fraud, corruption, unethical behaviour and other irregularities.

According to Coupland (1993:4), the role of IAFs in the public sector is to provide independent appraisal and review services to determine and report on the degree of control exercised over financial systems. However, the latest definition of internal auditing (see section 2.2) makes provision for value-adding assurance and consulting services, dealing with efficiency and effectiveness in addition to the accuracy of recordings (Bou-Raad, 2000:182-183). Mihret and Yismaw (2007:471) argue further that the essence of the contribution made by internal auditors remains the improvement of internal control systems and the provision of quality information to management for decision-making purposes.

As discussed in section 2.3.4 of this study, paragraph 3.2.11 of the Treasury Regulations (RSA, 2005:para 3.2) states that the role of IAFs within public service institutions is to evaluate the effectiveness and efficiency of the institution's system of internal control and to make recommendations for the enhancement or improvement of that system. IAFs in the public sector are also allowed to assess the effective utilisation of public service institutions' resources and provide AOs with independent assurance of whether the resources are being used effectively, efficiently and economically (RSA, 2005:para 3).

From a public sector perspective, the importance of internal control is emphasised in the PFMA, the MFMA, the Treasury Regulations and the King III Report. The roles of IAFs, as set out in paragraph 3.2.11 of the Treasury Regulations (RSA, 2005:para 3.2), are based on the COSO framework on internal control (COSO, 2013), which is intended for use in public service institutions. Pickett (2003:54) supports the adoption of the COSO framework on internal control in the public sector and recommends that the National Treasury should be responsible for setting standards relating to internal auditing and accountability across all facets of government.

2.4.2 Best practices

This section considers the best practices of IAFs in the public sector, as reflected in the literature. After the release of the Treadway Commission's recommendations in 1992 a private sector initiative was commissioned by COSO to provide principle-based guidance for the design and implementation of effective internal controls (COSO, 1992). Five organisations participated in formulating the *Internal Control – Integrated Framework*: these were the American Accounting Association, the American Institute of Certified Public Accountants, the Financial Executives Institute, the Institute of Management Accountants, and the IIA. The core mission was to improve the quality of financial reporting through good governance, internal controls, and ethical standards (COSO, 1992). According to Rezaee (1995:5) and Lindow and Race (2002:31), the COSO framework on internal control resulted in the formulation of a common definition of internal control, and provided a standard to assess control systems and identify enhancements and improvements. The COSO framework on internal control (COSO, 1992) defines internal control as

“a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations;
- reliability of financial reporting; and
- compliance with applicable laws and regulations.”

This definition indicates that the concept and objectives of internal control apply to both the public and the private sectors. Maijoor (2000:105) believes that the COSO framework on internal control requires a wide interpretation. Maijoor deems many organisational measures, including human resource policies and practices, procedures for communication in the organisation, and the board of directors' management style, to be part of internal control systems. This interpretation of internal control contributes to the long-term effectiveness of operations, the

minimisation of risk exposure, and the maintenance of reliable reporting systems in the organisation (Maijoor, 2000:105).

Lindow and Race (2002:31) highlight the following five interrelated components of the 1992 COSO framework on internal control that management can use to assess an organisation's internal control system:

- (1) *Control environment.* This component includes the attitude of management at all levels towards operations in general and specifically the concept of controls. Examples include the integrity, ethical values and competence of employees, management's philosophy and the board of directors' inputs.
- (2) *Risk assessment.* This component is and has been part of progressive IAFs. It involves identifying and analysing risk relevant to achieving corporate goals, determining how such risks should be managed, and implementing processes to address the risks associated with change.
- (3) *Control activities.* This component includes policies, procedures and processes that help to ensure an organisation executes management directives. Examples include approvals, verifications, reconciliations, reviews of operating performance, safeguarding of assets, and segregation of duties.
- (4) *Information and communication.* This is an essential component in the organisation and helps with communication with external parties such as customers, regulators and shareholders. For example, reports that contain operational, compliance or financial data or that share ideas or events across lines of business are generated from an organisation's information system.
- (5) *Monitoring.* This component is about assessing the quality of an organisation's internal control systems. This is done through ongoing monitoring of activities in the business unit and an independent evaluation of existing controls by auditors.

In the light of the above, Rezaee (1995:5) indicates that the 1992 COSO framework on internal control helps organisations to better understand the value and importance of a good internal control system, to identify elements and components to expand internal control, and to provide guidelines for establishing criteria against which all organisations can assess the adequacy and effectiveness of their internal control systems.

The COSO framework on internal control was followed by the *Enterprise Risk Management (ERM) – Integrated Framework* in 2004 (COSO, 2004). Its objective was to offer organisations a commonly accepted model for evaluating risk management efforts. It expands on internal control concepts by providing a more robust focus, based on the broader subject of ERM (IIA, 2012), thus providing direction and guidance for identifying, measuring, prioritising and responding to risk (COSO, 2004).

Stačiokas and Rupšys (2005:23) list the following seven interrelated components of ERM: environment, event identification, risk assessment, response, control activities, information, and communication and monitoring. They indicate that an IAF may be used in the processes of ERM to evaluate and monitor services and to make recommendations for their improvement to ensure the satisfaction of management's needs (Stačiokas & Rupšys, 2005:23). The role of an IAF in ERM includes the facilitation of ERM workshops, coaching management in responding to risks, coordinating ERM activities, consolidating reporting on risks, maintaining and developing the ERM framework, championing the establishment of ERM, and developing a risk management strategy for approval by the board of directors (COSO, 2004).

After the publication of the COSO framework on ERM in 2004, the COSO board of directors and its advisory council recognised the importance of the effective monitoring of internal control and issued a document, *Monitoring Guidance*, to provide further guidance on the COSO frameworks on internal control and ERM (COSO, 2009). *Monitoring Guidance* was designed to improve the use of monitoring by helping organisations to maximise effective monitoring and to identify ineffective or inefficient monitoring (COSO, 2009).

According to Diamond (2002:22-23), consensus on the role of an IAF in both the private and public sectors appears to be that it helps an organisation to accomplish its objectives and evaluates and improves the effectiveness of the organisation's risk management, control and governance processes, as outlined in the COSO frameworks. In addition to providing support for senior management, IAFs in public service institutions also provide the organisations with acceptable recommendations on the organisations' internal control systems and risk management, using the COSO frameworks as guidelines.

In May 2013, COSO published an update to the 1992 *Internal Control – Integrated Framework* (COSO, 2013). The updated *Internal Control – Integrated Framework* (Framework) addresses the challenges and changes which have emerged to face organisations since the publication of the previous *Internal Control – Integrated Framework*. The Framework will guide organisations to develop and maintain internal control systems to achieve the organisation's objectives and to adapt to changes in the business environment (COSO, 2013). This Framework, like the 1992 COSO framework on internal control, guides internal auditors when planning the audit engagement (COSO, 2013).

In the South African public sector, the National Treasury regards the COSO frameworks on internal control and ERM as international best practices, providing guidelines designed to improve public service institutions' performances on internal control, ERM and fraud deterrence (RSA, 2009a:9). The COSO frameworks thus provide internal auditors with guidelines with which to assess the public sector policies, rules and regulations.

2.4.3 The duties and responsibilities of IAFs

Diamond (2002:22-23) highlights the duties and responsibilities of IAFs in public service institutions as follows:

- “to review compliance with the existing government financial regulations, instructions and procedures;

- to evaluate the effectiveness of internal control systems;
- to appraise the economy and effectiveness with which financial and other resources are being used;
- to review the reliability and integrity of record keeping and reporting on financial and operating information systems;
- to pre-audit payment documents and all documents used in initiating commitments and contract agreements;
- to verify and certify periodical financial reports, such as pending invoices, expenditure information, revenue information, staff information and vehicle returns information;
- to review and pre-audit annual appropriation accounts, fund accounts and other accounting statements to ensure that accurate accounts are prepared to the required standards;
- to investigate irregularities identified or reported on cases leading to wastage of resources or cases of general misuse or misappropriation of financial resources and government property;
- to ensure that revenue and other receipts due to the government are collected promptly, banked immediately and are fully accounted for;
- to carry out spot checks on areas such as revenue and receipts collection points, projects, supply and delivery sites to ensure compliance with procedures and regulations;
- to review budgetary controls on the issuance of warrants, commitments, expenditures, revenue collection and accounting from time to time;

- to ensure that government's physical assets are appropriately recorded and kept in safe custody; and
- to review the budgetary reallocation process to ensure legislative and administrative compliance and to advise if and when commitments are entered into when there is no budgetary provision or adequate cash.”

Van Gansberghe (2005b:72) agrees with some of the above duties and responsibilities, and further believes that internal auditing in the public sector includes administrative procedures such as checking documents, counting assets and reporting on past events to various audit customers (e.g. management). According to Stačioskas and Rupšys (2005:22) and Pickett (2003:115-117), IAFs are usually responsible for the following: assessing the safeguarding of assets; facilitating self-assessment; assessing business risks; evaluating governance processes; performing quality reviews; investigating fraud; evaluating internal controls; reviewing and assessing operating processes; reviewing accounting and financial information; ensuring compliance with laws, regulations and contracts; and assessing the efficient use of resources.

According to Coffin and Patilis (2001:22), internal auditing can significantly help to determine and evaluate the controls surrounding the collection and use of, and access to customer information, as well as compliance with applicable regulations. Government internal auditors, furthermore, advise elected officials and top administrative management, such as directors general and ACs, on how tax-generated resources are being used (Malan, 1991:90). It is evident that both management and the AC are concerned about the proper functioning of an organisation's internal controls, ethics, governance and risk management processes.

Stačiokas and Rupšys (2005:22) further state that IAFs are responsible for recommending to senior management how processes in an organisation can be improved. Sawyer, Dittenhofer and Scheiner (2003:10) agree, and further state that IAFs assist members of the executive and senior management in the effective discharge of their duties and responsibilities.

According to Dittenhofer (2001:459), an IAF should be active in trying to determine what it can do to help its customers and should anticipate customer needs. Rupšys and Stačiokas (2005:50) explain that an IAF may potentially experience conflicts of interest when serving its customers. Senior management may, for example, be interested in activities directly affecting figures which may be used as indicators for their performance assessment. This may conflict with programme and operating managers' interest in recommendations for improving the efficiency or effectiveness of operations. ACs, meanwhile, may be more concerned with managing risk and demanding a greater focus on risk management and control activities.

Given the aforementioned roles of IAFs in the public sector, PWC (2010) concluded that IAFs in the public sector should assist management with the following: regulatory compliance; the assessment of current and future regulatory risk profiles and the impact of regulations; effectiveness reviews of current compliance with policies; the implementation of risk-based compliance control frameworks and monitoring programmes; the evaluation of the impact of new regulations on the business model; giving advice on and assistance with regulatory relations, and ensuring that regulatory standards and expectations are met.

2.5 IAFs: ADDING VALUE IN THE PUBLIC SECTOR

In the light of the above discussion, it is clear that IAFs in the South African public sector perform diverse functions within the statutory regulatory environment. They should, nevertheless, focus on adding value to the public sector, since this is a fundamental element of internal auditing (Ray, 2009:13). Internal auditing is defined as providing improvement opportunities in support of efforts to achieve organisational objectives, identifying operational improvement and reducing risk exposure through both assurance and consulting services (IIA, 2009a). Most organisations view internal auditing as critical for efficient operations and effective internal controls, risk management and governance (Pickett, 2003:274). According to Roth (2003:1), internal auditing helps organisations to improve their functioning and to achieve their desired goals and objectives. Fadzil, Haron and Jautan (2005:864) maintain that in order to add value, internal auditors should positively influence internal control systems.

Hass, et al. (2006:837) identify the areas in which an IAF adds value as finance, performance, compliance, system security, and due diligence audits for assurance engagements, while the consulting engagements that add value are identified as internal control training that advises management about the concerns in the systems and drafting of policies. According to the study performed by the IIA on the Common Body of Knowledge (CBOK) in 2006 (Ray, 2009:10), an IAF primarily adds value through its independence, objectivity, understanding of the core value proposition, strategy, vision and values, and competency of audit staff. Effective quality review processes on the work performed by IAFs are therefore seen as effective ways to measure how value has been added (Ray, 2009:10).

According to Gramling and Hermanson (2006:37), in order to add value internal auditors should be proactive in taking steps to educate ACs on their governance roles. Bookal (2002:48) adds that internal auditors must support their governance structures with professionalism and expertise. In a study, Whitley (2005) found that management depends on internal auditing to improve governance processes in that it serves as a resource to executive management and the AC in providing information, advice and expertise.

The importance of internal auditing's efforts to add value to organisations has been emphasised in the literature since the early 1990s. According to Schleifer and Greenawalt (1996:5), internal auditors contribute greatly to organisations by rendering a service to management that helps the entity to function better. Johnson (1992:47) states that the "real nuts and bolts" of internal auditing consist of providing high-quality customer services, where the customer is not just management, but everyone in the organisation. In order to function as a value-adding component, IAFs must go beyond the tasks of evaluating and passing judgement to making recommendations for improvement (Scheifer & Greenawalt, 1996:5). Van Gansberghe (2005b:70) argues that for internal auditing to add value in the public sector, it needs a change in culture from traditional monitoring of compliance with rules and regulations to the provision of a more consultative assurance to internal audit customers.

2.6 CUSTOMERS OF IAFs

Arising from the definition quoted in chapter 1, the key customers of IAFs consist of the ACs, the executive and senior managers, the programme and operating managers and the external auditors. This section discusses the customers of IAFs (as widely interpreted) and their needs from both a private and public sector perspective. The activities of internal auditors should add value to various customers (McIntosh, 1992:7; Rupšys & Stačiokas, 2005:49) which include the audit clients, operating management, middle management, executive management, external auditors, ACs and government agencies (Cosmas, 1996:20-21; Dittenhofer, 2001:459; Gupta, 2001:93; Sawyer, et al. 2003:1036).

Reding, et al. (2007:3(6-7)) indicate a range of areas in which various IAF customers may need value to be added. Suppliers may be concerned about whether the organisation will meet its obligations under the suppliers' contracts and arrangements for providing goods and services. Regulators may be concerned about compliance with rules and regulations and may demand certain operational and reporting requirements from an organisation or influence the decisions made by the organisation's management. External auditors may be interested in the internal audit findings relating to risk management deficiencies, analytical information, financial information and other recommendations for improvement. Suppliers may further be concerned about the form of payment, customers' products, delivery of service at agreed times and compliance with other aspects of contracts and arrangements (Reding, et al. 2007:3(6-7)).

Table 2.1 sets out the needs of selected customers of IAFs in both the private and the public sector.

Table 2.1: Needs of selected customers of IAFs

PRIVATE SECTOR		PUBLIC SECTOR	
Customers	Needs	Customers	Needs
Executive and senior management (CEO and board of directors)	Are interested in the ways an IAF can improve the efficiency and effectiveness of their operations.	AO and deputy directors general	Need the IAF to assess whether or not the service delivery systems are working effectively and efficiently.
Operating management	Need the IAF to identify opportunities for improving their operations by increasing effectiveness, identifying potential cost savings, and improving efficiency.	Programme managers	Expect the IAF to highlight potential problems during the financial year and afford management the opportunity to remedy deficiencies before receiving comments from the Auditor General South Africa (AGSA). The IAF should help AOs to ensure that effective and reliable internal control systems exist in their organisations.
Operating employees	Expect the IAF to provide innovations and best practices across the organisation.	Operating employees	Expect the IAF to advise them about decision making to prioritise effectiveness and efficient service delivery.

PRIVATE SECTOR		PUBLIC SECTOR	
Customers	Needs	Customers	Needs
External auditors	<p>Expect the IAF to reduce the extent of the work the external auditor must perform in order to issue an opinion on the organisation's financial statements.</p> <p>Need the IAF to give an opinion on whether the internal controls are adequate, the information provided by managers is reliable, laws and regulations are being followed, and assets are being safeguarded.</p>	AGSA	<p>The AGSA needs the IAF to take charge of coordinating the audit work in the public sector. Needs the IAF to assess whether the internal controls are adequate, information provided by managers is reliable, laws and regulations are being followed and assets are being safeguarded.</p> <p>The AGSA also needs to see the implementation of the IAF's suggested improvements.</p>
AC	Needs the IAF to evaluate whether the internal controls are adequate, the information provided by managers is reliable, laws and regulations are being followed and assets are being safeguarded.	AC	Needs the IAF to determine whether the internal controls are adequate, the information provided by managers is reliable, laws and regulations are being followed and assets are being safeguarded.

PRIVATE SECTOR		PUBLIC SECTOR	
Customers	Needs	Customers	Needs
		Elected officials and executives (e.g. ministers)	Need the IAF to assess whether the service delivery systems work effectively and efficiently. Need to see the implementation of the IAF's suggested improvements.

Source: Adapted for the South African public sector, IIA Research Foundation (Anderson, 2003:99)

The needs of selected IAF customers in both the private and public sector set out in table 2.1 should not be regarded as a comprehensive list, because the IAF serves many customers. In the public sector IAFs serve both customers who may have a direct use for the IAF's reports and customers who are only beneficiaries and may not necessarily read the IAF's reports, but who benefit or suffer directly from the quality of public service delivery, such as citizens and ordinary employees of public service institutions.

2.7 BENEFITS FOR THE CUSTOMERS OF IAFs FROM INTERNAL AUDIT DELIVERIES

According to *Internal Audit: a guide to good practice for internal auditors and their customers* (Chartered Institute of Management Accountants (CIMA), 1999:3), internal auditing's primary focus on internal control systems delivers substantial benefits to an organisation, which could be conducive to high level performance and optimal management of risks.

Table 2.2 depicts how IAFs' customers in both the private and the public sector are likely to benefit from internal audit deliveries.

Table 2.2: IAFs' customers benefits from internal audit deliverables

Benefits	Customers in private sector	Customers in public sector
Assurance regarding the adequacy and effectiveness of the general level of internal control in the organisation measured against an assessment of the organisation's risks and early warning of potential problem areas.	<ul style="list-style-type: none"> • The board of directors of the organisation and AC • Executive and senior management • Operating management • Shareholders, stakeholders and other relevant parties External auditors 	<ul style="list-style-type: none"> • Executive authority • AOs and deputy directors general • AC • Programme and operating managers (chief directors and directors) • Members of the public/community and other relevant parties AGSA
Specific identification of major control weaknesses, trends and recommendations for corrective action to reduce risk and exposure.	<ul style="list-style-type: none"> • The board of directors of the organisation and AC • Executive and senior management • Operating management • External auditors • Shareholders, stakeholders and other relevant parties 	<ul style="list-style-type: none"> • Executive authority • AOs and deputy directors general • AC • Programme and operating managers (chief directors and directors) • Members of the public/community and other relevant parties • AGSA
Advice on and facilitation of best practice and value-for-money in risk management and internal control, and education of managers in their risk management and control activities.	<ul style="list-style-type: none"> • The organisation's board of directors and AC • Executive and senior management • Operating management • Shareholders, stakeholders and other relevant parties • External auditors 	<ul style="list-style-type: none"> • Executive authority • AOs and deputy directors general • AC • Programme and operating managers (chief directors and directors) • Members of the public/community and

		<p>other relevant parties</p> <ul style="list-style-type: none"> • AGSA
<p>Advice on the appropriate controls to be implemented in projects and new systems.</p>	<ul style="list-style-type: none"> • Project and systems sponsors • Development managers • The organisation's board of directors • Executive and senior management • Operating management 	<ul style="list-style-type: none"> • Project and systems sponsors • Development managers • Executive authority • AOs and deputy directors general • Programme and operating managers (chief directors and directors)
<p>Optimisation of the total audit resources through appropriate division of the total audit effort between internal and external audit.</p>	<ul style="list-style-type: none"> • The organisation's board of directors and AC • External auditors • Shareholders, stakeholders and other relevant parties 	<ul style="list-style-type: none"> • Executive authority • AC • AGSA • Members of the public/community and other relevant parties
<p>Affords staff the opportunity to see the whole organisation in perspective, to develop networks of contacts and learn about useful analytical techniques.</p>	<ul style="list-style-type: none"> • Staff • Executive and senior management • Operating management 	<ul style="list-style-type: none"> • Staff • AOs and deputy directors general • Programme and operating managers (chief directors and directors)
<p>Provides a useful training ground for staff and young managers from other departments.</p>	<ul style="list-style-type: none"> • Staff • Executive and senior management • Operating management 	<ul style="list-style-type: none"> • Staff • AOs and deputy directors general • Programme/operating managers (chief directors and directors)

Benefits	Customers in private sector	Customers in public sector
Advice on the controls and procedures implemented to deter fraud in identified risk areas.	<ul style="list-style-type: none"> • Fraud and special investigation managers • The organisation's board of directors and AC • Executive and senior management • Operating management • Shareholders, stakeholders and other relevant parties • External auditors 	<ul style="list-style-type: none"> • Fraud and special investigation managers • Executive authority • AOs and deputy directors general • AC • Programme and operating managers (chief directors and directors) • Members of the public/community and other relevant parties • AGSA

Source: Adapted for the South African public sector (CIMA, 1999:3)

In summary, a variety of customers of IAFs in both private and public sector organisations benefit from the IAFs. The internal audit deliverables, as listed in table 2.2, support the board/executive authority in their efforts to provide strategic direction to the executive and senior managers, and the AOs and deputy directors general, allowing them to effectively implement the organisational/governmental strategies. Therefore, from a value adding perspective, IAFs can benefit customers by providing independent objective assurance and advice, thus enhancing their organisation's controls and governance processes.

2.8 EXPECTATIONS OF IAF CUSTOMERS

According to Brysland and Curry (2001:396) and Cosmas (1996:21), although all customers of IAFs expect the most responsive services from the assurance and consulting activities of IAFs, each customer should be served in a manner that is appropriate to its authority, responsibilities, and business needs. Ridley and Chambers (1998:25) maintain that management expects value from IAFs in a wide variety of audit and performance review activities. Most managers expect internal

audit services associated with finance, accounts, and business objectives, while further value could be added by monitoring activities associated with quality, customers, the control environment and due diligence investigations (Ridley & Chambers, 1998:25). In the following sections the internal audit expectations relating to selected customers of the IAF, as identified in section 2.6, are discussed.

2.8.1 The audit committee

The AC has a major responsibility in assuring that the mechanisms for achieving accountability, and reducing the risk of management override, are in place and functioning (Pickett, 2003:107). The AC should consider the effectiveness of internal auditing and evaluate its findings in conjunction with the existing internal controls in public service institutions, as mandated by the PFMA section 77 (RSA, 1999:s 77).

Section 77 of the PFMA (RSA, 1999:s 77) stipulates that an AC should comply with the following requirements:

- “(a) Must consist of at least three persons:
- (i) One person from outside the public service.
 - (ii) The majority of members may not be in the employment of the department, except with the approval of the relevant treasury.
 - (iii) The chairperson may not be in the employment of the department.
- (b) Must meet twice a year.
- (c) May establish a shared AC if the relevant treasury considers it economical.”

According to the PFMA, an IAF is expected to report functionally to the AC and administratively to the AO (RSA, 2005:para 3.2.9). The establishment of the AC enhances the independence of the IAF in the public service (Van der Nest, 2008:180). According to Van der Nest (2008:180), the AC forms part of the accountability structures created in public service institutions and assists AOs of the departments or entities in demonstrating the accountability expected of them and in discharging the responsibility placed upon them by the PFMA.

According to Van der Nest (2008:180), the AC should require quarterly feedback from the CAE on progress in implementing the approved audit plan and request explanations for any deviations from the plan. The AC should meet with the CAE on a quarterly basis to discuss the IAF's engagements, control environment matters and internal auditing results (KPMG, 2006:4).

In terms of principle 5.3 of the King III Report (IOD, 2009), the AC expects the IAF to help fulfil its duties by reviewing the organisation's risk profile. In every organisation, the AC expects the IAF to educate and train it in risk management concepts, while in return the AC devotes its time, resources and leadership to guide the IAF (IIA, 2011).

Hence ACs expect their IAFs to advise them on their organisation's risk profile which includes the following (IOD, 2009):

- identifying the full spectrum of risks facing the organisation, with a link to the broader organisational risk management framework;
- showing areas of high priority, greatest threat to the organisation, risk frequency and potential change;
- indicating how assurance will be provided on the effectiveness of the management's risk management process;
- reflecting on the linkage between the developed plan and the assessment of risk maturity; and
- presenting any changes in a timely manner to an AC meeting for either approval or ratification as the change(s) necessitates.

The AC expects the CAE to help them understand the designed control models used by the IAF in recommendations made to the executive management, or the AO in the case of the public sector (Pickett, 2003:105). IAFs should meet the expectations of the AC, which include the following (Cosmas, 1996:21-22):

- ensuring that the internal audit staff consist of educated professionals;
- ensuring that the objectives and scope of the audit programme are developed in accordance with basic organisational criteria;
- providing assurance that the organisation's business is conducted in compliance with legal and ethical standards;
- providing guidance for the protection of the organisation's reputation;
- protecting the dignity, integrity and reputation of the organisation's management;
and
- providing guidance and information to enable the organisation to avoid potential issues resulting from unwanted and unwarranted legal liability.

Sawyer and Vinten (1996:10) highlight some of the information that an IAF can provide to an AC, specifically information pertaining to:

- potential law suits against the organisation;
- the reliability and integrity of the management information system;
- compliance with standards of conduct in the organisation, and appraisal of the controls designed to bring to light the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness and conflict of interest;
- the variances between capital budgets and actual costs, and whether approved capital expenditures produced the results expected;
- determining whether audited entities are meeting their objectives and goals;

- determining whether organisational background data are properly designed and are valid summaries of internal audit reports, providing accurate information on the functioning of the organisation;
- fraud, thefts and de-falsification attempted against the organisation; and
- the internal auditor's opinion of the external auditors.

In the private sector, ACs want IAFs to be an accurate source of information in order to compensate for their own lack of hands-on information about the organisation, which could seriously constrain non-executive directors in the fulfilment of their responsibilities (Sarens & De Beelde, 2006a:18). Turley and Zaman (2007:777) argue that internal auditors should report any concerns to the CEO as a line manager. However, if the issue relates to the CEO or other senior management at an equivalent or higher level in the organisational hierarchy, such as chief operating officer (COO), the matter is likely to be reported to the AC. Goodwin and Yeo (2001:122) therefore believe that the internal auditors should have a sound working relationship with, as well as private and regular access to, their ACs.

From the public sector perspective, as a general rule, the PFMA, the MFMA, and the Treasury Regulations regard the IAF as a major source of information for the AC on the organisation's performance (RSA, 1999:s 77; RSA, 2003a:s 166(3)(b); RSA, 2005:para 3.2). Because the AC in the public sector is established to serve as an independent governance structure, providing oversight of the system of internal control, risk management and governance, IAFs are ideally positioned as an information source for the AC (RSA, 2009a:12-25).

Osman, Van Peurseem and Eggleton (2008:24) believe that the work of the IAF and its relationship with the AC could serve as a vital measure of how well the organisation and its systems and management operate. Davis (2008:60) cautions against oversimplification and adds that the working relationship between the AC and the IAF will inevitably depend on individual personalities, authority, governance processes and the willingness of all parties involved. According to Sarens and De

Beelde (2006a:18), the IAF communicates through reports, contributes to the monitoring and functioning of the organisation and plays a proactive role in risk management by focusing on high risk areas, providing suggestions to improve internal controls, and by assisting with the implementation of those suggestions.

The IAF in public service institutions has a responsibility towards the AC (Unegbu & Kida, 2011:305). Hence the IAF in public service institutions could contribute to the effectiveness of good public sector governance by serving as a liaison between the public sector departments and the ACs. According to the IIA (2010a), ACs expect the IAFs to position themselves as knowledgeable providers of assurance, and consultants on internal control systems, risks and governance processes in the organisations. Hence the reports of the IAFs in the public sector should be seen as critical to empowering and enhancing the role of the ACs in public service institutions.

From the above discussion, it is clear that the internal audit expectations of the AC in the public sector are influenced by requirements of the PFMA, the MFMA, the King III Report and the Treasury Regulations. The AC and IAF form part of the accountability structure in public service institutions, where the IAF could be seen as an independent governance sub-structure, ideally positioned to provide information to the AC.

2.8.2 Executive and senior management

In the public sector domain the AO is the head of the department, which could be regarded as the equivalent position of a CEO in the private sector. According to the PFMA (RSA, 1999:s 38), an AO is accountable for the overall outputs required of the organisation, thus ensuring that a system of internal audit under the control and direction of the AC is maintained in compliance with regulations and instructions as prescribed in terms of sections 76 and 77 of the PFMA (RSA, 1999:ss 76 & 77). Section 38 of the PFMA assigns general responsibilities to the AO, while section 38(a)(1) and (2) require the AO to ensure that the department has an effective, efficient and transparent financial risk management and internal control system (RSA, 1999:s 38). For municipalities and municipal entities, the MFMA (RSA,

2003a:ss 60 & 165) requires that the AO provides managerial and administrative guidance and advice to political office bearers and officials of the organisation.

According to Treasury Regulation 3.2 (RSA, 2005:para 3.2), the IAF should assist management and the AC in maintaining efficient and effective controls by evaluating such controls to determine their effectiveness and efficiency, and by making recommendations for their enhancement or improvement. Management expects the IAF to assess the departmental controls and information systems for reliability and integrity of financial information; the effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations and contracts (Chapman & Anderson, 2002:106; Sawyer, et al. 2003:64; IIA, 2009a).

For the purpose of this study, executive management in the public sector consists of the directors general, deputy directors general, COOs and the CFOs (RSA, 2006). In a wider context the executive functions in the public sector could also include parliament committees, members of executive councils (MECs), ministers and the ACs (Van der Schyf, 2000:151-175; Pauw, Woods, Van der Linde, Fourie & Visser, 2009:47). In the context of the public sector, the IAF is expected to assist the AO (as executive management) in achieving the objectives of the institution and should report directly to the AO (Diamond, 2002:13). According to the PFMA section 38(1)(a)(i), the AOs are expected to ensure that the organisation maintains effective, efficient and transparent systems of financial risk management and internal control (RSA, 1999:s 38).

According to Maphunye (2001:314), "senior management are at the level of directors general, deputy directors general, chief directors and directors". Senior management are those managers at post level 13 (directors), 14 (chief directors), 15 (deputy directors general) and 16 (directors general) (RSA, 2006; RSA, 2008). The executive and senior management in the public sector are responsible for ensuring that the following are in place: effective, efficient and transparent financial systems, risk management processes and internal controls; a system of internal audit directed by the AC; effective and appropriate disciplinary procedures; and a system for the proper evaluation of all major capital proposals (RSA, 2000:26).

In order to fulfil the executive and senior management's expectations in the private sector context, internal auditors should first understand the motivations and objectives of such management. The situation is no different in the public sector context. Cosmas (1996:22-23) outlines how the IAFs could meet the needs and desires of private sector executive and senior management in the following ways:

- *Monitoring operations.* Executive management expects the internal auditors to identify problems and resolve them with the help of senior and operating division management. They also expect the IAF to resolve problems at the appropriate level, instead of unnecessarily referring issues to executive management.
- *Performing special assignments.* An IAF is expected to be vigilant for situations that may involve improper activities. Executive and senior management also expect the IAF to avoid situations in which their independence may be compromised and their relationship with executive management could potentially suffer.
- *Serving the AC.* One of the IAF's tasks in serving the executive management is to support the AC adequately. Executive and senior management expect the IAF to communicate its audit findings to them before alarming the AC and possibly causing an embarrassing situation for executive management.
- *Conforming to the leadership patterns of the organisation.* Executive management expects the IAF to observe the leadership patterns dictated by the CEO and other members of the executive management when performing its audits.
- *Being loyal to senior management.* The IAF must remain loyal to the CEO and senior management. This loyalty must conform to the board of directors' desire that the IAF works closely with the CEO and senior management and supports the business decisions and organisational policies.

