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THE FUNCTIONING OF INTERNAL AUDIT IN CATEGORY ‘A’ MUNICIPALITIES IN SOUTH AFRICA
THE FUNCTIONING OF INTERNAL AUDIT IN CATEGORY ‘A’ MUNICIPALITIES IN SOUTH AFRICA

by

Christo Ackermann

THESIS
Submitted in fulfilment of the requirements for the degree

Philosophiae Doctor

In

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at the

UNIVERSITY OF JOHANNESBURG

Supervisor: Professor Doctor B. Marx

Date: 2015
ABSTRACT

Internal audit functions around the world are faced with the challenge of assisting key stakeholders such as audit committees and senior management in discharging their responsibilities. Organisations face many risk, governance, control and compliance challenges and having proper functions in place to assist in managing these challenges is integral to the success of organisations. Internal audit functions are a critical component of the combined assurance model providing stakeholders with independent and objective assurance and consulting services on internal control, risk management and governance processes. It is therefore crucial that internal audit functions operate properly.

The research problem was defined as follows: if internal audit functions are providing inadequate services to audit committees in the areas of internal control, risk management and governance, the ability of audit committees to perform their responsibilities effectively could be hampered. The research problem thus called for a study into the functioning of internal audit functions within the current framework of the International Standards for the Professional Practice of Internal Auditing and other related best practices. The research problem was explored through qualitative content analysis of annual reports and through questionnaires sent to audit committee members and chief audit executives of the eight metropolitan municipalities in South Africa. The three data sets were presented separately and triangulated.

The study found that internal audit functions are crucial informants to audit committees in the areas of internal control, risk management, governance and compliance issues. In this regard, internal audit provides a broad scope of work which audit committees use to assist them in discharging their responsibilities. This is underpinned by the fact that internal audit is regarded as ethical, competent in its core technical areas and able to provide internal audit reports which are informative, persuasive and calling for action. However, overall competency is regarded as problematic by audit committee members. The study also found that internal audit’s true functioning is not reflected in annual reports and the opportunity thus exists to implement internal audit disclosure policies as this would contribute to transparency and accountability which, in turn,
would lead to increased public confidence and more efficient and effective internal audit functions.
STUDY CUT-OFF

Professional standards, relevant laws and regulations and other related best practices consulted for this study are, for cut-off purposes, conducted up to 31 March 2015. Thus, the most recent Municipal Finance Management Act annual reports used in the analysis were for the 2012-2013 financial year as the 2013-2014 reports were released too late for the analysis, which was conducted in 2015.
DEDICATION

I dedicate this thesis to my wife, Jolanda, and my son, Markus.
I love you with all my heart.
ACKNOWLEDGEMENTS

• I thank the Holy Trinity for this journey. Thank you for being true to Your word. Amen.

• My beautiful wife, Jolanda Ackermann, and my son, Markus Ackermann. Thank you for being by my side all the way. Thank you for saying “keep going” when I said “no more”. I love you.

• My mother, Susan, and fathers Johan and Werner. Thank you for believing in me. I am indebted to you for the educational opportunities you gave me. I love you.

• Professor Ben Marx. You were an important role player who assisted me in completing this study. Throughout this process, I only wanted to “keep the supervisor happy”. I hope I have achieved this. Thank you for keeping me intact. I will always remember our review sessions. Thank you for your guidance, time and patience.

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• To Camilla Smolicz, the language editor of this document, I say thank you.
• To all the individuals who reviewed the questionnaires for content validity. Thank you very much for your time and valuable input.
• To each participant who took the time to complete the questionnaires, thank you.
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<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AAA</td>
<td>American Accounting Association</td>
</tr>
<tr>
<td>ACC</td>
<td>Audit Committee Chair</td>
</tr>
<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
</tr>
<tr>
<td>BLA</td>
<td>Black Local Authorities</td>
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<tr>
<td>CAE</td>
<td>Chief Audit Executive</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>COSO</td>
<td>Commission of Sponsoring Organisations of the Treadway Commission</td>
</tr>
<tr>
<td>FEI</td>
<td>Financial Executives International</td>
</tr>
<tr>
<td>GAAS</td>
<td>Generally Accepted Auditing Standards</td>
</tr>
<tr>
<td>GAGAS</td>
<td>Generally Accepted Government Auditing Standards</td>
</tr>
<tr>
<td>GIACF</td>
<td>Global Internal Audit Competency Framework</td>
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<tr>
<td>IAF</td>
<td>Internal Audit Function</td>
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<tr>
<td>IBM SPSS</td>
<td>Statistical Analysis Software Package</td>
</tr>
<tr>
<td>IDP</td>
<td>Integrated Development Plan</td>
</tr>
<tr>
<td>IFAC</td>
<td>International Federation of Accountants</td>
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<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
</tr>
<tr>
<td>IIARF</td>
<td>Institute of Internal Auditors Research Foundation</td>
</tr>
<tr>
<td>IMA</td>
<td>Association of Accountants &amp; Financial Professionals in Business</td>
</tr>
<tr>
<td>ISA</td>
<td>International Standards on Auditing</td>
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<tr>
<td>King III</td>
<td>King Code of Governance in South Africa</td>
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<td>MFMA</td>
<td>Municipal Finance Management Act no 56 of 2003</td>
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<td>MPPMR</td>
<td>Municipal Planning and Performance Management Regulations</td>
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<td>MPRMM</td>
<td>Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Managers</td>
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<td>MSA</td>
<td>Municipal Systems Act no 32 of 2000</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-Operation and Development Countries</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>PMS</td>
<td>Performance Management System</td>
</tr>
<tr>
<td>SAICA</td>
<td>South African Institute of Chartered Accountants</td>
</tr>
<tr>
<td>SALGA</td>
<td>South African Local Government Association</td>
</tr>
<tr>
<td>Standards</td>
<td>The International Standards for the Professional Practice of Internal Auditing</td>
</tr>
<tr>
<td>WLA</td>
<td>White Local Authorities</td>
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CHAPTER 1

INTRODUCTION AND STUDY OVERVIEW

1.1 INTRODUCTION

More than ever, internal audit functions (IAFs) around the world are faced with the challenge of assisting key stakeholders such as audit committees and senior management in discharging their responsibilities. Management is responsible for the overall efficiency and effectiveness of the system of internal control, all inclusive of the risk management framework and governance processes. Organisations face many risk, governance and control challenges and having proper functions in place to assist in managing these challenges is integral to the success of organisations. Internal auditors are entrusted with providing stakeholders with independent, objective assurance and consulting expertise on internal control, risk management and governance processes with the overall aim of assisting organisations to achieve their objectives (Sarens, 2007b:3; Sarens & Abdolmohammadi, 2009a:5; Sarens, De Beelde & Everaert 2009:90; Sarens & Abdolmohammadi, 2011:107; Lenz & Sarens, 2012a:3; Marks, 2013b:54; Sarens, Christopher & Zaman, 2013:308).

The IAFs of organisations are regarded as a very important component of the combined assurance model, alongside the audit committee, management and external auditors. The combined assurance model aims at having integrated and aligned assurance in organisations with the overall aim to maximise risk and governance oversight and control efficiencies. In this regard, internal audit plays a crucial role being experts in risk, governance and control consultancy and assurance to senior management and the audit committee. The primary users of the work of internal audit are audit committees, senior management, other levels of management and to some extent, external auditors.¹ This emphasises the importance of the work

¹ This fact is supported by various authors (as noted in Schneider, 1982:5; Podgorski, 1983/64; Verneault, 1984:2; Yarbrough, 1989:13, 18, 58, 61; Rezaee & Lander, 1993:35; Spraakman, 1996:12; Woodward, 2000:13, 14, 16, 17, 18, 20; Gramling, Maletta, Schneider & Church, 2004:194; Fourie, 2005:6, 40, 56, 95; Sawyer et al., 2005:688; KPMG, 2008:2; Arena & Azzzone, 2009/44; Christopher et al., 2009/201; Gramling, Jenkins & Taylor, 2010:559; Mansour, 2010:54; Goldberg & Shelton, 2010:27; Stuebs & Alejandro, 2010:54; Kral, 2010:27; Jackson, 2010b:39; Marks, 2010a:28; Ouellet, 2010:42; Lenz et al., 2012:534, 536; Paterson, 2012:50; O’Regan, 2013:19; The Institute of Internal Auditors (IIA), 2013b; International Federation of Accountants (IFAC), 2013).
of internal audit as it serves a wide range of audiences on crucial aspects (such as current and emerging risks) facing organisations.

Internationally, legislation such as the Foreign Corrupt Practices Act and the Sarbanes-Oxley Act contributed to increased responsibility placed on boards and audit committees. This is also evident in South Africa with the King Code of Governance (King III). Audit committees are tasked with reporting back to the board of directors on the state of internal control (especially as it relates to internal financial control), risk management and governance processes (Ferreira, 2007:3). Internal auditors are greatly involved in these areas and are thus in a good position to serve as ‘informants’ to audit committees which cannot be present on a day-to-day basis. Internal audit can thus assist audit committees in achieving their internal control, risk management and governance oversight responsibilities\textsuperscript{2}.

Audit committees are dependent on internal audit for information and their effectiveness revolves around a strong and well-resourced internal audit function which is able to aid audit committees to meet their oversight responsibilities (Marx & Voogt, 2010:21; Raghunandan, Read & Rama, 2001:106). Internal audit should therefore reduce the lack of information availability to the audit committee on matters concerning risk management, internal control and governance (Sarens et al., 2009:91; IIA, 2010). This is emphasised by the Institute of Internal Auditors’ Research Foundation (IIARF) (2013:17, 18) which states that “internal audit is being asked by the audit committee to do more than ever before, in identifying emerging risk, providing assurance on the adequacy of the organization’s enterprise risk management processes, assessing the adequacy of governance practices, and more”. A study conducted by van der Nest (2006:v,232) found that 40\% of audit committees in national government departments in South Africa are not yet effective and are not contributing towards improving internal control, risk management, governance and financial reporting practices. Moreover, van der Nest (2008:182, 184) found that audit committees’ effectiveness in contributing to risk management, internal control and governance was measured at 63\%, 76\% and 62\% respectively, indicating that their

oversight on these areas, especially risk management and governance, is not yet effective.

From the preceding paragraphs it is clear that internal audit plays a crucial role in assisting audit committees to meet their objectives, namely, internal control oversight, risk management oversight, governance oversight and financial reporting oversight. It is clear that pressure exerted on IAFs via audit committees amongst others, emphasises the importance of having a properly functioning IAF. If internal auditors wish to continue being an important aspect of the combined assurance model, they need to address the critical areas of internal control, risk management and governance as part of their work. If not, it follows that the board, audit committees and other levels of management will remain uninformed on the status of these matters which, in turn, will negatively impact the ability of these stakeholders to discharge their responsibilities. This therefore study focuses on analysing the functioning of IAFs within metropolitan municipalities in South Africa.

1.2 BACKGROUND TO THE RESEARCH PROBLEM

Various role players in the combined assurance model were blamed for corporate failures such as Enron and Worldcom – and this was partly because of performance failures of audit committees and internal audit (Ferreira, 2007:4; Arena & Azzone, 2007:92). Marx (2008:xlvii) notes that important governance structures such as the audit committee and internal audit were aware of transactions which led to the demise of Enron. This clearly suggests that the IAFs may not have been functioning properly. Lenz and Sarens (2012:534) further reference major collapses such as Parmalat, Ahold and Lehman Brothers as all being due to corporate governance and risk management failure, areas which are critical for the scope of internal auditors. In a study conducted by Mjiyako (2006:1, 2, 3), it is clearly stated in the 2002-2003 Auditor-General reports in South Africa that IAFs were not functioning as they should be. IAFs were unqualified and inexperienced, they performed duties which they should not have been performing and users were unable to rely on their work. Similar comments were made by the Auditor-General in South Africa who stated that audit committees and
internal audit were “in part to blame for auditees not obtaining clean audit reports” (Auditor-General South Africa, 2012:86). The Auditor-General South Africa specifically stated that IAFs do not adequately evaluate internal control and therefore did not fully communicate with the audit committee on matters such as accounting, risk management and loss control (Auditor-General South Africa, 2011:32; Auditor-General South Africa, 2012:86; Auditor-General South Africa, 2013:31, 35, 75, 103). The Auditor-General South Africa (2012:87) deduced that audit committees are not yet effective in local government to a large extent due to lack of interaction and information flow via internal audit to executive councils and mayors.

In the municipal context in South Africa, internal audit are legally mandated to exist playing an important role to act as consultants and assurance providers on internal control, risk management and governance. For audit committees to be effective in their oversight responsibilities, they need key relevant information from internal audit. If such information is unavailable, key decisions will be based on inaccurate, incomplete and unreliable information (Gramling, Maletta, Schneider & Church, 2004:198; Ramamoorti & Evans, 2011:27; Auditor-General South Africa, 2012:87; Hooper, 2013:15).

This is also echoed by Marx (2008:30) in his doctoral study on audit committees:

For the audit committee to effectively perform its financial reporting and control oversight role, it is essential that the committee is provided with all the relevant information and facts in an open, honest and transparent manner. As such, the internal and external auditors are often seen as the “eyes and ears” of the audit committee.

1.3 THE STATED RESEARCH PROBLEM

Information communicated by internal audit to the audit committee and other users of internal audit services on the important areas of internal control, risk management and governance are critical for audit committees and other users to fulfil their oversight responsibilities. Should the functioning of these areas of internal audit be deficient, audit committees and other users may struggle to fulfil their responsibilities effectively.
Audit committees, whether in public or private entities, are to a significant extent dependent on internal audit services which enable the audit committees and other users to fulfil their duties effectively (Mjiyako, 2006:4). This statement is supported by Claudelle von Eck, Chief Executive Officer (CEO) of the IIA South Africa:

In the wake of the recent scandals and failures, leaders are increasingly starting to realise that they need to have a constant finger on the pulse of the organisation. There is, therefore, an increasing reliance on the assurance provided by internal audit. With the current pace of change as well as the complexity leaders have to deal with, organisations cannot afford to allow long intervals between assurance reports, so they are assuming CAEs as a direct report (IIA, 2013a:6).

It is therefore important that internal audit’s work enables audit committees to achieve their oversight responsibilities. The complexities being faced by organisations revolve around the issues of internal control, risk management and governance – all these areas being key to the internal audit mandate (Herdman, 2002; Richards, 2002; Bailey, Gramling & Ramamoorti, 2003; Gramling et al., 2004:194, 195; KPMG, 2004; Deloitte, 2005:1; Carcello, Hermanson & Raghunandan, 2005:117, 118; Gadziala, 2005; Holt & DeZoort, 2009:62; Arena & Azzone, 2009:43, 44, 55).

**THE STATED RESEARCH PROBLEM**

The research problem was formulated as: *Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as is evident from the discussion in Section 1.2, the users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making. This called for a study into the functioning of internal audit with the primary focus on its internal control, risk management and governance mandate with specific reference to metropolitan municipalities in South Africa.*

In order to explore the stated research problem, the following areas (study objectives) were identified as essential to internal audit functioning and as fundamental to its proper functioning (researcher’s own deductions):
1) Whether the scope of work includes focus areas, at a minimum, concerning internal control, risk management, governance and compliance related processes;

2) Whether the users of internal audit services are of the opinion that the current Standards, best practices and governance codes enable IAFs to function in such a manner to assist the users in their oversight responsibility;

3) Whether the role regarding internal control, risk management, governance and compliance processes is understood by those to whom they provide internal audit services;

4) Whether internal auditors are perceived as being ethical during the course of their work;

5) Whether internal audit, during the course of its work, is considered to exhibit the attributes of a typical IAF (internal audit must possess certain attributes and not adhering to these attributes could impact on its functioning);

6) Whether internal audit is perceived as being competent to conduct auditing work;

7) Whether internal audit is perceived as being competent to communicate via a report;

8) Whether internal audit provides the users of internal audit services with relevant and useful information by following sound communicating practices (i.e. a report); and

9) Whether internal audit disclosures are made in annual reports (communication outside the entity).

1.3.1 Brief motivation for inclusion of the above focus areas

The International Standards for the Professional Practice of Internal Auditing (Standards) and the definition of internal auditing are both mandatory practice for internal auditors, together with the Code of Ethics. Standard 2100 (Nature of work) and the definition of internal auditing requires IAFs to conduct work on matters relating to internal control, risk management and governance processes. Hence, if their work does not include these fundamentals, their very existence or reason for being employed will be challenged and will cause a gap in what is communicated to the users of internal audit services. The scope of work is also considered as important criteria when assessing IAFs (Sarens, Allegrini, D’Onza & Melville, 2010:58). It is also
important to know whether the users of internal audit services actually understand what IAFs can contribute and how IAFs can help users in discharging their (the users’) responsibilities. Should this not be the case, their existence and work would be a ‘tick box’ exercise and would therefore affect their proper functioning (Woodard, 2000:2; Minder, Ostrosky & Leinicke, 2011:53). It is important that employees of organisations be educated on the role of internal auditing. This study identifies a gap as to the level of understanding of the functioning of internal audit. Management support for internal audit is a very important aspect of the effective functioning of internal audit (Alzeban & Sawan, 2013:443, 446). As a prerequisite, if users do not understand the work of internal audit, how can they possibly support the function?

Professional ethics are crucial for effective functioning as they govern the use of specialised knowledge and skills within different professions. Ethics prescribe the expected behaviour of professionals (IIA, 2014; ISACA, 2014); professional ethics are thus essential to internal audit’s functioning as their absence can affect the credibility and status of internal auditors and consequently, any work they may have carried out on internal control, risk management and governance. Professional ethics affect the reputation of a profession and the confidence placed in the work carried out by professionals (Els, 2007:168). It is therefore important that internal auditors be perceived as being ethical in the eyes of the users of internal audit services.

The IIA also developed a competency framework for internal auditors which highlights the basic competencies internal auditors should possess to be effective in performing internal audit work. As the competency of internal auditors is critical for them to function, it has therefore been included as part of this study. Marks (2011:33) states that internal auditors will always be challenged on whether they are competent to conduct their work. Competency is therefore an important prerequisite for internal audit to function properly. Competency is also one of two main criteria taken into account by external auditors when considering whether to use internal auditors’ work (Holt & Wampler, 2012:19) and when assessing the IAF (Sarens et al., 2010:58).

The internal audit report is an important communication output of the internal audit process as this is what the users ultimately see and what equips them to discharge their responsibilities (Archambeault & Rose, 2010:21). It is therefore important that
information contained in internal audit reports is relevant and useful to users; if not, the IAF’s functioning is undermined. There is no use in conducting audit work if the users of this information regard it as irrelevant and useless. The communication in internal audit reports must be so significant to the users that they should desire to take action to correct areas that are malfunctioning. If internal audit reports do not have this effect on users, the IAF is not functioning as intended. Internal audit reports must result in action (Tarling, 2012:64, otherwise the work done by internal audit is in vain. Internal audit communication is viewed from two perspectives, internal and external. Internal audit is an important governance structure, together with the audit committee, management and external audit. These users of internal audit services have access to the work of internal audit, however, external users, such as the public do not. This is mainly because no requirements exist in South Africa for internal audit to communicate in MFMA annual reports on what they are doing. Authors such as Lapides, Holt and DeZoort (2008) call for internal audit to communicate in public reports, as this could increase public confidence (as cited by Archambeault, DeZoort & Holt, 2008:376) and lead to improved governance transparency. This study therefore takes the view that both internal and external communication, via reports, is an important aspect of internal audit’s functioning.

It is acknowledged that many other aspects impact on internal audit functioning. This study provides insight into the functioning of IAFs with a focus on the above areas in metropolitan municipalities in South Africa, in context of the stated research problem.

**SUMMATIVE COMMENT**

If internal auditors wish to remain an important component of the combined assurance model, they need to address the critical areas of internal control, risk management and governance as part of their work. Should this not be the case, it follows that the municipal council, audit committees and other levels of management would be uninformed on the status of these matters which would, in turn, negatively impact on the ability of these users to discharge their responsibilities.
1.4 DEFINING THE TERM ‘FUNCTIONING’ IN CONTEXT OF THIS STUDY

Section 1.2 provided background to the stated research problem which indicated the need to examine the functioning of internal audit in the municipal context.

The purpose of the Standards is, inter alia, to provide the basic principles that present the practice of internal auditing as it should be (Abdolmohammadi & Sarens, 2009b:4; Coetzee, du Bruyn, Fourie & Plant, 2010:30; IIA, 2010c:7; O’Regan, 2011:21; Sarens & Abdolmohammadi, 2011:107; Chambers, 2011a:7). It also provides a basis for evaluating the effectiveness of an internal audit department. In the context of this study, therefore, the term ‘functioning’ must first and foremost be understood in terms of the principles defined in the Standards. Accordingly, reference is made in the study to both the attribute and the performance Standards, staying within the scope of this research, as defined in the research problem and study focus areas. Secondly, the term ‘functioning’ must also be understood as “the actions for which a person is particularly fitted or employed for”, or whether a person or department is able to perform its regular function (TheFreeDictionary, 2013). This definition states the reason for which internal auditors are employed (in context of this study) and must therefore be understood in terms of the focus areas outlined in Standard 2100, Nature of Work. Thus, emphasis is placed on this Standard which determines the essence of the work of internal audit.

Standard 2100, Nature of Work, states that “the internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach”. This has also been rigorously referenced by various authors (Spencer Pickett, 2005:138-139; Sarens, 2007a:3; Abdolmohammadi, Hass, Sarens & Allegrini, 2009a:836; Baker, 2011:37; Baker, 2011b:33; Beran, 2011:54; Coetzee, du Bruyn, Fourie & Plant, 2012:38; Marks, 2012:39; Edwards-Faulk, 2012:22; Steffee, 2012:59; Gabrini, 2013:viii; Salierno, 2014:17) and is evident from the emphasis placed on these focus areas of internal audit. These elements can also be found in the definition of internal auditing which states that internal auditing contributes to the improvement of internal control, risk management and governance processes (also cited by Carcello, Hermanson & Raghunandn, 2005a:69; IIA, 2009a:4; Kral, 2010:27; Ackermann, 2011:iv; Maguire,
Consequently, this study takes the stand that the Standards form the benchmark criteria which is used to define the functioning of IAFs, in line with the problem statement focus areas of this study.

It thus follows that the term ‘functioning’ must be linked to Standard 2100 and the definition of internal auditing, emphasising that its functioning revolves around the focus areas (or work areas, as defined by Gramling, Nuhoglu & Wood, 2013:587) of internal control, risk management and governance (also reiterated by Sarens & Christopher, 2010b:294). Thus, if IAFs wish to function as they should, they must address these areas as part of their fieldwork, being competent to do so and exhibiting the inherent characteristics of a typical internal auditor (found in the attribute Standards).

Furthermore, Standard 2400, Communicating Results, states that internal audit must communicate engagement results to the users of internal audit services (also cited by Coetzee et al., 2012:45). Therefore, if ‘functioning’ of IAFs, as defined in the context of this study, requires focusing on issues concerning internal control, risk management and governance, this study adopts the perspective that internal audit must communicate results to users in a written report. Figure 1.1 below provides a visual overview of how the functioning of internal audit is examined in this study.
This study adopts the perspective that Standard 2100 defines the core functional focus areas of internal audit. However, while conducting its work, internal audit must be competent, portray an ethical ethos, show the typical attributes of a prudent internal audit function and effectively communicate findings in a written report.

**SUMMATIVE COMMENT**

Internal audit plays a vital role in the combined assurance model, providing the users of internal audit services with important assurance and consulting advice on issues concerning internal control, risk management and governance. Furthermore, the stated research problem was defined, stating that should internal audit be deficient in its functioning, audit committees and other users of internal audit services may find it difficult to fulfil their governance mandate. The definition of the term ‘functioning’ forms
an important link to the problem statement in terms of delimiting the scope of this study. ‘Functioning’ in this study must therefore be understood as:

i) The core focus areas as defined in Standard 2100;
ii) The inherent attributes of internal auditors;
iii) Communication;
iv) Overall competency;
v) Complying with legislative and regulatory requirements; and
vi) Maintaining professional ethics.

1.5 MOTIVATION FOR THE STUDY

As discussed in Section 1.2, the IAFs in municipalities of South Africa may not be functioning as they should. IAFs plays a crucial role in the combined assurance model, together with audit committees, executive management and external auditors (Gramling et al., 2004:194; Ferreira, 2007:38). In Section 1.1 of this study, it was made clear that internal audit serves as a vital source of information for the audit committee, executive management and external auditors. The expectations of these users are constantly evolving and cause a continuous change in the role of internal auditing and its competency levels (Rezaee, 1996:30; Ernst & Young, 2007:2; PricewaterhouseCoopers, 2007:5, 7, 30; Coetzee, 2010:8; Steffee, 2011:51; Paterson, 2012:49). If internal audit wishes to continue to serve the users of internal audit services, it must understand the expectations of its stakeholders and frequently and effectively report to the users on matters concerning internal control, risk management and corporate governance (Ernst & Young, 2007:2, 6, 16; PricewaterhouseCoopers, 2007a:54).

The study contributes to the existing body of knowledge on internal audit and its functioning in a number of ways.

- It could aid IAFs in municipalities of South Africa to implement strategies to meet the expectations of the users of internal audit services.
- It could show whether the users of internal audit services understand the responsibilities of their IAFs;
Researchers have emphasised the fact that, although internal auditing is growing quickly as a profession, much research on its role still needs to be done (KPMG, 2008:2; Lenz & Sarens, 2012:533). This fact is also reflected in numerous reports issued on the State of the Internal Audit Profession (PwC, 2015). This study is in response to the latter in the context of metropolitan municipalities in South Africa.

The Auditor-General South Africa stated that only 17 out of 278 audited municipalities obtained unqualified audit opinions. Six out of the eight metropolitan municipalities failed their audits and together account for over R170 billion of municipal budget (Seale, 2013:1). These statistics worsened for the financial year ending 2013, with seven out of the eight metropolitan municipalities obtaining qualified audit opinion. Internal audit, as part of the combined assurance model, must ensure that it reports on critical issues in assisting municipalities to achieve their objectives (Auditor-General South Africa, 2011:32; Auditor-General South Africa, 2012:86; Auditor-General South Africa, 2013:31, 35, 75, 103). The Auditor-General South Africa stressed the fact that committees must be strengthened (as noted by Seale, 2013:1). This study could therefore contribute significantly to internal audit functioning within metropolitan municipalities of South Africa which, in turn, could greatly assist the users (audit committees, management and external auditors) of internal audit services in discharging their responsibilities.

Globally there is great variability in the practice of internal auditing although global Standards are followed (Sarens & Abdolmohammadi, 2009:3). This study could contribute to the existing body of knowledge regarding the functioning of IAFs in metropolitan municipalities in South Africa. Within the scope of this study, this could lead to the identification of new dimensions of internal audit responsibilities, required competencies and report writing requirements in metropolitan municipalities in South Africa which could then lead to the development of new internal audit policies and standards.

This study should contribute to research methodology in the field of internal auditing as a mixed method approach is used. Internal audit research and accountancy research in general, is very much geared towards positivism. This could assist in understanding certain matters better when different research paradigms are employed.
Previous studies found that audit committees in selected government departments in South Africa could still do more in increasing their effectiveness with regards to risk management, governance, financial reporting and internal control (van der Nest, 2006:v; van der Nest, 2008:175). In a more recent study, it was found that the expected skills capabilities of entry level internal auditors concerning internal control, risk management and governance were measured at 68.1%, 60.5% and 62.6% respectively (Fourie, 2014:158, 160). The study therefore investigates the functioning of IAFs within the parameters of their internal control, risk management and governance mandate within metropolitan municipalities in South Africa.

1.6 CHAPTER OUTLINE

The following section provides an overview of the study. Figure 1.2 shows a roadmap illustration of the study.

Figure 1.2: Study roadmap

Source: Researcher’s own deductions
• **Background and study overview (Chapter 1)**

In this chapter a brief background to the study is given and the research problem is defined.

• **Internal audit ethics (Chapter 2)**

This chapter first summarises the development of the IIA’s Code of Ethics and argues the importance of ethics as fundamental to internal audit’s work. The principles and rules of conduct (IIA’s Code of Ethics) expected of internal auditors is then discussed in the context of this study.

• **Nature of internal audit work (Chapter 3)**

This chapter starts by giving a brief overview of the history and development of the internal audit profession. Then reference is made to the attributes of an effective internal audit function. The crux of this chapter is to provide an overview of the functioning of internal auditing, as indicated in the *Standards* and by other best practices, with reference to the core mandate found in *Standard 2100*, Nature of Work, all the while staying within the parameters of internal control, risk management and governance processes. Lastly, the required competencies that internal audit should possess within its core focus areas are examined.

• **Internal audit legislative and regulatory mandate (Chapter 4)**

Due to the nature of internal auditing in government environments, this chapter expands on Chapter 3 by briefly describing events that led to the creation of the local government sphere. Prominent acts and regulations which were promulgated after the Constitution which shaped the functioning of internal auditing within metropolitan municipalities are consulted. The functioning of internal audit, as evident from these
acts and regulations, forms the crux of this chapter. Lastly, other best practice frameworks and codes which could contribute to a more effective internal audit function are discussed.

- **Internal audit reporting (Chapter 5)**

  This chapter explains internal audit’s responsibility to communicate results. Specifically, the internal audit report is the main focus as a medium of communication. An understanding is thus obtained on what effective report writing should contain. Best practices in report writing with reference to format and technical content requirements as prescribed by the *Standards* are discussed. Lastly, the chapter reviews literature on norms regarding internal audit reporting in public reports (communication outside the entity).

- **Research methodology (Chapter 6)**

  This chapter provides an in-depth description of the research design and methods adopted in the study. The validity and reliability of results is discussed and an explanation is provided of how these results were achieved.

- **Results of the empirical study (Chapter 7)**

  Chapter 7 presents the results and analysis of the empirical study.

- **Conclusions and recommendations (Chapter 8)**

  Based on the results of the empirical study, this chapter summarises the research results in the context of the research problem. Accordingly, recommendations are made to practising internal auditors and to professional bodies on the functioning of IAFs in metropolitan municipalities in South Africa.
1.7 CHAPTER SUMMARY

This chapter provided background to the problem statement and its definition.

Evidence was presented on the fact that audit committees and other users of internal audit services are dependent on internal audit to provide them with information concerning internal control, risk management and governance processes. It is therefore important to investigate the core functions of internal audit as important role players depend on its work. The next chapter provides an overview of internal audit ethics.
CHAPTER 2

INTERNAL AUDIT ETHICS

2.1 INTRODUCTION

In Chapter 1 of this study, ethics were emphasised as having an impact on the work internal audit conducts on internal control, risk management and governance processes. The IIA’s Code of Ethics establishes the behaviour expectations and conduct for internal auditors and is thus a fundamental aspect internal audit must uphold during the course of its work. Failure to do so would create doubt in the minds of the users of internal audit services which, in turn, would affect the credibility of the work carried out by internal audit. It follows then that the perceptions of the users of internal audit services on whether internal audit is considered to act ethically are a critical aspect of internal audit’s functioning. Users perceiving internal audit as acting unethically would lead to a loss of credibility in the work done by internal audit. Thus, there would be less reliance placed on the work done by internal audit.

This chapter first summarises the development of the IIA’s Code of Ethics and argues the importance of ethics as fundamental to internal audit’s work. The principles and rules of conduct (IIA’s Code of Ethics) expected of internal auditors are then reviewed.

2.2 DEVELOPMENT OF THE IIA’s CODE OF ETHICS

As with many professional individuals and entities, certain criteria must be met in order for that individual or entity to be regarded as acting professionally. One of these criteria is the fact that the individual or entity must be subjected to a formal code of ethics prescribed by the relevant professional body (Sawyer, Dittenhofer, & Scheiner, 2005:11). For the profession of internal auditing, members of the IIA, Certified Internal Auditor (CIA) holders and practising internal auditors must adopt and adhere to the IIA’s Code of Ethics.
Internal auditing as a profession is growing and compared to external auditing, it is regarded as a very new profession with its formal Code of Ethics only adopted in 1968 versus 1917 of external auditing (Sawyer et al., 2005:12). Originally, members of the IIA and those holding the CIA designation had different codes to adhere to, which meant that the CIA holders were not bonded by the by laws of the IIA. However, in 1988 one code was adopted by all members, CIA holders and internal audit practitioners (Sawyer et al., 2005:12).

The revised Code of Ethics was adopted and approved by the IIA Board of Directors on 17 June 2000. Before this, the code consisted of five elements or principles, namely, integrity, objectivity, confidentiality, professionalism and competency (Sawyer et al., 2005:15). Professionalism as an element fell away, seeing that the other principles are all based on professionalism. The IIA’s Code of Ethics thus consists of four principles and rules of conduct for each, which sets the minimal behavioural norm for internal auditors (IIA, 2015).

