

UNIVERSITY OF KWAZULU-NATAL

UKZN Employees' Perceptions of Internal Auditors

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DECLARATION

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ABSTRACT

The introduction of the Public Financial Management Act (PFMA) Act of 1999 in 2000, made the internal audit functions an integral part of financial management in the public sector, with a focus on good governance and accountability. Since inception of Internal Audit Functions there have been varying perceptions and views on Internal Auditing by stakeholders in various financial and management sectors in organizations. Despite the above assertions, internal auditors in the South African sector may be falling short - thereby failing to fully meet the expectations of their stakeholders - and create an expectation gap. Therefore, this study sought to investigate the Perceptions of employees on Internal Auditing at University of KwaZulu-Natal (UKZN). This was a cross – sectional study conducted among 56 employees of the UKZN. The results of this show that majority of the responses perceived internal audit as a value adding business partners (91%), the responses indicate that above 74% do not perceive internal auditors as watchdogs in the organisations. The responses also indicate that 84% pointed out that the internal audit unit provides value able advice to other department within the organisation. Based on the results of this study it can be concluded that the employees or so called internal audit customers perceive the internal audit activity to add value to its operational functions and perceive internal auditors as business partners.

Keywords: Internal audit, employees, perceptions, customer service, operational function

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CHAPTER ONE: INTRODUCTION

1.1 Introduction

In a university institution, internal audit plays a leading and crucial role in working with management, administrators and the board of directors to establish stronger corporate governance and internal controls. This ensures that the many resulting benefits, in terms of cost efficiencies and organisational performance, are achieved. Gendrom and Bedard (2004, p. 153) highlight the internal audit as a key accountability instrument, playing a crucial role in the financial management and control environments of public financial management and good governance which originates in the Constitution of the Republic of South Africa, 1996 Chapter 13. Therefore, in discharging their constitutional mandate, internal auditors interact with several stakeholders who have various perceptions on the role of an internal audit in an organisation. This is the premise that this research focuses on.

1.2 Background to the study

As internal auditing is in its infancy stages, many institutions or businesses are streamlining business activities to remain sustainable in the competitive economic environment. As a result, this has left employees performing the tasks of two or more employees. Internal auditors are now the reviewers of employees work performance. This has created an environment where internal auditors are perceived as the watchdogs of companies' policies, processes and procedures. The study clearly unearthed the advisory capacity internal auditors' render to management. The employees will also benefit from this study, as the study clearly

indicates that internal auditors assist them to function effectively and efficiently as they render their services.

1.3 Aim of the study

The aim of the study was to examine employees' perceptions on internal audits, and how this can be used to enhance organisational performance capacity. As this study was just a micro study that highlights perceptions of employees to internal auditing, the other dimensions of internal auditing were outside the domain of this study, such as the financial aspects of the institution. This is an area open to future studies.

1.4 Problem Statement

The problem that was identified, which prompted this study, is that traditionally internal auditors are viewed as fault finders in organisations, and not primarily as value adding business partners that can assist in maximizing the organisation's performance. This is supported by the study conducted by Yee, Sujana, James and Leung (2008), in which most mid – level managers' perceived internal auditors as watchdogs. Chambers (2012) states that some of the myths are that while internal auditors are accountants by training, they tend to be "nit pickers" and fault finders. There exist numerous misconceptions and negative perceptions about internal audits and auditors. These are caused by several factors such as fear or loss of jobs, lack of knowledge about the functions of an auditor and the audit process, and the fear of the unknown. Some negative perceptions are also caused by people who are after personal gain from company resources. They feel an audit will uncover their secrets. This study is aimed at answering the question: What are the perceptions of employees to an internal audit?

1.5 Research Objectives

The following objectives will assist in addressing the research problem:

- To determine the perceived value that an internal audit provides to the different levels of management.
- To determine the perceived value that an internal audit provides to the employees performance.
- To determine the perceived value that an internal audit provides to the various committees.
- To determine the value that effective communications between internal auditors and employees will add in maximising the organisations performance.
- To ascertain measure and recommendation for management on how to overcome the challenges to enhance internal auditor's effectiveness.

1.6 Research Questions

The research questions examined the perspective of each employee in determining how they view the role of an internal audit within their organisation. The study explored the following research questions as sub-problems:

- What is the perceived value that an internal audit provides to all employees and management within the organisation?
- What are the negative perceptions that influence the operation of the internal audit activity?
- What are the factors that determine internal audit effectiveness?
- Does the communication between internal auditors and employees achieve the role of an internal audit within their organisation by accepting them as a business partner that can assist in maximizing the organisation's performance?

- What measures can be ascertained and recommendations made to assist management to overcome the challenges and implement effective measures for internal auditors?

1.7 Limitation of Study

Whilst the study is structured to solve the research problems there are certain limitation to the research which need to be understood. These include the following:

1. The major limitation of this research was the length of time taken by the respondents to return their questionnaires. The researcher had to design a covering letter that accompanied the questionnaire in which he tried to motivate or highlight the intended benefits that were to be derived from responding to the questionnaire.
2. Another limitation were incomplete responses, which forced the researcher to generalise results from the findings that arose from the completed response.
3. Since internal auditing is in its infancy stages there are limited, previous, studies hence the researcher had to spend a lot of time in doing a lot of ground work to ascertain the empirical approach to take.

1.8 Outline of the study

Chapter	Content
Chapter 1	This chapter provides an overview of the research study and an introduction into the research process. The background to and aim of the study have been contextualised and detailed. The problem statement and the research question have been presented together with the research objectives

Chapter	Content
	that aim to answer the research question. Finally the limitations of the study have been documented.
Chapter 2	Chapter 2 presents a literature review introducing the concept of internal auditing; its importance within the overall strategy of a business; the importance of assessing the employees' perceptions and perspectives of internal auditing within a university setting.
Chapter 3	This chapter presents an analysis of the entire research process by defining what research is; detailing the aims and objectives of the study; stating who the participants are and where they are located; describing the various research options available to the researcher; and justifying the specific research methods employed in this study. Sampling decisions and a data collection strategy are also documented.
Chapter 4	The data collected is presented, analysed and interpreted in Chapter 4 and is linked back to the objectives of the study.
Chapter 5	This chapter is the final chapter of this study and provides recommendations based on the findings of the study, and describes the limitations of the study.

1.9 Summary

Chapter one is an introductory chapter to the research project. This chapter began by highlighting the benefits this piece of work will have for stakeholders with an internal audit function at an institution of higher learning. This chapter went on to explore the dimension of focus of this study, where it was alluded that the focus is on finding out about employees perceptions on internal auditors. Research sub questions were also examined. All sub questions were designed in a way that they sought to answer the main research question. This chapter also highlighted the objectives of the study which were guided by behavioural and smart principles of writing objectives. Lastly, this chapter alluded to the limitations or problems that was experienced and how it was managed to overcome them. Chapter two will give a detailed in–depth analysis of the Literature Review of the research topic.

CHAPTER TWO: REVIEW OF LITERATURE

2.1. Introduction

Several organisations in both public and private sectors are vulnerable to failures due to poor performance internationally and in South Africa. This has resulted in an increased need for regulation and guidance in the internal and external environment of business (Verschoor, Barrier and Rittenberg, 2002), particularly to accountability, transparency, governance, and performance. As a result this escalated pressure for guidance and regulation as promulgated in the South African Companies Act 71 of 2008, the King Report on Corporate Governance for South Africa 2009 (King III Report) and in the United States of America the Sarbanes-Oxley Act of 2002. This chapter seeks to highlight to readers the subject of internal auditing and its value to the organisation.

This Chapter will also explore the theoretical aspect on how employees perceive internal auditors in the organisation. Then it examines the role of internal auditing and how it enhances organisational efficiency and effectiveness (value – adding). Furthermore, the chapter provides an in–depth look at how internal audit activity and audit committees complement each other to minimize and manage risk. Finally the chapter is concluded by a brief account on auditing practises in other universities in the world.

2.2. Key concepts to be defined

2.2.1. Internal Auditing

The Institute of Internal Auditors (2012) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” In this light, it can be argued that internal auditing is a fundamental process that systematically analyses, assesses and evaluates the internal control processes of organisations that are aimed at improving the effectiveness and efficiency of an organisation's performance.

2.2.2. Employees' Perceptions

Robbins (2009, p. 540) defined employees' perception as “a process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment.” Therefore, employees' perceptions can be seen as a holistic process whereby employees internalise stimuli and then give meaning to the perceived information. Furthermore, in the organisational scenario of internal auditing, employees perceptions are the various ways in which employees interact with internal auditors and how they view them as beneficial players in the organisations or otherwise. Various employees in the organisational chain have their own perceptions about internal auditors.

If perceptions are based or derived from limited observation and incomplete information, perceptual biases will occur, and will influence a person's actions and decisions. Perceptions cause humans to attempt to make sense of what has transpired, what is transpiring, and what will transpire. A number of researches have noted a link between the interpretation of information and the perceptual process. They have argued that the interpretation of information is based on the perceptual process (Anderson and Paine, 1975). During internal auditing, employees form their own interpretations and perspectives of what is going to transpire, what others are thinking, and how they themselves are perceived.

Therefore, employees' perceptions to internal auditing vary according to how each employee perceives the intended purpose of internal auditors in an organisation. Hence studying perceptions is quite a complex task.

2.2.3. Theoretical Framework underlying the study

In an endeavour to unearth the perceptions of employees' on internal auditors it is crucial to first comprehend the internal auditor's role of governance in public sector organisations. The role theory is utilised as the concept framework of this research paper (Katz and Kahn, 1978), and underlines how all internal auditors are perceived in an organisation. The model for dealing with role conflict (Hall, 1972) provides us with the understanding of the nature of interactions which happen in organisations. In theory, an official employed within the organisation is needed to execute a variety of roles; these roles executed by an official may not be or may be in conflict with each other.

2.2.3.1. Role Theory

Any role is defined as a multiple concept, including the extent of roles a focal official is required to play that is the sent role, received role, role behaviour and role expectations. This is called the "role set" (Katz and Kahn, 1978, p. 219). The organisation is created as a social system rooted in the fundamental concept of "role set". A focal official receives the signals transmitted by the sender – this is called the sent role – the focal official creates his personal perception of the role the focal official is needed to execute it so as to satisfy the role expectation perceived through the sent role – this is called the receive role.

A role sender is the official providing instructions to the examined focal official in the role set. There could be numerous role senders. The role senders could be the line manager or direct supervisor of a focal official or an organisational interlocutor – who has no formal hierarchical links with the focal official. The receive role

usually governs the actions of the focal official, thus moulding their role behaviour. The role behaviour encompasses all behaviours and actions of the focal officials executing their role. The role behaviour is usually coherent with the receive role even though conflicts or inconsistencies might occur. The roles are moulded by numerous organisational, interpersonal and personal factors (Katz and Kahn, 1978). Thus the role is a contextual theoretical framework. Therefore in the context of this research, employees and / or managers perceptions depend on their management style, their position in the organisation and their moral values.

Fondas and Stewart (1994, p. 86), state that the role theory presents a legitimate framework for management research because of the following two major reasons. Firstly, the theoretical framework presented by the role theory is a pertinent base for empirical studies on the work and behaviour of officials aimed at defining their roles in a particular context. Secondly the role theory analyses the interactions and interrelations between officials and the extent of individual characteristics. Interactions, interrelations and individual characteristics that mould the role set in a particular context, thus amplifying the potential for explanation and analysis.

Ahmad and Taylor (2009, p. 917) highlighted the necessity for a greater comprehension of the behaviour of the internal auditor's in circumstances concerning role conflict and the ramification of those behaviours in shaping organisational perceptions. Denis, Langley and Pineault (2000), state that the implementation of organisational roles is a dynamic process concerning numerous officials. Hence, how internal auditors are perceived in public organisations calls for a thorough analysis of the roles internal auditors perform, since internal audit activity operates in an ever-changing and complex environment. They also highlighted the need for supplementary, qualitative research papers to ascertain the significance of the specific context in which internal audit activity is obliged to function, which brings us to the concept of exploring the role of internal auditing.

2.2.4. The Role of Internal Auditing

The Institute of Internal Auditors (2012) define internal auditing as “an independent, objective assurance and consulting activity designed to add value

and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

The internal audit department must evaluate weaknesses as well as strengths of an organisation’s internal control, in view of its organisational culture, governance and related opportunities as well as threats for improvement which may influence whether the organisation is efficient and effective in accomplishing its goals and objectives. The review evaluates whether risk management detects risks as well as implements adequate controls to manage resources in an efficient and effective manner.

The internal audit department collaborates with the individuals responsible for governance, such as senior management, audit committee, board of directors, or external oversight committee, in guaranteeing that adequate processes of internal control are implemented, and better the effectiveness and efficiency of compliance with authorities and operations. It’s vital to elucidate that whilst an internal audit department may provide support in internal control, they must not carry out any operational or management duties.

2.2.5. Models for resourcing Internal Auditing

According to the International Organisation of Supreme Audit Institutions, the resourcing of the internal auditing department can be accomplished in several ways. These include:

1. Fully outsourced

The service provider is contracted to the organisation, provides all the internal audit services, and administrates the internal auditing function. The service provider contact is managed internally by a person within the organisation. (Institute of Internal Auditors of South Africa, 2013)

2. Outsourced with in – house management

The internal auditing department is resourced by outside service provider. The internal auditing department is administrated internally by a person within the organisation. (Institute of Internal Auditors of South Africa, 2013)

3. Co-sourced

The internal auditing department are resourced by a combination of service providers and internal employees. The internal auditing department is administrated internally by personnel within the organisation (Institute of Internal Auditors of South Africa, 2013).

4. In House

The internal audit department are resourced primarily or entirely by internal personnel within the organisation. The internal audit department is administrated internally by a person within the organisation. (Institute of Internal Auditors of South Africa, 2013)

2.2.6. The factors that determine the effectiveness of the Internal Audit Function

According to a report by Deloitte (2011a) the audit function depends upon several factors:

1. True Independence:

A formal mandate from the board of directors or audit committee would give the internal audit function the authority to examine anything that in its professional opinion, impacts on the effectiveness of governance, risk management and control processes. Does internal auditing have its own budget? Who appoints the internal audit manager? True Independence is questionable.

2. Responsiveness to management's needs:

The ability to respond to management needs flows from an understanding of organisational challenges. Ad hoc audits is an example of responding to management's needs

3. Use of technology to work more effectively;

Technology should actively contribute to audit effectiveness and efficiency. Computerization without planning can be counter – productive, cementing existing problems instead of helping to solve them.

4. A good understanding of issues facing the organisation:

Internal auditing needs to function effectively as a member of the organisational team; it must comprehend the day to day challenges that confront management and structure its functions accordingly.

Unless the internal audit department can consistently demonstrate that its work contributes to superior service delivery, it will be difficult to guarantee investment or management backing in the audit function.

A non – value added audit organisation in the public sector could also hamper any attempts at increased accountability and transparency in governance.

5. Matching of skills set to needs:

Does the audit manager have the authority to recruit and fire staff?

Can she/he design and execute a training programme and permit funds for certification?