In the light of the above recommendations by Cosmos (1996:22-23), Standard 2060, *Reporting to Senior Management and the Board* (IIA, 2009a), requires the CAE to

periodically submit activity reports to the AO, executive and senior management and the board of directors. It further requires the CAE to periodically report to the board of directors and executive and senior management on the IAF's purpose, authority, responsibility and performance relative to its plan (IIA, 2009a). Reporting should cover significant risk exposures and control issues, governance issues, and other matters needed and requested by the board of directors and executive and senior management (IIA, 2009a). This standard is applicable to all public service institutions, to ensure compliance with the requirements of reporting on governance to the AO and the AC (IIA, 2009a). The Standards are used by the South African National Treasury, as custodians of the public service IAF, in establishing the minimum guidelines for the development and operation of internal auditing in public service institutions (RSA, 2009a:2).

Standard 2110, *Governance* (IIA, 2009a), requires the IAF to assess, and make appropriate recommendations for improving, the governance processes for: promoting appropriate ethics and values in the organisation; ensuring effective organisational performance management and accountability; communicating risk and control information to appropriate levels in the organisation; and coordinating the activities and communicating information to the board of directors, external and internal auditors and management.

However, a possible conflict of interest may arise in the public sector when an internal auditor's independence is impaired by political connections. In addition, Standard 1130, *Impairment to Independence or Objectivity* (IIA, 2009a) explains that if independence or objectivity is impaired, the details of the impairment must be disclosed to the appropriate parties. Political connections could pose a serious threat to internal auditor independence in both appearance and mental attitude (Shaub, 2003:1-18). Ideally, the IAF should report to the AC and the AO in the public sector, while the AGSA reports an independent opinion to parliament about the organisation's resource accounts and financial statements (Hedger & Blick, 2008:34).

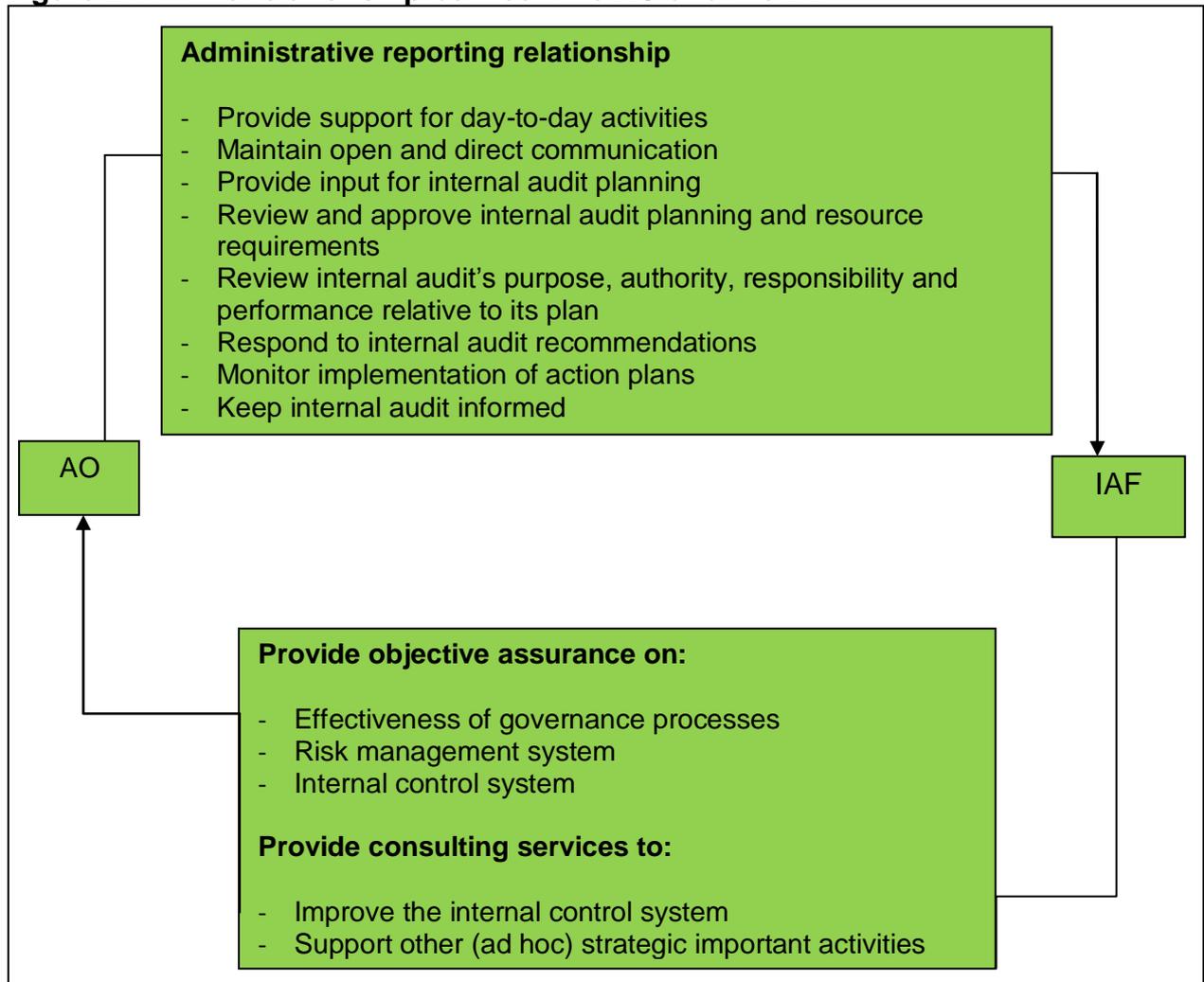
Turner ([sa]) believes that IAFs can provide the greatest value to the public sector AO and senior management when they:

- align their activities to their organisation's goals and objectives and periodically review the role of internal auditing in the light of changes to the business environment and global events;
- understand the business environment and the impact of developments on the organisation's risks and the expectations of public sector AOs and senior management;
- consult effectively with public sector AOs and senior management, staff and other key stakeholders and contribute ideas and advice on an ongoing basis;
- elevate the focus of their activities to strategic decision making and broader risk management strategies and mitigation, while maintaining an appropriate balance between traditional compliance, operational and financial auditing;
- provide broader information and a deeper insight into emerging governance, risk and control issues in a timely manner; and
- deliver what they promise.

Focusing on the private sector, Sawyer and Vinten (1996:10) outline how the IAF can help executive and senior management to review risk management. For example, regarding computer technology, the IAF could help senior management to review contingency plans to help recover from possible computer disasters. The IAF could further provide continuous information on the health of the organisation, which can be monitored through periodic activity reports involving summaries of audit opinions, audit findings, and overviews of how well the organisation is being administered.

Figure 2.1 illustrates the relationship between the AO and the IAF.

Figure 2.1: The relationship between the AO and the IAF



Source: Adapted to depict the relationship between the AO and the IAF (Sarens & De Beelde, 2006b:224)

In analysing the relationship between IAFs and senior management, Sarens and De Beelde (2006b:222) reveal that a professional IAF will supplement senior management's actions by providing independent and objective assurance on the effectiveness of the organisation's governance processes, how well the organisation manages all kinds of risk, and whether internal control processes are operating as required in order to manage risk at an acceptable level.

From the definition of internal auditing, as discussed in section 2.2, the IAF in public service institutions is considered to benefit senior management by providing assurance on controls and governance processes. In public service institutions, the IAF is viewed as an integral part of government's financial management

infrastructure, and an instrumental tool for improving service delivery and the performance of public service institutions (Diamond, 2002:4; Van Gansberghe, 2005b:72). Against this backdrop, the IAF in public service institutions should continue to add value to senior management by providing assurance and contributing to the effectiveness and efficiency of governance, risk management and control processes (IIA, 2009a).

In the context of service delivery, public service institutions' senior management could benefit greatly from the IAF's review of policies, procedures, regulations and legislations regarding controls, risks and governance (CIMA, 1999:4). As the mandate of public service institutions is to provide and deliver quality services, as outlined in section 195 of the Constitution (RSA, 1996:s 195), the IAFs in public service institutions are responsible for providing advice, making recommendations, and rendering a first-class service to senior management. From the above discussion it is evident that the executive and senior managers expect the IAF to assist them in improving internal control systems within organisations and in evaluating the effectiveness and efficiency of governance and risk management processes.

2.8.3 Programme and operating management

For the purpose of this study, programme and operating management in the public sector is defined as the middle management at post levels 9 to 12, which constitutes assistant directors and deputy directors (RSA, 2006). According to Staehle and Schirmer (1992:70), it is the lowest management echelon with possibly one or two hierarchical level(s) below it, in particular departments.

According to Rupšys and Stačiokas (2005:51), operating management is responsible for operational processes, primarily for the effectiveness and efficiency of operations. However, in accordance with the National Treasury (2011) organisational structure, programme and operating managers are the unit heads below the AO and heads of the programmes (deputy directors general), which may include chief directors, directors and senior analysts. According to Pauw, et al. (2009:48) these individuals

have a delegated authority and responsibility from the AO to produce a particular set of outputs for the various divisions of the organisation.

The programme and operating managers of an organisation are customers of that organisation's IAF. The IAF's recommendations for improving the efficiency and effectiveness of operations are its added value (Anderson, 2003:99). According to Cosmas (1996:24), internal auditors have a responsibility towards operating management to provide assistance to meet their operational goals and objectives. Operating managers receive information arising from the audit engagements, as an indication of what the final formal internal audit report will contain (Sawyer & Vinten, 1996:10). Internal auditors are then expected to discuss the audit problems with operating managers before the publication and distribution of the final report. According to Standard 2440, *Disseminating Results* (IIA, 2009a), internal auditors are expected to discuss conclusions and recommendations with appropriate levels of management before the CAE issues the final engagement communications. This is usually accomplished during the course of the engagement and at post-engagement meetings. The IAF is thus expected to assist the programme and operating managers by providing recommendations to reduce the existing risk levels, and to improve processes and controls by means of reports or direct advice.

Ridley and Chambers (1998:15) emphasise that, while IAFs have certain responsibilities towards the executive and senior management, the stakeholders and the general public, these responsibilities should not undermine the fulfilment of the IAF's basic service role to the operating management. Thus, the internal auditor will be viewed primarily as a member of the management team, dedicated to serving the overall long term welfare of the organisation. Operating management expects the IAFs to provide recommendations for process improvement in the areas of: fraud investigations; evaluation of internal controls; operating process reviews and assessments; review of accounting and financial information; compliance audits; and assessment of efficient usage of resources (Stačiokas & Rupšys, 2005:22).

In summary, programme and operating managers expect the IAF to provide assurance on the effectiveness and efficiency of operations that will ensure the

achievement of the organisational objectives. They additionally expect the IAF to advise them on the assessment of risk in their operating units.

2.8.4 External auditors

Internal auditing in the public sector is conducted in accordance with the IIA Standards (National Treasury, 2009a). In order to achieve the best possible coverage and avoid duplication of effort, the CAE should work together with the external audit partner to ensure that the internal and external audit work is properly coordinated (CIMA, 1999:15). According to Standard 2050, *Coordination* (IIA, 2009a), the CAE is responsible for coordinating internal and external auditing efforts. External auditors expect to meet with the CAE regularly in order to (Cosmas, 1996:24-25; CIMA, 1999:15):

- discuss internal and external audit plans;
- select and review the performance of the work to be relied on;
- evaluate the relationship between the internal and external auditors and report on this relationship to those charged with governance of the organisation if required;
- agree on access to each other's audit programmes and working papers;
- exchange audit reports and management letters;
- enhance understanding of each other's audit techniques and methods; and
- discuss any other matters of mutual interest.

Relying on the IAF allows external auditors to avoid unnecessary duplication of effort. For example, the IAF generally has a better knowledge and understanding of the organisation's policies and procedures and of the business environment, than do the external auditors (Schneider, 2009:42). External auditors may rely on the IAF

primarily as part of the organisation's overall system of internal control; on the work already done by the IAF relating to the testing of internal controls or testing of transactions; and when the IAF directly assists them in conducting audit procedures (Schneider, 2009:42).

From the external audit perspective, International Standard on Auditing (ISA) 610, *Using the work of internal auditors* (SAICA, 2012/2013), states that to determine the adequacy of specific work performed by the IAF for the external auditor's purposes, the external auditor shall evaluate whether the work was performed by competent internal auditors and whether: the internal auditors have adequate technical training and are proficient; the work was properly supervised, reviewed and documented; adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions; the conclusions drawn are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and any exceptions or unusual matters disclosed by the internal auditors are properly resolved.

In its Internal Audit Framework, the South African National Treasury (RSA, 2009a:43) requires the IAF to maintain its relationship with the AGSA, or external auditors, and to share information, and coordinate activities, with internal and external providers of assurance and consulting services. This relationship between the IAF and the external auditor in South Africa is the same in the public and private sectors, both sectors having adopted and acknowledged the same standards of professional practice. The AGSA, as the public sector external auditor, audits in accordance with the ISAs, as adopted in South Africa, and the framework prescribed by the National Treasury (Nomvalo, 2009).

Coordination between internal and external auditors is predicated on the competence, professional conduct, objectivity, and independence of internal auditors (SAICA, 2012/2013). The relationship between internal and external auditors is shaped by mutual respect. Standard 2050, *Coordination* (IIA, 2009a), reaffirms the importance of such a relationship: "the CAE should share information and coordinate activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimise duplication of

efforts". Research has indicated the practical value of such coordination (Gavin, Cooper, Leung, Lander & Reinstein, 1995:20; Felix, Gramling & Maletta, 2001:517).

Although coordination is required both by the IAF's and by the external auditors' *standards*, the combined assurance approach could also be an effective tool for strengthening reporting activities in the public sector (IOD, 2009). IAFs and external auditors undertaking an auditing engagement using the combined assurance approach are expected to coordinate their work on previously-identified risks and submit a combined report to the board of directors or executive authority.

Zain, Subramaniam and Goodwin (2004:15) believe that the IAF's knowledge of the organisation's controls, risks and governance processes could promote coordination between internal and external auditors. The IAF influences the working relationship with the external auditors through the coordination of the audit activities. Morrill and Morrill (2003:492) confirm that, in order to establish the external auditor's trust, an IAF must create an environment that will encourage the internal audit staff to assist the external auditor.

IAFs are more likely to be able to contribute to an effective external audit if the internal audit staff is competent and performing at a high standard (Al-Twaijry, Brierley & Gwilliam, 2004:929). Reinstein, Lander and Gavin (1994:30) further suggest that the external auditors could positively influence the working relationship with the IAF by engaging in regular discussions about the scope of their work and by providing regular feedback.

From the above discussion, it is evident that external auditors expect the IAF to do some financial auditing. They could also expect the IAF to safeguard organisational assets by advising the ACs, executive and senior management, and programme and operating managers on improving internal controls and managing risks within the organisation.

2.8.5 Operating employees

The IAF, with its primary focus on supporting the board of directors, including the ACs, on issues of control, risk, and governance processes, remains an instrument or tool for management (Van der Schyf, 2000:175; Diamond, 2002:4; KPMG, 2003; Van Gansberghe, 2005b:72). However, Van der Schyf (2000:175) explains that, because the operating employees are regarded as secondary customers of the IAF, they are influenced by the direct use of the IAF's recommendations. As they do not have decision-making powers on the implementation of the IAF's recommendations, for the purposes of this study they are not regarded as key IAF customers.

In the public sector operating employees are those employees below assistant director rank, at post levels 1 to 8 (RSA, 2008; RSA, 2006). According to Cowherd and Levine (1992:302), lower echelon employees are differentiated from operating management by the salary level. In the South African public sector, operating employees carry out the functions of the organisations for which they work, allowing public service institutions to achieve their service delivery mandates, and making them the most important resources of those organisations (Omotoye, 2011:1).

2.9 PRODUCTS AND SERVICES OF IAFs

The products and services that IAFs provide to their customers consist of internal audit reports as well as assurance and consulting services.

2.9.1 Internal audit reports

Internal audit reports are considered to be opinion-based products (CIMA, 1999:8). The reports that follow an internal audit should contain the findings, conclusions and recommendations of that audit. Internal auditors can provide assessments based on the identified strengths and weaknesses of the system being audited. Management should be able to benefit from the information provided in the reports. Internal auditors' reports on risks and internal controls are deemed to be vital communication instruments in the development and maintenance of corporate risk management systems (Sarens & De Beelde, 2006c:73). Because these products should provide

value for money, the IAFs need to perform their work economically, efficiently and effectively.

According to Al-Twaijry, et al. (2004:930), the quality and effectiveness of the work performed by the IAFs depends on factors such as the amount of work performed with regard to scope and time spent. IAFs should therefore be familiar with the customers' expectations and should determine the scope of their work in accordance with these expectations.

According to the IPPF (IIA, 2009a), several standards pertain directly to the final IAF report. These standards are:

- Standard 2410: "Communications should include the engagement's objectives and scope, as well as applicable conclusions, recommendations, and action plans."
- Standard 2410.A1: "The final communication of results should, where appropriate, contain the internal auditor's overall opinion or conclusion."
- Standard 2440: "The CAE should communicate results to the appropriate parties."
- Standard 2440.A1: "The CAE is responsible for communicating the final results to parties who can ensure that the results are given due consideration."

The above set of standards guides the IAF to render the expected services to IAF customers. Cox (2009:1) concludes that the internal audit reports are the primary product of IAFs.

2.9.2 Services of IAFs

IAFs measure, evaluate and report on the effectiveness of internal control systems and contribute to the efficient use of resources within an organisation (Chun, 1997:248). IAFs render a variety of services to the organisation within which they

operate (Anderson, 2003:98). In the context of improving risk management, control and governance processes, Pickett (2003:257) lists the following internal audit services provided to both private and public sector organisations: operational efficiency and effectiveness reviews; internal control reviews; fraud investigations; compliance reviews; control self-assessment and business risk assessments; computer audits; environmental audits; and financial and performance audits.

Table 2.3 distinguishes between assurance and consulting services of IAFs by indicating the parties involved, as well as the expectations of these services.

Table 2.3: Assurance and consulting services of IAFs

Assurance services involve:	IAF customers expect the IAF assurance services to assess:	Consulting services involve:	IAF customers expect the IAF consulting services to:
<ul style="list-style-type: none"> • The internal auditor, the customer, and the third party to whom assurance is being provided. • Competence should either be present in the audit staff or required from outside parties. 	<ul style="list-style-type: none"> • The adequacy of the entity's internal control • The adequacy of organisation risk management • The adequacy of the governance process • Compliance with laws and regulations 	<ul style="list-style-type: none"> • The internal auditor and the customer • Additional considerations: the engagement should be declined if the competencies required to perform the engagement are lacking in the audit staff. 	<ul style="list-style-type: none"> • Improve efficiency or effectiveness • Provide assistance in the design of corrective actions • Provide information on the controls needed for new systems design • Perform benchmarking exercises

Source: Adapted from the IIA Handbook series, Chapman and Anderson (2002:14)

Brody and Lowe (2000:170) differentiate between assurance services and consulting services, according to the objective to be achieved and the context in which the service is provided. According to Parkinson (2009:1), an IAF in a consulting capacity

can help management to make decisions that have the best control consequences for the organisation.

2.9.2.1 Assurance services

In its IPPF, the IIA defines assurance services as (IIA, 2009a):

“an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organisation. Examples may include financial, performance, compliance, system security, and due diligence engagements”.

In accordance with this definition, Anderson (2003:108) outlines the essential elements of assurance services as engagements that involve a systematic process of objectively evaluating evidence against established criteria and communicating results to interested users, whether third parties or those involved in the process or area under review.

According to Sawyer, et al. (2003:1380), three parties are involved in assurance services: the entity directly involved with the system (the process owner), the entity making the assessment (the internal auditor), and the entity using the assessment to make decisions (the customer). In the debate on assurance-versus-consulting-services, Parkinson (2009:1) argues that it is the internal auditor's duty to consider whether an organisation's risk model adequately addresses the risks facing that organisation. Analysing the different types and levels of assurance services, Hasan, Maijoor, Mock, Roebuck, Simnett and Vanstraelen (2005:92-100) report that assurance may be provided on various categories of financial data, such as prospective financial information, information for due diligence investigations, information on individual components, and on budgets and nonfinancial data such as information on environmental performance.

Assurance services in the public sector are those services which require IAFs to assess the adequacy and effectiveness of controls encompassing the organisation's governance, operations, risk management, and information systems (IIA, 2009a;

RSA, 2009a). In the South African public sector, Treasury Regulation 3.2 (RSA, 2005:para 3.2.11), discussed in section 2.3.4, requires IAFs in the public sector to perform the audit engagements in line with the regulations.

2.9.2.2 Consulting services

The IIA (2009a) defines consulting services as:

“[A]dvisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility.”

Examples include counselling, advising, facilitating and training (IIA, 2009a). Reding, et al. (2007:12(2)) emphasise the fact that consulting services are advisory and contracted at the request of management. Consulting services involve two parties, namely the person or group offering the advice (the IAF) and the person or group seeking and receiving the advice (the customer). The responsibility of a person offering advice is to provide technical direction to and control over consulting project personnel, as well as a framework for service communications, reporting, procedural and contractual activities (Atkinson & Chalmers, 1999:15). According to Atkinson and Chalmers (1999:15), the consulting service provider should:

- Maintain service communications through the client service leader.
- Establish documentation and procedural standards for the development of the service.
- Prepare a service plan that describes tasks, schedules and responsibilities.
- Measure and evaluate progress against the service plan.
- Resolve deviations from the service plan.

- Conduct review meetings as needed.
- Administer service change control procedures as needed.
- Coordinate the technical activities of service personnel.
- Produce and deliver all items listed in the deliverables section of the proposal.

Coetzee and Du Bruyn (2001:67) maintain that consulting services, as requested by management to achieve the organisation's objectives, focus on activities beyond the traditional assurance services IAFs provide. Hence, IAFs that render consulting services have great opportunities to add value to their organisations (Reding, et al. 2007:12(2)). In their study of critical success factors in the client-consultant relationship, Appelbaum and Steed (2005:77) suggest that consulting services should include: competent consultants; an emphasis on client results versus consultants deliverables; clear and well-communicated expectations and outcomes; visible executive support; consideration of client readiness; and an investment up-front in learning the client's environment.

From a consulting service perspective, IAFs in the public sector provide technical advice on issues of governance, accountability, ethical practices, anti-corruption programmes, risk assessment and management, internal control, information technology, operations and project management (IIA, 2006). These consulting services (IIA, 2009a) may include control and risk assessment workshops and training in areas such as fraud awareness, performance management, and control design (IIA, 2006). However, the IAF's independence remains a key professional requirement as the IAF is not expected to make decisions or to assume management's responsibility.

2.10 CONCLUSIONS

This chapter explained the theoretical framework for IAFs in the public sector in South Africa. The presence of IAFs in public service institutions is legally mandated,

and these IAFs fulfil their duties and responsibilities in a regulated environment, in accordance with the COSO framework. IAFs in the public sector have various customers; should offer value-added services; should meet customers' expectations, and thereby contribute directly to the development of the public services in South Africa. The role of IAFs in the public sector is supported by a regulatory framework consisting of the PFMA, the MFMA, the Treasury Regulations, the King III Report and the Constitution.

This chapter also discussed IAFs as a value adding tool in the public sector. The needs of IAF customers in both the private and the public sector were identified and compared, and similarities were found between the two sectors. The remainder of the chapter focused on IAFs' customers. The benefits customers enjoy from the services of IAFs and their expectations indicate that IAFs are valued for their advice on financial, operational, and performance information, as well as internal control systems, procedures, risk management, and governance processes. Customers such as the AC, executive and senior managers, programme and operating managers, and external auditors can be regarded as direct beneficiaries of IAFs' assurance that the control environment is adequate for managing risks in the organisation.

In the final section of the chapter, the products and services provided by IAFs were discussed. The literature indicates that the internal audit product is the final report in which the IAF presents its audit findings and discusses recommendations for improvements and enhancements in an organisation. In the reporting phase there is a clear need for IAFs to provide their customers with written and concrete recommendations derived from their assurance and consulting services.

In the light of the role of the IAF in the public sector, as defined and aligned to the legislative framework, and the way in which IAF customers could benefit directly from the IAF, the next chapter investigates how the expectations of IAF customers in the public sector can be met.

CHAPTER 3

MEETING THE EXPECTATIONS OF THE CUSTOMERS OF THE INTERNAL AUDIT FUNCTION IN THE PUBLIC SECTOR

3.1 INTRODUCTION

Chapter 2 discussed the theoretical framework in which the internal audit function (IAF) in the public sector operates. This chapter outlines customers' expectations and then details the steps a public sector IAF could follow in order to more fully meet these expectations. By examining these elements, this chapter will further elucidate the theoretical framework discussed in chapter 2. The discussion in this chapter takes place within the context of the public service delivery mandate, the internal audit profession's perspective on service delivery, the criteria used by IAF customers to evaluate the IAF's performance, total quality management (TQM), performance evaluation and the balanced scorecard (as means to enhance satisfaction of service delivery by the IAF), and the monitoring of performance evaluation in the public sector.

The purpose of this chapter is to provide insight into what customers expect of a public sector IAF and how the IAF might ensure that such expectations are met. It follows on from the theoretical framework discussed in chapter 2, which explained public sector IAF service delivery in the context of its regulatory mandate.

3.2 CONTEXUALISATION OF SERVICE DELIVERY

Given the fact that "service delivery" and "protest" are so frequently linked and insistently used in South African news reportage (Grant, 2014; Paton, 2014) and everyday conversation, it is essential that the term, as used in this study, is placed in the technically specific context of IAFs in public service institutions. Such contextualisation includes understanding the good service delivery promise and the public sector service delivery mandate.

3.2.1 Good service delivery promise

The South African government made a promise that it would commit itself to good service delivery to the public (RSA, 1996:s 195; RSA, 2003b). The principles underlying and driving this promise are contained in Chapter 10, section 195(1)(a)(i), of the Constitution (RSA, 1996:s 195). In order to fulfil this promise, the government committed itself, through the Department of Public Service and Administration (DPSA), to the introduction of a service delivery mandate intended to revitalise the government's service provision programmes. To help accomplish this mission, the National Cabinet adopted the eight Batho Pele principles ('Batho Pele' is Sesotho for "putting people first"). The Batho Pele principles are rooted in a series of policies and legislative frameworks, aimed at putting citizens (customers) at the centre of public sector service delivery (RSA, 2003b). One of these underlying principles is outlined in section 195 of the Constitution, where the South African public service institutions acknowledge the fact that the purpose of the IAF is to facilitate and verify the efforts of various public sector entities to render a first-class service to the public (RSA, 1996:s 195).

Against this backdrop, the IAF should add value to the organisation as a whole and specifically to its (the IAF's) customers (the AC, AO etc) by providing assurance and by contributing to the effectiveness and efficiency of governance, risk management and control processes (IIA, 2009b). In so doing, the IAF is the vehicle that provides "independent, objective assurance and consulting services designed to add value and to improve an organisation's operations," and is well positioned to meet its customers' expectations (IIA, 2009b). From a service delivery improvement perspective it is clear that IAFs can help public service institutions revitalise their service delivery strategies by making recommendations for improving back-office operations, front-office operations, and both internal and external communications. It is important to understand what 'back-office operations', 'front-office operations', 'internal communication' and 'external communication' refer to within the context of the Batho Pele principles. The DPSA's Batho Pele Handbook (RSA, 2003b) contains broad definitions of each term. Thus, *Back office operations* refers to systems, processes, procedures and functions (such as human resources, finance, procurement, IAF), and the legal and statutory guidelines that support institutions in

their efforts to function effectively and efficiently in the provision of services to the public, and by so doing ensuring that institutions deliver on their mandates. The term *Front office operations* refers to the actual interface between government and the public. *Internal communication* refers to the systems, processes, functions and measures aimed at ensuring that public servants are informed of, and consulted on, service delivery-related matters affecting them and their work. *External communication* is a two-way process which involves both listening to customers and providing them with useful and appropriate information.

The responsibility of the government to provide an efficient and effective public service is embodied in the Constitution of the Republic of South Africa (Constitution) (RSA, 1996). In order to assess citizens' satisfaction with public service institutions, government created the Batho Pele initiative, a holistic, integrated, multidimensional and multifaceted model which public service institutions could use as a framework to guide service delivery initiatives (RSA, 2003b). The Batho Pele initiative should be viewed as a tool to be used by public service institutions to ensure that they consistently deliver citizens with quality services.

The public sector IAFs perform a unique function within the service delivery arena by advising both elected and appointed officials (programme managers, chief financial officers (CFOs) and accounting officers (AOs), about the entities' use of resources, the reliability of financial information and the entities' state of compliance with laws and regulations. The IAFs in the public sector also advise managements on their status with respect to the service delivery revitalisation programme (RSA, 2003b). Set in this extended context this chapter discusses the concept of "meeting IAF customers' expectations" in the public sector.

3.2.2 Public sector service delivery mandate

The service delivery mandate in South Africa has its origin in the provisions of Chapter 10, section 195(1) of the Constitution (RSA, 1996:s 195). The fundamental goal of the South African public sector, as outlined in the Constitution, is to provide satisfactory service delivery to all South Africa's citizens (IDASA, 2010). In support of this objective the IAF can act as a powerful tool for improving public sector

accountability for service delivery by providing input on the planning, implementation and monitoring of government programmes. In this context of service delivery, Van der Nest, Thornhill and De Jager (2008:546) argue that accountability for sound financial management in the public sector should lie with the entities' IAFs and associated audit committees.

As part of an initiative to inspire public servants to strive for excellence in service delivery and to commit themselves to achieving continuous improvement of public services, the South African government adopted the White Paper on Service Delivery in 1997 (RSA, 1997). Applying these principles to the public sector IAFs requires that customers should be dealt with in terms of the eight Batho Pele principles. These require that public sector entities consult with customers regularly; set service standards; increase access to services; ensure higher levels of courtesy; provide more and better information on services; increase openness and transparency about services; remedy failures and mistakes; and ensure value for money (RSA, 2003b). The public sector IAFs' adherence to the Batho Pele principles should result in an improvement both of the IAFs' service offering within the entities, and in the service delivery achieved by the entities in which they function.

The *King Report on Governance for South Africa 2009* (King III Report) (IOD, 2009; PWC, 2010) recommends that organisations should consider the management of customer perceptions and relationships, including relationships with national, provincial and local government, as an integral part of day-to-day operations. Public service institutions should therefore use the Batho Pele Handbook, which is aligned with the King III Report's recommendations, to manage their customer relationships.

In order to facilitate the achievement of the Batho Pele initiative's service delivery objectives, the guidance provided by the IAF to its host organisation should assist the organisation's back-office operations to function effectively and efficiently in its service delivery to its (internal) customers, thereby ensuring that the organisation delivers on its statutory mandates (RSA, 2003b). IAF recommendations to back-office operations (defined in section 3.2.1) could thus have an impact on the level and quality of service received by the public. The IAF therefore plays a critical role in evaluating public sector entities' success or failure in their service delivery efforts

(Coupland, 1993:4). In this way, the issue of service delivery becomes crucial to the IAF, despite their lack of direct exposure to the members of the public (their employer entity's customers), as the IAF advises management on the planning, implementation and monitoring of its service delivery model.

