



**THE ROLE OF INTERNAL AUDIT IN IMPROVING GOVERNANCE
IN SOUTH AFRICAN PUBLIC SECTOR**

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by

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DECLARATION AND COPYRIGHT

I **Thabo Lepheana**, declare that this thesis submitted for the fulfilment of the Master of Business Administration at the School of Business Leadership: University of South Africa is my original work. This thesis has not been submitted before for any degree or examination in any other University

I further declare that all sources used in the study are referenced and listed correctly on the reference list.



Signature: _____

Date: _15 -12 -2021_____

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“Sesotho se re MAMELLO E TSWALA KATLEHO, le TSHEBETSO E THATA YA PUTSWA”

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ABSTRACT

This study investigated the role that internal audit functions play in improving governance in South African public sector. According to the International Standards for Professional Practice of Internal Auditing, internal audit functions should review the adequacy and effectiveness of their organisation's governance processes and make recommendations for improvement. Recently in South Africa, governance processes in both the public and private sectors have encountered serious challenges that led to closure of some organisations as well as forced retrenchments. Amongst the causes of these challenges, is the corruption that has manifested in most public enterprises including DENEL, South African Airways, Passenger Rail Agency of South Africa (PRASA) and Eskom. The corruption was so severe that the entire South African economy almost collapsed, and unemployment rate rose to the levels it has never reached before, at 34%. The study was conducted with a view of determining how internal functions can assist the South African public enterprises to improve governance and overcome the recent challenges that occurred as a result of poor governance. The study was conducted through a quantitative research approach where data was collected using survey questionnaires on a sample of 80 respondents.

ACCRONYMS

'IIASA' refers to Institute of Internal Auditors South Africa

'IAA' refers to Internal Audit Activity

'IAFs' refers to Internal Audit Functions

'CIA' refers to Certified Internal Auditor

'MBA' refer to Master of Business Administration

'AC' refers to Audit Committee

'CAE' refers to Chief Audit Executive

'EM' refers to Executive Management

'MM' refers to Middle Management

'MHSC' refers to Mine Health and Safety Council

'MICT SETA' refers Media Information and Communications Technology Sector
Education and Training Authority

'PFMA' refers to Public Finance Management Act

'SAFCOL' refers to South African Forestry Company Limited

'SALGA' refers to South African Local Government Association

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CHAPTER ONE: BACKGROUND AND MOTIVATION FOR THE STUDY

1.1 INTRODUCTION

The concept of governance entails identifying and effecting standards of conduct for the organisations to ensure consideration and respect of the stakeholders' interests. Governance includes balancing the interests of the organisation's stakeholders that include; shareholders, government, suppliers, customers, management, financiers, and the community. Therefore, one aspect of governance (business ethics) refers to the standards and values that establish the relationship between the organisation and its stakeholders (Rossouw and Vuuren, 2013:3). The important role that internal audit functions play in South African Public Enterprises may improve and add value to governance, through reviewing and recommending improvements to the governance processes. Internal auditing is defined as, an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations (Institute of Internal Auditors South Africa – IIASA).

Internal audit assists a company in achieving its goals by applying a methodical, disciplined approach to assessing and improving the efficacy of risk management, control, and governance systems (International Professional Practices Framework - IPPF). Internal audit functions mainly perform three types of audit engagements that are included as part of the annual audit plan (Institute of Internal Auditors South Africa – IIASA). These engagements include (1) assurance engagements, which are defined as objective inspection of evidence with the aim of providing an independent assessment on internal control, risk management, and governance processes. Assurance engagements also include obtaining and evaluating evidence objectively, based on established criteria. Examples of assurance engagements include (inter-alia) performance, financial, and compliance audits, and the scope is decided by IAF.

Assurance engagements involves three parties, the auditor (service provider), the client (customer) and third party (usually process owner); (2) consulting engagements on the other hand are advisory in nature, and scope is agreed upon with the client with the intention of adding value and improving the organisation's operations. Consulting engagements include (inter-alia), conducting internal control training, reviewing drafted policies, providing advice to management and participating in quality teams. Usually there are only two parties involved, the client (customer), and the auditor (service provider); (3) there are also special projects, which IAFs usually include as a portion of time in the annual internal audit plan to cater for unscheduled management requests that require internal audit services in response to business and control issues, as well as emerging risks.

With the board of directors having an oversight responsibility for governance within public sector organisations, internal audit supports governance processes by evaluating and reporting on the adequacy and effectiveness of governance, risk management, and control processes designed to assist the organisation to achieve operational, strategic, compliance, and financial objectives (Institute of Internal Auditors South Africa – IIASA). Hence, independence requires internal audit to conduct its work objectively, therefore giving management and the board an informed and impartial analysis of governance, risk management, and internal control processes. Fourie (2007:742) argues that internal audit functions enhance sound financial controls that should also contribute to good governance in the South African public sector. Additionally, internal audit reinforces corporate governance through risk-based audits, thus providing assurance on the processes that move the organisation towards success. As the organisation evolves, its risks also grow and become complex, hence internal audit should also expand its work to areas such as culture and behaviour, risk governance, sustainability, and other non-financial reporting processes.

According to Barac and van Standen (2014) a case of South African National Treasury (2012), shows that, internal audit customers recognise the public

sector internal audit functions to be a highly needed management tool that will expectedly enhance governance in public enterprises, hence add value to service delivery in South Africa. In recent years, corporate governance and business ethics in South Africa have received significant attention in public enterprises due to major scandals and far-reaching service delivery failures. The Institute of Internal Auditors South Africa also states that irrespective of the reporting relationship the public enterprise may select, there are principal procedures that ensure that the reporting lines strengthen and permit the effectiveness and autonomy of the internal audit function. Joksimović & Ahmed (2017) argue that the internal audit functions could also be regarded as first line protection against inadequate corporate governance and financial reporting.

Moreover, internal audit is regarded as a vital tool to other key governance matters such as the external audit, the Audit Committee, senior management and the Governing Body. Throughout the years, internal audit functions have constructed a highly professional work that contributed to the evaluation of the effectiveness and efficiency of all business process cycles, both non-financial and financial (Joksimović & Ahmed, 2017). As such, the internal audit functions should act as an independent part of the organisation's governance, and should play a critical role in the evaluation and improvement of governance, risk management and internal control processes.

1.2 PROBLEM STATEMENT

Internal audit function is an essential function that management uses to confirm and verify effectiveness of business processes, policies and procedures, compliance to legislations and publicly adopted policies (including National Treasury Regulations). According to the Department of National Treasury South Africa, internal audit functions have been widely recognised and became increasingly critical in constructing good corporate governance structures during the past ten years in South African public sector.

For example, the biznews.com reported in October 2017 that the Gupta related enterprises have illicitly benefited from Eskom on coal deals. Eskom was also reported as a money maker for McKinsey, which worked with Gupta-linked local financial services provider, Trillian. In May 2017, the SABC acting Chief Executive Officer (CEO) also admitted that the public enterprise is in a financial crisis as reported by news24.com. Comparing the views of biznews.com (2019), with that of news24.com (2019), it is clear that the recent scandals that heavily hit the public sector, in particular the public enterprises such as Eskom, South African Airways, SABC and Transnet, were as a result of weak governance in the public sector. It is argued that effective internal audit functions should have enabled aforementioned public enterprises and their respective boards to perform their corporate governance duties effectively through preventing, detecting and mitigating the occurrence of the recent scandals.

The problem derived from this study is to ascertain the level of involvement of internal audit functions and their role in improving governance in the scandalous South African public enterprises. Internal audit function is one of the cornerstones of governance, and their role extends to evaluating governance processes to ensure fairness, transparency, accountability and effective decision-making (Barac and van Standen, 2014). The governing bodies at public enterprises are tasked with ensuring that internal controls are in place and adequate to address the level of risk that could materialise, including lack of service delivery, scandals and reputational risks. Good governance in public sector is intended to assist the Governing Bodies and management to achieve public related goals and enable effective control environment. Hence, the principal goal of this study is to examine the role of internal audit function in relation to governance in the context of South African public enterprises.

1.2.1 Specific Focus of the Study

This study will specifically focus on the public enterprises within the South African Public Sector. The narrow focus is due to the recent scandals that

occurred at the public enterprises, hence this study will attempt to uncover the role of internal audit in improving governance.

1.2.1.1 Limitation of the Study

The study will not cover productivity and service delivery, as these are the outcomes of good governance and leadership. These topics (service delivery and productivity) will be considered for further studies through either journals, articles or enrolment in doctoral studies. Shai (2017) points out that South African communities are faced with poor service delivery because of ineffective leadership, lack of knowledge and skills, poor governance, which lacks transparency, accountability, and community participation. As an initiative to improve service delivery in South Africa, government should strongly emphasis and implement good governance and effective leadership. Effective leadership in intended to steer the municipalities in the right direction while good governance is regarded as a foundation of democratic dispensation (Shai, 2017).

1.2.2 Research problem

The research problem for the study is as follows: *“How can internal audit functions within the South African Public Sector (in particular, the public enterprises) enhance governance processes, hence improving the public sector productivity and service delivery?”*

1.2.3 Research objectives

The objectives of the study are to determine the following in the public enterprises:

- The capacity of respective internal audit resources (*inter alia*; size of the internal audit, availability of experienced and qualified internal auditors) in assessing and improving governance;
- The independence of Internal Audit Functions (based on existence of Audit Committees and clearly defined reporting lines of internal audit, access to

records and employees, interference within the organisation, and support from senior management).

- How the public enterprises management implement the recommendations from internal audit?

1.3 RESEARCH QUESTIONS

As defined by the Institute of Internal Auditors South Africa, Internal auditing is an impartial, independent assurance and consulting activity that adds value and improves the operations of a company. It assists a company in achieving its goals by implementing a systematic, disciplined approach for evaluating and improving the efficacy of risk management, control, and governance systems.

The research questions derived from this definition are as follows:

Question 1:

What is the capacity level of internal audit functions within the public enterprises to improve governance processes?

Proposition:

Recent literature shows that there are inadequate skills and resources to enable IAFs within the South African public sector to improve governance processes. Moreover, Chief Audit Executives (CAEs) are not adequately qualified both professionally and academically to fully discharge the responsibilities of the IAFs.

Question 2:

To what extent are internal audit functions (IAFs) independent within the South African public enterprises?

Proposition:

Based on the literature review, there are clearly defined IAFs reporting lines and established audit committees within the public sector. However, independence of some public sector IAFs is compromised. This is because IAFs do not perform their work with freedom from interference; IAFs have limited access to records and employees; and there is lack of support from senior management, all these factors affect the independence of IAFs.

Question 3:

To what extent do the public enterprises address and implement internal audit recommendations for improvement?

Proposition:

Based on the recent scandals and decline in governance in South African public sector, in particular the public enterprises, it is argued that majority of the public enterprises do not adequately address and implement the recommendations from their IAFs.

1.3.1 Predictions from literature:

Table below summarises predictions from literature in relation to the research questions above:

Topic(s)	Authors	Related question	Summary of findings
<ul style="list-style-type: none"> • <i>Internal Audit in State-Owned Enterprises: Perceptions, Expectations and Challenges</i> • <i>Internal Audit's Role in Embedding Governance, Risk, and Compliance in State-Owned Companies</i> • <i>Perceived challenges faced by the internal audit function in the South</i> 	<ul style="list-style-type: none"> • Radasi & Barac (2015) • Chikwiri & de la Rosa (2015) • Motubatsea, Barac & Odendaal (2015) • Mustika (2015) 	<p>To what extent are internal audit functions independent within the South African public enterprises?</p>	<p>The recent studies conducted in South African public sector reveal that IAFs in the public enterprises face various challenges relating to (<i>inter alia</i>): IAFs do not perform their work with freedom from interference; IAFs have limited access to records and employees; and there is lack of support from senior management.</p> <p>These factors adversely affect the independence of IAFs and their ability to conduct their work in line with the definition of internal auditing.</p>

Topic(s)	Authors	Related question	Summary of findings
<p><i>African public sector</i></p> <ul style="list-style-type: none"> <i>Factors Affecting the Internal Audit Effectiveness</i> 			
<ul style="list-style-type: none"> <i>Good governance in Public-Private Partnerships Approaches and Applications: A South African Perspective</i> <i>Internal Controls, Governance and Audit Outcomes Case of a South African Municipality</i> <i>Internal Audit and Risk Management in</i> 	<ul style="list-style-type: none"> Fourie (2015) Ncgobo & Malefane (2017) Coetzee & Lubbe (2014) Wadesango <i>et al</i> (2017) Dain & Rahmat (2017) Alzeban (2019) 	<p>To what extent do the public enterprises address and implement internal audit recommendations?</p>	<p>Results suggest that South African public sector IAFs fail to uncover significant governance problems during their audit engagements, hence executives are likely to disregard the work done by internal auditors. Moreover, IAFs have failed to report on poor infrastructure performance in South Africa, which includes firstly, failure to spend sufficiently on the required infrastructure. Secondly, inadequate coordination and planning, poor analysis to support project selection, corruption and pursuit of political gain which led to scarce resources being directed to the wrong projects.</p>

Topic(s)	Authors	Related question	Summary of findings
<p><i>South Africa</i></p> <ul style="list-style-type: none"> • <i>Corporate Board: Role, Duties & Composition</i> • <i>The relationship between internal control and internal audit recommendations</i> • <i>Factors Influencing Public Sector Auditees on Implementing Audit Recommendations</i> 			<p>Internal auditors in public sector still tend to perform their own risk assessment instead of relying on the organisational risk management process. This creates a silo culture between IAF and risk management, as the latter's process outcome for the identification, assessment and mitigating activities as documented in the risk register are not trusted. This tendency by IAFs has resulted in most organisational executives questioning the reliability and integrity of internal audit risk assessments.</p> <p>Majority of IAFs within South African public sector function with staff shortages and budget constraints that prohibited their ability to adhere to their internal audit charters and achieve their management's and audit committees' expectations. The IAFs thus lost authority, as the accounting officers' perceptions suggested</p>

Topic(s)	Authors	Related question	Summary of findings
			<p>that the IAFs did not add the expected value to their organisations.</p> <p>The value and improvement can only be achieved if the organisation implements the recommendations from internal audit.</p> <p>As audit findings increase every year in the public sector, those responsible for implementing the audit recommendations take longer time or sometimes even become hesitant to implement the recommendations, hence putting the public sector service delivery at great risk</p>
<ul style="list-style-type: none"> • <i>The Use of Risk Management Principles in Planning an Internal Audit Engagement</i> 	<ul style="list-style-type: none"> • Coetzee& Lubbe (2013) • Erasmus et al (2014) • Plant et al (2013) 	<p>What is the capacity level of internal audit functions within the public enterprises to improve governance processes?</p>	<p>Results also indicate that outsourced IFAs add more value than in house IAFs, which is usually caused by lack of adequate skills, experience and training within the in-house internal auditors in the public sector.</p>

Topic(s)	Authors	Related question	Summary of findings
<ul style="list-style-type: none"> • <i>The Status of and Demand for Internal Auditing in South African National Government Departments</i> • <i>Internal Audit Competencies: Skills Requirements for Internal Audit Staff in South Africa</i> • <i>Internal Auditing as a Corporate Governance Mechanism</i> • <i>A Framework for the Development of an Organisational</i> 	<ul style="list-style-type: none"> • Barac & van Staden (2014) • Wilkinson & Plant (2012) 		<p>The experience, skills and competencies of CAEs in the public sector were found to be lower than the recommended levels by the Institute of Internal Auditors (IIA) as documented in its formal career path guidance.</p> <p>CAEs are not adequately qualified both professionally and academically; there is a high number of CAE vacancies in public sector; high IAF staff turnover rates; and the low levels of internal audit experience in relation to the demands of the profession.</p> <p>Due to recent mismanagement and poor governance in most public enterprises as well as changes in the business environment, there has been an increased need for a competent internal audit activity that serves as a cornerstone of effective corporate governance.</p>

Topic(s)	Authors	Related question	Summary of findings
<p><i>Governance Maturity Model: A Tool for Internal Auditors</i></p>			<p>Financial Accounting Services Sector for Education and Training (FASSET) also indicates that there is still a shortage of competent internal auditors in South Africa as this is considered a scarce skill.</p>

1.4 ABBREVIATED LITERATURE REVIEW

Below are the main concepts that form part of this study and assisted in achieving the objectives and answering the research question and objectives:

1.4.1 Internal Audit Independence

Internal Audit Standard 1100 defines independence as the freedom from circumstances that impend the ability of the internal audit activity to perform its work in an objective manner. The chief audit executive should have direct and unrestricted access to senior management and the board of directors in order to achieve the level of independence required to effectively undertake internal audit work, and this is accomplished through a dual-reporting arrangement. Internal audit independence concerns should be addressed at the individual auditor, audit engagement, functional, and organisational levels. The strong relationship between internal auditors and management can jeopardize their independence. Internal auditors that have a close personal relationship with the organisation's management, according to Abbot *et al* (2015), put their independence at danger. From above literature (Internal Audit Standard 1100 and Abbot *et al*), it is clear that independence of internal audit function is pivotal to ensure that the organisation achieves its objectives.

1.4.2 Internal Audit Recommendations

Alzeban (2019) points out that internal audit recommendations are intended to assist the organisation accomplish effective and efficient governance, risk and control processes relating to financial and management objectives, operations objectives, reporting objectives, and compliance objectives. Alzeban's view is supported by Wadesango *et al* (2019) who insist that if internal audit discovers significant weaknesses in the organisations internal controls, it is their responsibility to provide management with recommendations for improving those weaknesses in internal controls and improve overall organisational performance. Should management fail to implement the recommendations, they expose their organisation to high control risk and operational failures.

Internal Audit Standard 2110 also contributes by stating that IAA must evaluate and recommend improvements for governance process in its achievement of the following objectives:

- Encouraging proper ethics and values within the organisation;
- Safeguarding effective accountability and performance management across the organisation;
- Communicating control and risk information to applicable areas of the organisation; and;
- Facilitating governance activities and communicating information to the board, internal and external auditors, and management;
- When comparing and evaluating the above views on internal audit recommendations, a conclusion can be made that internal audit recommendations play a significant role in improving the organisation's governance processes (Fourie, 2015).

1.4.3 Internal Audit Capacity (skills, experience and resources)

Internal Audit Standard 1210 defines internal audit skills, knowledge, and other competencies as the professional expertise essential for internal auditors to successfully carry out their professional obligations. Internal auditors are required to exhibit their proficiency by acquiring relevant professional certifications and qualifications, such as the CIA certification and other professional qualifications offered by The IIA and other relevant professional bodies. Internal Audit Standard 1210.A1 further requires the CAEs to obtain expert advice and support if the internal auditors lack the skills, knowledge, or competencies required to accomplish all or part of the engagement. Plant & Padotan (2017) share the same view that internal auditors should develop their skills for identifying critical risks, especially those risks emanating from the political, economic, social and technological factors. This way internal audit is seen as a function that assist the organisation to fight and prevent threats that could jeopardise the existence of the organisation. It is evident from the above views that internal audit skills, competencies and experience play a critical role

in the effective functioning of internal audit activity within the various organisations.

1.4.4 Other concepts that support the role of Internal Audit in Governance

1.4.4.1 Risk based internal auditing:

This process includes conducting interval audits to ascertain compliance regarding regulatory requirements, and to provide assurance that management controls exist for the preventing and detecting non-compliance. Furthermore, risk-based auditing and monitoring must include methods to assess that management effected corrective measures through continuous performance management process to deal with any noncompliance (Griffiths, 2016). It is imperative that senior management take place in, and agree with, the determination of the high-risk priorities for the audit and monitoring plan as it ensures management support and focus on risk priorities.

“The International Standards for the Professional Practice of Internal Audit (IIA), Standard 2120 say: The IAA must assess the effectiveness and contribute to the enhancement of the risk management processes. Griffiths (2016) insist that the Governing Bodies required help, not just in assessing the effectiveness of internal controls but also in providing assurance that all the important risks have been effectively assessed. Also, continuing assurance is required to ensure that the risks are being fully managed and an entrenched risk management process is in place. This is conducted through the development and execution of the risk-based auditing and monitoring plan. Risk based auditing can have significant effect on the business ethics processes, as service delivery risk and reputational risk may be effectively managed”.

1.4.4.2 *Internal Audit Assurance and Consulting Engagements*

Internal audit function may review the business ethics process or ethical culture through assurance and /or consulting engagements. The Institute of Internal Auditors South Africa defines the two types of engagements as follows:

1.4.4.2.1 *Assurance engagement*

This is an objective inspection of evidence with the aim of providing an independent assessment on internal control, risk management, and governance processes. Assurance engagements also include obtaining and evaluating evidence objectively, based on established criteria. Examples of assurance engagements include (inter-alia) performance, financial, and compliance audits, and the scope is decided by IAF. Assurance engagements involve three parties, the auditor (service provider), the client (customer) and third party (usually process owner).

1.4.4.2.2 *Consulting engagements*

Consulting engagements on the other hand are advisory in nature, and scope is agreed upon with the client with the intention of adding value and improving the organisation's operations. Consulting engagements include (inter-alia) conducting internal control training, reviewing drafted policies, providing advice to management and participating in quality teams. Usually there are only two parties involved, the client (customer), and the auditor (service provider).

1.4.4.3 *Combine Assurance*

King III Report on Corporate Governance defines Combine Assurance as incorporating and aligning assurance processes within the organisation in order to maximise risk and governance oversight and control efficiencies, and optimise overall assurance to the audit and risk committee. Lewis (2015) points out that, recently internal auditors play an important role in the corporate governance structure and are an essential constituent of the combined assurance forum. It is through leadership, IAF, and other relevant stakeholders, that a strong reputation is built. The King III report specifies that it is the

responsibility of the audit committee to monitor the effectiveness and relevance of the organisation's combined assurance policies and efforts. Combine assurance model enhances the organisation's ethical culture and internal auditors play a crucial role in combined assurance.