2.3 THE IMPORTANCE OF ETHICS IN THE INTERNAL AUDIT PROFESSION

The importance of internal auditors having to adhere to a code of ethics is well summarised by the IIA (2015) in that “the Code of Ethics states the principles and expectations governing the behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct and behavioral expectations rather than specific activities… a code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management and control”.

In further support of the IIA, Sawyer et al., (2005:14, 15) state that ethics create trust between internal audit and the users of internal audit services. Adhering to the IIA Code of Ethics enhances this trust and adds tremendously to the credibility of the work conducted by internal audit on internal control, risk management and governance. A code of ethics thus has a significant impact on the work of internal audit and the perception of the client of the work done by internal audit, as stated by Sawyer et al., (2005:15):
A code is of special significance to internal auditors because it proclaims internal auditing’s primary reason for being. Management must rest assured that it can trust its internal auditors implicitly. Management must have the secure feeling that if its internal auditors report something, then it just has to be true, valid and objective. It has to be completely without bias.

It is clear then, that the IIA’s Code of Ethics is paramount for internal audit to function properly, or at least, to be perceived as functioning properly. By upholding the IIA’s Code of Ethics, the users of internal audit services should be in a position to trust and rely on the work presented by internal audit on internal control, risk management and governance issues. If not, the credibility of this work runs the risk of being undermined which means the client will find little value in the work and will remain uninformed on any internal control, risk management or governance concerns.

SUMMATIVE COMMENT

Demonstrating ethical behaviour to the users of internal audit services contributes significantly to the trust placed by the client in the work performed by internal audit. Upholding ethical standards is thus paramount if internal audit wishes to add value while performing work on internal control, risk management and governance processes. It follows that a negative perception by the users of internal audit services could undermine the trust placed in internal audit work.

2.4 THE IIA’s CODE OF ETHICS

The IIA’s Code of Ethics consists of two components, namely, principles which are relevant to the profession and practice of internal auditing and rules of conduct which provide guidance on how the principles should be upheld practically (IIA, 2015). In order to protect the accuracy of the principles and rules of conduct, the following section provides an in vivo account.
Internal auditors are expected to apply and uphold the following principles and rules of conduct:

- **Integrity**

  Internal auditors shall:

  - perform their work with honesty, diligence and responsibility;
  - observe the law and make disclosures expected by the law and the profession;
  - not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the organisation; and
  - respect and contribute to the legitimate and ethical objectives of the organisation.

- **Objectivity**

  Internal auditors shall:

  - not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
  - not accept anything that may impair or be presumed to impair their professional judgment; and
  - disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

- **Confidentiality**

  Internal auditors shall:

  - be prudent in the use and protection of information acquired in the course of their duties; and
  - not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.
Competency

Internal auditors shall:

- engage only in those services for which they have the necessary knowledge, skills and experience;
- perform internal audit services in accordance with the Standards; and
- continually improve their proficiency and the effectiveness and quality of their services.

2.4.1 Links to the empirical study

Fundamental to the work performed by internal audit is adherence to a professional code of ethics which creates trust and credibility between internal audit and the users of internal audit services. As part of the empirical study, the extent to which the users of internal audit services and chief audit executives (CAEs) perceive internal audit to be ethical is tested, in particular, whether the users of internal audit services perceive internal audit to portray i) integrity, ii) objectivity, iii) confidentiality and iv) competency.

2.5 CHAPTER SUMMARY

It cannot be ignored that professional ethics underpin the credibility of the work performed by internal audit and the trust placed (by the users of internal audit services) in the work. Ethics therefore impacts on the proper functioning of internal audit. This chapter provided a brief account on the IIA’s Code of Ethics with the aim of using the code of ethics as part of the empirical testing.

In the next chapter, emphasis is placed on the core functional areas of internal audit with a specific focus on its internal control, risk management and governance mandate.
CHAPTER 3

NATURE OF INTERNAL AUDIT WORK

3.1 INTRODUCTION

Chapter 3 firstly provides a brief summary of the history and development of the internal audit profession. Secondly, the typical characteristics of an IAF are defined given that they inherently impact on the functioning of internal audit with reference to the Attribute Standards (which elaborate on the characteristics of entities or individuals performing internal audit services). Thirdly, the chapter discusses best practice for internal audit regarding its internal control, risk management and governance mandate with reference to Standard 2100, Nature of Work, and other benchmarks such as relevant practice advisories and position papers. Lastly, the Competency Framework for Internal Auditors is reviewed as it relates to the core technical competencies in the areas of internal control, risk management and governance.

3.2 HISTORY AND EVENTS THAT CONTRIBUTED TO THE DEVELOPMENT OF THE INTERNAL AUDIT PROFESSION

The concept of auditing can be traced as far back as 3 500 BC when the Mesopotamian civilisation showed traces of auditing in the form of tick marks next to financial statements (Sawyer et al., 2005:3; Coetzee et al., 2010:2). These tick marks indicated some form of verification of what was presented on the annual financial statements. Other groups such as the Egyptians, Chinese, Persians, Hebrews and Greeks were among the first to indicate a system of controls verification and separation of duties where one person prepared a transaction and another verified the transaction (Sawyer et al., 2005:4). The Roman Empire was the first to adopt the ‘hearing of accounts’ where one set of records was compared to another for accuracy. This gave rise to the term ‘auditing’, stemming from the Latin auditus (a hearing), which
sought to determine whether recorded accounts were true, complete and accurate (Sawyer et al., 2005:4; Coetzee et al., 2010:3).

During the Middle Ages (5th to 15th century), the Roman civilisation collapsed and as a result, accounting systems and financial controls were jeopardised. At the end of this period, rulers wanted confirmation that all revenue due to them had been accounted for and barons were the first to conduct audits again, later appointing officials to carry out this role (Sawyer et al., 2005:4). It was during this time (13th century) that Italy created the need for more sophisticated accounting systems which led to the formation of the double-entry bookkeeping system. The Industrial Revolution (18th to 19th century) brought with it enormous changes in mining, manufacturing, agriculture, transport and technology. This major shift contributed to auditing in England which moved beyond simple verification and became a rigorous scrutiny of accounting records with documentary evidence (Sawyer et al., 2005:4; Wikipedia, 2014). By the end of the 19th century, the rest of Europe also escalated due to the effects of the Industrial Revolution and auditing crossed the waters to the United States of America (USA) where wealthy English investors needed some form of attestation that their investments in the USA were ‘safe’ (Sawyer et al., 2005:5). To this point, audits were geared towards what was known as external auditing of financial statements and focused on whether what was being presented in the ‘accounts’ was a true reflection of historical transactions.

After World War I, the American economy escalated and a greater need for auditing in general was created. The railroads were one of the first to adopt an internal audit programme as a need existed to determine whether receipts were handled properly (from an operational view) as this was not dealt with by the external audit of financial statements (Johnston, 1982:24/25; Woodard, 2000:10; Sawyer et al., 2005:5; Coetzee et al., 2010:4).

Traditionally, the work of internal audit entailed evaluating the effectiveness of internal control as it relates to financial statements and was largely an extension of the work of the external auditor (Johnston, 1982:26; Brink & Witt, 1982:4; Sawyer et al., 2005:3). Complexities, voluminous transactions, increased pressure on senior management due to compliance with ever-changing laws and regulations and corporate scandals,
to name a few, all contributed to the separation of the external and internal audit professions. Today, internal audit has a broader scope which includes the appraisal of controls, performance, risk and governance processes of the whole organisation and accordingly, the financial accounting component is now only one aspect of internal audit work (Brink & Witt, 1982:5, 6, 7; Sawyer et al., 2005:3; Coetzee et al., 2010:4).

Internal auditing is seen as a separate profession (from its external audit counterpart), meeting the quality criteria to be regarded as a profession. This includes aspects such as:

- A common body of knowledge;
- A rigorous programme for certification;
- A continuous professional development programme;
- Professional Standards;
- A code of ethics; and
- A professional journal (The Internal Auditor).

Other forms of literature such as those found in accredited journals and practice advisories (which assist in applying the definition of internal auditing) also exist. Practice guides provide detailed guidance on conducting internal audit engagements and position papers assist in understanding governance, control and risk management issues for a broader audience and provide specific guidance to internal audit regarding its role in those matters. Internal auditing is largely derived from the traditional audits of financial statements (external auditing) in terms of approach, terminology and so forth. However, the aims of internal and external auditing are quite different.

The next section addresses the internal audit process and the attributes of IAFs performing internal audit services. This is an important aspect of internal audit functioning since internal auditors are required to uphold these attributes throughout the internal audit process, which inevitably contributes to the status of internal audit in the organisation and the credibility of its work. In order to present these attributes, an overview of the internal audit process is provided while incorporating the inherent attributes which must be met during the entire process.
3.3 THE INTERNAL AUDIT PROCESS

This section examines the internal audit process. Specific reference is made to preliminary activities, planning, fieldwork and a brief summary of communication and monitoring progress is provided (refer to Figure 3.1). In providing assurance and consulting activities to the users of internal audit services, the IAF must follow a systematic, disciplined approach. This approach can be broadly broken down into four stages, namely, engagement planning (Standard 2200) (Woodard, 2000:20; Manchanda & MacDonald, 2011:49; Bayhi, 2014:17), performing the engagement (Standard 2300) (Woodard, 2000:20), communicating results (Standard 2400) (Manchanda & MacDonald, 2011:49) and monitoring progress (Standard 2500) (Vallabhaneni, 2005a:27; Gleim, 2009:23; Burch, 2011:49; Coetzee et al., 2012:87; Edwards-Faulk, 2012:19; Gill, 2013:15; Soileau & Sumners, 2013:17). Figure 3.1 below shows a schematic representation of the internal audit process.

**Figure 3.1: The internal audit process**

*Source: Researcher’s own deductions*

From Figure 3.1, it is clear that the stages of the internal audit process are interdependent, one happening before the other, one feeding into the other. It is also clear that the communication of results is highly dependent on proper planning and fieldwork and that the user is dependent on the final internal audit report. During planning, the IAF must develop a plan for the audit, deciding on the scope, objectives, timing and resource allocation. During fieldwork, the auditor identifies, analyses, evaluates and records sufficient evidence to achieve the engagement objectives. All the results of fieldwork must be communicated in a written report and follow-up
procedures must be put into place to monitor the disposition of results communicated to management. The following sections provide a more detailed account of the internal audit process which must be managed effectively to ensure that the IAF adds value to the organisation.

- **Planning**

Before the start of any internal audit engagement, it is important to conduct proper planning. At this stage, the internal auditor decides how and on what to conduct the specific audit. This normally follows a structured process, starting with obtaining an understanding of the engagement client and the area under review. Preliminary contact is made with the client after which a more detailed knowledge and understanding can be obtained. During this detailed understanding, internal audit must be aware of the significant risks facing the entity and the area under review and it must establish what existing controls are in place to mitigate those risks. Following this understanding, internal audit must set clear and specific audit objectives, delineate the scope of the engagement and be clear on criteria against which the audit is to be conducted. It is also important that the correct resources then be identified to conduct the specific internal audit engagement. A detailed audit work programme must be prepared which sets the foundation for the work to be conducted during fieldwork and contains detailed internal audit procedures in order to satisfy the engagement objectives within the scope of the audit. It is good practice to obtain the final approval from the client’s management before starting the specific audit, which can be presented in a formal audit planning memorandum to the client, outlining exactly what can and cannot be expected from the audit.

The above areas are consistent with *Standard 2200, Engagement Planning* (IIA, 2012c:13-14).

- **Fieldwork**

After planning, the internal auditor must execute the audit plan. At this stage internal audit performs the audit engagement (by executing the internal audit work
programme). This involves identifying, collecting, analysing and evaluating information against set audit criteria and documenting the results. The internal auditor must establish the condition of the area under review and compare this against the criteria. A difference between the condition and the criteria normally results in an internal audit finding which must be reported. It is important to collect sufficient and appropriate evidence during this stage in order to meet the internal audit objectives and to support raised internal audit findings. From the start of the internal audit engagement and throughout the entire audit process, adequate supervision must exist to ensure the internal audit engagement objectives are met. The level of supervision varies depending on the type of engagement and the complexity of the audit work. The CAE is responsible for the correct level of supervision for each internal audit engagement. Clear evidence is also needed that supervision took place.

*Standard* 2300, Performing the Engagement, encapsulates the above discussion (IIA, 2012c:14-15).

- **Communicating results**

The internal audit communication process is the point at which the internal audit advises the audit committee, senior officials and other relevant parties on the findings of the audit. Overall, the aim is to inform, persuade and impel action on matters discovered during fieldwork.

Due to the importance of reporting, a more detailed discussion follows on this topic in Chapter 5.

- **Monitoring progress**

Monitoring progress or follow-up occurs after the initial communication of a specific engagement and seeks to determine whether the entity implemented the recommendations made by internal audit. The internal auditor can also determine during this stage whether and how the entity dealt with a specific internal audit finding.
A more detailed discussion of monitoring progress is provided in Chapter 5 as the results of follow-up must also be communicated to the audit committee, senior officials and other relevant parties. This is discussed as part of reporting.

**SUMMATIVE COMMENT**

Figure 3.1 shows that for internal audit to communicate engagement results, extensive planning and fieldwork must be conducted. It therefore follows that if proper planning did not occur, the fieldwork will not address these critical areas of internal control, risk management and governance. This means that the internal audit report will be greatly hampered in serving its purpose. Consequently, the board, the audit committees and other senior management will be uninformed on important challenges facing the entity which, in turn, negatively impacts on the discharging of their responsibilities.

It cannot be ignored that certain stages or processes need to be followed before internal audit can actually issue a written report to the users of internal audit services. These stages can affect the ability of internal audit to report relevant and useful information (be it internal control, risk management or governance concerns) to the users of internal audit services. The stages leading up to reporting include proper planning and the actual execution of the work programme in order to obtain sufficient and appropriate evidence on which the report is to be based.

### 3.3.1 Links to the empirical study

The efficiency and effectiveness of the work done on internal control, risk management and governance processes by internal audit depends on proper planning and actual performance of the engagement. It is therefore important to determine the extent to which internal audit follows sound practices with regards to planning and fieldwork. Specifically, the extent to which internal audit carries out the following activities forms part of the empirical study:
• Whether internal audit plans each internal audit engagement. This includes whether internal audit obtains an understanding of the client, whether objectives are set and are based on a risk assessment, the allocation of sufficient resources to conduct the work and determining the scope of work to be conducted;
• Whether internal audit confirms the final internal audit objectives with the client;
• Whether internal audit collects sufficient, relevant, reliable and useful evidence during fieldwork and whether this evidence is properly documented in audit working papers and supports the engagement objectives; and
• Whether supervision was provided during internal audit engagement.

3.3.2 Internal audit characteristics

Underlying the internal audit process are characteristics which internal auditors must uphold and which contribute to the status of internal audit within a certain entity and contribute to the credibility of the work done.

The reason for internal audit’s existence, its level of authority and specifics regarding its role must be formally defined in an internal audit charter (IIA, 2013b:3). It is important that the charter is consistent with the definition of internal auditing, the code of ethics and the Standards. At a minimum, the internal audit charter must state the established reporting lines of the CAE. This contributes to organisational independence when the CAE reports functionally to the board (or municipal council). Organisational independence is further enhanced when the following activities take place:

• The board approves the internal audit charter;
• The board approves the internal audit risk-based plan;
• The board approves internal audit resources and budgets;
• The board receives updates on internal audit’s progress;
• The board is involved in the appointment and removal of the CAE;
• The board approves the CAE’s remuneration; and
• The board is informed of any scope limitations (IIA, 2012c:4).

The above can be achieved through interaction between the audit committee and internal audit. The audit committee then communicates back to the board.

The internal audit charter must also authorise internal audit to have access to all records, personnel and sites in order to achieve its purpose for specific internal audit engagements (IIA, 2012c:3). It is good practice for the internal audit charter to be approved and its contents explained to senior management and the board (or in the case of metropolitan municipalities, to the municipal council).

• Independence and objectivity

The Standards require internal auditors to maintain independence and remain objective in the course of their work (IIA, 2012c:3, 4, 5). In essence, internal audit must have the freedom to do its work to achieve its mandate, as defined in the internal audit charter, while not being influenced in its evaluations which must be based on facts (evidence). Thus, it may not be influenced by any conflict of interest which could arise during the performance of its work. It is the responsibility of the individual internal auditor and the CAE to manage independence and objectivity and, in cases where they believe it to have been compromised, this must be communicated to the appropriate parties insofar as it will influence their ability to fulfil their responsibilities towards senior management and the board (or municipal council in the case of local municipalities) (IIA, 2012c:5).

• Proficiency and due professional care

In order to fulfil their responsibilities effectively, IAFs must collectively possess the requisite skills and knowledge (IIA, 2013b:5). If this is not the case, it is the responsibility of the CAE to ensure the collective team obtains the competencies or
seeks the guidance of an expert who can transfer these competencies to the team. If this is not possible, the CAE must decline the engagement (IIA, 2012c:6).

Internal auditors are expected to perform their work with a degree of care and skill, as would be expected of a reasonably prudent and competent internal auditor (IIA, 2013b:6). The Standards require that internal audit contribute to due professional care by considering the following aspects (IIA, 2012c:6):

- The extent of work needed to achieve the engagement objectives;
- The complexity, materiality or significance of matters to which assurance procedures are applied;
- The adequacy and effectiveness of governance, risk management and control processes;
- The probability of significant errors, fraud or noncompliance; and
- The cost of assurance in relation to the benefits that will suffice.

It is important to note that due professional care does not mean that internal auditors cannot make mistakes; they must, however, show evidence that they have endeavoured to maintain the highest standards of due professional care.

- **Continuous professional development**

Internal auditors are required to continually strive to enhance their professionalism by keeping abreast of the latest developments in the profession. Continuous professional development can be achieved in various ways such as obtaining membership, participating and volunteering in professional organisations such as the IIA, attending conferences, seminars and in-house training programmes, completing university and self-study courses or being involved in research projects (IIA, 2013c).
• Quality assurance and improvement programmes

The Standards require CAEs to implement and maintain quality assurance and improvement programmes in order to evaluate IAFs’ conformance with the definition of internal auditing and the Standards and to check compliance with the code of ethics prescribed by the IIA (IIA, 2012c:7). It is important that both internal and external assessments be done. Internal assessments involve periodic self-assessments by persons in the organisation to contribute to the ongoing monitoring of the IAF’s performance (IIA, 2012c:7). External assessments must be conducted at least once every five years by an external team; these contribute significantly to the quality of work done by internal audit (IIA, 2012c:7). The results of these assessments must be communicated to senior management and the board. In cases where the results of internal and external assessments suggest that internal audit meets all quality assurance criteria, internal audit can state this fact in reports with the phrase “Conforms with the International Standards for the Professional Practice of Internal Auditing” (IIA, 2012c:8).

3.3.2.1 Links to the empirical study

Apart from the core focus areas of internal audit (internal control, risk management and governance), internal audit is required to develop and maintain inherent characteristics which contribute to the status of the IAF within the entity and the credibility of work done by the IAF. As part of the empirical study, the views of CAEs on the following matters were obtained:

- Whether internal audit purpose, authority and responsibility are defined in the internal audit charter;
- Whether the internal audit charter is consistent with the definition of internal auditing, the Code of Ethics and the Standards;
- Whether the internal audit charter establishes the reporting lines of the CAE;
- Whether internal audit is perceived to be organisationally independent (from the entity which it audits);
- Whether internal audit individuals are regarded as independent and objective during the course of their work;
- Whether internal audit is considered to be proficient and applies due professional care in the course of its work;
- Whether internal audit is subjected to continuous professional development; and
- Whether quality improvement and assurance programmes are implemented, maintained and communicated.

**SUMMATIVE COMMENT**

The status and credibility of internal audit can be greatly enhanced if its work on internal control, risk management and governance is based on the principles discussed above. It is thus imperative that internal audit uphold these principles through the course of its work. The principles above are rooted in the *Standards*, which are prescribed as the minimum standards of quality to be followed by internal audit.

The next section provides a literature overview of the core focus areas of internal audit – its mandate, as defined in *Standard 2100*, Nature of Work.

### 3.4 THE CORE FOCUS AREAS OF INTERNAL AUDIT

The *Standards* provide a mandatory framework for the practice of internal auditing (IIARF, 2005:41; IIA, 2012c:1). The core of the work can be found in *Standard 2100*, Nature of Work, which defines the functioning of internal audit (the purpose for which it is employed). This can also be found in the definition of internal auditing; adherence to this is compulsory for internal audit practitioners.

These functional areas of internal control, risk management and governance, and the fact that these are regarded as the core work areas of internal audit, has been acknowledged by various authors, showing evidence of internal audit’s involvement in the above areas (Ramamoorti & Weidenmier, 2004:315; Burnaby, Hass & Abdolmohammadi; 2006:854; D’Onza, Paape & Sarens, 2006:846, 849. 850; Hass,

Standard 2100, Nature of Work, defines the functional areas of internal audit, namely, Standard 2110 (governance), 2120 (risk management) and 2130 (control). Figure 3.2 shows this relationship.

![Diagram of Internal Audit's Nature of Work]

**Figure 3.2: Internal audit's nature of work**

*Source: IIA, 2012c:11-12*

The main Standard 2100, Nature of Work, is broken up into three parts which specifically address the work of the internal auditor (IIA, 2012d:2). The Standards in Figure 3.2 provide more detail of what is expected of internal audit with reference to governance, internal control and risk management – the focus of the literature in this chapter.

The next sections focus on the core functional areas of internal audit. As can be seen in Figure 3.1, these areas include governance, internal control and risk management.
3.4.1 Governance

Before the functioning of internal audit regarding governance is described, this section first considers the broader term of governance and its meaning. Numerous definitions exist for the term ‘governance’; some of the more prominent definitions include the following:

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives (IIA, 2013c).

Procedures and processes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making (Organisation for Economic Cooperation and Development (OECD), 2005).

A set of relationships between a company’s management, its board, its shareholders, and other stakeholders. Governance provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined (referenced by IIA, 2006:4; Gramling & Hermanson, 2006:37; IIA, 2012c).

The system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders’ role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company’s strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to the shareholders on their stewardship. The board’s actions are subject to laws, regulations and the shareholders in general (this definition can be found in many other sources such as OECD, 2005; Tušek, Sever & Olujić, 2008:2; Owolabi & Dada, 2011:174; IIA, 2012c:21; IIA, 2012d:3; and the IIA, 2013c).

Annexure A can be consulted for further definitions of governance.

From the above definitions, the following is evident on the definition of governance:

- A system consisting of processes;
- A means of directing and controlling the processes;
• A means of directing and controlling which must be within the parameters of relevant laws and regulations governing the entity;
• Ultimate responsibility for governance lies with senior management such as the board or in the case of municipalities, the municipal manager and municipal council;
• A system which must aim to enhance the value of stakeholders; and
• Systems must be in place to monitor the governance processes.

How internal audit can assist in the improvement of governance is discussed next with reference to Standard 2110, related practice advisories and references to other literature reviews.

### 3.4.1.1 Governance as a functional area of internal audit – Standard 2110

Numerous governance codes introduced worldwide resulted in entities to be more accountable for their actions and obtaining independent assurance on whether entities are governance prone. Hence, governance aspects became a top priority for internal auditors (Coetzee, du Bruyn, Fourie & Plant, 2012b:11). Governance codes and legislation such as those introduced by the Treadway Committee, the Cadbury Committee, Basel II, the Institute of Directors (IoD) (SA) and the OECD’s Principles of Governance, all contributed to the increased role of internal audit in governance processes (Coetzee et al., 2012b:7-9).

Mandatory guidance for internal audit on its role in governance can be found in Standard 2110. The Standards state that for internal audit to discharge its governance responsibility it must assess and make recommendations on the entity’s governance processes (also cited by Ramamoorti & Weidenmier, 2004:312; Sarens & De Beelde, 2006a:222, 224; Sarens, 2009:3; Clayton, 2010:61; Marks, 2010a:29, 30; Kral, 2010:27; Millage, 2010:7; Sarens & Abdolmohammadi, 2011a:1, 2; Sobel & Kapoor, 2012:41; Cain, 2012a:17; Gramling, Schneider & Shefchik, 2013a:1; Abdolmohammadi, 2013:70; Millage, 2013:7). This can be achieved by:
• Promoting ethics and values within the organisation;
• Assessing the state of the organisation’s ethical climate and the effectiveness of its strategies, tactics, communications and other processes in achieving the desired level of legal and ethical compliance;
• Providing consulting services to help the organisation establish a robust ethics programme and improve its effectiveness to the desired performance level;
• Serving as a subject matter expert on ethics-related issues and as a member of the organisation’s ethics council;
• Acting as a catalyst for change, promoting and recommending enhancements for the organisation’s governance structure and practices;
• Contributing to effective organisational performance management and accountability;
• Communicating risk and control information to the appropriate areas of the organisation; and
• Coordinating the activities of, and communicating information to, the board, external and internal auditors and management.

The above governance areas which must be part of the ambit of internal audit are acknowledged by various authors such as the IIARF, 2004:311; Vallabhaneni, 2005:125; Spencer Pickett, 2005:41; Sarens & Abdolmohammadi, 2009:29; Arena & Azzone, 2009:45; Gramling & Hermanson, 2009:41; IIA, 2009a:208, 211; Rezaee, 2010:48; Snell, 2010:72; IIA, 2012c:10, 11; IIA, 2012e:1; IIA, 2012f:1; IIA, 2013c; O’Regan, 2013:19 and Jackson, 2013:35).

Over and above the preceding governance mandate, internal audit must evaluate the design, implementation and effectiveness of the organisation’s ethics-related objectives, programmes and activities (also cited by Vallabhaneni, 2005:125; IIA, 2009a:208; Beeuwsaert & Hartley, 2010:75; Kramer & Johnson, 2010:39; IIA, 2012e:11; IIA, 2012f:1; Tabuenas, 2012:69, Jackson, 2012c:39; Jackson, 2013:35; Haig, 2013:71; Parillo, 2013:33). Lastly, information technology governance and how it supports organisational strategies and objectives must be assessed by internal audit,
seeing that information technology governance is pivotal for organisations to survive in an ever-changing, competitive environment\(^3\).

### 3.4.1.2 Practice advisory guidance on governance

Practice Advisory 2110-1 states that governance is very broad and that each entity must apply the principles of good governance which are best suited to their environment. It is therefore important that the CAE work with senior executives to determine how governance should be defined for audit purposes (IIA, 2013c). Practice Advisory 2110-2 further states that a relationship exists between risk and control and that during audit planning the CAE must:

- Ensure that the audit addresses those controls in governance processes that are designed to prevent and detect events that could have a negative effect on the entity’s strategy, goals and objectives,
- When defining the scope of the governance, audit considers the controls which manage multiple risks across the entity as these could be informative for other audits; and
- Consider relying on results of other audits which assessed controls in governance processes and which could be of value for the current audit.

Practice Advisory 2110-3 provides very specific guidance on the assessment of governance processes. It is important for the CAE to include in the audit plan high risk governance processes which were highlighted in risk assessments and to include any other requests from senior executives regarding governance assessments (IIA, 2012c). In cases where governance processes are not matured, the CAE should consider a consulting engagement rather than a formal assessment of the governance processes (IIA, 2012c). Overall, it is important for internal audit to consider the results from other engagements to be used in the governance audit as these could provide valuable insights. The results from other engagements could include findings from

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\(^3\) The fact that internal audit can assist in this regard is supported by various authors (IIARF, 2004:304; Sawyer et al., 2005:1365; Weidenmier et al., 2006:206; Hass et al., 2006:839; Abdolmohamadi & Ross, 2010:141; Sallerno, 2010:7; Swainy-Parker, 2010:23; Baker, 2010b:39; Marks, 2010:34; IIA, 2012c:11; Coetzee et al., 2012:88-39; Coetzee et al., 2012b:11-12; Romero, 2012:87; Jackson, 2012a:37-42; Reinhard, 2012:52; Jackson, 2013:35; Rai & Chukwuma, 2013:21-25; Jackson, 2013a:41; Lenz, Sarens & D'Silva, 2013:4; Sanderson, 2013:51; Braun, 2014:87.)
other internal and external assurance providers and consideration should be given to any other adverse incidents which could be informative to the current governance audit (IIA, 2013c). Due to the nature of governance audits, the auditor should consider discussing results with management or even legal counsel before the start of the governance audit and before the issue of results (IIA, 2013c).

3.4.1.3 Links to the empirical study

The above sections on internal audit’s involvement in governance processes highlighted how internal audit, at a minimum, can contribute to improving the entity’s governance processes. As part of the empirical work the following was tested as it relates to internal audit’s governance focus:

- Whether internal audit assesses and makes recommendations on the entity’s governance processes as part of its work. This includes aspects such as whether internal audit:
  - Promotes ethics and values within the organisation;
  - Assesses the state of the organisation’s ethical climate and the effectiveness of its strategies, tactics, communications and other processes in achieving the desired level of legal and ethical compliance;
  - Provides consulting services to help the organisation establish a robust ethics programme and improve its effectiveness to the desired performance level;
  - Serves as a subject matter expert on ethics-related issues and as a member of the organisation’s ethics council;
  - Acts as a catalyst for change, promoting and recommending enhancements for the organisation’s governance structure and practices;
  - Contributes to effective organisational performance management and accountability;
  - Communicates risk and control information to the appropriate areas of the organisation;
  - Coordinates the activities and communicate information among the municipal council, external and internal auditors and management;
  - Evaluates ethics-related objectives and IT governance;
o Works with senior executives to determine how governance should be defined for audit purposes;
o Addresses those controls in governance processes that are designed to prevent and detect events that could have a negative effect on the entity’s strategy, goals and objectives;
o When defining the scope of the governance audit, considers the controls which manage multiple risks across the entity as this could be informative for other audits;
o Relies on results of other audits which assessed controls in governance processes which could be of value for the current and future audits;
o Considers a consulting engagement rather than a formal assessment of the governance processes when the maturity levels of the entity are low; and
o Discusses results with management or even legal counsel before the start of the governance audit and before issuing results.

- Whether the work performed by internal audit on governance processes assists the users to fulfil their governance mandate;
- Whether the role of internal audit in governance assessments is understood by the entity; and
- Whether internal audit is regarded as competent to perform work on governance processes.

3.4.1.4 Conclusion

The IAF plays a pivotal role in assisting organisations to improve their governance processes through systematic auditing and the evaluation of the relevant evidence. The practices discussed above can also be found in the position paper “Organizational Governance: Guidance for Internal Auditors”, developed by the IIA (IIA, 2006:4-6); this work was also noted by Gramling & Hermanson, (2006:39).
SUMMATIVE COMMENT

Ultimate responsibility for governance lies with senior management and the board of directors, or in the case of municipalities, with the municipal council. These parties must implement controls to ensure the entity is controlled and directed in a manner which adheres to the highest level of governance practices. IAFs serve as an independent assurance partner in these governance processes, measuring these processes against best practices and making recommendations for improvements. These evaluations are provided to the users of internal audit services such as audit committees so that they can, in turn, fulfil their governance mandate.

The next section focuses on internal control. The term ‘control’ is defined, followed by a discussion of internal audit’s mandate in internal control.

3.4.2 Internal control

The definition of the term ‘control’ is twofold: firstly, ‘control’ as a verb signifies to ensure that things either get done or do not get done. Secondly, ‘control’ as a noun signifies the physical means of exercising what needs to be done (Sawyer et al., 2005:57). Sawyer et al., (2005:58) further argue that each activity within an entity functions on two levels: the operating system and the control system. The former represents the specific objectives which must be accomplished and the latter the overarching procedures, rules, and instructions to make sure that the objective is accomplished. It is important to note that internal auditors are trained to evaluate control systems and not operating systems (Sawyer et al., 2005:58). In explaining this concept, Sawyer et al., (2005:58) refer to a production department which has an objective of producing 100 items. Internal auditors may not have the skills and knowledge to evaluate the methods of how the production department will make the 100 items, but they will be able to evaluate the production control system, i.e. the process of planning, directing and controlling production to make the 100 items.
Internal auditors therefore determine whether the existing controls are adequate for the production of the 100 items.

• Definitions of internal control

Early definitions of the term ‘control’ go as far back as the 1600s. The importance of internal control to auditors was recognised by L.R. Dicksee in 1905 who stated that a good control system must eliminate the need for a detailed audit (Sawyer et al., 2005:61). Dicksee, as cited in Sawyer et al., (2005:61), noted that internal control consists of three elements, namely, division of work, the use of accounting records and the rotation of personnel. In 1930 G.E. Bennet defined control to auditors as “the coordination of a system of accounts and related office procedures in such a manner that the work of one employee independently performing his own prescribed duties continually checks the work of another as to certain elements involving the possibility of fraud” (Sawyer et al., 2005:61).