Internal auditors in the public sector have a pivotal role to play in the proper administration of public funds. The general expectation is that internal auditing protects the public purse (CIPFA, 2001:14) both by contributing towards the proper administration of public funds, and by promoting operational principles of economy, efficiency and effectiveness. The IAF's responsibility is, therefore, to contribute towards effective risk management, internal controls, and governance by rendering the necessary and appropriate assurance and consulting services.

3.3 MEETING IAF CUSTOMERS' EXPECTATIONS: THE PROFESSION'S PERSPECTIVE

This study discusses the IAFs' meeting of its customers' expectations with reference to three sets of guidance. Sections 3.3.1 and 3.3.2 consider the International Standards for the Professional Practice of Internal Auditing (Standards) and the Quality Assurance Improvement Programme (QAIP), respectively. Section 3.3.3 aligns the guidance from these sources with the principles of the Batho Pele initiative.

3.3.1 International Standards for the Professional Practice of Internal Auditing (Standards)

In June 1999, the IIA's Guidance Task Force recommended to the IIA board of directors that the then-current definition of internal auditing should be improved (Ramamoorti, 2003; IIA, 2004). On the basis of these recommendations, the Standards were developed as part of the International Professional Practice Framework (IPPF), giving life to the IIA's Code of Ethics and the Attribute, Performance and Implementation Standards (IIA, 2004). Within the IPPF, the Attribute Standards address the attributes of the organisations requiring and the individuals performing internal audits, while the Performance Standards describe the

nature of internal auditing and provide quality criteria against which the performance of these internal audit services can be measured. Similarly, the Implementation Standards expand on both the Attribute and the Performance Standards to prescribe standards applicable to specific types of engagements (IIA, 2004, 2008, 2009a).

The purpose of the Standards is to delineate basic principles that represent the practice of internal auditing as it should be: thus, it provides a framework for performing and promoting a broad range of value-added internal auditing services; establishes the basis for the measurement of internal auditing performance, and fosters improved organisational processes and operations (IIA, 2004, 2008, 2009a, 2009b). According to Miller (1988:21), the purpose of the Standards is to delineate the role and responsibilities of the IAF. It is also generally agreed that the IAF should attempt to fulfil the needs and expectations of its customers (Miller, 1988:19; Cosmas, 1996:21; Dittenhofer, 2001:459; Gupta, 2001:93; Sawyer, Dittenhofer & Scheiner, 2003:1036; Gramling & Hermanson, 2007:33).

Since the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA) provide for the establishment of an IAF in each of the South African public service institutions, and given the requirements of the Standards, IAFs in the South African public sector are ideally placed to understand (and hence fulfil) their customers' expectations. The adoption of the Standards by the National Treasury is thus an indication that the IAFs in public service institutions are required to act professionally in order to meet their customers' expectations. Professionalism is implicitly required by insisting on adherence to the Code of Ethics, the Attribute Standards, the Performance Standards and the Implementation Standards of the IIA (RSA, 2009a:9).

3.3.2 The Quality Assurance and Improvement Programme (QAIP)

The IAF is required to conform to the IIA's definition of internal auditing and its Standards, as well as to comply with the IIA's Code of Ethics (IIA, 2009a). The QAIP was introduced by the IIA in January 2002 under Standard 1300, *Quality Assurance and Improvement Programme*, to ensure that the chief audit executive (CAE) develops and maintains a QAIP, requiring of the IAF to regularly go through the

process of internal and external assessment (IIA, 2004). Woller (2009) explains that, because a quality IAF is a critical component of efforts to achieve the organisation's goals, the QAIP should be an implicit and explicit component of the CAE's communication of results to the AC and senior management.

Ghobadian, Speller and Jones (1994:47) indicate that, owing to the emergence of the total quality management (TQM) paradigm, the term "quality" could mean different things to different people. Additionally, Sawyer, et al. (2003:1036) explain that the initial quality assessment stage begins with the identification of the IAF customers. The implementation of a QAIP should therefore help the IAF to assess the quality of its services and to ensure the continuous improvement of the identified weaknesses (Okibo & Kamau, 2012:111).

According to Kinsella (2010:10), the QAIP helps to assess the purpose, position, process, people and performance of the IAF. Consequently, the QAIP could also help IAFs to assess their performance against international best practices, to benchmark themselves against peers, and to provide the opportunity for development in order to bridge any identified gaps (Kinsella, 2010:12). The QAIP thus contributes to the establishment of a value-added IAF, operating according to international best practice, by providing the AC, executive and senior management in the public sector with comprehensive evaluations of risk, controls and governance processes (Clemmons, 2007:77).

3.3.3 Guidance on customers' expectations

Customers' expectations are understood to be beliefs about service delivery and function as a standard against which performance can be measured (Sachdev & Verma, 2002:45). In South African public service institutions the customers are the citizens who are concerned about the quality of public service delivery (RSA, 2003b). Hence, the Batho Pele initiative is intended to be a means by which citizens can measure the success or failure of public service institutions.

Fonvielle (1997:40) explains that in order to know what customers want, the first step is to determine their expectations. Therefore, in order to address the research

question it is necessary to uncover the public sector IAFs' customers' expectations upfront (McIntosh, 1992:7; Rosen, 2005:18). Chapter 2 identified and discussed the AC, executive and senior managers, programme and operating managers, external auditors and operating employees as customers of the IAF in public service institutions. As customers of the IAF, they should therefore be treated according to the aforementioned Batho Pele principles (RSA, 2003b).

In order to understand the basis for guidance on addressing customers' expectations, IAF customers should be made aware of the role and responsibilities of the IAF, as approved in the internal audit charter. The internal audit charter clearly defines the purpose, authority and responsibilities of the IAF. The charter should be promoted at all levels of the organisation the IAF serves. Customers' perceptions and expectations of the IAF should be identified, and continuously measured and monitored. The IAF should be professional in all respects (Ridley, [sa]a; IIA, 2009b).

3.4 CRITERIA USED BY IAF CUSTOMERS TO MEASURE THE MEETING OF THEIR EXPECTATIONS

IAFs in the public sector have various customers (see section 2.6) who can benefit from their services (see section 2.7). These customers therefore have specific expectations of the IAF (see section 2.8). In terms of the PFMA, the MFMA and the Treasury Regulations, the IAF represents a major source of information to the AC on the performance of public service institutions (RSA, 1999:s 77; RSA, 2003a:s 166(3)(b); RSA, 2005:para 3.2). The IAF should assist the executive management of a public service institution (AO), its team of senior managers, and the AC in achieving the objectives of the public service institution by maintaining efficient and effective controls, providing assurance, and making recommendations for improvement and enhancement of the organisation's operations (RSA, 1999:ss 76 & 77; RSA, 2003a:s 60; RSA, 2005:para 3.2). The IAF should make recommendations to operating management which result in the improvement of the public service institution's operational effectiveness (Anderson, 2003:99). The AGSA can rely on the work of the IAF for purposes of the external audit of a public service institution (SAICA, 2012/2013:ISA 610 para A6). Although operating employees in a public service institution are not directly responsible for implementing the IAF's

recommendations (Sawyer, et al. 2003:1225), they are influenced by the implementation of the IAF's recommendations (Van der Schyf, 2000:175).

Zomerdijk and De Vries (2007:108-109) argue that the delivery of many services cannot take place without the presence of the customer and their interaction with, and participation in, the service delivery systems. It is therefore necessary to exemplify and exhibit the linkage between the IAF customers and the criteria used by them to assess satisfaction with the services of the IAF in the public service institution.

The study on the service delivery system conducted by Ponsignon, Smart and Maull (2011:339) found that satisfactory customer relationships were contingent on the complexity of the service offerings, the required level of technical and interpersonal skills on the part of both customer and IAF, the extent of employee discretion regarding implementation of recommendations, the potential for automation, and the degree of routine in the service delivery system. Ponsignon, et al. (2011:339) therefore suggest that customers need to outline their requirements, translate them into an agreement, and negotiate these terms and conditions with the service provider.

The IAF in public service institutions is directed and guided by legislation and regulations including the Treasury Regulations, the PFMA, the MFMA, the Constitution, the White Paper on Transforming Public Service Delivery, the Public Service Regulations, the internal audit charters, and the IPPF (RSA, 2009a:2). Collectively these legislation and regulations are intended to enhance the quality of service delivery in public service institutions. IAF customers can therefore use them to assess the services being provided by an IAF.

3.4.1 The audit committee

Based on an analysis of customer expectations and perceptions, Sarens and De Beelde (2006a:18) indicate that the AC sees the IAF as a vital source of information, compensating for its own lack of first-hand information about the organisation. Hence it is the task of the AC to measure the contributions demonstrated and

communicated to them by the IAF. Hermanson and Rittenberg (2003:33) suggest that the AC should independently measure the work of the IAF on the provision of assurance regarding controls. As far as measuring satisfaction is concerned, Sawyer, et al. (2003:1334-1335) argue that the AC should establish whether the CAE has:

- reviewed the AC charter at least annually and advised the AC on whether the charter addresses all responsibilities directed to the AC in terms of its mandate;
- reviewed the planning agenda for the AC's meeting to ascertain whether all required activities have been detailed and completed;
- drafted the AC's meeting agenda for the chairperson's review;
- assessed whether the IAF has facilitated the distribution of the meeting material to the AC;
- encouraged the AC to conduct periodic reviews of its activities and practices to ensure that its activities are consistent with leading (global best) practices;
- assessed whether the IAF is able to meet periodically with the chairperson of the AC to discuss whether the materials and information being furnished to the AC are meeting its needs;
- assessed whether the IAF has inquired from the AC if any educational or information sessions or presentations would be helpful, such as training new AC members on risk and controls; and
- assessed whether the IAF has asked the AC whether the frequency and time allotted to the AC are sufficient.

One criterion used by customers to measure satisfaction with the IAF is to consider the value added by the IAF (Bou-Raad, 2000; KPMG, 2008; Barac, Plant &

Motubatse, 2009). According to the IIA (2010a), it is critical for IAF customers throughout the organisation to understand the value that an IAF adds to operations by identifying opportunities for enhancing efficiencies and effectiveness. The AC can play a role in elevating the image of the IAF by ensuring that it is not misunderstood in the context of adding value. The importance of this role is reinforced by the fact that the IIA has published a checklist of points to be considered by the AC when assessing the value added by the IAF (IIA, 2010a):

- “the AC engages in an open, transparent relationship with the CAE;
- the AC reviews and approves the internal audit charter annually;
- the AC has a clear understanding of the strengths and weaknesses of the organisation’s internal control and risk management systems as a result of discussions with the CAE;
- the IAF is sufficiently resourced with competent, objective professionals to execute the internal audit plan, which has been reviewed and approved by the AC;
- the IAF is empowered to be independent by appropriate reporting relationships to executive management and the AC;
- the AC consults with the CAE on all issues relating to internal auditor independence and objectivity;
- the IAF is quality oriented and has in place a quality assurance and improvement programme;
- the AC regularly communicates with the CAE about the performance and possible points of improvement of the CAE and the IAF;
- the IAF reports are actionable; and

- the AC meets periodically with the CAE without the presence of management.”

Assessing satisfaction with the IAF’s work using the above checklist could be regarded as a means to measure the meeting of customer expectations. The IIA (2010a) has developed the following list of questions that should be answered as part of the process of measuring the AC’s satisfaction with the IAF’s work:

- “Does the IAF have a quality assurance and improvement programme in place?
- Has the IAF performed its work in accordance with its charter?
- Do the internal auditors adhere to the IIA’s Code of Ethics?
- Is the IAF’s conduct in accordance with the Standards?
- Does the IAF operate effectively and efficiently?
- Is the staff size adequate?
- Are the existing skill sets appropriate?
- Does the IAF contribute to the improvement of organisational operations and do IAF customers perceive it as adding value?
- Does the IAF have the tools and other resources it needs?
- Does the IAF engage in ongoing internal reviews and analyses regarding supervision, documentation, policies and procedures?
- Does the IAF engage in periodic reviews that include customer surveys, risk assessments, working paper reviews and analysis of performance metrics, and best practice benchmarking?

- Do members of the internal audit team participate in professional development training?
- Have internal audit team members acquired professional designations that demonstrate their competency?
- Has the IAF obtained an independent external quality assessment in the past five years?”

In relation to the above considerations, Van der Nest, Thronhill and De Jager’s (2008:548) study on ACs and accountability in South African public service institutions recommends that the AC should consider other factors as well, namely: the audit process, the internal auditors' mission, the external auditors' expectations, collaboration and communication with other parties, and the IAF’s findings and recommendations.

3.4.2 Executive and senior management

The preceding section discussed the AC's criteria for measuring satisfaction with the IAF’s services. The focus now turns to the executive and senior management’s approach to measuring the IAF’s performance. The literature indicates that executive and senior management in the public sector look to the IAF for assurance that the business activities meet the legislative mandate as stipulated in section 2.3; they expect the IAF to provide them with ideas that will help them drive the organisation's performance in line with the strategy and service delivery model (Turner, [sa]).

Executive and senior management can use responses to the following questions as criteria to measure whether their expectations of the IAF’s work are being met (Turner, [sa]):

- “Are the IAF activities aligned to the organisation’s goals and objectives?”
- Is the role of the IAF periodically reviewed to assess whether it has accommodated changes to business and global events?
- Does the IAF understand the business, its key drivers and the impact of developments on the organisation’s risk profile?
- Does the IAF consult effectively with executive and senior management, staff and other key customers, and does it contribute ideas and give advice on an ongoing basis?
- Does the IAF elevate the focus of its activities to strategic decision making and broader risk management strategies?
- Does the IAF provide broader information on and a deeper insight into emerging governance, risk and control issues in a timely manner?
- Does the IAF deliver what it promises?”

The above-mentioned criteria are in line with the administrative reporting relationships between the IAF and executive and senior management, as recommended in Practice Advisory 1110-1 of the Standard, *Organisational Independence* (IIA, 2009a).

3.4.3 Programme and operating management

Programme and operating management can consider the processes the IAF uses for activities such as planning, conducting their work and reporting as criteria to evaluate whether their expectations of the work of the IAF are being met. Therefore, programme and operating management in the public sector assess the IAF against their proposed operational plan.

It is essential for the programme and operating management to understand the basic phases of the IAF's work. The National Treasury has developed an internal audit framework to serve as a reference source to ensure that IAFs comply with the requirements of the legislative framework (RSA, 2009a:2). Programme and operating management expect the IAF to consult with them and seek their inputs and understanding in order to improve the functioning of their programmes and sections. Sawyer, et al. (2003:1238) therefore suggests that internal auditors should demonstrate their consultative attitudes to programme and operating management by fulfilling a consultative and participative role.

3.4.4 External auditors

In South African public service institutions, the external audit function is discharged by the AGSA in terms of the Public Audit Act 25 of 2004 (RSA, 2004). External auditors measure whether an IAF meets their expectations by determining whether they can rely on the work of the IAF. The standard which external auditors use to determine whether such reliance is possible, ISA 610 *Using the work of internal auditors* (SAICA, 2012/2013), was discussed in section 2.8.4. Gray and Hunton (2011:7), Desai, Roberts and Srivastava (2005:21) and Krishnamoorthy (2002:96) concur with this standard, arguing that the IAF should be evaluated on its objectivity, competence and performance of its work. Mihret and Yismaw (2007:474) also agree with ISA 610, that the quality of an IAF is measured by its ability to produce useful findings and recommendations. In their study on the evaluation of IAFs by external auditors, Desai, et al. (2010:543-544) argue that if one of the three criteria (competence, work performance and objectivity) is not satisfied, external auditors will place no reliance on the work performed by an IAF. Fourie (2007/8:45-46) cautions that internal auditors in South Africa do not possess adequate communication skills to ensure that their responsibilities are performed adequately, which could have an impact on external auditors' reliance on the work of the IAF.

Desai, et al. (2010:545-548) emphasise the need for sustained communication between internal and external auditors. This is confirmed by Yee, Sujun, James and Leung (2008:157), who state that interaction is needed when an IAF has to be assessed by the external auditors in order to determine the degree of reliance that

can be placed on the internal audit findings. In their study of IAF characteristics, Ho and Hutchinson (2010:124-125) suggest that the external auditors' evaluation of the IAF's competence should include determining whether an IAF training programme exists, and an assessment of the internal auditors' experience and educational backgrounds.

In accordance with ISA 610 (SAICA, 2012/2013:ISA 610 para 11), external auditors may use the work of internal auditors, provided that external auditors evaluate that work and perform audit procedures on that work to determine its adequacy for external audit purposes. To ensure that the work of internal audit is adequate, the work should be performed by staff with the proper technical training and proficiency as internal auditors; the work should be properly supervised, reviewed and documented; adequate audit evidence should be obtained to form a reasonable basis for the conclusions drawn by the internal auditors; the conclusions drawn should be appropriate, and the reports by the internal auditors should be consistent with the results of the work performed. Any exceptions or unusual matters disclosed by the internal auditors should be properly resolved (SAICA, 2012/2013:ISA 610 para 12).

Standard 2400, *Communicating Results* (IIA, 2009a) specifies that the IAF should communicate its results promptly. This indicates that the external auditors, as customers of the IAF, should have timeous access to the information in the form of an internal audit report. This interpretation of Standard 2400 is confirmed by the Practice Advisory 2050-1 (IIA, 2009a), which requires the CAE to supply sufficient information to enable external auditors to understand the internal auditors' techniques, methods and terminology, in order to facilitate reliance by external auditors on the work performed by internal auditors.

Protiviti Inc (2009) developed a list of criteria that external auditors could use to evaluate an IAF. Their criteria address and meet the following requirements of ISA 610 (SAICA, 2012/2013):

- whether the IAF reports to an officer of sufficient status to ensure broader coverage and adequate consideration of and action on the findings and recommendations of the IAF;
- whether the IAF has direct access and reports regularly to those charged with governance;
- whether those charged with governance oversee employment decisions relating to the IAF;
- whether the educational level and professional experiences of internal auditors are adequate;
- whether the internal auditors are maintaining their professional certification and continuing education; and
- whether the internal auditors produce high-quality working papers, reports and recommendations.

3.4.5 Operating employees

According to Sawyer, et al. (2003:1224), operating employees are usually below, and report to, the operating management echelons of the organisation. These employees (as discussed in section 2.8.5) are the organisation's workforce. Their job is to assist programme and operating management to improve their efficiency and effectiveness. Operating employees could ask the following questions to measure whether the IAF meets their expectations (Sawyer, et al. 2003:1225):

- Has the audit made a meaningful contribution to the organisation's operating functions?
- Did the internal auditors adopt a participative approach in the audit?

- Were the internal audit recommendations a result of a joint effort by the operating employees and the internal auditors?
- Were the internal auditors careful not to disrupt operations?
- Did the internal auditors show respect for the operating employees' expertise during the audit?

3.5 STRATEGIES TO ENHANCE SERVICE DELIVERY BY THE IAF

The IAF in public service institutions has been entrusted with the responsibility for assessing internal control effectiveness and efficiency, risk management and governance processes (Diamond, 2002:22; RSA, 2005:para 3.2; Van Gansberghe, 2005b: 72). In addition, part of the IAF's role is to understand the mission, vision and strategic objectives of the organisation (Frigo, 2002:23; Basioudis, [sa]; KPMG, 2008; Ernst & Young, 2010). In South Africa the soundness of service delivery, as discussed in section 3.2, is dealt with in the Constitution (RSA, 1996:s 195) – hence the need to recognise that the role of public service institutions is to deliver quality services to citizens (RSA, 2003b).

Public service institutions could implement various strategies to enhance service delivery by IAFs. The CAE could, for example, develop and maintain a QAIP (IIA, 2009a) as discussed in section 3.3.2. This would allow the CAE to evaluate an IAF's conformance with the definition of internal auditing, the IIA's Standards and the Code of Ethics, and to assess its efficiency and effectiveness. Best practice is to require an independent assessment of the IAF at least once every five years (IIA, 2009a). To fulfil this requirement, the IAF is required to conduct both an internal and external assessment of whether it meets the expectations of its customers (IIA, 2009a; Kinsella, 2010:10). According to Marais, Burnaby, Hass, Sadler and Fourie (2009:889), compliance with the Standards and the Code of Ethics is a mandatory requirement for all IAFs, and the criteria for evaluating IAFs should be based on such compliance. Marais (2004:105) further argues that, although general compliance with the Standards is not enforced in South Africa, public sector legislation and

regulations have been developed to compel or strongly encourage public service institutions to use IAFs. Marias's (2004) view endorses the fact that IAFs in public service institutions are instrumental tools for supporting the front office operations by providing advice and recommendations for improving service delivery. Other strategies, such as TQM, performance evaluation and the balanced scorecard, could also be considered, and these are discussed below.

3.5.1 Total Quality Management

Customer satisfaction with the IAF can be evaluated from a TQM perspective. According to the literature, TQM is broadly defined as a customer-focused, quality-centred, fact-based, team-driven process, led by senior management to achieve an organisation's strategic imperative through continuous process improvement (Biech, 1994:1). According to Jeffries, Evans and Reynolds (1992:5), TQM can also be a comprehensive and integrated way of managing any organisation in order to meet the needs of customers and to achieve continuous improvement in every aspect of the organisation's activities. In this context, TQM can be viewed as a quality-centred organisational management approach, based on broad-based stakeholder participation and aimed at achieving long-term success through provision of customer satisfaction and benefits to all stakeholders, including society as a whole. Hence, TQM involves both the organisation as a whole, and its customers. For these reasons, TQM has attracted the attention of executive and senior management in every type of organisation (Oakland, 1992:9).

In response to the abovementioned features of TQM in an organisational environment, the Chartered Institute of Public Finance and Accountancy (1993:50) maintains that, for the IAF to succeed in a customer-focused environment, the IAF needs to have a business plan directly geared to meeting customer needs. The business plan should involve clearly defined processes for: identifying and continuously monitoring customer needs and preferences; ensuring that best practice is achieved in all operational areas; providing reliable evidence that customers are satisfied with the services; ensuring the appointment of trained and experienced staff in the organisation who are responsive to customer needs, and developing a quality assurance system in the organisation that enables the

organisation to measure its own performance in meeting customers' needs (CIPFA, 1993:50).

In a public service institution, TQM can be viewed as a vehicle for transforming service delivery and continuously improving quality as a key component of commitment to customer satisfaction on the part of public service institutions (RSA, 1997). Research on TQM in South African public service institutions appears to be limited to a study conducted in 2005 on the Western Cape Department of Education, to determine a normative model of TQM for service delivery improvement in the public sector (Cornelissen, 2005:64). This study recommends that TQM elements, such as customer focus, teamwork, continuous improvement, education and training, and employee involvement and empowerment, should be linked and used as an evaluation tool in the public service delivery processes (Cornelissen, 2005:64).

Sawyer, et al. (2003:1036) however, maintains that TQM can be applied as a method for measuring the work of the IAF, especially with regard to training and education, benchmarking, and motivation. Sawyer, et al. further recommend using client satisfaction surveys and review checklists, and the empowerment of internal auditors as practices beneficial to the effective operation of the IAF. Although the following TQM elements could be applied to all organisations, they can also be used for self-assessment by public sector IAFs to improve customer satisfaction:

- *Customer focus.* TQM's main focus is on customer satisfaction and continuous improvement (McIntosh, 1992:8). This implies that IAF customers are in the right position to help define the quality and processes associated with the IAF's products and services (Goetsch & Davis, 1994:14-18).
- *Teamwork.* Oakland (2003:288-289) recognises that teamwork can provide an environment in which people can grow and use resources effectively and efficiently to make continuous improvements. Public sector internal auditors could thus take a more participative role in the organisation, which could demonstrate to its customers that they can improve the organisation, instead of telling them what

to do (pointing out defects and deficiencies from “outside” the organisation) (Hawkes & Adams, 1994:16).

- *Continuous improvement.* Hodgkinson and Kelly (2007:85) characterise continuous improvement as a culture of evolution towards excellence, the dissemination of good practices, and the creation of a culture in which individuals become managers of their own work, sharing and participating in interdepartmental tasks and teams and developing effective communication. By contrast, Elliot, Dawson and Edward (2007:563) argue that because the work of an IAF is not always well received, and is sometimes not well performed, and their findings are not always particularly significant, the IAF needs to be reviewed in order to achieve continuous improvement. Setijono and Dahlgard (2008:310) maintain that the IAF can improve the quality of its work by assessing whether its recommendations are valued.
- *Education and training.* These encourage the IAF to focus on high-quality work and to become critical thinkers (Schleifer & Greenawalt, 1996:5). Education and training incorporate factors such as communication, interpersonal relations, team skills and team building (Curry & Kadasah, 2002:209).
- *Employee involvement and empowerment.* This requires everyone in the organisation, from top management down to operating employees, to participate in organisational activities (McIntosh, 1992:5), to take responsibility for the business processes they are directly involved with, and to deliver quality services to the customers by doing what is considered necessary, when it is necessary (Hawkes & Adams, 1994:17).

Stačiokas and Rupšys (2005:23) reiterate that, to ensure that an IAF adds value to the organisation an evaluation of that IAF should include a consideration of whether their audit plan makes provisions for organisational risk, assessment of organisational controls, and other aspects of governance processes. Thus, the TQM evaluation tool could assist the IAF to: develop a mission and a vision statement in line with the organisation’s objectives; establish specific IAF objectives; establish and

implement performance measures for various stages of the internal audit process, such as planning and scoping, fieldwork, and reporting; identify and involve the IAF's customers; develop and implement internal audit customer satisfaction surveys and other feedback mechanisms; identify a group of peer institutions and periodically benchmark with them in order to evaluate progress; and emphasise periodic training and education of internal audit staff (Ridley & Chambers, 1998:148). According to Rezaee (1996:30), TQM will help to enhance quality performance standards and expectations in any organisation, and facilitate communication and sharing between and within organisations regarding key quality and operational performance requirements.

To put the TQM approach in perspective and to place it in the context of the IAF, Rezaee (1996:32) lists the following characteristics of TQM that are relevant and applicable to the IAF. Thus, TQM is supporting the following:

- continuously improving the quality of the IAF;
- understanding the organisation's needs and satisfying its internal audit service needs;
- encouraging compliance with professional standards, managerial policies and procedures, professional ethical standards and other applicable laws and regulations by all personnel in the IAF;
- promoting sound management by being objective in performance evaluation, promotion and advancement activities;
- developing strategic planning and implementation techniques to achieve the short and long-term goals of the IAF regarding quality;
- adopting a TQM philosophy in performing the day-to-day activities of the IAF; and

- emphasising teamwork, participation, employee training, development programmes and continuing professional education.

Organisations that use TQM benefit from: better control over processes, resulting in consistency from design through to delivery; reduction in production time; reduction in delivery time; decreased setup time; increased measurement of performance, and improvement in customer perceptions of the organisation (Bardoel & Sohal, 1999:269).

3.5.2 Performance evaluation

To understand performance evaluation from a public service perspective, it is necessary to define the term *evaluation*. Evaluation is a time bound and periodic exercise that seeks to guide decision-making by staff, managers and policy makers by providing credible and useful information in answer to specific questions (RSA, 2007c:2). An evaluation can also be used to extract cross-cutting lessons from operating unit experiences and to determine the need for modifications to strategic frameworks (RSA, 2007c:2.) The National Treasury in South Africa is mandated by sections 215 and 216 of the Constitution (RSA, 1996:ss 215-216) (and additionally by legislation such as the PFMA and the MFMA), to engage in government-wide monitoring and evaluation to ensure that information on inputs, activities, outputs, and outcomes support planning, budgeting, implementation, and accountability reporting. These actions are intended to promote economy, efficiency, effectiveness, and equity, in addition to achieving transparency and expenditure control (RSA, 2007c:17-18).

Performance evaluation of the IAF in South African public service institutions has its legal basis in the constitutional mandate laid out in section 216 of the Constitution. Section 216 provides the basis for the National Treasury to prescribe the measurement criteria in order to ensure transparency and expenditure control over all spheres of government. Measures available to the National Treasury in pursuing this goal include introducing generally accepted accounting practices, uniform expenditure classification and uniform treasury norms and standards (RSA, 1996:s 216). The IIA specifies that the IAF should delineate the basic principles representing

the practice of internal auditing, because it should provide a framework for performing and promoting a broad range of value-added internal audit activities, establish the basis for the evaluation of internal audit performance, and foster improved organisational processes and operations (IIA, 2009a).

In response to the above requirements, the South African National Treasury has developed a framework that serves as a minimum guideline for the development and operation of the IAF in the public sector (RSA, 2009a:3). To put the measurement criteria in perspective, Cosmas (1996:113) suggests that the evaluation criteria should reflect the following:

- *effectiveness*: actual output compared to expected output;
- *efficiency*: planned resource consumption compared to resources actually used;
- *quality*: degree of customer satisfaction;
- *productivity*: output compared to input;
- *quality of life*: degree of job satisfaction; and
- *innovation*: response to change.

In the context of measuring internal audit performance, Ridley and Chambers (1998:217) add that the IAF, once established, should take into account the public service institution's operating plans and budgets when setting its targets, to the extent that these plans contain measurement criteria with target dates for accomplishment.

3.5.3 The balanced scorecard

The PFMA could be viewed as an outcomes-based piece of legislation because it emphasises accountability, efficiency, effectiveness, and the most economical

utilisation of resources in achieving results (Fourie, 2007:735). This implies that public service institutions should find that when the balanced scorecard is chosen as an evaluation tool to measure customer satisfaction, this fulfils the requirements of the legislative frameworks.

According to Kaplan and Norton (1996a:24), the aim of using the balanced scorecard in evaluating performance is to provide executive and senior management with a comprehensive framework for translating an organisation's vision and strategy into a coherent set of performance measures. Kaplan and Norton (1996a:24) also suggest that the concepts and measures on the balanced scorecard should be used to articulate and communicate the organisation's strategy, to help align individual, organisational and cross-departmental initiatives to achieve a common goal, and to enhance strategic feedback and learning.