1.4.4.4 Business ethics

Business ethics is a method of functional ethics or professional ethics that studies ethical principles and moral or ethical problems that ascend in a business environment. It relates to all facets of business conduct and is applicable to the conduct of individuals and the whole organisation. Mele (2016) argues that business ethics are norms, values and ethical practices that are used to guide the organisation, thus assist the organisations to keep an improved connection with their stakeholders. Ethical behaviour adds to personal thriving and to human brilliance in business. Additionally, business ethics augments the organisation's reputation and reduces the risk of bitter relationships between the organisation and society (Mele, 2016). Society, which issues business license to operate, progressively demands ethical and responsible conduct from the organisations. Employees also expect fair treatment, while consumers require respect for their rights. Likewise, stakeholders demand transparency, responsibility, and accountability. Individuals, social groups and the general public are calling for ethical behaviours and responsible conduct from government and other business organisations.

1.4.4.5 Corporate governance

According to Bhika (2014) corporate governance involves holding the balance between social and economic goals and between communal and individual goals. Existence of the corporate governance framework is to promote the efficient use of resources and to necessitate accountability for the stewardship of those resources. The aim is to align as closely as possible the interests of individuals, government, organisations and society. At its most basic, corporate governance is purely about the relationship and interaction among numerous participants, or stakeholders, in ascertaining both the direction and performance

of organisations. Business ethics are an integral part of corporate governance, hence corporate governance is emphasised during this study.

1.4.4.6 *Audit Committee*

The Institute of Internal Auditors South Africa describes the audit committee as a designated number of members of the organisation's board of directors, with the responsibilities of helping auditors observe and maintain independence from management. Majority of audit committees comprise of three to five or even as many as seven directors who are not members of the organisations. According to King III Report, the audit committee's role includes monitoring accounting policies, oversight of financial reporting, oversight and coordination of internal and external auditors, regulatory compliance and the discussion of risk management policies with management. The committee also has the authority to recommend special investigations in instances where accounting practices are problematic, or when there are severe issues with employees. Audit committee members may change from time to time, may meet in person at least quarterly and on an ad-hoc basis or even meet through virtual means. Assurance assessments results on organisation's ethical business ethics and ethical culture are communicated to the Audit Committee by the internal audit function through the Chief Audit Executive, who is the head of internal audit.

1.4.4.7 *External auditors and Internal Auditors*

According to the King III Report, **external auditors** perform audits, in line with specific rules governing financial statements of a company, government enterprise, other legal entity, or organisation, and are independent of the organisation being audited. Users of the financial information, including government agencies, investors, and the general public, rely on the external auditors to provide an objective and independent audit report. The method of appointment, the format of reporting and the qualifications of an external auditor are defined by statute, and vary according to jurisdiction. External auditors should belong and subscribe to one of the recognised professional accountancy bodies. External auditors evaluate all the internal controls put in place to manage financial risk and assess whether they are working effectively.

Internal auditors are employed by the organisation and report administratively to the Chief Executive Officer and functionally to the audit committee. They help to review the design, adequacy and effectiveness of specific risk management policies. They also provide an independent opinion on whether all policies implemented for risk management are operating effectively. The work of the internal auditor is continuous and based on the internal control systems of the organisation.

1.5 RESEARCH METHODOLOGY

The research method for this study is a quantitative (descriptive) method as discussed below.

1.5.1 Quantitative (descriptive) method

The main goal of descriptive research is to describe the data and characteristics about what is being studied. It is mainly conducted when a researcher wants to gain a better understanding of a topic, hence obtaining information on current state of phenomena. According to Rahi (2017), descriptive research provides answers rather than uncovering initial insights since sometimes management may have in-depth knowledge about the research problem, understand key issues as well as questions that have to be asked. It also interprets conditions at present, differences as well as relationships that exist, opinions held, processes going on and evident sequences, thus enhancing a detailed, holistic investigation of all characteristics of the population subject to the study (Rahi, 2017). As part of the descriptive method, Likert-type scales will be used to measure observations and the work of internal audit functions at the selected public enterprises.

Detailed methodology for this study is included in chapter 3 (research methodology) below.

1.6 SUMMARY

Good governance within the South African public enterprises is essential to maintaining the sound and proper functioning of the public sector. It is commonly argued that public service failure might comprehend systemic risks and have a significant negative impact on investors, other stakeholders, and the South African economy as a whole. This study examined the role internal audit in improving governance in four (4) selected public enterprises. This study also attempted to contribute to the governance literature, in terms of the role of internal audit in South African public sector, since the internal audit is widely considered essential in the governance of the public sector and its ability to achieve strategic objectives.

The internal audit function is an important element of the control environment and should be capable of inspecting and assessing any aspect of governance to determine whether policies and procedures are adequate, effective, and functioning as intended, and whether any new controls are needed in order to close the gaps and correct errors. This study attempted to confirm the above hypothesis and uncover whether the significant role of internal audit in governance was acknowledged by the participating public enterprises. The next chapter (chapter two - literature review) discusses the theoretical background and conceptual framework that support the topic of the study.

CHAPTER TWO: THEORETICAL BACKGROUND AND LITERATURE REVIEW

2.1 INTRODUCTION

The aim of this chapter is to provide a theoretical background and literature review, first discussing conceptual framework, and then, more narrowly, discuss the role of internal audit in line with the objectives of this study. The chapter is structured into five sections, starting with this introduction. The second section (2.2) discusses the objectives of the study. The third section (2.3) defines a conceptual framework of internal audit as supporting the governance objectives. The fourth section (2.4) provides a review of the current and previous literature relating to internal audit in line with objectives of this study. The last section (2.5) concludes the discussion in this chapter and provides brief introduction on the next chapter.

2.2 THEORETICAL BACKGROUND

What is internal audit? What services does internal audit function (IAF) provide within the organisation? How does the role of internal audit affect governance objectives? What effect does internal audit have on governance objectives in South African Public Sector? How is the relationship between IAF and external auditors coordinated? What other business processes facilitate internal audit's role in governance objectives? This section endeavours to answer the questions above in line with the reviewed literature.

2.2.1 Conceptual Framework

2.2.1.1 Internal Audit

The role of internal audit in helping management to mitigate key risks that threaten organisations has increased and internal audit has become one of the lines of defence within organisations (Coetzee & Lubbe, 2014:1), hence it is important to first recognise the value and services provided by internal audit.

The recent literature supports the concept that the knowledge of internal auditors relating to organisational processes, risk management techniques and internal control systems allows them to play a critical role within their respective organisation (Viljoen & Barac 2015:6; Padayachee & de Jager 2015:47; Coetzee & Lubbe 2014). The International Standards for the Professional Practice of Internal Audit (IIA), Standard 2120 states, "The internal audit function must assess the efficacy of the governance and contribute to its improvement as well improving ethics and risk management processes". Section 51(1)(a)(ii) of the Public Finance Management Act (PFMA) requires accounting authorities for public enterprises to have and maintain internal audit functions (IAF) which are controlled and directed by audit committees. Barak and van Staden (2014) share the same view that IAFs have become an integral part of an effective, efficient and transparent system of financial control and risk management, which the PFMA requires all government departments, state organs and other public enterprises to have in place. Other authors (Coetzee & Lubbe 2014:30; Epstein 2014; Ayagre 2014) insist that effective risk-based internal audit is critical in ensuring that the organisation's risk management process (which is relatively a new addition to the wider concept of corporate governance) is effective and in line with up to date international standards and techniques for managing risks. Internal auditors' roles have changed from a typical audit strategy to a more proactive and value-added approach, according to Benli & Celayir (2014), in which internal auditors have formed partnerships with management to improve governance, risk management, and control procedures.

2.2.1.1.1 Internal Audit Assurance Engagements

According to recent literature, the COSO control framework and the five integrated components necessary for a strong internal control system: control environment, risk assessment, control activities, information and communication, and monitoring activities, are all used to guide IAF's assurance work (Malaescu, & Sutton 2013, Coetzee & Lubbe 2013:115, Benli, & Celayir 2014). However, IAF's continuing challenge is availability of internal audit resources as compared to needs of the organisations. When performing assurance engagements, IAF could evolve from a control-based strategy to a risk-based approach to balance the limited number of experienced internal auditors available to address the organisation's growing needs (Coetzee & Lubbe, 2013:115).

A risk-based approach enables IAF to focus the resources on high priority risks facing the organisations as well as high-risk areas based on risk assessment process. This has boosted internal audit to add value on the organisations' risk management, governance and control processes as now internal auditors focus on obtaining in-depth knowledge on business processes and conduct assurance engagements in a risk oriented manner (Benli & Celayir 2014). However, if the organisation's risk management framework is not solid or does not exist, IAF could face severe challenges as the organisation is not ready for risk-based internal audit, because internal controls may be perceived to be poor. Conducting assurance engagements in a risk-based manner requires internal auditors to pay particular attention on whether, the approach is in harmony and aligned with the nature of the business (Benli & Celayir 2014).

2.2.1.1.2 Internal Audit Consulting Engagements

According to the study conducted by Shahimi, Mahzan, & Zulkifli, (2016:22) internal auditors provide consulting services upon request by management, audit committee or board of directors, and on ad-hoc basis to enhance business operations and to attain organisational objectives. The IIA defines consulting engagements as "advisory 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 taking management responsibility. Providing advice, consultation, facilitation, and training are some examples of consulting engagements". According IIA 2010 global survey on internal audit, maximising the IAF is critical in order to meet new challenges in today's business environment, and the value of internal audit is measured by its ability to drive positive change and improvement through assurance and consulting internal audit services.

Furthermore, according to some recent research, internal auditors play an important advising role in risk management, project management, change management, strategic management, governance, and mergers and acquisitions (Wilkinson & Coetzee, 2015; Shaban, 2014; Roussy, M.2015). According to Coetzee (2014), auditors' readiness to participate in negotiation to meet the demands of business managers indicates that they accept a customer-oriented consulting strategy in their consulting engagement. Internal auditors and clients must understand each other's needs in order to be effective internal consultants. As a result, internal auditors must be informed of the nature and scope of their consulting engagement, as well as the fact that the IAF's overall independence is not jeopardized.

2.2.1.2 Governance

Good corporate governance is a key driver for sustainable business performance, specifically for organisations in developing countries (van der Merwe *et al*, 2015). Many authors indicate that globally, most attention is paid to corporate governance as well as corporate sustainability matters. This focus came as a result of 2008 global recession, which was mainly caused by inadequate corporate governance mechanisms required to drive organisations in a positive direction (Rossouw 2009; Koma 2009; Wilkinson & Coetzee 2015). According to a study conducted by Koma (2009) corporate governance has become one of the critical issues at many South African and international organisations. For example, one of the strategic priorities of the New Partnership for Africa's Development (NEPAD) mandates member states

including South Africa to observe good governance principles including but not limited to economic, political, and corporate governance. The publication of the King Report on Corporate Governance in November 1994 introduced and institutionalised corporate governance in South Africa, and applies to public enterprises and agencies that are required to comply with the Public Finance Management Act amongst others. South African government is the main shareholder in public enterprises, hence encounters numerous risks relating to the operations of public enterprises, *inter alia* financial, reputation, operational and political risks due to decline in good governance. Consequently, the increasing importance of good governance in South Africa requires important changes within the profession of internal auditing as IAF is seen as one of the critical role players in the foundation and continuing support of good governance (Wilkinson & Coetzee 2015).

2.2.1.3 Combined Assurance

Recent studies indicate that there is a noticeable shift in corporate governance relating to understanding and managing of the risks that could prevent achievement of objectives in organisations. The move has resulted in combined assurance and enterprise risk management becoming highly essential components of corporate governance (Forte & Barac 2015, Schreurs & Marais 2015, van Staden, & Barac 2014). According to Forte & Barac's (2015) analysis, the enterprise risk management process appears to be a prerequisite for the adoption of a combined assurance process. With the introduction of principle 3.5 in 2009, King III brought the concept of combined assurance to the South African governance environment. The audit committee should guarantee that a combined assurance model is used to give a coordinated approach to all assurance activities, according to this concept.

In the past few years, traditional approaches to corporate governance were forced to evolve as a result of corporate governance failures that resulted in the 2008 recession. Many boards now have bigger responsibilities relating to the oversight of all aspects of risk, and solicit appropriate assurance that significant risks are effectively managed. The concept of combined assurance has

emerged as new and effective basis of improving today's corporate governance (Forte & Barac 2015). This approach entails a number of parties working together to offer assurance that all of the organisation's main risks are appropriately managed; nonetheless, the IAF should play an important role in the combined assurance process. As required by the International Professional Practices Framework (Standard 2050 – Coordination), the Chief Audit Executive is obligated to communicate and coordinate actions between internal and external assurance providers (IIA 2012b:10).

2.2.1.4 Audit Committee

According to the Institute of Internal Auditors, the role of audit committees in governance have become significantly important, hence today's audit committees must embrace a level of financial literacy, sound knowledge about risk management and internal control, and independence. Audit committee members must be individually committed, duly qualified and experienced in order to effectively execute their diverse responsibilities. The Chartered Institute of Internal Auditors also points out that audit committees must effectively use IAFs to provide assurance on risk management, governance and internal control systems. Audit committees are required by the PFMA for national and provincial government departments, as well as government-controlled public companies. According to a study undertaken by van der Nest, Thornhill, and de Jager (2008), the South African public sector's focus on service delivery and accountability has increased the focus on strong corporate governance. As a result, audit quality, financial reporting integrity, and the quality of the internal control system in the public sector necessitated the formation of independent audit committees that serve as a link between management, internal, and external auditors.

Other studies assert that audit committees are a critical part of corporate governance and they are affected by the quality of financial reporting, hence the committees should improve the monitoring skills in order to improve the quality of financial reports. The more frequently they meet, the more efficient they carry out their responsibility in monitoring (Wiralestari & Tanzil 2015, Grenier, Ballou,

& Philip 2012, Al-Shaer, Salama & Toms 2017). Other literature indicates that the audit committees' work has evolved as a result of changes in the business environment and managerial practices. The study conducted by Bhasin (2012) in India indicated that several kinds of accounting manipulations, leakages and irregularities in the public sector go undetected due to ineffective audit committees and this adversely affected service delivery. These continuing series of accounting mismanagement and scandals have increased pressure from the regulators and other stakeholders on audit committees to do the jobs which they were hired for.

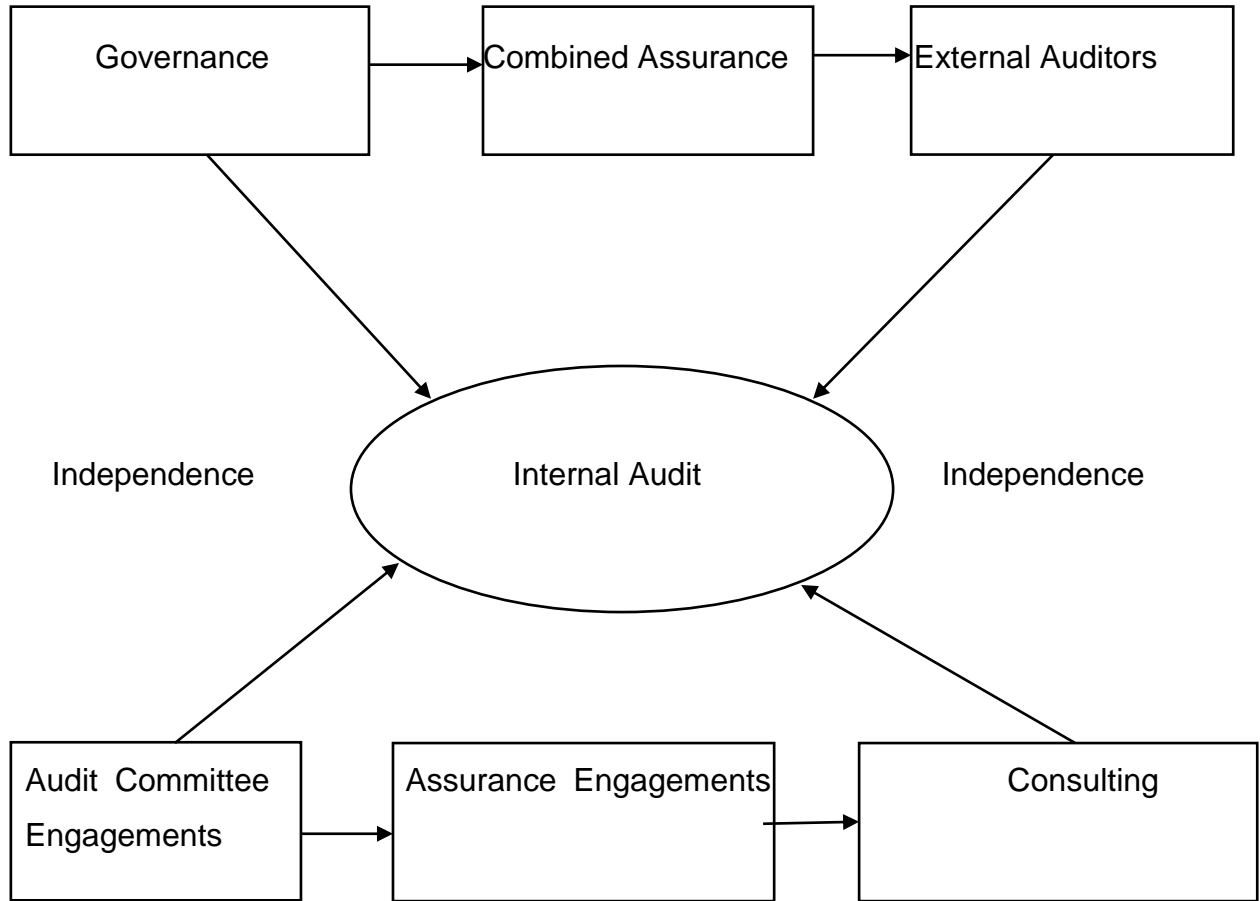
2.2.1.5 External Auditors

To decrease redundancies and enhance efficiency in the assessment of internal controls, professional standards encourage coordination between external auditors and their clients' IAF. Recent literature on IAFs revealed that a component of the coordination between external auditors and IAFs is the external auditors' involvement in developing the IAF's audit plans (DiGabriele & Ojo 2014; Coetzee & Lubbe 2014; Malaescu & Sutton 2013). The Sarbanes Oxley Act of 2002 also requires companies to disclose details about their systems of internal controls. Hence, if the work of internal auditors is not flawed, there is a great chance of reliance by external auditors. Nonetheless, if external auditors discover a deficiency in IAF's work relating to internal controls over financial reporting, the external auditors' willingness to rely on internal audit's work on financial controls monitoring is affected (Malaescu, & Sutton, 2013).

Shaban (2014) looked at the link between a company's IAF and its financial reporting quality. Many international organisations have emphasised the critical role of the IAF in the financial reporting process since the adoption of corporate governance standards, especially because it generally leads to higher quality reporting. According to Shaban's research, organisations with high-quality financial reporting have more collaboration between internal and external auditors throughout the yearly audit, and more internal audit involvement in reviewing financial reporting leads to better financial reporting quality.

2.2.2 Visual Conceptual Framework (researcher's construct)

Conceptual Framework of Internal Audit in Improving Governance:



2.3 THEORETICAL LITERATURE REVIEW

Literature supports the existence of IAFs within the public sector, as well as the critical role that IAFs play in upholding sound corporate governance. The results found in the past literature on the role of internal audit in governance processes are summarised as follows:

2.3.1 Independence of Internal Audit Functions

Recently, South African private and public sector organisations have encountered myriad challenges emanating from corruption, turbulent economic conditions and rapid technological developments. IAFs have played a critical role in attempting to recommend improvement measures that could assist these organisations to cope with these challenges, however the IAFs efforts have been impeded by; (1) interference within the organisations; (2) limited access to records and employees; and (3) lack of support from senior management (Radasi & Barac, 2015). Motubatsea, Barac & Odendaal (2015) support the above view by asserting that, although there are formally established audit committees and clear reporting lines for IAFs in the South African public sector, recently most IAFs have faced political pressure while doing their work, thereby compromising their independence. Mustika (2015) also states that bias in evidence collection, evaluation, audit recommendations, and reporting occurs due to a lack of internal audit independence and objectivity or influence by audit stakeholders. Because independence is so important to internal audit effectiveness, Attribute Standard 1130 (2017) requires the chief audit executive to report any impairment to appropriate authority.

2.3.2 Capacity of Internal Audit in South African Public Sector

Outsourced IFAs add more value than in house IAFs; this is usually caused by lack of adequate skill, experience and training within the in-house internal auditors in the public sector (Erasmus *et al* 2014, Plant *et al* 2013). Combined assurance requires commitment and coordination by IAFs, however recent literature indicates that poor understanding and lack of commitment by public

sector IAFs created a barrier to effective functioning of combined assurance model (Forte & Barac, 2015). The experience, skills and competencies of CAEs in the public sector were found to be lower than the recommended levels by the Institute of Internal Auditors (IIA). The recommendation by the IIA is that CAEs should be qualified as Certified Internal Auditors (CIAs) and should also have academic master's degree or MBA. The study regarding internal audit staffing (Erasmus *et al* 2014) indicates that qualified CAEs in public sector are scarce and unable to empower the IAFs to provide the level of service expected by their stakeholders. This study identified that this deficiency could be attributed to the fact that CAEs are not adequately qualified both professionally and academically; high number of CAE vacancies in public sector; high IAF staff turnover rates; and the low levels of internal audit experience in relation to the demands of the profession. Other authors assert that due to recent mismanagement and poor governance in most public enterprises as well as changes in the business environment, there has been an increased need for a competent internal audit activity that serves as a cornerstone of effective corporate governance (Barac & van Staden 2014, Wilkinson & Plant 2012, Plant *et al* 2013). Accordingly, Financial Accounting Services Sector for Education and Training (FASSET) indicated that there is still a shortage of competent internal auditors in South Africa, and this is considered a scarce skill.