6. Implementation of recommendations:

The number of recommendations implemented is a highly relevant measure of audit effectiveness. A high percentage of recommendations implemented suggest that management is certain of the audit function's efficacy.

7. Proactive communication with management:

To guarantee sustainable audit effectiveness, internal auditing department's management team must follow events in the organisation closely and maintain a running dialogue with management.

From the above, it can be concluded that for an internal audit to function effectively there is a need for it to acquaint itself with all the organisational dynamics. A substantial shift in the organisational culture may also be required.

2.2.7. Exploring value adding audit service

Several studies concerning audit services incorporate the concept of auditors adding value to the core audit services, often referred to as the value – added audit. The value – added audit is an audit that includes additional, formal and informal business advice and goes beyond the standard audit service (Eilifsen, Knechel and Walage, 2001; Fontaine and Pilote, 2011, 2012; Herda and Lavelle, 2013a, 2013b). Therefore, value – adding audit service entails the fundamental benefits derived from an audit that goes beyond the core value of auditing, such as independent verification and the directional reporting of mis-statements to adding value such as enhancing organisational performance and even personal attention and support.

Research conducted by, the Institute of Internal Auditors – UK and Ireland in association with Deloitte (2012), revealed a nine point list that the internal audit department are evaluated against to determine the extent to which they are perceived as value added. These are:

- “a value asset,
- a source of best practise/advise,
- the conscience of the business,
- a training ground for junior management generally,
- a source of financial talent,
- a cost centre,
- a necessary evil,
- an independent check on management,
- a necessary management function”.

This is also supported by a study conducted by Barac, Plant and Motubarse (2009), on the senior management of 30 listed companies in South Africa, who found that the internal audit functions are perceived to add value in all areas of the organisation. Therefore, there is a consensus on the notion that internal auditors are of fundamental importance in organisations. Yee et al. (2008), states that most directors of companies perceive internal auditors as business partners.

The study by Yee et al. (2008) also included mid – level managers and the results were that most mid–level managers perceived internal auditors as watchdogs. The study conducted by Kasima, Hanafib and Rashidc (2011), suggests that ninety one percent of the respondents considered the internal auditors as consultants or business partners.

Better strategic planning by internal auditors may enhance the internal auditors' ability to develop a value – adding profile by assisting in identifying strategic issues and finding solutions to any barriers that are considered to exist on the way to achieving a value–added profile (Mihret and Woldeyohannis, 2008). According to Holt (2012), organisations consider the internal audit activity as a business partner, when they are viewed positively, based on the approach that the internal auditor undertakes to communicate with relevant employees. Therefore, it is of paramount importance that internal auditors should develop good communication practices, however this does not mean they have to compromise on their impartiality and their core – business of risk management. Hawkes and Adams (1995) as cited by Yee et al. (2008) states that employees or so called internal audit customers perceive the internal audit activity to add value to its operational functions when employees and internal auditors establish a working relationship based on a co-operative and participative approach rather than an independent and prescriptive appraisal approach.

A study conducted by Melville (2003, p. 210) revealed that the internal audit function plays a leading role in the organization's strategic management by supporting and evaluating the strategic management decisions made. Ray (2009, p. 5) states that the internal audit function must be regarded as a support function creating value within the organization and helping in the accomplishment of organizational goals.

Mihret and Yisman (2007, p. 472) argues that internal auditor's recommendations provided in the internal audit report will not add any value unless management is dedicated to implement the recommendations. Gramling and Hermanson (2009, p. 37) identified the usefulness and reliability of the deliverables or work product of an internal audit function as measures of internal auditing department excellence.

According to Rupsys and Boguslauskas (2007, p. 13) the stature of internal audit value as viewed by executive management considerably correlates with the percentage of their recommendations which are implemented. Sarens (2009, p. 4) concurs but maintains that the regularity of deliberation of the internal auditors recommendations also serves as a measure of internal audit quality.

Lenz and Sarens (2012), highlights that internal auditors are exposed as a result of the unclear purpose of the internal audit activity. Lenz and Sarens (2012) also states the purpose should include what is the added value aspect that is judged on by the organization. According to Ramamoorti (2003), as cited by Lenz and Sarens (2012), internal auditors require a clear understanding of their added value image so they can properly manage their perception to all stakeholders. Cooper, Leung and Mathews (1996) agrees that the scope and role of internal audit activity needs clarification between internal audit department and management. One can therefore argue that there is a need for clear identification of operational parameters and spheres between internal audit departments and management so as to bring harmony in the organization. Sarens and De Beelde (2005), states that senior management has a negative perception on the internal audit activity which is largely as a result of their ignorance about the internal audit process.

2.2.8. Internal Auditing reporting process and controls

Deloitte (2011) highlighted that its Internal Audit assurance role has presented an opportunity to assist the business enhance its maturity in terms of its sustainability programme and initiatives. Internal Audit can assist through making recommendations in terms of enhancing the robustness of the sustainability and Integrated Reporting process and controls; and through providing recommendations in terms of enhancing the reliability and relevance of the related reports. It is, however, fair to expect that Internal Audit's role would change as the organization's sustainability programme, practises and Integrated Report become more mature over time, as evidenced in Figure 2:1

Figure 2:1 regarding integrated reporting, stresses that as enterprises advance to fully adopting integrated thinking from meeting the minimum criteria for integrated

reporting, the internal auditors' role will become more strategic, ultimately advising management on ways to create and protect value.

Figure 2.1 recommends a maturity model for an internal audit role in relationship to integrated reporting.

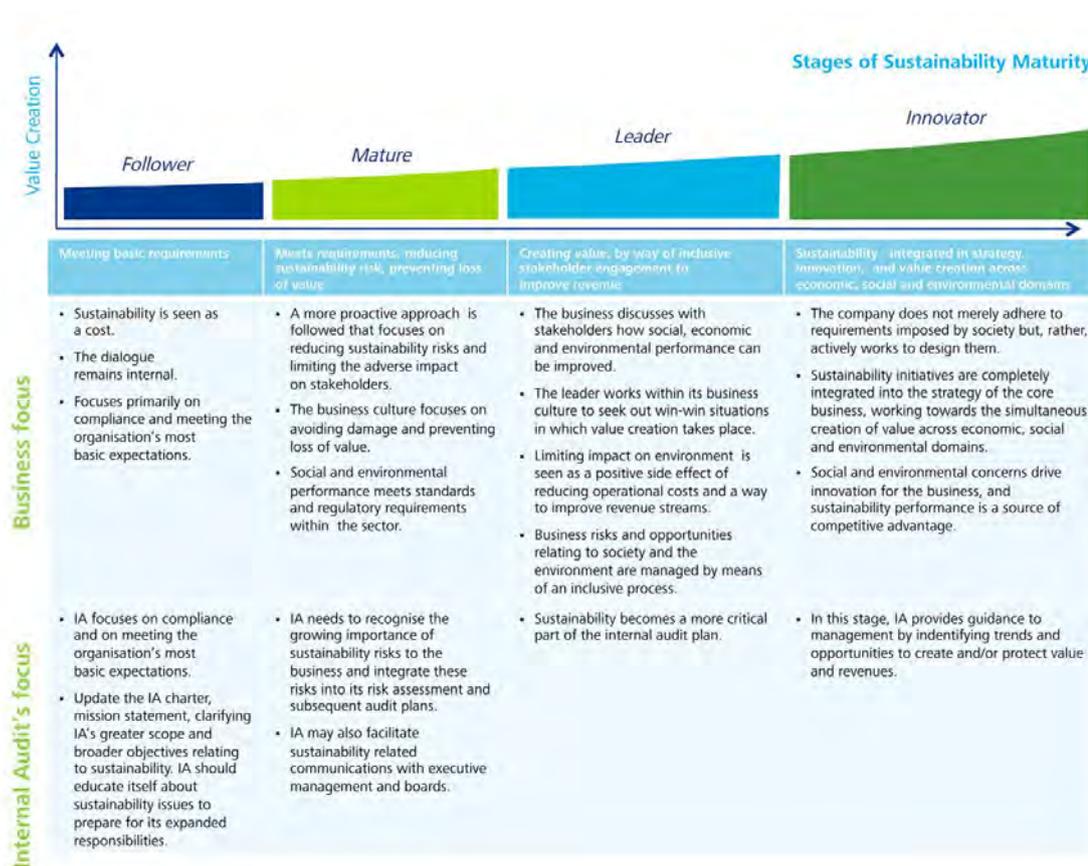


Figure 2.1: The role of the internal audit in integrated reporting

Adapted from Source: *The Role of Internal Audit in Integrated Reporting: a blend of the right ingredients, summarizing a discussion forum out of IIA–South Africa, published by Deloitte.*

Although this maturity model imparts a valuable illustration of the way in which the internal auditor's role could evolve, the internal auditor's advisory role is equally important in the beginning of the implementation process. Functioning in this role demonstrates the Institute of Internal Auditors (IIA) value proposition: Internal Audit = Assurance, Insight and Objectivity. As stated by Miller and Smith's (2011) report *Insight: Delivering Value to Stakeholders*– "Governing bodies and senior management rely on Internal Auditing for objective assurance and insight on the effectiveness and efficiency of governance, risk management and internal control

processes.” The following table 2.1 proposes ways in which internal auditors may add value to the integrated reporting in an advisory and an assurance role.

Table 2.1: Internal audit role's assurance and advisory

Internal Audit in the Assurance Role	Internal Audit in the Advisory Role
Reviews, risks related to integrated reporting identified in the board of director’s and management’s risk assessment’s concerning: sales market, employment market, stock market, operational, liability, compliance, brand reputation, and external business relationships	Consults on management’s process design with recommendations for improvements during the roll–out phase of Internal reporting
Meets stakeholder demands for accountability through verification and assurance processes for reports related to corporate social responsibility	Communicates to the board of directors and senior management the value of Internal Reporting to long–term, medium and short business sustainability and the benefits of utilizing a maturity model approach to ascertain the organization’s existing maturity with opportunities to improve in the future as processes mature.
Addresses contractual obligations and compliance with laws/regulations for corporate social responsibility reporting with a focus on ethics, environment, health, governance, human rights and work conditions, transparency, safety and security, and community investment.	Once Internal Reporting is in place, it acts as the third line of defense in their role of providing assurance to the board of directors and senior management on efficiency and effectiveness of the internal reporting process.

To sum up the discussion it can be affirmed that the Internal Auditor’s role in an organization is of integral importance as it offers insight into the overall operations of organizational effectiveness and efficiency.

2.2.9. Internal audit as support for senior management

Figure 2.2. introduces a comprehensive view of the two way interrelationship that must exist between internal audit and senior management.

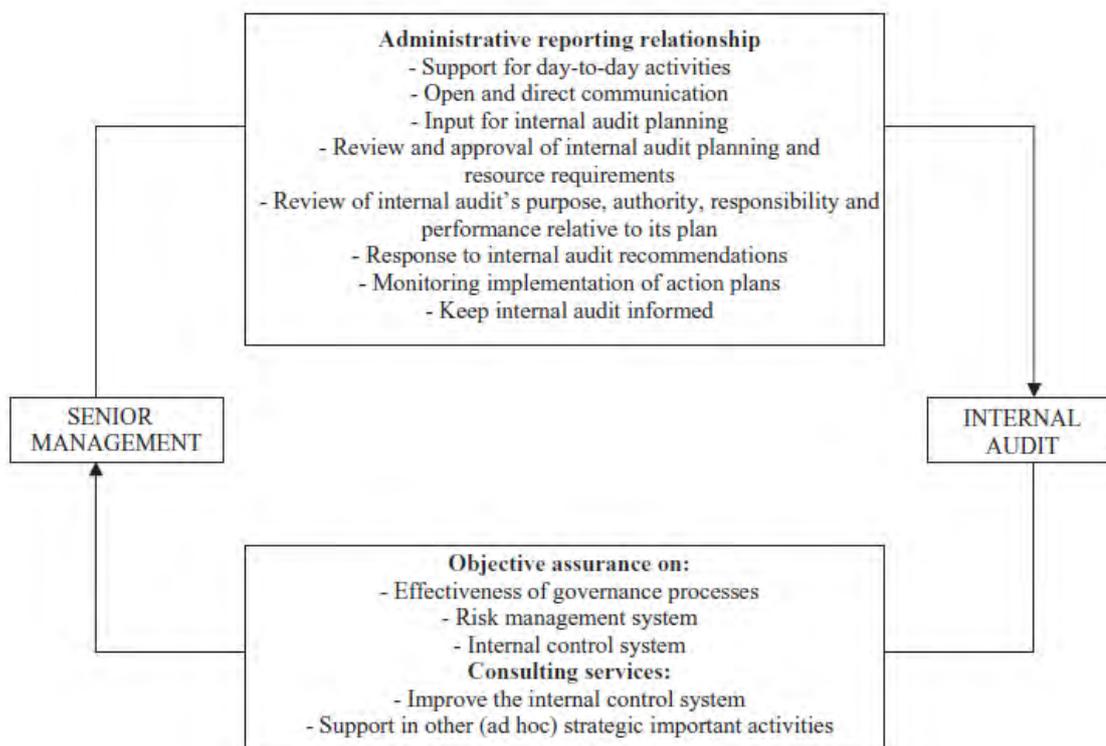


Figure 2.2: Internal auditor's perception about their role in risk management

Adapted from *Source: Internal auditor's perception about their role in risk management: A comparison between US and Belgian companies, Managerial Auditing Journal, Vol 21, No1, pp 63–80.*

According to Sarens and De Beelde (2006a), a competent internal audit department will enhance executive management's assurance by giving objective and independent assurance on the efficiency and efficacy of the organization's governance processes. Internal audit department can also guide executive

management's controls with all sorts of risks and determine if the internal controls are operating, as intended, to control the risks to a tolerable level.

By way of explanation, the Chief Executive Officer gains an objective and independent assurance on the efficiency and effectiveness of internal control processes from an official other than the line managers or Chief Financial Officer. Also, the Chief Financial Officer can gain objective and independent assurance on the efficiency and effectiveness of internal control processes. Thus he is reliant on the decentralized finance staff and line managers.

In addition internal audits can perform a vital monitoring role in the enterprise's risk profile and enhance risk management processes by detecting areas which need improvement. The consulting services provided by the internal audit department also support management, by facilitating managements' efforts to enhance the internal control processes, by providing recommendations on the ramifications of organizational amendments' to that process, which add to the development of sound risk management processes. (Leithhead, 2000) (Lindow and Race 2002).

In turn senior management (Chief Financial Officer / Chief Executive Officer) during internal audit planning, may assist internal audit by providing internal audit with specific inputs (requests). These are necessitated by important business opportunities or high-risk areas. The chief audit executive, in turn, must notify executive management of the internal audit resources and planning requirements. He can also advise on crucial interim changes, both for approval and review. The chief audit executive must also report periodically to appraise management on internal audit's activities, responsibilities, authority, purpose and progress relative to its plan.

In addition all levels of management, including executive management, must respond timeously to the internal audit recommendations so that they can monitor the action plans that are being implemented, management must keep internal auditors informed of plans and amendments to the internal control and risk profile of the organization, and of key amendments to the organization's procedures and policies.