The American Institute of Certified Public Accountants (AICPA) developed a broader definition of internal control:

Internal control comprises the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. This definition possibly is broader than the meaning sometimes attributed to the term. It recognizes that a system of internal control extends beyond those matters which relate directly to the functions of the accounting and financial department (as cited by Sawyer et al., 2005:61).

The above definition was considered very broad for auditors in the United States of America for the purpose of conducting financial statement audits. The definition of control was then divided between administrative controls and accounting control (Brink & Witt, 1982:81). The AICPA further adapted its definition which corresponds to some of the elements in the current definition of internal control, as defined by the IIA:

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will
be achieved. Management plans, organizes and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved (Vallabhaneni, 2005b:528; IIA, 2012c:20).

Consistent definitions can also be found in the Committee of Sponsoring Organisations of the Treadway Commission (COSO) (2012) and the IIA (2010b:329).

From the above definitions of internal control the following is evident:

- Control is something which must be executed by people;
- Management has the responsibility for control, oversight and implementation;
- Internal auditors evaluate control systems, not operating systems;
- Controls must be designed in such a manner as to address the risks linked to strategic and business objectives; and
- Control is a process consisting of procedures, rules and practices designed to contribute to the fulfilment of entities’ financial, operational and compliance objectives.

How internal audit can assist in the improvement of internal control is discussed next with reference to Standard 2130, related practice advisories and reference to other literature reviews.

3.4.2.1 Internal control as a functional area of internal audit – Standard 2130

Standard 2130 states that internal audit can contribute to the improvement of control processes by evaluating control effectiveness and efficiency and by promoting continuous improvement.4 Furthermore, the controls that are evaluated must be based on the risks which exist within the entities’ governance, operational and information

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systems processes (Marks, 2013b:54). Within these processes, entities have broad objectives, namely:

- Achievement of strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

Overall, internal audit’s involvement in internal control entails determining whether policies and procedures exist for all business processes. Internal audit documents an understanding of the control activities with the overall aim of testing whether they are functioning as intended. Internal auditors are therefore in a position to identify control weaknesses and make recommendations to improve current controls, thus assisting the entity to achieve its business objectives.

It is important to note that while testing controls, internal audit provides reasonable assurance on whether the controls are working as intended. This includes establishing whether the highest levels of productivity were maintained with the available resources across all processes within an entity. In essence, internal audit must also determine whether control activities within organisations are executed in the most efficient manner by employees of the organisation (Hass et al., 2006:841; Palczewski, 2009:72; IIA, 2009a:179; Ouellet, 2010:41; Jackson, 2012:35, 38; de Poorter, 2013:57). This includes an evaluation of the adequacy of the design of the control (Baker, 2010a:34; Kral, 2010:28; Esposito, 2012:64, 65; Mandel, 2012:65; Ramamoorti & Nayar, 2013:29; Wilkins & Mooningham, 2013:17; Gabrini, 2013:32 and Zaretto, 2014:31). Therefore, whilst testing internal controls, internal audit as part of its audit procedures must determine whether the entity is functioning productively with the available resources.

In cases where internal audit provides consulting engagements, the knowledge and status of controls gained during those engagements must be used in assurance

3.4.2.2 Practice advisory guidance on internal control

Practice Advisory 2130-1, Assessing the Adequacy of Control Processes, provides clear guidance to CAEs on internal audit functionality regarding control processes. The CAE must develop a flexible internal audit plan (Begelfer, 2012:33) which allows sufficient scope to assess control processes for all major business units and must include major control processes. The plan must allow the collection of sufficient and appropriate evidence on the status of control processes so that the opinion of the CAE is based on evidence. The work of others can also be considered in formulating the final opinion on whether the controls are operational. While evaluating the overall effectiveness of the entity’s control processes, the CAE must determine (Childers, 2009:31; IIA, 2009a:200; IIA, 2013c):

- Whether significant discrepancies or weaknesses in control were discovered;
- Whether corrections or improvements were made after the discovery of weak controls; and
- Whether the weaknesses discovered could lead to risk exposure not acceptable to the entity.

All the work on control evaluation must be presented in a report which highlights the importance of controls, the nature and the extent of testing performed by internal audit and the extent of reliance placed on the work of others (IIA, 2013c).

During the audit of information reliability and integrity, internal audit must establish whether senior management understand that information reliability and integrity controls are their responsibility. The CAE must produce an audit team which is competent to perform the information reliability and integrity audit. Should any weaknesses breaching information reliability and integrity be identified, the CAE must
communicate this to the board and assess those controls on a periodic basis (IIA, 2013c).

Lastly, Practice Advisory 2130.A1-2 provides guidance for internal auditors when auditing the controls protecting personal information. Effective control over personal information in an important element of governance, risk management and control processes (IIA, 2013c). It is good practice for entities to establish a privacy framework and internal audit plays a key role in evaluating the adequacy of controls relating to privacy frameworks (Weidenmier & Ramamoorti, 2006:214; IIA, 2013c). While assessing controls relating to the privacy framework it is recommended that internal audit:

- Consider the laws, regulations and policies relating to privacy in the jurisdiction in which it operates;
- Liaise with the in-house legal department to identify laws and regulations applicable to the privacy framework of the entity;
- Liaise with information technology to determine that information security and data protection controls are in place and working; and
- Assess the level of maturity of the entity's privacy practices.

3.4.2.3 Links to the empirical study

The above sections on internal audit's involvement in internal control highlights how internal audit, at a minimum, can contribute to improving control processes. As part of the empirical work in this study, the following are tested as they relate to internal audit's internal control focus:

- Whether internal audit evaluates the effectiveness and efficiency of the entity's internal control as part of its work. In particular, this includes whether internal audit:
  - Evaluates controls which are designed to meet entity-wide objectives (efficiency and effectiveness of the controls);
o Uses knowledge gained through consulting engagements in assurance engagements;
o Has allowed enough scope in the internal audit plan for control evaluations in order to collect sufficient and appropriate evidence;
o Follows up on control weaknesses to determine whether corrections have been made;
o Presents its work on control testing in a report detailing the importance of control, the nature and extent of testing;
o Evaluates controls relating to information reliability and integrity; and
o Audits the entity’s privacy framework i.e. considering whether laws regarding privacy are adhered to and liaising with IT to audit controls relating to the privacy policy of the entity while assessing the level of maturity of privacy practices.

• Whether the work performed by internal audit on internal control assist the users to fulfil their control responsibility;

• Whether the role of internal audit in control evaluations is understood by the entity; and

• Whether internal audit is regarded as competent to perform control evaluations.

3.4.2.4 Conclusion

The most authoritative sources on the functioning of internal audit regarding control can be found in Standard 2130. Other best practice guidelines such as the practice advisories also offer guidance for internal audit regarding control evaluation. In essence, entities have objectives to be achieved and they must implement the necessary controls to help achieve those objectives. The internal auditor must conduct an independent evaluation of these controls to verify whether they are working.
SUMMATIVE COMMENT

Internal auditors are not responsible for the implementation of internal controls. This responsibility lies with management and, in the case of municipalities, with the municipal council. Municipal officials such as the municipal manager and other managers are responsible for internal control implementation and monitoring to ensure organisation-wide objectives are being met. Audit committees are tasked with providing municipal council feedback on the state of internal controls, especially internal financial controls. The work of internal audit on internal control evaluation is therefore paramount in assisting audit committees in fulfilling their mandate.

The next sections discuss risk management and focus is given to internal audit’s mandate in risk management.

3.4.3   Risk management

Objectives are set as part of entities’ strategic planning processes. These objectives are paramount for the entity to be successful in its mission. However, entities operate in a very complex and competitive environment with internal and external forces continuously hampering entity objectives (IIA, 2010a:1; Coetzee et al., 2012b:15). These risks facing entities must be managed to an acceptable level so that objectives can be achieved and a decrease in shareholder value can be avoided (Coetzee et al., 2012b:15; IIA, 2012e:1). There is thus a growing demand for managing these risks through the process of risk management and internal audit is in a perfect position to assist with the improvement of such processes (Sawyer et al., 2005:1061, 1383; Lyons, 2009:27; Coetzee et al., 2012b:29).

Developments in risk management lead to the introduction of enterprise risk management which is “the extension of risk management across the organisation on a macro level by integrating all the risk management initiatives including strategic and operational levels” (Coetzee et al., 2012b:15). Enterprise risk management therefore focuses on all risks and how the risks of different business units or departments
influence other units (versus the silo approach of normal risk management) (Coetzee, 2010:156; Coetzee et al., 2012b:15).

Numerous definitions exist for the term ‘risk management’:

Risk management is the identification and evaluation of actual and potential areas as they pertain to the company as a total entity, followed by a process of either avoidance, termination, transfer, acceptance, exploitation or mitigation (treatment) of each risk, or a response that is a combination or integration of these responses (IoD, 2009:123 as cited by Coetzee, 2010:156).

The risk management process entails the planning, arranging and controlling of activities and resources to minimise the negative impacts of all risks to levels that can be tolerated by stakeholders whom the board has identified as relevant to the business of the company, as well as to optimise the opportunities, or positive impacts, of all risks (IoD, 2009:123 as cited by Coetzee, 2010:157).

Risk management is a process to identify, assess, manage and control potential events and situations to provide reasonable assurance regarding the achievement of the organisation’s objectives (IIA, 2009:41 as cited by Coetzee, 2010:157).

Key aspects from the preceding definitions of risk management and enterprise risk management are listed below:

- It is an integrated process which can be applied to all business units and across units;
- The process aims at identifying uncertain events which could hamper the achievement of objectives;
- The aim is to manage risks to strategic and business objectives;
- Proper risk management could lead to an increase in competitive advantage;
- Ultimate responsibility lies with the board and senior management but all employees must be informed of significant risks facing the entity;
- The process is dependent on people;
- It goes beyond only financial risks; it is broad and can focus on any risks facing the entity; and
• It is necessary to continuously communicate risks facing the entity and indicate how these are managed.

Further references to risk management definitions can be found in Annexure B.

How internal audit can assist in the improvement of risk management is discussed next with reference to Standard 2120, related practice advisories, position papers and references to other literature reviews.

3.4.3.1 Risk management as a functional area of internal audit – Standard 2120

Standard 2120 provides the minimum requirements for IAFs’ work concerning risk management. Standard 2120 states internal auditors contribute to the improvement of risk management processes by evaluating the effectiveness of these processes. In deciding whether risk management processes are effective or not is a matter of judgement once the internal auditor has assessed:

• Whether the organisational objectives support and align with the organisation’s mission;
• Whether significant risks have been identified and assessed;
• Whether appropriate risk responses have been selected that align risks with the organisation’s risk appetite; and
• Whether relevant risk information is captured and communicated in a timely manner across the organisation.


In making this assessment, the internal audit activity could accumulate the information from various engagements to obtain an overall understanding of the effectiveness of risk management processes (IIA, 2010a:1; IIA, 2012c:11).


The above objectives can be set to achieve the entity’s governance, operational and information system processes objectives. The highest priority risks to the above objectives must be evaluated by internal audit. This entails obtaining an understanding of the process which gives rise to the risk, determining whether risk responses have been implemented and checking whether these responses are working as intended. This will enable internal audit to provide recommendations on whether risks are effectively managed.

Internal auditors can also act in a consulting capacity. During consulting engagements internal auditors must (Vallabhaneni, 2005:110; Sawyer et al., 2005:1364; IIA, 2012c:12):

- Address risks consistent with the organisation’s objectives and be aware of other significant risks;
- Use knowledge gained on risks during consulting engagements in their overall assessment of risk management processes; and
- Not assume any managing role regarding risk management.

*Standard* 2120 delineates the basic function of internal audit regarding its risk management responsibility. The following sections describe other best practices for internal audit regarding its risk management mandate.

### 3.4.3.2 Practice advisory guidance on risk management

Ultimate responsibility for the oversight and implementation of risk management and control processes lies with senior and operational management (IIA, 2010a:3; IIA, 2013c). Internal audit can assist management by examining, evaluating, reporting and recommending improvements to the adequacy and effectiveness of management’s risks processes (Weidenmier & Ramamoorti, 2006:207; Gramling & Hermanson, 2009:40; IIA, 2010a:4; IIA, 2013c).

In cases where the entity has not established a formal risk management process, the CAE should discuss with executive management their (management’s) responsibility for risks and the need to determine whether key risks have been managed (O’Regan, 2011:23; IIA, 2013c). Once the risk management process has been established, the CAE must discuss with senior management the role of internal audit in risk management. This role should be updated in the internal audit charter. The role of internal audit could be agreed to include the following aspects:
• No role;
• Auditing the risk management processes as part of the internal audit plan;
• Active continuous support and involvement in the risk management process such as involvement in related committees;
• Monitoring and reporting on risk management processes; and
• Managing and coordinating risk management processes (a role which must be considered carefully) (IIA, 2013c).

Management decides on the actual risk management methodology and internal audit must determine whether the chosen methodology is sufficiently comprehensive and appropriate for the nature of the entity's business (IIA, 2010a:2; IIA, 2013c).

In assessing risks (Freudenthal, 2009:63; Sobel, 2010:61), internal audit must obtain sufficient and appropriate evidence on whether the key objectives of the risk management processes are being met and can consider collecting evidence by doing the following:

• Researching and reviewing current developments, trends and industry information related to the business conducted by the entity as well as other appropriate sources of information to determine risks and exposure that may affect the entity and related control procedures used to address, monitor and reassess those risks;
• Reviewing corporate policies and board minutes to determine the entity's business strategies, risk management philosophy and methodology, appetite for risk and acceptance of risk;
• Reviewing previous risk evaluation reports issued by management, internal auditors, external auditors and any other sources;
• Conducting interviews with line and senior management to determine business unit objectives, related risks and management's risk mitigation and control monitoring activities;
• Assimilating information to independently evaluate the effectiveness of risk mitigation, monitoring and communication of risk and associated control activities;
• Assessing the appropriateness of reporting lines for risk monitoring activities;
• Reviewing the adequacy and timeliness of reporting on risk management results;
• Reviewing the completeness of management’s risk analysis and actions taken to remedy issues raised by risk management processes and suggesting improvements;
• Determining the effectiveness of management’s self-assessment processes through observation, direct tests of control and monitoring procedures, testing the accuracy of information used in monitoring activities and other appropriate techniques; and
• Reviewing risk-related issues that may indicate weaknesses in risk management practices and, as appropriate, discussing these with senior management and the board (Weidenmier & Ramamoorti, 2006:207; Asare et al, 2008:184; IIA, 2010a:8; Coetzee et al., 2012b:42; Howard, 2012:72; IIA, 2013c; Prasad, 2013:24).

Although this study is not concerned with detailed audit procedures, the above procedures assist the internal auditor in obtaining sufficient and appropriate (Balkaran, 2010:19; Holzinger, 2010:14; Smith, 2014:19) evidence which is key to their functioning relating to risk management.

3.4.3.3 Position paper on internal audit’s role in enterprise risk management

The IIA issued a position paper summarising the roles that internal audit can take regarding enterprise risk management (IIA, 2009). Most of these functions fall under Standard 2120 and the practice advisories highlighted above. This section therefore gives a quick overview of the roles addressed by the position paper. Figure 3.3 below summarises these roles.
The IIA summarises the broad work of internal auditors regarding risk management in three different areas: core roles, legitimate roles and roles that should not be undertaken. Careful consideration should be given to the functions regarded as legitimate as some could jeopardise the independence and objectivity of the IAF. The red level roles are those which should not be undertaken (Aghili, 2010:23). The core roles are consistent with Standard 2120 and related practice advisories. Reference to this diagram and its elements can also be found in the doctoral work of Coetzee (2010:237; 240), practice guides issued by the IIA (IIA, 2010a:6; IIA, 2012e:1) and educational products on advanced internal audit topics (Spencer Pickett, 2005:78; Wheeler, 2009:57; IIA, 2009a:172-174; Coetzee et al., 2012b:41).
3.4.3.4 Links to the empirical study

The above sections on internal audit’s involvement in risk management highlighted how internal audit, at a minimum, can contribute to improving the entity’s risk management processes. As part of the empirical work, the following are tested as they to internal audit’s risk management focus:

• Whether internal audit assesses the effectiveness of risk management processes of the entity as part of its work. This includes determining whether internal audit:
  o Assesses whether organisational objectives support and align with the organisational mission;
  o Determines whether significant risks are identified and assessed by the entity;
  o Determines whether appropriate risk responses are selected by the entity that align risks with the organisation’s risk appetite and whether relevant risk information is captured and communicated in a timely manner across the organisation;
  o Discusses its responsibility regarding risk management with senior executives and reinforces the fact that risk management is a senior executive responsibility;
  o Ensures that its role in risk management is updated in the internal audit charter;
  o Evaluates the risk management methodology of the entity, determining whether it is comprehensive and appropriate for the entity;
  o Acts in a consulting capacity on risk management processes;
  o Considers information from various engagements in making an assessment of the risk management processes of the entity;
  o Assesses the risk exposures as they relate to entity-wide objectives; and
  o Evaluates fraud risk.

• Whether the work performed by internal audit on risk management assists the users to fulfil their risk management mandate;
• Whether the role of internal audit in risk management is understood by the entity; and

• Whether internal audit is regarded as competent to perform work on risk management.

### 3.4.3.5 Conclusion

Internal audit plays a pivotal role in risk management processes. By independently evaluating the entity’s risk management processes, internal audit can contribute to the improvement of risk management by continuously monitoring and reporting on the status of risk management within the entity. The specific work internal audit can conduct ranges from recommended to not recommended functions.

**SUMMATIVE COMMENT**

Organisations worldwide are required to adhere to good governance practices, if only to maintain a competitive advantage or to be the best deliverer of services (in the case of municipalities). It is therefore paramount that organisations, including government departments and municipalities, implement good risk management practices to help manage risks which could result in organisations failing to meet their objectives. This entails having a risk management framework or policy and having the right people to actively implement and monitor these processes. The ultimate responsibility for this lies with the municipal council (oversight) and other levels of management (implementation and monitoring). Internal auditors are in a good position to assist in the management of risks through the continuous monitoring of key risks facing the organisation, checking for adequacy and effectiveness of the risk management processes. The work conducted in this regard is critical for oversight bodies such as audit committees so that they can, in turn, achieve their governance mandate.

As part of the problem statement, this study aims to determine whether internal audit is competent to do its work in the core functional areas. The next section provides an overview of the Global Internal Audit Competency Framework (GIACF) as it relates to
core technical competencies that internal audit should possess in conducting internal control, risk management and governance work.

3.5 THE GLOBAL INTERNAL AUDIT COMPETENCY FRAMEWORK

The GIACF was designed to meet the demands set out in the Standards (IIA, 2013d:2; IIA, 2013e). In short, the GIACF presents performance attributes at four broad levels which filter down into core competencies (Abdolmohammadi & Rhodes, 2009:3; Abdolmohammadi, 2012:4). The core competencies are outlined for each job level, namely, the internal audit staff, the internal audit management and the CAE (IIA, 2013d:2; IIA, 2013e). The IIA (2013d:2; 2013e) defines competency as “the ability of an individual to perform a job or task properly, being a set of defined knowledge, skills, and behaviour”. It is important to note that the term ‘functioning’ has been defined as the reason for being employed and is linked to Standard 2100, Nature of Work. Therefore, for internal audit to conduct its basic work, it needs to be competent to perform such work. This premise supports the reason for including competency in this study as it has an impact on internal audit’s functioning.

To stay within the scope of this study, only competency dealing with governance, risk and control processes is referenced (refer to Annexure C) and an overall question is posed on whether internal audit is regarded as proficient in these core technical competencies.

3.6 CHAPTER SUMMARY

This chapter defined the functioning of internal audit within the parameters of Standard 2100, Nature of Work. Generally speaking, as part of their work, internal auditors must include in their audit plans work related to internal control, risk management and governance processes. The Standards and the definition of internal auditing both provide mandatory guidance for internal audit and both make reference to the core work areas of internal control, risk management and governance processes. This
chapter provided an overview of the Standards’ requirements for internal audit in these core areas, together with other best practices, as defined in relevant practice advisories and position papers. The GIACF was also referenced, specifically focusing on the core technical competencies which relate to the core functions of internal audit. The literature review outlined in this chapter forms the basis for the empirical testing which contributes to the body of knowledge, as outlined in the problem statement (refer to Section 1.3).

The next chapter defines the functioning of internal audit within the parameters of the legislative and regulatory requirements in metropolitan municipalities in South Africa.
CHAPTER 4

INTERNAL AUDIT’S LEGISLATIVE AND REGULATORY MANDATE

4.1 INTRODUCTION

This chapter commences with a brief overview of events that led to the creation of the third tier of government, the local government sphere of South Africa. These events, which set the foundation for the specific acts and regulations that govern the functioning of internal audit within all municipalities in South Africa, are also discussed in this chapter. It is important to understand these requirements as they guide the work of IAFs and therefore impact on their functioning. For internal audit to function properly within the municipal audit environment, it must therefore include the relevant acts and regulations as part of the nature of its work as this is a legal requirement. It is important to note that the mandate discussed in Chapter 3 and the mandate discussed in the present chapter are not mutually exclusive.

After the brief history of local government in South Africa, this chapter first summarises international trends in internal auditing with reference to legislative and regulatory requirements for internal audit. This is followed by a discussion of specific acts and regulations with reference to the work of internal audit in South Africa. Lastly, reference is made to other frameworks and best practices relevant for internal audit including the Internal Audit Framework, the Protocol on Corporate Governance in the Public Sector, the Internal Audit Capability Model for the Public Sector, King III for South Africa and the Public Sector Risk Management Framework.
4.2 THE EXISTENCE OF THE LOCAL GOVERNMENT SPHERE IN SOUTH AFRICA

Prior to the Constitution of 1996 (the Constitution), local government, then known as local authorities, was largely directed by provincial government (Tsatsire, Raga, Taylor & Nealer, 2009:132; South African Local Government Association (SALGA), 2011). Although the laws and regulations imposed by provincial governments led to procedures and structures, the local authorities had no constitutional rights (SALGA, 2011). Their powers and rights were imposed by provincial governments and they existed at the mercy of their legislature which rendered all local authorities’ actions subject to review (SALGA, 2011). These local authorities were racially segregated and the rendering of services was unequal for a large portion of the population (SALGA, 2011).

Whites, Coloureds, Indians and Blacks were segregated and each had their own description of local government (Tsatsire et al., 2009:133). Whites were governed and administered by White Local Authorities (WLAs). Indians and Coloureds relied on the administration of the WLAs. Black Africans fell under the administration of Black Local Authorities (BLAs). The BLAs were not nearly as functional as the WLAs, which led to unequal social, spatial and economic development (Nyalunga, 2006). This segregation was widely promulgated by the Group Areas Act of 1966 (Nyalunga, 2006; Tsatsire et al., 2009:135; Koma, 2012:53). Inevitably, this caused different groups to enjoy different powers and privileges within local government, leading to underdeveloped areas (primarily in black areas) and poor service delivery (Nyalunga, 2006). Whites were privileged and reaped most of the benefits of how local government was governed.

According to Pieterse (2002), as cited by Nyalunga (2006), and Koma (2012:54), the way in which local government was administered led to the struggle against local government and, ultimately, the fall of the apartheid regime. In 1994, the first democratic national elections took place, followed by local government elections in late 1995-1996. In order to redress the racial segregation and the way local government had been administered, new legislation and policies were formed to
correct the segregation, inequity, inequality, discrimination and poverty and to establish new local authorities (Nyalunga, 2006). At the forefront of this transition was the Local Government Transition Act (LGTA) of 1993 which provided clear guidelines on how to change government (Mathekga & Buccus, n.d.:13; Koma, 2012:54). Other important legislation was the Demarcation Act and the Development Facilitation Act. Eventually, after the phases of transition for local government, the Constitution of South Africa was passed as the highest law in South Africa. The Constitution provided for a distinct local government sphere in South Africa (Nyalunga, 2006; Koma, 2012:54).

With the passing of the Constitution in 1996, a new era was born in South Africa where local municipalities were created for all areas in South Africa, each having the authority to govern the municipal area it served (SALGA, 2011). In 1998, the White Paper on Local Government by cabinet provided a framework for correcting the way local government had been governed by working with people to better their lives (SALGA, 2011).

It is argued that the Constitution and the White Paper on Local Government set the foundation for important legislation which enabled local government to fulfil its constitutional mandate of developmental local government (Tsatsire et al., 2009:144; van der Waldt, Khalo, Nelaer, Phutiagae, van der Walt, van Niekerk & Venter, 2014:52/53). Table 4.1 below provides, in chronological order, a summary of these pieces of important legislation.

Table 4.1: Legislative framework for the local government sphere in South Africa

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Overview in context of this study</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Constitution of the Republic of South Africa of 1996</td>
<td>Gave authority for the creation of the distinct local government sphere and provided for the status of local municipalities and categories of municipalities.</td>
</tr>
<tr>
<td>Municipal Demarcation Act 27 of 1998</td>
<td>Was formed to establish the municipal and ward boundaries for categories of municipalities set out in the Constitution.</td>
</tr>
</tbody>
</table>
Overview in context of this study

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Overview</th>
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<tbody>
<tr>
<td>Municipal Structures Act 117 of 1998</td>
<td>Provided for the different categories and types of municipalities – thus establishing criteria for the establishment of either category or type of municipality.</td>
</tr>
<tr>
<td>Municipal Systems Act 32 of 2000 (MSA)</td>
<td>Set out the core principles, mechanisms and processes to efficiently and effectively enable local government to achieve its constitutional mandate.</td>
</tr>
<tr>
<td>Municipal Finance Management Act 56 of 2003 (MFMA)</td>
<td>Provided best practices for the overall financial management of a local municipality thus contributing to a better managed and accountable local government sphere.</td>
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</tbody>
</table>

**Source:** *van der Waldt et al., 2014:54-68*

The Constitution gave the following status to the local sphere of government (The Constitution, 1996:s151):

151. Status of municipalities - (1) The local sphere of government consists of municipalities, which must be established for the whole of the territory of the Republic;

   (2) The executive and legislative authority of a municipality is vested in its Municipal Council;

   (3) A municipality has the right to govern, on its own initiative, the local government affairs of its community, subject to national and provincial legislation, as provided for in the Constitution; and

   (4) The national or a provincial government may not compromise or impede a municipality’s ability or right to exercise its powers or perform its functions.

The Constitution of 1996 further provided the categories of municipalities (The Constitution, 1996:s155 par. 1):

155. Establishment of municipalities – (1) There are the following categories of municipalities:

   (a) **Category A:** A municipality that has exclusive municipal executive and legislative authority in its area;
(b) **Category B:** A municipality that shares municipal executive and legislative authority in its area with a category C municipality within whose area it falls; and

(c) **Category C:** A municipality that has municipal executive and legislative authority in an area that includes more than one municipality.

The Constitution thus provided the legislative framework for the existence of a new, distinct sphere of government. Within the local government sphere, municipalities are an entity or organ of state, responsible for service delivery (van der Waldt *et al*., 2014:53). After the Constitution, the important legislation described in Table 4.1 was promulgated. These laws, specifically the MFMA, mandated the existence of an internal audit function within municipalities and provided for a legislative framework for internal audit.

**SUMMATIVE COMMENT**

South Africa pre-1994 was a time of segregation between different racial groups. This caused unfair distribution of resources which eventually called for changes in the way local government was administered and managed. Numerous enabling pieces of legislation came into existence and the Constitution allowed for a distinct sphere of government – the local government sphere. At the local level, legislation such as the MFMA set the foundation for the existence of an internal audit function. Internal audit thus has a legal mandate it must fulfil within municipalities.

It is important to note that internal audit in all municipalities has a legal mandate which must be adhered to. This mandate is discussed in more detail in Section 4.4 of this chapter which summarises the literature of what is expected from internal audit from a legislative perspective within metropolitan municipalities in South Africa.

Before the South African perspective is summarised, the next section provides a brief international perspective on internal audit within legislative and regulatory frameworks.
4.3 INTERNAL AUDIT’S LEGAL MANDATE – AN INTERNATIONAL PERSPECTIVE IN GOVERNMENT

The complex environment of government requires auditing beyond traditional compliance auditing, and as such, audits must contribute towards accountability of the entity (Sterck & Bouckaert, 2006). In 2006, the Public Management Institute in Belgium embarked on a study of six OECDs, including Australia, Canada, the Netherlands, Sweden, the United Kingdom and the United States (Sterck & Bouckaert, 2006). This study found similarities in the mandate of the IAFs. It was found that in some countries laws or regulations stipulate that IAFs must be formed. Canada and Australia are considered to be world leaders in, for example, performance auditing in government environments (Roos, 2009:43) and for this reason, they are included as part of the summaries below. The European Union is also included as part of the discussion due its member states having the largest net wealth in the world. An overview of the countries is provided below:

- **European Union**

  Most of the countries in the European Union have certain laws or sets of regulations and guidance which contribute to the establishment of an internal audit function, with each country establishing its own specific laws and regulations. A more detailed account of these laws, regulations and guidance can be found in Annexure D.

- **United States of America**

  In the United States of America, the Inspector General Act of 1978 sets out the mission of the Inspector General in federal government departments and agencies in the United States (Sterck & Bouckaert, 2006:1). However, no specific tasks are listed regarding the internal audit function. It merely provides guidance to the Inspector General regarding internal audits and other contract audits and indicates that the Inspector General has monitoring, investigative, evaluative and policy responsibilities.
towards internal audit and other contract audit activities as they relate to the Department of Defence (Inspector General Act, 1978:s7). No specific act makes the establishment of a separate internal audit department compulsory (Gabrini, 2013:viii).

- Canada

Before 2012, there existed no legislation specifying the need for internal audit (Sterck & Bouckaert, 2006) although the federal government in Canada did recognise the Standards (Coetzee, 2010:89; Treasury Board of Canada Secretariat, 2012). However, as of 2012, the Directive on Internal Auditing and the Policy on Internal Auditing were introduced to contribute to a strong, credible, effective and sustainable internal auditing function (Treasury Board of Canada Secretariat, 2012a; Treasury Board of Canada Secretariat, 2012b).

- Australia

No legislation currently specifies the need for internal audit (Sterck & Bouckaert, 2006).

- Europe-Central Asia

Europe-Central Asia was considered as having the highest percentage (92%) requiring internal audit to be established by law (IIARF, 2014:7, 14/15).

- Africa

Overall, Africa was sitting at 86% in terms of internal audit being mandated by law (IIARF, 2014:7, 14/15).

The following sections discuss the relevant South African legislation and regulations making reference to the work of internal audit and establishing its legal mandate.
4.4 INTERNAL AUDIT IN SOUTH AFRICAN MUNICIPALITIES

The next section makes reference to the relevant acts and regulations which govern the work of internal audit. These acts and regulations include:

- The MFMA;
- The MSA;
- The Municipal Planning and Performance Management Regulations (MPPMR);
- The Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers (hereafter MPRMM); and
- The Treasury Regulations.

4.4.1 The Municipal Finance Management Act

The MFMA was promulgated in 2003 with the aim of achieving the following objectives within local government in South Africa (MFMA, 2003:s2):

- To secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government;
- To establish treasury norms and standards for the local sphere of government; and
- To provide for any related matters.

From the above, it is clear that the MFMA creates a compulsory framework to help all municipalities, all municipal entities and national and provincial organs of state (to the extent of their dealings with municipalities) to achieve financial reporting objectives, operational efficiency and effectiveness objectives, compliance with laws and regulations objectives and to achieve safeguarding of assets objectives – all of which form part of internal audit’s mandate.
The MFMA and internal audit

The MFMA states that a municipality must have an IAF. Specifically, it is the responsibility of the accounting officer to ensure that an IAF is established (MFMA, 2003:s62(1)(c)(ii), s95(c)(ii)). The MFMA (2003:s165) states that the IAF is responsible for the following:

- Preparing a risk-based audit plan and an internal audit programme for each financial year;
- Advising the accounting officer and reporting to the audit committee on the implementation of the internal audit plan and matters relating to:
  - Internal audit;
  - Internal controls;
  - Accounting procedures and practices;
  - Risk and risk management;
  - Performance management;
  - Loss control;
  - Compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
- Perform such other duties as may be assigned to it by the accounting officer.

**SUMMATIVE COMMENT**

The uniqueness of internal audit in South African municipalities stems from the fact that its work is mandated. Section 165 of the MFMA provides a legislative framework as to the functioning of internal audit.
4.4.1.1 Links to the empirical study

Section 165 of the MFMA provides the basic legislative framework for IAFs in municipalities in South Africa. From the above section, the following emerged for empirical testing:

- Whether internal audit complies with Section 165 of the MFMA, in particular:
  - Does an IAF exist?
  - Does the IAF follow a risk-based plan?
  - Does internal audit prepare a work programme for each financial year?
  - Does internal audit advise the accounting officer on internal control, risk management, accounting procedures and practices, performance management, loss control, compliance with the MFMA and compliance with the Division of Revenue Act?
  - Does the IAF report to the audit committee, as prescribed in Section 165 of the MFMA?
  - Does the IAF perform other duties as prescribed by the accounting officer?