2.3.3 Implementing Internal Audit Recommendations

The value and improvement of organisational processes by internal audit can only be achieved if the organisation implements the recommendations from internal audit (Dain & Rahmat 2017). Failure by management to implement the recommendations from internal audit has exposed organisations to the risks such as fraud, reputation and credit risks (Wadesango *et al* 2017: 62). According to Alzeban (2019), internal audit recommendations assist the organisations to identify risks that impact on the strategic imperatives, hence it is pivotal that the organisation's senior management and executives effectively address the internal audit recommendations.

As audit findings increase every year in the public sector, those responsible for implementing the audit recommendations take longer time or sometimes even become hesitant to implement the recommendations, hence putting the public sector service delivery at great risk (Dain & Rahmat 2017). It is therefore critical that the management and executives in the public sector consider and implement the internal audit recommendations to avoid any surprises that can compromise service delivery and productivity.

2.3.4 Other Important Internal Audit Aspects

2.3.4.1 Relationship between internal audit, management (at all levels), audit committee and external auditors

Al-Shaer, Salama & Toms (2017), support the views held by Forte & Barac (2015), Badara & Saidin (2013), on managing relationships, and insist that internal auditors should portray the following characteristics in order to serve their customers / clients effectively in their endeavour to improve governance processes;

- Aligning the structure of internal audit with the dynamics of the organisational culture, systems and requirements (both at strategic and operational levels);
- Robust relationship with management at all levels and adequate skills for maintaining appropriate visibility with audit committee needs and expectations;
- Concrete service delivery capabilities *inter alia* the aptitudes to maintain audit focus through aligning and incorporating organisational needs and resources to the internal audit plan.

Other studies revealed that the business environment in which South African public sector operates is evolving, hence management expectation is that internal audit will proactively adapt to these changing business demands, nonetheless this is not the case and this has affected working relations between management and IAFs as pointed out by Radasi & Barac (2015), and Motubatsea, Barac & Odendaal (2015).

When internal control mechanisms are reinforced, public institutions are more likely to prevent, detect, and repair internal control shortcomings, allowing them to achieve their objectives. In order to fulfil their objectives, the relationships between the audit and risk committees, internal audit functions, and leaders must be maintained and built on trust (Ncgobo & Malefane, 2017:81). According to van Staden & Barac (2014), the IAFs of the government departments were limited in their capacity to comply with their internal audit charters and satisfy the objectives of their management and audit committees, hence the IAFs lost authority. On one hand, Tušek (2015) discovered that audit committees in the Croatian public sector strengthened the internal audit functions and have changed the internal audit role into an essential resource for implementation of its obligations.

Accordingly, the audit committee has the responsibility to;

- Assess the internal audit function's organisational independence as well as internal auditors' individual objectivity.
- Discuss significant internal audit findings with the chief audit executive, and focus on the efficiency of internal controls.
- Review and sign off on the annual internal audit plan.
- Examine and approve the internal audit budget.
- Consider the relationship between internal and external auditors, coordinate internal audit activity, and participate in CAE appointment and dismissal activities.

All of the above activities can simultaneously influence the improvement of the internal audit operations in an organisation.

Recent studies also indicate that cooperation and coordination between external and internal auditors is essential as both parties should be engaged in building a good working relationship (Dumitrescu & Bobiţan 2016, Malaescu & Sutton 2013, DiGabriele & Ojo 2014). Moreover, the objectives of the external and internal auditors differ from the organisation point of view, however in attempt to achieve specific objectives, there are interactions, continued communication and work cooperation. When the internal auditors work jointly with the external auditors the results tend to be an increase in the effectiveness

and quality of the company's operational and strategic activities and systems. Relationship between internal audit and external audit usually assist and enhance the work of both auditors, minimise and possibly avoid duplication, and safeguard the maximum coverage of the risks faced by the organisation. This also assists the governing bodies obtain an all-inclusive view of the risks and controls of the organisation (Dumitrescu & Bobiţan, 2016).

2.3.4.2 Internal audit and governance

Academic literature supports the notion that public sector IAFs have a high status if the organisations' executive management takes appreciation of their findings, especially governance related issues. However, if IAFs fail to uncover significant governance problems during their audit engagements, executives are likely to disregard the work done by internal auditors. Recent studies conducted in the South African public sector indicate that most IAFs have failed to report on poor infrastructure performance in South Africa, which includes firstly, not investing enough money to build the necessary infrastructure. Secondly, improper coordination and planning, inadequate analysis behind project selection, political gain, and corruption led to limited resources being wasted on the incorrect initiatives. Furthermore, infrastructure assets and services are frequently unavailable at inopportune times, and service delivery is poor. Finally, many infrastructure assets are not well maintained, resulting in higher expenses and decreased benefits to the communities (Fourie 2015, Ncgobo & Malefane 2017).

Chikwiri & de la Rosa (2015) argue that, not all IAFs at South African public enterprises are incapacitated to do the job as a few of them are endeavouring to make a difference and are urged to spend more time providing management with insight and recommendations on effectively incorporating governance, risk management, and compliance (GRC) systems, rather than only delivering assurance services. Despite efforts to become compliant and decrease costs, most public enterprises still manage their GRC activities in an uncoordinated manner, leading to higher costs and a higher risk of regulatory non-compliance.

Majority of public enterprises in South Africa face governance challenges such as inadequate internal controls, misuse of assets, financial resources are wasted and exploited, employees perform poorly, records are not kept, and as a result, operational activities are rendered unproductive (Radasi & Barac 2015). This has made it impossible for these public enterprises to meet their planned goals, and as a result, they have been unable to receive clean audit results. However, as part of a turnaround strategy, some public enterprises have recently hired qualified and experienced internal control drivers (internal auditors) to monitor internal controls on a regular basis and provide management with reasonable assurance that unforeseen events will be detected, prevented, and corrected.

2.3.4.3 Internal audit and combined assurance

The recent studies conducted in South African public sector reveal that, IAFs in public enterprises face various challenges relating to (*inter alia*); performance auditing and combined assurance; variances in outsourced operations' procedures and auditing systems; repeat audit findings; inadequate knowledge of business operations; and non-compliance with quality assurance and improvement standards (Radasi & Barac 2015, Chikwiri & de la Rosa 2015, Motubatsea, Barac & Odendaal 2015). Other literature revealed that because of their focus on strategic objectives and their clear knowledge and understanding of the organisation, internal auditors are best situated to widen their role in assisting to embed governance, risk management and compliance processes. This starts by playing an integral part in the combined assurance model (Barac & van Standen 2014, Chikwiri & de la Rosa 2015, Lewis, 2015). Additionally, other studies in the South African public sector concluded that the level of respect for the combined assurance model and assurance provision in the South African public sector is laudable, but the model still has to be improved and completely implemented in order to achieve good governance through stewardship advancement. To that aim, the governing bodies must strengthen their oversight of a unified and all-encompassing approach to internal control

systems, risk management, and compliance challenges (Dzomira 2016, Lewis 2015).

Dzomira (2016) further asserts that the public sector institutions' management and leadership, as well as those who conduct oversight or governance functions, are expected to strive toward enhancing key controls, addressing root causes, and ensuring that critical risk areas improve. This could help to improve and maintain the quality of financial statements and performance reports, as well as ensure that they are in conformity with the law. As the first line of defence, senior management is the core of the integrated assurance approach. As a result, it must ensure that the essential disciplines of control activities are executed, monitored, and institutionalised as a backbone of public sector operations. Stability at the senior management level is critical for guaranteeing accountability for the implementation of control activities and long-term viability. Some authors argue that the effectiveness of combined assurance in public sector is hindered by lack of buy in from other assurance providers within the organisations (Badara & Saidin 2013, Motubatsea, Barac & Odendaal 2015). These assurance providers include risk management, monitoring and evaluation, legal services, compliance and occupational health and safety, and most of the time they fail to attend combined assurance meetings as they do not give it first priority.

2.3.4.4 Managing risk through internal audit

Most studies on risk based internal auditing indicate that Internal auditors play a significant role in giving assurance on risk functions, a moderate role in providing consultancy services, and a minor one in risk management. When detecting risks, internal auditors draw on their previous expertise as well as a variety of external sources of information, and they analyse risk effect in both qualitative and quantitative approach (Viljoen & Barac 2015, Padayachee & de Jager 2015). Internal auditors' academic qualifications, management's awareness of how internal audit can add value, the extent of their on-the-job training, and their communication skills all influence IAF's involvement in risk assurance and consulting activities, which is influenced by the industry in which

an organisation operates. Additionally, some studies suggest that only if an organisation is risk mature can it undertake a risk-based internal audit engagement that incorporates risk management principles (Coetzee & Lubbe 2013).

Although internal auditing plays a proactive role in the development of risk management, it has no further engagement once the framework has been developed, according to a public sector study conducted in Europe (Castanheira et al 2010: 92). However, before adequate risk management practices can be established, management and internal auditors must first comprehend the basic ideas related to risk and risk management. Another study conducted on State Corporations in Kenya (Odoyo & Omwono 2014), concluded that management at public enterprises need to create an environment that will harness commitment and support to internal audit if it is to effectively perform its responsibility of giving assurance that organisational risks are managed effectively. This will only be possible if individuals within organisations are aware of the role and importance of internal audit function in implementation of enterprise risk management.

2.3.4.5 Summary of the facts and motivation for the current study:

Despite different viewpoints in the results obtained from the above studies, there are some facts that are drawn from the conclusions reached by the authors as indicated below:

- Radasi & Barac (2015) found that the internal audit efforts have been impeded by; interference within the organisations; limited access to records and employees; and lack of support from senior management. This was investigated to assess the extent of internal audit independence within the South African public enterprises.
- While Radasi & Barac (2015) expressed their view above, Dain & Rahmat (2017) are of the view that, as audit findings increase every year in the public sector, those responsible for implementing the audit recommendations take longer time or sometimes even become hesitant to implement the recommendations, hence putting the public sector service

delivery at great risk. Focus was also put on this challenge as part of the research objectives.

- Another recent literature showed that South African public sector continues to face lack of adequate internal audit skills (Erasmus *et al* 2014, Plant *et al* 2013, Forte & Barac, 2015, Wilkinson & Plant 2012, Barac & van Staden 2014). This continuing challenge poses a significant threat to governance in the public sector, as internal auditors are regarded guardians of corporate governance. This study also focused on this challenge as part of the investigation.
- Radasi & Barac (2015), Motubatsea, Barac & Odendaal (2015) insist that most IAFs at public enterprises fail to adapt to the changing business environment. This presented an opportunity to further investigate whether; currently IAFs at the chosen public enterprises meet management's expectations through proactively adapting to the changing business demands. Moreover, conclusions from other authors (Dumitrescu & Bobițan 2016, Malaescu & Sutton 2013, DiGabriele & Ojo 2014) were utilised to investigate whether there is cooperation and coordination between external and internal auditors at the public enterprises.
- Most IAFs in the public sector, according to van Staden & Barac (2014), have widespread personnel and budget constraints, limiting their ability to adhere to their internal audit charters and deliver audit committee and management expectations.

Based on the above; resource constraints were incorporated as part of the critical areas probed during this study.

- In Croatia, Tušek (2015) concluded that audit committees in the Croatian public sector reinforce the internal audit function and have turned the internal audit into an essential resource for implementation of its obligations. As part of the benchmarking exercise, the objectives of this study were re-aligned to Tušek's results to determine the extent to which the audit committees at the chosen public enterprises reinforce their respective IAFs to achieve best results.

- Combined assurance is another governance leg that faces severe challenges in the South African public sector (Radasi & Barac 2015, Chikwiri & de la Rosa 2015, Motubatsea, Barac & Odendaal 2015). Accordingly, this challenge seems to persist, hence part of this study probed the extent of implementation and effectiveness of combined assurance at the selected public enterprises.
- One of the studies conducted in Europe (Castanheira *et al* 2010: 92), indicate that although internal auditing plays a proactive role in the implementation of risk management process, internal audit and management must first understand the underlying risk management concepts before implementation. Another study conducted on State Corporations in Kenya (Odoyo & Omwono 2014), indicate that management at State Corporations needs to create an environment that will harness commitment and support to internal audit, if it is to effectively perform its responsibility of giving assurance that organisational risks are managed effectively. It is against these results that this study incorporated the involvement of internal audit and management in effectively managing risk within the public enterprises.
- The objectives of the studies conducted by Joksimović & Ahmed (2017), and Florea and Florea (2013) in Europe were aligned to the scope of this study, in the South African context and in attempt to answer the research question, as well as making recommendations on the challenges faced by the public enterprises.
- Barac and van Staden (2014) provided valuable information, which covered internal audit function in both public and private sectors. Some of the deficiencies noted in the public sector internal audits were explored and recommendations incorporated in this study in order to reinforce the role of internal audit in South African public sector.
- Based on the study by Wilkinson and Plant (2012), this study included determining whether there is a framework in place for developing an organisational governance maturity model, which is used by internal audit functions to review governance processes.

2.4 SUMMARY

In line with the literature reviewed, it suffices that the Internal Audit represents an important management tool, which assist and support organisation's management in order to identify and manage the risks by bringing extra value for organisational activities. Internal Audit has an interdependent relationship with Corporate Governance and it is considered the vehicle for embedding trust and sustainability within organisations (Kgomo and Plant, 2015). Different perspectives from various authors (*inter alia* South Africa, other African countries and Europe) were explored and in Europe it was revealed that financial institutions have begun centralising internal audit processes to maintain regular control self-assessments. In South Africa, the public sector continues to face challenges relating to good governance due to corruption, maladministration and lack of accountability amongst other causes. Additionally, lack of adequate resources within the public sector IAFs is another factor that has led to collapse in governance, as internal auditors are entrusted with the responsibility of assessing the governance processes and make recommendations for improvements. The next chapter (chapter three – research methodology) describes the research methodology that was followed in this study. The methodology indicates various steps adopted in this study to address the research problem and the underlying logic behind the problem.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 INTRODUCTION

The aim of this chapter is to describe the research method used to gain understanding of the underlying reasons, opinions, and motivations and also uncover the trends relating to the role of internal audit in governance processes within the public enterprises in South Africa. As a result, it mostly outlines and techniques that the researcher used to collect data in order to achieve the research objectives. The justification for the research design, sampling methods and methodologies, the target population, data sources, data collection and administration, and research instruments, are covered in this chapter. It also discusses the findings' validity and reliability, as well as data analysis and presentation methods.

3.2 RESEARCH PARADIGM

This study followed a quantitative (descriptive) research approach, with the view of describing the data and characteristics about the topic being studied, hence gaining a better understanding and obtaining information on current state regarding the role of internal audit in improving governance in the South African public sector. As pointed out by Rahi (2017), descriptive research provides answers rather than uncovering initial insights since sometimes management may have in-depth knowledge about the research problem, understand key issues as well as questions that have to be asked.

3.2.1. Rationale for choosing quantitative (descriptive) research

Descriptive research assists to interpret conditions at present, differences as well as relationships that exist, opinions held, processes going on and evident sequences, thus enhancing a thorough, all-inclusive examination of all features

of the population, subject to the study. This is suitable to the researcher who aims to describe a population of interest in such a way that improves knowledge in the area of interest. The outcomes and results of descriptive research usually end up in further studies (Rahi, 2017).

3.3 RESEARCH HYPOTHESIS

3.3.1. Background

The recent decline in service delivery and maladministration within the South African public sector (especially public enterprises) has been the topic in every media publication, parliament debates and a national concern. Recent literature has also revealed that there are serious concerns in the public sector governance processes and requirements.

3.3.2. Hypothesis based on literature

Review of the literature indicates material deficiencies in the public sector governance. For this reason, it is hypothesised that majority of public enterprises in South Africa face governance challenges such as inadequate internal controls, misuse of assets, financial resources are wasted and exploited, staff perform poorly, records are not kept, and as a result, their operations are rendered ineffective (Radasi & Barac 2015). It is further hypothesised that high IAF staff turnover rates, low levels of internal audit experience in relation to the demands of the profession, high number of CAE vacancies in public sector, lack of adequate qualifications (both professionally and academically) have led to IFAs failing to deliver on governance requirements within the public enterprises (Erasmus *et al* 2014). Other authors assert that due to recent mismanagement and poor governance in most public enterprises as well as changes in the business environment, there has been an increased need for a competent internal audit activity that serves as a cornerstone of effective corporate governance (Barac & van Staden 2014, Wilkinson & Plant 2012, Plant *et al* 2013). This has made it impossible for these public enterprises to achieve their predetermined objectives, ultimately making it impossible for them to obtain clean audit outcomes.

3.3.3. *Research ontology*

Based on the background and literature hypothesis above, it could be concluded that, the state of governance in the South African public sector, particularly the public enterprises, have indeed deteriorated. Recently there has been myriad commission of enquiries probing maladministration at various public enterprises (*inter alia* Transnet, SABC, Eskom, SARS and SASSA). Hence, this study endeavoured to uncover factual evidence relating to the role of internal audit in supporting governance processes within the selected public enterprises. Chikwiri & de la Rosa (2015), argue that not all IAFs at the South African public enterprises are incapacitated to do the job. This is because very few of them endeavour to make a difference and are encouraged to spend more time providing management with assurance and recommendations on effectively embedding governance, risk management, and compliance (GRC) procedures, rather than merely delivering assurance services.

3.4 POPULATION AND SAMPLE FRAMEWORK

3.4.1 *Population – South African Public Enterprises*

In the South African economy, public enterprises play a leading role in vital industries such as electricity, transportation (air, rail, freight, and pipelines), and telecommunications, which are often regulated by law, however, limited competition is allowed in some sectors (i.e., telecommunications and air). The government's interest in these industries frequently competes with foreign investment, thus limit the autonomy of foreign investors. As published in the South African National Government directory (2018), there are approximately 700 public enterprises that exist at the national, provincial, and local levels.

3.4.2 *Total Target population (N) and sample size (n) framework*

The target population applicable for this study are, Audit Committee Members; Chief Audit Executives; Executive Managers; and Middle Managers; within the South African public enterprises, which include Mine Health and Safety Council (MHSC), South African Local Government Association (SALGA), South African

Forestry Company Limited (SAFCOL) and Media Information and Communications Technology Sector Education Training Authority (MICT SETA).

Table below indicates the total target population:

Table 3.1: Total target population

Company	Audit Committee	CAE	Executives	Middle Management	TOTAL
MHSC	8	1	7	13	29
MICT SETA	5	1	10	12	28
SALGA	5	1	8	21	35
SAFCOL	6	1	10	15	32
Total Elements	24	4	35	61	124

Source: Researcher

Total population = 124

3.4.2.1. **Sample Size (n) Framework**

3.4.2.1.1. **Stratified sampling**

Taherdoost (2016) insists that stratified sampling entails separating the entire population into strata groups. After that, random samples are obtained from each stratum in a number proportional to the size of the stratum when compared to the population. These stratum subsets are then combined to generate a random sample (Taherdoost, 2016).

Stratified sampling was applied to divide the population for this study as reflected below:

3.4.2.1.2. **Population:**

MHSC	=	29 participants
MICT SETA	=	28 participants
SALGA	=	35 participants
<u>SAFCOL</u>	=	<u>32 participants</u>

Total population = 124 participants

3.4.2.1.3. **Stratum**

Strata Name	Strata Size	Sample Size Selected	Representative Percentage
Audit Committee (for all 4 companies)	24	16 (4 from each company)	67%
Chief Audit Executive (for all 4 companies)	4	4 (1 from each company)	100%
Executives (for all 4 companies)	35	20 (5 from each company)	57%
Middle Management (for all 4 companies)	61	40 (10 from each company)	66%
TOTAL	124	80	65%

3.4.2.2. **Justification for the sample size**

From the total population size of 124 participants, a sample of 80 participants was selected from the stratum to ensure that each subgroup within the population receives proper representation within the sample. Given that the researcher had control over the subgroups; stratified sampling ensured that all of the subgroups are represented in the sampling, thus giving superior coverage of the population (Taherdoost, 2016).

From each stratum, a representative sample was selected as per percentage representation below:

Audit Committee	–	67%
Chief Audit Executive	–	100%
Executives	–	57%
Middle Management	–	66%

3.4.3 Justification for inclusion of each participant group

Audit Committee – Audit committee is responsible for hiring the CAE (or equivalent), internal audit and risk management oversight. This participant group provided important information on the independence of internal audit, hence addressing research objective one (1); (Determine the independence of Internal Audit Functions (based on existence of Audit Committees and clearly defined reporting lines of internal audit, access to records and employees, interference within the organisation, and support from senior management).

Chief Audit Executive or equivalent – The CAEs (or equivalent) are responsible for functional and administrative matters of internal audit. The CEAs provided important information regarding the capacity and adequacy of internal audit resources (including skills and competencies). Research objective two (2) was addressed by this participant group; (The capacity of respective internal audit resources - inter alia size of the internal audit, availability of experienced and qualified internal auditors) in assessing and improving governance.