Fourie and Erasmus (2010), in the research paper entitled "Internal audit activities performed in South Africa", highlighted that the Chief Executive respondents were

asked to rate the future and current value added, with reference to the internal auditing functions (as identified by the IKUTU group) conducted by both the outsourced and in house internal audit function of its organisation. A scale of 4 to 1 were utilized where 4 = added no value, 3 = added limited value, 2 = added moderate value and 1 = added significant value. Table 2.2 shows the results of their findings.

Table 2.2: Chief Executive – Rating of the value added by internal auditing function

Functions	Perceived value added internal audit function's (mean)			
	Current		Expected	
	In – house	Outsourced	In – house	Outsourced
Corporate governance	1.5	2.4	1.4	2.1
Enterprise risk management	1.8	2.1	1.3	1.8
Control environment	1.4	1.6	1.2	1.4
Operational effectiveness	1.9	2.5	1.6	1.9
Reputation of company	1.9	2.5	1.4	2.4
Independent assurance	1.4	1.5	1.2	1.3
Merger and acquisitions	2.5	3.1	2.3	2.6
Forensic Investigations	1.8	2.4	1.7	2.0

Table 2.2 Adapted from Fourie. H and Erasmus, L (2010) internal audit activities performed in South Africa. African Journal of Business Management, Vol 3 (13), pp 936–945

Table 2.2 shows that currently, marginally positive ratings were indicated for future value added by the in-house internal auditing department function's, with the exception of the rating for the mergers and acquisitions functions, which were perceived to add significantly to moderate value to its organisations. While expected and current were perceived as lower for all the internal auditing department functions, ranging from moderate to limited value added by the internal auditing department to their organisations as perceived by the Chief Executive's. This indicated that the executive management's expectations were met and that they were satisfied with the scope of work that their internal auditing department executes.

2.2.10. The relationship between organizations employees and internal audit: Insights from previous studies

The number of empirical researches that have examined the relationship between internal auditor and employees in organizations is limited. Cooper, et al. (1996) examined the Chief Executive Officers' perception with regards to internal audit in Hong Kong, Malaysia and Australia. Their study found that most Chief Executive Officers perceived the internal auditors to have a participative / consultative approach.

Eighty percent of Chief Executive Officers from these nations trust the conventional internal audit role that provides a formal independent appraisal on the internal control processes. On the other hand, there has been increasing support for extra-participative processes, of a formal independent appraisal of management effectiveness, and of operational efficiency reports. Given that Chief Executive Officers in all these nations regarded electronic data processing and operations as a main section the Chief Executive Officers perceptions have been examined in detail by the internal auditing department. The internal audit

managers in their reports appear to be offering “less than best practice” evaluations of management.

Ridley and D’silva (1997), contrasting and comparing executive management’s perception of internal auditor’s value, also revealed that the majority of the executive managers viewed internal auditors in its conventional role of giving assurance through checks, assessment and investigation. A few recognized a broadening of internal auditors scope into new roles as advisors and consultants, predominantly advising and consulting on controls associated with management performance and information technology. Extraordinarily, the pattern of perceptions on the value received from internal auditing department assistance differs between Chief Executive Officers and Chief Financial Officers. More Chief Executive Officers than Chief Financial Officers saw an increase in the value of reports on environmental issues and reports to regulators. More Chief Financial Officers than Chief Executive Officers saw an increase in the value of reports on internal control.

Recent studies by Fourie and Erasmus (2010) on internal audit activities performed in South Africa, identify the relative importance of seven core internal audit functions as identified by the IKUTU group is illustrated in Table 2.3. These functions are other consulting advisory services, corporate governance, control self–assessment, forensic investigations; business improvement, assurance, system design and improvement. The chief audit executive respondents were asked to rate these activities as being of significant importance, of average importance or not important.

Table 2.3: Chief Audit Executive – Rating of the importance of Internal Auditing Department Functions (percentage of respondents)

Internal Audit Functions	Significant Importance	Average Importance	Not Important
Other consulting and advisory services	10.7%	53.6%	35.7%
Corporate governance	67.9%	32.1%	0%
Control self assessment	39.3%	25%	35.7%

Internal Audit Functions	Significant Importance	Average Importance	Not Important
Forensic investigations	35.7%	28.6%	35.7%
Business process improvement	53.6%	39.3%	7.1%
Assurance	96.4%	3.6%	0%
System design and improvement	53.6%	32.1%	14.3%

Table 2.3 Adapted from Fourie. H and Erasmus, L (2010) internal audit activities performed in South Africa. African Journal of Business Management, Vol. 3, No. 13, pp 936–945

According to Table 2.3 the majority of chief audit executive respondents, fifty three percent, have the perception that other consulting and advisory services are of average importance, while thirty five percent have the perception that these services are not important. Only ten percent of the chief audit executive respondents have the contradictory view, by perceiving that other consulting and advisory services are of significant importance. Corporate governance reviews were viewed to be of significant importance by sixty seven percent of chief audit executive respondents, while the remaining thirty two percent of these respondents have the perception that it is of average importance. The chief audit executive respondents did not agree on the importance of the control self–assessments and the forensic investigations. Approximately one third of the respondents, thirty five percent in both instances, have the perception that the control self–assessments and the forensic investigations are of significant importance, while the remaining respondents either have the perception that the control self–assessments and the forensic investigations are not important at all or to be of average importance. The Internal Audit Functions of providing assurance was rated to be of significant importance by ninety six percent of the chief audit executive respondents. The majority of chief audit executive respondents, fifty three percent, rated the categories of system design and improvement to be of

significant importance, while approximately a third of these respondents, thirty two percent and thirty five percent respectively, perceived them to be of average importance. This research goes on to illustrate the view that internal auditor's play an undoubtedly vital role in their organization. However their roles are perceived to have different contributions in the organization (Fourie and Erasmus, 2010).

Further studies by Van Peurseem (2005) cited in Sarens and De Beelde (2006a), revealed that an internal audit activity functions in an environment which has a dependent collaboration with management, which puts the internal audit activity's independence from management structurally at risk. The study also revealed that internal audit departments that look as if they are capable of accomplishing their personal expectation are also those that prudently balance the occasionally conflicting interest of their employer with the interest of their managers and that they would be unwilling to oppose management, irrespective of consequences. Therefore, internal audits in such environments can sometimes be compromised because there will be the need to maintain cooperation and good rapport in the organization.

2.2.11. The role of internal audit activity and the assistance it can render to audit committees

According to the Institute of Internal Auditors (2005, p. 3), the internal audit activity and the audit committee are mutually dependent and must be equally available. On the one hand, "the internal auditors should provide objective opinions, information, support and education to the audit committee and the audit committee on the other hand, should provide validation and oversight to the internal auditors." In order to assure that all members of audit committee are up to date and properly informed on the governance, control and risk management processes of the organization, the internal auditors have a duty to continue their own professional development.

The head of the internal audit activity must ensure that frequent quality assurance reviews are performed on the internal auditing department operations to comply

with the International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors, 2005, p. 3)

An effectual audit committee may bolster the status of the internal audit activity, by functioning as an independent committee for internal auditors to raised concerns involving executive (Goodwin and Yeo, 2001). Hence, the Institute of Internal Auditors (2004) firmly insist that aside from reporting administratively to the Chief Executive Officer, the chief audit executive should report functionally to the audit committee, which is vital to good corporate governance. By way of explanation, the functional reporting line for an internal auditor is the primary source of his authority and independence.

According to Practice Advisory 1110–2 of the Institute of Internal Auditors (2012), reporting functionally entails that the audit committee would:

- Receive communication from the chief audit executive on the results of internal audit activities for other matters that the chief audit executive deems necessary including private meetings with the chief audit executive without management present.
- Approve the internal audit charter.
- Approve the related internal auditing plan and risk assessment.
- Approve any decision concerning the removal or appointment of the chief audit executive
- Approve the salary adjustment and annual compensation of the chief audit executive, as well as the annual review of her or his performance.
- Make adequate inquires of the chief audit executive and management to ascertain whether budgetary or scope limitation exist which may prevent the internal auditors from performing their responsibility.

Therefore it is a combination of frequent communication, training and audit committee efficiency, and the value–added assistance that a competent internal auditing department that ensures the audit committee accomplishes its oversight responsibility (SpencerStuart, 2005).

The internal auditor’s responsibility and role within the enterprise are reflected as follows (Institute of Internal Auditors, 2004a, p. 2):

- Facilitate external audit between management and external auditor.

- Furnish internal audit documentation that exists for processes under review.
- Recommend best practises to management – test strategies, tools and documentation standards
- Provide training on project, control and risk awareness to management and process owners.
- Perform quality assessment on key controls and process documentation.
- Assist in detecting control weaknesses and review management - action plans for correcting those weaknesses.
- Be an independent reviewer of management assessment processes and testing.
- Participating in project steering committee, by monitoring progress and direction of the project and also furnishing recommendations and advice to the project team.
- Inform management of the scope and degree of testing required to achieve the engagement objectives in each phase of the engagement.
- Conduct follow–up review to determine if the action taken to mitigate the control weaknesses has adequately addressed the control weaknesses.
- Co–ordinate discussions between the external auditor and management regarding scope and testing plans.
- The chief audit executive should be a member of the disclosure committee to ensure that all significant matters are reported to the committee for disclosure consideration
- Utilise a risk–based approach throughout the internal audit process
- Assist in ensuring that corporation initiatives have a positive impact on the organization and are well managed
- Provide assurance to the board of directors, other stakeholders, senior management and audit committee.

According to Bishop III, Hermanson, Lapsides and Rittenberg (2000) to assist audit committee members attain their optimal effectiveness and efficiency, the internal audit department must currently be enhancing its support services and providing wider range business expertise, as a result the internal audit activity's role must be consultative or advisory in nature and must be perceived as a

supportive or complementary function to ensure positive contribution to the audit committee.

Sawyer, Dittenhofer and Scheiner (2003, p. 46) states that the internal auditing department is in an inimitable position to render consulting services because of its experience and their “systematic, disciplined approach”, investigative capabilities and analytical abilities. Furthermore, they have the ability to contribute to the benefit of the organisation and the organisational objectives.

According to the Institute of Internal Auditors (2012) practice advisory 1000 C1.1, “internal auditors must take additional precautions to ascertain that the board of directors and management comprehend and concur with the concept, operating guidelines, and communications required for performing consulting services”. As a result the chief audit executive can collaborate with the executive management in designing and establishing the professional development, or induction programmes, and even co-develop and sustain the services that are furnished to the audit committee. Furthermore Practice Advisory 1000 C1.1 states that “internal audit activity is inimitably positioned to perform consulting work based on its adherence to the highest standards of objectivity and also its breadth of knowledge about organizational processes, risks and strategies” (Institute of Internal Auditors, 2004c, p. 37–38)

Bush (2003, p. 1–2) states that audit committees must expect the following key items from the internal auditing department with regard to the primary support rendered to them, whilst retaining the objectivity and independence of the internal auditing department:

- The internal auditing department must be objective and independent including frank and open in its appraisals.
- The audit committee must be informed about problems and issues the instant they materialise. The audit committee needs to be aware of what measures are actually being taken to fully comprehend and investigate the ramifications of problems and issues, what corrective action is actually being implemented, and what is required to eliminate the risk from recurring in the future.
- The internal audit department should conduct a risk assessment on the organization’s operations which identifies areas that have a high risk for

possible problems. The organisation risk matrix must assist the audit committee to focus on the main areas of concerns.

- The audit committee must know when there are any restrictions that may impede the internal auditing department from conducting successful audits. The internal auditing department requires sufficient and appropriate staffing and cooperation from within the organisation to ensure that its internal audit is conducted in efficiently in an effective manner. There may be areas where the internal auditors require assists from the audit committee in obtaining appropriate resources or more co-operation.
- The audit committee furthermore requires the internal auditors to add value by making concrete recommendations that can avoid future problems and help improve processes.
- The internal audit department should have direct communication as well as a direct reporting line to the audit committee.
- The internal audit department should have the confidence and courage to report any important issues that involve executive management to the audit committee. Concurrently the internal auditors who report such information require that audit committee protect them from negative consequences or retaliation.

At this point it must be highlighted that the internal audit department must be careful that it does not assume the board of director's or the management's duties in its aspiration to furnish incremental services to the audit committee.

The Former President Dave Richards of the Institute of Internal Auditors cited in Hattingh (2000) and Doyle (2005), advocates that Chief Audit Executive must be proactive in "selling" internal auditing department services to audit committee by firstly providing timely, complete and reliable information to the audit committee, on the matters that are relevant to its' responsibilities, and secondly informing them of how and where the internal auditing department may assists them. The following actions are recommended by Doyle (2005) to sell and strongly advocate the internal auditing function.

- Meet once a year with all the departments of the organisation to ascertain their objectives and goals and determine how the internal audit department can assist them in achieving their objectives and goals.

- Communicate formally with senior management at least on a quarterly basis, about what the internal audit department plans to accomplish and what it has to accomplish. It must never take for granted that executive management comprehends the worth of the internal auditing department.
- Have regular and significant interactions between executive management and the audit committee.
- The internal auditing department personnel are also aware of the significance of the internal audit department and that they too promote the profession.

Therefore, from the above literature it can be seen that internal auditors play an intermediary role between the management / board of directors and the audit committee by providing expertise and advice on the business operations and implement of the companies audit policies. However, the internal audit needs to be objective and independent in its work.

2.2.12. The role of the internal auditing department in providing professional development and induction services to audit committees

The report on enhancing listed companies corporate governance from the working group chaired by Denial Bouton argues that the audit committee members, beside their existing accounting and / or financial management expertise must, once appointed, be well-informed on the organisation's specific, financial, operating and accounting features. Despite the fact that senior management are there to provide an induction programme to the audit committee, the internal auditing department is also well positioned to provide the members of the audit committee with beneficial information since they have a complete understanding of the organization's operations (Bouton, 2002).

New members must be trained in the risk management policies, the industry or business environment, the basic organizational structure, and current vital topics (Steinberg, 2000; Institute of Directors, 2002). All members on an audit committee must be up dated on the internal audit activity's function and standards,

International Financial Reporting Standards (IFRS), and new regulatory or legal requirements (Institute of Internal Auditors, 2006, p. 16).

The internal auditing department should assist the members of the audit committee on the induction process and its professional development regarding their responsibilities and many duties, including the most recent practices and developments, and new legislation (Wagner, 2000).

Marks (2003, p. 41) agrees that “because internal auditors must stay current on trends, legislations, regulations, and risk management, they are the ideal organizational resource to develop and manage an education programme for directors”. The same programme could also be equally beneficial for the members of the audit committee to assist the members in the efficient and effective execution of their oversight duties. As a result the internal auditing department can best undertake the professional development and induction of the audit committee.

Sawyer et al. (2003, p. 1341) agrees that “many internal audit departments have embarked on courses of education for audit committee members, bringing to the attention of new members, in particular, what the internal audit activity is now doing and what it is capable of doing. The results are greater support, increased status, and improved effectiveness of the internal auditors and correspondingly greater comfort to the audit committees”. The value – added role is substantiated by the Institute of Internal Auditors Research Foundation, who completed a survey in 1999 entitled “Audit committee effectiveness – what works best”, in which Steinberg and Boomilow (2000a, p. 45) revealed that the chairman of the audit committee perceived the external auditors and management as the two parties most suitable to provide continuing professional development. However an attorney in the United States of America, Michael Young, who specialises in defending accounting firms accused of fraud, has the following to say in his book on Corporate Governance (Hattingh, 2000, p. 3) points out that:

“even if audit committees are financially sophisticated and independent, an audit committee faces the perilous risk of not having enough, or accurate information ...of three possible information sources – senior executives, external auditors and internal auditors – the internal auditors are its best bet”.