- Whether its mandate, as stated in Section 165 of the MFMA, is understood by those for which it conducts the work;

- Whether Section 165 of the MFMA is comprehensive enough to assist users to fulfil their legislative mandate; and

- Whether internal audit is regarded as competent to conduct the work, as prescribed in Section 165 of the MFMA.

4.4.1.2 Conclusion

The MFMA makes it compulsory for IAFs to exist within each municipality in South Africa. Section 165 of the MFMA prescribes certain rules with which the IAF must comply to enable the municipality, the accounting officer and the audit committee to meet their responsibilities. Therefore, compliance by internal audit with Section 165 of
the MFMA is critical for IAFs within municipalities to be able to function properly. Compliance testing is an important aspect of internal audit’s work (Asare et al., 2008:184; Ramamoorti & Balakrishnan, 2010:63; Urbancic, 2011:18), as is also the case for internal audit within the legislative framework in South African municipalities.

4.4.2 The Municipal System Act

Not much is stated in the MSA regarding the functioning of IAFs. However, section 49(1)(g) does allow the minister to create guidelines or regulations for the IAF regarding the audit of performance measures (MSA, 2000:s49(1)(g)). This topic is dealt with in more detail under the MPPMR and the MPRMM. However, internal audit is responsible for auditing the compliance with Chapter 6 of the MSA, as prescribed by the MPPMR.

Chapter 6 of the MSA states that a municipality must establish a performance management system (PMS) (MSA, 2000:s38) that is:

- Commensurate with its resources;
- Best suited to its circumstances; and
- In line with the priorities, objectives, indicators and targets contained in its Integrated Development Plan (IDP).

IAFs in municipalities in South Africa must conduct compliance testing on Chapter 6 of the Municipal Systems Act to contribute to the PMS of each municipality (a detailed account of Chapter 6 of the MSA can be found in Annexure E).

SUMMATIVE COMMENT

The MPPMR requires that IAFs of each municipality perform a compliance audit on Chapter 6 of the MSA. Chapter 6 stipulates that each municipality must establish a Performance Management System and provides guidelines for the establishment of
such a PMS. The work of internal audit is to determine whether each municipality adheres to Chapter 6 of the MSA. Thus, for internal audit in municipalities to function properly and contribute towards the PMS of a municipality, a compliance audit on Chapter 6 must be conducted.

4.4.2.1 Links to the empirical study

As part of the empirical study, it is determined whether:

- Internal audit is competent to perform the compliance audit on Chapter 6 of the MSA;
- The scope of work of the internal audit allows for a compliance audit on Chapter 6 of the MSA;
- Internal audit’s mandate on Chapter 6 of the MSA is understood by those for whom it conducts the work; and
- The mandate on Chapter 6 of the MSA is sufficient to assist users in fulfilling their compliance mandate.

4.4.3 Municipal Planning and Performance Management Regulations

Each municipality must have a PMS and must show how the municipality plan monitors, measures, reviews, reports and improves on performance measures (MPPMR, 2001:Regulation 7(1)). Internal auditing plays a crucial role in independently auditing these performance measures. The MPPMR outlines the responsibilities of internal audit departments regarding the auditing of performance measures:

- The municipality must ensure that systems are in place to allow for the auditing of performance measures by internal audit;
- The auditing of performance measures must include an assessment of:
  - The functionality of the municipality’s PMS;
o The compliance of the PMS with the Act (Chapter 6 of the MSA) (refer to Section 4.4.2); and
o The extent to which the municipality’s performance measurements are reliable in measuring the performance of municipalities on indicators referred to in regulations 9 and 10.
- The IAF must on a continuous basis audit the performance measurements of the municipality and submit quarterly reports of their audits to the municipal managers and the performance audit committee (Regulation 14(1)(a), (b) and (c)).

In the context of the above regulations, it is important for internal audit to establish the functionality of a municipality’s PMS and to determine whether the selected performance measures are relevant to the municipality. Each municipality must report on set performance indicators and internal audit, as part of the above regulations, must determine whether the reported performance indicators are reliable. The work that internal audit conducts on regulation (14) (a) (b) (c) must be reported quarterly to the municipal managers and the performance audit committee. In essence, this regulation leads to internal audit conducting performance auditing, namely, assessing whether municipalities achieve their strategic objectives, as set out in the IDP and the Service Delivery Budget Implementation Plan, in the most economical and efficient manner and whether the controls to achieve this are effective (Annexure F provides some definitions of performance auditing).

**SUMMATIVE COMMENT**

Municipalities serve as agents for the public and need to be accountable for how they use financial and other resources. In municipalities, the principle of agency theory is therefore greatly emphasised. Since government acts as an agent or custodian of public funds, there exists a very real need for independent auditors to verify how the agent is spending funds and ensuring service delivery. Government officials must be accountable for how they discharge the responsibilities that are bestowed upon them and a primary method of evaluating their accountability is through the reporting and auditing process of both internal and external auditors (Brink & Witt, 1982:730; Kincaid, Sampias, Marcella & Waring, 2005:74; Gao & Zhang, 2006:731; Coetzee, 2010:13, 19; IIA, 2012:5, 13). In this regard, the principle of performance management
was emphasised in the White Paper on transforming public service delivery, *Batho Pele*, which selected the public service principle, “Value for money – public services should be provided economically and efficiently” (DPSA, 1997:15; Roos, 2009:10). Internal audit thus plays a crucial role through performance auditing, as implied by regulation 14 of the MPPMR.

4.4.3.1 Links to the empirical study

Regulation 14 of the Municipal Planning and Performance Management Regulations sets the parameters for the work IAFs must perform on the PMS of each municipality. As part of the empirical study it is determined whether:

- Internal audit is competent to perform the work prescribed in Regulation 14;
- Internal audit’s scope of work allows for work to be conducted as prescribed by Regulation 14, in particular, whether internal audit assesses the functionality of the municipality’s PMS as well as the reliability of performance measures and submits quarterly reports to the municipal manager and the performance audit committee,
- Internal audit’s mandate under Regulation 14 is understood by those for whom they conduct the work; and
- The mandate, as prescribed in Regulation 14, is adequate in assisting users in their performance management mandate.

4.4.3.2 Conclusion

Performance auditing by internal audit is important for the government sector (Chambers, 2011:40). This is also emphasised in the Municipal Planning and Performance Management Regulations which provide a very specific scope for IAFs to include as part of their performance auditing engagements.
4.4.4 Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers

Chapter 3 of the MPPMR states that the IAF must audit the performance measurements set by a municipality (refer to Section 4.4.3). In this regard, the MPRMM states that municipal managers and other managers must adhere to the PMS adopted by the municipality (Government Gazette, 2006:Regulation 26(1)). It is therefore important for internal audit as part of its auditing mandate, to audit the performance agreements and contracts of these individuals. The MPRMM aims to achieve the following (Government Gazette, 2006:1):

These regulations seek to set out how the performance of municipal managers will be uniformly directed, monitored and improved. The regulations address both the Employment Contract of a municipal manager and managers directly accountable to municipal managers, as well as the Performance Agreement that is entered into between respective municipalities, municipal managers and managers directly accountable to municipal managers. These instruments will, in combination, ensure a basis for performance and continuous improvement in local government.

As part of its audit mandate, internal audit must therefore conduct compliance audits on this regulation with reference to the performance agreements and employment contracts of municipal managers and managers accountable to them (municipal managers). Annexure G provides an overview of what this regulations entails.

**SUMMATIVE COMMENT**

Internal audit functions in municipalities must perform compliance testing on the Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers. These regulations set the criteria for employment contracts for Section 57 employees and the actual performance agreement for those employees. Internal audit must determine whether the performance agreements and employment contracts are in line with these regulations.
4.4.4.1 Links to the empirical study

As part of the empirical study, it is determined whether:

- Internal audit is competent to perform a compliance audit on the Performance Regulations for Municipal Managers;
- Internal audit’s scope of work allows for a compliance audit on Performance Regulations for Municipal Managers;
- Internal audit’s mandate to audit the Performance Regulations for Municipal Managers is understood by those for whom it conducts the work; and
- Internal audit’s current mandate regarding the Performance Regulations for Municipal Managers is adequate in assisting users in their performance management mandate.

The following section discusses the Treasury Regulations.

4.4.5 Treasury Regulations

The Treasury Regulations are issued in terms of the Public Finance Management Act no. 1 of 1999 (PFMA) and the Constitution of South Africa (Janse van Rensburg & Coetzee, 2011:49). They are applicable to all departments, public entities, constitutional institutions and the South African Revenue Services (National Treasury, 2005:3; Janse van Rensburg et al., 2011:49). The Treasury Regulations provide criteria for IAFs to guide them in their functioning. These sections are highlighted next.

The Treasury Regulations provide IAFs with guidance which can contribute to their effective functioning. These compulsory criteria can be found in Section 3.2 of the Treasury Regulations and entail the following (National Treasury, 2005:3-6):

- The accounting officer must ensure that a risk assessment is conducted regularly to identify emerging risks of the institution. A risk management strategy, which must include a fraud prevention plan, must be used to direct internal audit effort and priority and to determine the skills required of managers and staff to improve controls and to manage these risks. The strategy must be clearly communicated
to all officials to ensure that the risk management strategy is incorporated into the
language and culture of the institution;

- Each institution to which these Regulations apply must have an internal audit
function;

- The purpose, authority and responsibility of the internal audit function must, in
consultation with the audit committee, be formally defined in an audit charter and
be consistent with the IIA’s definition of internal auditing;

- Internal audit must be conducted in accordance with the Standards set by the IIA;

- An internal audit function must prepare, in consultation with and for approval by
the audit committee:
  - A rolling three-year strategic internal audit plan based on its assessment of key
    areas of risk for the institution, having regard to its current operations, those
    proposed in its strategic plan and its risk management strategy;
  - An annual internal audit plan for the first year of the rolling three-year strategic
    internal audit plan;
  - Plans indicating the proposed scope of each audit in the annual internal audit
    plan; and
  - A quarterly report to the audit committee detailing its performance against the
    annual internal audit plan to allow for effective monitoring and possible
    intervention.

- An internal audit function must assess the operational procedures and monitoring
mechanisms over all transfers made and received, including transfers in terms of
the annual Division of Revenue Act;

- An internal audit function must report directly to the accounting officer and shall
report at all audit committee meetings;

- The function must be independent of activities that are audited, with no limitation
on its access to information;

- The internal audit function must coordinate with other internal and external
providers of assurance to ensure proper coverage and to minimise duplication of
effort;

- The internal audit function must assist the accounting officer in maintaining
efficient and effective controls by evaluating those controls to determine their
effectiveness and efficiency and by developing recommendations for
enhancement or improvement. The controls subject to evaluation should encompass the following:

- The information systems environment;
- The reliability and integrity of financial and operational information;
- The effectiveness of operations;
- Safeguarding assets; and
- Compliance with laws, regulations and controls.

- The internal audit function must assist the accounting officer in achieving the objectives of the institution by evaluating and developing recommendations for the enhancement or improvement of the processes through which:
  - objectives and values are established and communicated;
  - the accomplishment of objectives is monitored;
  - accountability is ensured; and
  - corporate values are preserved.

Many of the criteria in the Treasury Regulations regarding internal audit are consistent with the Standards, focusing more on the attributes of the internal audit function, with some elements of performance activities. For example, internal audit must plan all audit engagements which must be based on the major risks facing the entity. The Standards require internal audit’s work to be documented in a charter and require internal audit to be independent, all of which forms part of the Treasury Regulations. The work of internal audit, as prescribed in the Treasury Regulations, is also consistent with the Standards with reference to its control evaluation mandate.

### 4.4.5.1 Links to the empirical study

The extent to which internal audit in municipalities meets the requirements outlined in the Treasury Regulations forms part of the empirical study. In particular, it is sought to establish whether it reports quarterly to the audit committee.
It should be noted that many of the requirements of the Treasury Regulations are found in the *Standards* and these sections have already been covered; thus only the one aspect was selected out of the Treasury Regulations for empirical testing.

4.4.6 The Internal Audit Framework – National Treasury

The Internal Audit Framework developed by the National Treasury derives its mandate from the PFMA and the MFMA. It aims at creating an operational guideline for IAFs in the public service (National Treasury, 2009:3). The Treasury Regulations require IAFs to comply with the *Standards*. Much of the guidance provided in the Internal Audit Framework strongly relates to the *Standards* which were discussed in detail in Chapter 3 of this study.

4.4.7 Other recommended best practices for municipalities in South Africa

The following sections provide an overview of other best practices which, although not compulsory for municipalities, constitute recommended best practices to be followed.

- **Protocol on Corporate Governance in the Public Sector**

  The aim of the Protocol on Corporate Governance in the Public Sector is to create a framework of good governance practices specifically tailored for the needs of the public sector (Department of Public Enterprises, 2002:4). The application of these guidelines is mandatory for state-owned enterprises (SOEs) (Coetzee, 2010:102, 103; Janse van Rensburg & Coetzee, 2011:49). More specifically, the Protocol (Department of Public Enterprises, 2002:9) applies to:
• All public entities listed in Schedules 2 and 3 (B) and (D) to the PFMA; and
• Any unlisted public entities that are subsidiaries of any public entity, whether listed on not.

Although the Protocol is not applicable to municipalities under the MFMA, it is worth noting the practices which are being stated for IAFs, as this information could be useful for other IAFs not falling under the application of the Protocol.

The Protocol on Corporate Governance in the Public Sector defines internal audit as follows:

The internal audit is a process which tests whether established procedures are being followed and whether internal controls are operating effectively. Internal control are procedures and rules established by management to assure that SOEs’ assets are protected from loss as a result of carelessness, dishonesty or poor judgement and that data is recorded accurately and timeously.

This definition of internal audit is also applicable and valuable in local municipalities.

The Protocol provides other duties of internal audit such as:

• Internal audit must report to the audit committee;
• Internal audit should have unrestricted access to the SOE and the audit committee;
• Internal audit should have terms of reference;
• Internal audit should report to someone within the SOE who allows it to discharge its responsibilities;
• Internal audit should be independent of external auditors; and
• The employees conducting internal audit engagements must be fit and proper individuals and familiar with the professional Standards, as outlined by the IIA.

These practices are clearly applicable to IAFs in local municipalities. All the above practices can be found in the Standards and other practice advisories which were discussed in detail in Chapter 2 and other parts of the present chapter; they will therefore not be repeated as part of the empirical study of this research.
The Internal Audit Capability Model (IA-CM) for the Public Sector

The Internal Audit Capability Model (IA-CM) (refer to Annexure H) provides a framework for the effective functioning of IAFs in government (IIARF, 2009:vii, 5; Janse van Rensburg & Coetzee, 2011:50; IIA, 2012b:5). The model was validated within the Argentinian, Australian, Croatian, Egyptian, French, Kenyan, Malaysian, Tanzanian, UK and Ugandan context. The model consists of five levels, with each describing best practices for the effective functioning of internal audit (IIARF, 2009:1).

However, the aim of the present study is not to categorise municipalities into a certain capability level; rather, it is a literature review which summarises practices which contribute to the proper functioning of IAFs and which tests these practices empirically. The IA-CM model provides best practices which are essential for the functioning of IAFs in the government sector. Six essential elements have been identified (IIARF, 2009:9):

1. Services and role of internal auditing;
2. People management;
3. Professional practices;
4. Performance management and accountability;
5. Organisational relationships and culture; and

The first four key elements relate to the management and practices of the internal audit activity itself, while elements five and six relate to the internal audit function’s relationship with the organisation and the internal and external environments (IIARF, 2009:10). The IA-CM further provides key performance areas (KPAs) for each of the above elements which, if achieved, could contribute towards an effective internal audit function (IIARF, 2009:18).

The IA-CM argues that meeting these KPAs could contribute towards an effectively functioning internal audit department in the government sector. Most of the guidance
listed above can also be found in *Supplemental Guidance: The Role of Auditing in Public Sector Governance*, issued by the IIA (IIA, 2012: 6, 7, 15, 21, 22).

The IA-CM provides some best practices for IAFs in the public sector. Although these practices are not mandated, they do provide guidance for IAFs on striving towards a more effectively functioning department. However, the aim of this study is not to categorise municipalities within a certain capability level and many of the practices have already been discussed in other sections.

- **The Public Sector Risk Management Framework**

The PFMA and the MFMA require accounting officers to ensure that their institutions have and maintain effective, efficient and transparent systems of risk management (PFMA, 1999:s38(1)(a)(i); PFMA, 1999:s51(1)(a)(i); MFMA, 2003:s62(1)(c)(i); MFMA, 2003:s95(c)(i); National Treasury, 2010:17; Coetzee et al., 2012b:25). The National Treasury, under the auspices of the PFMA and the MFMA, introduces this risk management framework which is applicable as best practice to all spheres of government (National Treasury, 2010:18; Coetzee, 2010:172). This section provides an overview of internal audit functions regarding risk management, as prescribed by the Public Sector Risk Management Framework. The following responsibilities have been highlighted in the Public Sector Risk Management Framework:

- Providing independent, objective assurance on the effectiveness of the institution’s system of risk management;
- Evaluating the effectiveness of the entire system of risk management and providing recommendations for improvement where necessary;
- Developing an internal audit plan on the basis of the key risk areas;
- Determining whether risk management processes are effective based on sound judgment resulting from the internal auditor's assessment that:
  - Institutional objectives support and align with the institution’s mission
  - Significant risks are identified and assessed;
  - Risk responses are appropriate to limit risk to an acceptable level; and
Relevant risk information is captured and communicated in a timely manner to enable the accounting officer, management, risk management committee and other officials to carry out their responsibilities.

- In cases where internal auditors assume the role of the chief risk officer, their risk management responsibilities include:
  - Assisting management to develop a risk management policy, strategy and implementation plan;
  - Coordinating risk management activities;
  - Facilitating identification and assessment of risks;
  - Recommending risk responses to management; and
  - Developing and disseminating risk reports.


These functions addressed above are consistent with the Standards, the IIA Position Paper on the Role of Internal Audit in Enterprise Risk Management and related practice advisories which were already addressed in Sections 3.4.3.1-3.4.3.3. These work areas are tested in other sections of the study and therefore do not form part of the empirical research.

The next section provides an overview of King III as it relates to the functioning of IAFs.

- **King III**

One of the most influential pieces of corporate governance literature in South Africa is the King Reports on Corporate Governance. In 1994, the first King report was issued, followed by the King II report in 2002. Currently, King III is a best practice governance code compiled by the King Committee in South Africa. The need for King III was primarily due to changes in international trends and the introduction of the new Companies Act no. 71 of 2008 (IoD, 2009:4; PwC, 2009:2). As part of King III, best
governance practices have been set out for IAFs to enable them to function as a unit and therefore contribute effectively to the governance processes of the entity. King III thus provides a framework for overall good governance and municipalities can benefit from the use of King III as legislatively municipalities must effectively and efficiently manage the administration of municipalities, in all respects, within the boundaries of good governance – King III providing a best practice framework in this regard. Figure 4.1 below summarises elements addressed by King III, as they relate to internal audit.

King III states that the board (or in municipalities, the municipal council) should ensure that there is an effective, risk-based internal audit function. This means that internal audit resources should be spent on areas having the highest risk exposure or remaining residual risks. When the internal audit function is established, the following functions are recommended to be undertaken by internal audit:

- Evaluating the entity’s governance processes;
- Evaluating the effectiveness of risk management and the internal control framework;

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• Evaluating business processes and corresponding controls;
• Serving as a source of information on matters concerning fraud, corruption, unethical behaviour and irregularities;
• Ensuring that the internal audit approach is informed by the strategy and risks of the entity;
• Remaining an objective assurance provider who considers:
  o risks that may prevent or slow down the realisation of strategic goals;
  o whether controls in place mitigate identified risks;
  o opportunities that promote realisation of strategic goals.
• Ensuring that internal audit forms part of the combined assurance model;
• Providing a written assessment of the system of internal controls and risk management to the board (municipal council); and
• Providing a written assessment of internal financial controls to the audit committee (IoD, 2009:44-45).

These are the most prominent recommendations which form part of the objective of this chapter, as outlined in King III. Many of these areas are consistent with the Standards and were discussed in other sections of this research as part of the empirical study.

- **Supplemental Guidance: Optimising Public Sector Audit Activities**

In July 2012, the IIA issued the above guidance and listed the advantages and disadvantages of restructuring internal audit within the government sector which could therefore impact on the functioning of IAFs. In the guidance, two scenarios are discussed, one referring to the centralisation of the internal audit unit and the other proposing a decentralised approach (IIA, 2012a:2).

Internal audit functions can either be centralised or decentralised, with each approach having a different impact on their operation. The MFMA requires each municipality to maintain an internal audit function; municipalities have adopted a centralised approach.
4.4.8 Frameworks which can be used by internal audit in their evaluations

The following sections make specific reference to COSO’s Integrated Internal Control Framework and the Enterprise Risk Management (ERM) Framework. These frameworks can be used by internal auditors either to benchmark practices at the entity or to use them as best practice criteria in cases where the entity does not have established control, risk management and governance processes. The inclusion of these frameworks is mainly due to the reference made to them in the Internal Audit Framework published by the National Treasury of South Africa (National Treasury, 2009:3). The existence of other frameworks and governance codes such as the CoCo model, ISO 31000 on risk management, codes established by the Canadian and UK governments, the Basel Report (1997 & 2004), the Cadbury Report (1992), the Greenbury Report (1995), the Hampel Report (1998), the Turnbull Report (1999), the Higgs Report (2003), the Smith Report (2003), the Combined Code (2003), frameworks established by the UK Institute of Risk Management and the Australian and New Zealand Standards Boards are all acknowledged, but not specifically consulted. Detailed discussions of these can be found in the doctoral work of Marx (2008:cxiii-cxliv) and Coetzee (2010:163-176).

4.4.8.1 COSO’s Integrated Internal Control Framework and Enterprise Risk Management Framework

COSO consists of five private sector organisations, namely, the American Accounting Association (AAA), the AICPA, the Financial Executives International (FEI), the Association of Accountants and Financial Professionals in Business (IMA) and the IIA (Steffee, 2009:48; COSO, 2014). One of the main aims of COSO is to establish best practice frameworks addressing enterprise risk management processes, internal control and fraud deterrence (COSO, 2014a). Two major frameworks, falling within the definition of internal auditing and mandatory guidance, have been designed by COSO, namely, the Integrated Internal Control Framework and the ERM Framework.
In short, the COSO framework provides criteria for internal control which, if implemented, could lead to effective internal control systems (Coetzee et al., 2012:69; Fourie & Ackermann, 2013:500; Fourie & Ackermann, 2013a:37; COSO, 2014:1). The control criteria, as explained in COSO’s framework, can therefore assist in the achievement of objectives such as (Coetzee et al., 2012:68-69; Fourie & Ackermann, 2013:499; Fourie & Ackermann, 2013a:33):

- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations;
- Safeguarding assets; and
- Compliance with laws, regulations, policies and procedures.

Internal audit plays a critical role in the evaluation of control processes relating to the above objectives. It can therefore be said that the use of the COSO framework in control evaluation would assist internal audit in its mandate to audit control processes.

The goal of this study, however, is not to evaluate the criteria established in the COSO framework and therefore a quick overview of the components of internal control as explained by COSO is provided. The COSO framework consists of five elements, namely (Gleim, 2009:96; IIA, 2010b:335; Marx, van der Watt & Bourne, 2011:12-3; AICPA, 2013; COSO, 2013:4-5; Rittenberg, 2013:63, 64; PwC, 2014; Laxman, Randles & Nair, 2014:50):

- Control environment;
- Risk assessment;
- Control activities;
- Information and communication; and
- Monitoring.

Under each of the five elements, detailed control criteria exists which could be implemented by management to contribute towards effective internal control, risk management and governance processes (COSO, 2013:6; COSO, 2014b:1). The
updated COSO Integrated Internal Control Framework provides 17 criteria which, if implemented, could assist the management of an entity to achieve an effective internal control system (AICPA, 2013; COSO, 2013:6). Figure 4.2 below provides a summary of the new COSO framework.

**Figure 4.2: The new COSO Integrated Internal Control Cube**

*Source: IIA, 2009a:183; AICPA, 2013*

The top of the cube describes the business objectives an entity aims to achieve while the five components running down the front of the cube are the means of achieving the objectives across all areas within the entity (side of the cube). Within the five interrelated components, 17 control criteria exist which could contribute towards the achievement of entity objectives.

COSO’s ERM Framework can assist entities in effectively identifying, assessing, designing, implementing and managing entity-wide risk (COSO, 2004:v; AICPA, 2014). It provides a best practice approach to risk management throughout the whole entity and enables entities to understand all key risks at a strategic and operational level as well as indicating how the risks relate to one another (Coetzee et al., 2012b: 29). The framework is an extension of the original COSO Integrated Internal Control Framework which expanded upon the ERM framework to assist entities to focus on
the broader subject of enterprise risk management (COSO, 2004:v, 6; Marx, 2008:cliv). COSO (2004:2) defines enterprise risk management as follows:

A process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

The ERM framework is geared towards assisting entities to achieve strategic, operational, reporting and compliance objectives (COSO, 2004:3; Coetzee et al., 2012b:31)). Once again, these are areas in which internal audit plays a critical role and the use of the COSO ERM framework could assist internal audit in its risk management evaluation mandate. By using the framework, it could assess the entity’s risk management processes or benchmark existing practices within the entity.

Figure 4.3 below provides a summary of the components, objectives and application of the framework across the entity.

Figure 4.3: COSO ERM cube

The broad objectives on top of the cube represent what senior management and other management wish to achieve. The front of the cube represents what is needed to achieve the objectives (criteria under each component) across the whole entity (side of the cube). Internal audit assists management in the achievement of objectives by evaluating internal control, risk management and governance processes. The use of the ERM framework could therefore assist internal audit in discharging its internal control and risk management mandate.

4.5 CHAPTER SUMMARY

This chapter outlined some of the important legislation and regulations within South African municipalities which mandate the existence of internal audit and direct its work. The referenced legislation and regulations provide a mandatory scope of work for internal auditors, ensure the effective functioning of IAFs and add value to the entity as they must form part of the scope of internal audit work.

The next chapter discusses the communication practices of IAFs with a focus on the reporting process and the actual report as a medium of communication. Proper communication via a written report is critical for IAFs as this is what the client sees at the end of the audit. It is therefore an important aspect of IAFs’ functioning.
CHAPTER 5

INTERNAL AUDIT REPORTING

5.1 INTRODUCTION

In Chapter 1 of this study, it was made clear that internal audit communication via a written report is a very important output of the internal audit process and therefore critical for its effective functioning. If work on internal control, risk management and governance is performed, it follows that for internal audit to add value to the users, the findings must be effectively communicated in a written report. The internal audit report is critical for the user as this is the point where the user, such as the audit committee, receives information on matters affecting decision-making.

This chapter first provides a summary of evidence which calls for a study into internal audit reporting with the focus on the actual internal audit report. The Standards are considered, particularly Standard 2400, Communicating Results, as well as relevant practice advisories in order to determine what is expected of internal audit regarding communicating results. Standards from other professional institutions are also analysed to identify other possible best practices for the internal audit report. This is followed by a discussion on internal audit communication outside the entity (to external stakeholders) with the aim of identifying trends in internal audit communication in public reports. Lastly, the GIACF is consulted in order to identify the core competencies internal audit should possess for overall effective communication.

Although internal audit can provide a verbal account of internal audit findings, this study takes the position that a written report should be issued after each internal audit engagement.

It is also important to note that this chapter does not focus on the ‘softer’ communication skills of internal audit, but rather on the technical aspects of the reporting process and the actual report itself.
5.2 INTERNAL AUDIT COMMUNICATION IN SOUTH AFRICAN MUNICIPALITIES

In a study conducted by Mjiyako (2006:1, 2, 3), it was evident that even in the 2002-2003 Auditor-General reports in South Africa, IAFs were not functioning effectively. In this study it was found that internal audit was regarded as being unqualified and inexperienced while performing duties it should not be performing. This may cause the users of internal audit services to discount their work. Consistently, the same type of remarks are being made by the Auditor-General in South Africa, stating that audit committees and internal audit “are in part to blame for auditees not obtaining clean audit reports” (Auditor-General South Africa, 2012:86). The Auditor-General South Africa specifically stated that IAFs do not adequately evaluate internal control and therefore do not adequately report to the audit committee on matters such as accounting, risk management and loss control (Auditor-General South Africa, 2011:32; Auditor-General South Africa, 2012:86; Auditor-General South Africa, 2013:31, 35, 75, 103). The Auditor-General South Africa (2012:87) deduced that audit committees are not yet effective in government due, to a large extent, to lack of interaction and information flow between internal audit and executive councils and mayors. Seeing that the internal audit report is such an important communication medium, this called for a study into internal audit reporting as an important component of IAFs’ effective functioning.

These observations are of concern as internal audit performs important work on internal control, risk management and governance processes which must be reported to audit committees, senior officials and, in effect, to the highest level of mayor. Even if internal audit performs all the work necessary to inform users, the work will be in vain if internal audit is not able to properly report on relevant matters. It is therefore important to recognise the internal audit report as a critical aspect of IAFs’ functioning because it enables internal audit to demonstrate its ability to act as an important governance role player.

The internal audit process could thus easily be undermined by poor reporting. The written report is inevitably what the client will be consulting in order to make informed
decisions on matters such as internal control, risk management and governance processes. Internal auditors are considered as ‘information guardians’ but their functioning is impaired if the reports they deliver are inadequate (de Jager, 1982:1, 7; Dittenhofer, 1994:15; Fourie, 2005:78; Sawyer, Dittenhofer & Scheiner, 2005:688; Sarens, 2007:105; Abdolmohammadi & Rhodes, 2009:24; Stuebs & Alejandro, 2010:53, 54, 55; Lenz & Sarens, 2012:533, 534, 535; Ernst & Young, 2013:5; IIA, 2013; Jackson, 2014:43).

The importance of internal audit reporting is emphasised in the Standards and King III. IAFs are aiding executive boards (via the audit committee) and management in fulfilling their governance objectives by systematically evaluating the effectiveness and efficiency of internal control, risk management and governance processes and then communicating results in a written report (IoD, 2009:14, 38, 44, 45; KPMG, 2008:1; IIA, 2013;). In South Africa, the PFMA and the MFMA state that an IAF must be established and report and advise (by communicating) to the audit committee (PFMA, 1999:s38, s51; MFMA, 2003:s62, s95, s165; Mjiyako, 2006:1, 9; Marx, 2008:219; Gramling & Hermanson, 2009a:38; Coetzee, 2010:15).

The importance of independent audit reporting, whether internal or external, can also be found in the definition of agency theory:

A supposition that explains the relationship between principals and agents in business. Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (shareholders) and agents of the principals (company executives). The two problems that agency theory addresses are: 1) the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing; and 2) the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions (Spencer Pickett, 2005:11-13; Christopher, Sarens & Leung, 2009:202; Sarens & Abdolmohammadi, 2011a:4; Investopedia, 2013).

In the case of government, the principle of agency theory is greatly emphasised. Government acts as agent for the public, having custody over public funds. A very real need therefore exists for independent auditors to verify what the agent is actually doing.
in terms of spending funds and ensuring service delivery. Government officials must be accountable for how they manage the responsibility that is entrusted to them. A primary method of evaluating their accountability is through the reporting and auditing process of independent, internal or external audit (Kincaid, Sampias, Marcella & Waring, 2005:74; Gao & Zhang, 2006:731; Coetzee, 2010:13, 19; Memmott & Jacobson, 2012:41).

High quality reporting is critical for internal auditors in order to gain the attention of management; it is an opportunity to demonstrate that internal audit is helping to achieve management’s objectives (Sawyer et al., 2005:687; Sparks, 2011:72). Sawyer et al., (2005:688) further assert the following on reporting:

> Internal audit reports can be powerful instruments when they are well used and constructed. They can create the impression of audit professionalism. They can tell their clients – senior management – about important events they would otherwise not know about. They can change thinking. They can impel action.

Sawyer et al., (2005:687) warn against poor reporting, stating that:

> …much too often, auditors clearly throw away this golden chance to open management’s eyes, to show management what they have accomplished and what they can accomplish, to explain what management needs to know and what it needs to do. Internal auditors throw away this opportunity by using pallid prose, by making mountains out of rubbish heaps, by being content with uninviting report formats, by making allegations that won’t withstand assault, by drawing unsupported and illogical conclusions, and by reporting findings without solutions.