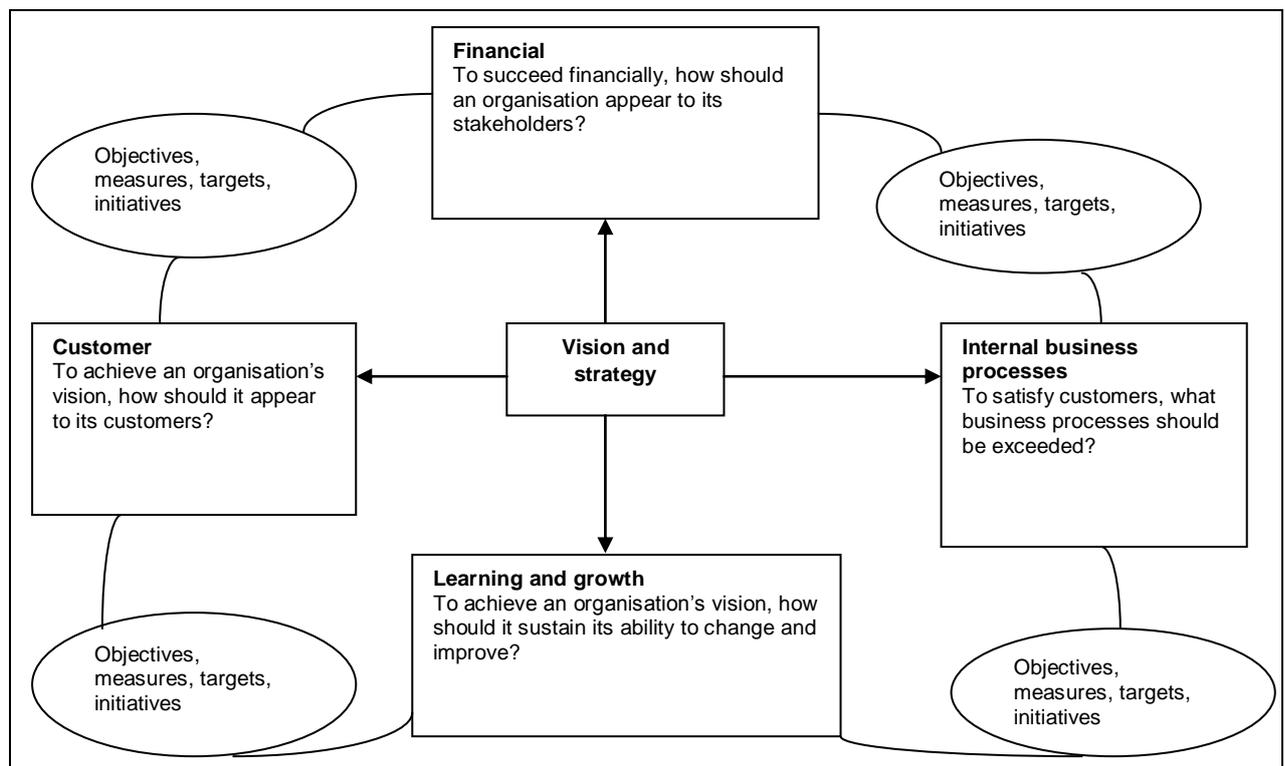
Ziegenfuss (2000:13) regards the balanced scorecard as a performance measure that maintains a quality relationship between the AC and the executive and senior management. According to Ziegenfuss (2000:13-14), the CAE should implement the following four processes in order to build a balanced scorecard for the IAF:

- *translating the vision*: building consensus around the IAF's vision and strategy;
- *communicating and linking*: allowing interested parties to communicate their strategies up and down the organisation and linking them to departmental and individual goals;
- *business planning*: enabling IAFs to integrate their business and financial plans; and
- *feedback and learning*: enabling IAFs to evaluate their strategies in terms of recent performance.

Figure 3.1 illustrates how the fundamental concepts of the balanced scorecard are used to derive specific objectives and measures from an overall corporate vision and

strategy. The process starts with the formulation of the vision and strategy. These fundamental concepts are linked to each other in a reciprocal process, which can be associated with the role of the IAF, as the IAF helps an organisation to meet its objectives by introducing “a systematic and disciplined approach in order to evaluate and improve the effectiveness of risk management, control and the governance processes” (IIA, 2009a).

Figure 3.1: Deriving objectives and measures from the corporate vision and strategy



Source: Adapted from Kaplan and Norton (1996b:76)

In terms of the fundamental concepts of the balanced scorecard discussed above, table 3.1 suggests performance measures for an IAF.

Table 3.1: Linking the fundamental concepts and measures of the balanced scorecard to IAF performance criteria

Balanced scorecard concepts	Balanced scorecard measures
<p>Financial perspective</p> <p>Possible performance criteria:</p> <ul style="list-style-type: none"> • CAE reporting relationships – functional • CAE meets privately with AC • Role of IAF as viewed by the AC • Total costs per internal auditor • Salaries and travel as a percentage of total costs • Training and related costs as a percentage of total costs 	<p>To be financially justifiable, how should the IAF appear to its customers?</p>
<p>Customer perspective</p> <p>Possible performance criteria:</p> <ul style="list-style-type: none"> • Customer satisfaction survey results • Role of IAF as viewed by the AC • Management expectations of IAF • Number of management requests • Number of complaints about audit 	<p>To achieve the IAF’s vision, how should it appear to its customers?</p>
<p>Learning and growth perspective</p> <p>Possible performance criteria:</p> <ul style="list-style-type: none"> • Internal auditors’ education levels • IAF staff turnover rate • Percentage of certified internal audit staff • Average years of internal audit experience • Training hours per internal auditor • Internal auditor by training type • Internal auditor training as a percentage of total training 	<p>To achieve the IAF’s vision, how should it sustain its ability to change and improve?</p>

Balanced scorecard concepts	Balanced scorecard measures
<p>Internal business processes perspective</p> <p>Possible performance criteria:</p> <ul style="list-style-type: none"> • Types of internal audit reviews • External and internal audit quality assurance review • Actual hours versus budgeted hours • Completed versus planned internal audits • Number of major audit findings and recommendations • Number of process improvements • Completed internal audits per internal auditor • Distribution of internal audit comments by type • Percentage of internal audit recommendations implemented • Importance of internal audit issues • Amount of audit savings • Average response time to management requests • Days from end of field work to report issuance • Target completion dates on management action plans 	<p>To satisfy IAF customers, what business processes should it excel at?</p>

Source: Adapted from Ziegenfuss (2000:15)

The fundamental concepts and measures of the balanced scorecard indicate that it can serve as a useful measurement tool with which the IAFs in the public sector can enhance their services to customers.

3.6 MONITORING PERFORMANCE EVALUATION IN THE PUBLIC SECTOR

Section 85(2)(c) of the Constitution gives the Department of the Presidency a legislative mandate to exercise authority with other members of the Cabinet by coordinating the functions of state departments and administration (RSA, 1996:s 85). Furthermore, the monitoring of performance evaluation in public service institutions is aligned to the service delivery objectives (Hall & Rimmer, 1994:453). This implies

that monitoring of performance evaluation in public service institutions may be undertaken at various levels of government, in order to improve accountability in the public sector (Propper & Wilson, 2003:253).

According to Boland and Fowler (2000:419), the monitoring of performance evaluation in public service institutions usually considers economy, efficiency, and effectiveness. What is thus being measured is the progress towards achieving an objective (Kusak & Rist, 2001:16). Performance evaluation in public service institutions relates to Treasury Regulation 5 (RSA, 2002:para 5.2.2(d)), which requires the strategic plan to include measurable objectives, expected outcomes, programme outputs, and indicators and targets of the organisation's programmes. The aim of the performance evaluation framework in public service institutions is to encourage public service institutions to regularly evaluate their programmes, provide guidance on the approach to be adopted when conducting evaluations, and provide for the publication of the results of evaluations (RSA, 2009c:16).

With reference to Treasury Regulation 5, the National Treasury (RSA, 2002:15) mandates that, in order to facilitate performance monitoring, evaluation and corrective action, AOs should establish procedures for quarterly reporting to the executive authority. In addition, and to qualify the content of this Regulation 5, the Batho Pele principle on information recommends that each department within a public service institution should develop monitoring and evaluation systems that will enable the department to monitor progress on the issues of service delivery (RSA, 2009b).

The National Treasury (RSA, 2007b:1) has developed a framework for managing programme performance information, which aims to: clarify definitions and standards for performance in support of regular audits of information; improve integrated structures, systems and processes required to manage performance information, and to define the roles and responsibilities for managing performance information and promoting accountability by providing parliament, provincial legislatures, municipal councils and the public with timely, accessible and accurate performance information. This is in terms of the mandate held by the Minister in the Presidency for performance management, monitoring and evaluation, which aims to develop an

evaluation framework and other guidelines and support structures to help with the implementation of evaluation systems across the public sector (RSA, 2009c:16).

In public service institutions the IAF appears to hold great potential to promote accountability and improve government performance (Md Ali, Gloeck, Ali, Ahmi & Sahdan, 2007:28). However, Halachmi (2002:65) cautions that anything that needs to be measured should be understandable, controllable, awardable, sustainable and recognisable. It is therefore recommended that, in order to realise their service delivery goals, South African public service institutions should focus their performance evaluation programmes on the activities of outputs, outcomes and on the accountability of public service institutions.

Monitoring performance evaluation could serve as a possible means of closing the gaps between the IAF's strategic plans and its short-term goals (Ziegenfuss, 2000:17). Performance measures should not be selected and evaluated individually, but should instead be tied to the IAF's mission and goals; and the IAF's performance evaluation should be monitored from financial, customer, learning and growth, and internal business processes perspectives. Hence, to be active in the monitoring of performance evaluation in the public service institutions, Ridley (sa)(b) recommends that the IAF should create a vision and a plan to achieve its vision, employ and train competent staff, report its findings timeously, and continuously measure whether its services satisfy its customers.

According to Ridley and Chambers (1998:12), the IIA's well-established benchmarking service, the Global Auditing Information Network (GAIN), promotes success in IAFs. It is used for best practice benchmarking to establish what, in customers' eyes, makes the difference between an ordinary and an excellent supplier; for setting standards according to best practice; for identifying challenges experienced in applying standards by those renowned for best practice; and for obtaining experience-based information on how to meet, or even exceed, new standards .

In order to gauge their effectiveness, internal auditors need feedback from their customers (Cosmas, 1996:108). The method of obtaining such feedback, as well as

the form it takes, varies. Internal auditors may receive an occasional written or verbal communication from customers following outstanding performance, but without a system of monitoring overall customer satisfaction, the internal auditors may be unaware of any dissatisfaction.

The Policy Framework on Monitoring and Evaluation Systems (RSA, 2007c:14), which is applicable to IAFs and their customers, defines the roles and responsibilities of legislators, councillors, executive authorities, AOs, programme managers, line managers and the officials of Monitoring and Evaluation Units. Table 3.2 provides a summary of the framework and its application to IAF customers.

Table 3.2: IAF customers and their roles and responsibilities in terms of the Policy Framework on Monitoring and Evaluation Systems

IAF CUSTOMERS	ROLES AND RESPONSIBILITIES
Legislators and councillors	<ul style="list-style-type: none"> • As representatives elected by voters, government and all its structures, including public service institutions, are accountable to legislators and councillors. • Legislators and councillors must exercise consistent and informed oversight of the bodies accountable to them, using insight gained from monitoring and evaluation systems.
Executive authorities (e.g. ministers)	<ul style="list-style-type: none"> • Executive authorities should use monitoring and evaluation systems' findings in the political oversight of institutional performance and to ensure that the desired outcomes and impacts are achieved. • They should also provide the bodies to which they are accountable with detailed regular reports on the institutions under their control.
AOs	<ul style="list-style-type: none"> • AOs are accountable for the frequency and quality of information pertaining to monitoring and evaluation systems and the integrity of the systems responsible for its production and utilisation.

IAF CUSTOMERS	ROLES AND RESPONSIBILITIES
Programme managers, line managers and officials (e.g. individuals whom the AOs task with the responsibility of managing the division in the public service institution)	<ul style="list-style-type: none"> • Programme managers, line managers and officials should establish and maintain monitoring and evaluation systems, especially collecting, capturing, verifying and using data and information. • IAFs assist the programme managers, line managers and officials to achieve the objectives of the public service institution by maintaining effective and efficient controls, providing assurance and making recommendations for improvement.
Designated monitoring and evaluation units	<ul style="list-style-type: none"> • Designated monitoring and evaluation units should ensure the implementation of monitoring and evaluation strategies by providing expertise and support, and by acting as a service hub for related initiatives.

Source: Adapted from the Policy Framework on Monitoring and Evaluation Systems (RSA, Department of the Presidency 2007c:14)

Regarding the roles and responsibilities of internal auditors, the Department of the Presidency (RSA, 2009c:16) indicates that the IAF should be more oriented to, and involved in, the monitoring and evaluation process and compliance with same, rather than in the outcome of the evaluation.

Monitoring performance evaluation in public service institutions could increase accountability for service delivery, the institutions where executive and senior managers, operating managers and operating employees are functioning (Mackay, 1998:x). According to Jackson (1993:14), it is part of management's practices to ensure that systems are in place to realise the organisation's strategic objectives. However, such strategies could influence an individual's responsibilities from top down and bottom up in the organisation (Mackay, 1998:8). Since the IAF focuses on the efficiency and effectiveness of the organisation's controls, risks and governance processes, monitoring performance evaluation could be used to measure the IAF's expertise, and how it meets customers' expectations in public service institutions (Frigo, 2002:31).

3.7 CONCLUSIONS

The measurement and evaluation of the public sector IAF by its customers can strengthen the relationship between internal auditor and customer within an organisation. Improving these relationships can only be beneficial, helping achieve government's promise to render quality service delivery to the public. The achievement of this goal is in line with the public sector service delivery mandate derived from the Constitution, the Batho Pele initiative, and the Policy Framework on Monitoring and Evaluation Systems.

There is a paucity of literature in South Africa on the evaluation of the IAF by customers such as the AC, executive and senior management, programme and operating management, external auditors and operating employees in terms of service delivery. This may be because service delivery, in the context of the South African public sector, is considered only at the level of front office operation of government, where there is an actual interface between the government and the citizens. As the IAF has mandatory obligations stipulated in the PFMA and the MFMA, it is one of government's instruments for improving the efficacy of the systems, supporting government processes, and making it an important part of the back office operations which make service delivery possible.

In South African public service institutions, the IAF *inter alia* assists the AC, executive and senior management, programme and operating management, external auditors and operating employees to meet their objectives. Hence, as part of its roles and responsibilities, the IAF is expected to advise its customers on managing service delivery elements. Such customer expectations are an integral part of the Standards, detailing the roles of the IAF, which guide internal auditors and organisations. Since the IAF operates within the prescripts of a professional perspective, it is expected to commit itself to meeting customer expectations, based on the Standards representing professional best practices. It is expected of the CAE to develop and maintain a QAIP covering all aspects of the IAF.

Customers' expectations of the IAF depend on their specific needs. For example, ACs regard IAFs as a vital source of information, expect the IAF to be a well-

functioning division, with high standing in the organisation, operating in accordance with the Standards and its charter. Meeting the expectations of the IAF's customers would involve the development of a unique measurement tool, which would afford the AC, executive and senior management, programme and operating management, external auditors and operating employees the opportunity to evaluate the work of the IAF against specific benchmarks reflecting the customers' needs.

Strategies to enhance service delivery, such as TQM, performance evaluations and the balanced scorecard, could also be used to measure customer satisfaction. It is for this reason that TQM concepts are deemed crucial. The TQM concepts are accommodating, adaptable, and applicable in all business organisations because they centre on customer satisfaction and continuous improvement. TQM, performance evaluations, and the balanced scorecard could be used effectively by the IAFs in public service institutions to measure customer satisfaction. A monitoring performance evaluation strategy could also be used to measure performance based on the inputs, outputs and outcomes. The balanced scorecard could further be implemented as a supportive strategy for enhancing the meeting of customer expectations. The balanced scorecard's applicability to IAFs in public service institutions lies in its ability to provide IAFs with a method for understanding their customers and prioritising their expectations in line with the organisation's strategies.

The literature endorsed the view that the IAF in the public sector is indeed an instrument or tool of the AC, executive and senior management, programme and operating management, external auditors and operating employees. With this in mind, monitoring performance evaluation could be a powerful tool for enabling IAF customers to evaluate the IAF against their expectations. Monitoring performance evaluation therefore helps the IAF to know whether it has delivered as expected.

The next chapter will explain the application of the research methodology in order to achieve the research aim formulated in chapter 1, namely the generation of an in-depth understanding of key IAF customers' perceptions of the work performed by the IAF in the National Treasury.

CHAPTER 4

RESEARCH DESIGN AND METHODOLOGY

4.1 INTRODUCTION

The discussions in chapters 2 and 3 were based on theoretical premises in order to place the study in context. Chapter 4 provides an overview of the research design and methodology, and a justification for the descriptive nature of the study. It details the design and pre-use testing of the research instrument, and describes the role of the researcher. The procedures used in the collection, analysis, and coding of data are also described, as are the ethical procedures followed, and the measures undertaken to ensure the trustworthiness of the results.

Research designs differ in a number of ways. According to Mouton (2001:55), “a research design is a plan or a blueprint of how the researcher intends conducting the research”. This study uses a qualitative research design in an attempt to achieve the research objectives outlined in chapter 1. According to Lodge-Peters (1988:7), qualitative research is primarily used to uncover patterns of social behaviour. Patton (2002:39) maintains that the ability of a qualitative design to provide a naturalistic impression of a phenomenon is dependent on the research being conducted in real-world settings, and on the researcher not attempting to manipulate the phenomenon being measured.

Lee, Mishna and Brennenstuhl (2010:685) argue that a case study is a more appropriate research method for qualitative research than are the alternatives, the highly structured quantitative research approaches. Quantitative research risks guiding respondents to a predetermined conclusion by the nature of the questions’ style and content. Whereas quantitative research feeds into statistically dominated analyses and conclusions (which are easily processed through computer aided statistical analyses), qualitative research closely examines the research subject in a real-world context – which can sometimes generate “messy” data that take extended hours of researcher effort to process. Despite the prospect of having to “clean up

messy data”, the researcher chose to use a case study approach to identify the perceptions held by key customers of the work performed by the internal audit function (IAF) in the Department of the National Treasury (National Treasury).

The researcher collected all data for this study (personally conducted all the interviews, and thereafter coded and analysed the data). The participants were drawn from the following categories of participants: the audit committee (AC), executive and senior managers, programme and operating managers, and the external auditors.

4.2 RESEARCH STRUCTURE

Section 4.2 describes the research structure of the study. It describes the qualitative design, the decisions resulting in the use of a case study as the research method, and the descriptive nature of the study.

4.2.1 Research design

The term “qualitative research design” was introduced in section 4.1 with an indication of its applicability to the study. Qualitative research has the following distinct characteristics (Gay, Mills & Airasian, 2006:411):

- The focus of qualitative research is on individual, person-to-person interactions.
- A researcher should spend a great deal of time with the participants and become immersed in the research setting.
- Qualitative researchers should avoid making premature decisions or assumptions about the study and should remain open to alternative explanations.
- Qualitative data are analysed inductively and the researcher does not have to impose an organising structure or make assumptions about the relationships between the data before collecting evidence.

- Qualitative research reports include clear and detailed descriptions of the study and include the voices of the participants.
- Researchers using qualitative research methods should be diligent in fulfilling their responsibility to obtain informed consent from participants and to treat them ethically.

A qualitative research design was chosen for this study in order to facilitate the development of a deeper understanding of the perceptions held by the IAF's previously identified key customers of the work performed by the IAF in the National Treasury. This is in line with the characterisation of qualitative research by Lodge-Peters (1988:1-7) as "an attempt to uncover the patterns underlying social behaviour, which occur in groups that have been organised over a reasonable length of time." Cobb and Forbes (2002:197) describe qualitative research as "the study of human behaviour that relies on the analysis of data to create an interpretation of the meaning of that behaviour from the perspective of the participants in their own social context." Cobb and Forbes (2002:197) further argue that qualitative research has its roots in social science and is more concerned with understanding why people manifest certain behaviours, attitudes, beliefs and fears than it is with formulating measures to adjust or change those behaviours, etc. In qualitative research therefore, the researcher is engaged in the lives of the people being studied, in order to hear their voices, grasp their points of view, and to understand their meanings; this gives real meaning to the phenomenon being studied (Taylor, 2000:79). In this instance, the key customers' perceptions of the work performed by the National Treasury IAF were acquired through interviews conducted personally by the researcher, thus directly involving him in the process.

4.2.2 Research technique or method

This research employs a case study research technique. The case study method has long been most commonly used to conduct research for use in review and formulation of public policy, and in business and public administration (Yin, 2003a:xi). According to Schell (1992:14), research based on the observation of a

phenomenon in a contextually rich environment is in great demand, especially in the field of management sciences. Thus, in this study the researcher has made great efforts to consider the context in which identified key customers of the IAF in the National Treasury function, by obtaining their views through individual and personally conducted, in-depth discussions.

Yin (1994:2) defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon in its real-life context, most appropriately and effectively used when the boundaries between phenomenon and context are not clearly evident, and when multiple sources of evidence exist. Since the aim of this study is to obtain an in-depth understanding of identified key customers' perceptions of the work performed by the IAF in the National Treasury, perceptions of a particular function in a real-life context were investigated. The choice of the National Treasury was deemed appropriate, because the department is seen as a custodian of the policy frameworks that guide the functioning of the IAF in the South African public sector (RSA, 2009a:1).

The decision to use the case study method is in line with Yin's (1994:3) view that a case study should be selected in the same way as the topic of an experiment, and should reflect the characteristics and problems identified in the underlying theoretical propositions and conceptual frameworks. Schell (1992:3) agrees with this view, and further indicates that, at the simplest level, the case study should provide descriptive accounts of one or more cases. Wellington (2000:91) explains this view by stating that case study researchers should be able to interpret situations rapidly and in depth in order to revise interpretations where necessary. Neale, Thapa and Boyce (2006:4) and Vissak (2010:371) contend that use of a case study is appropriate when there is a unique or interesting story to tell, and a case study can offer a more complete picture of what happens in the story's wider context.

According to Babbie (2010:309), a case study focuses one's attention on a single instance of some social phenomenon (such as a village, a family or a juvenile gang), to obtain a description or in-depth explanation which can yield explanatory insights. MacPherson, Brooker and Ainsworth (2000:52) contend that a case study is designed to investigate the rich complexities of social phenomena and the social

environments in which people are situated. According to Creswell, Hanson, Plano Clark and Morales (2007:245), a case study is a single unit in which the focus is on an issue and the selected case could provide insight into the issue. Creswell, et al. (2007:245) suggest that the case study approach requires in-depth data collection involving multiple sources of information, such as observation, interviews, audio-visual material, and documents, which describe a case and the case-based themes. It is in this context that Yin (2003b:13) argues that much case study research builds on an in-depth contextual understanding of the case and relies on multiple data sources, instead of individual stories which occur in narrative research.

Given the above descriptions, a case study approach would be applicable in, and appropriate to, various disciplines as a research method for understanding a particular phenomenon or set of phenomena within a unit, such as a department in the government. For the purposes of this study, identified key customers of the IAF in the National Treasury were investigated to gain an understanding of the phenomenon, namely their perceptions of the work performed by the IAF.

4.2.3 Descriptive nature of the study

To date, no empirical study has been conducted in the South African public sector to determine and generate an in-depth understanding of customers' perceptions of the work performed by the IAF in the National Treasury.

According to Rubin and Babbie (in Thyer, 2010:120), descriptive research is an attempt to describe the characteristics of a sample and of the relationships between phenomena, situations and events observed by the researcher. Many qualitative studies are primarily descriptive in nature (Babbie, 2010:94). The descriptive nature of this study focuses on the perceptions of identified key customers of the IAF in the National Treasury and describes situations and events on the basis of deliberations during one-on-one personal interviews. The following questions were posed during the one-on-one interviews with the participants (key IAF customers):

- What are your experiences of the IAF?

- What are your expectations of the IAF?
- What do you perceive as hindering factors preventing the IAF from meeting your expectations?
- What are the contributory factors that ensure your expectations are met?
- Do you have suggestions about what you would like the IAF to do to meet your expectations?

The aforementioned interview questions were used to direct the researcher's efforts to understand the perceptions of the AC, executive and senior managers, programme and operating managers and external auditors participants in relation to the work performed by the IAF in the National Treasury.

4.3 RESEARCH METHODOLOGY

According to Babbie (2010:4), methodology refers to the science of finding out the procedures for scientific investigation. Research methodology comprises three major elements, namely the research instrument, data, and analysis (Hofstee, 2006:115-117). The subsections below deal with the research instrument, pretesting of the research instrument, and the process of data collection, analysis and coding.

4.3.1 Research instrument

Data collection in a qualitative descriptive study is typically directed towards discovering the "who", "what" and "where" of events, or the experiences of the participants (Sandelowski, 2000:338). Qualitative research involves the systematic collection, organisation and interpretation of textual material derived from talk or observation (Malterud, 2001:483). According to De Vos, Strydom, Fouché and Delport (2005:287), conducting an interview is one of the most frequently employed modes of data or information collection in qualitative research. Aira, Kauhanen, Larivaara and Rautio (2003:271) indicate that the use of semi-structured interviews

is intended to allow new viewpoints to freely emerge. Lambert and Loiseau (2008:229) agree that such individual interviews as a data collection method could contribute to in-depth understanding, but caution that the assumption that words are accurate indicators of participants' inner experiences may be questionable. In this study, the subjectivity of participants in answering the interview questions was inherent, because the participants answered purely on the basis of their own experiences regarding the work performed by the IAF.

In this study, semi-structured interviews were used to collect data from IAF's key customers in the National Treasury. Interviews were chosen because they are suitable for use with a small sample and for use when the researcher is looking for specific information (Rubin & Rubin, 1995:5). De Vos, et al. (2005:292) citing May (Morse, 1991) identify semi-structured interviews as those organised around areas of particular interest, allowing considerable flexibility in scope and depth. De Vos, et al. (2005:296) further maintain that most researchers use semi-structured interviews to gain a detailed picture of a participant's beliefs about, or perceptions of, a particular phenomenon. To conduct a semi-structured interview, a researcher needs a set of predetermined questions in an interview guide, but should only allow the interview to be guided by, rather than dictated, by the interview guide (De Vos, et al. 2005:296). During the data collection process, De Vos, et al. (2005:298) recommend that, if possible, permission should be obtained from the participants to have the interview digitally recorded. It is also recommended that the field notes taken during an interview should be used as a written account of what the researcher hears, sees, experiences, and thinks about during the course of the interview.

Swann and Pratt (2003:117) identify the principles of collecting sufficient data when conducting case study research. The researcher should be able to:

- explore significant features of the case;
- create plausible interpretations of what is found;
- test the trustworthiness of these interpretations;

- construct a worthwhile argument or a story;
- relate the argument or story to any relevant research in the literature;
- convey the argument or story convincingly; and
- provide an audit trail whereby other researchers may validate or challenge the findings or construct alternative arguments from the same research data.

In accordance with these principles, the researcher used an interview guide to ensure that the same basic line of inquiry was followed with each person being interviewed. The interview guide, as suggested by Patton (2002:343), provided the topic or subject area within which the researcher was free to explore, probe and ask questions, enabling him to elucidate and illuminate the purpose of the research. The researcher was able to build a conversation on the predetermined questions, keep the interactions alive, and allow the individual perspectives and experiences to emerge (Patton, 2002:343).

The interview guide was e-mailed to participants before the interviews were conducted. The participants found it useful to prepare their views and opinions prior to the interviews. Information contained in the interview guide included the following:

- *The aim of the study.* To generate an in-depth understanding of key IAF customers' perceptions of the work performed by the IAF in the National Treasury.
- *Objectives of the study.* The objectives of the study, used to build the probing questions during the interview, were as follows:
 - objective 1: to identify the role of the IAF in the public sector in relation to its customers;
 - objective 2: to discuss strategies to meet the expectations of IAF customers;
 - objective 3: to determine the experiences of the identified key IAF customers of the work performed by the IAF in the National Treasury;

- objective 4: to determine the expectations of the identified key IAF customers of the IAF in the National Treasury; and
 - objective 5: to ascertain what the identified key IAF customers perceive to be the significant challenges facing the IAF in the National Treasury.
- *Interview questions.* See details in section 4.2.3.

The researcher was willing to interview participants at locations of their choice. For example, some of the interviews took place at the offices of the participants, while others were conducted in meeting rooms or cafeterias. During the process, the IAF of the National Treasury was fully supportive of the logistical arrangements for these meetings with the participants.

4.3.2 Pretesting the research instrument

According to Burke and Miller (2001:2), testing the semi-structured interview questions before the interviews are conducted can allow researchers to uncover uncertainties which could be clarified. For this purpose, the researcher tested the interview guiding questions with three colleagues, who had been involved with IAF activities in public sector institutions during the preceding year. The researcher deemed these colleagues to be knowledgeable of the roles and functioning of ACs, the governance principles applicable to the public sector, and possessed of sufficient expertise in the field of internal and external audit to provide useful insights. They were each given the set of interview guiding questions to check whether they were able to comprehend the meaning of the questions posed, and whether these questions covered the objectives of the study. Based on the feedback received from these colleagues, the interview guiding questions were revised.

4.3.3 Data collection

Regarding the descriptive nature of a study Gay, et al. (2006:122) define data as the pieces of information that the researcher collects and uses to examine the research topic. To understand the importance of data in a qualitative study, Hofstee (2006:117) indicates that the data should convince the readers about the quantity

and quality of information used to draw the research conclusions. Data in a qualitative study are encountered through concepts, theories, personal interviews, focus groups and observation (Hancock, 1998).

4.3.3.1 Selection of participants

Sampling, in the context of a qualitative study, is the process of selecting a small number of individuals for a study, in such a way that the individuals chosen will be able to help the researcher understand the phenomenon under investigation (Gay, et al. 2006:113).

In this study, key customers of the IAF from the National Treasury organisational structure were selected to participate in the research. In an attempt to achieve this objective, a combination of purposive and snowball sampling was considered to select the participants. The rationale for using both types of non-probability sampling was to obtain rich data, so that the perceptions of IAF key customers can be understood in the context of how they feel about the work performed by the IAF in the National Treasury. Non-probability sampling refers to any procedure in which elements have an unequal chance of being included (Dane, 2011:121). Hence, the IAF's key customers within the National Treasury who did not have significant dealings with the IAF did not have an equal chance of being selected.

- **Purposive sampling**

Purposive sampling is a technique, often used in qualitative research, in which the number of people interviewed is less important than the criteria used to select the participants (Wilmot, 2005:3). Dane (2011:122) explains purposive sampling as a set of procedures directed towards obtaining a certain type of element. In purposive sampling, the researcher believes that the phenomenon being researched and the characteristics of the individuals selected to participate in the study are meaningfully linked, and that they could therefore provide appropriately rich information. It is appropriate to select a sample on the basis of knowledge of a population, its elements and the purpose of the study when the knowledge which is relevant to the purpose of the study is unequally distributed among the elements of the population

and thus is unlikely to be fully uncovered by a random sampling method (Babbie, 2010:193).

Typically, purposive sampling is a type of sampling that selects specific individuals or groups according to whether they match the sampling criteria of the study (Draper, 2009:28). In this study, purposive sampling was used to select participants who were able to provide information on the perceptions of key IAF customers.

- **Snowball sampling**

The snowball sampling method provides flexible sampling criteria which allow the researcher to interview additional participants, not identified at the outset of the study, who are subsequently discovered to be knowledgeable about the subject under investigation. Babbie (2010:193) and De Vos, et al. (2005:203) further suggest that researchers should use snowball sampling to collect data from the participants initially identified, and then to ask those participants to assist the researcher to locate other participants who may also have knowledge of the subject in question.

4.3.3.2 Participants targeted

In determining the sample size Gay, et al. (2006:115) indicate that there are no hard-and-fast rules about the correct number of participants in a qualitative study. The following criteria were used when selecting who should initially participate in this case study:

- *AC*: the chairperson and any member mandated to oversee the work of the IAF in the National Treasury
- *Executive and senior managers*: any individual with responsibility for ensuring that the management in the National Treasury is functioning in the context of the PFMA

- *Programme and operating managers*: any individual with a delegated responsibility from executive and senior managers in the National Treasury
- *External auditors*: employees of the Auditor General South Africa (AGSA) directly involved in the audit in the National Treasury and mandated to perform the attest function in relation to public funds

As explained in the preceding sections, this study investigates the key customers' perceptions of the work performed by the IAF in National Treasury. The customers and key customers of the IAF in the public sector were identified in chapter 2. Key customers were selected to participate in the study because they are able to exercise decision-making powers on the implementation of National Treasury IAF's recommendations (see definition of key IAF customers in chapter 1, section 1.8). Operating employees, discussed in chapter 3, section 3.4.5 as customers of the IAF, do not meet the aforementioned definition of key customers and were thus not included in the study.