An induction or introductory session must be presented to the new members of the audit committee to ensure that the members are au fait with the functions of the audit committee and the organisation's operations, instantaneously. Wixley and Everingham (2002, p. 22) state that a substantial amount of information might be presented in the way of the organisations annual reports, audit committee charter, minutes of audit committee during the induction of non-executive directors (Burke and Guy, 2002, p. 79). The induction programme might also include informal conversations with senior personnel regarding their roles in the organisation and actual visits to the organisation's major premises (Wixley and Everingham, 2002, p. 22).

The King II Report (2002, p. 30) recommends that the company secretary should provide the audit committee with relevant information needed to perform its duties. Therefore the internal auditing department can make a valuable contribution in the induction process by assisting the company secretary in this regard. The induction programme can take numerous forms, for example briefings by external advisers, internal company talks and seminars, and attendance of formal courses and conference (combined code, 2003, p. 54).

When developing the orientation or induction programme, internal audit activity must take into account the following recommendations by Deloitte (2005):

- Assign team members and a team leader to participate in the process.
- Make the learning enjoyable and convenient for every attendee.
- Customize the programme according to the audit committee's needs and the organisation's requirements.
- Make provision for and plan ahead if accreditation needs to be obtained.
- Design a training plan to present updates on legislation affecting the organization or anticipated changes in regulations or topics identified by the participants.
- Utilise a subject matter specialist for example external auditors, lawyers and engineers if the new members are not knowledgeable or experienced.
- Supply each attendee with an induction pack and also provide reading material to all the attendees in advance.

- The audience's level of experience, skills and needs should be addressed in the programme content.
- Complement your customized programmes in terms of aspects enquired about by attendees during the programme or ensure that their needs are identified.

2.2.13. The Objectivity and Independence of the internal auditor

Despite the fact that the Institute of Internal Auditors (2004b, p. 2) suggest that the internal auditors must be involved in the ongoing professional development and induction process of the executive management and the board of directors, particularly in terms of compliance with new regulations and laws, corporate governance, control, and risk management, portrayal as a training coordinator could even pose a conflict of interest or affect the internal auditor's independence.

According to Institute of Internal Auditors Practise Advisory 1000.C1-1 (2004c, p. 37) mentions specifically the conflict of interest. The audit committee and board of directors must empower the internal auditors to conduct supplementary services as long as they do not divert from its obligation to the audit committee or do not represent a conflict of interest.

According to Institute of Internal Auditors (2004c, p. 26) they define conflict of interest as "any relationship that is or appears to be not in the best interest of the organisation. A conflict of interest would be prejudicing an individual's ability to perform his or her duties and responsibilities objectively." To address the internal auditor's objectivity, the internal auditor professions' Code of Ethics (Institute of Internal Auditors, 2004c, p. xxxi) also forbids internal audit activity from becoming involved "in any activity or relationship that may impair or be presumed to impair their unbiased assessment". In view of this, it is suggested that the training facilitator role for the audit committee or accepting consulting services may therefore not necessarily impair the internal auditor's objectivity and would not impair an internal auditor's independence (Institute of Internal Auditors, 2004c, p. 37).

It is therefore, vital that the internal audit personnel do not assume the role of the executive management in providing any professional development services or

induction to the audit committee. The internal audit personnels independence could be impaired when she/he “inappropriately or unintentionally assumes management responsibilities”, particularly when constantly conducting consulting engagements. This problem could be address by the rotation of internal auditors. (Sawyer et al., 2003, p. 46)

2.2.14. The Concerns and Perceptions related to objectivity and independence of internal audit

The internal audit department holds an inimitable position within an organisation. They conduct reviews of operations in the organisation that they are employed by. This may cause a conflict of interest because the internal auditor’s ‘independence’ from management is essential for the internal auditor to objectively assess management’s actions. Secondly, the internal auditor’s understanding of operational conditions and in–depth knowledge of the review processes may add significant value to the organisation.

However upholding the public trust may be hindered if measures that include provisions to ensure that the internal auditing department is furnished with adequate resources to successfully execute duties, is not supported by management in practice and formally and is empowered to report vital concerns to the individuals charged with governance. According to Sterck and Bouckert (2009), the appearance or perception of a lack of independence and objectively can be as detrimental as the actual condition. It becomes arduous to retain the appearance of independence when auditing, if internal audit activity assists management in developing the internal control processes.

2.2.15. How to achieve objectivity and independence

According to the Independence and Objectivity: A Framework for Internal Auditors (Institute of Internal Auditors, 2001) to comply with the objectivity and independence criteria, the following recommendations were made:

- The art to attain internal audit department objectivity and independence is reliant on the correct position and / or the internal audit department organisational status within the organisation.
- The chief audit executive must have direct communication with the individuals charged with governance. This communication strengthens the organisational status of internal auditors, allows full support and unrestricted access to operations, personnel, property and records and independence. This grants adequate authority, to ensure broad audit coverage, appropriate action on recommendation and sufficient consideration of engagement communications.
- The chief audit executive must have equivalent grade to executive management of the organisation. To prevent conflicts of interest the chief audit executive must report to a level in the organisation that will permit the internal audit department to effectively execute its responsibility.
- The internal audit department organisational status within the organisation must be adequate to permit accomplishing its duties as described by the internal audit charter. The internal auditing department should be situated in a position that allows it to obtain cooperation from staff and management of the entity for the programme to be audited it must also have open access to all operations, property, personnel and records including the individuals charged with governance. The internal auditing department must have the support of the board of directors and executive management so that they can perform their work free from interference by gaining the cooperation and engagement of clients.
- When feasible those the individuals charged with governance (oversight body) must at least be consulted and exercise discretion regarding the compensation considerations, removal and appointment of the chief audit executive. Consideration may also be given to appoint an appropriately organised, independent body to appoint the chief audit executive. Independence is enhanced when the board concurs in the appointment or removal of the chief audit executive.

- The Institute of Internal Auditors standards advocates that the chief audit executive should report to a level within the organization that permits the internal audit department to accomplish its responsibilities.
- The Institute of Internal Auditors standards dictates and other guidance distinctly recommended, that to assist the internal audit function maintain their independence, the chief audit executive must report functionally to those individuals charged with governance and administratively to the senior management.
- The chief audit executive must report to senior management for help in establishing administrative interface, support and direction, and to those individuals charged with governance for reinforcement, accountability and strategic direction. To safeguard the independence of the internal auditing department those individuals charged with governance must approve the internal audit charter and the mandate.
- The leading practices and the Institute of Internal Auditor's code of ethics dictates that internal audit function should conduct those service that it has the required skills, experience, and knowledge, perform duties in line accordance with the standards required and the internal auditing department develop the knowledge skills and other competencies, or collectively possess, required to execute their responsibilities. Professional and competent internal personnel can assist in ensuring the internal auditing department's success, especially those that adhere to the standards.
- Legislature requirements to establish an internal audit function helps the independence of the internal audit function and protect the funding and recognised importance of the internal audit activity in the public sector. Lastly, appropriate legal protection of the internal audit activity's independence is a vital article of a legislative framework in particular under civil service law.

2.2.16. A perspective of auditing in universities in the world

Auditing is part of institutional development and learning, and is thus absolutely essential in tertiary education institutions, like most organizations today tertiary

education institutions are aspiring to enhance transparency into their operations, finances and services for the public and stakeholders (PWC, 2014).

There is also growing interest among tertiary education institutions to improve risk management by implementing superior controls over the organisations' processes, procedures and systems and to promote the importance of accountability among all professionals. Within the tertiary education institutions, internal audit is playing a vital and often leading role in working with management, board of directors and administrators to establish stronger internal controls and corporate governance and derive the numerous resulting benefits in terms of cost efficiencies and organizational performance. In this section there is an attempt to explore the process of internal auditing in various universities in the world (PWC, 2014).

Protiviti (2008) compiled profiles of the best internal audit performers in tertiary education institutions in the United State of America. Notably profiles of these organizations – Stanford University, the University of Pennsylvania, Northwestern University, Harvard University, and Duke University – the following trends emerge:

A. Compliance

In the above Universities, the internal audit activities are assisting the organizations to attain a superior understanding of compliance by completely leveraging their resources to not only conducting auditing activities, but also “to educate the educators” on the role of internal audit and to provide training (Protiviti, 2008).

B. Recruiting and staff development

All the above Universities recognize the importance of recruiting personnel for their internal audit functions who demonstrate effective leadership and communication skills. Notably, skills that personnel develop while working within the internal audit activity enhance their overall value and countless organizations move these staff members into other leadership roles in the organization from internal audit. This escalated demands on internal audit to find new talent and to restart the hiring cycle (Protiviti, 2008).

C. Defining return of investment

All the above Universities have confirmed the return of investment and value that a competent internal audit activity provides these institutions in terms of improved risk identification and mitigation as well as better governance.

From the above discussion it can be safely argued that internal audits in a university are of paramount importance as it seek to audit and review, financial, operational and administrative functions. All this is done to ensure that universities operate in line with their mandate and achieve their reasons behind their existence- that of being centres' of academic excellence (Protiviti, 2008).

2.2.17. The King report on Corporate governance and the professional Internal Audit Standards in South Africa

Internal audit is a rapidly growing and relatively young profession. The internal audit profession has grown rapidly in South Africa mainly because of the recommendations made in the King reports on Corporate Governance (Institute of Directors, 2009) for the private sector and the mandatory requirement for an Internal Audit Function by South African public sector legislation (South Africa, 2000; South Africa, 2003).

King III compels organisations to set up an internal audit activity that provides assurance on the organisation's risk management, internal controls and governance.

Internal auditors must provide a formal appraisal on the organisation's internal controls and risk management to the board of directors, and also a formal appraisal to the audit committee on the internal financial controls.

Therefore the implications are that internal auditors may need additional resources to provide assurance on the organisation's risk management and internal control to the board of directors.

Presently in practice, numerous internal audit activity try to avoid the duplication of the external audit work and thus do not provide assurance on exclusively internal

financial controls. Internal audit activity should establish the methodology and basis by which it can provide a formal appraisal on the internal financial controls to the audit committee going forward. The audit committee should ensure that internal audit has sufficient budget and is properly resourced.

The board of directors must approve an internal audit charter which will ensure that there is an effective risk based internal audit activity and that it adheres to the Institute of Internal Auditors code of ethics and Standards.

Internal audit must:

- Ensure that the chief audit executive reports functionally at all audit committee meetings to the chairman of the audit committee
- Analyse the organisation's governance processes
- Objectively appraise the effectiveness of internal control and the risk management framework.
- Evaluate the business controls and processes
- Furnish information on unethical practices and fraud
- Possess a yearly internal audit plan that is informed by its risks and strategy
- Be objective and independent from management.
- Furnish a formal appraisal to the board of directors on the effectiveness of the organisation's system of risk management and internal controls.
- Provide a formal appraisal to the audit committee on the internal financial controls (after testing and formally documenting internal financial controls annually).

In conclusion Deloitte, (2010) ideally states that an internal audit serves as the "eyes" and "ears" of the audit committee and board of directors, a fundamental component in the system of checks and balances. But how can a chief audit executive reliably and confidently report problems if she or he is concerned about employment security?

2.2.18. Summary

This literature review attempted to provide information on the perceptions of stakeholders to the perceived role of internal auditors in organizations generally.

This chapter explored the theoretical foundations underpinning the domain of perceptions and linked them with how various employees perceive internal auditors. Furthermore the functions of internal auditors have also been examined in great depth. Perspectives of auditing that have been conducted in other universities in the world have also been reviewed. Broad examinations of laws, regulations and Acts that govern the work of internal auditing in South Africa have been highlighted. Lastly the assistance that the internal auditors give to audit committees was thoroughly examined.

As a result it can be concluded that the internal auditing department could certainly make a positive contribution to an organizations efficiency and effectiveness. Chapter 3 will give a broad overview of the research methodology.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter is aimed at presenting the objectives, the data capturing techniques and the appropriate research methodology used to capture data on the topic, “What are the perceptions of employees on internal auditing?” The researcher chose to employ the quantitative research methodology over the qualitative research method because of the advantages offered.

3.2. Aims and Objectives of the Research Methodology

3.2.1. Aim

The aim of this study is to examine the perceptions of employees on internal audit performance.

3.1.2. Research Objectives:

The objectives’ of this research are:

- To determine the perceived value that an internal audit provides to the different levels of management.
- To determine the perceived value that an internal audit provides to the employees performance.
- To determine the perceived value that an internal audit provides to the various committees.

- To determine the value that effective communications between internal auditors and employees will add in maximising the organisations performance.
- To ascertain measure and recommendation for management on how to overcome the challenges to enhance internal auditor's effectiveness.

3.3. Participants and Location of the Study

The study focuses on employees at the University of KwaZulu-Natal, who include academic, non – academic and managerial members. This section will attempt to highlight why it was vital to include the above mentioned stakeholders in this research:

Management

The internal audit is a sub-committee of the management team hence they constantly interact with management on cooperative governance issues such as the institutions process for monitoring compliance with laws and regulations and the code of conduct. Therefore the internal audit does not assume a decision making responsibility but merely acts in an advisory capacity by making recommendations to management, thus making the management a key participant in this research.

Academic Staff

Any academic institution strives to achieve academic excellence and therefore failure to realize this fundamental role leads to massive attacks and criticism from all stakeholders. Thus internal audits ensure that all the necessary infrastructure – be it material, physical, human capital; or financial—are available. Hence academic staff is one of the most essential components to the institutions structure.

Non– Academic Staff

For the university to function efficiently and effectively, non – academic staff are required to render services that will make it possible for the university to achieve its institutional goals and mandate. Administration of the physical environment is essential. Student affairs and service administration needs to be conducted in a professional manner that will ensure transparency, and the accountable use of

allocated resources. Therefore in the non – academic staff member’s endeavour to render these services; they deliver, and interact with internal auditors by virtue of their being service providers and hence they are crucial in this research.

The location of the study was based on two University of KwaZulu-Natal campuses, Howard College and Westville. The notice to conduct the research was emailed to all staff via the staff notice emails and the computer link was given for the respondents to reply to the questionnaire. Obtaining personal email addresses of the respondents was considered as unethical research practices.

3.4. Data Collection Strategies

The researcher utilized the survey research methodology which involved collecting data by putting a set of pre–formulated questions in a predetermined sequence in a structured questionnaire, to a sample of individuals drawn so as to be a representative of a given population. Fox and Bayat (2007, p. 9) states that cross–sectional research involves the simultaneous study of individuals representing different levels of development, hence this research took that form. Availability sampling technique was used as the respondents’ became participant researchers by choice, and not according to a sampling plan; however the only disadvantage of this technique is that findings are not generalized to other populations as the characteristics and experience of other populations are not known.