These type of concerns appear to be evident in IAFs in municipalities in South Africa, as noted in the Auditor-General’s findings (Auditor-General South Africa, 2011:32; Auditor-General South Africa, 2012:86; Auditor-General South Africa, 2013:31, 35, 75, 103). It is therefore imperative to determine the extent to which internal audit is, or is not, adhering to sound reporting practices.
The rest of this chapter discusses what the relevant Standards and other literature regard as good reporting, with the focus on the reporting process and the actual report itself.

5.3 INTERNAL AUDIT REPORTING WITHIN THE ENTITY

The next sections provide descriptions of the detailed reporting practices which are expected of internal audit with reference to Standard 2400, Communicating Results, and Standard 2500, Monitoring Progress, with related practice advisories and other literature suggesting best practices.

It should be noted that although monitoring progress (Standard 2500) is seen as a separate stage in the internal audit process, it is discussed as part of overall reporting seeing that internal audit must again report on the status of initially reported internal audit findings.

5.3.1 Standard 2400 – Communicating results

The Standards require that internal audit communicate the results of each engagement in a written report. It follows that if internal audit does work on internal control, risk management, governance and other aspects as required by law, this work must be reported in such a manner as to enable users to discharge their responsibilities. As part of the overall reporting, internal audit must state the engagement objectives, the scope of the internal audit, the conclusions reached, the recommendations to management and action plans (how internal audit findings and root causes are to be addressed by management). When opinions and conclusions are drawn by internal audit, these must be based on sufficient, reliable, relevant and useful information which is recorded in the internal audit working papers. The opinions expressed by internal audit are not always necessarily negative - the acknowledgment of good performance in internal audit reports is also good practice. The core elements of Standard 2400 are discussed below.
- **Quality of communication**

Internal audit reports must be accurate, objective, clear, concise, constructive, complete and timely. The reported findings must be free from error, supported by evidence and the result of the objective evaluation of observations made during fieldwork. The report must be easy to understand, using language the client will be familiar with and giving users exactly what they need – significant and relevant information on internal control, risk management and governance processes. Reports are required to be concise, must avoid repetition or any unnecessary details. The report must therefore be helpful to the client and be able to lead to improvements in the area under review. The report must contain all work in support of the internal audit objectives, the scope of the audit and recommendations made and must therefore not exclude essential information. During the planning phase of the audit, it is good practice to provide a timeline within which the internal audit will be completed so that the client is informed on when to expect the final report.

- **Errors and omissions**

In some cases, it is possible that reports contain errors or omit important issues. In such cases, the CAE must communicate corrected reports to all parties which received the original report.

- **Quality assurance and improvement programme**

The Standards allow for internal audit to state in its report that the internal audit is “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing”. This shows that the internal audit was conducted following the best Standards and that even the report adheres to the highest quality. In instances where IAFs conform with the Standards in conducting their work, the use of this statement must be supported by a quality assurance and improvement programme which can be conducted by a party outside of the entity to determine whether internal audit did indeed adhere to the Standards.
Engagement disclosure of non-conformance

In instances where internal audit did not adhere to the definition of internal auditing, the code of ethics or the Standards, this fact must be communicated in the internal audit report. This must indicate the specific rule, principle or code which was not adhered to, why it was not adhered to and how this impacted on the current internal audit engagement and the reported results.

Dissemination of results

In Figure 3.1 below it is clear that the report should be distributed to its users. It is the responsibility of the CAE to approve the final internal audit report and to decide who receives the report. The basic rule is that those who have authority to implement engagement recommendations should receive internal audit reports. Even when the CAE delegates this responsibility, overall responsibility remains with the CAE. When the CAE releases internal audit reports to parties outside the organisation, the report must clearly indicate limitations on further distribution and use of the results. In such cases, the CAE must assess the risk of releasing results outside the organisation and seek advice from senior executives or legal counsel before proceeding. Generally, irrespective of the rule to communicate outside the normal chain of command, it is good practice to have some guidance on the matter in the internal audit charter.

Overall opinions

When internal audit provides an overall opinion on a specific area under review, it is important that this opinion be supported by sufficient, reliable, relevant and useful information (IIA, 2012c:17). In cases where internal audit gives an unfavourable opinion, the reason for this opinion must be stated in the report. The opinion could be overall opinions or can be related to a specific aspect of the engagement. Whatever the opinion, the internal auditor must make clear the scope of the opinion and its limitations.
- **Communication of the acceptance of high residual risk**

During the course of fieldwork or during follow up audits, internal audit may feel that senior executives have accepted a level of risk outside the acceptable tolerable rate of deviation. In such cases, the CAE must discuss the matter with the senior executives to resolve the issue. If senior executives still accept the level of risk while the CAE believes to the contrary, the CAE must report the matter to the board or, in the case of local municipalities, to the municipal council.

**SUMMATIVE COMMENT**

*Standard 2400* provides the minimum mandatory guidance for internal audit relating to the communication of engagement results through audit reports. Adhering to the principles of *Standard 2400* ensures that internal audit provides high quality communication to senior executives and the audit committee. This demonstrates both the professionalism and the competence of internal audit, contributing to its credibility and the future use of its services.

**5.3.1.1 Links to the empirical study**

Not following sound reporting practices as prescribed by *Standard 2400*, Communicating Results, could drastically hamper the ability of internal audit to report on important matters concerning internal control, risk management and governance processes. Therefore, the extent to which internal audit follows good communication standards as prescribed in *Standard 2400* forms part of the empirical study of this research with particular focus on the following:

- Whether a report is issued after each engagement. This report must contain the engagement purpose, scope and internal audit findings;
- Whether users of internal audit reports are confident that findings are based on sufficient, reliable, relevant and useful audit evidence;
- Whether unfavourable opinions are supported by reasons;
- Whether the reports provide clear scope limitations to which opinions are applicable;
- Whether procedures exist to report corrections of mistakes in internal audit reports;
- Whether procedures are established for the release of reports; and
- Whether CAEs established procedures to communicate high residual risks to the municipal council in cases of unacceptable levels of risk.

5.3.2 Key elements of internal audit findings

Internal audit findings or observations form important aspects of the report and play a critical role in informing users of critical findings on aspects of internal control, risk management and governance processes. It is acknowledged that no fixed format or content exists for internal audit reports, but the key elements listed in the following sections are strongly recommended as they are essential in informing, persuading and calling for corrective action at the actual point of issuing the internal audit report.

Internal audit findings occur when there is a difference between ‘what should be’ (the standard operating procedure, criteria, best practice framework, legislation or regulation) and ‘what is’ (a deviation from the standard operating procedure, criteria, best practice framework, legislation or regulation). Any discrepancies between the two set the foundation for the report (Gleim, 2009:59). The IIA (2010a) recommends that an internal audit finding should contain the ‘five Cs’ which are discussed below.

- Criteria

This usually forms the first part of an internal audit finding. The criteria is a standard, measure, best practice framework, law, regulation or organisation-specific standard operating procedure against which the internal audit is performed. The criteria is described in literature as “the correct state”, “what ought to be” or “what should be” (Gleim, 2009:59; IIA, 2010a:51).
**Condition**

During the fieldwork stage of the internal audit process, the internal auditor collects and analyses evidence. This factual evidence is the found condition, that is, ‘the current state’ or ‘what is’ or the facts found for the area under review. A deviation between the criteria and the condition gives rise to the internal audit finding. However, any additional information included on this deviation makes the report more informative and persuasive, thus creating a clear call for corrective action.

**Cause**

Naturally, senior executives and audit committees would wish to know the reason for an internal audit finding and part of the reporting responsibility of internal audit is to communicate the root cause of the deviation. This is critical for recommendation formulation as recommendations must address the root cause of internal audit findings. The root cause is the reason why there is a difference between the criteria and the condition. The cause identifies what needs to be corrected to ensure the current finding does not occur again. It is therefore recommended that internal audit perform a root cause analysis. Important aspects of root cause analysis for the internal auditor are summarised below:

- Identifying why a finding occurred (underlying cause) versus solving the finding or symptom;
- Remaining independent and objective when performing the root cause analysis;
- Ensuring the resources spent on root cause analysis are commensurate with the impact of the issue;
- Ensuring internal audit has the necessary skills to perform the analysis (if not, the CAE must seek an external service provider to assist);
- Ensuring the CAE recommends that management perform a root cause analysis should it not be possible to obtain an external service provider;
- Ensuring the CAE explains the rationale for conducting a root cause analysis in cases where management is reluctant; and
• Considering input from various stakeholders in order to perform a proper root cause analysis (IIA, 2013c).

- **Cause for concern**

The next part of an internal audit finding deals with the effect or risk exposure due to the disparity between the criteria and the condition. This is the ‘so what’ section in which the internal auditor reports to senior management and the audit committee the severity of the finding. In essence, the effect must communicate a problem which the entity will face if the finding remains unaddressed (IIA, 2010a:52).

From the preceding elements of an internal audit finding, the internal auditor is in position to provide recommendations for improvement.

- **Corrective action**

The last important element of an internal audit finding is the recommendation. Recommendations call for action to correct existing conditions or improve operations and are a guide for management to achieve desired objectives (Gleim, 2009:60). Recommendations must provide an answer to senior executives and audit committees to the question ‘how should we fix this problem?’. The recommendations must thus address the condition and the root cause (IIA, 2010a:54). Best practice on recommendation formulation states that it should adhere to the SMART principle:

- Specific: it must state precisely what the entity should aim to accomplish;
- Measurable: it must be able to be evaluated to determine whether it has been accomplished;
- Action-oriented: it must specify the actions the entity should take;
- Relevant: it must relate to the finding and root cause; and
- Time-based: it provide a deadline by which the entity must accomplish the objectives (Adams & Winstead, 2008:4; IIA, 2010a:54-55).
It is important to note that the users such as senior executives can disagree with the recommendations given. It is therefore important to note in the report what senior executives must do to address the internal audit finding. If a consensus on action plans cannot be reached, it is good practice to include both the internal audit recommendation and the management comment in the internal audit report as well as the reason for the disagreement (IIA, 2010a:55).

**SUMMATIVE COMMENT**

After internal audit has conducted fieldwork, all the evidence must be correlated to draw conclusions on the area under review. It is important for the internal auditor to clearly identify the facts in the report and provide an understanding of the facts to senior management and the audit committee. The internal auditor must therefore reassure the client about what is right, point out what is not right and recommend possible solutions for identified findings and root causes. By structuring the finding using the ‘five Cs’ principle, the internal auditor is in a position to clearly report a finding, outlining to the client what needs to be known, thus informing, persuading and calling for action on any matters concerning internal control, risk management and governance issues. Proper structuring of the internal audit finding also enables internal audit to reach better conclusions.

### 5.3.2.1 Links to the empirical study

A well formulated internal audit finding is critical for management and the audit committee (in an oversight capacity) to take corrective action. If not, the work done by internal audit on internal control, risk management and governance processes is likely to be ignored. The extent to which internal audit formulates well written internal audit findings forms part of the empirical study and focus is placed on whether the key elements of an internal audit finding have been presented in internal audit reports.
5.3.3 Final considerations during the reporting process

After conducting the fieldwork, the auditor evaluates the evidence in order to reach conclusions after careful structuring of internal audit findings. All this information must be reported, but before the release of the report, internal audit must carry out procedures to enhance the quality and credibility of the report.

- **Conduct exit meetings with the clients**

After the draft internal audit report, a meeting must be scheduled with the client’s management. This meeting is called the exit conference or post-engagement meeting and must be held before the final internal audit report is released.

It is easy for internal audit to miss a point or report on certain aspects incorrectly, especially in complex operations. By reviewing the draft internal audit report, future disputes can be prevented all the while relations with the client are strengthened. This creates an environment of participation with clients feeling that they are involved in the reporting process (Gleim, 2009:70). Some good practices for internal audit to consider to make the exit meeting more effective and efficient include:

- Deciding beforehand who should be present;
- Ensuring the right people attend;
- Preparing an agenda;
- Providing the necessary documents for the meeting;
- Deciding on the timing of the exit meeting;
- Sending the draft report to the client to give them time to review it; and
- Keeping minutes of the exit meeting for future reference (Gleim, 2009:71; IIA, 2010a:57).
During the exit meeting, it is important that internal audit achieve the following objectives:

- Discuss all conclusions and recommendations;
- Resolve any misunderstanding or misinterpretations of fact through discussion with the client;
- Reach an agreement on the possible solutions to deal with the findings; and
- Express appreciation to management and staff involved in the internal audit (IIA, 2010a:57).

Any disagreements which cannot be resolved during the exit meeting must be recorded in the minutes and included in the final internal audit report. The exit conference is the best time to create serious dialogue on the findings and doing this with the appropriate levels of management will ensure a better quality and more credible internal audit report (IIA, 2010a:58).

Once this process has been completed, the final internal audit report can be prepared.

- **The final internal audit report**

Although there is no fixed format for the preparation of an internal audit report, best practice requires that the report contain the purpose of the engagement, the scope of the engagement and the engagement results (including conclusions, opinions and findings). Optional details can also be included such as background information which describes the organisation’s activities as well as an overview of previous findings of the area under review (IIA, 2010a:59). It is also useful to provide summary reports containing an overview of the internal audit findings as senior executives are often busy and a brief overview of the results would be beneficial in increasing their level of understanding of the findings. Client views and accomplishments can also be included in the report and often contribute to a more positive reception of the report.

Before the final report is distributed, it is good practice for the CAE to review and approve the report. The report must be distributed to those individuals in the entity
who can give due consideration to the results (IIA, 2010a:61). A good rule of thumb is to adopt the following distribution list:

- The executive to whom internal audit reports: for municipalities, this can be municipal managers and audit committees;
- Persons responsible for the area under review: this can be the heads of departments of specific departments in municipalities; and
- Persons required to take corrective action: these are operational staff working under the heads of department who are responsible for implementing corrective action (Gleim, 2009:71).

The most important aspect of report distribution in terms of who receives the report is found in Standard 2440.A1 which states that the “CAE is responsible for communicating the final results to parties who can ensure that the results are given due consideration” (IIA, 2012c:17), thus to an individual with authoritative capacity.

**Style, editing and physical characteristics**

*Standard 2420, Quality of Communications, states that communications must be accurate, objective, clear, concise, constructive, complete and timely (IIA, 2012c:16). Apart from this guidance, other practices exist which internal audit can apply to ensure that the report is simple and clear. These include:

- Writing short sentences;
- Ignoring wordiness;
- Omitting irrelevant information;
- Presenting the report in logical succession;
- Ensuring consistency in the selected style;
- Avoiding ambiguity; and
- Using as little technical jargon as possible.

Most of the time, using ‘action’ words is better for the type of reports done by internal audit and the writing should thus be mainly in the active voice. Emotionally charged
words must be ignored as far as possible. It is good practice for the report to be sent for editing, including content, format and clerical errors. The reviewer must independently assess the report readability, correctness and appropriateness (Sawyer et al., 2005:740/741). Normally, supervisors and internal audit managers proofread the final internal audit report and during this review it must be ensured that what is presented is supported by sufficient, reliable, relevant and useful audit evidence.

In terms of visual presentation, internal audit can include graphic illustrations to convey facts and use headings which are descriptive in nature (Gleim, 2009:67).

**SUMMATIVE COMMENT**

The final stage in the reporting process is issuing the report. Internal audit must ensure that procedures are performed to enhance the quality of the report before it is issued to senior executives and the audit committee. Obtaining input from management beforehand is important to ensure that no misunderstandings or misinterpretations have been recorded in the report. Creating a participative approach will also make the client more receptive to internal audit findings. This can be achieved during the exit meeting with the client’s management. It is important to note that the exit meeting is not a negotiation platform and internal audit must not be influenced during these meetings in terms of valid internal audit findings (i.e. removing them). Having the CAE review and approve the final report after the exit meeting ensures that what is reported will serve the audience receiving the report, thus enhancing the quality and credibility of the work done by internal audit. The user should retain a positive attitude to any matters raised on internal control, risk management and governance by reading a quality internal audit report in all respects.

Syntax problems must also be addressed as these can easily influence the reader. Such errors affect the credibility of internal audit even if the content of the report itself is sound.
5.3.3.1  Links to the empirical study

Internal audit can enhance the quality and credibility of the internal audit report in the final stages of the reporting process. The extent to which internal audit performs such procedures forms part of the empirical study. There is specific focus on whether internal audit performs exit meetings, whether CAEs review and approve the final internal audit report, whether the report is reviewed for style, editing and presentation and finally, whether the report is distributed to the relevant parties able to give the report due consideration.

5.3.3.2  Conclusion

To add value to senior executives, audit committees and municipal councils, internal audit must report on the work done. It is therefore imperative that reports are focused and provide users exactly what they need to enable them to accomplish their governance mandate.

The above sections highlighted some of the important aspects which can be done during the final stages of reporting to help the reader understand matters of significance facing the entity.

5.3.4  Other communication within the entity

Issuing a written internal audit report is regarded as best practice (IIA, 2013c) and enables a stronger audit trail of the internal audit conducted. However, internal audit can also provide summary reports, verbal communications and perform interim reporting. As these are not the main focus of this chapter, however, a brief overview is given below.
• **Summary reports**

Senior executives are generally busy and internal audit can adjust its type of reporting by providing summary reports to those individuals. Summary reports provide ‘need to know’ information to the user which is more concise than normal written internal audit reports and is mainly focused on the results of the internal audit engagement (IIA, 2013c). These can be issued separately or together with the final internal audit report (Gleim, 2009:63; IIA, 2013c). Summary reports could contain the following summarised information:

- A summary of the areas audited;
- The internal auditors’ conclusion;
- Statements on significant findings, indicating where they can be found in the main report;
- Brief descriptions of what will be done regarding the findings; and
- An overall statement placing conclusions and findings into perspective (Sawyer *et al*., 2005:698).

• **Interim reporting**

In some cases, the internal auditor needs to communicate important information as a matter of urgency. In such cases, interim reports can be issued. The idea behind interim reports is that some information is just too important to wait for the written final internal audit report (IIA, 2010a:49). No formal prescription exists on how interim reports should be communicated. However, best practice suggests that they can be either verbal or written, formal or informal (IIA, 2010a:49; IIA, 2013c). Thus, an interim report can be delivered verbally, via email or through a status meeting. The point is to maintain continuous communication with the client throughout the internal audit engagement on i) matters needing immediate attention (for example, suspicion of fraud), ii) a change of scope during the internal audit engagement or iii) keeping management up to date on internal audit engagements stretching over long periods of time (Gleim, 2009:64; IIA, 2010a:49; IIA, 2013c). Important guidance also states that
interim reports do not necessarily mean that a final report must not be issued; if the query in the interim report has been resolved to the satisfaction of the internal auditor, then it can be excluded from the final report (IIA, 2010a:50; IIA, 2013c).

- **Oral communication**

The point of oral communication is to continuously communicate with the client for the purpose of improving internal audit-client relationships. This could lead to the internal auditor being better known by the client, which could prevent client resistance to internal audit recommendations (Gleim, 2009:63). It also provides clients the opportunity to express their views to internal audit which could lead to early detection of matters where internal audit misunderstood certain aspects of the clients’ processes (Gleim, 2009:63).

**5.3.4.1 Links to the empirical study**

To enhance the reporting with clients, internal audit can communicate in different ways to satisfy the needs of clients. The extent to which internal audit makes use of summary reports, interim reporting practices and oral communication forms part of the empirical testing.

The next section focuses on monitoring progress or following up activities on work already conducted by internal audit. The reason for this inclusion is that internal audit must implement procedures to track the disposition of original reported results and to report on progress made. This study considers follow-up activities as important aspects of internal audit reporting.
5.4 MONITORING PROGRESS OF REPORTED FINDINGS WITHIN THE ENTITY

Standard 2500, Monitoring Progress, creates the responsibility for internal audit to conduct follow-up activities. This Standard states that the “CAE must establish and maintain a system to monitor the disposition of results communicated to management”. The rationale behind follow-up activities is the fact that original internal audit reports had the possible effect of increasing controls, risk management and governance processes. However, this would only eventuate if management took corrective action (IIA, 2010a:121). Standard 2500 thus sets the ground for internal audit to assist in this matter by continuously keeping the users up to date on the status of internal control, risk management and governance processes previously communicated.

Internal auditors are tasked to follow up on the status of initial recommendations made on internal audit findings (Flynn, 2010:1). Therefore, they need to report again on the disposition of the original internal audit findings. The CAE should report the results of the follow-up to senior executives and the audit committee.

The internal auditor notifies the relevant department that a follow-up engagement must be take place. Once the engagement starts, the internal auditor needs to ascertain whether corrective action did indeed occur. In particular, the internal auditor needs to determine whether the actions taken by management were adequate in mitigating the risk associated with the original finding. After the assessment, the internal auditor needs to report back on the status of the internal audit findings, indicating either that the findings were addressed, still in progress or unattended (Flynn, 2010:1). It is also good practice to state in the report why a certain finding is still being attended to or has not been attended to at all.

To facilitate the monitoring process, the CAE must take overall responsibility to ensure:

- That a timeframe exists for management to deal with the original internal audit findings;
• That an evaluation takes place of management’s responses to the internal audit findings;
• That verification of management’s responses through follow-up has taken place; and
• That the results of follow-up activities have been communicated (IIA, 2010a:122).

The communication can either be verbal or in a written report. In the actual feedback, internal audit must use the same criteria as in the original audit. The benefits of dealing with the internal audit finding must be stated together with a brief summary of the objectives of the follow-up. Internal audit can also state how the follow-up was conducted. Supporting evidence could be included in an appendix to support the findings. The report can also detail events which could have caused management not to take corrective action or not to implement recommendations (IIA, 2010a:131).

If during the follow-up activity the CAE feels that management’s means of dealing with the internal audit finding did not address the finding or the root cause, the CAE must implement procedures to re-emphasise the importance of the matter and even escalate the problem to a higher level of management (IIA, 2010a:131; IIA, 2012c:18).

Whatever the procedures established by the CAE to enable follow-up, it is important that internal audit’s responsibility regarding follow-up activities be stated in the internal audit charter (Gleim, 2009:73).

**SUMMATIVE COMMENT**

Monitoring progress is integral to the internal audit process in order to establish the status of agreed action plans or recommendations. Further reporting of the results of follow-up activities in the form of a verbal or written report is critical for senior executives and audit committees to have a better understanding of the status of internal controls, risk management and governance processes.
5.4.1 Links to the empirical study

The extent to which IAFs in metropolitan municipalities implement follow-up activities forms part of the empirical study. The areas which are tested include whether a written report has been issued after the follow-up activities.

5.5 INTERNAL AUDIT REPORTING OUTSIDE THE ENTITY

Without a doubt, the internal audit profession and internal audit individuals and departments are an integral part of the combined assurance model. The role they play in governance contributes significantly to accountability. However, their work is for internal use and external stakeholders may lack understanding of how internal audit contributes to accountability mechanisms (Archambeault et al., 2008:375; Boyle, 2012:21). Currently, no South African law or regulation makes it compulsory for internal audit to report to external stakeholders, for example, the public through MFMA annual reports. The MFMA and MSA merely establish the existence of the internal audit function and provide guidance for internal audit as to the work it must do (refer to Chapter 4).

A study conducted by Archambeault et al., (2008:376) concluded that external stakeholders do not have information on internal audit composition, responsibilities and activities designed to provide assurance on related financial reporting, compliance and operational matters. Currently, governance disclosures are focused on management, the audit committee and the external auditor (Archambeault et al., 2008:375). This is also true for South African municipalities as annual reports typically include a report from the municipal council, the audit committee and the external auditor, as required by law.

Various authors have listed the benefits of internal audit reporting in public reports in order to contribute to transparency and external stakeholder confidence. Lapides, Beasley, Carcello, DeZoort, Hermanson and Neal (2007:3) conducted a study which summarises governance principles in order to “promote investor, stakeholder and
financial statement user interests”. One of these principles states that consideration should be given to “providing an internal audit report to external stakeholders to describe the internal audit function (for example, composition, responsibilities, and activities)”. Archambeault et al., (2008:385-386) came up with a proposed framework for internal audit communication in public reports, suggesting that internal audit should report on its composition, responsibility, accountability, activities and resources. Another study by Holt & DeZoort, (2009:71) found that by adding an internal audit report to current governance reports, greater confidence is placed on what is presented in the overall annual report. Unfortunately, however, more recent reporting guidelines such as those suggested by the International Integrated Reporting Council (IIRC) (2013) make little reference to how internal audit should form part of integrated reporting. This is ironic seeing that internal audit plays a critical role in improving governance and providing combined assurance.

Overall, the fact that no internal audit report is given to external stakeholders hampers internal audit’s accountability and could potentially influence its work seeing that it is not accountable to the ultimate stakeholder, namely, the public in the government environment (Boyle, 2012:20). Thus, if internal audit was to report to external stakeholders, it would potentially be motivated to perform better through a feeling of greater responsibility (Archambeault et al., 2008:379; Boyle, 2012:21). By providing an activities-based report (descriptive in nature) or an assurance-based report, accountability is likely to be enhanced (Boyle, 2012:22).

However, there are some negative effects to internal audit reporting in public reports. These include increased costs due to an increase in internal audit liability, information overload to users, additional costs such as those linked to the preparation of the reports or fear of releasing results which could hamper the scope of internal audit work (Archambeault et al., 2008:380). It is important for internal audit, should it disclose engagement results outside the organisation, to consider the risk this holds for the entity. (IIA, 2012c:17). In such cases, it is good practice to obtain input from senior management or the legal department and implement controls over the distribution of engagement results external to the entity (IIA, 2012c:17).
The assurance provided by internal audit is regarded equally as important as that provided by the external auditor. The two serve different purposes, however. Motivation thus exists for inclusion of internal audit communication in public reports, which would contribute significantly to transparency and accountability. This would impact on the functioning of internal audit if it was aware that its opinions were under public scrutiny. Literature suggest that the benefits of internal audit communication in public reports (such as the MFMA annual reports) outweighs the associated costs.

5.5.1 Links to the empirical study

Seeing that internal audit reporting in public reports is such an untouched territory, especially in the South African context, this study seeks to determine, as part of the empirical testing, the extent of internal audit disclosure in MFMA annual reports.

5.6 OTHER AUDITING STANDARDS WITH REFERENCE TO REPORTING THROUGH A WRITTEN REPORT

The following sections look at other auditing standards which could be used by internal audit as a guide to providing better quality internal audit reports.

The standards that are considered are those prescribed by the IFAC - ISAs, the Auditing Standards Board – GAAS, and those used by the Governance Accountability Office of the United States – GAGAS. These have been selected as they are the most prominently used in the external auditing world. GAGAS specifically deals with financial and performance audits in the government sector.
Currently there are five ISAs which give guidance on reporting to auditors conducting audits of financial statements. These include ISA 700, ISA 705, ISA 706, ISA 710 and ISA 720.

ISA 700 deals with the responsibility of the auditor to give an opinion on the audit of financial statements and provides guidance on the form and content of the auditor’s report (IFAC, 2009:654; Jackson & Stent, 2012:18/2). It is interesting to note that, unlike the International Standard for the Professional Practice of Internal Auditing, ISA 700 provides very clear criteria which must be considered before the external audit gives an audit opinion. ISA 700 provides wording for different types of opinions as well as listing the types of opinions which can be given in the case of ‘clean’ or ‘unclean’ audits (ISA 705 Modification to the Audit Report). This is not the case in the Standards, which simply state that an overall opinion can be given if the internal auditor is confident that it is based on sufficient, reliable, relevant and useful audit evidence. In addition, the Standards do not make giving an opinion compulsory; they merely state “when an overall opinion is issued”, which implies it is not compulsory, as opposed to ISA 700, which clearly states that the auditor must give an audit opinion.

In terms of the form and content of the auditor’s report, ISA 700 gives clear headings and standard wording which must be used in the auditor’s report for unmodified reports. This creates unification and proper guidance, which is not the case in the Standards where no guidance is given as to how the report should look although it is stated that the report should include the engagement purpose, scope and results.

Furthermore, external auditors must issue a written report, which is not the case for internal auditors, although it is nonetheless considered best practice.
Generally Accepted Auditing Standards

The Auditing Standards Board provides guidance for audits of financial statements through GAAS. GAAS has three broad categories of standards, namely, general standards, fieldwork standards and reporting standards (PCAOB, 2014). The reporting standards in terms of guidance are very similar to those of the ISAs. Standard report formats are provided with wording examples. Guidance is given as to additional information which can be provided in the auditor’s report as well as guidance regarding comparative information, similar to the case in ISA 706 and 710. Guidance is also provided for cases where the auditor deviates from an unqualified opinion; this is also found in ISA 705.

The ISAs and GAAS are very clear as to what is expected of external auditors in terms of opinion, report format and content whereas the Standards simply provide a general overview of reporting requirements.

Generally Accepted Government Auditing Standards

The United States Government Accountability Office (GAO) uses GAGAS for all audits in the government environment. These standards provide guidance for audits of financial statements and performance auditing. GAGAS are very similar to GAAS but contain extra guidance specifically tailored for audits in the government environment. With reference to performance auditing, GAGAS provide guidance for reports in terms of content, quality, issue and distribution (Kincaid, Sampias & Marcella, 2005:72; GAO, 2011:163).

i) Report contents

GAGAS requires the audit report to contain the audit objectives, scope, methodology, results, reference to the fact that the audit was conducted in accordance with GAGAS, the views of responsible officials and the nature of any privileged or confidential information omitted. This is consistent with the Standards except that the audit
methodology does not necessarily need to be stated in the report. According to the GAO (2011:166), while reporting on the methodology section, the auditor must explain

...how the completed audit work supports the audit objectives, including the evidence gathering and analysis techniques, in sufficient detail to allow knowledgeable users of their reports to understand how the auditors addressed the audit objectives. Auditors may include a description of the procedures performed as part of their assessment of the sufficiency and appropriateness of information used as audit evidence. Auditors should identify significant assumptions made in conducting the audit; describe comparative techniques applied; describe the criteria used; and, when sampling significantly supports the auditors’ findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.

This description offers more detailed guidance than in the Standards, which do not necessarily require the internal auditor to report on how the audit objectives were achieved (which is normally the type of information contained in audit documentation or working papers).

ii) Quality of reports

The guidance given in GAGAS on quality in performance audits is similar to that given in the Standards and states that reports must be timely, complete, accurate, objective, convincing, clear and concise (Kincaid et al., 2005:72).

iii) Report distribution

In essence, the guidance given is consistent with the Standards, in that the report must be given to those who can give it due consideration or who requested the audit to be performed (GAO, 2011:176, 177). In the case that legislation allows distribution of the report to the public, it must be noted in the report that it will be made available to the public (Kincaid et al., 2005:73). In South Africa, the Auditor-General issues a report on pre-determined objectives which are publicly available, however, internal audit work on performance management is not yet available to the public.
5.7 THE GLOBAL INTERNAL AUDIT COMPETENCY FRAMEWORK

The GIACF was designed to meet the needs set out in the *Standards* (IIA, 2013d:2; IIA, 2013e). In short, the GIACF presents performance attributes on four broad levels which filter down into core competencies (Abdolmohammadi & Rhodes, 2009:3; Abdolmohammadi, 2012:4). The core competencies are outlined for each job level, namely, internal audit staff, internal audit management and the CAE (IIA, 2013d:2; IIA, 2013e). The IIA (2013d:2) and the IIA (2013e) define competency as “the ability of an individual to perform a job or task properly, being a set of defined knowledge, skills, and behaviour”. The competency of internal audit to report is critical as this is the point where users receive information and make an assessment of the credibility and professionalism of internal audit.

To remain within the scope of this study, competencies dealing with communication are consulted (refer to Annexure I). Whether internal audit is considered competent in these core communication competencies forms part of the empirical study.

**NOTE**

ALTHOUGH THIS CHAPTER IS FOCUSED ON THE TECHNICAL INTERNAL AUDIT REPORTING PROCESS AND THE ACTUAL REPORT, THE COMPETENCIES IN THE GIACF ARE NOT NECESSARILY GEARED TOWARDS THESE AREAS BUT PROVIDE OVERARCHING GUIDANCE WHICH AFFECTS THE REPORTING PROCESS AND THE ACTUAL REPORT.

5.8 CHAPTER SUMMARY

As Sawyer *et al.*, (2005:688) state, “auditors who sharpen their auditing techniques but leave their report dull will be unable to penetrate the management circles where their story should be told”. This summarises the main reason for inclusion of internal audit reporting via a written report in this study; it is useless for internal auditors to do great work during fieldwork if they are unable to present it professionally and
adequately in a report. This chapter summarised the important technical aspects of internal audit report writing as prescribed by the *Standards* and practice advisories. If these practices are adhered to, internal audit will remain in a position to inform, persuade and impel action (through the report) on important internal control, risk management and governance challenges facing the entity.