Regarding the sampling rationale detailed above, Patton (2002:246) indicates that sample size is, like any other aspect of research, subject to peer review, consensual validation, and judgement. It is therefore crucial that the sampling procedures and decisions should be fully described, explained, and justified, so that users and peer reviewers have an appropriate context for judging the sample (Patton, 2002:246). To ensure such transparency, the category and number of participants in the study are listed in table 4.1.

Table 4.1: Category and number of participants

Category of participants: key IAF customers	Number of participants in the study
AC	2
Executive and senior managers	3
Programme and operating managers	3
External auditors	2
Total number of participants	10

4.3.3.3 Data saturation

Data saturation is applicable to various situations, including in interviews with participants, in the outcome of sampling methods, or in the selection of participants. According to Gay, et al. (2006:115) data are saturated when the data the participants are providing have already been heard or captured, under which circumstances the researcher may then choose to stop the interviews. This study used semi-structured interviews, limited to a maximum duration of 45 minutes, to collect data from the participants. In each of the ten interviews, participants began repeating information before the 45 minute limit was reached. In each instance this repetition led the researcher to refrain from extending the interviews beyond the maximum duration.

In any qualitative study, the onus is on the researcher to defend his or her sampling strategies as reasonable for the purpose of the study (Sandelowski, 2000:338). According to Guba (as cited by Hoepfl, 1997:55), qualitative researchers have to adhere to a number of strict guidelines in order to stop selecting participants when the sampling is moving beyond the boundaries of the research. Hoepfl (1997:55) further states that the researcher's decision to stop sampling in a qualitative research study should be in response to having reconsidered the research goals, the need to achieve depth through triangulation of data sources, and the possibility of greater breadth through the examination of a variety of sampling units.

In this study, the researcher considered both purposive and snowball sampling when selecting the participants. Regarding purposive sampling, initially ten participants were selected and, as data had reached saturation after these interviews had been conducted, no snowball sampling was forthcoming. The researcher deemed information from an interview to be saturated when no new information emerged during the course of the interview that could be used to build on the research themes or be related to the literature review.

4.3.4 Data analysis

Data are analysed to generate a full description of the themes, meanings, patterns, and categories identified by the participants (Patton, 2002:454). According to De

Vos, et al. (2005:338) the process of identifying the themes, recurring ideas, and patterns of belief that link people and settings is the most intellectually challenging phase of data analysis.

The process of qualitative data analysis described by Smit (2002:66), namely an ongoing, emerging and iterative or non-linear process, was followed. This process began with an analysis of the interview transcripts and observational notes generated during the research process. This resulted in a reliable and accurate summary of the data collected.

An inductive data analysis approach was used to outline the meanings of critical themes and split the data into manageable units and patterns. This approach was taken following Patton (2002:452), who describes inductive data analysis as involving the discovery of patterns, themes and categories in one's data. This process means that findings emerge from the data through the analyst's interactions with the data. When considering inductive analysis, Hoepfl (1997:55) states that qualitative data analysis requires some creativity in order to meet the challenges of placing the raw data in logical, meaningful categories and to ensure the data are placed in context. For this reason, the researcher elected to use thematic analysis to examine the data collected from the interviews.

Data analysis in a qualitative research study is characterised by processes of data collection and analysis which mutually shape each other in a reflexive and interactive way. This allows the researcher to continuously modify the treatment of data to accommodate new data and new insights into the data already collected (Sandelowski, 2000:338). Mouton (2001:108) explains that the aim of data analysis is to understand the relationships between concepts, constructs, or variables and to see whether any patterns or trends can be identified or isolated to establish themes within the data. Hoepfl (1997:55) explains that, in qualitative research, the participants' quotations are analysed to identify themes in the data. Once the patterns, themes and categories have been established through inductive analysis, the final confirmation stage of qualitative data analysis is deduction, whereby the authenticity and appropriateness of the inductive analysis are considered by

examining the deviation scenarios of data that do not fit into the themes developed in the study (Patton, 2002:454).

In this study, all of the recorded semi-structured interviews were transcribed verbatim. The transcribed data were read by the researcher to identify themes and sub-themes, and the meanings, both explicit and implicit, in the participants' answers. The researcher then related the responses from the categories of participants to the themes already identified in the data. During this study, the researcher also related the sub-themes to those that emerged from the literature review in chapters 2 and 3. The themes and sub-themes identified in the data are indicated in table 4.2 and the categories of participants are indicated in table 4.3.

Table 4.2: Identified themes and sub-themes

Themes		
Experiences	Expectations	Challenges
Sub-themes		
<ul style="list-style-type: none"> - General experiences - Relationship between the IAF and its key customers 	<ul style="list-style-type: none"> - AGSA's reliance on the work of the IAF - Findings register - Information technology (IT) skills - IAF's participation at strategic level - Consultation and openness - Realistic audit plans - Feedback sessions - Knowledge of the business - Training - Independence and objectivity 	<ul style="list-style-type: none"> - Knowledge of the business - AGSA's reliance on the work of the IAF - Audit action monitoring processes - Management support

Table 4.3: Categories of participants

Categories of participants			
Category 1: AC	Category 2: Executive and senior managers	Category 3: Programme and operating managers	Category 4: External auditors (for the public sector, the AGSA)

4.3.5 Data coding

Coding qualitative data is one of the most common data analysis activities undertaken by researchers (Gay, et al. 2006:471). According to De Vos, et al. (2005:340) qualitative data coding consists of the operations whereby data are broken down, conceptualised, and put back together in new ways. In this study the researcher used open, axial, selective, and In Vivo coding to code the data, as described by Strauss and Corbin (quoted in Saldaña, 2009:74-163).

4.3.5.1 Open coding

Open coding was used to label or name the codes and themes created from the data. According to Saldaña (2009:81), open coding is also referred to as initial coding. Initial coding is the first stage of identifying and categorising the textual data into codes. Open coding is defined as the breaking down of qualitative data into discrete parts, and closely examining and comparing the parts for similarities and differences. Open coding helped the researcher to label the quotations or segments of text from the transcribed text. These quotations or segments of text were extracted from the verbatim responses of the participants that became the text data. For example, in the Atlas.ti coding program, open coding requires using key words in creating applicable codes for the first time, in that the researcher “*clicked*” the quotations or segments of text and identified applicable key word thus creating additional codes for these quotations or segments of text. Open coding therefore enabled further codes to be created as required, which resulted in the identification of themes and sub-themes.

4.3.5.2 Axial coding

According to Saldaña (2009:159), axial coding is an extension of the analytic work of open coding. Charmaz, in Saldaña (2009:159), suggests that this coding method should be used to relate the categories of participants to the themes and sub-themes previously identified. The researcher used axial coding to create the relationships between the categories of participants, themes and sub-themes. Since Atlas.ti does not identify the theoretical relationship between the codes, the researcher manually linked the codes to one another and recorded this in Atlas.ti. Smit (2002:70) refers to this process as linking codes. For example, axial codes existed when the researcher categorised and related the themes and the sub-themes with the participants' responses. Axial coding relationships were established during the analysis and interpretation of the data presented in chapter 5 of the study.

4.3.5.3 Selective coding

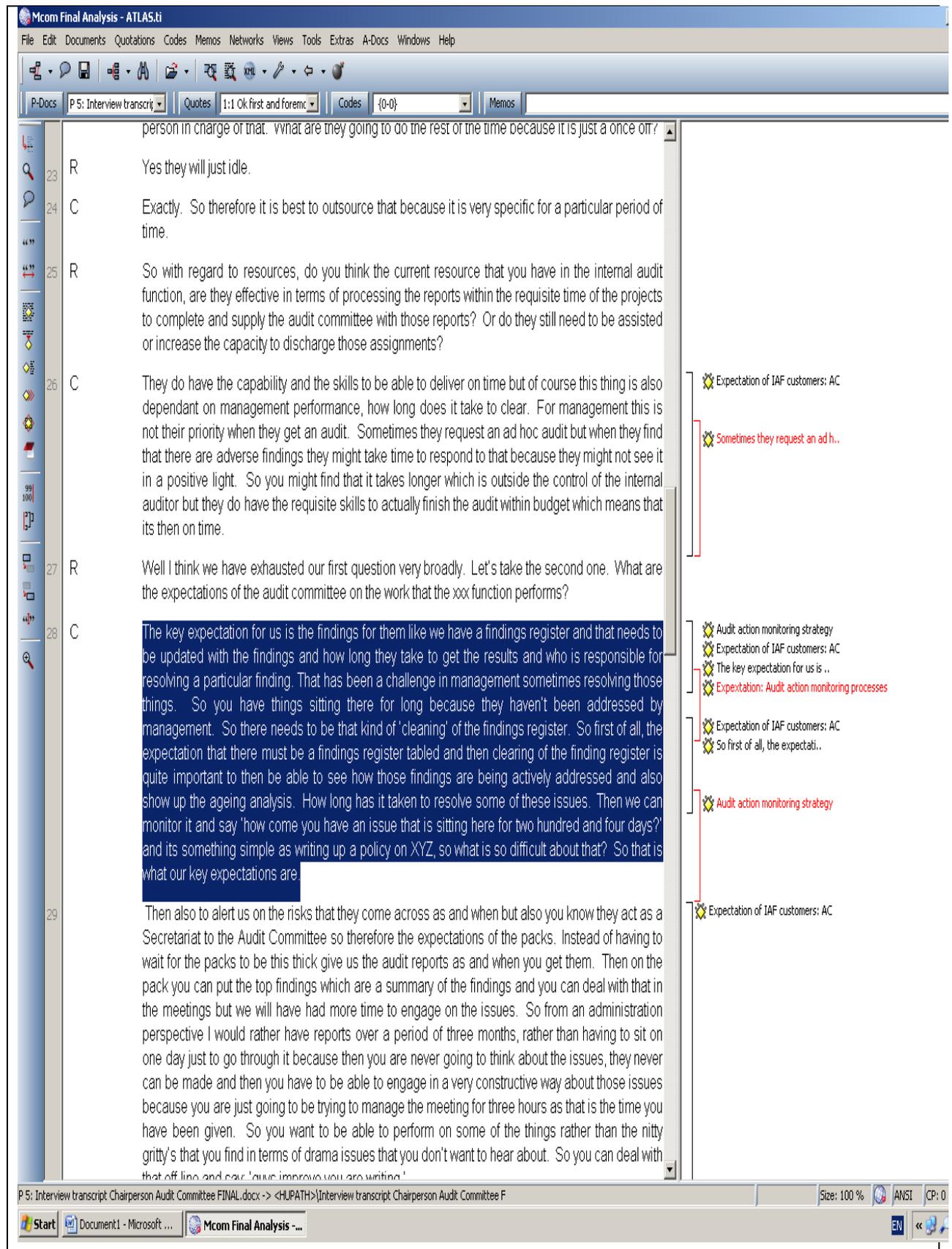
The family manager function in Atlas.ti is useful for selective coding, which involves thematically clustering codes into categories. The researcher used selective coding to identify the linked codes and to systematically discuss the story line involving the literature (Strauss & Corbin, in Saldaña, 2009:163). In other words, the researcher used selective coding to corroborate the coded themes with the literature. According to Saldaña (2009:163), selective coding is also referred to as theoretical coding. Selective coding enabled the researcher to create a network view (see figure 4.3).

4.3.5.4 In Vivo coding

In Vivo coding is appropriate for all qualitative studies that prioritise and honour the participants' voices (Saldaña, 2009:74). The researcher used Atlas.ti to produce verbatim transcriptions of the words of the participants. The credibility of this effort is demonstrated in the coding report (see details in annexure C) and in the body of the next chapter.

Having used open, axial, selective, and In Vivo coding, figure 4.1 shows how Atlas.ti was used to code data.

Figure 4.1: An example illustrating how Atlas.ti was used to code data



Source: A coding screenshot from Atlas.ti version 6.1.1, loaded as Mcom Final Analysis

Figure 4.1 illustrates how the coding was done in Atlas.ti. It also indicates that an excerpt can be coded more than once, if it is considered applicable to multiple codes. It further demonstrates the flexibility of the chosen method, in that it allowed the researcher to code and decode the excerpt, and name and rename the codes and quotations or text segments.

4.3.5.5 Coding report

Examples of codes and quotations from identified categories of participants and themes are provided in figure 4.2. The coding report is available in annexure A of the study.

Figure 4.2: Example of an Atlas.ti-generated coding report

```
Code: Expectation of executive management {6-1}

P 9: Interview Transcript DDG Intergovernmental Relations
110817_002.docx - 9:12 [I must say they are very commi..] (51:51)
(Super)
Codes: [Expectation of executive management] [Relationship with
customers]

I must say they are very committed people; they are seriously kind
of committed. I think the point I made earlier on, we maybe want
to direct them into them into the correct focus areas of their work
and if we could do that successfully we could have quite a bit more
of an efficient kind of thing. So I am quite positive.

Code: Expectation of IAF customers: AC {6-1}

P 5: Interview transcript Chairperson Audit Committee FINAL.docx -
5:8 [They do have the capability an..] (26:26) (Super)
Codes: [Expectation of IAF customers: AC]

They do have the capability and the skills to be able to deliver on
time but of course this thing is also dependant on management
```

performance, how long does it take to clear. For management this is not their priority when they get an audit. Sometimes they request an ad hoc audit but when they find that there are adverse findings they might take time to respond to that because they might not see it in a positive light. So you might find that it takes longer which is outside the control of the internal auditor but they do have the requisite skills to actually finish the audit within budget which means that its then on time.

P 5: Interview transcript Chairperson Audit Committee FINAL.docx - 5:10 [The key expectation for us is ..] (28:28) (Super)

Codes: [Audit action monitoring strategy] [Expectation of IAF customers:

AC] [The key expectation for us is ..]

The key expectation for us is the findings for them like we have a findings register and that needs to be updated with the findings and how long they take to get the results and who is responsible for resolving a particular finding.

P 5: Interview transcript Chairperson Audit Committee FINAL.docx - 5:11 [So first of all, the expectati..] (28:28) (Super)

Codes: [Expectation of IAF customers: AC] [So first of all, the expectati..]

So first of all, the expectation that there must be a findings register tabled and then clearing of the finding register is quite important to then be able to see how those findings are being actively addressed and also show up the ageing analysis.

Code: Expectation of programme manager {1-0}

P 8: Interview Transcript Chief Risk Officer (CRO) doc.docx - 8:19 [Yes I hear you. Firstly they s..] (96:96) (Super)

Codes: [Expectation of programme manager] [Yes I hear you. Firstly they s..]

Yes I hear you. Firstly they should start by producing a realistic plan that has the inputs of their audit committee and management. The plan is there so these days we are talking about the risk based auditing.

Code: Expectation: Capacity to understand Financial controls {2-2}

P 4: Interview Transcript AGSA Audit Manager 2. 923_001 FINAL.docx - 4:10 [Yes. And the other thing that ..] (163:163) (Super)

Codes: [Expectation: Capacity to understand Financial controls]
[Yes.

And the other thing that ..]

Yes. And the other thing that I forgot to mention what they are supposed to have. I think if I have it here, yes, they have to, they must actually, examine Financial and Corporate information.

P 4: Interview Transcript AGSA Audit Manager 2. 923_001 FINAL.docx - 4:11 [Yes they must be able to revie..] (165:165) (Super)

Codes: [Expectation: Capacity to understand Financial controls]

Yes they must be able to review the controls around it and be able to give some inputs on how to improve it. So I haven't seen anything in that case so far. Because I remember even in the past I think two years ago the Director was preparing the financial information at National Treasury level and gave it to internal audit but it came back with no indicator of reviews or xxx

Code: Expectation: Feedback session {1-1}

P 6: Interview Transcript Chief Dir HR 817_003 (2).docx - 6:12 [As long as we can have more fe..] (60:60) (Super)

Codes: [As long as we can have more fe..] [Expectation: Feedback session]

As long as we can have more feedback sessions, that will help. That would help because what happens is initially an audit is done. When an audit is done we involve lower level people.

Code: Expectation: Feedback session to involve lower level staff
{1-1}

P 6: Interview Transcript Chief Dir HR 817_003 (2).docx - 6:13
[With me it is just a report bu..] (64:64) (Super)

Codes: [Expectation: Feedback session to involve lower level staff]

With me it is just a report but if we sit around with the implementers and they show them that this was not done properly and how can we, it is educating also to the lower level and then it is also encouraging them to improve. Then they get engaged and start understanding form what perspective are the auditors coming from. And that helps motivate people.....

Figure 4.2 shows how the coding report was generated and demonstrates what coding can be done by creating themes from the text data. In figure 4.2, the coding report matches the identified theme, “expectations of IAF customers”. All of the interview transcripts were coded in a similar way, using the categories of participants and the themes in each individual interview transcript.

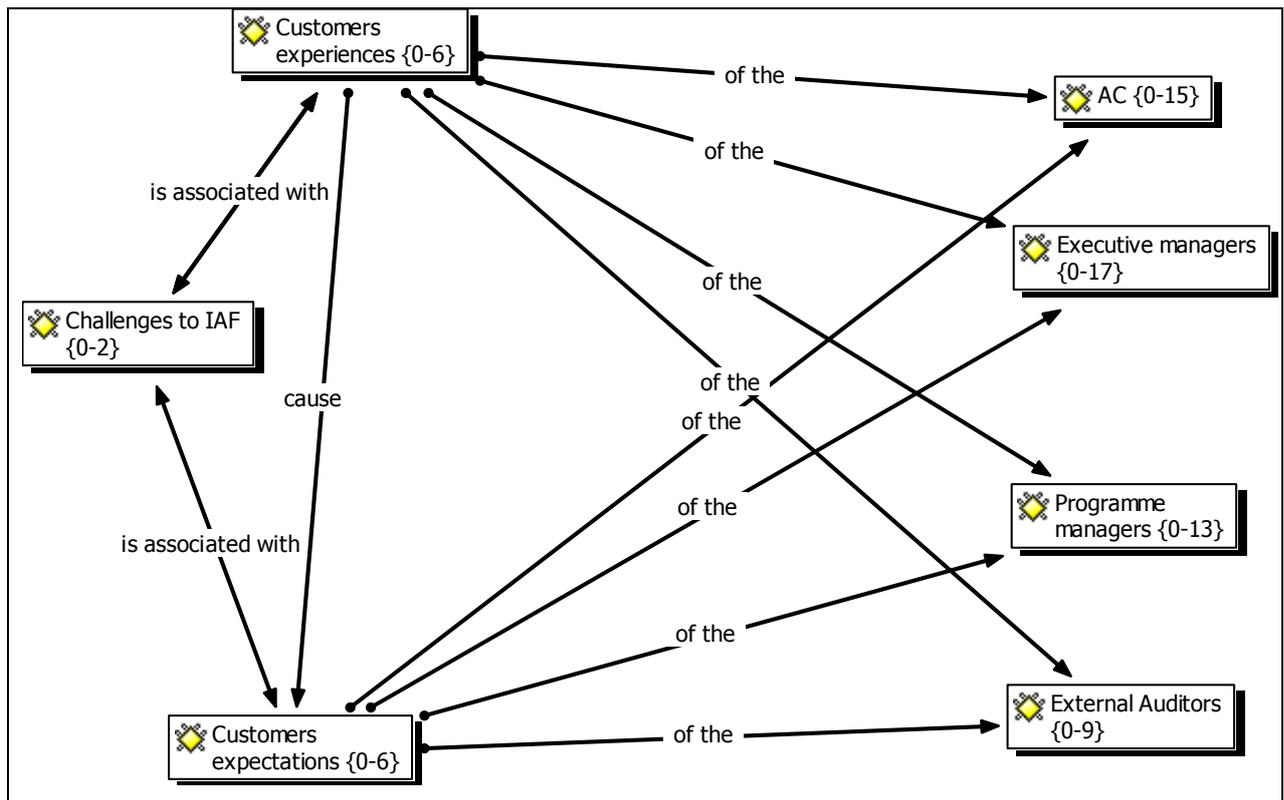
4.3.5.6 Atlas.ti program

The Atlas.ti program facilitates the storage, coding, and retrieval of data, and the creation of comparisons and linkages (Patton, 2002:442; Smit, 2002:70). In this study, the researcher used Atlas.ti as a data management tool, to pull together all the themes and responses from the participants. The researcher used data generated from the interview transcripts, which was loaded onto the Atlas.ti program.

Atlas.ti enabled the researcher to analyse the verbatim transcripts and to analyse the huge amount of data collected during the semi-structured interviews.

The researcher found Atlas.ti to be a useful tool for selecting and coding paragraphs from the text. Utilising the analytical potential of Atlas.ti, the researcher was also able to extract quotations from the transcripts and to identify the text data with open coding, which allowed him to link the codes to each other. More importantly, in this process, the researcher was able to link all of the quotations to the relevant codes, and all the data were stored in the Hermeneutic Unit. The researcher captured the quotations or segments of text verbatim using quotation marks, which then appear as primary documents (P-Doc). For example, references in this dissertation designated as P1:2, refer to quotations extracted from primary document 1, and ending in paragraph 2, while the codes-quotations list is referred to as 12:12 in the Hermeneutic Unit code manager (see also annexures A, B and C). Figure 4.3 indicates how Atlas.ti was used to create a network view, using the themes and participant categories discussed in section 4.3.4.

Figure 4.3: A network view



Source: A network excerpt from the Atlas.ti version 6.1.1, loaded as Mcom Final Analysis

Note: **AC** = Audit committee; **Executive managers** = Executive and senior managers; **Programme managers** = Programme and operating managers; and **External auditor** = AGSA auditors.

In figure 4.3, Atlas.ti diagrams the network relationships between the themes (experiences, expectations, and challenges). Using the perceptions of each of the participant categories, the network indicates that the participants' experiences cause their expectations and that both the experiences and expectations themes are associated with the challenges facing the IAF.

4.3.5.7 Summary

Having discussed in detail the process followed in coding the data collected by means of semi-structured interviews, the researcher reviewed the data coding process, and explained its importance as a key step in the analysis and interpretation of the data. These coding processes helped the researcher to organise

the data and understand the transcript text data. The methods used in data analysis and interpretation will be discussed in chapter 5.

4.4 LIMITATIONS OF THE STUDY

According to Gay, et al. (2006:83), limitations are those elements that the researcher knows might negatively affect the results of the study, and over which the researcher has no control. Every researcher is therefore expected to describe the limitations of his or her study (Hofstee, 2006:87).

This study used a case study as a qualitative research method. A case study is a type of qualitative research method (Yin, 2009:3), which has “elements of subjectivity” (Patton, 1999:1189; Whittemore, Chase & Mandle, 2001:524; Flyvbjerg, 2006:219). According to Yin (2009:15), a case study provides “little basis for scientific generalisation, as it does not represent the entire population and it cannot be generalised.” Thus, applying this observation to the current research, the limitations of the study can be identified as follows. The focus of this case study was the key customers’ perceptions of the work performed by the IAF in the National Treasury. The researcher used only the semi-structured interviews conducted with ten participants. The selected participants comprised two members of the AC, three from the executive and senior managers group, three from the programme and operating managers group, and two external auditors from the AGSA. These ten participants are identified as key customers of the IAF (see section 1.8). The operational employees of the National Treasury, the trade unions, politicians, ministers, parliamentary portfolio committee members and the general public, were all excluded because they were not considered to be key IAF customers in the National Treasury.

4.5 ETHICAL PROCEDURES

In qualitative research, ethical considerations are of the utmost importance. This is due to the necessity of performing face-to-face interviews with people who could conceivably be negatively affected by their participation. Issues of confidentiality and informed consent are thus inherent. Confidentiality applies when the researcher

guarantees not to reveal the identity of the person who divulged specific information, or who participated in the research process. If such a guarantee is not given, this could influence the participant's willingness to participate or to reveal information (Dane, 2011:223). According to Babbie (2010:71), informed consent involves informing participants about the nature of the research being undertaken and obtaining their verbal or written consent to participate in the study.

In the analysis of social research, Wiles, Heath, Crow and Charles (2005:20) point out that gaining the informed consent of potential participants is far from straightforward. These authors (2005:20) assert that the researcher needs to consider a broad range of issues when providing information to participants. The researcher should explain to the participants how the data will be collected and justify the length of time spent with the participants during the interviews. Richards and Schwartz (2002:137) argue that informed consent should be a prerequisite for all research involving identifiable subjects, except in cases where an ethics committee judges that such consent is not possible and where the committee members feel that the research is more important than any potential harm. Utilisation of an ethics committee that considers research proposals is increasingly becoming accepted practice (De Vos, et al. 2005:68). According to Babbie (2010:64), this practice is both a logical and a desirable measure necessary for making researchers and participants aware of what constitutes proper and improper behaviour when conducting a scientific inquiry.

The University of South Africa (Unisa) requires researchers to obtain ethical approval for all research projects. For this reason, ethical approval was obtained prior to the commencement of this study. The researcher further obtained a letter of permission to use the National Treasury as a case study. Such permission was granted through the offices of the Director General and the IAF in the National Treasury (see annexure D). Signed consent letters were obtained from all participants in the study, as an indication that they had been informed about the nature of the research and had given their consent to participate in the study. At the beginning of each interview session the participant was informed about the measures undertaken to ensure confidentiality, and of the fact that the researcher would be recording the interviews

on a digital recorder (see annexure E). The interview guiding questions were also presented to the participants before the interviews.

4.6 MEASURES TO ENSURE TRUSTWORTHINESS

Undertaking a qualitative study on customer perceptions could provoke criticism that both the research topic and method are hazy, highly subjective, and vulnerable to over-interpretation. However, such criticism can generally be addressed by applying measures to ensure trustworthiness (Sinkovics, Penz & Ghauri, 2008:708). In this regard, the researcher commenced the interviewing process having acknowledged the fact that key customers' views of the IAF in the National Treasury could differ.

To ensure trustworthiness in this study, the researcher employed the triangulation criteria provided by Lincoln and Guba (1985:301) which include credibility/validity, transferability/generalisability, dependability/reliability and confirmability/objectivity. These criteria are used to triangulate the literature review to the empirical results (Krefting, 1991:214; Seale & Silverman, 1997:380; Golafshani, 2003:604; Porter, 2007:85). Sinkovics, et al. (2008:709) also consider these criteria as able to indicate the degree of trustworthiness of responses in qualitative research. Triangulation is a method to validate the findings and interpretations of data from various sources (Lincoln & Guba, 1985:305).

4.6.1 Credibility

Lincoln and Guba (1985:301) describe *credibility* as an alternative to internal validity, in which the goal is to demonstrate that the inquiry was conducted in such a manner as to ensure that the subject is accurately identified and described. To achieve credibility in this case study, the researcher matched the findings derived from the data analysis with the actual content from the voices of the participants. In other words, the summary of the verbatim quotations in Atlas.ti (coding report) was matched to the original voices in the transcripts in order to achieve credibility. Triangulation in this regard was achieved by including interviews from different categories of participants.

According to Patton (2002:552-553), the credibility of qualitative inquiry depends on the methods followed during fieldwork to yield high quality data; the credibility of the researcher, which depends on his or her training, experience, track record, status and presentation; and the philosophical belief in the value of qualitative inquiry. In line with this, after the analysis and presentation of the data, the researcher discussed the findings with the management of the National Treasury IAF to validate the results of the study. However, the researcher was not able to meet with the individual participants again, because of time constraints on their side.

4.6.2 Transferability

Lincoln and Guba (1985:297) explain *transferability* as an alternative to generalisability. Transferability of a qualitative study to other settings may be problematic (De Vos, et al. 2005:346). Since this study focused only on the perceptions of key customers of the National Treasury IAF, the views of the participants represent only their perceptions of the IAF within the National Treasury, and these results and findings cannot therefore be generalised to all public service institutions.

4.6.3 Dependability

Lincoln and Guba (1985:317) explain *dependability* as an alternative to reliability whereby the researcher attempts to account for changing conditions in the phenomenon chosen for the study. Dependability as a criterion relates to the stability of the results (Sinkovics, et al. 2008:699). The term “reliability” is commonly used by auditors to obtain audit evidence, and is influenced by the evidence’s source, nature, and the circumstances under which it is obtained, including the controls exercised over its preparation (SAICA, 2012/2013:ISA 500 para A31). Dependability in this study was established through the research process by following the audit trail from the literature review, through the data collection, the data analysis, and the data coding to the presentation of the findings. The digitally recorded interviews were compared with the transcripts and with the Atlas.ti coding report.

4.6.4 Confirmability

Confirmability is concerned with whether the findings of the study can be confirmed by others (Lincoln & Guba, 1985:323). According to Sinkovics, et al. (2008:699), confirmability is associated with objectivity, and requires researchers to make their data available for review by presenting it in a logical manner. Confirmability in this study was achieved in the way the researcher ensured the confidentiality of the participants' views, as stated in the consent letter and Unisa's ethics policy. Hence, the trustworthiness of the data can be confirmed by reviewing the detailed transcripts of the interviews provided. Further confirmation was ensured through the involvement of the study supervisors, to whom the researcher demonstrated that the data obtained supported the findings.

4.7 THE ROLE OF THE RESEARCHER

As indicated in the preceding sections, the researcher is simultaneously an observer and a participant, an instrumental tool in the research process of a qualitative study (Wellington, 2000:41). In this study, the researcher was a full participant in every activity undertaken during the process of data collection, analysis and interpretation. This approach allowed the researcher to interact and collaborate with the participants, enabling him to more completely comprehend their perceptions of the work performed by the IAF in the National Treasury.

In qualitative research, where the researcher is an instrumental tool, it is critical for the researcher to establish links and a sufficiently strong rapport with the participants (Gay, et al. 2006:87). In the context of this study the researcher used probing questions (albeit in a conversational register) during the semi-structured interviews, in order to increase the level of participation (insight and veracity of responses) of the participants.

The researcher adopted an inductive style, whereby the description of concepts emerged from the data. A detailed explanation of this process follows in chapter 5. The researcher also played a role as data recorder, and observer of the reality of events and circumstances. During the interview, the researcher used his knowledge

of the literature to frame interview questions and to probe the answers given by the participants. At all times, the researcher acted in a manner consistent with the ethical responsibility to protect the rights and confidentiality of the participants.

4.8 CONCLUSIONS

This chapter detailed the research design and methodology employed in the case study focusing on the National Treasury's IAF. The National Treasury was chosen for the case study because of its custodial role over the policy guidelines and frameworks which guide the functioning of IAFs in the South African public sector. The research took the form of a case study as it was considered to be the most appropriate qualitative research method. A qualitative research method was chosen because the study aimed to generate an in-depth understanding of key customers' perceptions of the work performed by the IAF in the National Treasury. The research method allowed the researcher to understand the key customers' perceptions in their real-world, real-time contexts. This chapter also explained the descriptive nature of the research design, in that the study described the key customers' perceptions derived from the semi-structured interviews. The research instrument, the pretesting of the research instrument, data collection, data analysis and data coding were also discussed.