In designing the questionnaire, the researcher utilized the Likert scale. This is effected via a statement in a questionnaire which asks the respondents to indicate whether they strongly agree, agree, disagree or strongly disagree. The scale that asks respondents to choose between two opposites positions is called the semantic differential. The level of measurement for scale is ordinal.

3.5. Research Design and Methods

3.5.1. Description and Purpose

This research utilized a quantitative approach. Burns and Grove (2009, p. 777) define quantitative research as a formal, objective, systematic process to describe and test relationships and examine cause and effect interactions among variables. As the research covers quite an extensive area, results from quantitative research is based on a larger sample sizes representative of the population (Leedy and Ormrod, 2014). The advantages of using this approach is that the use of numbers allows greater precision in reporting results and precise methods of mathematical analyses can be used in the form of a computer software package.

The purpose of this research is descriptive, explanatory and exploratory since it seeks to investigate the perceptions of internal auditors in the light of the work they do.

3.5.2. Construction of the Instrument

Sekaran and Bougie (2013) states that sound questionnaire design should focus on three areas:

- Wording of the questions;
- Planning of issues on how variables would be categorized, scaled and coded after the receipt of the responses; and
- General appearance of the questionnaire.

All three aspects of the research design are important as they can minimize biases in the research. The design of the questionnaire items was based on gathering data from respondents who were perceived to be relevant to the study, and to finding answers to questions based on the objectives of the study.

Sequencing of questions is of paramount importance, Sekaran and Bougie (2013) emphasized the need to use the funnel approach of raising questions, that is, from

more general to more specific and from easy to more challenging which facilitates a smooth progress through the items on the questionnaire. This sequencing method was followed in developing the questionnaire for this study.

The first step this research took when constructing the questionnaire was to examine that every question drafted was essential in addressing the research problem. This was achieved by designing a table with two columns, as illustrated below

Column 1	Column 2
List of the questions to be included in the questionnaire	Why am I asking the Question? How does it relate to the research problem?

Questions can either be open-ended or closed. Closed questions ask the respondents to make choices among a set of alternatives given by the researcher, and are usually quite easy to convert to the numerical format required for statistical analysis. Open ended questions allow respondents to answer them in a way they choose (Welman, Kruger and Mitchell, 2012). The questionnaire used for this study consisted of closed type questions only.

Careful consideration was important when deciding a response format as this has implications for statistical analysis of the results of the questionnaire. Variables need to be measured in some manner and as such scales are applied to measure different variables. "A scale" is defined as "a tool by which individuals are distinguished as to how they differ from one another on the variables of interest to our study" Sekaran and Bougie (2013, p. 185).

Scales that were chosen for this study included nominal and interval scales. Nominal scales allow the researcher to assign subjects to certain categories or groups, whereas interval scales allow the researcher to perform certain arithmetical operations on the data collected.

To maximize the return rate for the emailed notice to take part of this research, the researcher designed a cover letter which accompanied the emailed notice. In the cover letter the researcher tried to motivate potential respondents by The letter relied on the power of persuasion to gain their co-operation, highlighting the benefits that are likely to be derived from responding to the questionnaire, such as

improving communication channels in the institution and enhancing the growing stature of the university as a centre of educational excellence. The latter would be achieved as a result of improved control systems and overall co-operative governance which is in line with international standards. (See Appendix A for a copy of the questionnaire).

3.5.3. Recruitment of Study Participants

As mentioned earlier (3.3 – Participants and Location of the Study), the study was confined to the management, academic and non –academic staff. The average number of permanent staff at the University of KwaZulu–Natal for 2013 year was 3 379 (University of KwaZulu-Natal, 2013, p. 118). Therefore the appropriate sample size according to Sekaran and Bougie (2013) is 333 staff

Recruitment of participants was conducted through the following mechanisms:

The notice to conduct the research was communicated to all staff via the staff notice emails and a computer link was given for the respondents to reply to the questionnaire. Secondly, word of mouth among colleagues was also relied upon in this study. Finally with all of the above mediums in place, requests were made to re-distribute the survey to the respondent's network of colleagues at work.

3.5.4. Administration of the Questionnaire

According to Szolnoki and Hoffmann (2013) when the desired sample size is quite large, an online questionnaire is far most cost effective than a mailed questionnaire. Online questionnaire surveys are easily designed and administered when computers are connected to networks (Sekaran and Bougie, 2013) hence in this study an online survey was used. Furthermore, some evidence indicates that online surveys yield data comparable to those obtained through face to face contact. (Gosling and Mason, 2015). According to Dornyei and Taguchi (2010) online surveys can offer tangible benefits compared to other methods of administration such as:

- Easy access to the population with a wide geographical reach

- Saves time as no personal administration of the instrument is required and with appropriate software and coding, answers can be automatic thus avoiding the tedious task of coding and capturing data.
- Reduction of costs. Expenditure for web based surveys is about one third the cost of a postal survey.

The weakness of using online method is that to some degree it depends on the participant's degree of comfort with computers, and whether they spend a fair amount of time on the internet.

In this study the online software programme hosted by QuestionPro was used. QuestionPro has various options of sending the survey to potential respondents. QuestionPro creates a Uniform Resource Locator (URL) which can be sent to potential respondents via notice email (QuestionPro, 2011).

3.5.5. Pretesting and Validation

a. Pretesting of the questionnaire

“The accuracy and consistency of the responses can be achieved by pre-testing the questionnaire using a small sample of the respondents with characteristics similar to the target population” (Hair, Money, Samouel and Page, 2007). The questionnaire was given to colleagues to see whether they had difficulties in understanding any items. Respondents were requested to fill out the questionnaire and then asked them to highlight what kinds of thoughts ran through their minds as they answered the questions. The researcher also made reference to Karabenick, Wooley, Friedel, Ammon, Blazeovski and Kelly's (2007, p. 143) questioning techniques to pilot respondents:

1. Please read this question aloud
2. What is this question trying to find out from you?
3. Which answer would you choose as the right answer for you?
4. Can you explain to me why you chose that answer?

All these responses helped to identify the kinds of responses that were likely to be obtained. The “real” responses I will get will be of sufficient quality to help me answer my research question.

After such a thorough pilot testing of the questionnaire the following changes were made to the instrument:

- Question 1 Position in the company :
- Please rank (1–4) the following in order of important(ance): 1 (being) the most important and 4 the least important
- (DO) the audit findings identify root causes of problems?
- (DO) the recommendations resolve the root causes of problems?
- Is the internal audit department regarded as a safe department in which to develop inexperienced staff (maybe reword this so it is clear that you are not suggesting it actually makes inexperienced staff)?
- Do the recommendations resolve the root causes of problems? – There are a few worded like this. If you remove the "Does/Is" the statement reads more smoothly with your agree/disagree close–ended options. Or reword it so the statements open with "Do you feel the..."

The responses, questions and comments were helpful in improving the final list of questions in the questionnaire.

b. Validation of the questionnaire

In order to establish the reliability and validity of the research instrument it is necessary firstly, to clarify these concepts and secondly to relate it to this study. The validity and reliability of a measuring instrument are concerned with the findings of a research (Collis and Hussey, 2014).

According to Hair et al. (2007) validity of an instrument is the determination of the extent to which the instrument actually measures what it is supposed to measure. There are different ways in which the validity of research can be assessed. This research will explore only two, content validity and construct validity.

- Content (face) validity ensures that the measure includes an adequate and representative set of items that tap the concept (Sekaran and Bougie,

2013). The more the scale items represent the domain or universe of the concept being measured, the greater the content validity stated Sekaran and Bougie (2013, p. 206)

- The construct validity of a measuring instrument refers to the degree to which it measures the intended construct rather than irrelevant constructs or measurement error (Welman et al., 2012). The measuring instrument must measure that which it is supposed to measure.

With the feedback from the supervisor and respondents to the pre-test, the researcher was satisfied that the observed response of the questionnaire had adequately covered the objectives of the study, and was therefore confident that the test of content validity was met. The researcher was satisfied with the construct validity which was determined through a correlation analysis.

c. Reliability

Reliability is concerned with the findings of the research and relates to the credibility of the findings (Welman et al., 2012). The reliability of a measuring instrument indicates the extent to which the measure is without bias (error free) and hence offers consistent measurement across time and across various items in the instrument (Sekaran and Bougie, 2013). A measuring instrument is reliable if it produces consistent results. Two important aspects of reliability are stability and consistency.

According to Sekaran and Bougie (2013) stability relates to the ability of a measure to remain the same over time despite uncontrollable testing conditions or the state of the respondents themselves, and consistency is indicative of the homogeneity of the items in the measure that tap the construct. Stability of measures is achieved by: Test-retest reliability to administer the instrument on at least two occasions to the same large, representative sample from the population for which the instrument is intended (Welman et al., 2012) and the test-retest coefficient attests to the reliability and stability across time. This test could not be conducted on the research study due to time constraints.

3.6. Data Analysis

According to Blaxter, Hughes and Tight (2010, p. 185) data analysis “usually involves reducing accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques”. The point of departure is data coding which involves assigning a number to the participants’ responses so that they can be entered into a database.

The data in this research is already in an electronic form since the questionnaire was created using Questionpro which is web based. The researcher made use of both descriptive and inferential statistics. Leedy and Ormrod (2014) state that inferential statistics involve using a small sample of population and then estimating the characteristics of the larger population from which the sample of population was taken and then estimating the characteristics of the larger population from which the sample has been drawn. From this description inferential statistics provide a way of helping us to make reasonable guesses about a large, unknown population by examining a small sample that is known.

3.7. Summary

This chapter was centred on the research methodological approach which this study took. It began with clear highlights on the aims and objectives of the study. Data collecting procedures were examined in great breadth; the research design in the form of a survey was used in this research. In this section the researcher also explored the theoretical issues and practicalities involved in using a questionnaire as a research instrument; furthermore the process where the question was pretested and validated was also examined. The chapter also looked at the fundamental aspects of this research, these are the participants of this study. Finally, attention was given to how data was manipulated and analyzed. In the next chapter 4, presentation of results will be alluded to.

CHAPTER FOUR: PRESENTATION OF RESULTS

4.1. Introduction

This chapter will focus on the research findings that were gathered from the survey questionnaire, and will display how it was collated and subsequently analysed to enable the researcher to make inferences in respect of the specific questions contained in the questionnaire.

4.2 Analysis of response

4.2.1 Response rate

Out of the 75 respondents that started the survey, a total number of 56 responded to the questionnaire and 19 did not. Giving us a 75 percent response rate.



Figure 4.1: Response Rate

4.2.2 Profile of the respondents

The profile of the respondents is looked upon in terms of the position held in the organisation. The Figure 4.2 shows the distribution of the respondents in terms of their position held in the organisation. The results show one third of the respondents were employees. Also more than half of the respondents were holding managerial positions or higher (57%).

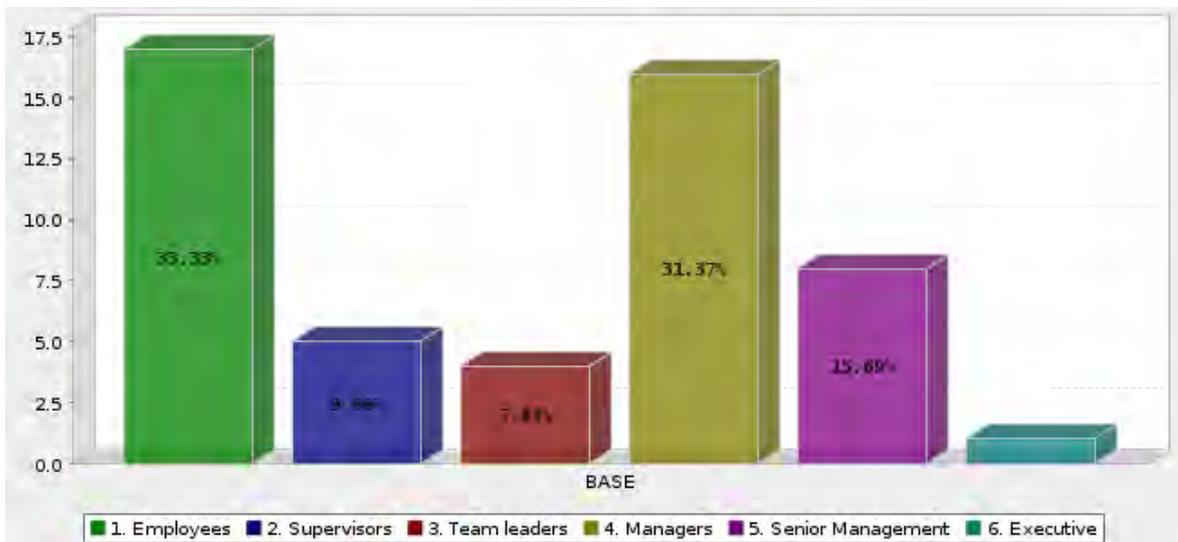


Figure 4.2: Profile of the respondents

4.3 Results of the study

The aim of this study was to find out the perceptions of employees on internal audit, hence each and every response had to be analysed against the intended research objectives of this study.

4.3.1 Research Objective 1: Perceived value that internal audit provides to different levels of management

4.3.1.1. Purpose of internal audit

The results indicate that the respondents understood that internal audit have a perceived purpose in the organisation. They only differed on the degree of importance it renders to the institution. Figure 4.3 shows the highest ranking factor among the respondents in terms of the main purpose of internal audit in the organisation.



Figure 4.3: Main purposes for internal auditor

4.3.1.2. Expected Roles of internal audit

The results showed that majority of the responses perceived internal audit as a value adding business partners (91%) (Figure 4.4).

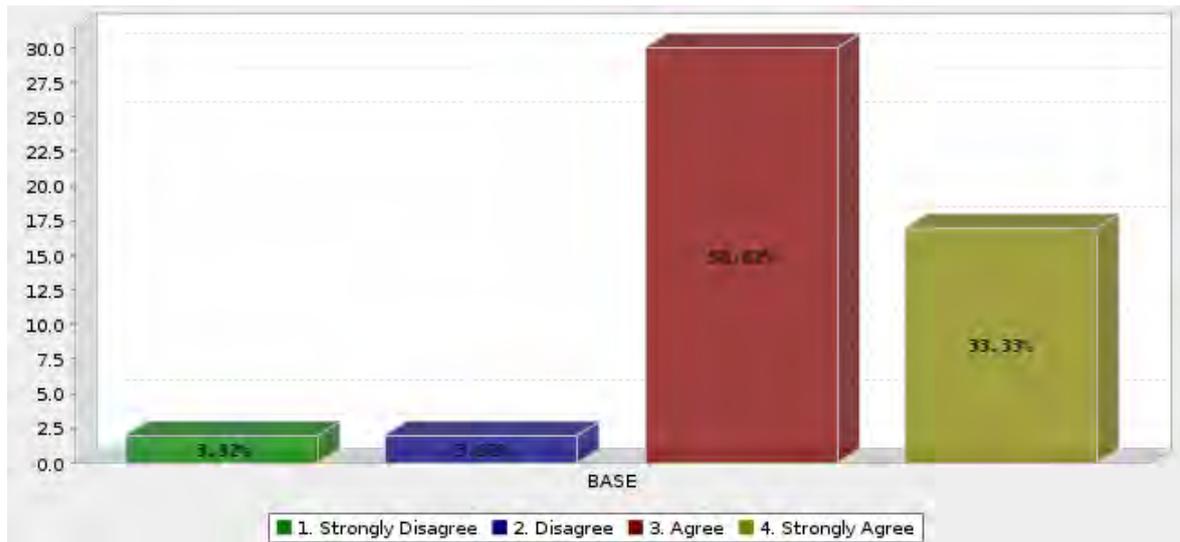


Figure 4.4: The expected role of value – adding business partner

4.3.1.3. Availability of resources to ensure internal audit effectiveness.

The results showed that more than half of the respondents perceived the internal audit department could perform effectively if they were sufficiently resourced (63%) (Figure 4.5).