The next chapter describes the research design (research plan) adopted in this study and methodological procedures are described with reference to sampling, instruments, analysis and other methodological considerations such as validity and reliability (quantitative portion) as well as trustworthiness (qualitative portion).
CHAPTER 6

RESEARCH METHODOLOGY

6.1 INTRODUCTION

This chapter discusses the research methodology adopted in the study. This includes a description of the research design and methods used as well as the population, sample selection, data collection, data analysis and methodological considerations (quality of measurement).

6.2 RESEARCH PARADIGMS

Doyle, Brady and Byrne (2009:176) and Harrits (2011:151) define research paradigms as “the set of beliefs and practices that guide a field” during the research process. A specific paradigm is defined by the researcher’s epistemology (how we know what we know), ontology (nature of reality) and axiology (values of the researcher) (Simons, 2007:75; Doyle et al., 2009:47; Leech, Dellinger, Brannagan & Tanaka, 2010:17). This set of beliefs places the researcher within three broad research paradigms, namely, the quantitative paradigm (positivism), the qualitative paradigm (constructivism) and a new third leg of research paradigms, the mixed method paradigm (pragmatism) (Johnson & Onwuegbuzie, 2004:14; Denscombe, 2008:270, 271, 272, 280; Doyle et al., 2009:47; Harrits, 2011:151; Leech, 2012:873; Jones, 2013:51).

The positivist paradigm allows for objective quantification and the researcher employs quantitative measurement and analysis on large samples in order to explain and predict; the data is numerical and deductive (Johnson & Onwuegbuzie, 2004:14; Denscombe, 2008:273; Doyle et al., 2009:177; Babbie & Mouton, 2012:49). On the other hand, the constructivist paradigm is subjective and the data is constructed by describing and understanding human experiences of a certain phenomenon using a smaller sample. The data is textual and inductive (Johnson & Onwuegbuzie, 2004:14;

It is supported by the notion of pragmatism and rejects the polarisation of quantitative and qualitative paradigms. The aim is to employ the best means to an end, that is, to answer the main research question or problem area by employing methods from both the positivist and constructivist paradigms. Hence the data is both numeric and textual (a process of abduction) (Johnstone, 2004:260; Johnson & Onwuegbuzie, 2004:15, 16; Simons, 2007:73; Johnson, Onwuegbuzie & Turner, 2007:113; Denscombe, 2008:272, 273; Doyle et al., 2009:178; Leech et al., 2010:18; Wheeldon, 2010:88/89; Teddlie & Tashakkori, 2012:777).

The following sections describe the research design of this study within the context of the methods discussed.

6.3 RESEARCH DESIGN AND METHODS

The previous section provided an overview of the most prominent research paradigms. In the next section an explanation is provided of the research design adopted in this study within the underlying paradigm. Then the sample selection strategy is discussed together with the underlying sampling theory to which the application of the selected sample relates. Lastly, the research instrument is discussed together with how the data was analysed.
6.3.1 Defining research design

Babbie and Mouton (2012:72) describe scientific research as the process of dedicating resources to ‘find out’ something. Simply stated, research design is the strategy or plan to ‘find out’ the specific something the researcher wants to inquire about. Edmonds and Kennedy (2013:2, 7) state that this ‘finding out’ could be a specific research question and that the research design is the conceptual framework of inquiry of how to answer the research question or research problem area.

6.3.2 The selected research design for this study

A mixed methods approach is followed in this study, and specifically, a data transformation triangulation model. This design allows for both quantitative and qualitative data to be collected concurrently which can be combined to give an overall picture of a certain phenomenon as part of the final discussion of findings (Edmonds & Kennedy, 2013:149; Grbich, 2013:29). The data from all the sources is therefore complementary in contributing to the research problem. Figure 6.1 below provides an overview of the data transformation triangulation model adopted in this study.

Figure 6.1: Data transformation triangulation design

Source: Creswell, n.d:63

Both qualitative and quantitative data was collected during the study. This data was analysed separately and the qualitative findings were then transformed into quantitative data which was compared with the quantitative results.
The 2012-2013 financial year MFMA reports were obtained from the various websites of the eight metropolitan municipalities in South Africa. These were the most recent reports since the 2013-2014 financial year reports were only released in late 2015. These documents were uploaded onto Atlas.ti which was used to perform a coding exercise. Qualitative content analysis and enumerative content analysis (Grbich, 2013:191, 195) was used to provide a deep textual description of the functioning of IAFs as presented in the MFMA annual reports. The reports were coded using both a concept-driven and data-driven approach. For the concept-driven coding, a coding frame was developed which was imposed on the eight MFMA annual reports. This analysis was focused on internal audit only applying the relevant coding scheme. The coding schemes and methodological procedures are discussed in i), ii) and iii) below.

i) Concept-driven coding scheme imposed on MFMA annual reports

In order to retain focus, a coding frame was developed for the qualitative content analysis. In the analysis of the annual reports focus was given to the following key aspects:

- Whether internal audit’s scope of work includes matters concerning internal control, risk management and governance processes; and
- Whether internal audit’s scope of work includes requirements as outlined in relevant laws and regulations.

As explained by Schreier (2012:59), the coding frame is guided by the specific study research questions or, in the case of this study, the research problem areas defined in Section 1.3 of this study.

Thus the coding exercise was aimed at enabling a rich description of the above areas based on what was found in the MFMA annual reports (Schreier, 2012:63). In order to collect data on the above areas, the following coding scheme was imposed on the
MFMA annual reports, derived again from literature and focused on the key aspects above. Any evidence which could be found on the above areas was categorised into the following codes (Schreier, 2012:60):

Table 6.1: Imposed coding scheme for MFMA annual reports

<table>
<thead>
<tr>
<th>Focus areas</th>
<th>Main categories</th>
<th>Code assigned in MFMA annual report to collect evidence on the main category</th>
<th>Code descriptor and examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whether internal audit’s scope of work includes matters concerning internal control, risk management and governance processes</td>
<td>• Internal control control mandate</td>
<td>• Internal control mandate</td>
<td>Any statements or segments of texts in the MFMA annual reports which indicated that internal audit was involved in internal control, risk management and governance were correspondingly coded using the codes. For example, “internal audit evaluate the adequacy of controls” was coded “Control mandate”. This provided evidence that internal audit was perceived to be involved in its core area of internal control.</td>
</tr>
<tr>
<td></td>
<td>• Risk management mandate</td>
<td>• Risk management mandate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Governance mandate</td>
<td>• Governance mandate</td>
<td></td>
</tr>
<tr>
<td>Whether internal audit’s scope of work includes requirements as outlined in relevant laws and regulations</td>
<td>Compliance mandate</td>
<td>Compliance mandate</td>
<td>Any statements or segments of texts which indicated that internal audit was performing work as mandated by the MSA, was coded “involved in the audit of pre-determined objectives”. For example, “internal audit issued quarterly reports to the audit committee on the performance management systems” was coded with “involved in the audit of pre-determined objectives”.</td>
</tr>
</tbody>
</table>

Source: Researcher’s own deductions

It is important to note that the codes were developed based on the literature review and the study problem areas. The approach in coming up with codes was therefore concept-driven (deducting reasoning) as described in the work of Schreier, (2012:61) and only obtained data on the focus areas (this approach to coding can also be seen in the work of Zain & Subramaniam, 2007:899).
ii) Data-driven coding scheme imposed on MFMA annual reports

Apart from the coding scheme found in Table 6.1, the MFMA annual reports were scanned using Atlas.ti for any other segments of text regarding internal audit with the term “internal audit”. If they could not be categorised within the above codes and categories, they were coded inductively or data-driven (on the spot). In this manner, a full description of internal audit’s functioning, as described in the MFMA annual reports, was obtained.

iii) Transformation of qualitative coding to quantitative data

After applying the coding scheme to the MFMA annual reports, Atlas.ti was used to extract qualitative text on the specific categories for visual presentation (these text boxes on the specific codes can be seen in Section 7.2). The segments of text with their assigned codes were also transformed into frequency counts using Atlas.ti to change the qualitative text into quantitative data (these tables can be also be seen in Section 7.2). This is known as the process of quantitising whereby qualitative data is transformed into quantitative data (Sandelwoski, Voils & Knafl, 2007:208, 209) by assigning numerical values to qualitative text. In this case, frequency counts (Driscoll, Appiah-Yeboah, Salib & Rupert, 2007:22) of a specific code were done using Atlas.ti after imposing the coding schemes explained above. These frequency tables show the number of times that references were made to a specific code and it assisted by showing which areas were most prominently disclosed about IAFs in MFMA annual reports. These frequency counts were further transformed dichotomously by assigning a ‘yes’ ‘no’ response (Driscoll et al., 2007:22) to the frequency counts based on whether the specific code was present (1> = ‘yes’) or absent (0 = ‘no’) in the data (this is shown in Section 7.5 where the transformed qualitative data is compared with the questionnaire data). This is further explained in the relevant sections in 7.5 of the results chapter.
6.3.2.1.1 Conclusion

The above coding schemes made it possible to address the following two problem areas, namely, they give an indication of what was said about internal audit functioning (as perceived in public MFMA reports) and they determine the extent of internal audit disclosure in MFMA annual reports for the metropolitan municipalities.

The relevant codes assigned to the texts in the annual reports were extracted and presented visually in Chapter 7 (refer to Section 7.2) with the use of the Code Manager Output function in Atlas.ti. Code frequencies were also developed using the Codes Primary Documents Table in Atlas.ti in order to complement the qualitative texts for better understanding and compared to the questionnaire data.

6.3.2.2 Quantitative data

The functioning of internal audit, as defined by literature, law, internal audit Standards, best practice such as the internal audit practice advisories and other rules and regulations, was used to create a questionnaire. The questionnaire was distributed to audit committee chairpersons and CAEs at the eight selected metropolitan municipalities in South Africa. They were asked to document their views on internal audit functioning.

6.3.2.2.1 Instrument design

The questionnaires were compiled using Google Drive and the Google Forms function. The questionnaires were completed online via a Uniform Resource Locator (URL) and were sent to the units of analysis. Once the forms were completed, they were submitted online. The responses were then extracted into Excel, from where they were captured into the IBM Statistical Analysis Software Package (IBM SPSS) for analysis. Tables 6.2 and 6.3 give an overview of the instruments used.
### Table 6.2: CAE questionnaire

<table>
<thead>
<tr>
<th>PART</th>
<th>CONSTRUCT</th>
<th>INFORMATION OBTAINED</th>
<th>QUESTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Demographic information</td>
<td>Obtained information on the municipality name and province as well as the position held of the individual who completed the questionnaire with years’ experience.</td>
<td>Respondents had to select the relevant radio button in the questionnaire. Annexure M, section A.</td>
</tr>
<tr>
<td>B</td>
<td>Ethical perspectives</td>
<td>Whether CAEs perceive their IAF to be ethical.</td>
<td>Respondents had to select either ‘Always’, ‘Sometimes’, ‘Never’ or ‘Unable to judge’. Annexure M, section B.</td>
</tr>
<tr>
<td>C</td>
<td>Internal audit characteristics</td>
<td>The perception of CAEs on whether the IAF possesses the typical characteristics expected of IAFs, as defined in the Attribute Standards.</td>
<td>Respondents had to select either ‘Yes’, ‘No’ or ‘Unable to judge’. Annexure M, section C.</td>
</tr>
<tr>
<td>D</td>
<td>Managing the IAF</td>
<td>Whether CAEs perceive the IAF as being managed according the Performance Standards.</td>
<td>Respondents had to select either ‘Yes’, ‘No’ or ‘Unable to judge’. Annexure M, section D.</td>
</tr>
<tr>
<td>E</td>
<td>Core functional areas</td>
<td>Whether CAEs perceive IAFs as being a crucial informant to the audit committee on internal control, risk management and governance processes.</td>
<td>Respondents had to select either ‘Not at all’, ‘Neutral’ or ‘Crucial informant on this matter’. Annexure M, section E.</td>
</tr>
<tr>
<td>F</td>
<td>Technical competencies</td>
<td>Whether CAEs perceive IAFs as being competent in internal control, risk management and governance.</td>
<td>Respondents had to select either ‘Competent’, ‘Not competent’ or ‘Unable to judge’. Annexure M, section F.</td>
</tr>
<tr>
<td>G</td>
<td>Internal audit report</td>
<td>Whether CAEs perceive the internal audit report as being informative, persuasive and calling for action.</td>
<td>Respondents had to select either ‘Yes’, ‘No’ or ‘Unable to judge’. Annexure M, section G.</td>
</tr>
</tbody>
</table>

**Source:** Researcher’s own deductions

The above CAE questionnaire obtained information in support of the research objectives. The questionnaire used a combination of dichotomous questions, multiple choice questions and Likert Scales. Underneath each part in the questionnaire, open-ended questions were given should the respondent have wanted to elaborate (the detailed questionnaire can be found in Annexure M).

### Table 6.3: Audit committee questionnaire

<table>
<thead>
<tr>
<th>PART</th>
<th>CONSTRUCT</th>
<th>INFORMATION OBTAINED</th>
<th>QUESTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Demographic information</td>
<td>Obtained information on the municipality name and province as well as the position held by the individual who completed the questionnaire with years’ experience.</td>
<td>Respondents had to select the relevant radio button in the questionnaire. Annexure K, section A.</td>
</tr>
<tr>
<td>PART</td>
<td>CONSTRUCT</td>
<td>INFORMATION OBTAINED</td>
<td>QUESTIONS</td>
</tr>
<tr>
<td>------</td>
<td>---------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>B</td>
<td>Ethical perspectives</td>
<td>Whether the audit committee perceive the IAF to be ethical.</td>
<td>Respondents had to select either ‘Always’, ‘Sometimes’, ‘Never’ or ‘Unable to judge’. Annexure K, section B.</td>
</tr>
<tr>
<td>C</td>
<td>Governance</td>
<td>Whether the audit committee relies on the IAF for governance information and to determine the scope of internal audit work relating to governance and the extent audit committees feel IAFs assist them in their governance oversight responsibility.</td>
<td>Respondents had to select either ‘Not at all’, ‘To a lesser extent’ or ‘To a large extent’. Annexure K, section C.</td>
</tr>
<tr>
<td>D</td>
<td>Internal control</td>
<td>Whether the audit committee relies on the IAF for internal control information and to determine the scope of internal audit work relating to internal control and the extent audit committees feel IAFs assist them in their internal control oversight responsibility.</td>
<td>Respondents had to select either ‘Not at all’, ‘To a lesser extent’ or ‘To a large extent’. Annexure K, section D.</td>
</tr>
<tr>
<td>E</td>
<td>Risk management</td>
<td>Whether the audit committee relies on the IAF for risk management information and to determine the scope of internal audit work relating to risk management and the extent audit committees feel IAFs assist them in their risk management oversight responsibility.</td>
<td>Respondents had to select either ‘Not at all’, ‘To a lesser extent’ or ‘To a large extent’. Annexure K, section E.</td>
</tr>
<tr>
<td>F</td>
<td>Legislative and regulatory</td>
<td>Whether the audit committee relies on the IAF for compliance information and to determine the scope of internal audit work relating to compliance and the extent audit committees feel IAFs assist them in their compliance oversight responsibility.</td>
<td>Respondents had to select either ‘Not at all’, ‘To a lesser extent’ or ‘To a large extent’. Annexure K, section F.</td>
</tr>
<tr>
<td>G</td>
<td>Technical competencies</td>
<td>Whether audit committees perceive IAFs as being competent in internal control, risk management and governance.</td>
<td>Respondents had to select either ‘Competent’, ‘Not competent’ or ‘Unable to judge’. Annexure K, section G.</td>
</tr>
<tr>
<td>H</td>
<td>Internal audit report</td>
<td>Whether audit committees perceive the internal audit report as being informative, persuasive and calling for action. If audit committees did not find reports useful, opportunities were given in the questionnaire to indicate aspects which could have prevented the internal audit reports from being informative and persuasive.</td>
<td>Respondents had to select either ‘Yes’, ‘No’. Annexure K, section H and H1. If respondents selected ‘No’, they were given various options to select in section H1.</td>
</tr>
</tbody>
</table>

**Source:** Researcher’s own deductions

The above questionnaire elicited information on the research objectives. The questionnaire contained a combination of dichotomous questions, Likert Scales and open-ended questions (the detailed questionnaire can be found in Annexure K).
6.3.2.2 Preparation, review and distribution

During February and March 2015, the questionnaires were developed based on an extensive literature review, in line with the study research problem and objectives. The questionnaires were sent to internal audit academics and internal audit professionals in industry for review in order to contribute to the content and face validity of the questionnaires.

At the start of April 2015, contact was made with the metropolitan municipalities in order to invite the participants to partake in the study. In some cases, the researcher had to ask special permission to conduct research through the Office of the City Manager (example of permission letter in Annexure N).

Emails were sent to the participants containing a covering letter (Annexures J and L) and the URL for the online survey completion using Google Documents. After continuous follow-up by email and telephonically, the surveys were closed on 22 June 2015.

6.3.2.3 Analysis

Frequency tables and graphs were used to describe the basic meaning of the data combined for all responses. Due to the smaller sample, inferential statistics were not used. These results were then compared with the transformed qualitative data.

6.3.3 Sampling strategy

Purposive sampling was used to form the basis of the selection of the eight metropolitan municipalities in South Africa. Although the term ‘purposive sample selection’ is the broad sampling technique, Patton (1990:169) and Patton (2003:3, 5) argues that there are many strategies available to purposefully select information-rich cases or samples (also stated by Akengin, 2008:128). In essence, whichever strategy
is used under purposive sampling, the goal is the same, namely, to select information-rich cases that are intentionally selected to fit a study.

Specifically, a criterion sample selection strategy was used to select samples. The samples must meet a predetermined criterion of importance and these predetermined criteria can make the samples prone to in-depth enquiry (Patton, 1990:176/177; Hasson, Keeney & McKenna, 2000:1010; Sandelowski, 2000:248; Luomala, 2002:818; Mensch & Ennis, 2002:200; Shedivy, 2004:106; Polkinghorne, 2005:141; Akengin, 2008:128; Mensch & Mitchell, 2008:71; Alstete, 2008:181; Gonzalez, Brown & Slate, 2008:4; Cronfalk, Strang & Ternestedt, 2009:2226). The criteria can be created by the researcher or it can consist of a list of criteria prepared beforehand (Akengin, 2008:129). Sandelowski (1992), as cited by Coyne (1997:628), refers to this sample selection approach as “sampl[ing] subjects according to a preconceived but reasonable set of criteria”.

According to the Municipal Structures Act (MSA) 117 of 1998, the following criteria must be met for a municipality to be declared a status of metro (Government Gazette, 1998:s2):

An area must have a single category ‘A’ municipality if that area can reasonably be regarded as:

a) A conurbation featuring:
   o Areas of high population density;
   o An intense movement of people, goods and services;
   o Extensive development; and
   o Multiple business districts and industrial areas.

b) A centre of economic activity with a complex and diverse economy;

c) A single area for which integrated development planning is desirable; and

d) Having strong interdependent social and economic linkages between its constituent units.

In South Africa, the only municipalities meeting these criteria are the eight metropolitan municipalities. They are thus regarded as information-rich and conclusions reached could be informative to other settings.
Two limitations need to be highlighted. The first limitation of the proposed sampling strategy is that the selection does not necessarily allow for statistical generalisation to other municipalities due to the judgmental nature of purposive sampling. Secondly, although purposive sampling can be applied in both quantitative and qualitative research, purposive sampling is more applicable to sampling in qualitative and mixed methods research (Devers & Frankel, 2000:263). Therefore, quantitative researchers may not find the sampling strategy as useful. Although generalisation may be problematic, the next section provides some insights on generalisation to other settings.

6.3.3.1 Generalisation

Once samples are analysed and interpreted, researchers must decide how they can generalise or extrapolate the sample results to a broader population (Given, 2008:371). Given (2008:372) argues that in quantitative research this is an easier exercise since quantitative researchers employ various statistical methods to extrapolate the sample results to the broader population because of the bigger sample sizes in quantitative research. Qualitative researchers might find it more difficult to generalise to the broader population, most often because of the smaller number of samples included in a study (Given, 2008:372; Höijer, 2008:283). However, arguments exist which can assist qualitative researchers to generalise from a single case or small
sample to other settings (Fairweather & Rinne, 2012:474). The seminal work of Guba and Lincoln (1985), as cited by Given (2008:118), argues that generalisation in qualitative research is in the eye of the beholder, that is, the reader decides how the findings of a few cases or samples could be applicable or transferred to other settings. Referring to generalisation for small samples typical of qualitative research, Given (2008:372) poses the question “why will knowledge of a single or limited number of cases be useful to people who operate in other, potentially different situations?”

Given (2008:372) argues that various arguments exist to answer this question and many researchers have provided answers to this question. Guba and Lincoln (1985), as cited by Given (2008:372), simply states that “only consumers of research could determine whether the setting studied was sufficiently similar to the consumer’s organization to entertain the working hypothesis that findings would transfer”. Therefore, for researchers sampling smaller samples, which is the case for this research, some degree of generalisability does exist.

According to Onwuegbuzie and Leech (2005), as cited by Collins, Onwuegbuzie and Jiao (2007:271, 273), three types of generalisations exist within research, namely, i) statistical generalisation (“making generalisations or inferences from data extracted from a representative statistical sample to the population from which the sample was drawn”), ii) analytic generalisation (“applied to wider theory on the basis of how selected cases ‘fit’ with general constructs”) and iii) case-to-case transfer (“making generalisations from one case to another similar case”) (also noted in Höijer, 2008:283, 285).

Based on the above discussion, it is therefore possible that the findings of this research project focused on eight information-rich municipalities could be transferred to other municipalities through either analytic or case-to-case transfer generalisation, all at the discretion of the reader (Payne & Williams, 2005:310; Guba & Lincoln, 1985, as cited by Given 2008:372).
6.3.3.2 Units of analysis

The eight metropolitan municipalities in South Africa which meet the above criteria in Section 6.3.3 and which will form part of this study are:

- Buffalo City (East London);
- City of Cape Town;
- Ekurhuleni Metropolitan Municipality (East Rand);
- City of eThekwini (Durban);
- City of Johannesburg (CoJ);
- Mangaung Municipality (Bloemfontein);
- Nelson Mandela Metropolitan Municipality (Port Elizabeth); and
- City of Tshwane (Pretoria).

The units of analysis within each of the above municipalities were CAEs and audit committees.

Note that for cut-off purposes only the metropolitan municipalities existing at the end of 2014 were considered as part of the sampling process.

6.3.4 Methodological considerations

The results of the study contain both quantitative and qualitative data. Therefore, the validity, reliability (for quantitative data) and trustworthiness (for qualitative data) must be ensured. Table 6.4 below provides a summary of the procedures which were followed to ensure the validity, reliability and trustworthiness of the study.
Table 6.4 Procedural considerations for validity, reliability and trustworthiness

<table>
<thead>
<tr>
<th>Validity and reliability</th>
<th>Trustworthiness</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quantitative</strong></td>
<td></td>
</tr>
<tr>
<td>• Peer debriefing of the instruments</td>
<td></td>
</tr>
<tr>
<td>• Triangulation</td>
<td></td>
</tr>
<tr>
<td>• Test of internal consistency (Cronbach’s Alpha)</td>
<td></td>
</tr>
<tr>
<td><strong>Qualitative</strong></td>
<td>• Triangulation</td>
</tr>
<tr>
<td></td>
<td>• Keeping good audit trail with the Atlas.ti HTML function</td>
</tr>
</tbody>
</table>

Source: Researcher’s own deductions

The fact that all municipalities’ internal audits are governed by the same legislative framework and the Standards contributes significantly to external validity, so even though focus was given to the eight metropolitan municipalities, the results are still transferable (also refer to Section 6.3.3.1 on generalisation). This reasoning is also evident in the work of Mihret & Yismaw, 2007:473 and Mihret & Woldeyohannis, 2008:572.

Internal validity, specifically content validity, was enhanced by peer debriefing of the instrument by experienced academics and internal audit professionals in industry. The feedback from the reviewers was used to improve the questionnaires. Overall, the instruments were regarded as measuring what they were meant to measure.

As a rule of thumb, a Cronbach’s Alpha of 0.70 is considered satisfactory (Ngololo, 2010:122). The CAE questionnaire and audit committee questionnaire had a Cronbach Alpha of 0.845 and 0.960 respectively, which is evident of the internal consistency of participants’ responses. The detailed analyses can be seen in Annexure O.

Data from annual reports was used to corroborate and support results from the questionnaires in order to strengthen the validity of the results, thus overall, the research design contributed significantly to validity and trustworthiness. Extensive audit trails were kept for the qualitative content analysis using the HTML function in
Atlas.ti which also contributed to the trustworthiness of the study. The rich text output audit trail can be seen in Annexure Q.

6.4 CHAPTER SUMMARY

This chapter provided an overview of the research methodology used for this study. In this regard, an explanation was provided on the selected research design and related methods. A data transformation triangulation design was chosen whereby both qualitative and quantitative data was collected and interpreted.

The analysis approach was explained for both the qualitative and quantitative data. The population and selected sampling strategy were discussed, followed by an explanation of the manner in which quality of measurement was ensured.

The next chapter examines the findings and deductions of the empirical study.
CHAPTER 7

RESULTS OF THE EMPIRICAL STUDY

7.1 INTRODUCTION

This chapter presents the results of the empirical study. Both qualitative and quantitative results are examined with reference to the problem statement areas discussed in Chapter 1. This is then used to provide a composite model (typical representation) of the current status of the functioning of IAFs in the eight metropolitan municipalities in South Africa.

This chapter first presents the qualitative findings obtained through analysis of the 2012-2013 (2013-2014 was only be released in 2015) MFMA annual reports of the eight metropolitan municipalities. This is followed by the quantitative results which were obtained through questionnaires sent to audit committee chairpersons and CAEs at the eight metropolitan municipalities. Lastly, the chapter presents a composite model of the functioning of internal audit in metropolitan municipalities based on the evidence from the two data sets.

7.2 QUALITATIVE FINDINGS: ANALYSIS OF MFMA ANNUAL REPORTS

The following sections provide a qualitative discussion of the functioning of IAFs in metropolitan municipalities in South Africa, as reflected by MFMA annual reports. Sections 7.2.1-7.2.5 present the qualitative findings which were derived by imposing the concept-driven coding scheme explained in Section 6.3.2.1 of Chapter 6. Section 7.2.6 then provides the findings obtained from the data-driven coding scheme explained in Section 6.3.2.1. To protect the confidentiality of the municipalities, pseudonyms were used throughout the empirical study. The overall objective of Section 7.2 is to present the results of the analysis of the annual reports which show
internal audit disclosure items, as reflected in MFMA annual reports. This section found evidence on the following disclosure items:

- Evidence on their core mandate as found in *Standard 2100, Nature of Work* (Sections 7.2.1, 7.2.2, 7.2.3)
- Evidence on their compliance audit mandate as legislated in municipalities (Section 7.2.4)
- Evidence on the status of the completed internal audit plan (Section 7.2.6.1)
- Evidence on the competency of internal audit (Section 7.2.6.2)
- Evidence on the organisational status of internal audit (Section 7.2.6.3)
- Evidence on the internal audit approach (Section 7.2.6.4)
- Evidence that follow-up audits were performed (Section 7.2.6.5)
- Evidence of disclosure of CAE remuneration (Section 7.2.6.6)
- Evidence that internal audit provides opinions (Section 7.2.6.7)
- Evidence on the structure of internal audit (Section 7.2.6.8)
- Evidence of the established reporting relationship of the CAE (Section 7.2.6.9); and
- Evidence that internal audit has quality assurance and improvement programmes (Section 7.2.6.10).

All eight MFMA annual reports of the metropolitan municipalities were obtained which means a 100% response rate was attained in the analysis of the annual reports.

### 7.2.1 Disclosure on internal control

- **Objective of the analysis**

To provide a text matrix on what was found in the annual reports regarding internal audit’s internal control mandate.
Findings and deductions

Internal control is one of three core functional areas defined in Standard 2100. It follows then, that if internal audit wishes to add value, it must provide internal control-related consulting and assurance services to the metro. After the analysis of the annual reports of the metros, the following items were evident as they relate to internal audit’s internal control mandate.

Table 7.1 Internal audit’s work on internal control

| Source: ATLAS.ti output, “Control Mandate”, Metro A – Metro H |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Metro A | Metro B | Metro C | Metro D | Metro E | Metro F | Metro G | Metro H | ... |
| - Regular reviews of the system of internal control | - Evaluate and improve control processes | - Identify weak controls | - Contribute to control environment by evaluating and improving the effectiveness of controls | - Compliance testing on policies and procedures | - Written assessment of the effectiveness of internal control, including internal financial controls | - Perform continuous audit reviews on internal control systems and procedures | - Audit the metro on the system of internal control | - Advise audit committee on serious breakdowns in internal control; Audit controls outside the risk appetite of the metro. |
| - Compliance testing relating to acts and regulations | - Assess the efficiency, adequacy and effectiveness of controls | - Evaluate adequacy and effectiveness of controls | - Compliance testing of laws, regulations, policies and procedures | - Evaluate controls resulting in high residual risks | | | | |
| - Control testing on absenteeism and overtime claims | - Audit of operational efficiency and effectiveness | - Review of the reliability and integrity of financial and operating information | - Adequacy and cost-effectiveness of implemented controls | | | | | |
| | - Controls audited are those affecting the metro strategic objectives | - Report on such findings | - Identify weak controls | | | | | |
| | - Inform audit committee quarterly on control testing done | - Compliance testing on laws, policies and procedures of the metro | - Evaluate controls over the safeguarding of assets | | | | | |
| | | | - Appraise the economy and efficiency with which resources are employed | | | | | |

Source: ATLAS.ti output, “Control Mandate”, Metro A – Metro H
It can be seen from Table 7.1 that there is significant variation between the different metros in what internal audit discloses regarding its internal control work as well as the extent of description of what is being done. It is also clear that very broad statements are used to describe how internal audit is contributing to the internal control system of the metros. However, internal audit’s mandate regarding internal control is broad and multifaceted, which is not clearly described in the annual reports. Although no legal obligation exist for internal audit to disclose information in annual reports on its internal control mandate, it is nonetheless clear from Table 7.1 that attempts at disclosure were made.

### 7.2.2 Disclosure on risk management

- **Objective of the analysis**

  To provide a text matrix on what was found in the annual reports regarding internal audit’s risk management mandate.

- **Findings and deductions**

  Risk management is one of three core functional areas defined in *Standard 2100*. It follows then, that if internal audit wishes to add value, it must provide risk management-related consulting and assurance services to the metros. After the analysis of the annual reports of the metros, the following was evident as it relates to internal audit’s risk management mandate.
### Table 7.2: Internal audit’s work on risk management

<table>
<thead>
<tr>
<th>Metro</th>
<th>Risk Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>None</td>
</tr>
<tr>
<td>Metro B</td>
<td>- Evaluate and improve risk management processes &lt;br&gt;- Inform the audit committee, executive directors and the city manager of matters relating to risk management &lt;br&gt;- Identify risk exposures effecting the metro strategy</td>
</tr>
<tr>
<td>Metro C</td>
<td>None</td>
</tr>
<tr>
<td>Metro D</td>
<td>Evaluate whether the risk management design is operating as intended i.e. its adequacy and functioning</td>
</tr>
<tr>
<td>Metro E</td>
<td>- Evaluate and improve the effectiveness of risk management processes &lt;br&gt;- Identify the risk profile of an area under review &lt;br&gt;- Evaluate the extent to which management has identified inherent risks &lt;br&gt;- Evaluate the adequacy and cost-effectiveness of controls affecting major risks &lt;br&gt;- Facilitate good practice on risk management &lt;br&gt;- Issue regular risk reports to audit and risk committee</td>
</tr>
<tr>
<td>Metro F</td>
<td>- Attend audit committee meetings to inform the committee of key risks &lt;br&gt;- Review metro’s compliance with the risk management policy &lt;br&gt;- Evaluate the adequacy of the risk management framework of the metro</td>
</tr>
<tr>
<td>Metro G</td>
<td>Internal audit provides assurance on top risks identified</td>
</tr>
<tr>
<td>Metro H</td>
<td>- Conduct reviews of the effectiveness of the risk response strategies and any recommended corrective actions &lt;br&gt;- Ensure that risks identified through reviews are incorporated into the development of the metro’s risk profile &lt;br&gt;- Monitor the implementation of actions to mitigate those risks that are outside the agreed risk appetite of the metro</td>
</tr>
</tbody>
</table>

Source: ATLAS.ti output, “Risk Management Mandate”, Metro A – Metro H

It can be seen from Table 7.2 that some metros did not even make reference to the fact that internal audit contributes to the risk management processes of the metro. It is also clear that what internal audit does regarding risk management differs across the metros. According to the MFMA s165, internal audit has a legal mandate to advise the accounting officer on matters relating to risk and risk management. Furthermore, the Standards, related practice advisories and position papers provide guidance on risk management, Treasury Regulations and the Public Sector Risk Management Framework. To add value, internal audit must state how it contributed to improving the risk management practices of the metro in order to increase public confidence and improve its ability to execute its risk management mandate seeing that is under public scrutiny. Of concern is the extent internal audit informs the accounting officer and the audit committee on risk management; the perception is that very little is done on risk management across the metros.
7.2.3 Disclosure on governance

- **Objective of the analysis**

To provide a text matrix on what was found in the annual reports regarding internal audit’s governance mandate.