The major limitation of the study, outlined in this chapter, is that its findings cannot be generalised to apply to other public service institutions because the study focused only on National Treasury IAF key customers and their perceptions. This limitation is due to the use of semi-structured interviews with, and the analysis of the findings from, only the AC, the executive and senior managers, the programme and operating managers and the AGSA employees involved in the audit of the National Treasury. The study was undertaken in accordance with the ethical requirements set out in Unisa's ethics policy. Measures taken to ensure trustworthiness were discussed, to ensure quality control over the steps and processes in this study. The next chapter deals with the data analysis, interpretation and presentation of the results.

CHAPTER 5

DATA ANALYSIS, INTERPRETATION AND PRESENTATION OF THE RESULTS

5.1 INTRODUCTION

Chapter 4 dealt with the research design and methodology followed in this study. The focal point of this current chapter is a discussion of the data analysis, and the interpretation and presentation of the results obtained from interviews to determine key IAF customers' perceptions of the work performed by the internal audit function (IAF) in the Department of National Treasury (National Treasury).

The discussion in this chapter was guided by the research design and methodology explained in chapter 4. Ten semi-structured interviews were held with participants drawn from key IAF customer categories, namely the audit committee (AC), the executive and senior managers, the programme and operating managers, and the external auditors, to obtain their perceptions of the work performed by the IAF in the National Treasury. These semi-structured interviews were based on a set of guiding questions, developed from the literature reviews in chapters 2 and 3 (see section 5.2.1).

The data collection, analysis, interpretation and presentation were defined by the objectives of the study, namely to determine identified key IAF customers' experiences of the work performed by the IAF in the National Treasury; to determine their expectations of the IAF in the National Treasury, and to ascertain what the identified key IAF customers perceived the challenges facing the IAF in the National Treasury to be.

5.2 DATA ANALYSIS

Analysis of qualitative data requires much thought and explanation (Hofstee, 2006:117). In this study, the thoughts and explanations emerging from the interviews

(the data), were made more amenable to interpretation once the data had been coded and analysed with the assistance of the Atlas.ti program.

5.2.1 Interviews

Qualitative data consists of words and (personal) observations, and data interpretations are required to bring order and understanding to the process (Taylor-Powell & Renner, 2003:1). In this study, the data were collected during semi-structured interviews with the participants, and the data were subsequently analysed through Atlas.ti, and interpreted by the researcher. The final question in all the interviews was to request suggestions from the participants as to how the IAF could better meet their customers' expectations. The researcher presented this last question in an informal manner to encourage maximum scope of response. According to De Vos, Strydom, Fouché and Delport (2005:66), on completion of the session, the researcher should rectify any misperceptions that may have arisen in the minds of the participants. The researcher thus also used the exchange during the final question as an opportunity to relate participants' responses to those obtained earlier in the interview, and to clear up any misperceptions that he might have noticed.

Semi-structured interviews consisting of open-ended questions afford the participant the opportunity to pursue his or her response in detail. Although the purpose of the interview questions was to guide the participants, the interviewing process was flexible which allowed the researcher to probe for clarification and amplification of the participants' perceptions of the work performed by the IAF. The interview questions dealt with the customers' experiences and expectations, and the challenges they perceived the IAF to be facing. There were no right or wrong answers; each participant answered according to his or her own experience and perspective of the work performed by the IAF. The questions guiding the interviews were as follows:

- What are your experiences of the IAF?
- What are your expectations of the IAF?

- What do you perceive as hindering factors preventing the IAF from meeting your expectations?
- What are the contributory factors that ensure your expectations are met?
- Do you have suggestions about what you would like the IAF to do to meet your expectations?

The interviews were conducted in no more than 45 minutes each, and the researcher used a digital recorder to record the interviews. The interviews were transcribed verbatim. The researcher personally conducted all the interviews (see section 4.3.3, chapter 4).

5.2.2 Analysis and interpretation of data

According to Patton (2002:440), all data collected through semi-structured interviews should be transcribed before the analysis begins. The analysis and interpretation of the data and the presentation of the results were guided by the aim of the study, namely to generate an in-depth understanding of identified key IAF customers' perceptions of the work performed by the IAF in the National Treasury. The results of the study are presented, firstly, according to the four categories of key IAF customers as identified in the introduction to this chapter. Secondly, for each category of participants the themes emerging from communications, the ideas, concepts and phrases used by the participants in response to the interview questions were sorted and correlated. This is in accordance with the view of Pope, Ziebland and Mays (2000:114) who maintain that qualitative research uses analytical categories to describe and explain social phenomena.

Data interpretation is defined as going beyond the descriptive data, attaching significance to what was found, making sense of findings, offering explanations, drawing conclusions, extrapolating lessons, making inferences and considering the meanings of the themes (Patton, 2002:480). During the interpretation of data phase the researcher is immersed in the data, transcribing the data, listening to the digital

recordings and reading the transcripts (Yeh & Inman, 2007:388). During the process of analysis and interpretation of the data, the researcher should play a significant role in constructing the meaning of words, identifying the themes, and thereby bringing order, structure and meaning to the mass of collected data (De Vos, et al. 2005:333). Personally performing all these tasks enabled the researcher to decide on the meaningfulness of the words and concepts that the participants used in their responses to the interview questions.

In order to analyse and interpret the data, the researcher was interested in discovering the themes and the sub-themes, which, according to Ryan and Bernard (2003:85) is one of the most fundamental tasks in qualitative research. The researcher organised the themes (experiences, expectations and challenges) and the sub-themes identified for each of the categories of participants, as a starting point. The key IAF customers participants were categorised as the AC (chairperson of AC and AC member), executive and senior managers (two deputy directors general (DDG) and the chief financial officer (CFO)), programme and operating managers (three chief directors), and the external auditors (two audit managers from the Auditor General South Africa (AGSA)). In this process, the researcher coded the answers of each category of participants into themes and sub-themes in order to recognise the differences and similarities between the responses of the participants in the various categories.

5.2.3 Data coding

Babbie (2010:338) and Saldaña (2009:8) both define “coding” as a process of arranging raw data into a standardised form. A formal coding process was followed during this study, as explained in section 4.3.5. The interview questions and the literature review formed the basis of the data analysis and interpretations and were also considered in the data coding. The researcher read through the transcripts, with the interview questions and the literature review in mind, and allocated codes to the data that appeared in the transcripts, thereby ensuring that all the data collected from the participants were comparable to the information described in the literature review.

The data analysed in this study was drawn from the ten transcripts after the interviews had been conducted and transcribed. The researcher loaded all the transcripts on to the Hermeneutic Unit of the Atlas.ti program. As the data were loaded, the researcher used open coding to label the data according to the categories of participants, which are commonly known as “code families” in the Atlas.ti context. Axial coding was used to assist the researcher to relate the themes and the sub-themes to the specific “code families”. This was done while the researcher repeatedly read through the transcripts. This process afforded the researcher the opportunity to code anything he deemed important from the primary document loaded onto the Hermeneutic Unit. In this process, descriptive coding was used to code the phrases that were of importance according to the perceptions of the participants on the work performed by the IAF, and the coding was done line by line from the transcripts.

Since descriptive coding was used, the researcher also used In Vivo coding to honour the voices of the participants by capturing their descriptions or phrases without alteration. It was from the same perspective that the researcher identified the themes, using the epistemological insight gained from the literature review. On completion of the data coding, no further themes and sub-themes could be identified from the transcripts. The decision on the saturation of data coding was properly considered, because the researcher wanted to align and shape the data coding in line with the best practices discovered in the literature and discussed in chapters 2 and 3.

5.3 DATA PRESENTATION

According to Patton (2002:452), the ability to interpret and present data in themes depends on the researcher. In this study, the researcher built the thematic presentation of data on the basis of the data collected from the four categories of participants.

Regarding the presentation of these qualitative research findings, the researcher’s interpretation was restricted to the views of the participants, and no attempt was made to rephrase or change the participants’ words. The researcher therefore based

his analysis on the themes and sub-themes that emerged from the verbatim transcripts of the participants' interviews in order to honour the voices of the participants. The verbatim quotations are presented in italics in this chapter. Table 5.1 depicts the themes and sub-themes that emerged from the analysis of the transcripts, and Table 5.2 records the categories into which participants were divided.

Table 5.1: Identified themes and sub-themes emerging from interview data

Themes		
Experiences	Expectations	Challenges
Sub-themes		
<ul style="list-style-type: none"> - General experiences - Relationship between the IAF and its key customers 	<ul style="list-style-type: none"> - AGSA's reliance on the work of the IAF - Findings register - Information technology (IT) skills - IAF's participation at strategic level - Consultation and openness - Realistic audit plans - Feedback sessions - Knowledge of the business - Training - Independence and objectivity 	<ul style="list-style-type: none"> - Knowledge of the business - AGSA's reliance on the work of the IAF - Audit action monitoring processes - Management support

Table 5.2: Categories of participants

Categories of participants			
Category 1: AC	Category 2: Executive and senior managers	Category 3: Programme and operating managers	Category 4: External auditors (for public sector, the AGSA)

The literature refers to the themes and the sub-themes that are identifiable, using a variety of interchangeable terms. However, as Thomas (2003:5) comments, in the

responses from each category of participants the researcher should search for the characterising themes and the sub-themes. In this study, the researcher analysed and interpreted the data, identifying themes and sub-themes against the theoretical literature perspective. In the following discussion, the findings of the study are presented in accordance with the themes and sub-themes identified in the study and listed in Table 5.1.

5.3.1 Experiences of key IAF customers

The experiences of the key IAF's customers were discussed in the context of the interaction between the IAF and its customers. The purpose of this theme was to obtain an understanding of how key customers experience the role of the IAF in the National Treasury.

5.3.1.1 General experiences

All the participants expressed reasonable satisfaction with the work of the IAF in the National Treasury. On the basis of their personal perceptions, they generally regard the work and services of the IAF as justified or appropriate in the circumstances. The experiences specific to each category of participants are discussed next.

a) Category 1: AC

Notable perceptions of the AC participants were that the IAF of the National Treasury has a valuable relationship with the AC. This relationship has been built up by the IAF promoting and suggesting training interventions for the AC to learn more about the IAF's functions. It is apparent that the AC needs assurance from the IAF on aspects of risk management, controls and governance processes. The perceptions of participants on their experiences revealed the following:

So, I guess the perceptions of the work that they perform are good ... I mean their work is important in giving us a comfort and a feeling about the usefulness of the controls in the department (P5:4, 12:12). They have the technical expertise to deal with the problems in the environment. Also, their

technical competencies, they are technically very strong and competent ..., they display a lot of professionalism in terms of their work (P11:17, 72:72).

From the remarks quoted above, the AC participants appear to be comfortable with the technical competencies, expertise and professionalism of the IAF of the National Treasury. The positive light in which the AC participants view the IAF could be ascribed to its technical abilities and the professional manner in which its work is performed.

Recommendation

From the literature review (refer to section 2.8.1, chapter 2), the IAF has been identified as a role player well qualified to provide assurance to the AC. It is recommended that the IAF should continue to use its technical competencies to train the AC on the information contained in its reports so that the AC can help the executive and senior managers to improve their risk management, controls and governance processes.

b) Category 2: executive and senior managers

The perceptions of participants from the executive and senior managers category indicated that the IAF of the National Treasury is part and parcel of the organisational strategy. This is in line with the literature, suggesting that the executive and senior managers should use the IAF to appraise the way in which the organisation is performing strategically (Frigo, 2002:45). The following quotations summarise the perceptions of the executive and senior managers participants:

... Without inheriting any names or credit to what I am, IAF is part of the value chain. Value chain has got a lot of ins and outs. The ins and outs as I say and it's a balancing act in the process and of course you know each and every activity which we do they are proper governance which needs to be in place and you would have seen that governance going forward is trying to put in some oversight responsibilities (P1:1, 15:15). You get the point. An IAF is the [part of the] value chain which helps to say "now these things you say you

have delivered, is there any impact which I have in terms of now those deliveries which are actually there [?]... (P1:1, 15:15). That is the IAF, what they do, which is a little bit different ... from what external auditor does. ... [I]t is more from the point of assurance. So that helps in a way in terms of now ensuring that things which have happened within the department, they happened within the norms and standards. So, that tells you then how helpful IAF is in the organisation (P1:3, 27:27; P1:4, 29:29).

Now I see the IAF in its support work basically for the AC to actually look at the measures that we are putting in place are indeed the right measures to mitigate the risks. So IAF could look at the measures and say “no the measures are fine”, but they are going to look at how do you measure whether you have achieved what you say you have achieved (P9:3, 21:21; P9:5, 25:25).

One participant associated the role of the IAF with a value chain, which indicates that the IAF is perceived as being useful to the executive and senior managers because it helps them understand the risks that could impact on the organisation's objectives. In its associated role as part of the value chain, the IAF is viewed as a tool that contributes to achieving the strategic objectives of the National Treasury, and also as a function that can be used to educate the organisational units about the strategic vision and mission of the National Treasury.

According to the literature (refer to section 2.8.2, chapter 2) and the perceptions of the executive and senior managers participants, it would appear that the IAF is helping executive and senior managers to gauge the organisational performance. Consequently, given the overall business function of the National Treasury, the IAF could play an increasingly significant role in improving the organisational performance by assisting and advising the executive and senior managers, thereby ensuring sustainable acceptable performance and prioritising the organisational projects in accordance with the Batho Pele principles. Such assistance would require a financial and customer perspective and consideration of the resource allocation in the National Treasury. The aspects of the balanced scorecard (as explained in section 3.5.3, chapter 3) could be used by the IAF to advise executive and senior

managers on how to respond effectively to the changing circumstances in the organisation.

Recommendation

Since the objective of the IAF in public service institutions is to support the executive and senior managers in their efforts to achieve their strategic objectives, the involvement of the chief audit executive (CAE) at higher-level meetings is essential. It is therefore recommended that the IAF should be supported by both the AC and the executive and senior managers to participate at the level where the risks, controls and governance processes are discussed.

c) Category 3: programme and operating managers

My experience of IAF is fairly good experience. ... I am a proponent of good governance and then IAF obviously is one of the functions that strengthen good governance. But not only that, they at the same time ensure that the management attains its set objectives you know by giving recommendations that would tighten the controls but at the same time as you tighten control you increase the efficiencies. You identify the broader risks so that things can happen quicker, faster and cost effectively (P8:1, 12:12). ... they do try to a large extent to come with practical and positive recommendations to tighten controls, to direct management to the best practices in their field of operation, obviously thereby increasing efficiencies. So yes, it is in my view that it is a sort of governance function that has been useful to me as Chief Risk Officer (CRO). I have taken a number of recommendations that really assisted my unit to raise the bar (P8:2, 14:14).

Now my job as Chief Director: Standard and Norms is to write down or establish the required regulations and rules how to implement the policy. That is my job, and then I have got to monitor compliance. My viewpoint is that any audit, whether it is internal or external audit, is to use it as a management tool. Their findings there are to tell you ... “look here is a possibility where to improve”, “this is wrong” or “this is where it can be improved”. So that

management information to achieve better results. However, what I have experienced with the IAF unfortunately is that the auditors don't see the wider picture. I view them as the audit clerk; audit clerks are interested in finding something wrong with the system and they do not see the bigger picture. Their mentality is to find something wrong instead of having IAF that is an instrumental tool to assist management to improve and better the performance of the institution. Not seeing the wider picture that is my experience with the IAF (P7:1, 18:18; P7:4, 24:24; P7-5, 28:28; P7:7, 34:34 and P7:17, 14:14).

The above comments indicate the mix of perceptions and experiences the work of the IAF in the National Treasury is achieving. The concerns raised by these programme and operating managers participants show that, in some instances, the IAF does not demonstrate a holistic view when it conducts evaluations and makes recommendations in their divisions.

Besides the concerns and issues identified by the programme and operating managers participants with reference to their experiences of the work of the IAF, the total quality management (TQM) factors described in the literature review (see section 3.5.1, chapter 3) suggest that the IAF should intensify its efforts to partner with the programme and operating managers, and to take further steps to educate and render assurance services to their divisions.

Recommendation

One of the principal areas of TQM is the fact that the IAF should strengthen its relationship with the programme and operating managers through a regular customer satisfaction survey and any other form of customer feedback mechanism. It is recommended that the programme and operating managers should be educated to understand the role of the IAF, and that the IAF should perform a risk-based audit engagement on the processes that are being followed before the commencement of an audit. Since the programme and operating managers are the process owners, the onus is on them to explain to the IAF how their specific systems work.

The public service institutions have many divisions and subdivisions, and it is therefore recommended that the programme and operating managers should view the IAF as an advisor who brings synergy and support to the risks and controls being implemented to achieve the organisation's objectives. Hence the IAF should first achieve and then communicate the fact that its audit approach is based on a holistic assessment of risks relating to the whole organisation.

d) Category 4: external auditors

The two AGSA participants expressed admiration for the National Treasury IAF in the following way:

I think they are very approachable. They are always willing to assist and make available whatever work they are doing. (P3:7, 72:72). They are not silent, we meet regularly. We meet regularly especially when there are issues and they have queries or if there is an area of investigation, yes then we sit down and discuss. We schedule regular meetings with them. It happens; it doesn't pass a month without seeing them (P4:6, 85:85).

The perceptions of the two AGSA participants indicate that the IAF is committed to their working relationship. Generally, the AC and the executive and senior managers are seen as the key role players in the relationship between the IAF and the external auditors. From the perceptions expressed by the AGSA participants, it appears as if the National Treasury IAF and the AGSA have established a good working relationship.

Recommendation

The working relationship between the National Treasury IAF and the AGSA should be promoted in terms of the International Standards for the Professional Practice of Internal Auditing (Standards) and the International Standards on Auditing (ISAs). These best practices both require the IAF and the external auditors to meet periodically and to discuss each other's audit scope, programmes, working papers and reports, and to share other expertise. It is therefore recommended that the good

working relationship between the IAF and the external auditors should be further strengthened and supported in order to promote confident mutual reliance.

5.3.1.2 Relationship between the IAF and its key customers

In the literature chapters (refer to section 2.8, chapter 2 and section 3.4, chapter 3), the researcher highlighted the importance of the relationships between the IAF and its customers. Perceptions of the importance and effectiveness of these relationships varied. The AC participants mentioned some areas in which the work of the IAF gives value to management through the quality of reports and recommendations they make, but concerns were also voiced on the relationship between management and the IAF.

a) Category 1: AC

The relationship is good, but we find that the relationship between the IAF and management can sometimes be very difficult because of the IAF shows some of the weaknesses and management doesn't like that. So as AC we have to deal with some of the hot spots, rough spots in the relationship. Also, management can show what the flaws of the IAF are (P5:18, 39:39). Most of the thing arises from just basic emotional intelligence issues, for example, communication, not technical (P5:19, 41:41).

Although the National Treasury's IAF has its own operational challenges, the AC participants viewed the IAF as a key role player in assessing and implementing the governance policies of the department. The IAF can proactively assist management to identify and evaluate the department's risks and that process can also ensure that the National Treasury's control systems are working effectively to manage the identified risks.

Recommendation

Against this backdrop, it is recommended that the IAF should educate management about its continuing role in the governance processes of the department. The AC

should also play a role in promoting the IAF so that management understands that the IAF is there to provide advice and assurance to them, and that any weaknesses identified should be viewed in a positive light as triggers for effecting improvement strategies.

b) Category 2: executive and senior managers

In contrast to the views of the AC participants, one of the executive and senior managers participants had this to say about his/her relationship with the IAF:

I must say that IAF have a very committed people; they are seriously kind of committed. I think the point I made earlier on, we maybe want to direct them into the correct focus areas of their work and if we could have quite a bit more of an efficient kind of thing. So I am quite positive (P9:12, 51:51).

Executive and senior managers participants perceived their relationship with the IAF in a positive light. Despite the positive sentiments, the AC has to stand firm in support of the IAF if the internal audit process reveals weaknesses in management. Similarly, the relationship between the IAF and the management may be influenced by the seriousness of the IAF's observations, findings and recommendations presented during the AC meetings. For example, if management disagrees with or challenges the internal auditor's findings, they will be defensive.

Recommendation

It is recommended that the IAF should make the executive and senior managers aware that the role of the IAF is not merely 'compliance with rules', but that the IAF also adds value to the risk management, controls and governance processes.

5.3.1.3 Summary of the experiences of the key IAF customers

From the above discussion it is clear that the participants were reasonably satisfied with the work of the IAF at the National Treasury. The AC, the executive and senior managers and the AGSA participants had a positive view of the work done by the

IAF and felt that they do add value. The perceptions expressed by the programme and operating managers participants were cause for concern. These participants regard the IAF as not possessing a holistic view of the organisation. They also experience the IAF as being somewhat narrow-minded because they focus mainly on wrongdoings. All participants acknowledged the IAF should form part of the organisation's strategy.

An interesting finding is that only the AC participants commented on the technical abilities and professionalism of the IAF. Similarly, only the external auditor participants mentioned the IAF's commitment to maintaining a good working relationship with the AGSA.

The views expressed by the participants, if taken to heart, could beneficially inform the operation of the IAF in National Treasury. Serious consideration and implementation could improve the IAF's strategic role in the department for the purpose of adding value, and improving operations and the effectiveness of risk management, control and governance processes.

5.3.2 Expectations of key IAF customers

To put the expectations of key IAF customers in context, the features of TQM discussed in the literature review (see section 3.5.1, chapter 3) clearly indicate that one way of addressing customers' expectations is to promote good practices such as continuous communication, employee empowerment and customer satisfaction. In the empirical data collected in this study, the researcher noticed that the IAF of National Treasury could play a pivotal role in transforming the department by providing value-adding outputs to satisfy the needs of their key customers. Adding value appeared most appropriate and/or necessary in terms of communication, employee empowerment and customer satisfaction in the TQM context. This would require the IAF to consult with the AC, the executive and senior managers, the programme and operating managers and the AGSA to determine their expectations. However, the changes to match the key IAF customers' expectations arising from such consultation could, unless effectively assessed and managed, result in un-coordinated and counter-productive changes to the IAF strategic audit plan.

There is no doubt that the IAF's key customers have different expectations about the work of the IAF in the National Treasury. All the participants were asked to respond to the following question: *What are your expectations of the IAF?* It should be emphasised that when the IAF renders services to its customers, the Standards and the Code of Ethics should be adhered to. Quality should not be compromised in efforts to meet the expectations of its customers. Although the work of the IAF is sometimes routine, conformance with the Standards and the Code of Ethics is paramount and should always define the roles and responsibilities of the IAF in meeting its customers' expectations.

In the analysis of the expectations expressed by the participants, ten sub-themes emerged (see table 5.1 above). These are discussed in the sections below, again grouped according to the responding category.

5.3.2.1 AGSA's reliance on the work of the IAF

The literature review (section 3.4.4, chapter 3) presents the criteria for justifying the external auditors' reliance on the work of the IAF. Accordingly, the extent to which the external auditors rely on the work of the IAF is based on the competencies and objectivity of the IAF, as well as the scope and quality of their work.

a) Category 1: AC

From the interviews, the following perception was expressed by one AC participant:

That is the one area that we need help and then the other area I think it is really just to include that combined assurance in making sure for that they are effective in terms of working with the AG. The AG, sometimes what they do is that instead of relying on internal audit they say "no, no, no, no, we are looking at this slightly differently", and we fight them and say "no, you were in that meeting: hurry up with that plan", and this is what they are approaching internal audit with. If you didn't comment then, why do you come later and say "no, no, no you want to do exactly the same audit" and all that? (P11:19, 88:88).

The perceptions of the AC participants about the willingness of the AGSA to rely on the work of the IAF indicate that sometimes there are robust discussions between the National Treasury's IAF and the AGSA. The AC participants highlight that there are instances where, even though the AGSA staff support the principle of reliance on the work of the IAF, the AGSA does not always act on that principle in everything it does. These sentiments could mean that the AC expects more interaction between the IAF and the AGSA, especially in the light of their interrelated roles and complementary technical competencies.

Recommendation

It is recommended that the AGSA should consider the IAF's work before it formulates its audit plan. This will assist the AGSA to plan its audit and identify areas in which it could rely on the work performed by the IAF. It should also be noted that the intention to place greater reliance on the IAF's work could open up proper communication between the IAF and the AGSA, which in turn could improve the quality of the IAF's audit reports. Since it is the responsibility of the AC to understand both the IAF's and the AGSA's audit plans, it is recommended that the AC should simultaneously evaluate both audit plans to ensure the achievement of comprehensive assurance with integrity, and that the IAF and the AGSA are flexible enough to use the work of each other.

5.3.2.2 Findings register

A findings register is used to record matters arising from the IAF and the external audit function to help track progress in resolving the audit issues raised (Government of Queensland, 2010). From the IAF's perspective, a findings register could be used to categorise the audit findings. It could also help the AC to prioritise the findings that may have a significant impact on the organisational objectives.

a) Category 1: AC

The expectation expressed by an AC participant regarding the findings register was captured as follows:

The key expectation for us is the findings ... [W]e have a findings register and that needs to be updated with the [latest] findings, and how long they take to get the results, and who is responsible for resolving a particular finding. So there needs to be that kind of “cleaning” of the findings register. So first of all, the expectation [is] that there must be a findings register, tabled, and then clearing of the finding register is quite important to then be able to see how those findings are being actively addressed and also show up the ageing analysis (P5:10, 28:28).

Public sector IAF accountability is set out in the Public Finance Management Act (PFMA), Municipal Finance Management Act (MFMA) and the Standards (RSA, 2009a). Standard 1111, *Direct Interaction with the Board of directors*, requires the CAE to communicate the IAF findings to management, and to inform the AC of the status of the audit findings, and of management’s progress in implementing the recommendations arising from those findings (IIA, 2010b).

In this study the researcher noticed that the AC participants expect the IAF to furnish it with the audit findings register, listing the audit findings and the anticipated corrective actions including completion dates and responsible persons. Furthermore, the AC participants expect that matters recorded in the audit findings register should be signed off when the appropriate action has been taken. This would provide the AC with a summary of weaknesses identified by the IAF and the external auditors, and the status of corrective actions taken by the department.

Recommendation

It is recommended that the accounting officer (AO) should fulfil a leading role to establish an audit action monitoring committee that should assume the responsibility to monitor the progress of the implementation of the IAF’s and AGSA’s recommendations on behalf of the AC. This could also be viewed as an effective strategy for the AC to add value by tracking and tracing issues identified in the AC meetings.

It is suggested that the National Treasury should introduce an audit findings register to record the findings threatening the achievement of the department's strategic objectives. This register should capture the issues raised by both the IAF and the AGSA, and should be appropriately managed to remain aligned to the department's strategic objectives and risk profiling. The issues appearing in the register should be reviewed and their aging and impact on the department's strategy examined.

5.3.2.3 IT skills

In recent years IT has changed the way organisations conduct their business (Moorthy, Seetharaman, Mohamed, Gopalan & San, 2011:3523). According to Standard 1210.A3, *Proficiency*, such developments require the IAF to have sufficient knowledge of IT risks and controls and have available appropriate technology-based techniques to perform their assigned audit work (IIA, 2010b).

a) **Category 1: AC**

The expectations of the IAF held by its key customers, in respect of the IAF's IT skills, prompted the AC participants to highlight the fact that in order to increase the integrity and efficiency of the audit processes performed by the IAF on the systems of internal control, risk management and financial oversight the IAF should improve its IT skills. One AC participant expressed his/her expectation as follows:

... IT is very, very critical. I mean National Treasury operates like a bank and so IT is very, very important (and that is the one area that is very critical for us as an AC), and as a result we are going to rely a lot more on internal audit in terms of IT audits, and again [on] the quality of the risks or interpretation of the risks that are coming out, and recommendations and all that (P11:19, 88:88).

Rapid technological advancements have introduced major changes in the economic and business spheres worldwide (Qureshi, Zafar & Khan, 2008:2). This perspective is also shared by Barac and Motubatse (2009:971), who assert that the scarcity of IT skills among internal auditors in South Africa necessitates that organisations outsource their IT audits.

The IT audit is one of the greatest challenges facing IAFs in many organisations and this view was supported by participants from the AC. One way to meet such a challenge is to increase the IT-related skills set of the National Treasury IAF staff members. Another interesting observation is that one participant linked the National Treasury to a commercial bank. The role of IT in the banking sector, as highlighted by Qureshi, Zafar and Khan (2008:3), emphasises the importance of IT skills in the IAF of National Treasury, and the necessity to improve these skills in order to improve service delivery.

Recommendation

An encouraging proposal from the AC participants is that a merger between the National Treasury IAF and the South African Revenue Services (SARS) IAF should be effected. This would support the National Treasury IAF, since IAF staff members at SARS are perceived to already have adequate IT skills. The proposal is in line with the requirements of Standard 1210.A1, *Proficiency*, which requires the CAE to obtain competent advice and assistance if the internal auditors lack the specific knowledge and skills needed to perform an engagement (IIA, 2010b). The perceptions recorded in this study, and the views of the researcher, support the proposal from the AC participants.

5.3.2.4 IAF's participation at strategic level

The importance of strategy in public service institutions from a financial management perspective is recognised in Treasury Regulation 5.2 (RSA, 2005:para 5.2).

a) Category 2: executive and senior managers

In the literature chapters in this study the fact is emphasised that the public sector IAF is regarded as a cornerstone of good governance. The requirements of both the PFMA and the MFMA characterise the IAF as an assurance provider to its customers (RSA, 1999:ss 38(1) & 76(4); RSA, 2003a:s 165). This justifies the IAF fulfilling a role at strategic level. Hence the IAF could be used by executive and senior managers to enhance accountability and transparency at the strategic level.

The view of one participant was that the role of the IAF in the National Treasury should be associated with the strategic operation of the department. The view of this participant was recorded as follows:

My expectations of IAF are that they should be able to engage broader than merely seeking to process a standard and that is my expectation. I expect them to engage at the more strategic level ... (P8:14, 64:64).

For the IAF to serve its customers effectively, it should align its strategic plan with the organisational objectives. The above-mentioned customer expectation indicates that the role of the IAF at strategic level should not be limited to compliance or an oversight function, but should be expanded to include strategic considerations. One of the participants acknowledged the fact that there is already evidence of a paradigm shift in the perceptions of the executive and senior managers of the National Treasury in that there is an expectation that the IAF should make contributions at the strategic level. One participant expressed management's attitude as follows:

I will tell you broer, I will tell you, here at Treasury management's attitudes have always been like these: 'No, we will give them the rules. For us they don't need to be there' ... That was their culture and it's already changing ... (P10:22, 123:123).

The above opinion indicates that the role of the IAF has changed, and it would appear that the IAF could soon claim its rightful status in the National Treasury as a key role player at strategic level in the department. This study therefore suggests that the AC should further enhance this status by offering visible support to the IAF so that executive and senior managers will be able to recognise this during AC meetings.

It is interesting to note that there is a paradigm shift on the part of executive and senior managers in that they acknowledge the role of the IAF in the National Treasury. This is highlighted by the conviction of the participant quoted above about management's changing attitudes towards the IAF, and confirms its strategic role.

Accordingly, the duties and responsibilities of the IAF could be adjusted to enable it to meet executive and senior managers' expectations in relation to the departmental strategic objectives.

A significant strategic objective in South African public service institutions is to improve service delivery (Pauw, Woods, Van der Linde, Fourie & Visser, 2009:88). The above perceptions of the participant show a high degree of consensus with the suggestions put forward in the literature that the IAF is a management tool that could be used to fast-track the service delivery commitments in the public sector.