Executives and Middle Management - Executive and middle management are mainly responsible for implementing the recommendations made by internal audit, hence addressing research objective three (3); (How the public enterprises management implement the recommendations from internal audit).

3.4.4 Justification for exclusion (employees below management levels)

Employees below management levels have been excluded for participation in this study. The reason for exclusion is because these employees usually do not

deal directly with internal auditors, as they only get instructions from executive and middle managers to collate the information required for audit purposes. However, there are considerations to expand this study either through journals, articles or enrollment for doctoral studies to further investigate why employees below management level are usually not involved in internal audit work (including meetings with internal auditors, implementation of audit recommendations and direct communication with internal auditors).

3.4.5 Sample methods – Purposive sampling

Currently there are approximately 700 public enterprises in South Africa and the intended sample for this study is four (4) public enterprises. Purposive sampling method (which is non-probability) has been adopted to select the sample for this study, and it is a widely used research strategy for identifying and choosing data-rich instances relevant to a topic of interest (Palinkas et al, 2015). This involves tracing and picking groups or individuals or groups who are mostly experienced or educated about a topic of interest (Cresswell & Plano Clark, 2011). Despite its wide use, Palinkas et al (2015) identify several obstacles in determining and implementing the best purposeful sampling approach for any study. As a result of researchers applying their judgment in choosing the people, cases, or targets for purposive sampling, it is often not easy to defend the conclusions that are made from the information.

3.4.6 Sampling elements

A sampling element is the unit of analysis in a population, which can be a person, a group, an entity or organisation that is being studied. Since purposive sampling was adopted for this survey, the sampling elements below were purposively selected due to the recent public sector (in particular public enterprises) governance challenges as reported in the media platforms listed under section 3.4.6.1 below. For example, in January 2018, Mail and Guardian reported that Eskom was in a dire situation and desperately needed R20million to continue its operations. Moreover, it was difficult to secure funding from foreign and local due to existing governance issues within Eskom. Eyewitness

News also pointed out during 2018, that Transnet was facing severe allegations of corruption and maladministration, as there were transgressions relating to the procurement of ninety-five (95) locomotives, which were procured in 2012. In August 2018, Times Live also contributed to the public sector governance scandals by reporting that South African Broadcasting Corporation (SABC) had a cash-flow problem that affected its payments to creditors, producers and service providers. In August 2018, Finance24 concluded the governance debate by reporting that South African President transferred South African Airways (SAA) back to Department of Public Enterprises for oversight, due to failures in governance.

3.4.6.1 Media platforms:

<https://mg.co.za/article/2018-01-12-00-eskom-has-a-problem-a-r20-billion-problem;>

<https://ewn.co.za/2018/08/17/listen-popo-molefe-situation-at-transnet-is-bad;>

[https://www.timeslive.co.za/news/south-africa/2018-08-02-please-be-patient-we-have-a-cash-problem-sabc/;](https://www.timeslive.co.za/news/south-africa/2018-08-02-please-be-patient-we-have-a-cash-problem-sabc/)

<https://www.fin24.com/Companies/Industrial/syndicate-at-saa-must-be-dismantled-scopa-20180816;>

<https://www.timeslive.co.za/sunday-times/business/2018-06-05-denel-has-a-r234-billion-debt-problem-and-no-plan-how-to-tackle-it/>

3.4.6.2 List of elements within population

- Mine Health and Safety Council (MHSC)
- South African Local Government Association (SALGA)
- South African Forestry Company Limited (SAFCOL)
- Media Information and Communications Technology Sector Education Training Authority (MICT SETA).

3.4.7 Specific sampling elements

The study was conducted on the following specific sampling elements:

- Audit Committee Members

- Chief Audit Executives (CAEs)
- Executive Management
- Middle Management

3.5 DATA COLLECTION METHOD

Data were collected through the following methods:

3.5.1 Questionnaire

Due to the current Covid-19 pandemic, only questionnaire was used during this study as data collection method, and to avoid physical contact with the respondents. Taherdoost (2016) points out that some research studies adopt questionnaire method to gather the data required, and this offers a way of collecting unstructured and structured data from research participants in a standardised way. The methods can either be through self-completion questionnaire or questionnaire used as a part of a structured interview. Usually, information collected is numerical and can therefore be analysed using statistical data analysis techniques. Taherdoost (2016) further insists that questionnaire is beneficial as it assist in obtaining accurate data, offers reliable and cost effective means of collecting feedback which could be quantitative and/or qualitative, and also provide relevant and precise information data through thoughtful design, testing and comprehensive administration. The questionnaire method is also supported by Etikan & Bala (2017), who insist that questionnaire assists the researcher in obtaining fast, simple, cheap and efficient ways of obtaining large amount of data from a bigger sample of respondents. Moreover, the questionnaire must look professional and be phrased in a way that attracts the attention of the participant.

3.5.1.1 Likert scales (closed ended)

Likert scale method was used as data collection instrument for this study. Etikan & Bala (2017) explain likert scales as questions that can only be answered by choosing from a limited number of options, often multiple-choice, 'yes' or 'no', or

a rating scale (such as from strongly agree to strongly disagree). Joshi *et al* (2015) point out that likert scale is a method mostly utilised used in questionnaires to attain the participants' priorities or the extent of agreement with an assertion or set of assertions. Respondents are required to indicate their level of agreement with a particular statement through an ordinal scale. Likert scales are a non-comparative scaling method and are unidimensional in nature. A five-point scale is commonly used with the points ranging from **“1-Strongly Agree”**, **“2-Agree”**, **“3-Neither Agree nor Disagree”**, **“4-Disagree”** and **“5-Strongly Disagree”**. Literature recommends that a five-point scale is readily understandable to participants and allows them to highlight their views in an improved way (Rahi 2017, Joshi *et al* 2015). Hence, construction of Likert scales is rooted into the aim of the research in order to understand the opinions and perceptions of participants.

3.5.1.2 Open-ended questions

Open-ended questions were also used as a data collection method. Connor Desai & Reimers (2018) describes the open-ended questions as questions that do not offer respondents a prearranged set of response options, rather permits the respondents to express the answers in their own words. Additionally, open-ended questions are usually utilised in exploratory studies and qualitative research methods. Qualitative researches that use open-ended questions offer researchers an opportunity to take a comprehensive and holistic view at the issues under study. This is because open-ended response options allow respondents to offer additional options and opinions, allowing the data to have more diversity than when using forced choice or closed-ended surveys.

3.5.2 Pilot study (questionnaire test-run)

Etikan & Bala (2017) defines a pilot study as a small scale study that is conducted prior to the main study. Pilot study assist the researcher by studying smaller groups in order to correct any errors, thus enabling corrections to be made before the main study commences, hence this saves money, energy and time.

3.5.2.1 Pilot study test

A pilot study was conducted on a sample of four (4) participants, working at Mine Health and Safety Council (researcher's workplace) to test the questionnaire prior to commencement of the full study. The draft questionnaire was distributed to the participants, and the objective was to guarantee that the interview contains questions that are clear and sufficiently address the research question (Rowley, 2012). The data from this pilot study was utilised to fine-tune and enhance the interview agenda, as well as to improve the research's validity. Additional questions were added to the interview agenda as a result of the literature review and the results of the pilot interviews.

3.6 DATA ANALYSIS METHODS

3.6.1. Statistical (quantitative) data analysis

According to Rahi (2017) statistical quantitative analysis method is used to uncover the primary trends, patterns, and relationships in the study. Jansen and Warren (2020) are of the view that quantitative analysis is generally used for three purposes; (1) to assess discrepancies between groups; (2) to evaluate relationships between variables; and (3) to scientifically and rigorously test the hypotheses. Moreover, quantitative analysis is underpinned by statistical analysis methods, which include descriptive statistics and inferential statistics. Descriptive statistics involves describing the sample, whereas inferential statistics involves predictions of the population based on the sample's findings (Jansen and Warren, 2020). Descriptive Analysis describes and summarises data points constructively and allows patterns that might emerge to accomplish all conditions of the data. Thus descriptive analysis gives the researcher a conclusion of the distribution of the data, helps detect typos and outliers, and enables the researcher to identify similarities among variables. Compared to descriptive analysis, inferential statistics helps the researcher to come to conclusions and make predictions based on the data, and it can be used to make estimates and test hypotheses about the whole population based on the sample data (Jansen and Warren, 2020). The quantitative data analysis was

used in this study to present the research outcomes/results which are outlined in Chapter Four (4).

3.7 LIMITATION OF THE STUDY

This study has been narrowed within the South African public sector to specifically focus on the public enterprises, due to the recent scandals that occurred as a result of the weak governance in the public sector. The results of this study were limited as a result of the research method chosen. The outcome of this study could help the IAFs to comprehend and outline their role as supporting and improving governance processes, to avoid potential drawbacks and follow best practices in improving governance processes.

3.8 DATA RESULTS

3.8.1 Research findings

Burnard *et al* (2008) emphasise that when it comes to putting up qualitative research findings, there are two primary techniques. First, is to report important findings under each major topic or section, and illustrate the conclusions with suitable verbatim quotes. This is complemented by a supplementary discussion chapter that discusses the findings in connection to previous research (as in quantitative studies). The second option is to do the same thing as the first, but include the discussion in the findings chapter. This study adopted the first approach whereby findings were reported under each main category, and presented in line with the research objectives.

3.8.2 Visual data Display

Wherever and whenever necessary, visual data displays were used in this study to present the inferences and conclusions and to represent ways of organising, summarising, simplifying, and transforming data (Verdinelli & Scagnoli, 2013). A visual display could be as simple and feasible to aid the reader in gaining the intended message, and it should contain the proper balance of crucial

information and minimal detail, avoiding extraneous off-topic content or information. Irrelevant data creates visual noise, making it difficult for the reader to discover the most important and useful information (Verdinelli & Scagnoli, 2013).

3.9 INTERNAL AND EXTERNAL VALIDITY OF THE RESEARCH DESIGN

3.9.1. External Validity

Cuncic (2021) points out that external and internal validity define whether or not the research findings are relevant and reliable. External validity ensures that research findings are applicable to the real world. Internal validity refers to how properly a study is done (including its structure). The researcher adopted the following factors to enhance external validity of the study:

Psychological realism: Researcher ensured that participants experience the study as a real event by telling them a summary of what the study is about and what it aims to achieve.

Reprocessing or calibration: The researcher used statistical techniques to amend for difficulties relating to external validity. For example, reweighting was applied in instances where the study experienced uneven groups for some characteristics (such as age).

Inclusion and exclusion criteria: The researcher clearly defined the population being studying in the research, and exclusion were clearly indicated with reasons.

3.9.2. Internal Validity

The researcher also ensured that the following factors for internal validity were avoided to strengthen the confidence of the research findings, and ensure that the study avoided traps that could make the findings questionable:

Attrition: This refers to participants quitting the study, leading to results to be based on a subjective sample of only the participants who decided not to leave.

Historical events: These are occurrences that may have an impact on the outcome of studies that take place over time, such as a change in political leadership or a natural disaster that affects how research participants feel and act.

3.10 RELIABILITY OF DATA GATHERING INSTRUMENT

The objective of demonstrating reliability and validity in research is to verify that data is sound and replicable, as well as that the results are accurate; hence, evidence of validity and reliability are required to ensure the integrity and quality of a data measuring instrument (Cuncic, 2021). Consistency, precision, repeatability, and trustworthiness are measured by reliability in research; hence the researcher adopted the following methods to ensure reliability of the study:

Parallel-forms reliability: Used to assess reliability by managing different versions of the assessment tool to the same category of participants.

Inter-rater reliability: Used to ensure that the data collection method/instrument was consistent.

3.11 ETHICAL CONSIDERATION

3.11.1 Importance of ethical principles

All research undertaken by University personnel and students that involves human subjects or includes human tissue is subject to ethical review and approval. This criterion stems from the University's Code of Good Practice in Research and applies to all levels of study, as well as financed and unfunded research, the use of simple questionnaires, and more complicated research conducted in a variety of locations and environments.

3.11.2 Informed consent

Informed consent is a voluntary initiative by the respondents to take part in the research. Through proper procedures, participants must be made aware of the

research participation risks. Hence, prior to involvement, participants must provide their informed permission. For all types of research, informed consent is required, which entails telling the participants about their rights, procedures to be followed, the study's objective, and the potential risks and advantages of participation (Shahnazarian *et al*, 2017). Participants should take part in the study willingly. A signed Informed Consent form was communicated to all participants in this research.

Declaration by researcher:

For this particular study, participants were not persuaded or compelled to participate in any action, and they were given honest and precise information regarding the research and its potential dangers, as well as the option to withdraw at any time. The research outcomes will be kept confidential and shall only be given to the participants at request.

3.11.3 Protection from Harm and Right to Privacy

There was no physical or mental suffering for the participants. The research findings and recommendations were solely shared with the participating organisations, and all information in this regard is kept private. According to Schurink (2009), ethics in practice entails being true to one's character and taking responsibility for one's conduct and their repercussions for others, as well as constantly reflecting on the researcher and the researched relationship. The researcher followed and adhered to the concepts of responsibility, accountability, transparency, accountability, and ownership in order to accomplish this. As an MBA Research student at UNISA (SBL), I undertake to protect all respondents' names and other personal details, as well as their responses. Information obtained during this study will be kept confidential and no disclosure will be made without written authorisation of the respondents.

3.11.4 Confidentiality and Anonymity

Information gathered during this research and that relates to all participants will be kept confidential (including responses, names, gender, race, age and positions held).

3.11.5 Permission to Conduct Research

The researcher obtained written permission from all four (4) participating public enterprises to conduct research in their respective premises, subject to observing and maintaining confidentiality of the information received from these organisations.

3.11.6 Research Ethical Clearance Certificate

The UNISA Research Ethics Committee issued an ethical clearance certificate to the researcher, allowing for engagement with participants and gathering information in an ethical manner.

3.12 SUMMARY

Internal Audit represents an important management tool, which assist and support organisation's management in order to identify and manage the risks bringing extra value for organisational activities. This study paid particular focus on the role of internal audit in governance objectives at the four (4) selected public enterprises. There are various research methods that various authors used to achieve the objectives of their studies. This study in particular adopted the quantitative research method through questionnaire as a basis of achieving the research objectives. Statistical analysis was used to analyse the research results, while findings were reported under each main category, and were presented in line with the research objectives. The next chapter (chapter 4 – Research Results) will discuss the research results obtained during fieldwork.

CHAPTER FOUR: FINDINGS AND ANALYSIS

4.1 INTRODUCTION

This chapter depicts the results and analysis of the findings relating to The Role of Internal Audit in Improving Governance in South African Public Sector. The discussion and presentation of the results are depicted through a simple descriptive statistical analysis where percentages, frequencies and graphs were used. The research objectives addressed by this study are outlined below:

To determine the following in the public enterprises:

- The capacity of respective internal audit resources (*inter alia size of the internal audit, availability of experienced and qualified internal auditors*) in assessing and improving governance;
- The independence of Internal Audit Functions (based on existence of Audit Committees and clearly defined reporting lines of internal audit, access to records and employees, interference within the organisation, and support from senior management); and
- How the public enterprises' management implement the recommendations from internal audit.

4.2 DEMOGRAPHIC DETAIL

Connelly (2013) suggests that researchers should gather demographic information to describe the participants in their studies. This information should be reported in narrative or table format to allow the readers to get a full view of the demographic status of the participants. The demographic information is a necessary part of the research and should be carefully examined (Connelly, 2013).

Below are variables that were determined to indicate the demographic details:

- Position/designation of the participant
- Age
- Race
- Relevant Work experience

4.2.1 Overall Response Rate

The study intended to obtain responses from 124 participants, who represent the total population. The responses received are depicted in the table below:

Table 4.2.1: Overall response rate

Total Population	124
Research sample ample size	80
Responses received	37
Response rate	46%
Non-responses	43
Non-response rate	54%
Responses used	37
Response use rate	100%

As depicted in table 4.2.1 above, this study was conducted on the total 37 responses, representing 46% of the sample size. Ramshaw (2017) argue that a good research response rate would be anything recorded above 25%, hence the response rate for this study is reasonable and acceptable. Creswell (2014)

is of the view that a response rate ranging between 35 - 40 % is acceptable for a quantitative research.

4.2.1.1 Response rate per participant group

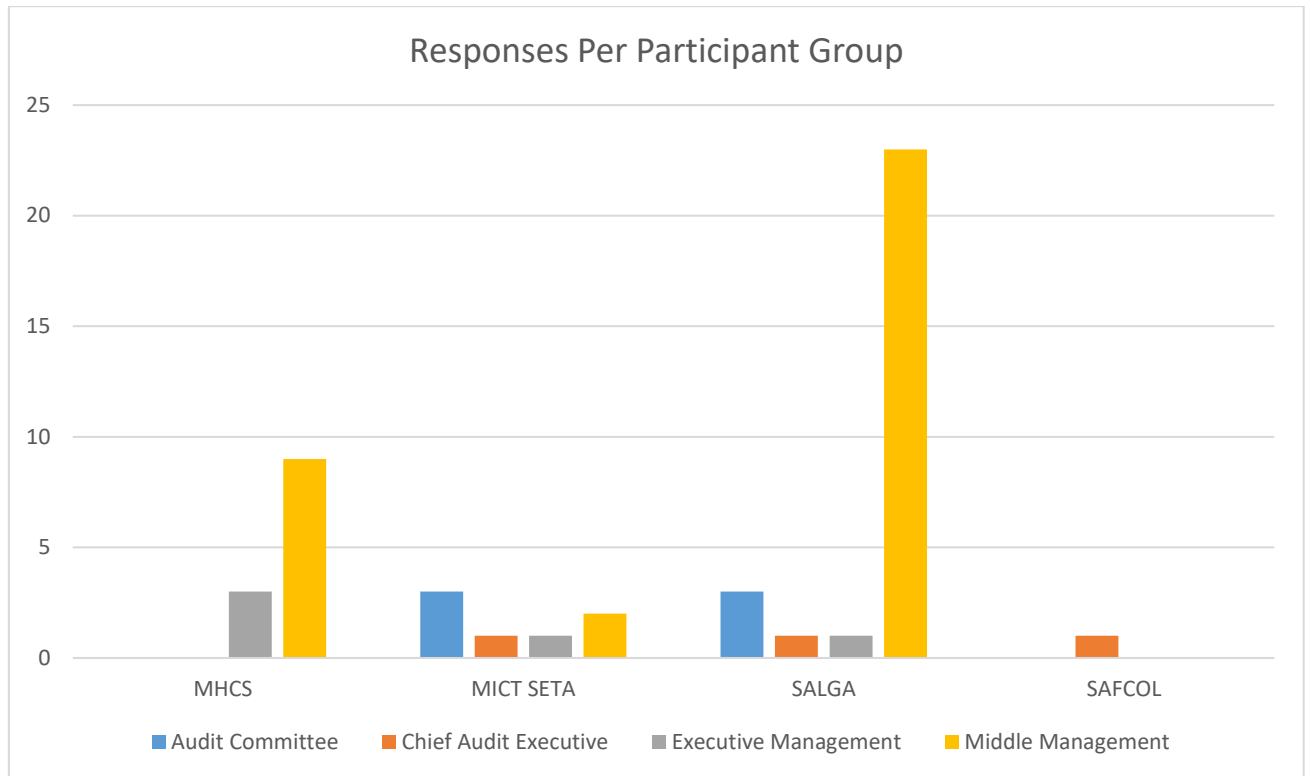
Table below illustrates responses received per participant group:

Table 4.2.1.1: Response per participant group

Participant Group	Sample Size	Responses Received per population element				Total
		MHSC	MICT SETA	SALGA	SAFCOL	
Audit Committee	16 (4 from each company)	0	3	3	0	6
Chief Audit Executive	4 (1 from each company)	0	1	1	1	3
Executives	20 (5 from each company)	3	1	1	0	5
Middle Management	40 (10 from each company)	9	2	12	0	23
TOTAL	80	12	7	17	1	37

Response per participant group is also illustrated in the graph below:

Figure 4.2.1: Responses per participant group



4.2.2 Position/designation of the participant

According to Connelly (2013), if the research is conducted at a workplace, the position/designation of the participants provides important information to the study as the position indicates the level of responsibility each participant has within the organisation. From the above data, it can be concluded that there are more middle managers in the public enterprises than executive managers. This is supported by Belasen and Belasen (2017), who emphasise that most organisations have a high number of managers at middle management level, thus giving the organisation a pyramid structure.