- **Findings and deductions**

Governance is one of three core functional areas defined in Standard 2100. It follows then, that if internal audit wishes to add value, it must provide governance-related consulting and assurance services to the metro. After the analysis of the annual reports of the metros, the following was evident as it relates to internal audit’s governance mandate.

Table 7.3: Internal audit’s work on governance

<table>
<thead>
<tr>
<th>GOVERNANCE</th>
<th>Metro A</th>
<th>Metro B</th>
<th>Metro C</th>
<th>Metro D</th>
<th>Metro E</th>
<th>Metro F</th>
<th>Metro G</th>
<th>Metro H</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Internal audit is involved in corporate governance</td>
<td>• Evaluate and improve the effectiveness of governance processes</td>
<td>None</td>
<td>Check the design of governance processes, i.e. are they adequate and operating as intended by management</td>
<td>• Evaluate and improve the effectiveness of governance processes</td>
<td>None</td>
<td>The extent of internal audit functioning with reference to governance is summarised in the annual report as “the Municipality has prioritised good and ethical corporate governance. In this regard, it has a functional Risk Management Unit and a Risk Management Policy, an Internal Audit and Risk Assurance Division and an Anti-Fraud and Anti-Corruption Strategy in place</td>
<td>• Investigate reported ethical issues</td>
</tr>
<tr>
<td></td>
<td>• Internal audit is involved in compliance issues related to corporate governance</td>
<td>• Communicate governance issues in a report to executive directors and the city manager</td>
<td></td>
<td></td>
<td>• Fight aspects of corruption with fully capacitated internal audit department</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Promote governance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Provide technical support to the Municipal Public Accounts Committee to strengthen governance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: ATLAS.ti output, “Governance Mandate”, Metro A – Metro H*

The perception of the functioning of internal audit when it comes to governance processes is of significant concern. If it is indeed a true reflection, it is alarming to note the paucity of communication between the audit committee and the accounting officer.
on governance matters as internal audit is an important source of information on such processes within the metro.

7.2.4 Disclosure on compliance

- Objective of the analysis

To provide a text matrix on what was found in the annual reports regarding internal audit’s legal and regulatory mandate.

- Findings and deductions

Internal audit has a legal mandate to audit the performance management system of a metro. Specifically, this mandate originates in s165 of the MFMA and other guides are also provided in Chapter 6 of the MSA, the Municipal Planning and Performance Management Regulations and the Municipal Performance Regulations for Municipal Mangers and Managers Directly Accountable to Municipal Managers.

In this regard, the following was evident from the annual reports of the metros.
Here critical questions remain unanswered on the functioning of internal audit as it relates to its legal and regulatory mandate due to a lack of information in the annual reports. However, internal audit is not legally obliged to disclose in annual reports how it has complied with its legal and regulatory mandate. From Table 7.4 it is clear that attempts have been made at disclosure but what is disclosed and to what extent, differs between the metros.

### 7.2.5 An overall synopsis

Sections 7.2.1-7.2.4 provided an overview of what was found in the MFMA annual reports of metropolitan municipalities with reference to internal audit’s internal control, risk management, governance and legal mandate. These sections provided summarised descriptions of the work internal audit conducts.

It is clear from Sections 7.2.1-7.2.4 that all the metropolitan municipalities provide very broad disclosure of what internal audit does with reference to its core mandate. In
order to further understand the qualitative text matrices, Table 7.5 summarises the work areas using enumerative content analysis (Grbich, 2013:195).

Table 7.5: References made to the broad internal audit work areas

<table>
<thead>
<tr>
<th>Source</th>
<th>Control mandate</th>
<th>Governance mandate</th>
<th>Risk management mandate</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>4</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro B</td>
<td>9</td>
<td>6</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Metro C</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro D</td>
<td>8</td>
<td>1</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Metro E</td>
<td>7</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Metro F</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Metro G</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Metro H</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td><strong>%TOTAL</strong></td>
<td><strong>44.74%</strong></td>
<td><strong>18.42%</strong></td>
<td><strong>18.42%</strong></td>
<td><strong>18.42%</strong></td>
</tr>
</tbody>
</table>

Source: ATLAS.ti output

Table 7.5 above shows the number of times reference was made to the core mandate of internal audit in the annual reports of the metropolitan municipalities for the 2012-2013 financial year. Overall, compared to the other core functions, the most prominent item disclosed was internal audit’s internal control mandate (44.74%). Within the control mandate function, Metro B made the greatest number of references to how its IAF contributes to internal control. It is clear from Table 7.5 that inconsistencies exist between what is being reported in terms of the focus areas identified. There are also inconsistencies in the frequency of reporting on the focus areas between the municipalities in the MFMA annual reports. For example, Metro C makes no reference to what internal audit is doing regarding internal control, risk management or governance nor is there any mention of its role in compliance matters. Again, it can be seen in Table 7.5 that internal audit’s perceived functioning as it relates to its core work, seems insufficient and much more could be communicated in the annual reports on its core mandates.
OVERALL DEDUCTION

The research problem was formulated as: *Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as is evident from the discussion in Section 1.2, users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making.*

Sections 7.2.1-7.2.5 provided empirical evidence on the disclosure of the work internal audit conducts, as reflected in MFMA annual reports. Based on this evidence, it is possible that the users of internal audit services are uninformed on critical internal control, risk management, governance and legal concerns. The extent of work depicted versus what is prescribed by the Standards, practice advisories and other best practices varies extensively across metros, as can be seen in the text matrices (Tables 7.1-7.4) and the frequency counts of disclosure of work areas (Table 7.5). Although internal audit is not legally mandated to disclose its work in annual reports, attempts at disclosure have been made. However, only scant information was disclosed and policy on internal audit disclosure should be established to ensure consistency in this regard.

7.2.6 Other disclosure of internal audit in MFMA annual reports

- Overall objective of the analysis

The next sections present the findings after the MFMA annual reports were coded using the data-driven approach explained in Chapter 6. Sections 7.2.6.1-7.2.6.10 provide evidence of other aspects on internal audit which were disclosed in annual reports.
7.2.6.1 Disclosure on the completion of the annual internal audit plan

- Findings

In the MFMA annual reports, disclosure was made on the completion of the internal audit plan. Table 7.6 shows which municipalities made reference to the extent to which internal audit had completed its annual internal audit plan.

Table 7.6: References made to the status of planned internal audit work as noted in 2012-2013 annual reports

<table>
<thead>
<tr>
<th>Source: ATLAS.ti output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status of completed work</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>Metro A</td>
</tr>
<tr>
<td>Metro B</td>
</tr>
<tr>
<td>Metro C</td>
</tr>
<tr>
<td>Metro D</td>
</tr>
<tr>
<td>Metro E</td>
</tr>
<tr>
<td>Metro F</td>
</tr>
<tr>
<td>Metro G</td>
</tr>
<tr>
<td>Metro H</td>
</tr>
</tbody>
</table>

The above table shows the number of times the metros made reference to the completion of the annual internal audit plan. Metro F made reference to the completed annual audit plan more than once, which could be indicative of the importance it accords to the completion of the audit plan, however, it did not obtain 100% coverage on its audit plan. The work of Metro H on its annual audit plan was not mentioned in the annual report and it is therefore not clear whether it had completed its internal audit plan in full or whether it had completed at least part of it. All other seven metropolitan municipalities made some reference to the percentage of work completed. The following summaries provide the qualitative text out of the annual reports which indicates how much of the annual internal audit plan was completed by each metros’ internal audit function.
<table>
<thead>
<tr>
<th>Metro</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>100% completion of planned internal audit work</td>
</tr>
<tr>
<td>Metro B</td>
<td>93% completion of planned internal audit work</td>
</tr>
<tr>
<td>Metro C</td>
<td>100% completion of planned internal audit work</td>
</tr>
<tr>
<td>Metro D</td>
<td>100% completion of planned internal audit work</td>
</tr>
<tr>
<td>Metro E</td>
<td>91% completion of planned internal audit work</td>
</tr>
<tr>
<td>Metro F</td>
<td>Evidence that 9 internal audit projects were not completed (not 100% coverage)</td>
</tr>
<tr>
<td>Metro G</td>
<td>Evidence that internal audit could not complete all internal audit projects due to budget cuts (not 100% coverage).</td>
</tr>
<tr>
<td>Metro H</td>
<td>No evidence in annual reports on completed work</td>
</tr>
</tbody>
</table>

Source: ATLAS.ti output

- **Deductions**

The internal audit function reports to the audit committee. The indicated percentages of the internal audit plans above show positive signs that the audit committee was informed of important aspects facing the metro, assuming that all internal audit reports on the completed work were communicated to the audit committee and other relevant role players. On the other hand, the fact that some metros did not complete the work in the annual internal audit plan could also be problematic as audit committees and other senior management would be uniformed of incomplete matters, which could hinder them in fulfilling their mandate to municipal council. Overall, the norm shows that most metropolitan municipalities disclosed how much of the internal audit plan they had completed (87.5% of metropolitan municipalities indicated this).

7.2.6.2 Disclosure on the competency of internal audit

- **Findings**

The GIACF provides four domains which define the competency of internal auditors, namely, competency in the Standards, core technical skills, interpersonal skills and competency in certain knowledge areas. Although it is not a requirement to report on internal audit's competency in the MFMA annual reports, very few metropolitan municipalities indirectly made reference to whether internal audit was regarded as
competent or incompetent in doing its work. The following qualitative text from the annual reports shows evidence of this finding:

“To enhance the auditing process, additional skills and expertise were acquired during the review period by co-sourcing the internal audit function”

“...fully capacitated Internal Audit Unit”

“The review further indicated that the Department effectively carried out its roles and responsibilities as set out in its charter”

“Although the municipal entity had outsourced internal audit function, it was not operating effectively during the year under review”

Source: ATLAS.ti output

The annual reports were coded with ‘competency’ or ‘incompetence’ where any evidence existed on whether internal audit was competent or not. As can be seen from Table 7.7, very little has been reported in the MFMA annual reports for the 2012-2013 financial year on the competency of internal audit.

Table 7.7: References made to competency/incompetency of IAFs

<table>
<thead>
<tr>
<th></th>
<th>Evidence of incompetence</th>
<th>Evidence of competence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro B</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Metro C</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Metro D</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro E</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Metro F</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Metro G</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Metro H</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>%TOTAL</td>
<td>25.00%</td>
<td>75.00%</td>
</tr>
</tbody>
</table>

Source: ATLAS.ti output
Metro B gave some confidence to the public in relation to the competence of internal audit, as did Metros C, E and G. Where references were made to competence levels of internal audit (either positive or negative,) most references (75%) were made to the fact that internal audit was regarded as competent. It would be beneficial to report on the levels of competence across all municipalities as this could give more confidence to the public reading the annual reports of municipalities, knowing that systems and structures were reviewed by competent internal auditors.

- Deductions

No segments of text directly referred to the term ‘competence’ in the annual reports. The above texts were the closest quotes which could provide some insight as to the competence of internal audit. Table 7.7 summarises references made (or not made) to competence of internal audit.

7.2.6.3 Disclosure on the organisational status of internal audit

- Findings

During the analysis of the MFMA annual reports, evidence was found that internal audit functions disclosed information on their organisational status. The key areas under organisational status are internal audit independence, objectivity, approval of the internal audit charter, approval of the annual internal audit plan and reliance on the work of internal audit and resources. These are all areas which were reflected in the MFMA annual reports.

The following qualitative text offers evidence that internal audit discloses its organisational status within metropolitan municipalities:

“At its meeting of 21 February 2013, the Audit and Performance Committee reviewed the revised Charter of Internal Audit”

“Preparation of a strategic three-year rolling internal audit plan, inclusive of an annual internal audit coverage plan. The internal audit plans were submitted to the Audit Committee for approval”
“The Audit Committee relies to a great extent on the Head: Internal Audit and his staff for their support and assistance, and for this we would like to thank them”

“Internal Audit is mandated, through its charter, to provide independent, objective assurance and consulting/advisory services”

“...satisfied itself that the Internal Audit function has the necessary resources, budget...”

Source: ATLAS.ti output

### Table 7.8: References made to organisational status areas

<table>
<thead>
<tr>
<th>Metro</th>
<th>Approved IA Charter</th>
<th>Approved IA Plan</th>
<th>Regarded as independent</th>
<th>Reliance on internal audit</th>
<th>Remains objective</th>
<th>Resourced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro B</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Metro C</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro D</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Metro E</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Metro F</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro G</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Metro H</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

% TOTAL: 11.11% 13.89% 16.67% 33.33% 8.33% 16.67%

Source: ATLAS.ti output

As can be seen from Table 7.8, very few municipalities made reference to the fact that their purpose, authority and responsibility are documented and approved in a charter and to the fact that the internal audit plan had been approved. It also shows the inconsistency in reporting on internal audit. This could be due to the fact that no legislation exists which makes it compulsory for municipalities to report on the internal audit function in an annual report. Also concerning is the fact the very few (25%) metros made reference to the independence of internal audit. This is of the utmost importance to reader of annual reports, especially the public, as it adds credibility to the overall annual report and the work done by an important governance structure.
such as internal audit. It is interesting to note that it was made abundantly clear that significant reliance was placed on the work of internal audit, yet seeing that so little was stated in the annual reports on internal audit’s independence and its actual work, the credibility of internal audit could remain questionable in the mind of the reader. Objectivity of internal audit is also not consistently reported in the annual reports and only two out of eight (25%) metros made reference to this fact. Although no legal requirement exists for internal audit to disclose matters in annual reports, it is clear that attempts have been made in this regard. However, the extent of disclosure varies across the different metros. Policy on internal audit disclosure could be developed to provide guidance on what to disclose.

- **Deductions**

In order to better understand the extent of disclosure on internal audit’s organisational status, the codes were quantified in Atlas.ti and Table 7.8 shows the extent and differences in disclosure. Inconsistencies exist in the disclosure of the organisational status of internal audit.

- **7.2.6.4 Disclosure on internal audit approach**

- **Findings**

Evidence was found in the MFMA annual reports that internal audit follows a risk-based approach. Table 7.9 summarises the number of times this was referenced in the annual reports.
Table 7.9: References made to internal audit approach

<table>
<thead>
<tr>
<th>Source</th>
<th>Risk based</th>
<th>%TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>1</td>
<td>7.14%</td>
</tr>
<tr>
<td>Metro B</td>
<td>3</td>
<td>21.43%</td>
</tr>
<tr>
<td>Metro C</td>
<td>1</td>
<td>7.14%</td>
</tr>
<tr>
<td>Metro D</td>
<td>2</td>
<td>14.29%</td>
</tr>
<tr>
<td>Metro E</td>
<td>3</td>
<td>21.43%</td>
</tr>
<tr>
<td>Metro F</td>
<td>1</td>
<td>7.14%</td>
</tr>
<tr>
<td>Metro G</td>
<td>2</td>
<td>14.29%</td>
</tr>
<tr>
<td>Metro H</td>
<td>1</td>
<td>7.14%</td>
</tr>
</tbody>
</table>

Source: ATLAS.ti output

The evidence in the MFMA annual reports which indicates that internal audit follows a risk-based approach is illustrated in the following texts extracted from the MFMA annual reports:

“...key risks facing the Municipality are contained in a Risk register. The Internal Audit Plan is derived from the risks contained in this register”

“Internal Audit’s plans, which are aligned with the City’s strategy and most pertinent risks”

“...City’s Core Administration’s annual audit coverage plan, which is risk-based”

“The Risk Management Unit does not provide assurance on the top risks identified; this service is provided by the Internal Audit and Risk Assurance Sub-directorate. Risks are designated as ‘top risks’ based on risk rating scores”

Source: ATLAS.ti output

- **Deductions**

The perception reflected in the annual reports suggests that all IAFs’ work is based on the most important risks facing the metro. This could provide evidence that IAFs use their resources efficiently. As a norm, it is important to notify the public that a risk-based approach is used by internal audit as 100% of metropolitan municipalities made reference to this.
7.2.6.5 Disclosure on performing of follow-up activities

- Findings

Evidence was found in the MFMA annual reports which indicates that internal audit is following up on the disposition of previous internal audit findings and on findings raised by the Auditor-General of South Africa. The following quotes from the MFMA annual reports are illustrative:

“…AG in liaison with the Internal Audit and Audit Committee monitor the implementation of the actions”

“Follow-up internal audits indicated that…”

“Internal audit was further mandated to follow up on the implementation of the action plans developed by management to address the findings reported in the AG report”

Source: ATLAS.ti output

Furthermore, Table 7.10 identifies the inconsistent disclosure of follow-up activities as not all metros reported on the fact that internal audit performed follow-up audits.

<table>
<thead>
<tr>
<th></th>
<th>Perform follow ups</th>
<th>%TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>1</td>
<td>25.00%</td>
</tr>
<tr>
<td>Metro B</td>
<td>1</td>
<td>25.00%</td>
</tr>
<tr>
<td>Metro C</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro D</td>
<td>1</td>
<td>25.00%</td>
</tr>
<tr>
<td>Metro E</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro F</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro G</td>
<td>1</td>
<td>25.00%</td>
</tr>
<tr>
<td>Metro H</td>
<td>0</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

Source: ATLAS.ti output

From Table 7.10, it is clear that only 50% of metros stated in annual reports that they performed follow-up audits.
Deductions

No legal requirement exists for internal audit to disclose information in MFMA annual reports. However, it can be seen that attempts were made to disclose on the fact that internal audit performed follow-up activities in previous findings reported.

7.2.6.6 Disclosure on the remuneration of CAEs

Findings

The remuneration of CAEs was reported in some cases in MFMA annual reports of metropolitan municipalities. The remuneration of CAEs was disclosed under the following headings (figures not included):

“Remuneration of the Executive Head: Group Internal Audit”

“Head of Department: Internal Audit”

“Director: Audit Services”

“Chief Audit Executive”

Source: ATLAS.ti output

Table 7.11 shows that half of the metros disclosed the remuneration of the CAE.
Deductions

It is clear from Table 7.11 that inconsistencies exist between the metros in disclosing information on the remuneration of CAEs. It is good practice to disclose remuneration information of executives as this contributes to transparency as indicated in governance codes such as King III.

7.2.6.7 Disclosure on internal audit opinions

Findings

IAFs should be in a position to provide an opinion on the overall efficiency and effectiveness of the metros’ system of internal control. However, after scrutiny of the
MFMA annual reports, internal audit opinions were barely mentioned in the reports. The best example of a reported internal audit opinion in the MFMA annual reports is contained in the following text example:

“An internal audit opinion of ‘Major Improvement Needed’”

Source: ATLAS.ti output

It is also important to note that the above quotation was what the audit committee quoted from internal audit reports available only internally within the specific metro; thus even in the MFMA annual report, the above was not stated in the section dedicated to internal audit’s opinion.

<table>
<thead>
<tr>
<th>Metro</th>
<th>Opinion given</th>
<th>%TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro B</td>
<td>2</td>
<td>100.00%</td>
</tr>
<tr>
<td>Metro C</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro D</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro E</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro F</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro G</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro H</td>
<td>0</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

Source: ATLAS.ti output

Providing an opinion on the status of the internal control system could increase public confidence. However, internal audit is not legally mandated to disclose an opinion on the status of internal controls and an opportunity therefore exists to create policy on disclosure with reference to internal audit opinions.

- Deductions

Table 7.12 shows the inconsistencies in disclosing internal audit opinion as only 12.5% (one out of eight) metros disclosed in the annual MFMA reports the fact that internal audit raised an opinion on the system of internal control.
7.2.6.8 Disclosure on how internal audit is resourced: in-house, co-sourced or outsourced

- Findings

Some metros made reference to the fact that internal audit was in-house, co-sourced or outsourced. The following texts extracted from the MFMA annual reports provide evidence of this:

“…in-house Department”

“…entity had outsourced internal audit function…”

“…co-sourcing the internal audit function…”

Source: ATLAS.ti output

The extent to which metros made reference to how they were resourced differs between the metros. Table 7.13 presents this information.

Table 7.13: References made to in-house, co-sourced or outsourced internal audit functions

<table>
<thead>
<tr>
<th>Metro</th>
<th>Co-sourcing</th>
<th>In-house</th>
<th>Outsourced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro B</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Metro C</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro D</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro E</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro F</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Metro G</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro H</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

% TOTAL: 33.33% 33.33% 33.33%

Source: ATLAS.ti output
• Deductions

Three out of eight (37.5%) metros made reference to the fact that they had either an in-house, outsourced or co-sourced internal audit function.

7.2.6.9 Disclosure on CAE reporting relationships

• Findings

References were made in the MFMA annual reports to the fact that both administrative and functional reporting relationships existed for the CAE. The following texts out of the MFMA annual reports provide evidence of this:

“…administratively to the Executive Director: Compliance and Auxiliary Services, and functionally to the City’s independent Audit Committee, as delegated by Council”

“…reports functionally to the Audit Committee and Administratively to City Manager”

Source: ATLAS.ti output

One metro also depicted the reporting relationship through an organogram. In order to understand the extent of disclosure of CAE reporting relationships better, Table 7.14 summarises the differences on disclosure on this item.

Table 7.14: References made to CAE reporting relationships

<table>
<thead>
<tr>
<th>Metro</th>
<th>Reporting relationship</th>
<th>% TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro B</td>
<td>2</td>
<td>50.00%</td>
</tr>
<tr>
<td>Metro C</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro D</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro E</td>
<td>1</td>
<td>25.00%</td>
</tr>
<tr>
<td>Metro F</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro G</td>
<td>1</td>
<td>25.00%</td>
</tr>
<tr>
<td>Metro H</td>
<td>0</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

Source: ATLAS.ti output
Only 37.5% (three out of eight) metros made reference to the fact that CAE had administrative and functional reporting lines within the metro. Metro B made the greatest amount of references to the fact that it had established reporting lines for the CAE within the metro. Again, inconsistencies exist between metros on this item as the majority made no reference to the reporting relationship of the CAE.

**Deductions**

The fact that CAE reporting relationships are disclosed contributes to the organisational independence of internal audit as stated in the *standards*. This adds credibility to the work of internal audit and thus could increase public confidence. However, no legal requirement exists for internal audit to disclose this matter even though attempts had been made in this regard.

**7.2.6.10 Disclosure on the existence of quality assurance and improvement programmes**

**Findings**

Evidence was found in the MFMA annual reports that quality assurance and improvement programmes were implemented and maintained by metros' IAFs. Metro B made reference to the fact that the internal audit function underwent a quality assurance and improvement review. The following was disclosed:

"The Department maintained its quality assurance and improvement programme to ensure the quality of audit products and services. The programme is designed to enable an evaluation of the Department's conformance with the IIA's international standards and code of ethics, as well as Internal Audit's approved charter and methodology. The internal annual quality review indicated that the Department generally conformed to the IIA's definition of internal auditing, its international standards for the professional practice of internal auditing as well as its code of ethics. The review further indicated that the Department effectively carried out its roles and responsibilities as set out in its charter. An external quality review will be performed during the 2013/14 financial year, in line with the requirements of the IIA".

*Source: ATLAS.ti output*
In order to show a comparison between other metros, Atlas.ti was used to quantify the codes to show the number of times references were made to this item. Table 7.15 provides evidence of this.

**Table 7.15: References made to quality assurance programmes**

<table>
<thead>
<tr>
<th>Metro</th>
<th>Quality assurance programmes</th>
<th>% TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro B</td>
<td>1</td>
<td>100.00%</td>
</tr>
<tr>
<td>Metro C</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro D</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro E</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro F</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro G</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Metro H</td>
<td>0</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

*Source: ATLAS.it output*

- **Deductions**

Compared to the other metros, only Metro B disclosed the fact that it underwent a quality assurance review for its IAF. Inconsistencies can be seen between disclosures on this item amongst metros. The fact that a quality assurance review took place asserts that the IAF complied with the highest standards of internal auditing during the course of its work. This enhances the credibility of the work done by internal audit and increases public confidence.

**SUMMATIVE DISCUSSION**

Authors who have explored the benefits of internal audit disclosure in public reports highlight two schools of thought regarding the type of disclosure internal audit can make in public reports. Boyle (2012:21/22) states that an activities-based report informs public readers on what internal audit did during the reporting period. Simply providing a descriptive report can increase public confidence and in turn make internal audit more accountable, seeing that it will be under review (Boyle, 2012:22). Apart from the activities-based report, internal audit can also provide an assurance-based
report where it expresses an opinion on the effectiveness of the system of internal control. This enhances the accountability on the part of internal audit. It is possible that both types of accounts can be provided in the public report (Boyle, 2012:22). In essence, based on accountability theory, if internal audit reports in public accounts, an increase in public confidence can be expected (Boyle, 2012:20). From the analysis of the annual MFMA reports in Sections 7.2.1-7.2.6.10, IAFs in the metros are leaning more towards activities-based reporting in the public reports. It is evident that very few MFMA annual reports contain an internal audit opinion on the status of internal controls within the metros (refer to Table 7.12).

The work of Archambeault et al., (2008:385) suggests that internal audit disclosure in public reports focuses on internal audit composition, responsibilities, accountability, activities and resources and, in essence, this is a reflection of the functioning of IAFs. This is discussed in context of the analysis performed on the MFMA annual reports in Sections 7.2.1-7.2.6.10.

- **Internal audit composition**

This includes stating whether internal audit is in-house, outsourced or co-sourced. Additionally, the size of the IAF can be provided and background information can be given on the CAE with regards to experience and the professional designations held as this provides some confidence to the public regarding the competency of the internal audit function.

After analysing the MFMA annual reports, no evidence on the qualifications of internal audit staff or the CAEs was obtained. In some cases, the metros did make references to the number of staff in the department which could be indicative of their capacity to conduct internal audit work. A number of metros did make reference to the fact that their internal audit functions were in-housed, outsourced or co-sourced (refer to Table 7.13). In the cases where the internal audit function was outsourced or co-sourced, no information was given in the annual reports on the service providers. This increases the difficulty of understanding the appropriateness of the service provider chosen.
• **Responsibilities**

The work of Archambeault et al., (2008:382) suggests that internal audit does disclose on its purpose, authority and responsibility in public reports. This includes having a paragraph stating the nature and scope of work of internal audit – and in essence it must make reference to that fact that internal audit is involved in the improvement of the entity’s risk management, internal control and governance processes. Numerous references to internal audit’s control, risk management and governance responsibilities were made in the MFMA annual reports (refer to Sections 7.2.1-7.2.5). It was also noted that internal audit discloses on the fact that it was involved in the audit of pre-determined objectives which is mandated by the Municipal Systems Act of 32 of 2000 Chapter 6.

• **Accountability**

Archambeault et al., (2008:382) argue that an important aspect of evaluating the internal audit function in public perception is the accountability of internal audit within the entity. This is portrayed through the reporting relationship of internal audit and the extent of meeting professional quality standards in this regard. Best practice suggest that internal audit report administratively to the municipal managers or accounting officer and functionally to the board (or municipal council) or the audit committee. Very few metros made reference to the reporting relationships they have within the metro (refer to Table 7.14). One metro made reference to the fact that it underwent a quality assurance review on its internal audit function which contributes to the fact that its internal audit function was accountable in the quality of its work by submitting itself to an independent quality review (refer to Table 7.15). This would build public confidence in the credibility of the work done by internal audit.

• **Activities**

This section deals with the type of work internal audit performs with reference to the types of audit it is involved in. Furthermore, its involvement with the external auditors can be stated in this section as well as the fact that it attended audit committee
meetings. Internal audit can also disclose how much of the internal audit plan revolves around assurance versus consultancy work and ad hoc assignments. This would assist in providing feedback on the state of completion of the internal audit plan.

In analysing the MFMA annual reports, it was clear that internal audit did disclose on the types of audit performed, for example, some reported that they conducted compliance testing, operational audits and were involved in internal control testing. However, it is clear that what was disclosed and the extent of disclosure on these matters differed between the metros. It was also evident that internal audit had a relationship with the audit committee which implies regular meetings between internal audit, management and the audit committee (seeing that management and the external auditor generally attend audit committee meetings). Frequent reference was made to the fact that reliance was placed on the work of internal audit which means interaction does exist between internal audit and key users of internal audit services (refer to Table 7.8). The majority of the metros also made reference to the completion of their annual internal audit plans (refer to Table 7.6). The internal audit plan reflects internal audit activities.

- **Resources**

In this section of internal audit disclosure, reference can be made to the financial resources devoted to internal audit. In the eyes of the public, this could indicate the seriousness of internal control within the entity. It is also suggested that if the internal audit function is outsourced, the fees be disclosed. For in-house internal audit functions, the annual budget can be disclosed (Archambeault *et al.*, 2008:383).

The analysis of the MFMA annual reports indicates that half the metros (50%) made reference to the remuneration of the CAE (refer to Table 7.11). It was noted that 50% of the metros made it clear that internal audit functions had the necessary resources to perform their work (refer to Table 7.8). It was also noted that one metro had a table showing the number of internal audit staff in the internal audit function, together with the budget for the department. However, it is clear that inconsistencies exist in the extent of disclosure on internal audit resources.
The next section provides an analysis of the questionnaires. Thereafter, the chapter discusses the research problem areas with reference to both sets of data. Then, when possible, evidence from the qualitative data set is compared with the quantitative data set in order to provide an overall picture (typical representation) of the status of the functioning of internal audit.

7.3 QUANTITATIVE RESULTS: ANALYSIS OF AUDIT COMMITTEE RESPONSES

The following sections describe the results of the audit committee questionnaires. A 100% response rate from audit committees in metropolitan municipalities was obtained. On average, the audit committee participants have between 3-5 years’ experience in their current role. Each section is cross-referenced to the specific section in the questionnaire.

7.3.1 Audit committee views on internal audit’s ethics

- **Objective of the analysis**

To provide evidence of how ethical internal audit is perceived to be by audit committees with reference to integrity, objectivity, competency and confidentiality. This section aims at addressing the question on whether audit committees perceive their IAFs to be ethical (Annexure K, question B4).

- **Findings and deductions**

In Chapter 2 of this study, it was established that if internal audit is perceived as being unethical, it could lead to a loss of credibility in the work performed by internal audit and would therefore undermine the proper functioning of internal audit. Fundamental to the work conducted by internal audit is adherence to a professional code of ethics. Table 7.16 summarises the views of audit committee members in metropolitan
municipalities with reference to whether internal audit upholds high ethical standards relating to integrity, competency, objectivity and confidentiality as required by the Standards.

Table 7.16 summarises these results.

**Table 7.16: Audit committee views on internal audit’s ethics**

<table>
<thead>
<tr>
<th>Source: Calculated from IBM SPSS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Table 7.16: Audit committee views on internal audit’s ethics</strong></td>
</tr>
<tr>
<td><strong>Integrity</strong></td>
</tr>
<tr>
<td><strong>Always</strong></td>
</tr>
<tr>
<td>Integrity</td>
</tr>
<tr>
<td>Competency</td>
</tr>
<tr>
<td>Objectivity</td>
</tr>
<tr>
<td>Confidentiality</td>
</tr>
</tbody>
</table>

Audit committees appeared to be of the opinion that internal audit was honest in conducting its work (75%). This is positive as it increases the credibility of the work done by internal audit and therefore, the reliance placed on its work.

Of concern is the fact that audit committees felt that overall, internal audit was not perceived as being competent (50%). One of the audit committees mentioned the following which reflects on internal audit’s competency:

“The Internal audit function in general is poor. Much of the work has been outsourced. Due to the population of the internal audit function with predominantly personnel who largely lack the experience and qualifications, the internal audit function at the Metro is weak. We need to make appointments based on merit to improve the delivery of internal audit. Sadly, transformation imperatives have overtaken competence as a criterion and this is evidenced by the pathetic internal audit function in operation at the Metro.”

It is important to note that this is the opinion of one metro’s audit committee respondent and is not necessarily a reflection of the views of other metros. It is also important to note that the question of competency refers to overall competency, as it becomes clear later in this chapter that competency on specific aspects such as risk management, internal control and governance, is perceived as being higher (refer figure 7.8). These results on competency are consistent with studies indicating the competency of internal auditors as being problematic (iKutu, 2014:25).
The definition of internal auditing, the code of ethics and the *Standards* call for internal auditors to be objective in their approach. Audit committees in metros (87.50%) view their IAFs to be objective. Being objective thus enhances internal audit’s credibility on work done and thus the reliance placed on its work by the audit committee.