Recommendation

The study recommends that the IAF should be skilled so as to be able to embrace its role at strategic level in the National Treasury. As a starting point, the IAF could be trained to understand the department's vision, mission and values in order to relate them to the opportunities and risks that could be faced by the department. The involvement of the CAE at strategic levels (where risk, controls and governance processes are discussed), is further recommended.

5.3.2.5 Consultation and openness

Consultation and openness are among the principles of Batho Pele (RSA, 2003b) best able to promote ways of sharing views. Embracing consultation and openness will also encourage the IAF to listen to the views and expectations of its customers in public service institutions.

a) Category 3: programme and operating managers

One of the sub-themes emerging from the views of the programme and operating managers participants indicates that there is a need for the IAF to be more consultative and open with its customers. This expectation is in line with the literature discussed in chapter 3 (section 3.5.1) which indicated that TQM requires the IAF to be consultative and open instead of prescriptive in its appraisal function (Hawkes & Adams, 1995:35). In addition Hawkes and Adams (1995) suggest that the

cooperative and participative role of the IAF should involve effective communication and coaching skills to assist IAF customers to improve their operations. Linked to this idea, and illustrating that communication and coaching needs exist on both sides of the equation, one participant observed:

... I find auditors sometimes shying away from [saying] just “ok I don’t understand your system, I don’t understand the process that you are following” (P6:3, 24:24).

The above view suggests that the IAF should also follow a more enquiring approach in its efforts to understand the business environment, if the IAF wishes to add value to its customers. It is therefore recommended that the National Treasury IAF should adopt an open communication policy which could result in earning the respect of its customers through its own improved knowledge and business insights.

The perceptions expressed by the programme and operating managers participants indicate that the IAF should acknowledge its shortcomings. The following are the perspectives of one of the participants:

They must also be genuine and open about areas where they are still learning (P8:14, 64:64). So my expectation again to summarise is that they should be open and frank and all that about things they are not ready to add value on. They must say “this is a new field. We can only audit you up to this point and maybe checking compliance and whatever but we are not geared yet to giving an opinion on whether you are effective or not” (P8:16, 78:78).

An inference from the above view is that the National Treasury’s IAF has limited knowledge of some areas of the department’s operations. According to the participant, this then limits the value the IAF is able to add. This is an area for improvement, and it is therefore recommended that the IAF should consider employing consultation and openness with their clients as an opportunity to gain an understanding of the operations of the department and to improve its functions. Regular feedback from its customers could possibly ensure that the IAF becomes

aware of customers' expectations and its own shortcomings before they become obstructive.

Recommendation

It is recommended that the National Treasury IAF should introduce a formal consultation policy to obtain customers' perceptions at regular intervals, thereby ensuring that its services remain appropriate and relevant.

5.3.2.6 Realistic audit plans

As part of maintaining best practice and compliance with regulations, the public sector IAF plan should be prepared in consultation with and with the approval of the AC. A three-year strategic internal audit plan should be adopted based on its assessment of key areas of risk for the organisation. The following would be required: the full internal audit plan for the first year of the rolling plan (which should indicate the proposed scope of each audit in the annual internal audit plan); operating procedures with management inputs to guide the audit relationship, and a quarterly report to the AC detailing its performance against the annual internal audit plan to allow effective monitoring and possible intervention (RSA, 2005:para 3.2.7).

a) Category 3: programme and operating managers

It is against this backdrop that one participant emphasised this expectation:

Firstly they should start by producing a realistic plan that has the inputs of their audit committee and management (P8:9, 36:36).

It is apparent from the above view that the National Treasury IAF does not always work closely with the risk management unit, or make particular efforts to understand the risk profile of the department, when compiling its internal audit plan. This study therefore recommends that before the finalisation of its strategic audit plan, the IAF should hold discussions with the department's risk management unit to assess the key risks they would like to have included in the plan, and to determine the

anticipated audit scope needed to address these risks. The IAF should report back to the AC on these discussions.

Recommendation

The involvement of the risk management unit and the AC in the finalisation of the IAF's strategic plan should contribute value to the activities of the National Treasury. IAF customers would thus be more comfortable with the intended audit scope of risk areas because the impact of an audit on a risk area is well known to the risk management unit, and their input could result in setting more realistic plans. The involvement of the AC, through having the IAF reporting to it, should give the process further credibility.

The formulation of a strategic internal audit plan that is achievable and meaningful, not only to the AC, but meaningful and responsive to all customers' expectations, should then be achievable. Fostering an open communication policy on the part of the IAF, and feedback from customers, should ensure that the IAF becomes aware of its customers' expectations.

5.3.2.7 Feedback sessions

According to Standard 2410, *Communication criteria*, the IAF is required to receive and respond to the engagement client's views on the internal auditor's conclusions, opinions or recommendations (IIA, 2010b). Such communication is important to both programme and operating managers and to the IAF in that it enables both parties to reduce and clear up any misunderstandings about the contents of the IAF's report.

a) Category 3: programme and operating managers

One programme and operating managers participant expressed the following opinion:

As long as we can have more feedback sessions, that will help. That would help because what happens is initially an audit is done. When an audit is done

we involve lower level people (P6:12, 60:60). As long as they are there and they can give feedback (P6:17, 94:94).

Judging by the above participant's expectation, a formal feedback session is required, also attended by representatives drawn from the ranks of the junior staff members. The participants also require the IAF to prepare a feedback session that will enable junior staff members to hear and interrogate the IAF's ideas and suggestions on how to improve the way things are done. Such contextualisation should add value because, as the above participant makes clear, the junior staff members are the best people to receive feedback from the IAF because they are the executors of the accepted recommendations.

Recommendation

The introduction of formal feedback sessions is therefore recommended because this would help the IAF and the programme and operating managers to agree on the findings, recommendations and results of the audit. It would also assist programme and operating managers to take ownership of the internal audit report and to implement the IAF's recommendations in a positive way.

5.3.2.8 Knowledge of the business

Practice Advisory 2010-1, *Linking the audit plan to risk and exposures*, indicates that CAEs use the audit universe to develop the audit plan. The audit universe is a list of all the possible audits that could be performed and includes all components of the organisation's strategic plan, from the micro level to the overall business objectives (IIA, 2010b). Since the audit universe includes the wider business environment in which the organisation operates, it also assists the IAF to gain knowledge of the business. Such knowledge helps the IAF to identify and assess the risks to the IAF customer that are present in the business environment.

a) Category 3: programme and operating managers

Nevertheless, one of the programme and operating managers participants stated the following:

... so they ask us “what are the risks?” (P7:6, 30:30) and then they write it down as if it were their findings ... Then you give it to them and they write it down and [say] “[we] recommend the following” as if it was their findings. So that results, if you are an experienced Government Official [you know that] they have got to have something in their report, some recommendation... [So] then you feed them with the recommendations which you will do next year. So it is missing the whole purpose (P7:7, 34:34).

The above view indicates a lack of understanding on the part of the IAF that it has a responsibility to ask for management’s input so that it can use management’s risk information to develop its own risk-based plan. Hence it could be argued that management needs to understand that the IAF is not the process owner, but management’s tool for making recommendations drawn from the knowledge they have of the organisations’ systems, risk management and governance processes.

Recommendation

Since risk management is the responsibility of each and every manager in the organisation (IIA, 2009a), it is recommended that there should be some form of interaction between the IAF and the programme and operating managers in the National Treasury. This interaction would help the IAF to gain an understanding of the risks faced by the department. It is further recommended that the IAF should educate management about its responsibilities in risk management.

5.3.2.9 Training

Given the rapid rate of change being experienced in the business environment, ongoing training is vital for IAF staff in order to keep up with developments, let alone enhance their mastery of the skills required in the workplace.

a) Category 4: external auditors

In the discussion of customer expectations, one participant stated the following:

The [IAF needs] training on financial reporting also because it hasn't been part of their plans on the training side (P4:25, 167:167). Actually it should be part of their responsibilities to audit controls on financial information. Yes they must be able to review the controls around it and be able to give some inputs on how to improve it. So I haven't seen anything in that case so far. Because I remember even in the past (I think two years ago) the Director was preparing the financial information at National Treasury level and gave it to internal audit but it came back with no indicator of reviews ... (P4:11, 165:165).

The key point made by the AGSA participant is that the IAF should make every effort to gain an understanding of the system of internal controls in order to provide assurance on the financial controls. The expectations of the AGSA participants are that the IAF should equip itself with current knowledge of key aspects of financial information which could assist the IAF to examine the financial controls and recommend appropriate improvements. However, the attest function (to determine whether the financial information prepared by management has been presented fairly and in accordance with the mandated reporting framework), remains the responsibility of the AGSA.

A further observation regarding the need for improving the training and education of the IAF identifies the following:

In fact they can be trained because most of them are from Technikons, those who are staffed at National Treasury, be trained ... [in] financial accounting at the third [year] level, thus a basic knowledge that one should have to be able to examine or assess the financial information. So the background plays a big role. One needs to be exposed [to work-place realities] on this level and also [to formal] training. Training should be [ongoing], because there are regular updates on financial information. Regular updates where there are statements

being prescribed on how to treat a certain account or a certain line in the financial [statements]... (P4:26, 191:191).

From the above observation it is clear that there are some reservations about the knowledge levels on financial information reporting amongst the IAF staff at National Treasury.

Recommendation

It is recommended that the IAF staff attend refresher courses on financial information reporting and also expand their knowledge of the latest developments and requirements in this arena. An understanding of contemporary financial controls could also help IAF staff to understand the risks to the effectiveness of financial controls faced by the National Treasury. Another way of addressing the lack of training would be to allocate additional resources to the National Treasury IAF to enable them to appoint staff members already equipped with appropriate experience and knowledge.

5.3.2.10 Independence and objectivity

According to Stewart and Subramaniam (2010:329), independence and objectivity are the cornerstones of the IAF in the organisation. Standard 1100, *Independence and objectivity*, thus calls for the IAF to be independent and the internal auditors to be objective in the performance of their work (IIA, 2009a).

a) Category 4: external auditors

In order to increase the status of the IAF in the public sector, the IAF has to be regarded as independent and objective. These are fundamental to the good practices of the IAF. The IAF is required to be free from the direct influence of its customers, and it must also not find itself assuming management's responsibilities. The following are the comments of one of the participants on the independence and objectivity of the IAF:

Yes ... they must be objective. Objectivity is part of it. So they must be free from conflicting responsibilities and also they must be free from constraints imposed by management, and they must report to those [who] are charged with governance. They must have free access to the Audit Committee and also they must report to the DG or the Accounting Officer. So those are I would say the criteria that we are looking [f]or, that we expect them to run as a unit (P4:19, 141:141).

The AGSA participant expects the IAF to be independent and objective, and never to compromise these principles. The AGSA participants thus require the IAF to be able to exercise its role by adopting an independent mental attitude and making their recommendations freely and impartially.

Recommendation

Since Standard 1100, *Independence and objectivity*, requires the IAF to be independent and the internal auditors to be objective (IIA, 2009a), it is recommended that the IAF's independence and objectivity should be clearly defined in the internal audit charter, as this is the governing policy document on the professional performance of the IAF in the National Treasury. It is further recommended that the AC should fulfil an oversight role to ensure that these principles are honoured by having frequent meetings with the CAE, without management being present.

5.3.2.11 Summary of the key IAF customers' expectations

From the above discussion it is clear that identified key IAF customers' expectations and perceptions of the National Treasury IAF vary and are influenced by their own work-defined circumstances. The AC participants expected the AGSA to rely on the work of the IAF, and that the IAF should implement a findings register and improve their IT skills. The executive and senior managers participants would like the IAF to fulfil a more strategic role and to render assurance services, while the programme and operating managers participants would like the IAF to adopt an open and consultative approach, set realistic audit plans, have feedback sessions and improve their knowledge of the business. The AGSA participants, for their part, called for the

IAF to demonstrate their technical competency and independence and objectivity in order for them to rely on the work of the IAF.

To conclude this sub-section, these representative and verbatim quotations from the research participants indicate that they require efficient services from the IAF. The role of the IAF is acknowledged by its customers and is deemed important in the governance of public service institutions. However, there are shortcomings that these customers would like to have addressed.

5.3.3 Challenges facing the IAF

According to the participants the IAF in the National Treasury plays an integral role in improving service delivery and ensuring compliance with laws and regulations. One of the participants summarised the compliance role of the IAF as follows:

IAF focuses on helping the organisations to have a common understanding in the interpretation of policies. Whether there is a policy, because there can be policies in place but if policies are interpreted differently, it means they will be applied differently and they will be wrong and putting the organisation at risk. Sometimes we get used to certain practices and it becomes a norm which is not common practices, but it is for IAF to guide and remind us that the right way to do things is this direction and not what you are doing (P6:18, 14:14).

According to Frigo (2002:33), the IAF is faced with the challenge of prioritising customers' changing expectations. Customers' expectations of the National Treasury IAF are closely associated with the challenges experienced by the IAF. Because similar views relating to the theme *challenges* were identified by more than one of the categories of participants, the discussion of the challenges faced by the IAF takes place without reference to the four categories of participants. The empirical data revealed the following sub-themes to the main theme *challenges facing the IAF* as it attempts to be responsive to its customers' expectations.

5.3.3.1 Knowledge of the business

One of the basic concerns raised by both the executive and senior managers participants and the programme and operating managers participants is that the IAF does not understand the department's business. The following responses summarise the sentiments expressed by many of the participants:

Not understanding. You see they still had the attitude "we have got to find something wrong". So they ask us "what are the risks?" and then they write it down as if it were their findings (P7:7, 34:34).

Then ... I find auditors sometimes shying away from just "ok I don't understand your system; I don't understand the process that you are following" ... then in some cases where you give them a response to say "this is done this way" and they don't understand the links between whatever it may be, policies or legislation, then they would insist on saying "no, we don't think this is working properly" or "this is not an appropriate answer" that we are giving (P6:5, 32:32).

Yes I think that is actually what we find only in Treasury but then I have to talk generally. That is why internal auditor got the resistance is because they go there, they understand the technique and what they need to do but your lack of understanding the business becomes your challenge ... To a very large extent. No, no, actually that is the biggest; the number one biggest challenge of internal auditors is if you get audited by somebody who does not understand your environment you don't get value for money (P8:7, 30:30).

They understand the environment. I think it is something which is, what can I say, it is not something which you can say a conclusive understanding, just general, a general understanding (P1:6, 37:37).

... to answer your question directly, even taking into account my division, sometimes I don't understand how my division operates, what to necessarily look for etc. If I take that and I superimpose it over the entire organisation

then I will safely say I don't think sometimes they have got a fair understanding of what the department is all about ... but you can see it in the ... way in which the auditor audits (P9:9, 35:35).

An analysis of the above quotations indicates that the participants perceive the IAF's lack of knowledge of the business operations and the environment in which the department operates as a significant challenge. However, owing to the nature of the role of the IAF, it does not necessarily have to understand everything about the business operations and environment: with its technical knowledge and competencies it should still be able to make recommendations and to offer advice on areas that may have an impact on the business risk. The IAF should actually be able to learn about the business operations and environment by reviewing the organisational systems, risk assessment and strategies.

Recommendation

The executive and senior managers, and the programme and operating managers should be made aware of the IAF's predicament relating to their role and their lack of specific operational knowledge, and should be encouraged to play an active role in empowering IAF staff with knowledge of the department during their encounters. As a starting point, it is recommended that all staff in the IAF should understand the department's strategy and related risks. The IAF should then align its work to the key aspects of the balanced scorecard which includes the internal, financial, support and customer orientation processes. Such an alignment would help the IAF to understand the vision, mission and strategies of the department. By following the balanced scorecard approach, the IAF would be able to obtain a holistic view of the business operations and environment of the department. These recommendations would enable the National Treasury IAF to develop an audit plan that would prioritise effective service delivery.

5.3.3.2 AGSA's reliance on the work of the IAF

One AC participant indicated that he expects the AGSA to place reliance on the work of the National Treasury IAF (see section 5.3.2.1, category 1). Both AGSA

participants indicated that under certain circumstances they would rely on the work of the IAF, but:

... for us to use their work is a bit tricky because their samples aren't as big as what we use to get an opinion ... if we have to rely on their work more, then obviously they have to increase their samples; we have to communicate on sample sizes and what is appropriate for us (P3:1, 10:10; P3:4, 26:26).

For us to rely on the work of IAF, we are looking at the period when did they do the task and also the sample that they have selected: is [it] for which period. So now we cannot rely on the work that was performed on the first two months, or the first three months (P4:24, 48:48).

The above observations explain why the AGSA is reluctant to rely on the work of the National Treasury IAF. It appears as if the scope of the IAF's work is sometimes not broad enough. International Standard on Auditing (ISA) 610, *Using the work of internal auditors* (SAICA, 2012/2013:ISA 610 para 11) requires external auditors to consider the nature and scope of specific work performed by the IAF in determining the extent to which external auditors will use the work of internal auditors. ISA 610 (SAICA, 2012/2013:ISA 601 para A6) further determines that the nature, timing and extent of the audit procedures performed on specific work of the IAF will depend on the external auditor's assessment of the risk of material misstatement and the evaluation of the IAF's procedures. This may include the following: examining items that have already been examined by the IAF; examining other similar items, and observing the procedures performed by the IAF. One participant stated the following:

We look also at the timing, the nature and also the extent of the procedures being performed by the internal auditors. So now we do the holistic review of the internal audit (P4:2, 56:56).

The manner in which the required coordination between the IAF and the external auditors is effected and communicated will influence the efficiency of the external audit. In the context of the scope of the IAF, Standard 2100, *Nature of Work* (IIA, 2009a), states that the IAF should evaluate and contribute to the improvement of risk

management, and control and governance systems. This indicates that the IAF is concerned with the business operations of the organisation.

In the context of this empirical research, it is evident that the AGSA participants also view the IAF as a management tool whose primary task is to assist management in all areas of the organisation by making comments and recommendations on risk, control and governance.

Although the findings of the study indicate that the AGSA participants have concerns about placing reliance on the work of the National Treasury IAF, it was not the intention of this study to find an answer, but rather to explore the AGSA participants' views in an effort to assist the IAF to render quality service to its customers.

Recommendation

The consensus perception expressed by the participants is that a number of factors restrict the scope of the IAF's work, and the timing, nature and extent of their procedures limit the amount of reliance that can be placed on the work of the IAF. With this in mind, it is recommended that the National Treasury IAF should meet the requirements of ISA 610 (SAICA, 2012/2013:ISA 610 paras 8, 9 & 10) and should enter into open dialogue with the AGSA to identify shortcomings that prevent reliance on the IAF's work, and to discuss steps that could be followed to remove the impediments. An action plan could follow to ensure that the National Treasury IAF has appropriate resources and that it plans and conducts its work in a manner that will facilitate such reliance. This is in line with the requirements of Standard 2050, *Coordination* (IIA, 2009a), which expects the CAE to share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper audit and assurance coverage and to minimise duplicated efforts.

If the above recommendation is followed, it could further empower the IAF and improve its status in the organisational structure of the National Treasury.

5.3.3.3 Audit action monitoring processes

From the perceptions of an AC participant, the introduction of audit action monitoring processes was identified as a remedial exercise to ensure that corrective action is taken on issues identified by the AGSA and the IAF. The AC expects the IAF to compile a formal findings register that would indicate corrective actions taken and list the unresolved findings. The AC participant had the following to say in this regard:

How long has it taken to resolve some of these issues? Then we can monitor it and say “how come you have an issue that is sitting here for two hundred and four days?” and it’s something simple as writing up a policy on XYZ, so what is so difficult about that? (P5:11, 28:28). That has been a challenge in management sometimes, resolving those things. So you have things sitting there for long because they haven’t been addressed by management (P5:22, 28:28).

This challenge has been identified by Fernandez-Laviada (2007:150), who claims that the IAF should oversee the execution of the audit action plans. Brooks and Pariser (1995:82) further maintain that the concept of accountability in the public sector’s financial management has brought into sharp focus the role of the IAF in the public sector. Hence the need to follow up on audit recommendations is critical.

Recommendation

In the light of the above, it is recommended that formal audit action monitoring processes should be introduced in the National Treasury. The idea of the maintenance of a formal audit action plan should be implemented as a means of getting management to commit to responding swiftly to the AGSA and IAF’s recommendations. If the National Treasury implements the recommendation, it is envisaged that an audit action monitoring committee would then be convened by the AO to allocate accountability in order to ensure the prompt implementation of the AGSA and IAF’s recommendations.

5.3.3.4 Management support

Sentiments shared by the AC participants are encapsulated in the following quotations:

IAF is not as effective as we want it to be mainly because executive management don't give the internal audit the necessary support and respect. Respect that they have lots of repeat findings and they are not sorted (P11:10, 64:64).

So I think it's important if you put it in perspective in that if we did not have this problem, [this] lack of support, I think the internal audit here at the National Treasury could be very powerful (P11:13, 64:64). If you compare South African Revenue Services (SARS), imagine SARS. I mean we had a good three meetings and you can see with SARS their internal audit is very, very unbiased. Even when they give you the examples of how they deal with the Commissioner and all that. The Commissioner is always having [meetings with] them next to him and they strategise together and all that (P11:14, 64:64).

The perceived lack of management support for the IAF could have negative effects on the operational effectiveness and the value added by the IAF. The basis of the sub-theme, *management support*, is that the National Treasury IAF does not apparently have sufficient standing in the department, and therefore does not receive sufficient support from management to be fully effective. Based on the empirical data collected in this study, it would appear that the AC participants are concerned about management's repeated discussions and slow implementation of the IAF's recommendations.

Recommendation

Based on the perceptions of the AC participants, the executive and senior managers should set the tone required to increase the standing of the National Treasury IAF in the department by involving them at the strategic level, and by supporting the IAF by

seriously and effectively considering their recommendations. Such conduct could prevent management sending out the wrong signal to the rest of the department about the importance of the IAF in the department (Mihret & Yismaw, 2007:482).

5.3.3.5 Summary of the challenges facing the IAF

The perceived challenges facing the National Treasury IAF relate to the IAF's lack of knowledge of the business, the AGSA's limited reliance on the work of the IAF, the absence of formal audit action monitoring processes and the lack of management support for the IAF. The fact that the National Treasury is a custodian of the legislative frameworks governing the establishment of the IAF in public service institutions ideally positions it to comment on the optimal utilisation of the IAF in the public sector and in so doing it is able to address the challenges facing the wider IAF.

5.4 PERSONAL REFLEXIVITY

I knew that the study would take me longer than expected. Nevertheless, it was my dream to finish what I had started. I knew that I would eventually arrive at the apex – and here I am.

Reflexivity may be demonstrated by use of the first person when the researcher describes the aspects of the research in which he or she has a personal involvement (Horsburgh, 2003:308). In this reflection, I would like to acknowledge my subjectivity because of the nature of this qualitative study. The study dealt with the perceptions of the key customers of the IAF in the National Treasury of the work performed by that department's IAF.

The issue of customers' perceptions of the work of the IAF is close to my heart, and this is what motivated me to conduct the study. Colleagues also agreed with the viability of the research topic and commented on the meaningful contribution it would make to improve the relationship between the IAF in the public sector and its customers.

I conducted this qualitative study in an effort to understand the National Treasury IAF's key customers' expectations, experiences and challenges facing the IAF. In this process of seeking to understand these perceptions, I visited the participants at their places of work. I was interested in how they perceived the work of the IAF in the National Treasury.

My study was a time-consuming exercise, initially requiring ethical approval to conduct the study, followed by my first encounter with the National Treasury IAF to explain my study and what I intend doing. I gave the National Treasury IAF management a wide view of the issues pertaining to my research topic and the aim of the study. Only with their support could I embark on my research journey involving various key IAF customers as participants in the study.

Communiqué after communiqué, meeting after meeting and telephone call after telephone call ensued. As an outsider, a professional stranger and unknown guest, I was cornered in one of the meetings held with the IAF. There was no sign from the National Treasury IAF management that they valued what I was presenting to them. The outlook was bleak. After that meeting, I reflected on everything that had happened and realised that I could in fact benefit by learning from this social phenomenon. I then relied once again on consultation with experts in the field (research supervisors) for guidance. Because of their experience as professors working with research graduates in the accounting sciences, they encouraged me to persevere because they too believed in my research aim and objectives, and the chosen methodology. One of the supervisors accompanied me to a meeting with the executive and senior managers of the National Treasury to address some of my concerns and uncertainties, thereby demonstrating that I had more than sufficient support for the study from my academic research support team. This was not going to be a piece of undergraduate invention, but a serious academic study intended to add value way beyond simply fulfilling the requirements of a post graduate degree.

As a qualitative researcher, I was aware that the management of the IAF of the National Treasury might not trust me during our initial engagement. However, trust was built through prolonged interactions with the IAF management. Nevertheless, with the final approval and support of the executive and senior managers of the

National Treasury and the management of the IAF it was all systems go. The IAF helped me to identify potential participants and I started with the process of data collection. The interviews were an eye opener for me as a qualitative researcher. I obtained much more than the anticipated insight even though I knew the field well. My personal involvement with the participants influenced my views on the IAF of the National Treasury. With my chosen research design I was able to choose the participants in the study based on my belief that their participation would contribute to my learning experience.

Throughout the process, I found it extremely interesting to engage in lively debates with the participants on their perceptions of the work of the IAF at the National Treasury. I collected the data using a digital recorder that was present in every interview with the participants. During this period, I established my perspectives and understanding of the participants' perceptions about the work of the IAF. Their behaviour became meaningful and understandable to me in the context of my research. All the participants were professional people and therefore understood the context of my research. As a researcher, I appreciated the time and effort they put into participating in the study and providing me with data, despite their work commitments and busy schedules.

In the presentation of this study's findings I have endeavoured to present a natural front to the participants' responses and to honour their voices. Although the data I collected were initially disorganised, it was my responsibility as a researcher to rearrange and organise all the information into a logical body of knowledge. After collecting the data, I manually coded the data with colourful markers in an attempt to make sense of the messages presented by the participants. I carefully used the literal words of the participants in order to honour their voices. With this in mind, I wanted to bring the readers closer to what I had seen and heard during data collection. It was an exhausting exercise; I had to read the interview transcripts over and over again. My progress was hampered by manual coding which was an iterative process. I later used Atlas.ti to capture all the transcripts in the Hermeneutic Unit and found it a useful tool to code, retrieve and store data. I also found it conducive to managing such a huge amount of (initially) unstructured textual data.

I often reflect on my research journey and the case study involving the National Treasury, and I acknowledge the existence of subjectivity in conducting qualitative research. At the same time, I realised that Atlas.ti afforded me the opportunity to showcase the credibility of my qualitative research. The voices of the participants were captured in Atlas.ti, which could be used to validate the credibility of the research data. The signed consent letters represent evidence of the confirmability and objectivity of my actual interaction with the participants.

I did manage to put all the research questions to all the participants and their perceptions provided me with information which I could relate to the literature review, and thereby contribute to the body of knowledge in the field of internal auditing.

Throughout this qualitative study, I knew that qualitative research takes longer than expected and requires perseverance on the part of a researcher. However, I know now that I have gained confidence in my ability and strength to do independent research. This is my story. This is my personal reflection of this case study. As one of my supervisors often says: "Research is one step forwards and two steps backwards" - in other words, as a researcher one attempts to do the same thing over and over again, until one finally masters it.

5.5 CONCLUSIONS

The data analysis, interpretation and presentation of the results as set out in this chapter were based on the information provided by the participants during the interviews. These participants expressed reasonable satisfaction with the work of the IAF in the National Treasury. From the data analysis and interpretation it has emerged that the National Treasury IAF is regarded as an effective tool by participating key customers, adding value as one of the organisation's governance structures. The role of giving advice and rendering assurance services is being fulfilled by the IAF in the National Treasury, and is supported by the AC of the department. However, a number of areas for improvement were identified. The executive and senior managers participants requested that the IAF focus more closely on areas they are correctly concerned about, while some negative sentiments about the IAF were expressed by the programme and operating

managers participants because internal auditors do not always demonstrate a holistic view of the organisation when they perform their duties.

The overall view of the participants concurs with the views that emerged from the literature review presented in chapters 2 and 3 of the study. Besides the specific experiences and expectations identified by the IAF's key customer participants, the perceived challenges facing the National Treasury IAF relate to its lack of knowledge of the business of the Treasury, the AGSA's unwillingness to place more than a limited reliance on the work of the IAF, the lack of a formal audit follow-up action monitoring process and the lack of management support. The AGSA participants felt that for them to rely on the work of the IAF, the IAF should expand the nature and extent of its work. This appears somewhat incongruous as the AGSA focuses on the financial controls and related information, while the IAF focuses on the compliance aspects of the department's work. However, the AGSA participants indicated that they are using the work of the National Treasury IAF to perform a risk assessment in the initial stages of their audit engagements.

It is necessary for the IAF to understand its customers' expectations. The AC participants expect the AGSA to rely on the work of the IAF and that the IAF should keep a findings register and follow-up on the implementation of recommendations. There is also the perception that the IAF should improve its IT skills and be involved in the department's management at a strategic level. It should also establish a culture of consultation and openness, set realistic audit plans, introduce formal feedback sessions and create opportunities to obtain risk-related knowledge of the department. The AGSA participants also expect the IAF to increase its knowledge and skills in the areas of financial information and control, and that the IAF should maintain its independence and objectivity as specified in the internal audit charter.

Accordingly, the study recommends that for the IAF to have knowledge of the business, the executive and senior managers and the programme and operating managers should empower the IAF staff by providing them with information on the departmental strategies and related risks; that in order to implement formal audit follow-up action monitoring processes the AO should convene an audit action monitoring committee to ensure swift implementation of the IAF's recommendations;

and that the lack of management support could be addressed by the AC and the executive and senior managers ensuring that the IAF is supported and invited to participate at strategic level.

Another topic closely related to the discussions was the researcher's personal reflexivity, which explains his personal feelings and experiences during his interactions with the National Treasury IAF and some of its key customers.

Emerging from the data analysis, interpretation and presentation of the results and the researcher's personal reflexivity, the next and final chapter looks back on the research aim and objectives, presents the findings emerging from this research and the contribution it makes to the body of knowledge, and makes recommendations and suggestions for possible further research.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

Chapter 5 discussed the data analysis, interpretation and presentation of the empirical results of research conducted to establish customers' perceptions of the work performed by the internal audit function (IAF) in the Department of National Treasury (National Treasury). This chapter deals with the achievement of the research aim and objectives, and presents a summary of the research findings. This study's contribution to the body of academic knowledge, recommendations arising from the research results and suggestions for further research precede the final conclusions of the study.

6.2 ACHIEVEMENT OF THE RESEARCH AIM AND OBJECTIVES

In the concluding chapter, it is necessary to determine whether the research aim and objectives of the study have been achieved. The aim and objectives of this study were driven by the research problem statement, namely that no study had been done on customers' perceptions of the IAF in the public sector; hence, customers' experiences and expectations and their perceptions of the challenges facing the IAF were unknown. The aim of the study was to generate an in-depth understanding of key IAF customers' perceptions of the work performed by the IAF in the National Treasury. This study employed five research objectives to attain the aim and to address the identified problem statement. The objectives of the study were as follow:

- objective 1: to identify the role of the IAF in the public sector in relation to its customers;
- objective 2: to discuss strategies to meet the expectations of IAF customers;

- objective 3: to determine the experiences of the identified key IAF customers of the work performed by the IAF in the National Treasury;
- objective 4: to determine the expectations of the identified key IAF customers of the IAF in the National Treasury; and
- objective 5: to ascertain what the identified key IAF customers perceive to be the significant challenges facing the IAF in the National Treasury.