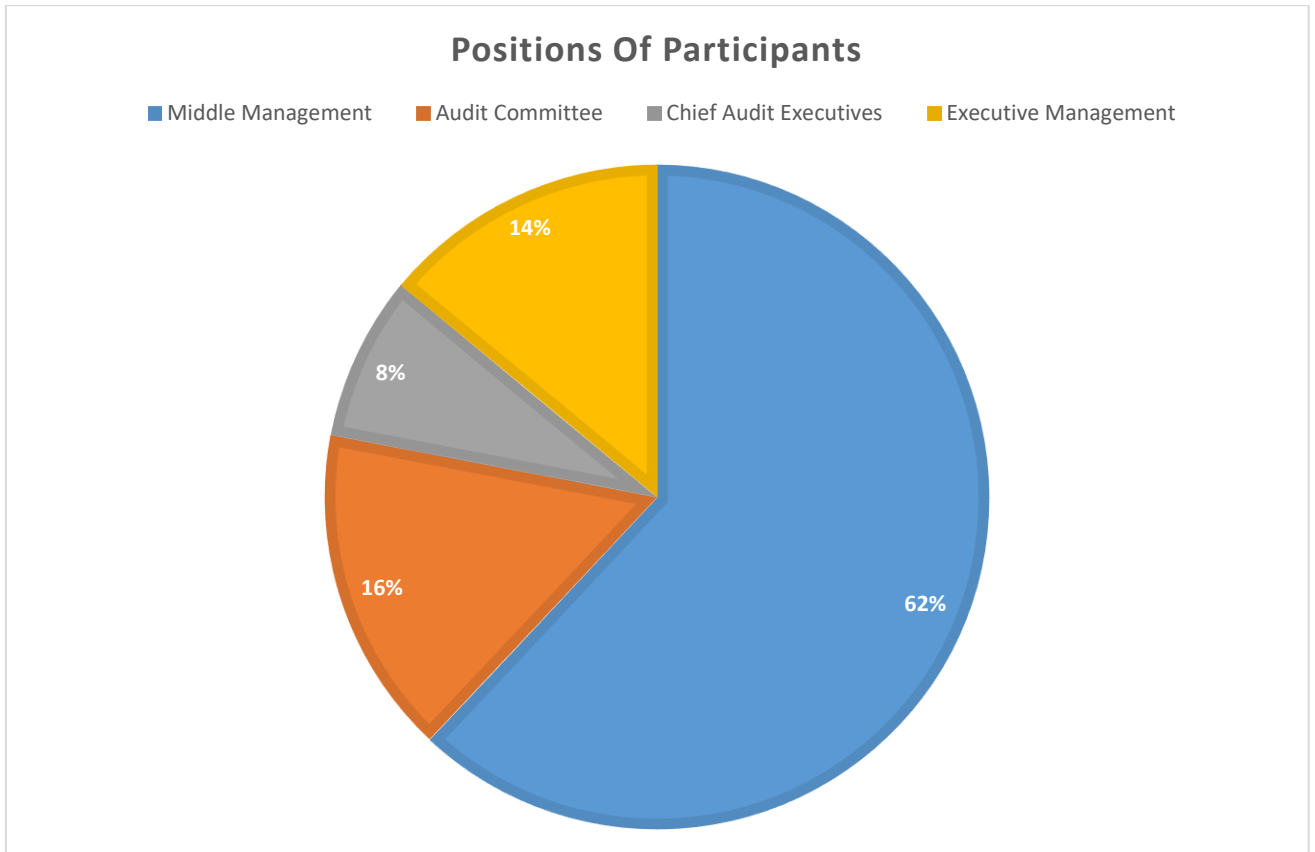
Table below illustrates the positions of the participants:

Table 4.2.2 – Position/Designation of Participants

Position	Number of Participants	Percentage (%)
Audit Committee Member (ACM)	6	16%
Chief Audit Executive (CAE)	3	8%
Executive Management (EM)	5	14%
Middle Management (MM)	23	62%
TOTAL	37	100%

Positions of the participants are also depicted in the chart below:

Figure 4.2.2: Positions of the participants



4.2.3 Participants' Age

Connelly (2013) argues that participants' age helps the researcher to assess the behaviour, individual thinking and responsibility of the participants. Table below depict the age categories for the research participants:

Table 4.2.3: Participants' age

Age group	Number of participants	Percentage
20 – 65 years	37	100%
65 – above	0	0%
TOTAL	37	100%

4.2.4 Participants' Race

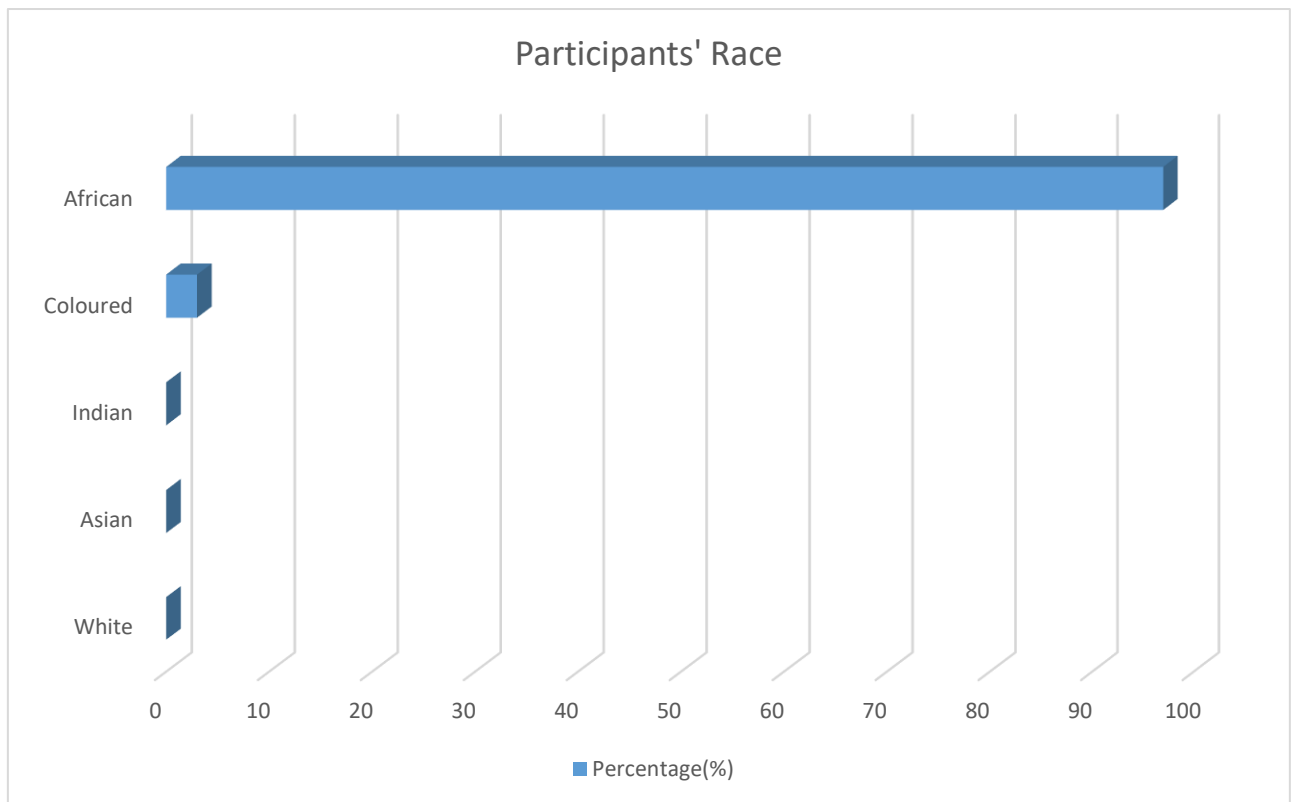
Race in workplace research assist the researcher to obtain information about employment equity of the organisation(s) under study (Connely, 2013). Table below depict the race groups of the participants:

Table 4.2.4: Participants' Race

Race	Number of participants	Percentage
African	36	97%
Coloured	1	3%
Indian	0	0%
White	0	0%
Asian	0	0%
TOTAL	37	100%

Participants' race is also depicted in the chart below:

Figure 4.2.4: Participants' Race



4.2.5 Relevant Work experience

Employees' work experience plays a critical role in understanding the requirements of the job and effectively carrying out those requirements (Connelly, 2013). The more employees stay in the organisation, the more experienced they become in their respective roles.

Table below illustrates the work experience of the research participants:

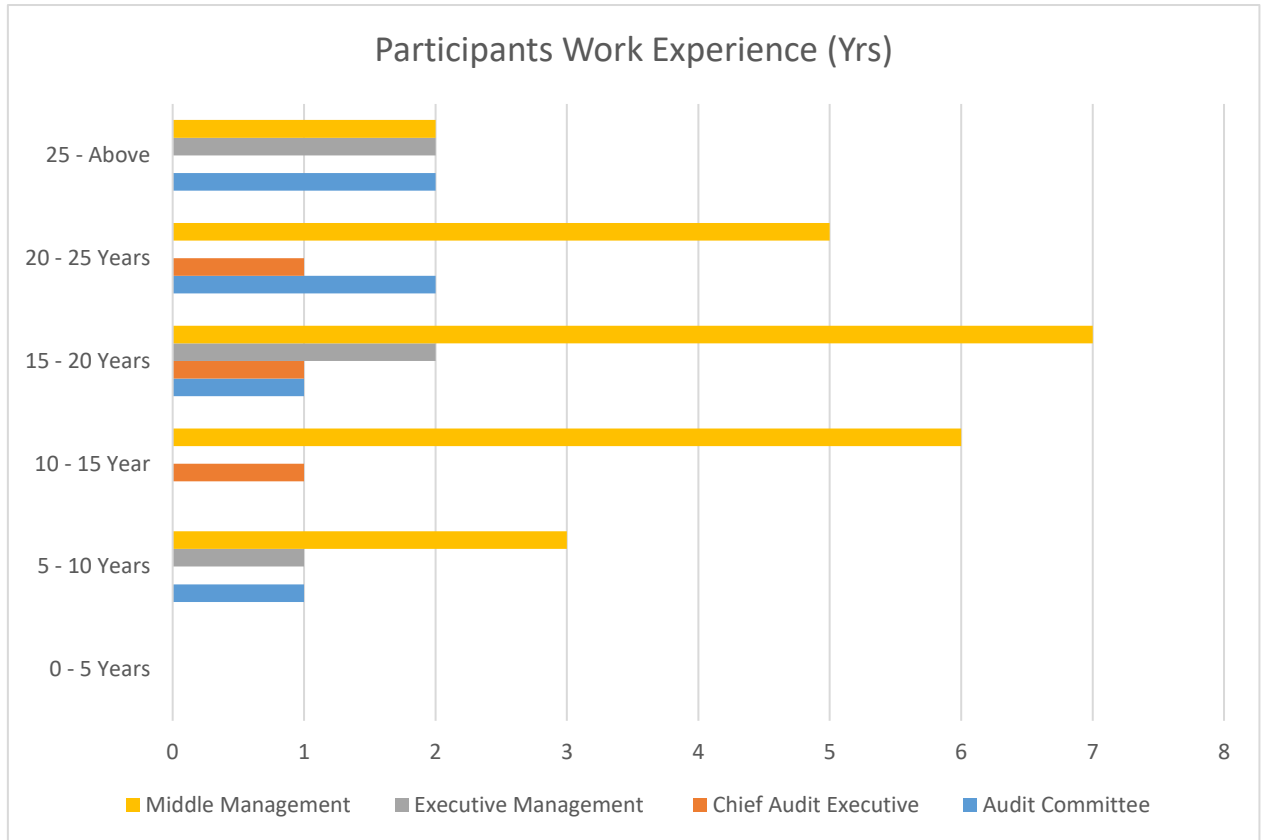
Table 4.2.5: Participants' work experience

Work Experience	Number of Respondents				Total
	Audit Committee	Chief Audit Executive	Executive Management	Middle Management	
0 – 5 years	0	0	0	0	0
5 – 10 years	1		1	3	5
10 – 15 years		1		6	7
15 – 20 years	1	1	2	7	11
20 – 25 years	2	1		5	8
25 - above	2		2	2	6
TOTAL	6	3	5	23	37

From table 4.2.5 above it is evident that majority of Audit Committee members at the public enterprises have over 15 years' experience in dealing with audit matters. Additionally, most Chief Audit Executives have over 15 years' experience in internal auditing, while most Executive Managers and Middle Managers also have over 15 years' experience.

Participants’ work experience is also depicted in the chart below:

Figure 4.2.5: Participants work experience



4.3 PRESENTATION OF RESULTS

Singh, Gupta & Peres (2019) emphasise that, when presenting quantitative research results, and whatever the researcher chooses, either table, chart or text, (or all three), the visual data must be self-explanatory. Any headings must be clear and informative, and all text accompanying a chart or table must reference the key points that the researcher wants to highlight. The researcher should ensure that the visual is understood even if the text is not read. Confidentiality and anonymity have been followed in this study; hence all people who responded to the research questionnaire are referred to as Participants.

Sub-sections that follow will outline the following format as part of results presentation:

- Research question
- Hypothesis (proposition)
- Research objective
- Participants' responses (including specific research questionnaire)
- Presentation of results and analysis

SECTION A

Capacity Level of Internal Audit Functions

4.3.1 Research Question One (1):

Question - What is the capacity level of internal audit functions within the public enterprises to improve governance processes?

Proposition - Recent literature shows that there are inadequate skills and resources to enable IAFs within the South African public sector to improve governance processes. Moreover, Chief Audit Executives (CAEs) are not adequately qualified both professionally and academically to fully discharge the responsibilities of the IAFs.

Research Objective – To determine the capacity of respective internal audit resources, *inter alia*, size of the internal audit, availability of experienced and qualified internal auditors), in assessing and improving governance.

4.3.1.1 Participants' responses

Specific research questionnaire

4.3.1.1.1. Do you believe the number of internal audit staff is sufficient to effectively improve and add value to your organisation's operations? (question applicable to all participants).

Responses received from the participants are depicted in the table below:

Table 4.3.1: Internal audit staff adequacy

Assertion	Number of Responses				Total
	Audit Committee	Chief Audit Executive	Executive Management	Middle Management	
Strongly Agree	0	1	0	2	3
Agree	4	1	2	5	12
Strongly Disagree	1	0	0	1	2
Disagree	1	1	3	8	13
Not Sure	0	0	0	7	7
Total	6	3	5	23	37

Table 4.3.1.1: Percentages for responses on internal audit staff adequacy

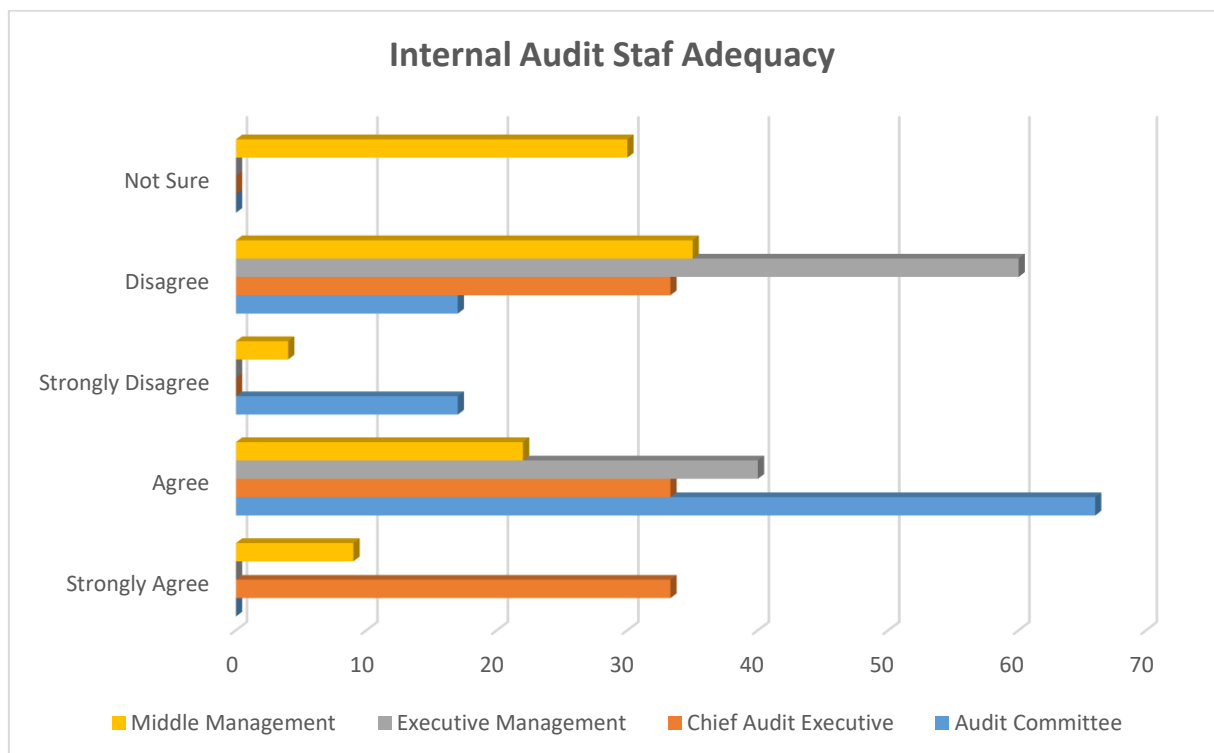
Assertion	Audit Committee	Chief Audit Executive	Executive Management	Middle Management
Strongly Agree	0%	33.3%	0%	9%
Agree	66%	33.3%	40%	22%
Strongly Disagree	17%	0%	0%	4%
Disagree	17%	33.3%	60%	35%
Not Sure	0%	0%	0%	30%
Total	100%	100%	100%	100%

In line with Tables 4.3.1 and 4.3.1.1 above, majority of Audit Committee members regard their internal audit staff as sufficient to effectively improve and add value to their organisation's operations. This view is represented by 66% of Audit Committee members, however 34% (disagree – 17% and strongly disagree 17%) oppose that their internal audit staff is sufficient. On one hand, 66.6% of Chief Audit Executives (agree - 33.3% and strongly agree – 33.3%) regard their internal audit staff as sufficient, while 33.3% disagrees. Executive Management representing 60% disagree that their internal audit staff is sufficient to effectively improve and add value to their organisation's operations, while 40% are of the view that their internal audit staff is sufficient. Middle Managers making up 39% (disagree - 35% and strongly disagree - 4%) are of the view that their internal audit staff is not sufficient to effectively improve and add value to their organisation's operations, while 30% of Middle Managers are not sure. However, 31% (strongly agree – 9% and agree – 22%) regard their internal audit staff as sufficient. Looking at the statistics presented above, it is evident that internal audit staff at the public enterprises is not sufficient to

effectively improve and add value to their organisation’s operations. The above statistics also reinforce the views by Erasmus *et al* (2014) and Plant *et al* (2013), who pointed out (in chapter 2 above) that outsourced internal audits add more value than in house internal audits, as in-house internal audits usually lack adequate skills, experience and training.

Figure below also illustrates the responses for internal audit staff adequacy

Figure 4.3.1.1: Internal audit staff adequacy



4.3.1.1.2. Is the Chief Audit Executive (or equivalent) qualified both academically (e.g. MBA or equivalent recommended) and professionally (e.g. CIA or CA recommended) to be the head of internal audit? (question applicable to Chief Audit Executives only).

Responses received from the participants are depicted in the table below:

Table 4.3.1.2: Chief Audit Executive (CAE) qualifications

Assertion	Number of Responses	Percentage (%)
Strongly Agree	2	67%
Agree	1	33%
Strongly Disagree	0	0%
Disagree	0	0%
Not Sure	0	0%
Total	3	100%

From table 4.3.1.2 above all CAEs indicate that they hold both academic and professional qualifications (strongly agree – 67% and agree – 33%). This is against the study conducted by Erasmus *et al* (2014), who found out that the experience, skills and competencies of Chief Audit Executives in the public sector were lower than the recommended levels by the Institute of Internal Auditors (IIA). The recommendation by the IIA is that CAEs should be qualified as Certified Internal Auditors (CIAs) and should also have academic master’s degree or Master of Business Administration (MBA). It appears that all CAEs who participated in this study hold both CIA and MBA qualifications as recommended by IIA. Further study is recommended to determine if CAEs in the public enterprises are qualified both academically and professionally.

4.3.1.1.3. Are all internal audit staff members registered with professional bodies (i.e. IIASA)? (question applicable to Chief Audit Executives only).

Responses received from the participants are depicted in the table below:

Table 4.3.1.3: Professional registration of internal audit staff

Assertion	Number of Responses	Percentage (%)
Strongly Agree	2	67%
Agree	1	33%
Strongly Disagree	0	0%
Disagree	0	0%
Not Sure	0	0%
Total	3	100%

Drawing from table 4.3.1.3 above, all CAEs (strongly agree – 67% and agree – 33%) indicate that their internal audit staff are registered with IIASA, which is a professional body for internal auditors. It suffices that internal audit staff members in the public enterprises are registered with the professional body (IIASA).

4.3.1.1.4. Do all internal audit staff members hold CIA certification? (question applicable to Chief Audit Executives only).

Responses received from the participants are depicted in the table below:

Table 4.3.1.4: Internal audit staff with CIA certification

Assertion	Number of Responses	Percentage (%)
Strongly Agree	0	0%
Agree	0	0%
Strongly Disagree	1	33%
Disagree	2	67%
Not Sure	0	0%
Total	3	100%

As per table 4.3.1.4 above, all CAEs (strongly disagree – 67% and disagree – 33%) indicate that internal audit staff members do not hold CIA certifications. CIA certification is pivotal in the field of internal auditing and those who hold it are considered competent to execute internal audit processes professionally and effectively. The statistics in table 4.3.1.4 above confirm the outcome of the study conducted by Financial Accounting Services Sector for Education and Training (FASSET), which indicated that there is still a shortage of competent internal auditors in South Africa, and this is considered a scarce skill. It is therefore evident that internal audit staff members in the public enterprises do not hold CIA certifications.

4.3.1.1.5. Do internal audit staff members have relevant qualifications (such as internal auditing, accounting, risk management etc.) to enable them to improve governance processes within your organisation? (question applicable to Chief Audit Executives only)

Responses received from the participants are depicted in the table below:

Table 4.3.1.5: Internal audit staff qualifications

Assertion	Number of Responses	Percentage (%)
Strongly Agree	2	67%
Agree	1	33%
Strongly Disagree	0	0%
Disagree	0	0%
Not Sure	0	0%
Total	3	100%

Drawing from statistics in table 4.3.1.5 above, it is evident that internal audit staff members in the public enterprises hold relevant qualifications (such as internal auditing, accounting, risk management etc.) to enable them to improve governance processes within their organisations. All CAEs (strongly agree – 67% and agree – 33% agree) indicate that internal audit staff hold relevant qualifications. The statistics in table 4.3.1.5 above opposes the outcome of the study conducted by Erasmus *et al* (2014) and Plant *et al* (2013) who pointed out that, outsourced internal audits add more value than in-house internal audits, and this is usually caused by lack of adequate skill, experience and training within the in-house internal auditors in the public sector. This motivates for further study in order to determine whether the internal auditors in the public enterprises have relevant qualifications (such as internal auditing, accounting,

risk management etc.) to enable them to improve governance processes within their organisations.