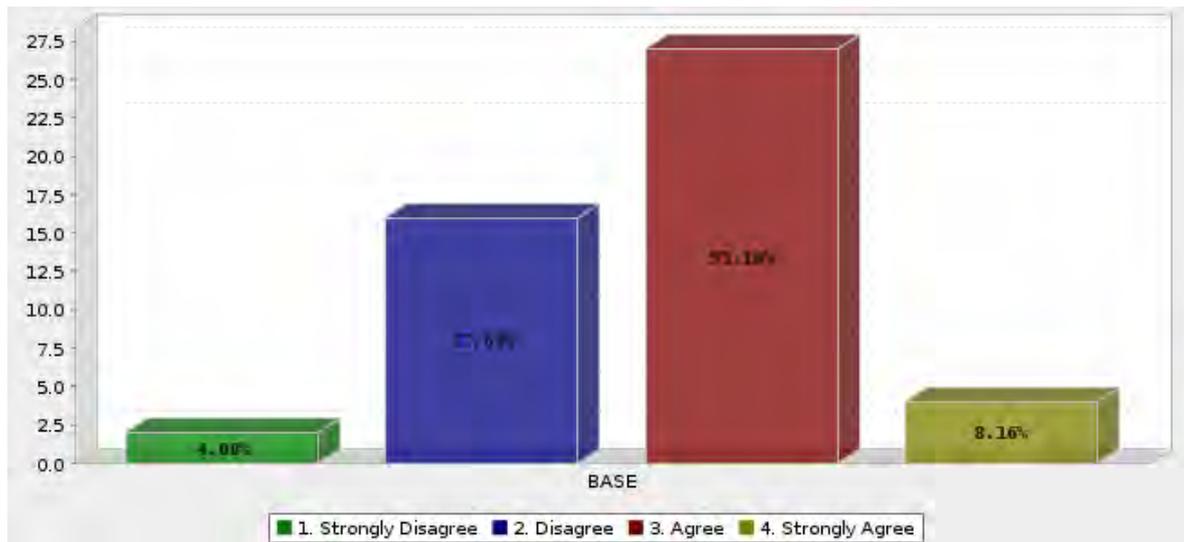


Figure 4.5: the internal audit department is sufficiently resourced to operate effectively

4.3.2 Research Objective 2: To determine the perceived value that internal audit provides to employees.

4.3.2.1 Internal audit on key operations of the company

The results showed that more than half of the respondents perceived that the internal audit department effectively understands all the key operations of the company (76%) (Figure 4.6). This illustrates a lot of employees perceive that internal audit do understand the key operations of the organisation. Therefore the effectiveness of internal audit also determines the extent to which the internal auditor understands the key operations of the company.

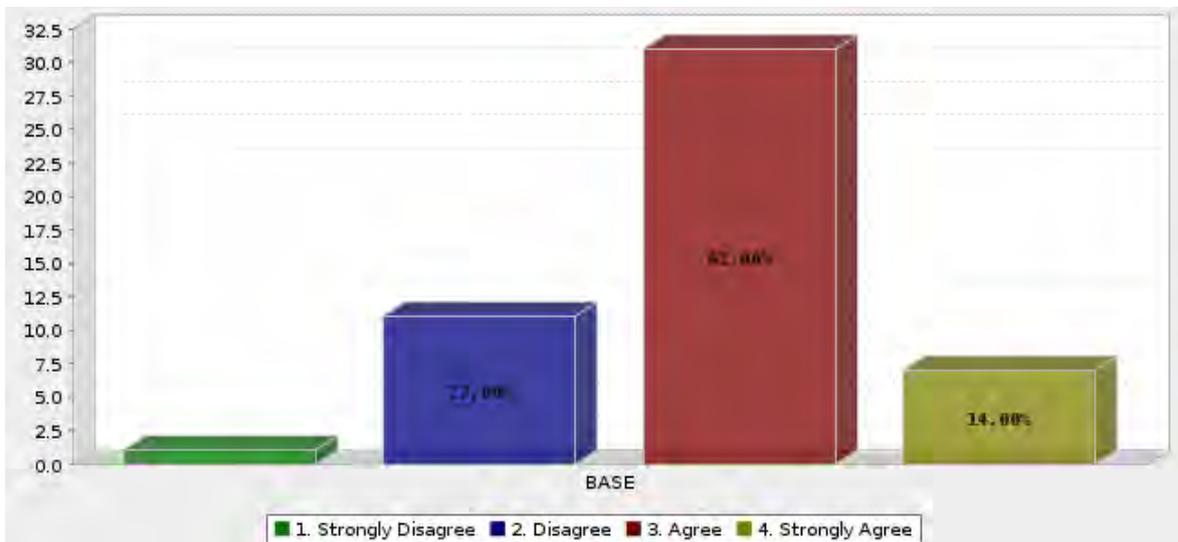


Figure 4.6: The internal audit department effectively understands all the key operations of the company

4.3.2.2 Communication of recommendations by internal audit

The results showed that majority of the respondents perceived the internal auditors communicate their recommendations with the relevant parties so that the recommendations could be implemented (90%) (Figure 4.7).

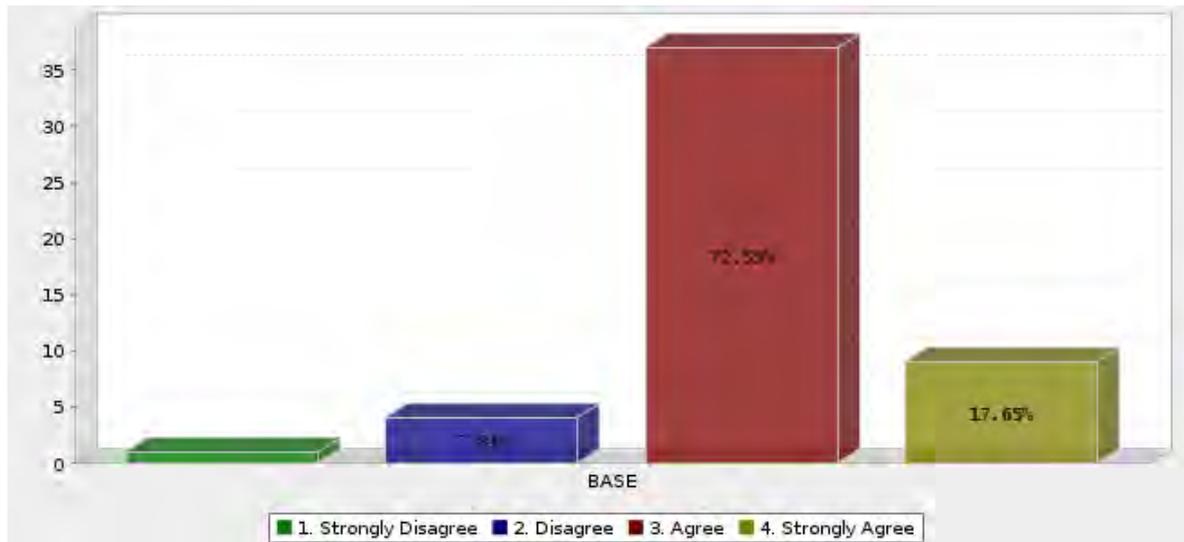


Figure 4.7: the internal auditor communicate the recommendations to the relevant parties

4.3.2.3 Perceived value of internal audit investigations into root causes to problems

The results showed that majority of the respondents perceived the internal auditors identify the root cause of the problem (84%) (Figure 4.8).

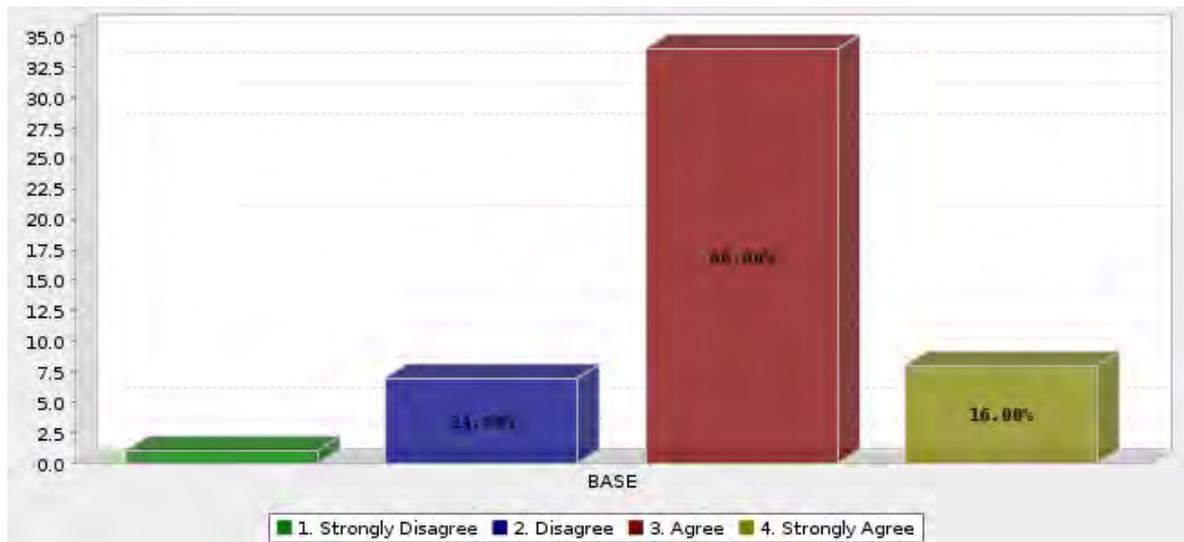


Figure 4.8: Does the audit findings identify root causes of problems

4.3.2.4 Internal audit's findings in solving problems

The results showed that majority of the respondents perceived the internal auditors recommendations resolving the root cause of the problem (78%) (Figure 4.9).

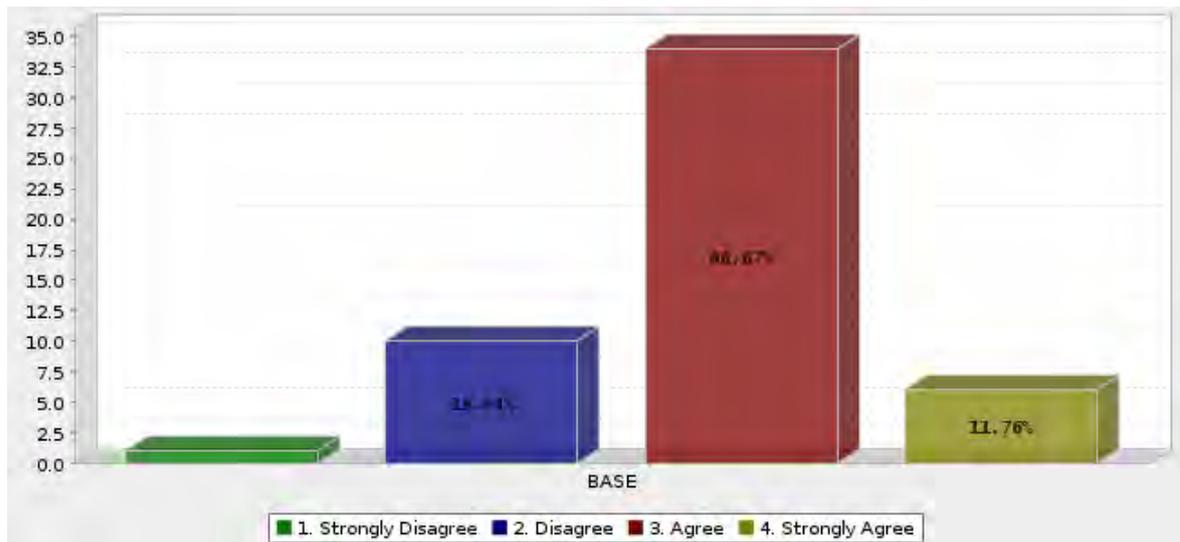


Figure 4.9: Do the recommendations resolve the root causes of problems

4.3.2.5 The usefulness of information requested by internal audit to employees

The results showed that above 84% perceived internal audit information requests as reasonable (Figure 4.10).

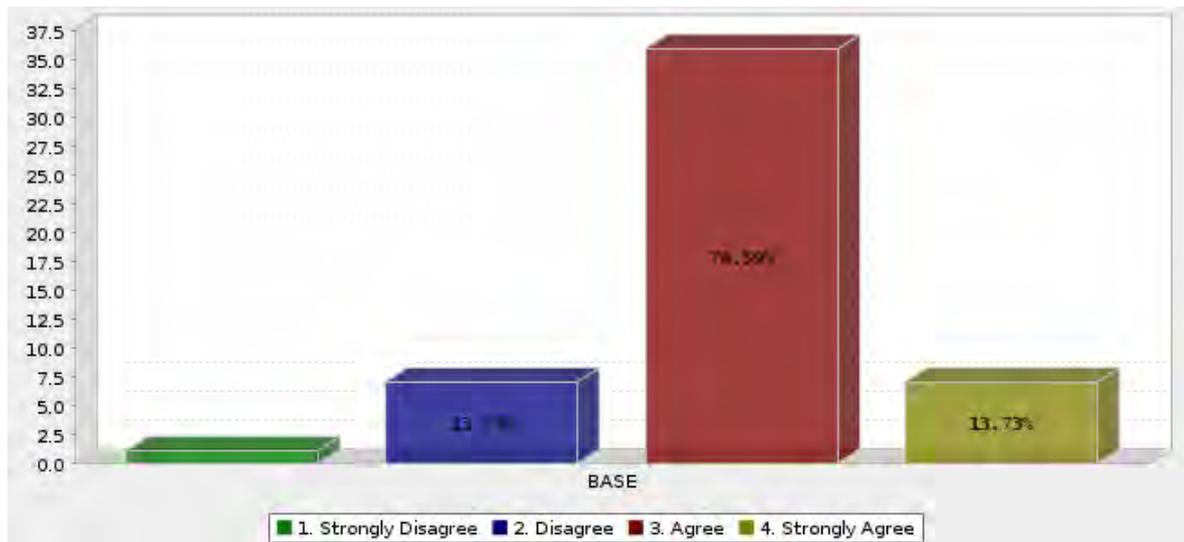


Figure 4.10: Is the information requested by internal auditors reasonable?

4.3.3 Research Objective 3: To determine the committee's perceived value that internal audit provides to the various committees

4.3.3.1 Expected role of internal audit by the audit committee.

The results showed that above 55% perceived internal the audit department as being a training ground for operation managers (Figure 4.11).