Table 6.1 details how the research objectives were achieved.

Table 6.1: Achievement of the research objectives

Objectives	Outcomes	Positioning in dissertation
Objective 1: to identify the role of the IAF in the public sector in relation to its customers	The first objective was achieved in chapter 2 of the study. This chapter showed that the role of the IAF in the public sector is supported by regulatory frameworks consisting of the Public Finance Management Act, the Municipal Finance Management Act, the Treasury Regulations, the King Report on Governance for South Africa and the Constitution of the Republic of South Africa. All these frameworks showed that the customers of the IAF seek the support of the IAF to enable them to achieve their specific objectives in the public sector. It further discussed how the Committee of Sponsoring Organisations' frameworks on internal control and risk management could help the IAF to fulfil its duties and responsibilities in the public sector. Although internal control and risk management are largely the responsibility of every manager in the organisation, this chapter explained how the IAF could be used to render broader services by assisting and advising both executive and senior managers, and programme and	Chapter 2

Objectives	Outcomes	Positioning in dissertation
	operating managers to focus on the organisation's strategic objectives.	
Objective 2: to discuss strategies to meet the expectations of IAF customers	The second objective was achieved in chapter 3 of the study. The discussion centred around the public service delivery mandate, the internal audit profession's perspective on service delivery, the criteria for the measurement of expectations by the IAF customers, total quality management (TQM), performance evaluation, the balanced scorecard as a means to enhance service delivery by the IAF and the monitoring of performance evaluation in the public sector. Given that the IAF in the public sector has a mandatory obligation, as discussed in chapter 2, this chapter further discussed how the IAF is used in the public sector to improve the efficacy of the systems that support governmental processes and to make service delivery possible.	Chapter 3
Objective 3: to determine the identified key IAF customers' experiences of the work performed by the IAF in the National Treasury Objective 4: to determine the identified key IAF customers' expectations of the IAF in the	Objectives 3, 4 and 5 were achieved in chapter 5 of the study. This study employed a qualitative research approach to obtain an understanding of the identified key IAF customers' experiences and expectations of the work performed by the IAF in the National Treasury and the perceived challenges the IAF faces. The objectives were achieved by analysing and interpreting the key IAF customers' views obtained through semi-structured interviews. The participants' experiences and expectations, and the perceived challenges the IAF faces are as follow: <ul style="list-style-type: none"> • Experiences: The participants were reasonably satisfied with the work of the IAF in the National Treasury. The audit committee (AC) participants, executive and senior managers participants and 	Chapter 5

Objectives	Outcomes	Positioning in dissertation
<p>National Treasury</p> <p>Objective 5: to ascertain what the identified key IAF customers perceive to be challenges facing the IAF in the National Treasury</p>	<p>the external auditor participants commented positively on their experiences with the IAF, while the programme and operating managers participants expressed concern about the IAF not always demonstrating a holistic view of their tasks.</p> <ul style="list-style-type: none"> • Expectations: The AC participants expected the IAF to provide assurance, and that the AGSA should be able to rely on the work of the IAF; they also expected the IAF to have a formal findings register and to have superior information technology skills. The executive and senior managers participants expected the IAF to participate at a strategic level, while the programme and operating managers participants wanted the IAF to have realistic audit plans, provide feedback sessions, have a sound knowledge of the business and to adopt an open and consultative approach. The external auditor participants expected the IAF to demonstrate their technical competency, independence and objectivity more effectively in order for them to be able to rely on the work of the IAF. • Perceived challenges: The participants viewed the IAF's lack of knowledge of the business, the limited reliance of the AGSA on the IAF's work, the lack of audit action monitoring processes and the lack of management support for the IAF as the key challenges the IAF faced. 	

6.3 SUMMARY OF THE FINDINGS

As stated previously, the aim of the study was to generate an in-depth understanding of key IAF customers' perceptions of the work performed by the IAF in the National Treasury. Semi-structured interviews were conducted to collect the data, and Atlas.ti was used to analyse the data. The findings from this study indicate that the IAF serves different customers, each with their own perceptions of the work of the IAF, and with often unique expectations relating to their own relationship with the IAF. The study also found that the National Treasury IAF faces various challenges as perceived by its customers. Three main themes emerged from analysing the research findings, namely experiences, expectations and challenges.

6.3.1 Experiences of key IAF customers

All the participants from the IAF's key customers categories expressed reasonable satisfaction about the work of the IAF in National Treasury. The AC participants commented positively on the technical competencies, expertise and professionalism of the IAF, and the executive and senior managers participants felt that it adds value to achieve the strategic objectives of the National Treasury. Other positive views were expressed by the external auditors participants, who observed that the National Treasury IAF is approachable and committed to achieving a good working relationship with the AGSA. However, the programme and operating managers participants expressed concern about the IAF, observing that it does not demonstrate a holistic view when it conducts evaluations and makes recommendations in their divisions.

6.3.2 Expectations of key IAF customers

The study found that the AC participants expected that the AGSA should rely on the work of the IAF; that the IAF should maintain a formal findings register to assist in monitoring progress (follow-up) in the implementation of the IAF findings, and the IAF needed to improve its IT skills. The executive and senior managers participants expressed the desire for the IAF to add more value towards achieving the strategic objectives of the National Treasury than is currently the case, and to provide

assurance services. The programme and operating managers participants expressed the wish that the IAF would adopt an open and consultative approach to their interactions, to promote ways of sharing views to ensure that realistic audit plans are set. This should include regular formal feedback sessions, and a demonstration of adequate knowledge of the business. To be able to rely on the work of the IAF, the AGSA participants identified a need for the IAF to demonstrate greater technical competency as well as independence and objectivity. Hence, some of the expectations of these key customers are not being met. Recommendations on how to find ways to meet these key customers' expectations are discussed in section 6.5.2.

6.3.3 Challenges facing the IAF

The study found that the IAF of the National Treasury is perceived to be facing numerous challenges, possibly the most serious being its lack of knowledge of the business. In addition the AGSA is only prepared to place limited reliance on their work as a result of its limited scope. Furthermore the absence of formal audit follow-up action monitoring processes and the lack of management support for the IAF also challenges the IAF's ability to function to its highest potential. These findings could indicate that the status of the IAF in the National Treasury has not yet reached its optimal level. Improving the IAF's status can only be achieved if the challenges identified above are substantially met or addressed, which should then have a positive impact on customers' perceptions of the IAF.

6.4 SUMMARY OF THE CONTRIBUTIONS MADE BY THIS STUDY TO ACADEMIC RESEARCH AND IAF PRACTICE

This study of customers' perceptions of the work performed by the IAF in the National Treasury could be useful to all IAFs in the public sector, particularly as they are all subject to external audit by the AGSA. The study, if considered as a benchmark, could enable the National Treasury IAF and the public sector in general, to understand the changing needs and expectations of their customers by addressing the issues and areas identified as needing improvement (see section 6.5). The study could also assist the management teams of IAFs across all public

sector organisations to rethink their strategies and responses to their customers' needs.

Another contribution of this study is that it could be beneficial to the Institute of Internal Auditors in South Africa (IIA(SA)), prompting and directing it to plan and update its training material as part of its continuing educational programme. In this way it will also enhance internal auditors' skills and assist the global efforts of the Institute of Internal Auditors (IIA Global) to update and further develop the Standards for the Professional Practice of Internal auditing.

The significance of this study could extend to the newly established National School of Government, enabling it to address these formally-researched and specific needs in its curriculum. In doing so it would be able to promote capacity building and introduce interventions to address the specific training needs of IAFs in public service institutions. Finally, this research also opens doors for multidisciplinary research in the field of accounting sciences in the public sector.

6.5 RECOMMENDATIONS

Since the National Treasury is responsible for managing the South African government's finances, its role in supporting efficient and sustainable public financial management is fundamental to the promotion of economic development, good governance, social progress and a rising standard of living for all South Africans (National Treasury, 2012). Thus implementing the recommendations made in this study could be beneficial to the National Treasury, and by extension, beneficial to the whole country. In the public financial management system, the IAF fulfils the role of advising customers on public accountability aspects and compliance with statutory and prescribed frameworks and regulations. The recommendations that follow are therefore based on the literature review in addition to conclusions drawn from the empirical results.

6.5.1 Recommendations arising from the literature review

In the light of the significance of the TQM elements discussed in the literature review, the recommendations to the National Treasury IAF encompass the following:

- The IAF should follow a customer-focused approach in the course of engagements.
- The IAF should take time to explain its part in the governance team to its customers.
- Throughout the engagement, the IAF should always keep its customers informed about the development and progress of the audit.
- The IAF should not regard its customers as being in any way inferior, and should thoroughly consider their suggestions and input to continuously improve its own service delivery.
- The IAF should not assume the responsibility of management by reprimanding its customers should it find something wrong in the process of engagement. Rather, it should take cognisance of its customers' roles in operational activities and if necessary report the situation to higher authorities.
- The IAF should find a way to understand the business operations and environment of its customers.
- The IAF should provide a service in line with its objectives and scope of work - in other words, it should not deviate from the set objectives of the audit.
- The IAF should proactively respond to the needs of its customers and find a way to deal with any *ad hoc* requests without delaying their annual audit plan.

In order to improve the IAF's operations in the National Treasury, the IAF should develop an IAF customer service delivery model in line with the above aspects of TQM. These aspects could help IAF management to train, guide and educate its internal audit staff to understand the expectations of their customers. The model should help the IAF to improve and measure the quality of its work on an ongoing basis.

It appears necessary for the National Treasury IAF to measure its work according to aspects of the balanced scorecard to determine whether it adds value to its customers. The aspects of the balanced scorecard could help the IAF to meet the expectations of its key customers. It is recommended that the National Treasury should implement a balanced scorecard framework, which would assist the IAF to measure the time spent to complete the planned audits, the quality of its reports, and to determine the period spent before issuing the internal audit report. These aspects of the balanced scorecard could also help the IAF to effectively address the outstanding audit findings in the findings register and to calculate the percentage of the recommendations that have been implemented. Another benefit of the implementation of the aspects of the balanced scorecard is that the National Treasury IAF management would be able to record the training hours each internal auditor enjoys, and the competence of each auditor against the number of years of experience each has. Moreover, implementing aspects of the balanced scorecard could also assist the AGSA to rely on the work of the IAF through effective communication and understanding of each other's role. This would enable the IAF to realise its audit plans and provide timely feedback to its customers.

6.5.2 Recommendations relating to the empirical results

The empirical results of the study identified weaknesses that emerged from examining the experiences and expectations of the IAF customers. In addition participants shared their perceptions of the challenges facing the IAF in the National Treasury. Recommendations on how to address these weaknesses follow:

6.5.2.1 Focus of the IAF

Based on the empirical results, participating key IAF customers revealed that they were reasonably satisfied with the work of the IAF in the National Treasury. Hence it is recommended that the IAF should continue to advise and provide assurance on risk management, control and governance processes to their customers efficiently, effectively and ethically. It is furthermore recommended that the CAE becomes involved in higher-level meetings in order to improve his or her awareness of the department's strategic objectives, on the understanding that this knowledge and insight is to be incorporated into the activities of the IAF. It is also recommended that the IAF should educate management on how to deal with the weaknesses identified in the internal audit reports, and on the IAF's ongoing role in the governance processes of the department.

6.5.2.2 The AGSA's reliance on the work of the IAF

In order to increase the AGSA's reliance on the work of the IAF, the study recommends that the National Treasury IAF should regularly meet with the AGSA to discuss each other's audit scope and their respective audit programmes, audit plans and reports. Such consultation should occur at an early stage of developing the internal audit plan. It is thus envisaged that the involvement of the AGSA in the development of the internal audit plan could increase its willingness to rely on the work performed by the IAF in the National Treasury. It is recommended therefore, that the AC simultaneously evaluate the audit plans of the IAF and the external auditors, again, to facilitate greater reliance by the external auditor on the work of the IAF.

This recommendation conforms with Standard 2050, *Coordination*, which "requires that the CAE should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts" (IIA, 2009a).

6.5.2.3 IT skills

The empirical data indicate that the key IAF customers' participants expect the IAF to already be in possession of suitable IT skills. Hence the researcher recommends that the National Treasury IAF should provide guidelines that ensure that IT skills are well represented in an internal audit team. This could assist the IAF to better understand the risks and controls in the National Treasury. It would also help the IAF to evaluate the systems' ability to protect information and assets against unauthorised users. Hence the benefit could improve the efficiency of the IAF's efforts to identify possible risks and to recommend mitigating strategies. The participants also require the National Treasury IAF to increase its competence levels in respect of IT skills. This could be achieved if the IAF management recruitment strategy is changed to require that new staff must already have a demonstrable knowledge of information systems. In addition management should provide its existing internal audit staff with IT training so that they will also be in a position to execute their IT-related tasks.

6.5.2.4 Findings register and audit action monitoring processes

The National Treasury IAF should implement and constantly update its formal findings register with the internal and external audit findings. This could be an effective strategy to assist the AC, the executive and senior managers and the programme and operating managers to track and trace any resolved and unresolved audit findings. The development of an audit action monitoring committee could help the AO to allocate accountability in order to ensure the prompt implementation of the IAF and AGSA's recommendations. Such an audit action monitoring committee should be led by the AO on behalf of the AC, and be formally tasked to monitor the progress of the implementation of the IAF's and the AGSA's recommendations. This could also be viewed as an effective strategy on the part of the AC to add value to the IAF.

6.5.2.5 Knowledge of the business

It is recommended that the IAF should conduct an ongoing risk review covering the existing and potential risks that the organisation could face. Hence the National Treasury IAF should regularly consult with the executive and senior managers and the programme and operating managers in order to gain knowledge of the business. Such consultations could assist the IAF to obtain a holistic understanding of the key risks faced by the organisation. It should also be possible for the IAF to gain an enhanced understanding of the business operations and environment by reviewing the organisation's systems, risk assessment processes and strategies. The IAF could also use the risk analysis and risk profile information that the chief risk officer already has on hand, to learn more about the business.

6.5.2.6 Participation at strategic level

It is recommended that the IAF should continue to participate at a strategic level in the National Treasury in order to improve its understanding of issues and risks facing the organisation. Such participation should be exercised professionally and the IAF should treat the information and issues discussed at strategic meetings as confidential.

6.5.2.7 Realistic audit plans

It is recommended that the IAF should develop a realistic audit plan that prioritises the strategic and operational risks identified by the chief risk officer. Such a plan should be aligned to the organisational strategies and should include follow-up audits and *ad hoc* and special audit requests originating from the AC and the executive and senior managers. Accordingly, the study recommends that the audit plan should be flexible (with component audits ranked in order to accommodate *ad hoc* audit work), that the audit plan should also involve the department's risk management unit, and finally that it be approved by the AC.

6.5.2.8 Consultation and openness

Since the IAF does not know everything about the organisation it is working with, the study recommends that the IAF should consider a consultative and open approach to obtain an understanding of the organisation. The National Treasury IAF should introduce a formal consultation policy that would allow and encourage it to interact openly with its customers. Following an open communication policy and obtaining regular feedback from customers should promote a consultative approach to internal audit. This consultative approach could be implemented in terms of Standard 2200, *Engagement planning*, which requires the internal auditors to hold meetings with programme and operating managers responsible for the area covered by the internal audit engagement (IIA, 2009a).

6.5.2.9 Training

Training National Treasury IAF staff on financial information and controls could be beneficial to the National Treasury. This would enhance the efficiency and effectiveness of IAF staff in the evaluation of risks and controls relating to financial information. It is also recommended that the IAF staff attend regular refresher courses on financial information reporting to expand their knowledge to include the latest developments and requirements.

6.5.2.10 Feedback sessions

The IAF's feedback sessions should be viewed as opportunities to explain, validate and justify its role in the department. The study therefore recommends that the junior staff should be involved in the exit meeting (where the IAF discusses the audit findings and recommendations with its customers), and the meeting should be conducted in such a way that the IAF adds value and not only focuses on providing assurance. Such feedback sessions would assist both those tasked with the implementation of the audit recommendations and the IAF to mutually agree on the implementation process and timetable for the recommendations.

6.5.2.11 Independence and objectivity

Independence and objectivity are the cornerstones of the IAF, underpinning their activities from the beginning to the end of the audit engagement. These two principles are fundamental to the integrity of the IAF's practices. These principles should also be defined in the IAF's charter as required in terms of Standard 1000, *Purpose, authority and responsibility* (IIA, 2009a). Therefore the study recommends that the AC should fulfil its oversight role to ensure that these fundamental principles are honoured by having frequent one-on-one meetings with the CAE, without management being present.

6.5.2.12 Management support

The presence or absence of management support determines the operational effectiveness of and the value added by the IAF. It is therefore recommended that the executive and senior management of National Treasury should set a positive tone by involving the IAF at strategic level, and by supporting the recommendations made by the IAF.

6.6 SUGGESTIONS FOR FURTHER RESEARCH

This study of key IAF customers' perceptions of the work performed by the IAF in the National Treasury highlights a number of areas for further research. These research areas extend to include at least the following:

- the future role of the IAF with regard to policy-making in the public sector;
- identification and dissemination of the IAF's successes in the public sector;
- the role of the IAF at strategic level;
- the role of the IAF in public service delivery;

- IAF soft skills training and utilisation when dealing with its customers;
- the role of the IAF in providing assurance and consulting services in the public sector;
- the impact of the organisational objectives on the internal audit plan; and
- the professional conduct of internal auditors in the public sector.

6.7 FINAL CONCLUSIONS

This study generated an in-depth understanding of key IAF customers' perceptions of the work performed by the IAF in the National Treasury. It is hoped that the experiences and expectations expressed by the participants will inform the operation of the IAF in National Treasury and improve their strategic role in the department for the purpose of adding value, improving operations and the effectiveness of risk management, and achieving effective implementation of control and governance processes.

The fact that the National Treasury is a custodian of the legislative frameworks guiding the functioning of the IAF in public service institutions, places it in an ideal position to comment on and direct the optimal utilisation of the IAF in the public sector in order to address the challenges facing the IAF.

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ANNEXURE A

HU: Mcom Final Analysis
File: [C:\Documents and Settings\nmotubat\Desktop\Mcom Transcripts
Interviews Ana...\Mcom Final Analysis.hpr6]
Edited by: Super
Date/Time: 12/01/17 12:41:04

Codes-quotations list
Code-Filter: All [198]

Code: {0-0}

Code: AC {0-15}

Code: Aligned to organisational strategy {1-1}

P11: Interview transcript Member of Audit Committee 815_002 .docx - 11:9
[So I am just helping the DG ou..] (54:54) (Super)
Codes: [Aligned to organisational strategy] [Expectation of IAF
customer]

So I am just helping the DG out. Chief xxx and before I even sit and do my
work I must sit with the DG and we understand each other and then I can say
from my side this is how I can approach it but I need from you how you see
the risks in the organization. What is the risk culture, the philosophy in
the organization and all that but I mean it didn't happen.

Code: Also, management can show what.. {1-1}

P 5: Interview transcript Chairperson Audit Committee FINAL.docx - 5:19
[Also, management can show what..] (41:41) (Super)
Codes: [Also, management can show what..] [Experience of IAF customers:
AC]

Also, management can show what the flaws of the Internal Audit are. Most
of the things the thing arises from just basic emotional intelligence
issues. Communication. Not technical.

Code: And then they also get an unde.. {1-0}

P 6: Interview Transcript Chief Dir HR 817_003 (2).docx - 6:14 [And then
they also get an unde..] (76:76) (Super)
Codes: [And then they also get an unde..] [Recommendation about the
feedback sessions]

And then they also get an understanding of why people are doing that way
and these people will also start understanding 'oh, then it means I am not'
and also sharing some of the things to say 'look at this you are only
seeing as leave.' Because I mean lower level people just see leave that
she has applied for leave and then I didn't capture it, it was just one day
so what?

Code: And you have also helped them .. {1-0}

ANNEXURE B

All current quotations (205). Quotation-Filter: All

HU: Mcom Final Analysis
File: [C:\Documents and Settings\nmotubat\Desktop\Mcom Transcripts Interviews Ana...\Mcom Final Analysis.hpr6]
Edited by: Super
Date/Time: 12/01/17 12:39:14

P 1: Interview transcript Chief Financial Officer 817_001.docx - 1:1 [Ok first and foremost I think ..] (15:15) (Super)

Codes: [Experiences of IAF customers: Executive managers,CFO]
No memos

DATA SOURCE UNACCESSIBLE!: C:\Documents and Settings\nmotubat\Desktop\Mcom Transcripts Interviews Analysis\Interview transcript Chief Financial Officer 817_001.docx

P 1: Interview transcript Chief Financial Officer 817_001.docx - 1:2 [It was not just one of the val..] (23:23) (Super)

Codes: [Expectations from IAF: Executive managers, CFO]
No memos

DATA SOURCE UNACCESSIBLE!: C:\Documents and Settings\nmotubat\Desktop\Mcom Transcripts Interviews Analysis\Interview transcript Chief Financial Officer 817_001.docx

P 1: Interview transcript Chief Financial Officer 817_001.docx - 1:3 [You get the point. So that is ..] (27:27) (Super)

Codes: [Experiences IAF customers: Executive managers, CFO] [You get the point. So that is ..]
No memos

DATA SOURCE UNACCESSIBLE!: C:\Documents and Settings\nmotubat\Desktop\Mcom Transcripts Interviews Analysis\Interview transcript Chief Financial Officer 817_001.docx

P 1: Interview transcript Chief Financial Officer 817_001.docx - 1:4 [I want our audit team to be sp..] (29:29) (Super)

Codes: [Expectations from IAF: Executive managers, CFO] [I want our audit team to be sp..]
No memos

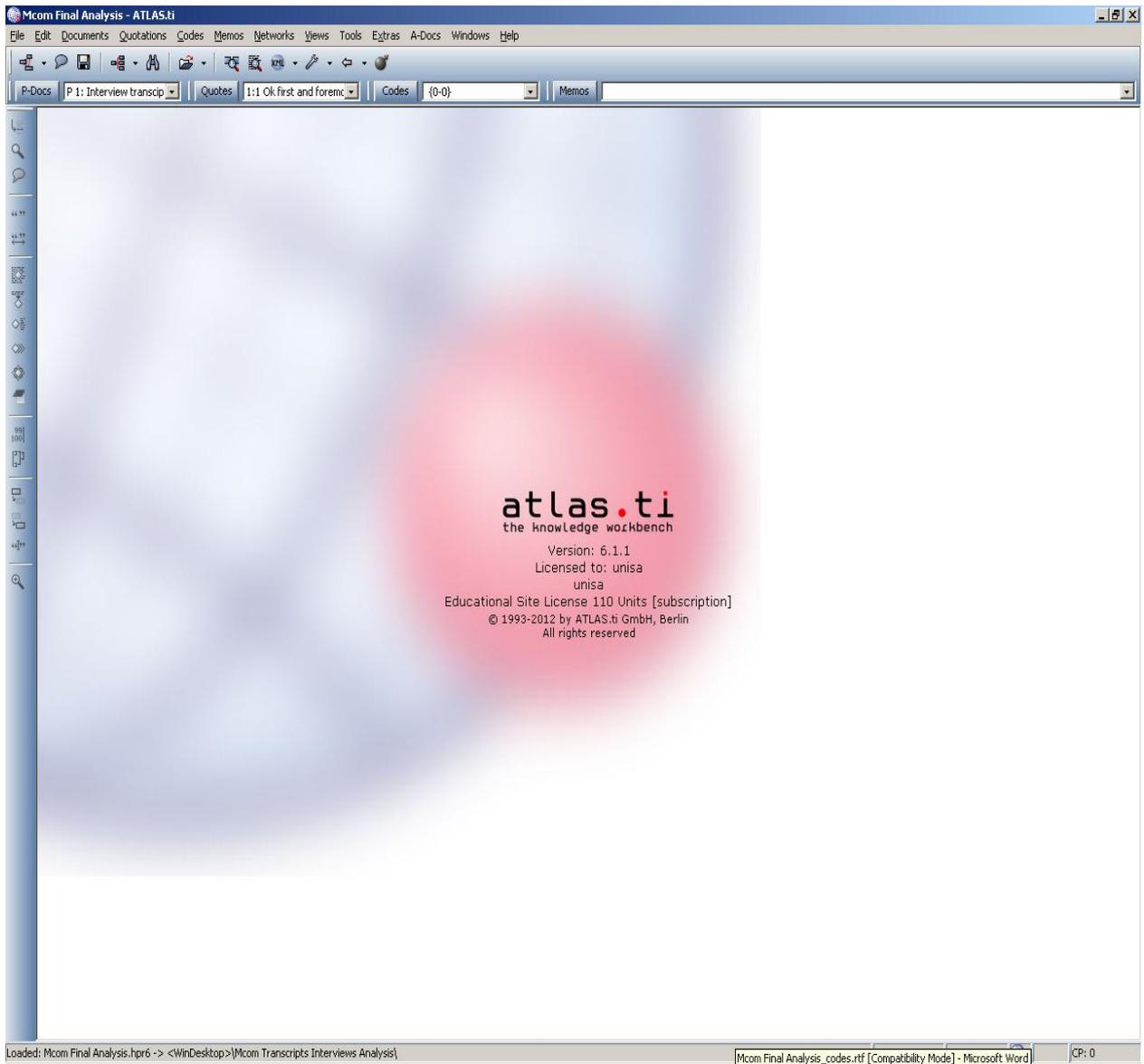
DATA SOURCE UNACCESSIBLE!: C:\Documents and Settings\nmotubat\Desktop\Mcom Transcripts Interviews Analysis\Interview transcript Chief Financial Officer 817_001.docx

P 1: Interview transcript Chief Financial Officer 817_001.docx - 1:5 [So that helps in a way in term..] (33:33) (Super)

Codes: [Experiences of IAF customers: Executive managers,CFO]
No memos

DATA SOURCE UNACCESSIBLE!: C:\Documents and Settings\nmotubat\Desktop\Mcom Transcripts Interviews Analysis\Interview transcript Chief Financial Officer 817_001.docx

ANNEXURE C



Mcom Final Analysis - ATLAS.ti

File Edit Documents Quotations Codes Memos Networks Views Tools Extras A-Docs Windows Help

P-Docs [D:8: Interview Transcri...] Quotes [1:1 Ok first and foremc...] Codes [0-0] Memos

001 AUDIO : 825_001 CHIEF RISK OFFICER

002 LENGTH OF AUDIO : 45:58

003 DATE OF INTERVIEW :

004 TRANSCRIBER : JULIA MARTINELLI

005 TRANSCRIPTION LEGEND : RESEARCHER R

006 : CHIEF RISK OFFICER C

007 R Alright the tape is on now. So we are on Part C of the questionnaire. Thank you very much. We are on Part C.

008 C Yes ok.

009 R The title of this study is the customer perception and the work that the internal audit function performs in the public sector and then their is the case study of National Treasury. Basically I am just seeking the information on the perception of the customers. Like I said previously to classify the audit committee and the management as the primary customers because these are the people that are receiving the audit reports and then they are at the position to take actions. So the external auditors, I view them as the secondary customers for the purpose of this study because they are outsiders in any case. With this study I have two objectives that I actually want to explore in the main. The first one is to explore and describe the customers perception on the work in particular that performs with the internal audit function in the public sector and then we can string it line or narrow it down to the perspective of National Treasury. Then the second one seeks to establish whether the customers have recommendations on the work that the internal audit function performs. So with the first question it takes us to say what are your experiences of the work that the internal audit function performs? Maybe we can take it from a broader perspective and then narrow it down to the phenomenon of the Treasury.

010 C Ok, broadly speaking....

011 R Yes.

012 C My experience of internal audit it is a fairly good experience. As I alluded to you the other time I am a proponent of good governance and then internal audit obviously is one of the functions that strengthens good governance.

013 R Yes.

014 C But not only that. They also at the same time ensure that the management attains its set objectives you know by giving a recommendation that would tighten the controls but at the same time as you tighten control you increase the efficiencies. You identify the border leaks so that things can happen quicker, faster and cost effectively. So that is my own understanding of how the internal audit should go. I have experienced the things that I have just mentioned to you being captured in the internal auditing reports that I have received. So they do try to a large extent to come with practical and

Experience of IAF customer on the work performed by IAF
My experience of internal audi..

Experience of IAF customer on the work performed by IAF

P 8: Interview Transcript Chief Risk Officer (CRO) doc.docx -> <HUPATH>\Interview Transcript Chief Risk Officer (CRO) doc.docx

Size: 100 % ANSI CP: 0

ANNEXURE D

Permission to conduct research

08 April 2011

TO WHOM IT MAY CONCERN

RESEARCH: MR KN MOTUBATSE

This serves to certify that Mr KN Motubatse is registered for a MCom degree in Auditing with the University of South Africa (Unisa). The title of his dissertation is: **“Customers’ perceptions of the work performed by the internal audit functions (IAFs) in the public sector: a case study of National Treasury”**.

The purpose of his study is to determine customers’ perceptions of the work performed by the IAFs in the public sector. The study targets the National Department of Treasury as the core custodian of the framework for the functioning of the IAFs in the public sector.

Permission is requested from the authorities to advise the targeted participants about the intended study. Confidentiality and anonymity will be maintained. The results of the study will be made available on request and they will only be used for scholarly purposes to contribute towards the knowledge in the field.

We will appreciate your cooperation in this research and the required ethical clearance will be obtained from Unisa.

Yours truly

Professor E Odendaal
Section Head: Research (Department of Auditing)
UNISA
Pretoria
Phone: (012) 429 4363



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Enquiry : Lesego Seperepere
Telephone : 012 315 5267
Facsimile : 012 315 5385

Date: 11 August 2011

TO WHOM IT MAY CONCERN

APPROVAL TO CONDUCT RESEARCH: MR KN MOTUBATSE

Mr KN Motubatse, a registered MCom student at UNISA is hereby given permission to conduct his research on "Customers' perception on the work performed by the internal audit functions (IAFs) in the public sector: a case study of National Treasury".

I have had several meetings with him and understand the scope of his study and how he will collect and present the data. His study is expected to run from August to end of September 2011.

Should you have any questions, please feel free to contact me.

Yours truly,

Lesego Seperepere
Acting Chief Director: Internal Audit

ANNEXURE E

INFORMED CONSENT TO PARTICIPATE IN ACADEMIC RESEARCH PROJECT

By signing this form I:

- Give consent, on a voluntary basis, to participate in the study about customers' perceptions of the work performed by the internal audit functions (IAFs) of the National Treasury;
- understand that there are no risks associated with my participation in this study;
- understand that I will not be identified by name in the final reporting on this study;
- am aware that the information will be gathered in the form of semi-structured interviews;
- understand that the information I provide will only be viewed as a perception and will not be used to damage the reputation of the IAF of the National Treasury;
- am aware that all information gathered in this study will be digitally recorded and be kept confidential in the secure possession of the researcher; and
- understand that I can withdraw my participation from this study at anytime without any negative consequences.

For further information about this study, please contact Mr KN Motubatse (012-4294373 or nmotubat@unisa.ac.za), Prof K Barac (012-4294473 or barack@unisa.ac.za) or Prof E Odendaal (012-4294713 or odendem@unisa.ac.za).

Participant signature: _____

Date: _____