4.3.1.1.6. Are all internal audit staff members adequately experienced in reviewing and improving governance processes with your organisation? (question applicable to Chief Audit Executives only)

Responses received from the participants are depicted in the table below:

Table 4.3.1.6: Internal audit staff experience

Assertion	Number of Responses	Percentage (%)
Strongly Agree	1	33.3%
Agree	0	0%
Strongly Disagree	1	33.3%
Disagree	1	33.3%
Not Sure	0	0%
Total	3	100%

From table 4.3.1.6 above, 66.6% of CAEs (strongly disagree – 33.3% and disagree – 33.3%) indicate that internal audit staff members do not have experience in reviewing and improving governance processes in their organisations, while 33.3% strongly agree that internal audit staff members have the experience. The statistics in above table is supported by Erasmus *et al* (2014) and Plant *et al* (2013) who found out that there are lack of adequate skills, experience and training amongst public sector internal auditors. Therefore, a conclusion can be drawn that there is a deficiency of experienced internal auditors who are required to review and improve governance in the public enterprises.

4.3.1.1.7. How often is training provided to internal audit staff members to improve their skills in evaluating and improving governance within your organisation? (question applicable to Chief Audit Executives only).

Responses received from the participants are depicted in the table below:

Table 4.3.1.7: Internal audit skills improvement

Options	Number of responses					Total
	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure	
Training on governance has never been provided	0	0	0	0	0	0
Training on governance is provided every year	2	0	0	0	1	3
Training on governance is provided every two years	0	0	0	0	0	0
Training on governance is provided every three to five years	0	0	0	0	0	0
Training on governance is only provided as a once off activity	0	0	0	0	0	0
Total	2	0	0	0	1	3
Percentage (%)	67%	0%	0%	0%	33%	100%

From table 4.3.1.7 above, 67% of the CEAs strongly agree that training on governance is provided to internal audit staff every year, while 33% is not sure whether training is provided, as the CEA is new at the job. The above statistics opposes the view by Erasmus *et al* (2014) and Plant *et al* (2013) who found out that there are lack of adequate skills, experience and training amongst public sector internal auditors. Further study is recommended to determine whether internal auditors in the public enterprises receive adequate training for evaluating and improving governance.

4.3.1.1.8. In the past five years, had your organisation experienced a high internal audit staff turnover? (question applicable to all participants).

Responses received from the participants are depicted in the table below:

Table 4.3.1.8: Internal audit skills improvement

Options	Number of responses				Total
	Audit Committee	Chief Audit Executive	Executive Management	Middle Management	
Yes	4	1	3	12	20
No	2	2	2	11	17
Total	6	3	5	23	37
Percentage (%)					
Yes	67%	33%	60%	52%	
No	33%	67%	40%	48%	

From table 4.3.1.8 above 67% of Audit Committee members indicate that their organisations experienced a high turnover of internal audit staff, while 33% did not experience the high turnover. Moreover, 67% of Chief Audit Executives indicate that their organisations did not experience a high internal audit staff

turnover, while 33% agree that there was a high turnover in internal audit staff. Sixty- percent (60%) of Executive Management indicate that their organisations experienced a high internal audit staff turnover while, 40% said they did not. Lastly, 52% of Middle Management agreed that their organisations were affected by high internal audit staff turnover, while 48% said they were not affected. Drawing from the statistics in the above table, it suffices that public enterprises have experienced a high internal audit staff turnover in the past five years. This is supported by the studies conducted by Barac & van Staden (2014), Wilkinson & Plant (2012) and Plant et al (2013), who reported that due to recent mismanagement and poor governance in most public enterprises, there has been an increased need for a competent internal audit activity that serves as a cornerstone of effective corporate governance, as a result of high turnover of competent internal auditors.

SECTION B

Independence of Internal Audit Functions

4.3.2 Research Question Two (2)

Question - To what extent are internal audit functions (IAFs) independent within the South African public enterprises?

Proposition - Based on the literature review, there are clearly defined Internal Audit Functions (IAFs) reporting lines and established audit committees within the public sector. However, independence of some public sector IAFs is compromised. This is because IAFs do not perform their work with freedom from interference; IAFs have limited access to records and employees; and there is lack of support from senior management, all these factors affect the independence of IAFs.

Research Objective – To determine the independence of Internal Audit Functions (based on existence of Audit Committees and clearly defined reporting lines of internal audit, access to records and employees, interference within the organisation, and support from senior management).

4.3.2.1 Participants' responses

Tables 4.3.2.1 and 4.3.2.2 below illustrates the assertions and responses regarding independence and internal audit relationship with other stakeholders, respectively:

Table 4.3.2.1: Internal audit independence

Assertions	Response Options				
	Strongly Disagree	Disagree	Neutral	Strongly Agree	Agree
ESTABLISHMENT OF AUDIT COMMITTEE					
There is an established and effective audit committee within the organisation.	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 100% CAE = 100% EM = 100% MM = 65%	AC = 0% CAE = 0% EM = 0% MM = 35%
The audit committee is comprised of independent members from outside the organisation.	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 33% CAE = 33% EM = 20% MM = 26%	AC = 0% CAE = 0% EM = 0% MM = 39%	AC = 0% CAE = 67% EM = 0% MM = 0%	AC = 67% CAE = 0% EM = 80% MM = 35%

Assertions	Response Options				
	Strongly Disagree	Disagree	Neutral	Strongly Agree	Agree
The audit committee provides oversight responsibility of governance including risk management, internal control, regulatory compliance, financial reporting and disclosure, ethics, and whistle-blower hotlines.	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 17%	AC = 100% CAE = 100% EM = 100% MM = 35%	AC = 0% CAE = 0% EM = 0% MM = 48%
FUNCTIONAL REPORTING TO THE AUDIT COMMITTEE					
The Chief Audit Executive (or equivalent) as the head of internal audit, reports functionally to the audit committee.	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 22% MM = 22%	AC = 100% CAE = 100% EM = 100% MM = 52%	AC = 0% CAE = 0% EM = 0% MM = 26%
The audit committee influences the nature of recommendations that must be implemented	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 17%	AC = 0% CAE = 0% EM = 40% MM = 40%	AC = 67% CAE = 100% EM = 40% MM = 0%	AC = 33% CAE = 0% EM = 20% MM = 22%

Assertions	Response Options				
	Strongly Disagree	Disagree	Neutral	Strongly Agree	Agree
			61%		
The audit committee is effectively involved in the implementation of audit recommendations	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 39%	AC = 100% CAE = 33% EM = 40% MM = 35%	AC = 0% CAE = 67% EM = 60% MM = 26%
The audit committee always solicit feedback from the CAE regarding implementation of audit recommendations	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 30%	AC = 0% CAE = 0% EM = 20% MM = 26%	AC = 50% CAE = 100% EM = 60% MM = 0%	AC = 50% CAE = 0% EM = 20% MM = 44%
The audit committee is highly knowledgeable on the internal auditing standards and requests the reports that meet these standards from the CAE	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 20% MM = 57%	AC = 67% CAE = 100% EM = 0% MM = 17%	AC = 33% CAE = 0% EM = 80% MM = 26%

Assertions	Response Options				
	Strongly Disagree	Disagree	Neutral	Strongly Agree	Agree
FREEDOM TO PERFORM INTERNAL AUDIT WORK					
Internal audit performs its work without any interference from both internal and external	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 13%	AC = 0% CAE = 0% EM = 40% MM = 70%	AC = 67% CAE = 0% EM = 20% MM = 0%	AC = 33% CAE = 100% EM = 40% MM = 17%
ACCESS TO RECORDS BY INTERNAL AUDIT					
Internal audit is always given full access to any records they want to review	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 17% CAE = 33% EM = 0% MM = 26%	AC = 33% CAE = 0% EM = 60% MM = 52%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 50% CAE = 67% EM = 40% MM = 22%
SUPPORT OF INTERNAL AUDIT BY SENIOR MANAGEMENT					
Senior management fully supports internal audit and promote internal audit activities	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 100% CAE = 100% EM = 80%	AC = 0% CAE = 0% EM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 20% MM = 0%

Assertions	Response Options				
	Strongly Disagree	Disagree	Neutral	Strongly Agree	Agree
		MM = 62%	MM = 38%		

Establishment of Audit Committees:

Drawing from above statistics, it suffices that there are established audit committees within the public enterprises, and this is supported by 100% of Audit Committee Members, Chief Audit Executives, Executive Management and Middle Management. However, 33% of Audit Committee Members, 33% of Chief Audit Executives, 20% of Executive Management and 26% of Middle management disagree that audit committees are comprised of independent members from outside their organisations.

Other participants (67% of Audit Committee members, 67% of Chief Audit Executives, 80% of Executive Management and 35% of Middle Management) agree that their audit committees are independent. Majority of participants agree that their audit committees provide oversight for governance, while 17% (from Middle Management) is neutral regarding this oversight responsibility.

Functional Reporting to the Audit Committee:

Only 22% of the Middle management is neutral regarding functional reporting of the Chief Audit Executive to the Audit Committee, while all other categories of participants agree that their Chief Audit Executives report functionally to the audit committees. Moreover, majority of the participants indicate that audit committees always solicit feedback from the CAE regarding implementation of audit recommendations, as part of the functional reporting. All Audit Committee Members, Chief Audit Executives and majority of Executive management (80%)

indicate that their audit committees are highly knowledgeable on the internal auditing standards, and request the reports that meet these standards from the Chief Audit Executives. From statistics in table above, it is evident that the Chief Audit Executives in the public enterprises report functionally to the audit committees.

Freedom to Perform Internal Audit Work:

As per Table 4.3.2.1, above, all Audit Committee Members and Chief Audit Committees agree that their internal audit functions performs their work without any interference from both internal and external. However, 40% of Executive management and 70% of Middle Management are neutral. Thirteen percent (13%) of Middle Management indicate that there is internal and external interference, thus supporting Odendaal (2015), who emphasised that although there are formally established audit committees and clear reporting lines for Internal Audit Functions (IAFs) in the South African public sector, recently most IAFs have faced political pressure while doing their work, thereby compromising their independence. Due to majority perspective regarding interference, it suffices that IAFs do not face experience internal and external interference when performing their work.

Access to Records by Internal Audit:

Seventeen percent (17%) of Audit Committee Members, 33% of Chief Audit Executives, and 26% of Middle management are of the view that their IAFs are not always given full access to any records they want to review. Additionally, 33% of Audit Committee Members, 60% of Executive Management, and 52% of Middle Management are neutral. The above views support Radasi & Barac (2015) who pointed out that the IAFs efforts have been impeded by limited access to records. Nevertheless, 50% of Audit Committee Members, 67% of Chief Audit Executives, 40% of Executive Management, and 22% of Middle Management indicate that IAFs are given access to any records they want to review. The literature review results and primary research results for this section are not conclusive, thus warranting further study on this specific area.

Support of Internal Audit by Senior Management

Sixty-seven percent (67%) of Audit Committee Members, 100% of Chief Audit Executives, 40% of Executive Management, and 62% of Middle management disagree that senior management fully supports internal audit and promote internal audit activities. The above view attests the study by Radasi & Barac (2015) who pointed out that the IAFs efforts have been impeded by lack of support from senior management. It is therefore evident that senior management in the public enterprises does not support and promote internal audit.

Table 4.3.2.2: Internal Audit Relationship with Other Stakeholders (i.e. Audit Committee and External Auditors)

Assertions	Response Options				
	Strongly Disagree	Disagree	Neutral	Strongly Agree	Agree
RELATIONSHIP WITH AUDIT COMMITTEE					
The relationship between the audit committee and both external and internal auditors is important for all parties to fulfil their job commitments.	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 100% CAE = 100% EM = 100% MM = 39%	AC = 0% CAE = 0% EM = 0% MM = 61%
The audit committee regard the work from internal audit as value adding	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 44%	AC = 33% CAE = 100% EM = 0% MM = 0%	AC = 67% CAE = 0% EM = 100% MM = 56%

Assertions	Response Options				
	Strongly Disagree	Disagree	Neutral	Strongly Agree	Agree
The audit committee acts as a link, and facilitates the communications, between the board of directors and both internal and external auditors	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 67% CAE = 0% EM = 20% MM = 34%	AC = 33% CAE = 100% EM = 80% MM = 66%
Internal audit reports are reviewed by the audit committee and committee members discuss such reports with the concerned parties, and ensure that internal audit recommendations are taken into consideration and executed by the management.	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 22%	AC = 100% CAE = 100% EM = 20% MM = 0%	AC = 0% CAE = 0% EM = 80% MM = 78%
Audit committee supports the position of the internal audit function and submits management's irregularities and other relevant managerial	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 100% CAE = 100% EM = 100% MM = 24%	AC = 0% CAE = 0% EM = 0% MM = 76%

Assertions	Response Options				
	Strongly Disagree	Disagree	Neutral	Strongly Agree	Agree
and financial issues to the board of directors, after discussing such issues with the internal auditors and relevant other parties.					
Audit committee evaluates the internal audit's effectiveness, its plans and work arrangements, as well as the resources allocated to internal audit.	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 20% MM = 34%	AC = 100% CAE = 100% EM = 80% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 66%
RELATIONSHIP WITH EXTERNAL AUDITORS					
External auditors always consider and rely on internal audit work when they conduct organisational audits	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 20% MM = 0%	AC = 0% CAE = 0% EM = 40% MM = 52%	AC = 100% CAE = 100% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 40% MM = 48%
External auditors always request annual internal audit plan and performance against that plan as part	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 24%	AC = 100% CAE = 100% EM = 20% MM = 22%	AC = 0% CAE = 0% EM = 80% MM = 54%

Assertions	Response Options				
	Strongly Disagree	Disagree	Neutral	Strongly Agree	Agree
consideration and reliance on internal audit work					
External auditors always engage the CAE prior to commencement of the organisational audits	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 26%	AC = 100% CAE = 100% EM = 40% MM = 0%	AC = 0% CAE = 0% EM = 60% MM = 74%
There is a continuous communication between internal audit and external auditors as a practice of effective communication	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 100% EM = 40% MM = 22%	AC = 100% CAE = 0% EM = 60% MM = 78%
The CAE balances requests from external auditors against the need to provide appropriate coverage over the organisation's key risk areas, to enable external auditors to provide an annual opinion.	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 40% MM = 42%	AC = 67% CAE = 100% EM = 20% MM = 22%	AC = 33% CAE = 0% EM = 40% MM = 36%

Relationship with Audit Committee:

All participants agree that relationship between the audit committee and external and internal auditors is important within their organisations. However, only 44% of Middle Management are neutral; hence do not know if the audit committees regard the work from internal audit as value adding, while the rest of the participants agree to the latter statement. All participants agree that audit committees act as a link, and facilitate the communications, between the board of directors and both internal and external auditors. While majority of the participants indicate that audit committees review internal audit reports, and discuss them with the parties involved, as well as ensuring that internal audit recommendations are considered and implemented by management, only 22% of Middle Management do not agree, as they are neutral. All participants agree that their audit committees support the position of the internal audit functions, however, 20% of Executive Management, and 34% of Middle Management are neutral regarding evaluation of internal audit's effectiveness, its plans, work arrangements, as well as the resource allocation by audit committees. Drawing from the statistics in table above, it is clear that there is a working relationship between IAFs and their respective audit committees in the public enterprises.

Relationship with External Auditors:

Hundred percent (100%) of Audit Committee Members and Chief Audit Executives, 40% of Executive Management, and 48% of Middle Management agree that external auditors always consider and rely on internal audit work when they conduct organisational audits. Twenty percent (20%) of Executive Management disagree, while (40%) of Executive Management, and 52% of Middle Management are neutral. Additionally, 24% of Middle Management are neutral, while 100% of Audit Committee Members, Chief Audit Executives and Executive Management indicate that external auditors always request annual internal audit plan and performance against that plan as part consideration and reliance on internal audit work. Lastly, 100% of participants indicate that there is a continuous communication between internal audit and external auditors as a practice of effective communication. From statistics in table above, there is

sufficient evidence that there is a strong working relationship between internal auditors and external auditors in the public enterprises.

SECTION C

Implementation of Internal Audit Recommendations

4.3.3 Research Question Three (3)

Question - To what extent do the public enterprises address and implement internal audit recommendations for improvement?

Proposition - Based on the recent scandals and decline in governance in South African public sector, in particular the public enterprises, it is argued that majority of the public enterprises do not adequately address and implement the recommendations from their IAFs.

Research Objective – To determine how the public enterprises management implement the recommendations from internal audit.

4.3.3.1 Participants' responses

Table below depict participants' responses relating to implementation of internal audit recommendations.

Table 4.3.3.1: Implementation of internal audit recommendations

Assertions	Response Options				
	Strongly Disagree	Disagree	Neutral	Strongly Agree	Agree
Management implement internal audit recommendations in line with the agreed targets dates	AC = 33% CAE = 0% EM = 0% MM = 0%	AC = 67% CAE = 100% EM = 80% MM = 62%	AC = 0% CAE = 0% EM = 20% MM = 38%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%
Management always	AC = 0%	AC = 0%	AC = 0%	AC = 33%	AC = 67%

Assertions	Response Options				
	Strongly Disagree	Disagree	Neutral	Strongly Agree	Agree
delay and exceed the target dates for implementing internal audit recommendations	CAE = 0% EM = 0% MM = 0%	CAE = 0% EM = 0% MM = 14%	CAE = 0% EM = 0% MM = 46%	CAE = 100% EM = 0% MM = 0%	CAE = 0% EM = 0% MM = 30%
Management always regard internal audit as tool for assisting them to improve their processes, hence implement internal audit recommendations	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 67% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 40% MM = 46%	AC = 0% CAE = 33% EM = 0% MM = 0%	AC = 33% CAE = 67% EM = 60% MM = 54%
Management accepts internal audit findings even if they result in sanctions, such as non-payment of bonuses and other privileges	AC = 100% CAE = 0% EM = 20% MM = 0%	AC = 0% CAE = 100% EM = 80% MM = 72%	AC = 0% CAE = 0% EM = 0% MM = 28%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%

Audit Committee Members (strongly disagree - 33% and disagree - 67%), Chief Audit Executives (disagree - 100%), Executive Management (disagree - 80%) and Middle Management (disagree – 62%) are of the view that management do not implement internal audit recommendations in line with the agreed targets dates, thus always delay and exceed the target dates for implementing internal audit recommendations. Twenty percent (20%) of Executive Management and 38% of Middle Management are, however neutral. This attest the view by Dain & Rahmat (2017) who reported that, as audit findings increase every year in the public sector, those responsible for implementing the audit recommendations

take longer time or sometimes even become hesitant to implement the recommendations, hence putting the public sector service delivery at great risk. Lastly, Audit Committee Members (strongly disagree – 100%), Chief Audit Executives (disagree – 100%), Executive Management (strong disagree – 20% and disagree – 80%), and Middle Management (disagree – 72%) oppose the assertion that management accepts internal audit findings even if they result in sanctions, such as non-payment of bonuses and other privileges. Looking at the statistics in table above, it is evident that there is a problem of implementing internal audit recommendations in the public enterprises.

Additional Concepts Relating to Governance

Sections and tables below depict the participants’ responses relating to additional governance concepts in their respective public enterprises.

Table 4.3.3.2: Approved governance maturity model

Assertion	Response Options				
	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
There is an approved governance maturity model	AC = 0%	AC = 33%	AC = 0%	AC = 67%	AC = 0%
	CAE = 0%	CAE = 33%	CAE = 0%	CAE = 67%	CAE = 0%
	EM = 0%	EM = 0%	EM = 40%	EM = 0%	EM = 60%
	MM = 0%	MM = 0%	MM = 0%	MM = 64%	MM = 36%

Thirty-three percent (33%) of the Audit Committee Members and 33% of Chief Audit Executives agree that there is approved governance maturity model in their organisations. Executive Management (strongly disagree – 40%), Chief Audit Executives (disagree – 67%), and Middle Management (disagree – 64%)

indicate that there are no governance maturity models in their organisations. Sixty percent (60%) of Executive Management and 36% of Middle Management are neutral regarding governance maturity model. Drawing from statistics in above table, the researcher attests that there are no governance maturity models in the public enterprises.

Table 4.3.3.3: Governance audits

Assertion	Response Options				
	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
Governance maturity audits are conducted annually as part of internal audit plan	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 20% MM = 0%	AC = 100% CAE = 100% EM = 80% MM = 52%	AC = 0% CAE = 0% EM = 0% MM = 48%
Risk management audits are conducted annually as part of internal audit plan	AC = 0% CAE = 0% EM = 40% MM = 0%	AC = 100% CAE = 100% EM = 60% MM = 38%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 62%
Ethics management audits are conducted annually as part of internal audit plan	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 100% CAE = 100% EM = 100% MM = 16%	AC = 0% CAE = 0% EM = 0% MM = 84%
Compliance management audits are conducted annually as	AC = 0% CAE = 0%	AC = 0% CAE = 0%	AC = 0% CAE = 0%	AC = 100% CAE = 100%	AC = 0% CAE = 0%

Assertion	Response Options				
	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
part of internal audit plan	EM = 0% MM = 0%	EM = 0% MM = 0%	EM = 20% MM = 0%	EM = 80% MM = 34%	EM = 0% MM = 66%
Performance management audits are conducted annually as part of internal audit plan	AC = 100% CAE = 100% EM = 20% MM = 0%	AC = 0% CAE = 0% EM = 80% MM = 64%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 0%	AC = 0% CAE = 0% EM = 0% MM = 36%

Governance Maturity Audits:

Audit Committee Members (disagree - 100%), Chief Audit Executives (disagree – 100%), Executive Management (strongly disagree – 20% and disagree – 80%), and Middle Management (disagree – 52%) disagree that governance maturity audits are conducted annually as part of internal audit plan. Forty-eight percent (48%) of Middle Management are not sure whether governance audits are conducted annually. From the above statistics, it is evident that governance maturity audits are not conducted annually in the public enterprises.