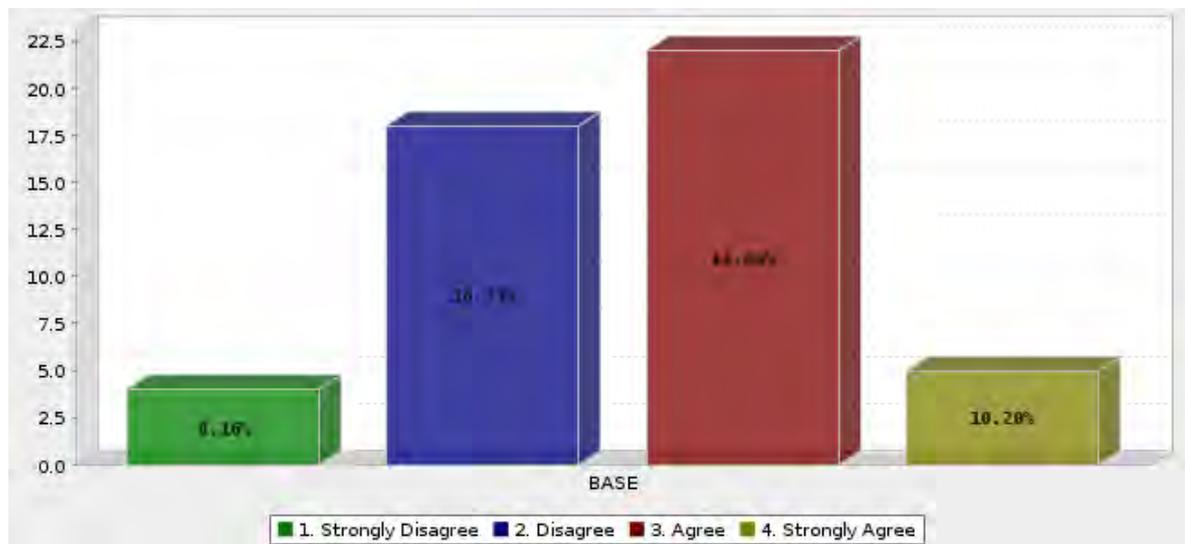


Figure 4.11: The internal audit department is regarded as a training ground for operational managers

4.3.3.2 Training of inexperienced staff members

The results showed that above 40% perceived internal audit department as a safe department in which to develop inexperienced staff (Figure 4.12).

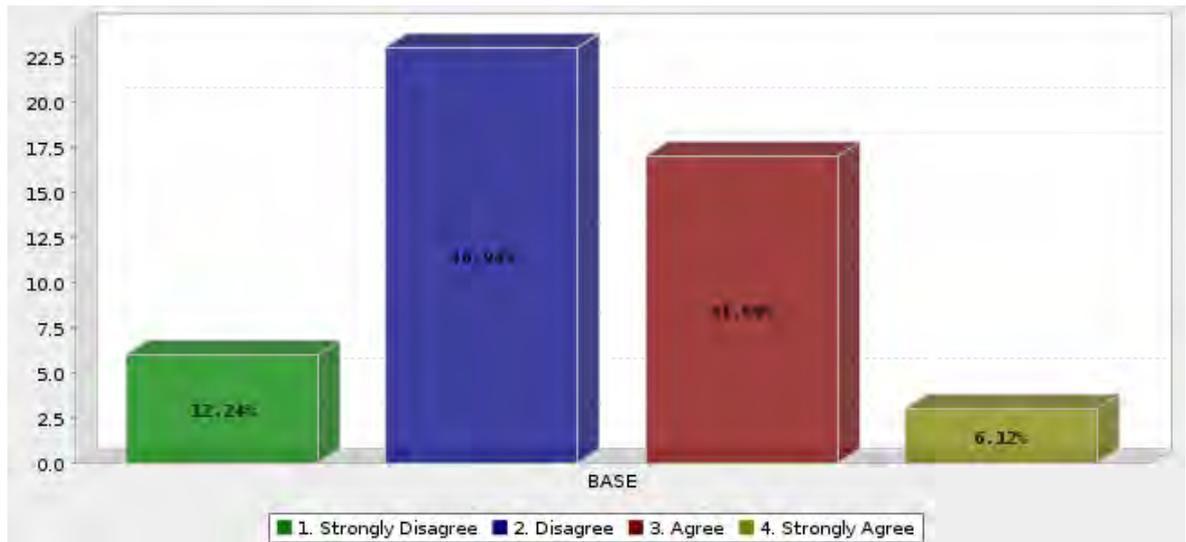


Figure 4.12: Is the internal audit department regarded as a safe department in which to develop inexperienced staff?

4.3.4 Research Objective 4: To determine the value that effective communications between internal auditors and employees will add in maximising the organisations performance

4.3.4.1 Internal auditors perceived role as watch dogs

The results showed that above 74% do not perceive internal auditors as watchdogs in the organisations (Figure 4.13).

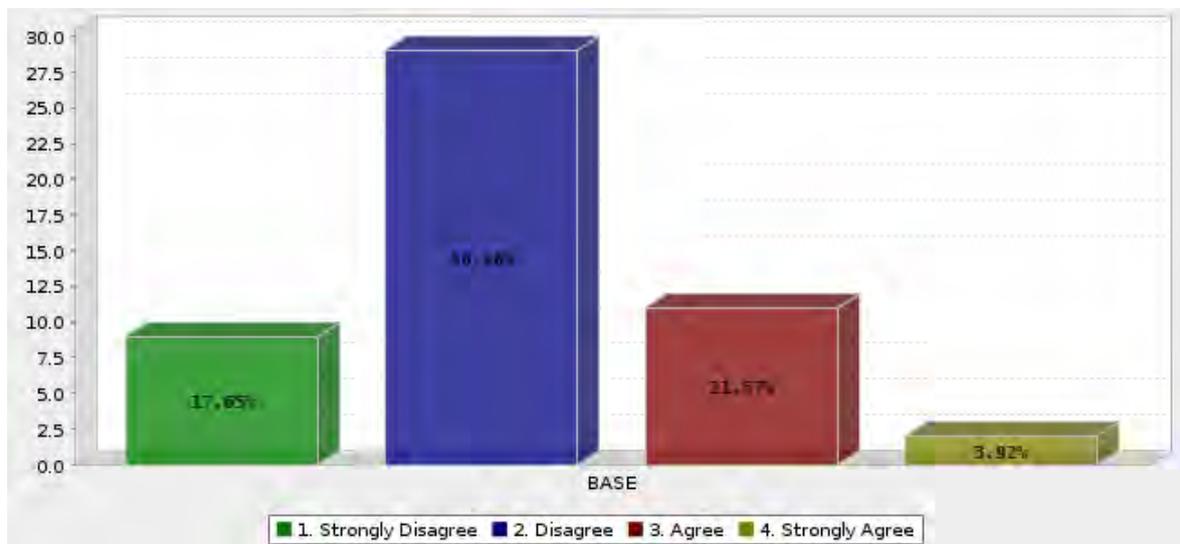


Figure 4.13: Do you think internal auditors are watchdogs who intrude on and scrutinise business practices

4.3.5 Research Objective 5: To ascertain measure and recommendation for management on how to overcome the challenges to enhance internal auditor’s effectiveness

4.3.5.1 Internal audit’s knowledge ability of internal systems and processes

Figure 4.14 depicts respondent’s responses to the question: **Does the internal auditor display sufficient background/knowledge about the operational characteristics of the activities being reviewed?**

The results showed that 72% of the respondents highlighted that internal audit are knowledgeable with the operational activities they are reviewing, which is essential in gaining the trust and co–operation from their core workers. If employees have confidence in the internal audit, unit they will view them positively as value added partners to the organisation, thereby enabling internal audit to function effectively (Figure 4.14).

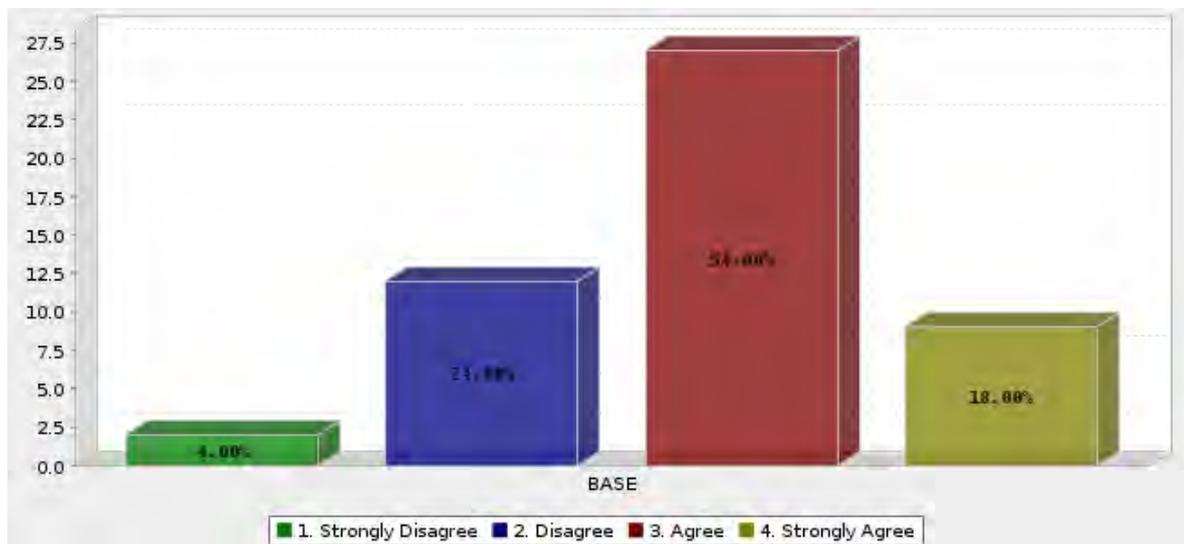


Figure 4.14: Does the internal auditor display sufficient background/knowledge about the operational characteristics of the activities being reviewed?

4.3.5.2 Advice rendered to other department

The results showed that 84% pointed out that the internal audit unit provides valuable advice to other department, thereby ensuring that employees perceive Internal Audit in a positive light, which ensures their effectiveness in conducting their activities in the organisation (Figure 4.15).

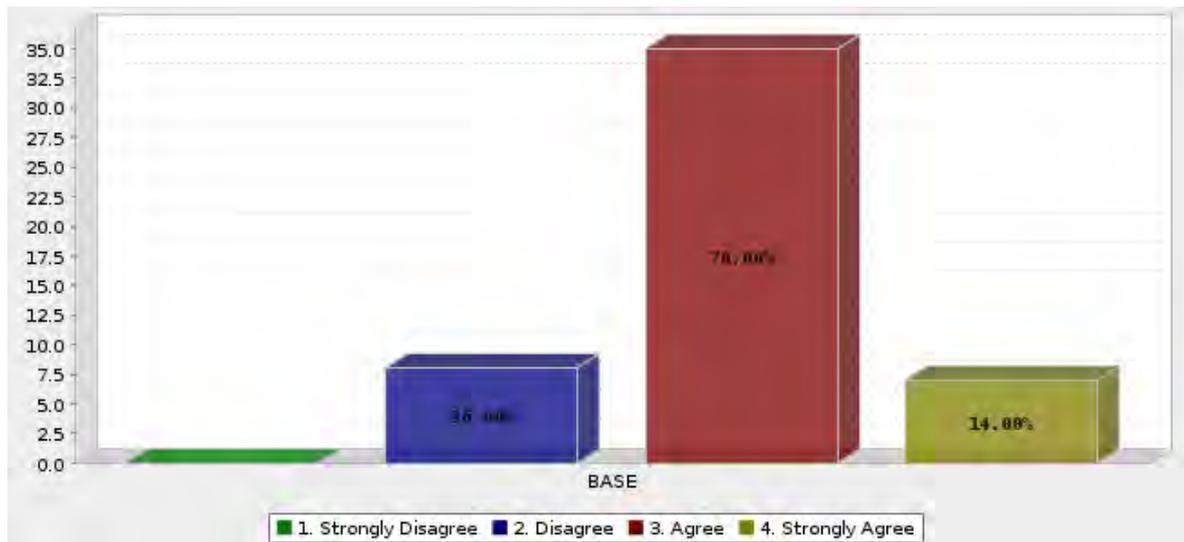


Figure 4.15: Does the internal audit department provide advice to other departments?

4.3.5.3 Support rendered to other department

The results showed that 59% pointed out that the internal audit unit do provide resources to the other departments and 41% do not believe the internal audit unit provides resources to the other departments (Figure 4.16).

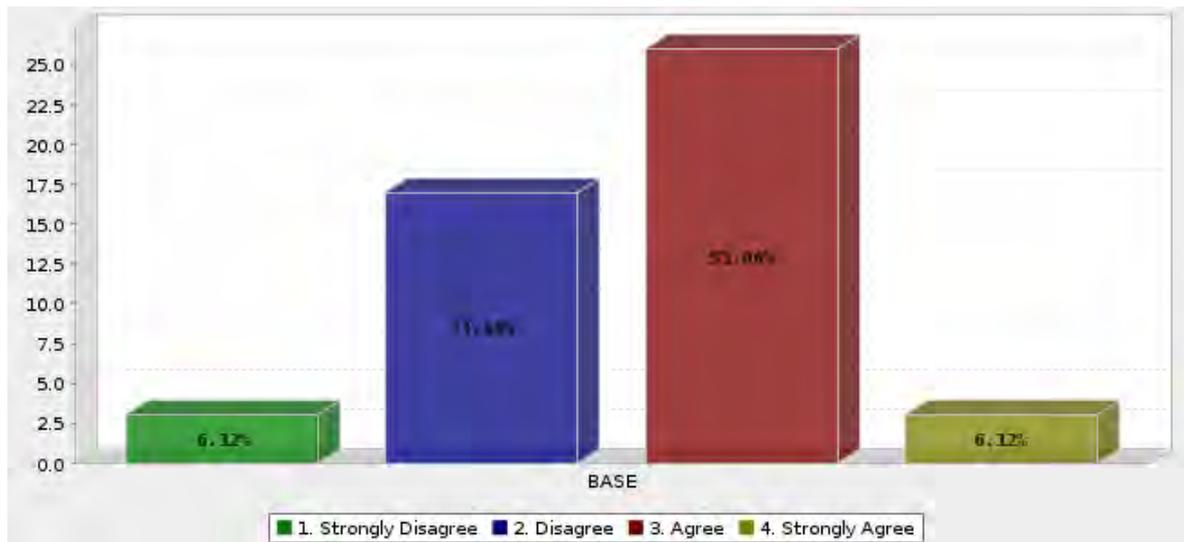


Figure 4.16: Does the internal audit department provide resources to other departments?

4.3.5.4 Other employee's review mechanisms in the organisation

The results clearly indicated that the internal audit was not the only mechanism that helps to review employees work. It also complemented other systems/mechanisms in the organisation. This goes to support that Internal Audit operates effectively without any suspicion from the employees who might fear them as the "watchdogs" of the organisation thus 80% of the respondents viewed them as not the only department that review employee's work (Figure 4.17).