Risk management audits:

All (100%) of Audit Committee Members, Chief Audit Executives, Executive Management and 38% of Middle Management agree that risk management audits are conducted annually as part of the internal audit plan, while 62% of Middle Management are not sure. The above statistics provide clear evidence that risk management audits are prioritised and conducted annually in the public enterprises.

Ethics and Compliance management audits:

All (100%) of Audit Committee Members, Chief Audit Executives, Executive Management and 16% (ethics audits) and 34% (compliance audits) of Middle Management disagree that ethics and compliance management audits are conducted annually as part of internal audit plan. Eighty-four percent (84% - ethics audits) and 66% (compliance audits) of Middle Management are not sure. The above statistics attest that ethics and compliance management audits are not conducted annually in the public enterprises.

Performance management audits:

All (100%) of Audit Committee Members, Chief Audit Executives, Executive Management and 64% of Middle Management agree that performance management audits are conducted annually as part of internal audit plan, while 36% of middle Management are not sure. Drawing from above statistics, it is evident that performance management audit are conducted annually in the public enterprises.

4.3.4 Open Ended Questions

4.3.4.1 Is there combined assurance model in your organisation?

Participants Responses:

Sixty-seven percent (67%) of the Audit Committee members responded to this question indicating that there is no combined assurance in their organisations. Thirty-three percent (33%) of the Chief Audit Executives indicated that there is a combined assurance model, while 67% indicated that the model does not exist. Forty-percent (40%) of the Executive Management responded to this question indicating that there is no combined assurance in their organisations. Lastly only 46% of Middle Management responded, indicating that they are not aware of the concept of combined assurance.

4.3.4.1.1 If your organisation has the combined assurance model in place, please indicate briefly how the model assists in ensuring that internal audit recommendations are effectively implemented.

Participants Responses:

From all participants, only Chief Audit Executives making up 33% responded to this question, indicating that combined assurance assist their organisations in minimising duplication of assurance work.

4.3.4.2 Have your organisation recently experienced any financial losses due to non-implementation of internal audit recommendations?

Participants Responses:

Forty-two percent (42%) of all participants responded to this question indicating that their organisations did not experience any financial losses as a result of non-implementation of internal audit recommendations.

4.3.4.2.1 If the answer to above question is yes, please provide brief details of the loss and what was recommended by internal audit to prevent the recurrence of the losses

Participants Responses:

Not applicable, the participants indicated that there were no financial losses experienced.

4.3.4.3 Have you organisation experience any public scandals recently (i.e. in the past 5 -10 years) that affected productivity and service delivery?

Participants Responses:

Only thirty-eight percent (38%) of the participants responded to this question indicating that their organisations did not experience public scandals that affected productivity and service delivery.

4.3.4.3.1 If the answer to above question is yes, please indicate how internal audit assisted the organisation to recover from such scandal and what preventive measures were recommended by internal audit to minimise or prevent recurrence?

Participants Responses:

Not applicable, participants indicated that there were no public scandals.

4.3.4.4 Please indicate how internal audit function markets itself within the organisation as part of promoting the role that the function plays within the organisation and raising awareness on the importance of implementing the recommendations.

Participants Responses:

Thirty-three percent (33%) of the Chief Audit Executives indicated that their internal audit functions market themselves through publishing quarterly internal audit articles within the organisations. Sixty-seven percent (67%) indicated that marketing initiatives for internal audit functions are conducted during annual internal audit planning with relevant stakeholders. There were no responses from Audit Committee, Executive and Middle Management.

4.3.4.5 Please indicate if there are any challenges that affect the effectiveness of the internal audit function in your organisation.

Participants Responses:

Sixty-seven percent (67%) of the Audit Committee members indicated that timely implementation of internal audit recommendations is a problem that affects effectiveness of the internal audit functions. Thirty-three percent (33) indicated that work overload affects the effectiveness of the internal audit functions. All Chief Audit executives (100%) indicated that internal audit recommendations are not implemented. There were no responses from Executive and Middle Management.

4.4 CONCLUSION

This chapter discussed, interpreted and analysed the research findings based on the research questionnaire. Simple descriptive statistical analysis was utilised to depict the percentages, charts and graphs in support of the research questions and objectives. The main aim was to determine The Role of Internal Audit in Improving Governance in South African Public Sector. The chapter that follows will discuss the research conclusions and recommendations.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The previous chapter focused on the research findings, which were analysed, discussed and interpreted using simple descriptive statistical analysis. This chapter discusses the conclusions and recommendations based on the research findings from the previous chapter, in the following categories:

5.1.1 Findings from the literature review

The findings are based on the literature reviewed to support the objectives of the study.

5.1.2 Findings from the primary study

- Capacity of internal audit resources;
- Independence of internal audit;
- Implementation of internal audit recommendations; and
- Additional Concepts Relating to Governance.

5.1.3 Conclusions and Recommendations

Lastly, conclusions and recommendations have been made based on findings per sub-sections above as well as identification of areas for further research.

5.2 FINDINGS FROM THE LITERATURE REVIEW

The literature reviewed focused on the following concepts, and findings are summarised under each concept:

5.2.1 Capacity of Internal Audit Resources:

Results indicate that outsourced IFAs add more value than in house IAFs, which is usually caused by lack of adequate skills, experience and training within the in-house internal auditors in the public sector. The experience, skills and competencies of CAEs in the public sector were found to be lower than the recommended levels by the Institute of Internal Auditors (IIA) as documented in its formal career path guidance.

CAEs are not adequately qualified both professionally and academically; there is a high number of CAE vacancies in public sector; high IAF staff turnover rates; and the low levels of internal audit experience in relation to the demands of the profession. Due to recent mismanagement and poor governance in most public enterprises as well as changes in the business environment, there has been an increased need for a competent internal audit activity that serves as a cornerstone of effective corporate governance. Financial Accounting Services Sector for Education and Training (FASSET) also indicates that there is still a shortage of competent internal auditors in South Africa as this is considered a scarce skill.

5.2.2 Independence of internal audit:

The recent studies conducted in South African public sector revealed that IAFs in the public enterprises face various challenges relating to (*inter alia*): IAFs do not perform their work with freedom from interference; IAFs have limited access to records and employees; and senior management does not support the IAFs. These factors adversely affect the independence of IAFs and their ability to conduct their work as per internal audit definition.

5.2.3 Implementation of internal audit recommendations:

Results suggest that South African public sector IAFs fail to uncover significant governance problems during their audit engagements, hence executives are likely to disregard the work done by internal auditors. Moreover, IAFs have failed to report on poor infrastructure performance in South Africa, which includes firstly, not investing enough money to build the necessary infrastructure. Secondly, inadequate analysis behind project selection, bad planning and coordination, political gain, and corruption led to limited resources being wasted on the incorrect initiatives. In the public sector, internal auditors still prefer to do their own risk assessments rather than depending on the organisational risk management process.

This creates a silo culture between IAFs and risk management, as the organisational risk management processes for identifying, assessing and mitigating risks and not relied upon by IAFs. This tendency by IAFs has resulted in most organisational executives questioning the reliability and integrity of internal audit risk assessments.

Majority of internal audit functions (IAFs) within South African public sector, work with inadequate staff and budget restrictions that impede their ability to adhere to their internal audit charters and fulfil the expectations of their management and audit committees. As a result, the IAFs lost authority, as the respective accounting officers do not perceive them as value-adding functions. The value and improvement can only be achieved if the organisation implements the recommendations from internal audit. As audit findings increase every year in the public sector, those responsible for implementing the audit recommendations take longer time or sometimes even become hesitant to implement the recommendations, hence putting the public sector service delivery at great risk.

5.3 FINDINGS FROM THE PRIMARY STUDY

The research instrument used for conducting this study and gathering the primary data was the survey questionnaire developed by the researcher. The questionnaire provided the statistical information for addressing the main research question and research objectives. Sections below provide summary of findings from the primary research:

5.3.1 Capacity of Internal Audit Resources

Research Objective – To determine the capacity of respective internal audit resources, *inter alia*, the size of internal audit and availability of experienced, and qualified internal auditors in assessing and improving governance.

Findings:

Table 4.3.1.1 above depicts the responses on adequacy of internal audit staff. Accordingly, the study revealed that some Audit Committee members in the public enterprises insist that their internal audit staff is not sufficient to effectively enable internal audit functions to carry out their work. This was supported by Executive Managers who also argued that their internal audit functions are not adequately resourced to fulfil their mandates. This finding attests Erasmus *et al* (2014) and Plant *et al* (2013) view, who pointed out that outsourced internal audits add more value than in house internal audits, as in-house internal audits usually lack adequate skills, experience and training.

The study also revealed that that majority of internal auditors in the public enterprises do not hold CIA certification as depicted in Table 4.3.1.4. This finding confirms the outcome of the study conducted by Financial Accounting Services Sector for Education and Training (2017), which indicated that there is still a shortage of competent internal auditors in South Africa, and this is considered a scarce skill. In line with Table 4.3.1.6, the study revealed that majority of the CAEs argue that their internal audit staff are not adequately experienced to review and improve governance in the public enterprises. Hence this finding attests the view by Erasmus *et al* (2014) and Plant *et al* (2013) who

reported that, there is lack of adequate skills, experience and training amongst public sector internal auditors. Lastly, the study revealed that there is a high internal audit staff turnover in the public enterprises. This finding is supported by the responses in Table 4.3.1.8 above, thus attesting the study by Barac & van Staden (2014), Wilkinson & Plant (2012) and Plant et al (2013), who reported that due to recent mismanagement and poor governance in most public enterprises, there has been an increased need for a competent internal audit activity that serves as a cornerstone of effective corporate governance, as a result of high turnover of competent internal auditors.

5.3.2 Independence of Internal Audit

Research Objective – To determine the independence of Internal Audit Functions (based on existence of Audit Committees and clearly defined reporting lines of internal audit, access to records and employees, interference within the organisation, and support from senior management).

Findings:

The study revealed that there are established audit committees in the public enterprises and CAEs report functionally to these audit committees. Moreover, IAFs have the freedom to perform their work without interference from internal and external parties, hence indicative that there is a strong working relationship between IAFs, external auditors and their respective audit committees in the public enterprises. However, the study also revealed that senior management at the public enterprises do not support the internal audit functions, as depicted in Table 4.3.2.1 above. This finding attests the study by Radasi & Barac (2015) that the IAFs efforts have been impeded by lack of support from senior management.

5.3.3 Implementation of Internal Audit Recommendations

Research Objective – To determine how the public enterprises management implement the recommendations from internal audit.

Findings:

The study revealed that there is a problem with implementing internal audit recommendations in the public enterprises, as depicted in Table 4.3.3.1 above. This finding supports the view by Dain & Rahmat (2017) who reported that, as audit findings increase every year in the public sector, those responsible for implementing the audit recommendations take longer time or sometimes even become hesitant to implement the recommendations, hence putting the public sector service delivery at great risk.

5.3.3.1 Additional Concepts relating to Governance

Findings on Governance Maturity Model:

The study revealed that the public enterprises do not have the governance maturity models in place, and governance maturity audits are not conducted as depicted in Tables 4.3.3.2 and 4.3.3.3.

5.3.3.1.1 Findings on Governance Audits:

The study also revealed that risk management and performance management audits are conducted annually in the public enterprises. Nevertheless, ethics and compliance management audits are not conducted annually as depicted in Table 4.3.3.3.

5.4 CONCLUSION

This study investigated the role of Internal Audit in improving governance in South African Public Sector, using the survey questionnaire where thirty-seven (37) participants provided their responses to assist the researcher in answering the research question and achieving research objectives. The study concludes on the different topics outlined in the research instrument as follows:

5.4.1 Capacity of Internal Audit Resources

Internal audit staff members in the public enterprises do not have sufficient skills, experience and relevant qualifications to review and improve governance processes, which is required for improved productivity and service delivery. Additionally, most internal audit staff in public enterprises do not hold CIA certification which is pivotal for the competency of internal auditors. Erasmus *et al* (2014) and Plant *et al* (2013) also confirmed that there are lack of adequate skills, experience and training amongst public sector internal auditors. Tables 4.3.1.1, 4.3.1.4, 4.3.1.8 depict the responses supporting the above view regarding the capacity of internal audit resources.

5.4.2 Independence of Internal Audit

IAFs in the public enterprises are independent and CAEs report functionally to their respective audit committees. However, some element of internal audit independence is affected by lack of support from senior management as depicted in Table 4.3.2.1, thus attesting the study by Radasi & Barac (2015) that the IAFs efforts have been impeded by lack of support from senior management.

5.4.3 Implementation of Internal Audit Recommendations

Recent scandals relating to corruption in the South African Public Sector are a true reflection that some public enterprises failed to implement internal audit recommendations intended to add value and improve the operations. This study revealed that there are challenges regarding implementation of internal audit findings as depicted in Table 4.3.3.1, thus attesting the study by Dain & Rahmat

(2017) that, as audit findings increase every year in the public sector, those responsible for implementing the audit recommendations take longer time or sometimes even become hesitant to implement the recommendations, hence putting the public sector service delivery at great risk.

5.4.4 Additional Concepts relating to Governance

Good governance is pivotal in the South African public enterprises, as it is a vehicle for robust productivity and service delivery. Through this study, it was determined that public enterprises do not have governance maturity models. Additionally, ethics and compliance audits are not conducted annually and in some instances are not conducted at all. This poses a big challenge to the public enterprises as majority of them are highly regulated, hence a strong requirement for regular compliance audits. Ethics management is also a critical process that requires regular review by internal audit, given recent scandals relating to corruption, failure to disclose financial interests and public sector employees doing business with the State.

All the above issues pose a serious challenge in the South Africa Public sector, in terms of productivity and service delivery. Recently, most public enterprises failed in their mandate due to poor governance and this has led to increased crime, poverty and unemployment in South Africa.

5.5 RECOMMENDATIONS

5.5.1 Capacity of Internal Audit Resources

The study recommends public enterprises to enhance the skills and capabilities of their IAFs. Given the evolving needs of the public regarding service delivery, public enterprises should place more focus in strengthening their governance processes, which in turn will be reviewed by IAFs for adequacy and effectiveness. Audit Committees and Chief Audit Executives should develop innovative means of improving their internal audit performance, skills and capacity. This could be achieved through developing a strong brand identity for

internal audit, thus empowering internal audit staff through regular training, advocating and promoting internal audit activities throughout their organisations, and encouraging and awarding internal audit staff who obtain the CIA certifications. Once internal audit brand has been established, the organisations could view IAFs as a respected and value adding function, hence possible reduction in internal audit staff turnover.

5.5.2 Independence of Internal Audit

The study also recommends that those in internal audit leadership should heighten their personal impact. Heightening the personal impact has been found to set the tone and enhance the impact on organisations' internal and external stakeholders' perceptions of the IAF (Radasi & Barac, 2015), therefore winning support from senior management and other stakeholders. Additionally, the study recommends that CAEs should educate all internal stakeholders (including senior management) about the value of internal audit and how internal audit can improve the organisation's operations. Dain & Rahmat (2017) argue that some IAFs' work goes unnoticed due to implementing outdated reporting approaches. Therefore, this study recommends that IAFs should evolve, adopt and implement the right reporting enhancements which could make their work to be noticed, thus providing stakeholders (including senior management) with clear evidence of change(s) in IAFs.

5.5.3 Implementation of Internal Audit Recommendations

Firstly, the study recommends IAFs to provide training to all internal stakeholders (including management) on the role played internal audit, as well as the value for timely implementing internal audit recommendations. Secondly, the study recommends IAFs to conduct self-assessment survey amongst management team (top and middle management) regarding understanding of the value of internal audit recommendations. The survey should also include individual and personal perceptions of internal audit by management team, expectations from management and innovative ways that IAFs can improve their services within their organisations. The survey results could assist IAFs in identifying and understanding the gaps between their processes and

management's processes, hence implement and enhance procedures for ensuring timely implementation of the recommendations (Dain & Rahmat, 2017). Lastly, Audit Committees and CAEs should motivate to the Accounting Officers (Chief Executive Officers) and Accounting Authorities (Governing Bodies) that implementation of internal audit recommendations should be a standing agenda item for all organisational meetings, regardless of the levels. This way all internal stakeholders (employees and management) could realise the necessity of implementing internal audit recommendations as part of the organisations' good governance.

5.5.4 Additional Concepts relating to Governance

The study recommends the following regarding additional concepts relating to governance:

- Public enterprises should develop governance maturity models reflecting different phases of maturity of governance processes. The models should be audited on annual basis, and should serve as tools that indicate phased milestones achieved for a particular period. The model should also indicate specific activities to be achieved for specific phases or milestones, hence facilitating review and verification of achieved milestones by internal audit.

Figure 5.5.4 below illustrates a sample governance maturity model that is recommended for adoption by the public enterprises:

Figure 5.5.4: Sample Governance Maturity Model

Company X Governance Maturity Model Matrix									
Period : 30 November 2021									
			Phase 1 Activities	Phase 2 Activities	Phase 3 Activities	Phase 4 Activities	Phase 5 Activities	Total	
Achieved	0%	Achieved	0	0	0	0	0	0	0
In progress	0%	In progress	0	0	0	0	0	0	0
Not Started	100%	Not Started	0	10	9	6	3	28	
			0	10	9	6	3	28	
				Maturity levels					
			Maturity Level	% Completion	Phase				
			Start Up	0% - 20%	Phase 1				
			Development	21%- 40%	Phase 2				
			Controlled	41% - 65%	Phase 3				
			Matured	66%-90%	Phase 4				
			Totally-aligned	91% - 100%	Phase 5				

Majority of South Africa public enterprises have a high number legislative requirements, and some public enterprises experienced recent scandals that emerged due to mismanagement, poor governance and corruption. Therefore, as a proactive measure, this study recommends the public enterprises to conduct regular (annual) audits in ethics and compliance management. These audits could significantly enhance compliance to the regulatory requirements, transparency and accountability as well as ethical culture in the public enterprises. In support of the statement by the current South African President, that ethics in the public sector must be a priority, auditing ethics annually could assist the public enterprises in complying with the President’s directive, thus ensuring that their ethics management processes are adequate and effective in promoting and supporting governance.

5.5.5 Areas for Further Research

- **Causes of Non-Implementation of Internal Audit Recommendations**

This study revealed that management in the public enterprises do not implement the internal audit recommendations. Hence, the researcher recommends further study to determine the underlying causes why management fail to implement the recommendations from internal audit.

- **Qualifications of Chief Audit Executives**

Findings from recent literature review indicate that experience, skills and competencies of CAEs in the public sector were lower than the recommended levels by the Institute of Internal Auditors (IIA). The recommendation by the IIA is that CAEs should be qualified as CIAs and should also have academic master's degree or MBA. However, this study revealed through the CAEs interviewed (refer to Table 4.3.1.2) that CAEs hold both CIA and MBA. Based on the above contradicting findings, further research with narrow focus on public sector CAEs is recommended to determine exactly what qualifications are possessed by the CAEs.

- **Qualifications of Internal Auditors**

Findings from recent literature indicate that outsourced internal audits add more value than in-house internal audits, and this is usually caused by lack of qualifications, adequate skill, experience and training within the in-house internal auditors in the public sector. This study however, revealed that internal auditors in the public enterprises hold relevant qualifications and have relevant experience to improve governance processes within their organisations. Therefore, further study with narrow focus on qualifications and experience of internal auditors for reviewing and improving public sector governance is recommended.

- **Access to Records by Internal Audit**

Recent literature findings indicate that IAFs' efforts have been impeded by limited access to records in the public sector. Nonetheless, 50% of Audit Committee Members, 67% of Chief Audit Executives, 40% of Executive Management, and 22% of Middle Management indicate that IAFs are given access to any records they want to review (as per Table 4.3.2.1). As a result of the above differing findings, further study with narrow focus on access to records by public sector IAFs is recommended to determine whether internal auditors are given access to records or not.

- **Involving employees below management levels in internal audit matters**

Further study is also recommended to probe why employees below management level are not given responsibilities in addressing audit matters, as part of good governance.

5.6 STUDY CONCLUSION

This study mainly focused on the role of internal audit in improving governance in the South African public sector, and was conducted through quantitative primary research. Thirty-seven (37) participants responded to the questionnaire, thus providing relevant data in attempt to answer the research problem and achieve the research objectives. The research problem and objectives were stated as follows:

Research Problem:

“How can internal audit functions within the South African Public Sector (in particular, the public enterprises) enhance governance processes, hence improving the public sector productivity and service delivery?”

Research Objectives:

To determine:

- The capacity of respective internal audit resources (*inter alia size of the internal audit, availability of experienced and qualified internal auditors*) in assessing and improving governance;
- The independence of Internal Audit Functions (based on existence of Audit Committees and clearly defined reporting lines of internal audit, access to records and employees, interference within the organisation, and support from senior management).
- How the public enterprises management implement the recommendations from internal audit?

The study rose various findings (refer to section 5.3) and recommendations (refer to section 5.5) on how the findings can be best addressed by the public enterprises. However, there were some research findings that contradicted with the literature findings; hence recommendations for further studies with narrow focus were made (refer to section 5.5.5). In conclusion, the aim of the study to determine the role of internal audit in improving governance in South African Public Sector was achieved with a representation of 46% of the sample size from four (4) public enterprises.

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APPENDICES

Appendix A: Ethics Clearance Certificate

Graduate School of Business Leadership, University of South Africa, PO Box 392, Unisa, 0003, South Africa
Cnr Janzief and Alexander Avenues, Midrand, 1685. Tel: +27 11 652 0000, Fax: +27 11 652 0299
E-mail: sbl@unisa.ac.za Website: www.unisa.ac.za/sbl

SCHOOL OF BUSINESS LEADERSHIP RESEARCH ETHICS REVIEW COMMITTEE (GSBL CRERC)

14 October 2021

Ref #: 2021_SBL_MBA_009_FA
Name of applicant: Mr T Lepheana
Student #: 79310089

Dear Mr Lepheana

Decision: Ethics Approval

Student: Mr T Lepheana, (79310089@mylife.unisa.ac.za), 078 598 8287)

Supervisor: Mr M Radebe, (radebmp1@unisa.ac.za), 011 652 0235)

Project Title: The role of internal audit in improving governance in South African public sector

Qualification: Master in Business Administration (MBA)

Expiry Date: December 2022

Thank you for applying for research ethics clearance, SBL Research Ethics Review Committee reviewed your application in compliance with the Unisa Policy on Research Ethics.

Outcome of the SBL Research Committee: Approval is granted for the duration of the Project

The application was reviewed in compliance with the Unisa Policy on Research Ethics by the SBL Research Ethics Review Committee on the 12/10/2021.

The proposed research may now commence with the proviso that:

- 1) The researcher will ensure that the research project adheres to the relevant guidelines set out in the Unisa Covid-19 position statement on research ethics attached
- 2) The researcher's will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.
- 3) Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study, as well as changes in the methodology, should be communicated in writing to the SBL Research Ethics Review Committee.
- 4) An amended application could be requested if there are substantial changes from the existing proposal, especially if those changes affect any of the study-related risks for the research participants.
- 5) The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study.

Graduate School of Business Leadership, University of South Africa, PO Box 392, Unisa, 0003, South Africa
Cnr Janadri and Alexandra Avenues, Midrand, 1685, Tel: +27 11 652 0000, Fax: +27 11 652 0299
E-mail: sbl@unisa.ac.za Website: www.unisa.ac.za/sbl

Kind regards,

NBW/ML/ans

Prof N Mitwa

Chairperson: SBL Research Ethics Committee

011 - 652 0000/ wiltonb@unisa.ac.za

Pumeleli

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Appendix B: Turnitin Report

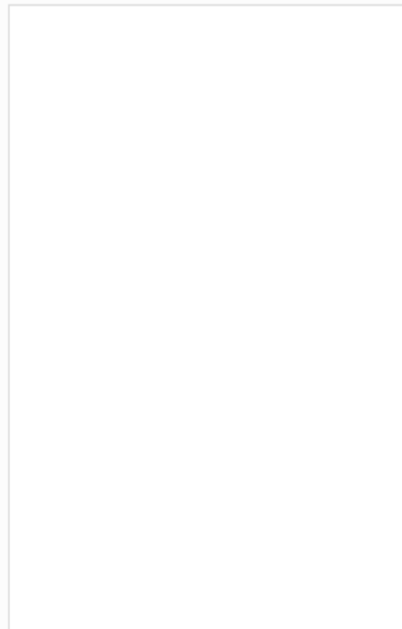


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Appendix C: Research Instrument

INTRODUCTION

The purpose of this study is to investigate the Role of Internal Audit in Improving Governance in South African Public Sector (in particular the public enterprises). The study specifically focuses on the following areas:

- The capacity of respective internal audit resources (*inter alia* size of the internal audit, availability of experienced and qualified internal auditors) in assessing and improving governance;
- The independence of Internal Audit Functions (based on existence of Audit Committees and clearly defined reporting lines of internal audit, access to records and employees, interference within the organisation, and support from senior management).
- How the public enterprises management implement the recommendations from internal audit.

TARGETED PARTICIPANTS

This study specifically focuses on the following categories of participants for every public entity sampled:

- a. Audit Committee members (4 participants)
- b. Chief Audit Executive or equivalent (e.g. Audit Manager) (1 participant)
- c. Executive Management (5 participants)
- d. Middle Management (10 participants)

APPLICABILITY OF THE QUESTIONS

Table below shows applicability of the questionnaire:

Question Number	Applicable Participants
Question 1	All
Question 2 - 7	Only Chief Audit Executive or equivalent (e.g. Audit Manager)
Question 4,5,6	These questions only relate to internal audit staff members, not all members of the staff in the organisation. The questions are only relevant to the Chief Audit Executive or equivalent.
Question 8	All
Question 9 - 19	All

DETAILS OF THE PARTICIPANT

a. Position with the organisation:

Please Indicate your position by ticking the appropriate box

Position	Please tick (✓)
Audit Committee member	
Chief Audit Executive or equivalent	
Executive Management	
Middle Management	

b. Age group of the participant:

Please Indicate your age group by ticking the appropriate box

Age group	Please tick (✓)
20 – 65 years	
65 – above	

c. Race of the participant:

Please Indicate your race by ticking the appropriate box

Race	Please tick (✓)
African	
Coloured	
Indian	
White	
Asian	

d. Relevant Work experience of the participant:

Please Indicate your number of years of experience by ticking appropriate box

Years of experience	Please tick (✓)
0 – 5 years	
5 – 10 years	
10 – 15 years	
15 – 20 years	
20 – 25 years	
25 - above	

ACRONYMS:

CAE – Chief Audit Executive

MBA – Master of Business Administration

CIA – Certified Internal Auditor

CA – Chartered Accountant

IIASA – Institute of Internal Auditors South Africa

SECTION A:

CAPACITY OF INTERNAL AUDIT STAFF AND EXPERIENCE

Relevant Research Question and Proposition (Hypothesis):

Question - What is the capacity level of Internal audit functions within the public enterprises to improve governance processes?

Proposition - Recent literature shows that there are inadequate skills and resources to enable IAFs within the South African public sector to improve governance processes. Moreover, Chief Audit Executives (CAEs) are not adequately qualified both professionally and academically to fully discharge the responsibilities of the IAFs.

Detailed Questionnaire:

1. Do you believe the number of internal audit staff is sufficient to effectively improve and add value to your organisation's operations? (please tick the appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
Internal audit staff is sufficient to effectively improve and add value to the organisation					
Internal audit staff is not sufficient to effectively improve and add value to the organisation					

2. Is the Chief Audit Executive (or equivalent) qualified both academically (e.g. MBA or equivalent recommended) and professionally (e.g. CIA or CA recommended) to be the head of internal audit? (please tick the appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
The CAE holds both recommended academic (e.g. MBA or equivalent) and professional (e.g. CIA or CA) qualifications					
The CAE does not hold both recommended academic and professional qualifications					
The CAE only hold recommended academic qualification but not recommended professional qualification					
The CAE only holds recommended professional, but not recommended academic qualification.					

3. Are all Internal audit staff members registered with professional bodies (i.e. IIASA)?
(please tick the appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
All staff members are registered with IIASA					
All staff members are not registered with IIASA					
Majority of the staff members are registered with IIASA					
Only few staff members are registered with IIASA					

4. Do all Internal audit staff members hold CIA certification? (please tick the appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
All staff members hold CIA certification					
All staff members do not hold CIA certification					
Majority of staff members hold CIA certification					
Only few staff members hold CIA certification					

5. Do internal audit staff members have relevant qualifications (such as Internal auditing, accounting, risk management etc.) to enable them to improve governance processes within your organisation (please tick appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
All staff members hold relevant qualifications					
Majority of staff members hold relevant qualifications					

6. Are all internal audit staff members adequately experienced in reviewing and improving governance processes with your organisation? (please tick appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
All members have adequate experience					
Majority of staff members have adequate experience					

7. How often is training provided to internal audit staff members to improve their skills in evaluating and improving governance within your organisation? (please tick appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
Training on governance has never been provided					
Training on governance is provided every year					
Training on governance is provided every two years					
Training on governance is provided every three to five years					
Training on governance is only provided as a once off activity					

8. In the past five years, had your organisation experienced a high internal audit staff turnover? (please tick appropriate response)

Yes	
No	

If yes, please provide clarity on what is the possible cause of high turnover:

SECTION B:

INDEPENDENCE OF INTERNAL AUDIT

Relevant Research Question and Proposition (Hypothesis):

Question - To what extent are Internal audit functions (IAFs) Independent within the South African public enterprises?

Proposition - Based on the literature review, there are clearly defined Internal Audit Functions (IAFs) reporting lines and established audit committees within the public sector. However, Independence of some public sector IAFs is compromised. This is because IAFs do not perform their work with freedom from interference; IAFs have limited access to records and employees; and there is lack of support from senior management, all these factors affect the independence of IAFs.

Detailed Questionnaire:

9. Please answer the following questions based on your own perceptions within your organisation. There are no right or wrong answers. Please indicate to what extent you agree with the following statements: (1) **strongly disagree**, (2) **disagree**, (3) **neutral**, (4) **agree**, and (5) **strongly agree**. Please indicate the extent to which you agree or disagree with each statement by placing a cross (X) in the appropriate column.

Instruction: Please tick only one option that is most relevant

Internal Audit Independence	1	2	3	4	5
ESTABLISHMENT OF AUDIT COMMITTEE					
There is an established and effective audit committee within the organisation.					
The audit committee is comprised of independent members from outside the organisation.					

Internal Audit Independence	1	2	3	4	5
The audit committee provides oversight responsibility of governance including risk management, internal control, regulatory compliance, financial reporting and disclosure, ethics, and whistle-blower hotlines.					
FUNCTIONAL REPORTING TO THE AUDIT COMMITTEE					
The Chief Audit Executive (or equivalent) as the head of internal audit, reports functionally to the audit committee.					
The audit committee influences the nature of recommendations that must be implemented					
The audit committee is effectively involved in the implementation of audit recommendations					
The audit committee always solicit feedback from the CAE regarding implementation of audit recommendations					
The audit committee is highly knowledgeable on the internal auditing standards and requests the reports that meet these standards from the CAE					
FREEDOM TO PERFORM INTERNAL AUDIT WORK					
Internal audit performs its work without any interference from both internal and external					
ACCESS TO RECORDS BY INTERNAL AUDIT					
Internal audit is always given full access to any records they want to review					
SUPPORT OF INTERNAL AUDIT BY SENIOR MANAGEMENT					
Senior management fully supports internal audit and promote internal audit activities					

INTERNAL AUDIT RELATIONSHIP WITH OTHER STAKEHOLDERS (I.E. AUDIT COMMITTEE AND EXTERNAL AUDITORS)

10. Please answer the following questions based on your own perceptions within your organisation. There are no right or wrong answers. Please indicate to what extent you agree with the following statements: (1) strongly disagree, (2) disagree, (3) neutral, (4) agree, and (5) strongly agree. Please indicate the extent to which you agree or disagree with each statement by placing a cross (X) in the appropriate column.

Instruction: Please tick only one option that is most relevant

Relationship between internal audit and other stakeholders	1	2	3	4	5
Relationship with audit committee					
The relationship between the audit committee and both external and internal auditors is important for all parties to fulfil their job commitments.					
The audit committee regard the work from internal audit as value adding					
The audit committee acts as a link, and facilitates the communications, between the board of directors and both internal and external auditors					
Internal audit reports are reviewed by the committee and committee members discuss such reports with the concerned parties, and ensure that internal audit recommendations are taken into consideration and executed by the management.					
Audit committee supports the position of the internal audit function and submits management's irregularities and other relevant managerial and financial issues to the board of directors, after discussing such issues with the internal auditors and relevant other parties.					
Audit committee evaluates the internal audit's effectiveness, its plans and work arrangements, as well as the resources allocated to internal audit.					
Relationship with external auditors					
External auditors always consider and rely on internal audit work when they conduct organisational audits					

Relationship between internal audit and other stakeholders	1	2	3	4	5
External auditors always request annual internal audit plan and performance against that plan as part consideration and reliance on internal audit work					
External auditors always engage the CAE prior to commencement of the organisational audits					
There is a continuous communication between internal audit and external auditors as a practice of effective communication					
The CAE balances requests from external auditors against the need to provide appropriate coverage over the organisation's key risk areas, to enable external auditors to provide an annual opinion.					

SECTION C

IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

Relevant Research Question and Proposition (Hypothesis):

Question - To what extent do the public enterprises address and implement internal audit recommendations for improvement?

Proposition - Based on the recent scandals and decline in governance in South African public sector, in particular the public enterprises, it is argued that majority of the public enterprises do not adequately address and implement the recommendations from their IAFs.

Detailed Questionnaire:

11. Please answer the following questions based on your own perceptions within your organisation. There are no right or wrong answers. Please indicate to what extent you agree with the following statements: (1) strongly disagree, (2) disagree, (3) neutral, (4) agree, and (5) strongly agree. Please indicate the extent to which you agree or disagree with each statement by placing a cross (X) in the appropriate column.

Instruction: Please tick only one option that is most relevant

Implementation of Internal Audit Recommendations	1	2	3	4	5
Management implement internal audit recommendations in line with the agreed targets dates					
Management always delay and exceed the target dates for implementing internal audit recommendations					
Management always regard internal audit as tool for assisting them to improve their processes, hence implement internal audit recommendations					

Implementation of Internal Audit Recommendations	1	2	3	4	5
Management accepts Internal audit findings even if they result in punitive actions, such as impacting management's performance assessment or incentive compensation					

FREQUENCY OF GOVERNANCE AUDITS AS PART OF IMPROVING AND ADDING VALUE TO GOVERNANCE PROCESSES

This section attempts to uncover how frequent governance audits are conducted within your organisation as part of the annual risk based internal audit plan. Questions will be based on the following areas of governance;

- Governance maturity
- Risk management;
- Ethics management;
- Compliance management;
- Strategy planning; and
- Performance management.

12. Please indicate if there is an approved governance maturity model within your organisation. (please tick appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
There is an approved governance maturity model					

13. Please indicate whether governance maturity is included in the annual risk based internal audit plan and how frequent it is audited (please tick appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure

Governance maturity audits are conducted annually as part of Internal audit plan					
Governance maturity is audited every 2 years					
Governance maturity is audited every 3 – 5 years					
Governance maturity is never included in the Internal audit plan					
There is no governance maturity model in place, hence no need to audit					

14. Please indicate whether risk management is included in the annual risk based internal audit plan and how frequent it is audited (please tick appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
Risk management audits are conducted annually as part of Internal audit plan					
Risk management is audited every 2 years					
Risk management is audited every 3 – 5 years					
Risk management is never included in the Internal audit plan					
There is no risk management function in place, hence no need to audit					

15. Please indicate whether ethics management is included in the annual risk based internal audit plan and how frequent it is audited (please tick appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
Ethics management audits are conducted annually as part of Internal audit plan					
Ethics management is audited every 2 years					
Ethics management is audited every 3 – 5 years					
Ethics management is never included in the Internal audit plan					
There is no ethics management function in place, hence no need to audit					

16. Please indicate whether compliance management is included in the annual risk based internal audit plan and how frequent it is audited (please tick appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
Compliance management audits are conducted annually as part of Internal audit plan					
Compliance management is audited every 2 years					
Compliance management is audited every 3 – 5 years					
Compliance management is never included in the Internal audit plan					
There is no compliance management function in place, hence no need to audit					

17. Please indicate whether strategy planning is included in the annual risk based internal audit plan and how frequent it is audited (please tick appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
Strategy planning audits are conducted annually as part of Internal audit plan					
Strategy planning is audited every 2 years					
Strategy planning is audited every 3 – 5 years					
Strategy planning is never included in the Internal audit plan					
There is no strategy planning function in place, hence no need to audit					

18. Please indicate whether performance management is included in the annual risk based Internal audit plan and how frequent it is audited (please tick appropriate response)

Instruction: Please tick only one option that is most relevant

Options	Strongly Agree	Agree	Strongly Disagree	Disagree	Not Sure
Performance management audits are conducted annually as part of Internal audit plan					
Performance management is audited every 2 years					
Performance management is audited every 3 – 5 years					
Performance management is never included in the Internal audit plan					
There is no performance management function in place, hence no need to audit					

OPEN QUESTIONS

19. Please answer the following questions based on your own knowledge and experience in your role in Internal audit:

19.1. Is there combined assurance model in your organisation?

Please provide answer below:

If your organisation has the combined assurance model in place, please indicate briefly how the model assists in ensuring that internal audit recommendations are effectively implemented.

Please provide answer below:

19.2. Have your organisation recently experienced any losses due to non-implementation of internal audit recommendations?

Please provide answer below:

If the answer to above question is yes, please provide brief details of the loss and what was recommended by internal audit to prevent the recurrence of the losses:

Please provide answer below:

19.3. Have you organisation experience any public scandals recently (i.e. in the past 5 - 10 years) that affected productivity and service delivery?

Please provide answer below:

If the answer to above question is yes, please indicate how internal audit assisted the organisation to recover from such scandal and what preventive measures were recommended by internal audit to minimise or prevent recurrence:

Please provide answer below:

19.4. Please indicate how internal audit function markets itself within the organisation as part of promoting the role that the function plays within the organisation and raising awareness on the importance of implementing the recommendations.

Please provide answer below:

19.5. Please indicate if there are any challenges that affect the effectiveness of the internal audit function in your organisation?

Please provide answer below:

END OF QUESTIONNAIRE

THANK YOU

Appendix D: Supervisor's Consent Letter

MBLREP / MBL5913 / MBA5929

CONSENT TO SUBMIT RESEARCH REPORT FOR EXAMINATION 2021

Consent is hereby given to:

Student name: THABO LEPHEANA

Student number: 79310087 to submit his research report in its final form.

Supervisor Signature:



Date: 10 December 2021

Supervisor Name: Muziwakhe P Radebe

The student acknowledges that sufficient feedback was provided by the supervisor and that s/he took the responsibility to attend to the feedback in a way that satisfies the requirements for a research dissertation on the MBA and MBL level.

Student signature.....



.....

Date: ...13 December 2021

Appendix E: Proof of Registration



1248

LEPHEANA T MR
06 HANK STREET
HORIZON PARK
ROODEPOORT
1724

STUDENT NUMBER : 79310087

ENQUIRIES TEL : 0861 678 411
FAX : (012) 429-4150
eMAIL : sbj@unisa.ac.za

2021-03-26

Dear Student

I hereby confirm that you have been registered for the current academic year as follows:

Proposed Qualification: MBA (90070)

CODE	PAPER	S NAME OF STUDY UNIT	NQF crdts	LANG.	EXAM. DATE	PROVISIONAL EXAMINATION CENTRE(PLACE)
MBAS929		Integrated Management Project	48	E		

Study units registered without formal exams:

You are referred to the "MyRegistration" brochure regarding fees that are forfeited on cancellation of any study units.

Your attention is drawn to University rules and regulations (www.unisa.ac.za/register).

Please note the new requirements for reregistration and the number of credits per year which state that students registered for the first time from 2013, must complete 36 NQF credits in the first year of study, and thereafter must complete 48 NQF credits per year.

Students registered for the MBA, MBL and DBL degrees must visit the SBL's ESONline for study material and other important information.

Readmission rules for Honours: Note that in terms of the Unisa Admission Policy academic activity must be demonstrated to the satisfaction of the University during each year of study. If you fail to meet this requirement in the first year of study, you will be admitted to another year of study. After a second year of not demonstrating academic activity to the satisfaction of the University, you will not be re-admitted, except with the express approval of the Executive Dean of the College in which you are registered. Note too, that this study programme must be completed within three years. Non-compliance will result in your academic exclusion, and you will therefore not be allowed to re-register for a qualification at the same level on the National Qualifications Framework in the same College for a period of five years after such exclusion, after which you will have to re-apply for admission to any such qualification.

Readmission rules for MEd: Note that in terms of the Unisa Admission Policy, a candidate must complete a Master's qualification within three years. Under exceptional circumstances and on recommendation of the Executive Dean, a candidate may be allowed an extra (fourth) year to complete the qualification. For a Doctoral degree, a candidate must complete the study programme within six years. Under exceptional circumstances, and on recommendation by the Executive Dean, a candidate may be allowed an extra (seventh) year to complete the qualification.

BALANCE ON STUDY ACCOUNT: 82492.00

Yours faithfully,

Prof Mpafu
Acting Exec Director (SBL)

1583 0 88 8





University of South Africa
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PO Box 392 UNISA 0003 South Africa
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Appendix F: Proof of Editing

10 December 2021

Graduate School of Business Leadership,

University of South Africa

PO Box 392

Unisa

0003

South Africa

Editing of the MBA Research Paper for Mr Thabo Lepheana

I hereby confirm that I have edited Mr Lepheana's research paper titled: "The Role of Internal Auditing in Improving Governance in South African Public Sector". I currently work at Minetik and perform the following duties:

- Editorial services on organisational reports (i.e. annual reports);
- Communications and stakeholder management; and
- Drafting memos, circulars and letters

Should you require any further information regarding editing Mr Lepheana's MBA research paper, kindly contact me.

Email: yvonthulo@minetik.org.za

Office: 011 709 7230 (ext.2456)

Cell: 072 471 3973

Yours Sincerely

Yvonne Thulo