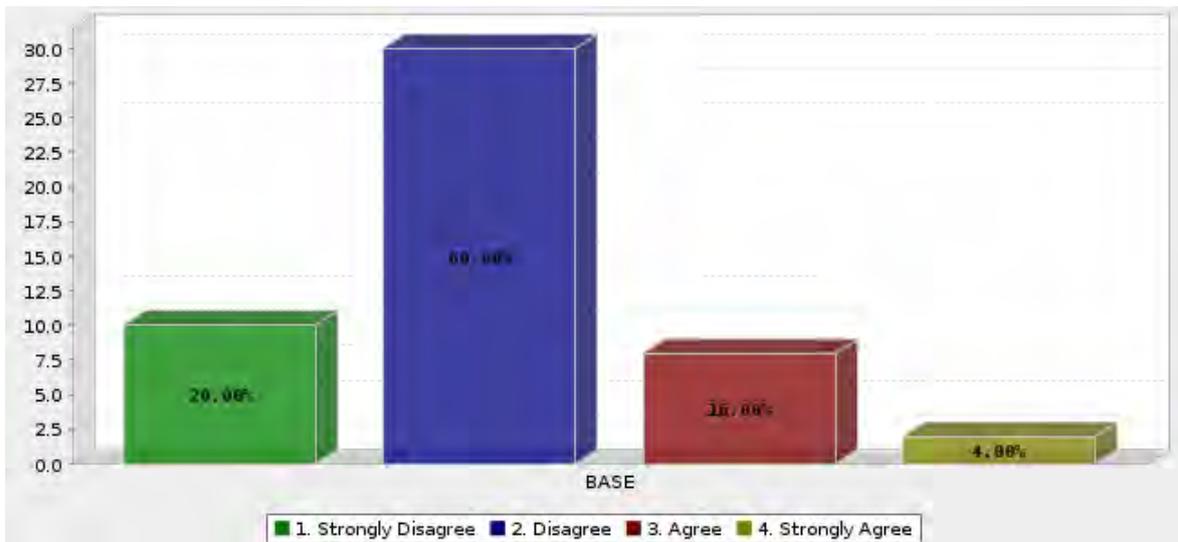


Figure 4.17: Is the internal audit department the only review of employees work?

4.3. Conclusion

The results obtained from the analysis of data have highlighted the perceptions of the individuals that responded. The research objectives for the study were all clearly addressed by the responses that were given from the responses to the questionnaire. The data was presented in graphic form. Based on the above findings, some conclusions have been drawn and recommendations have been suggested together with limitations of this study. These will be clearly discussed in depth in chapter five together with the recommendations for future studies.

CHAPTER FIVE: DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This final chapter gives an overview on the findings and recommendations to the research problem statement: **What are the perceptions of employees on internal auditing at the University of KwaZulu-Natal?** This final chapter will attempt to explore the crucial findings and show how they can be fully utilized to bring about positive relationships between internal audit and other employees in the organization so as to bring about harmony in the organization. The chapter is concluded by exposing gaps in the research that can be utilized for future studies.

5.2 Discussions for the Study

Several studies concerning audit services incorporate the concept of auditors adding value to the core audit services, often referred to as the value – added audit. The value – added audit is an audit that includes additional, formal and informal business advice and goes beyond the standard audit service (Eilifsen, Knechel and Walage. 2001; Fontaine and Pilote 2011, 2012; Herda and Lavelle 2013a, 2013b). Therefore, value – adding audit service entails the fundamental benefits derived from an audit that goes beyond the core value of auditing, such as independent verification and the directional reporting of mis-statements to adding value such as enhancing organisational performance and even personal attention and support.

The following objectives assisted in addressing the research problem

5.2.1 Research Objective 1: To determine the perceived value that an internal audit provides to the different levels of management.

The majority of the respondents to this study perceived internal auditors as a value adding business partner which supports the study by Kasima et al. (2011), This

was also substantiated by the fact that ninety one percent of the respondents considered the internal auditors as consultants or business partners.

5.2.2 Research Objective 2: To determine the perceived value that an internal audit provides to the employees performance.

The majority of the respondents to this study perceived internal auditors as a value adding business partner which supports the study by Hawkes and Adams (1995) as cited by Yee et al. (2008), states that employees or so called internal audit customers perceive the internal audit activity to add value to its operational functions when employees and internal auditors establish a working relationship based on a co-operative and participative approach rather than an independent and prescriptive appraisal approach.

5.2.3 Research Objective 3: To determine the perceived value that an internal audit provides to the various committees.

The majority of the respondents to this study perceived internal auditors as a value adding business partner which supports the study by Barac et al. (2009), on the senior management of 30 listed companies in South Africa, who found that the internal audit functions are perceived to add value in all areas of the organisation. Therefore, there is a consensus on the notion that internal auditors are of fundamental importance in organisations. Yee et al. (2008), states that most directors of companies perceive internal auditors as business partners.

5.2.4 Research Objective 4: To determine the value that effective communications between internal auditors and employees will add in maximising the organisations performance.

The majority of the respondents to this study perceived internal auditors as a value adding business partner which supports the study by Holt (2012), organisations consider the internal audit activity as a business partner, when they are viewed positively, based on the approach that the internal auditor undertakes to communicate with relevant employees. Therefore, it is of paramount importance that internal auditors should develop good communication practices, however this

does not mean they have to compromise on their impartiality and their core – business of risk management.

5.2.5 Research Objective 5: To ascertain measure and recommendation for management on how to overcome the challenges to enhance internal auditor’s effectiveness

The majority of the respondents to this study perceived internal auditors as a value adding business partner which supports the research conducted by, the Institute of Internal Auditors – UK and Ireland in association with Deloitte (2012), revealed a nine point list that the internal audit department are evaluated against to determine the extent to which they are perceived as value added. These are:

- “a value asset,
- a source of best practise/advise,
- the conscience of the business,
- a training ground for junior management generally,
- a source of financial talent,
- a cost centre,
- a necessary evil,
- an independent check on management,
- a necessary management function”.

5.3 Conclusion of the Study

Based on the results of this study it can be concluded that the employees or so called internal audit customers perceive the internal audit activity to add value to its operational functions and perceive internal auditors as business partners.

5.4 Recommendations

5.4.1 Research Objective 1: To determine the perceived value that an internal audit provides to the different levels of management.

- Internal audit should receive support from management and internal audit should be independent and give correct advice. Top management should accept audit findings and correct errors rather than view internal audit as fault finders.
- Management should also demonstrate commitment to implement findings and they must always respond to all findings and recommendations timeously.
- There must also be improved communication channels between internal auditors and management. The latter should render support be it moral or financial when necessary. Management must acknowledge internal auditors as system improvers rather than company's watchdogs.

5.4.2 Research Objective 2: To determine the perceived value that an internal audit provides to the employees performance.

- Internal Auditors themselves should be impartial and helpful and must always seek to improve the organization's performance and ensure that employees do not view them with suspicion
- Internal Auditors also need to report findings factually and objectively without settling personal scores the in organization. Employees must be positive about their findings.
- Employees also need to support the Internal Audit when they conduct their work and assist them with the information that is required to conduct their work effectively.

5.4.3 Research Objective 3: To determine the perceived value that an internal audit provides to the various committees.

Audit committees should play a leading role in reviewing robustness, critiquing and disseminating of internal audit plans and strategies, facilitating productive and transparent discussions and managing perceptions as well as expectations, of and for, Internal Audit Department

5.4.4 Research Objective 4: To determine the value that effective communications between internal auditors and employees will add in maximising the organisations performance.

There must also be improved communication channels between internal auditors and employees. The latter should render support be it moral or financial when necessary. Employees must acknowledge internal auditors as system improvers rather than company's watchdogs.

5.4.5 Research Objective 5: To ascertain measure and recommendation for management on how to overcome the challenges to enhance internal auditor's effectiveness

Internal Audit Department should add more value if the department of Internal Audit Function's with optimal staff numbers. Additionally, more competent, internal auditors will add value to the expectations of stakeholders.

5.5 Limitations of the Study

All research has limitations and this piece of work is no exception. The following limitations to the study were noted:

- The response time from the sample population was delayed. The survey was based on voluntary submissions of the respondents to the electronic link,

hence the researcher had to visit the institute often to post the notices on notice board of directors as reminders to respondents.

- The other limitation was that there was limited data on this research since this area of internal auditing is in its infancy stage. This resulted in extensive ground work being done to ascertain an understanding of the approach to be taken.
- Another challenge emanated from incomplete responses which compelled the researcher to generalise, using the samples of the fully completed questionnaires. This left gaps in some crucial issues.
- The major limitation of this research was the length of time taken by the respondents to return their questionnaires. The researcher had to design a covering letter that accompanied the questionnaire in which he tried to motivate or highlight the intended benefits that were to be derived from responding to the questionnaire.
- Another limitation were incomplete responses, which forced the researcher to generalise results from the findings that arose from the completed response.
- Since internal auditing is in its infancy stages there are limited, previous, studies hence the researcher had to spend a lot of time in doing a lot of ground work to ascertain the empirical approach to take.

5.6 Recommendations for Future Studies

This study only focused on the employees perceptions on internal auditing at the University of KwaZulu-Natal, therefore other universities in South Africa should also be consulted in future studies. This will certainly help higher education policy makers to come up with better management systems that will improve the quality of services rendered in these institutions.

5.7 Summary

The purpose of this research was to ascertain the perceptions that employees have on the Internal Audit Function at the University of KwaZulu-Natal. Although there were some limitations to the study, the objectives of the study have been, clearly, achieved. The study unearthed many perceptions on internal auditing. This chapter was concluded by giving recommendations that can be considered, to improve the field of Internal Auditing,

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QUESTIONNAIRE

UNIVERSITY OF KWAZULU–NATAL GRADUATE SCHOOL OF BUSINESS & LEADERSHIP

MBA Research Project

Researcher: Amaren Pillay (084 516 0181)

Supervisor: Mr M. Hoque (031 2608690)

Research Office: Ms P Ximba (031 2603587)

The Employees' Perceptions on Internal Auditors within an Organisation

Background

This survey is part of an MBA student dissertation for the University of KZN. Participation is entirely voluntary, and your responses are completely confidential.

Purpose

The purpose of this survey is to obtain information from employees regarding their perceptions on internal auditors within an organisations. The information and ratings you provide will go a long way in helping identify employees perceptions on internal auditors within an organisations.

Directions

- There are **15 questions**, which should take less than **15 minutes** to complete.
- If you wish to exit at any time, please feel free to do so.

- Completion of this questionnaire confirms your consent to use this data in the study being conducted.
- You should take the questionnaire only once.

Participation

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this survey/focus group. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business and Leadership, UKZN.

If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me or my supervisor at the numbers listed above.

Thank you for participating.



1. Position in the company : _____

Employees

Supervisors

Team leaders

Managers

Senior Management

Executive

2. Do you have an internal audit department?

Yes

No

Outsourced

3. Do you think internal auditors are watchdogs who intrude and scrutinise the business practices

Strongly Disagree

Disagree

Agree

Strongly Agree

4. Do you think internal auditors are value adding business partners

Strongly Disagree

Disagree

Agree

Strongly Agree

5. Does the internal auditor display sufficient background/knowledge about the operational characteristics of the activities being reviewed

Strongly Disagree

Disagree

Agree

Strongly Agree

6. Is the information requested by internal auditors reasonable

Strongly Disagree

Disagree

Agree

Strongly Agree

7. Does the audit findings identify root causes of problems

Strongly Disagree

Disagree

Agree

Strongly Agree

8. Does the recommendations resolve the root causes of problems

Strongly Disagree

Disagree

Agree

Strongly Agree

9. Does the internal auditor communicate the recommendations to the relevant parties

Strongly Disagree

Disagree

Agree

Strongly Agree

10. The internal audit department is regarded as a training ground for operational managers

Strongly Disagree

Disagree

Agree

Strongly Agree

11. Is the internal audit department regarded as a safe department in which to develop inexperienced staff

Strongly Disagree

Disagree

Agree

Strongly Agree

12. Does the internal audit department provide advice to other departments

Strongly Disagree

Disagree

Agree

Strongly Agree

13. Does the internal audit department provide resource to other departments

Strongly Disagree

Disagree

Agree

Strongly Agree

14. The internal audit department effectively understands all the key operations of the company

Strongly Disagree

Disagree

Agree

Strongly Agree

15. Is the internal audit department sufficiently resourced to operate effectively

Strongly Disagree

Disagree

Agree

Strongly Agree

16. Is the internal audit department the only review of employees work

Strongly Disagree

Disagree

Agree

Strongly Agree

17. Do think main purposes for internal auditor

Is a Financial check

There to perform any gaps in the internal control

Fraud detection

To reduce external audit fees

End of the Questionnaire

Thank you for taking the time to complete the questionnaire.

RESEARCH APPROVAL DOCUMENTATION



05 November 2013

Mr Amaren Pillay (211520657)
Graduate School of Business & Leadership
Westville Campus

Protocol reference number: HSS/1176/013M
Project title: UKZN employees' perceptions of Internal auditors

Dear Mr Pillay,

Expedited Approval

I wish to inform you that your application has been granted Full Approval.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number. Please note: Research data should be securely stored in the discipline/department for a period of 5 years.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully,


Dr Shonuka Singh (Acting Chair)

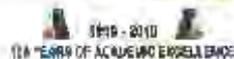
/ms

cc Supervisor: Mr Muhammad Hakeem
cc Academic Leader Research: Dr E Munapp
cc School Administrator: Ms Wendy Clarke

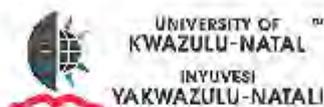
Humanities & Social Sciences Research Ethics Committee

Dr Shonuka Singh (Acting Chair)
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Telephone: (27) 031 260 5567/03126044667 Facsimile: (27) 031 260 4809 Email: shonuka@ukzn.ac.za / msm@ukzn.ac.za / hr@ukzn.ac.za
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Primary Campuses: Durban Pietermaritzburg Westville



23 October 2013

Mr Amaren Pillay
Graduate School of Business and Leadership
College of Law and Management Studies
Westville Campus
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Email: amarenpillay@yahoo.com
211520657@stu.ukzn.ac.za

Dear Mr Pillay

RE: PERMISSION TO CONDUCT RESEARCH

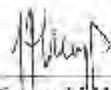
Gatekeeper's permission is hereby granted for you to conduct research at the University of Kwazulu-Natal towards your postgraduate studies, provided Ethical clearance has been obtained. We note the title of your research project is:

"UKZN Employees' perceptions of internal auditors".

It is noted that you will be constituting your sample with a request for responses on the website. The questionnaire must be placed on the notice system <http://notice.ukzn.ac.za>. A copy of this letter (Gatekeeper's approval) together with the ethical clearance must be simultaneously sent to govenderlog@ukzn.ac.za or ramkissonh@ukzn.ac.za. You are not authorized to distribute the questionnaire to staff and students using Microsoft Outlook address book.

Please note that the data collected must be treated with due confidentiality and anonymity.

Yours sincerely



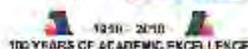
Professor J J Meyerowitz
REGISTRAR

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