Most of the metros’ audit committees viewed internal audit as being confidential (75%).

**OVERALL DEDUCTION**

The research problem was formulated as: *Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as is evident from the discussion in Section 1.2, the users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making.*

Section 7.3.1 summarised the views of audit committees in metros with reference to internal audit’s integrity, competency, objectivity and confidentiality. With the exception of competency, the majority of audit committees view IAFs as having integrity, being objective and being confidential. This means that more trust is placed on internal audit work.

### 7.3.2 Audit committee views on internal audit’s governance functioning

The following sections discuss audit committee views on internal audit’s governance mandate and the extent to which these areas assist audit committees in discharging their oversight responsibility.
7.3.2.1 Audit committee views on internal audit’s ethics-related functions

- Objective of the analysis

The objective of this section is to describe the extent to which audit committees find internal audit's work on ethics-related processes useful in assisting them in their governance oversight responsibility (Annexure K, questions C6.1 – C6.5).

- Findings and deductions

The Standards require internal audit to assess and make recommendations on the municipalities’ governance processes. The Standards provide extensive mandatory guidance on what internal audit should do to accomplish its governance responsibility. In turn, achieving that will enable internal audit to provide the audit committee with crucial governance-related matters. Audit committees must be in a position to advise municipal council, the accounting officer and other management on effective governance (MFMA, 2003:s166(2)(a)(vi)) – thus internal audit is crucial in assisting audit committees. Table 7.17 summarises the detailed responses of audit committee views on IAFs’ ethics-related governance functioning and the extent to which this assists audit committees in their governance oversight responsibility.
Table 7.17: Audit committee views on internal audit’s ethics-related governance functioning

<table>
<thead>
<tr>
<th>Governance area related to ethics</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotion of ethics and values within the municipalities (C6.1)</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>12.50%</td>
</tr>
<tr>
<td>Assessment of the ethical climate of the municipalities (C6.2)</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>25.00%</td>
</tr>
<tr>
<td>Advisory role on ethics-related issues (C6.3)</td>
<td>-</td>
<td>-</td>
<td>8</td>
<td>100%</td>
</tr>
<tr>
<td>Evaluation of the design, implementation and effectiveness of ethics-related objectives and programmes of municipalities (C6.4)</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>25.00%</td>
</tr>
<tr>
<td>Assistance in establishing a robust ethics programme within municipalities (C6.5)</td>
<td>1</td>
<td>12.50%</td>
<td>3</td>
<td>37.50%</td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS

Most of the audit committees in metros (87.50%) felt IAFs worked on promoting ethics and values within the municipality and were adding value to the work of the audit committee. In order to contribute to governance processes of the municipality, the Standards require internal audit to promote ethics. Audit committees are then in a better position to act in an advisory capacity as they are tasked to provide advice on effective governance (MFMA, 2003:s166).

Most of the audit committees in metros (75%) felt internal audit’s assessments of the ethical climate of the municipality assisted the audit committees in their governance oversight responsibility. This could entail internal audit evaluating the ‘tone at the top’, which could be valuable to audit committees in their oversight capacity.

Internal audit acting in an advisory capacity on ethics-related issues was perceived as assisting audit committees less in their oversight capacity relating to effective governance. All audit committees (100%) shared this opinion. This could be attributed to the fact that internal audit acting in an advisory or consulting capacity was perceived as being less objective and audit committees may prefer a more assurance-based
approach from internal audit. This is thus an area where internal audit can spend less resources and focus on areas audit committees perceive as being more useful in order to perform its governance oversight responsibility, to the extent that the internal audit charter and related internal audit plans allow.

Seventy five percent of audit committees in metros agreed that internal audit’s evaluation of the design, implementation and effectiveness of ethics-related objectives and programmes assisted them in their governance oversight responsibility.

The *Standards* require internal auditors to assist municipalities in establishing a robust ethics programme. However, audit committees in metros (50%) did not particularly feel that this assisted them in their governance oversight responsibility. This could be due to the fact that audit committees are more concerned whether the ethics-related programmes are working versus internal audit’s involvement in establishing it.

### 7.3.2.2 Audit committee views on internal audit’s governance assessments

- **Objective of the analysis**

To summarise audit committee views on internal audit’s assessments on governance processes and the extent to which this assists audit committees in their governance oversight responsibility (Annexure K, questions C6.6 and C6.13 – C6.18).

- **Findings and deductions**

Table 7.18 summarises the results.
Table 7.18: Audit committee views on internal audit’s governance assessments

<table>
<thead>
<tr>
<th>Governance assessment area</th>
<th>Not at all</th>
<th>%</th>
<th>To a lesser extent</th>
<th>%</th>
<th>To a large extent</th>
<th>%</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit’s assessment of the legal and compliance processes within the municipality</td>
<td>-</td>
<td>-</td>
<td>4</td>
<td>50.00%</td>
<td>4</td>
<td>50.00%</td>
<td>8</td>
</tr>
<tr>
<td>Internal audit communications on risk and control information after assessments</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>12.50%</td>
<td>7</td>
<td>87.50%</td>
<td>8</td>
</tr>
<tr>
<td>Internal audit recommendations after governance assessments</td>
<td>1</td>
<td>12.50%</td>
<td>1</td>
<td>12.50%</td>
<td>6</td>
<td>75.00%</td>
<td>8</td>
</tr>
<tr>
<td>Internal audit's risk assessments (identifying high risk governance processes)</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>25.00%</td>
<td>6</td>
<td>75.00%</td>
<td>8</td>
</tr>
<tr>
<td>Internal audit's assessments of weak controls in governance processes</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>25.00%</td>
<td>6</td>
<td>75.00%</td>
<td>8</td>
</tr>
<tr>
<td>Internal audit's assessment of municipality's performance management and accountability</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>25.00%</td>
<td>6</td>
<td>75.00%</td>
<td>8</td>
</tr>
<tr>
<td>Internal audit's assessment of information technology controls in support of governance objectives</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>37.50%</td>
<td>5</td>
<td>62.50%</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS

According to the MFMA s166, audit committees must provide feedback to municipal council, accounting officers and other management staff on matters relating to compliance with laws and regulations, in particular, compliance with the MFMA, the Division of Revenue Act and any other applicable legislation. Therefore, it is expected that significant reliance is placed on internal audit to assist in this matter through compliance auditing. However, audit committees in metros (50%) felt that this work area of internal audit was not assisting them in their oversight capacity. Nonetheless, some audit committees did have positive comments regarding internal audit’s assessments of the legal and compliance processes within municipalities:

“*Yes, legal and compliance updates & reports are provided timeously and accurately*”.

“*Internal Audit does compliance audits*”.

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Audit committees in metros found internal audit’s communications on risk and control information very useful in assisting them in their governance oversight responsibility (87.50%). This is to be expected, as audit committees are legally responsible to act in an advisory capacity in areas of internal control, risk management and effective governance (MFMA, 2003:s166). Internal audit thus plays a crucial role in this regard.

As part of the internal audit report, recommendations must be given. Audit committees in metros (75%) found recommendations after a governance audit useful in assisting them in their oversight responsibility. This forms the foundation for audit committees in order for them to adhere to their legal mandate with reference to Section 166 which states that they must advise municipal council, the accounting officer and other management staff on effective governance within the municipality.

Section 166 of the MFMA states that audit committees must act in an advisory capacity on risk management and effective governance for a specific municipality. Internal audit can assist audit committees in this regard by performing risk assessments of high risk governance processes. Audit committees in metros (75%) did find it useful in assisting them with risk management and governance oversight. Internal audit can thus focus on high risk items which are important for audit committees.

Seventy five percent of audit committees felt that internal audit’s assessments of weak controls in governance processes assisted them in their governance oversight responsibility. In this regard audit committees are assisted in complying with their legal requirement to provide advice on internal control (MFMA, 2003:s166).

Again it is clear that internal audit greatly assists audit committees (75%) in their governance oversight as it relates to the performance management accountability. Section 166 makes it a legality for audit committees to advise on performance management and the MFMA and MSA makes a legal requirement for internal audit to audit the performance management system of a municipality.

The Standards require internal audit to evaluate information technology controls in support of governance objectives. Fewer audit committees in metros (62.50%) felt this
was an area where internal audit assisted them in their governance oversight responsibility.

7.3.2.3 Audit committee views on internal audit’s meetings on governance processes

- **Objective of the analysis**

To summarise audit committee views on internal audit’s meetings on governance processes and the extent to which this assists audit committees in their governance oversight responsibility (Annexure K, questions C6.7, C6.8 and C6.10 – C6.12).

- **Findings and deductions**

Table 7.19 summarises the results.

**Table 7.19: Audit committee views on internal audit’s meetings on governance processes**

<table>
<thead>
<tr>
<th>Internal audit meetings</th>
<th>Not at all</th>
<th>%</th>
<th>To a lesser extent</th>
<th>%</th>
<th>To a large extent</th>
<th>%</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit meetings with the audit committee in order to define governance processes within the municipality (C6.7)</td>
<td>-</td>
<td></td>
<td>2</td>
<td>25.00%</td>
<td>6</td>
<td>75.00%</td>
<td>8</td>
</tr>
<tr>
<td>Internal audit meetings with the audit committee in order to define the scope of a governance audit (C6.8)</td>
<td>-</td>
<td></td>
<td>3</td>
<td>37.50%</td>
<td>5</td>
<td>62.50%</td>
<td>8</td>
</tr>
<tr>
<td>Internal audit meetings with management to discuss audit findings before release to the audit committee (C6.10)</td>
<td>-</td>
<td></td>
<td>2</td>
<td>25.00%</td>
<td>6</td>
<td>75.00%</td>
<td>8</td>
</tr>
<tr>
<td>Internal audit meetings with the legal department in order to define the scope of a governance audit (C6.11)</td>
<td>2</td>
<td>25.00%</td>
<td>3</td>
<td>37.50%</td>
<td>3</td>
<td>37.50%</td>
<td>8</td>
</tr>
<tr>
<td>Internal audit meetings with the legal department to discuss audit findings before release to the audit committee (C6.12)</td>
<td>1</td>
<td>12.50%</td>
<td>3</td>
<td>37.50%</td>
<td>4</td>
<td>50.00%</td>
<td>8</td>
</tr>
</tbody>
</table>

**Source:** Calculated from IBM SPSS

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One of the means of increasing audit committee and internal audit interaction is through regular meetings. The majority of audit committees in metros (75%) found it useful to meet with internal audit to define governance processes. In this manner internal audit can align itself with audit committee expectations when it comes to governance processes, leaving internal audit better equipped to satisfy audit committees in this regard. Audit committees have a legal mandate to report back on the effectiveness of governance processes within the municipality and having regular meetings with internal audit can align audit committee responsibility with legal requirements as internal audit would perform the work and give feedback to the audit committee.

However, it is not always feasible to meet beforehand with every governance audit to define the scope of the audit. This was evident from the results as less audit committee members (62.5%) felt they met for the purpose of defining the scope of the governance audit. Once internal audit and the audit committee defined their understanding of governance processes, the CAEs were expected to define the extent and nature of testing, which could be the reason for the audit committee response.

It is best practice for internal audit to discuss draft internal audit findings with the management concerned for the area under audit. This is important to clarify any aspects. This is of value to audit committees in metros (75%) as they use internal audit findings in their decision-making. Knowing that the draft findings were discussed with management places more reliance and credibility on the work.

Half of audit committees felt that internal audit meetings with the legal department to discuss results before release did not assist them in their governance oversight responsibility. This could be due to the fact that not many internal audit engagements call for it to be necessary to discuss results with the legal department.

Again, discussion with the legal department to define the scope of governance audits served little purpose in assisting audit committees (62.50%) in discharging their governance oversight responsibility. The following quotation supports the above findings:
7.3.2.4 Audit committee views on internal audit’s knowledge of other audits

- Objective of the analysis

To determine whether audit committees find internal audit’s knowledge from other audits useful in defining the scope of governance audits and whether this assists audit committees in their governance oversight responsibility (Annexure K, question C6.9).

- Findings and deductions

Table 7.20 summarises the results.

Table 7.20: Audit committee views on internal audit’s knowledge of other audits in defining a clear scope for governance audits

<table>
<thead>
<tr>
<th>Knowledge of other audits</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit’s knowledge from other audits used to define a clear scope for governance audits (C6.9)</td>
<td>1</td>
<td>12.50%</td>
<td>2</td>
<td>25.00%</td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS

Audit committees (62.50%) found internal audit’s knowledge they obtain from other audits useful in assisting them with their governance oversight responsibility. This could be due to the fact that internal audit knows which other areas in the metro impact on important governance processes, which means governance audits would be geared towards higher risk areas.
7.3.2.5 Audit committee views on internal audit’s attempts to increase the governance maturity of the municipality

- **Objective of the analysis**

To determine whether internal audit’s work on the governance maturity levels of the municipality assists audit committees in their governance oversight responsibility (Annexure K, question C6.19)

- **Findings and deductions**

Table 7.21 summarises audit committee views.

**Table 7.21: Audit committee views on internal audit’s governance maturity work**

<table>
<thead>
<tr>
<th>Governance maturity work</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit’s attempts to increase the governance maturity levels of the municipality (C6.19)</td>
<td>-</td>
<td>-</td>
<td>3 37.50%</td>
<td>5 62.50%</td>
</tr>
</tbody>
</table>

**Source: Calculated from IBM SPSS**

Audit committees (62.50%) were of the opinion that internal audit’s attempts to increase governance maturity was an area which assisted them greatly in their governance oversight responsibilities. This is due to the fact that the higher the governance maturity levels of the municipality, the more effective the governance controls appear to be, which reassures audit committees about governance processes.

7.3.2.6 Audit committee views on internal audit’s coordination activities

- **Objective of the analysis**

To determine whether internal audit coordination activities assist the audit committee in their governance oversight responsibility (Annexure K, question C6.20)
Findings and deductions

Table 7.22 summarises the results.

Table 7.22: Audit committee views on internal audit’s coordination activities

<table>
<thead>
<tr>
<th>Internal audit’s coordination activities</th>
<th>Not at all</th>
<th>%</th>
<th>To a lesser extent</th>
<th>%</th>
<th>To a large extent</th>
<th>%</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit’s coordination of audit activities between the audit committee, external audit and management (C6.20)</td>
<td>1</td>
<td>12.50%</td>
<td>2</td>
<td>25.00%</td>
<td>5</td>
<td>62.50%</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS

Coordination of audit activities between the audit committee, external audit and management did not necessarily assist audit committees in their governance oversight responsibility. In this regard, during audit committee meetings, representatives from external audit, internal audit and management are all present, which could be the reason for the response. Furthermore, the fact that coordination takes place, does not necessarily mean that a flow of important governance information takes place.

7.3.2.7 Audit committee views on internal audit’s change agent role

Objective of the analysis

To determine whether audit committees find internal audit’s change agent role in the governance structures of the municipality useful in assisting them in their governance oversight responsibility (Annexure K, question C6.21).
Findings and deductions

Table 7.23 summarises the results.

Table 7.23: Audit committee views on internal audit’s change agent role

<table>
<thead>
<tr>
<th>Change agent role</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
<th>%</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit’s role as change agent in the governance structures of the municipality (C6.21)</td>
<td>1</td>
<td>12.50%</td>
<td>4</td>
<td>50.00%</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS

Audit committees in metros (37.50%) felt that internal audit’s role as change agent in the governance structures of the municipalities did not assist them in their governance oversight responsibility. This could be due to the fact that it did influence the governance responsibility of the audit committee or that internal audit would be considered to be less objective by taking on a more managerial role.

7.3.2.8 Qualitative insights on audit committee understanding of internal audit’s role in governance

Objective of the analysis

To obtain qualitative feedback on audit committee understanding of how internal audit can assist them in their governance oversight responsibilities (Annexure K, question C8).

Findings

The following qualitative texts provide an overview of audit committee understanding of IAF’s governance mandate.

“By providing the audit committee with reports setting out audit findings, root causes, recommendations, together with management responses and agreed action plans”.
“By providing the audit committee with reports on the status of key controls within the metro”.

“By providing status reports to the audit committee on progress regarding the implementation of corrective actions as set out in the audit findings action plans and any turnaround strategies that may be in existence. Focused on root causes as opposed to specific errors”.

“Provides Audit Committee with information on governance audits”.

“There needs to be experienced senior professionals on board to execute the assignment”.

“Internal Audit is doing governance and ethics audits”.

“Internal audit must have a pro-active, open and transparent approach to the policies, processes, and structures used by the organization. Furthermore, well communicated measures will further enhance the role and efficacy of the audit committee member roles”.

“Currently the role of internal audit is very effective in assisting the audit committee”.

“It must provide credible and quality information that assists the committee in steering the municipality to the correct direction”.

“Internal audit should be independent in assessing the governance structures of the entity”.

“Internal Audit brings to light the areas of concern in the municipality. This in turn allows the audit committee to have the difficult questions about governance and controls- and to place the city manager on the spot in this regard”.

“As previously indicated, an audit committee by virtue of their limited presence, has to interact with management and staff and is therefore reliant upon an effective, independent and competent internal audit to fulfill its statutory mandate”.

“Focus on the 100% implementation and enforcing of the Combined assurance methodology”.
“Internal audit are responsible for the execution of the internal audit plan from which the effective or ineffective administrative functioning of the greater organisation becomes clear. The identified shortcomings in administration and the control environment or identified strengths may then be reviewed and reported upon”.

OVERALL DEDUCTION

The research problem was formulated as: Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as is evident from the discussion in Section 1.2, the users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making.

Section 7.3.2 provided an overview of the governance work internal audit performs in metropolitan municipalities and the extent to which audit committees find this useful in assisting them in their governance oversight responsibility. These sections found that internal audit plays a crucial role in assisting audit committees in their governance oversight responsibility. This is supported by an overall response obtained from audit committees in metropolitan municipalities by asking them whether they rely on internal audit to assist them in their governance oversight responsibility – 100% of audit committees agreed that they rely on internal audit in this regard (Annexure K, question C5).

7.3.3 Audit committee views on internal audit’s internal control functioning

The following sections discuss audit committee views on internal audit’s internal control mandate and the extent to which these areas assist audit committees in discharging their oversight responsibility.
7.3.3.1 Audit committee views on internal audit’s control evaluations

- Objectives of the analysis

The objective of this section is to determine whether internal audit’s control evaluations assist audit committees with their internal control oversight responsibility (Annexure K, questions D10.1 – D10.4).

- Findings and deductions

Audit committees are tasked with, amongst other things, internal control oversight responsibility, especially as it relates to internal financial control (MFMA, 2003:s166). IAFs are in a perfect position to provide feedback to audit committees on the state of internal controls within municipalities as they are largely tasked to provide an independent, objective evaluation of the efficiency and effectiveness of internal controls. Table 7.24 demonstrates the extent to which internal audit assists audit committees with internal control oversight responsibly with reference to specific control evaluations.

Table 7.24: Audit committee views on internal audit’s control evaluation

<table>
<thead>
<tr>
<th>Work area</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
<th>Total</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation of control effectiveness</td>
<td>1</td>
<td>7</td>
<td>8</td>
<td>12.5</td>
</tr>
<tr>
<td>(D10.1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluation of control efficiency</td>
<td>1</td>
<td>7</td>
<td>8</td>
<td>12.5</td>
</tr>
<tr>
<td>(D10.2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluation of the adequacy of controls</td>
<td>1</td>
<td>7</td>
<td>8</td>
<td>12.5</td>
</tr>
<tr>
<td>(D10.3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluation of controls leading to high</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td>25.0</td>
</tr>
<tr>
<td>risk exposure (D10.4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS

According to the Standards and the definition of internal auditing, internal audit must evaluate the effectiveness, efficiency and adequacy of controls. Audit committees in metros found these work areas of internal audit useful to a large extent in assisting them in their internal control oversight responsibility. Internal audit’s evaluation of control effectiveness, control efficiency and adequacy were regarded as assisting audit committees to a large extent (87.50%). In addition, evaluations of weak controls
which could lead to high residual risk assist audit committees (75%) in their internal control oversight responsibility. This is positive as the Treasury Regulations task internal audit with conducting engagements according to the Standards and this corresponds to recommendations in King III, which states internal audit must provide the audit committee with a written report on the status of internal financial control. It is clear that the control testing of internal audit is regarded as very important to audit committees and that internal audit is serving audit committees well in that regard.

7.3.3.2 Audit committee views on internal audit’s information integrity and reliability assessments

- **Objective of the analysis**

To determine whether audit committees find internal audit’s information integrity and reliability assessments useful in assisting them in their internal control oversight responsibility (Annexure K, questions D10.5 and D10.7 – D10.8).

- **Findings and deductions**

Table 7.25 summarises the results.

### Table 7.25: Audit committee views on internal audit’s information integrity and reliability assessments

<table>
<thead>
<tr>
<th>Work area</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
<th>Total</th>
<th>25</th>
<th>75</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation of information integrity and reliability (D10.5)</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communications of weaknesses in information integrity and reliability (D10.7)</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td>25</td>
<td>75</td>
</tr>
<tr>
<td>Recommendations on information integrity and reliability (D10.8)</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td>25</td>
<td>75</td>
</tr>
</tbody>
</table>

**Source:** Calculated from IBM SPSS

One of the areas where internal audit can add value to audit committees is through the evaluation of the efficiency and effectiveness of internal controls, especially as
they relate to financial statements. Audit committees (75%) found internal audit’s evaluations of information integrity and reliability useful in assisting them in their internal control oversight responsibility. Furthermore, communication of weaknesses and recommendations on improving weak controls in information integrity and reliability assisted audit committees in their oversight responsibility (75%). Information integrity and reliability are of the utmost importance as it is based upon this information that important decision-making takes place, be it by audit committees or senior management. Internal audit plays a crucial role in providing independent, objective feedback on the integrity and reliability of information distributed through municipalities.

### 7.3.3.3 Audit committee views on internal audit’s specific control evaluations

#### Objective of the analysis

To determine the extent to which audit committees find internal audit’s specific control evaluations useful in assisting them in their internal control oversight responsibilities (Annexure K, questions D10.9 – D10.11).

#### Findings and deductions

Table 7.26 summarises the results.

**Table 7.26: Audit committee views on internal audit’s specific control evaluations**

<table>
<thead>
<tr>
<th>Work area</th>
<th>Percent</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation of controls contributing to stratégic objectives (D10.9)</td>
<td>Percent</td>
<td>To a lesser extent</td>
<td>To a large extent</td>
<td>Total</td>
<td>To a lesser extent</td>
</tr>
<tr>
<td>Evaluation of controls contributing to reliability and integrity of financial and operational information (D10.10)</td>
<td>Percent</td>
<td>To a lesser extent</td>
<td>To a large extent</td>
<td>Total</td>
<td>To a lesser extent</td>
</tr>
<tr>
<td>Evaluation of controls contributing to legal and regulatory objectives (D10.11)</td>
<td>Percent</td>
<td>To a lesser extent</td>
<td>To a large extent</td>
<td>Total</td>
<td>To a lesser extent</td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS
Audit committees in municipalities are tasked with providing advice to municipal
council, the accounting officer, political office-bearers and management on matters
relating to the adequacy, reliability and accuracy of financial reporting and information
(MFMA, 2003:s166). Furthermore, advice must be given on compliance with the
MFMA, the Division of Revenue Act and any other applicable legislation, as deemed
necessary (MFMA, 2003:s166). This can be a difficult task for members who are not
involved in the day-to-day operations of the municipality. In this regard, internal audit
assists audit committees to a large extent; 87.50% of audit committees in metros
stated that internal audit’s evaluation of controls contributing to the reliability and
integrity of financial and operation information assisted them in their internal control
oversight. Moreover, 87.50% of audit committees in metros stated that internal audit’s
evaluation of controls contributing to legal and regulatory objectives assisted them.
The fact that internal audit evaluates the reliability of financial information greatly
assisted audit committees in their review of the financial statements, seeing that they
are required to provide council feedback on the financial statements.

7.3.3.4 Audit committee views on internal audit’s privacy audits

- Objective of the analysis

To determine the extent to which audit committees find internal audit’s privacy audits
useful in assisting them in their internal control oversight responsibility (Annexure K,
questions D10.6, D10.12 – D10.13).
Findings and deductions

Table 7.27 summarises the results.

Table 7.27: Audit committee views on internal audit’s privacy audits

<table>
<thead>
<tr>
<th>Work area</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
<th>Total</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation of the maturity levels of municipalities’ privacy practices (D10.6)</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>8</td>
<td>25</td>
<td>25</td>
<td>50</td>
</tr>
<tr>
<td>Evaluations of the municipalities’ privacy framework (D10.12)</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>8</td>
<td>25</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>Coordination with the legal department during privacy audits (D10.13)</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>8</td>
<td>37.5</td>
<td>37.5</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS

Internal audit’s work on the privacy practices of municipalities did not assist audit committees in achieving their internal control oversight responsibility. In all three areas in Table 7.27, audit committees felt internal audit’s work on privacy practices and frameworks did not assist audit committees. This could be due to the fact that audit committees do not have a direct responsibility as it relates to the municipalities privacy practices and frameworks. However, on a municipal level, the work of internal audit could be of value as it could assist municipalities in areas where non-compliance exists regarding privacy rules and regulations.

7.3.3.5 Audit committee views on internal audit’s promotion of continuous improvement activities

Objectives of the analysis

To determine the extent audit committees find internal audit’s promotion of continuous improvement processes useful in assisting them in their internal control oversight responsibility (Annexure K, question D10.14).
F indings and deductions

Table 7.28 summarises the results.

Table 7.28: Audit committee views on internal audit’s promotion of continuous improvement

<table>
<thead>
<tr>
<th>Continuous improvement in internal control</th>
<th>Not at all</th>
<th>%</th>
<th>To a lesser extent</th>
<th>%</th>
<th>To a large extent</th>
<th>%</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit’s promotion of continuous improvement in internal controls (D10.14)</td>
<td>1</td>
<td>12.50%</td>
<td>-</td>
<td>-</td>
<td>7</td>
<td>87.50%</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS

The fact that internal audit is involved in continuous improvement in internal control processes assisted audit committees in their internal control oversight responsibility (87.50%). Best practices such as King III state that internal audit should serve as a source of information on matters concerning fraud, corruption, unethical behaviour and irregularities. By promoting continuous improvement in internal control, internal audit stays abreast of the latest internal control issues within the municipality, which assists audit committees.

7.3.3.6 Audit committee views on internal audit’s risk assessment processes

Objective of the analysis

To determine the extent audit committees find internal audit’s risk assessments of control processes useful in their internal control oversight responsibility (Annexure K, question D10.15).
Findings and deductions

Table 7.29 summarises the results.

Table 7.29: Audit committee view on internal audit’s risk assessments of control processes

<table>
<thead>
<tr>
<th>Risk assessment of control processes</th>
<th>Not at all</th>
<th>%</th>
<th>To a lesser extent</th>
<th>%</th>
<th>To a large extent</th>
<th>%</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit’s risk assessment of control processes (D10.15)</td>
<td>1</td>
<td>12.50%</td>
<td>-</td>
<td>-</td>
<td>7</td>
<td>87.50%</td>
<td>8</td>
</tr>
</tbody>
</table>

**Source:** Calculated from IBM SPSS

According to the MFMA, audit committees must act in an advisory capacity on the risk management processes of municipalities. Internal audit can assist in this regard by performing risk assessments of control processes to determine whether the controls are effective and efficient in mitigating risks. Audit committees stated (87.50%) that this assisted them to a large extent in their internal control oversight responsibilities.

7.3.3.7 Audit committee views on internal audit’s communications on internal control

Objective of the analysis

To determine the extent audit committees find internal audit’s communications on internal control useful in their internal control oversight responsibility (Annexure K, questions D10.17 – D10.20).
Findings and deductions

Table 7.30 summarises the results.

Table 7.30: Audit committee views on the usefulness of internal audit’s communications

<table>
<thead>
<tr>
<th>Work area</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
<th>Total</th>
<th>Source: Calculated from IBM SPSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication of weaknesses and improvements in internal control (D10.17)</td>
<td>1</td>
<td>7</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Communication to the audit committee on the nature and extent of control testing (D10.18)</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td>25</td>
</tr>
<tr>
<td>Preparation of an internal audit plan allowing for control testing (D10.19)</td>
<td>1</td>
<td>7</td>
<td>8</td>
<td>12.5</td>
</tr>
<tr>
<td>Opinion on the status of the system of internal control (D10.20)</td>
<td>1</td>
<td>7</td>
<td>8</td>
<td>12.5</td>
</tr>
</tbody>
</table>

Internal audit performs its job effectively if it communicates the work it has performed. This is reflected by the audit committees (87.50%) which felt that the fact that internal audit communicates weaknesses and improvements in internal control assisted them to a large extent in their internal control oversight responsibility. Best practice requires audit committees to approve the internal audit plan and in effect, this is the point where internal audit informs the audit committee on the control testing that needs to be performed. Audit committees are thus able to provide input into the plan. In this regard, audit committees in metros (87.50%) felt that the fact that internal audit prepares an internal audit plan which allows for internal control testing greatly assists them in their oversight responsibility. Lastly, audit committees must provide feedback on the status of internal control, especially as it relates to internal financial control, to municipal council and other management staff. The fact that internal audit provides an opinion on the status of the system of internal control assisted audit committees (87.50%) to a large extent in their internal control oversight responsibility.
Table 7.31: Audit committee views on internal audit’s knowledge and experience obtained from other audits

<table>
<thead>
<tr>
<th>Knowledge from other audits</th>
<th>Not at all</th>
<th>%</th>
<th>To a lesser extent</th>
<th>%</th>
<th>To a large extent</th>
<th>%</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit's knowledge/experience obtained from other audits (D10.16)</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>25.00%</td>
<td>6</td>
<td>75.00%</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS

Seventy five percent of audit committees felt that the fact that internal audit uses knowledge and experience gained from other audits contributes to the ability of audit committees to fulfill their internal control oversight responsibility. Seeing that audit committees must possess such broad knowledge of the municipality they serve, this result shows that through their detailed knowledge, internal audit is able to serve as a source of information to the audit committee.

7.3.3.8 Qualitative insights on audit committee understanding of internal audit’s role in internal control

- **Objective of the analysis**

To obtain qualitative feedback on audit committee understanding of how internal audit can assist them in their internal control oversight responsibilities (Annexure K, question D12).

- **Findings**

The following qualitative texts provide an overview of audit committee understanding of IAFs’ internal control mandate.

“By performing regular review of the risk management strategy including evaluating and reporting on the risk assessment and the regular updating and monitoring of the risk registers as prepared by the risk champion/officer”.

“By reporting quarterly at least on key controls by preparation of a Key Controls Dashboard reflecting current status together with management commitments to
address shortcomings. Key controls representing the four control pillars of Leadership, Financial control and management, Performance management and Governance”.

“Provides reports on all audits of internal controls”.

“Need skilled professionals who are professionally qualified, can communicate and add value. The internal auditors need to be experienced and come with a mind-set of professional scepticism!”

“They do perform risk based audits in all areas”.

“Internal Audit can assist the committee, by providing sufficient, accurate and timeous information to the committee”.

“Satisfied with the role internal audit plays”.

“Provide timely and credible information”.

“Internal audit should discharge their responsibilities in improving the control environment and report inadequacies, inefficiencies and ineffectiveness accordingly”.

“Financial control and risk management flow directly from the internal audit”.

“Again, the audit committee cannot be expected to gain a detailed understanding of the effectiveness of the organisation’s internal control structure and must therefore rely on internal audit and external for assurance in this regard”.

“By issuing constructive reports (accepted and endorsed by Top management) with emphasis on the opinion of the CAE on each component (control environment, risk assessment, control activities, Information and communication, monitoring) of internal control”.
“Internal audit are responsible for testing the internal controls environment and the adherence to controls by the organisation as a whole. Assurance reports issued by internal control provide for factual findings of compliance or non-compliance to established internal controls. The audit committee rely to a significant extent on the findings of internal audit in their execution of the audit plan together with the resultant assurance reports.”

OVERALL DEDUCTION

The research problem was formulated as: *Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as is evident from the discussion in Section 1.2, the users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making.*

Section 7.3.3 provided an overview of the internal control work that internal audit performs in metropolitan municipalities and the extent to which audit committees find this useful in assisting them in their internal control oversight responsibility. These sections found that internal audit plays a crucial role in assisting audit committees in their internal control oversight responsibility to varying degrees. This is supported by an overall response obtained from audit committees in metropolitan municipalities which were asked whether they relied on internal audit to assist them in their internal control oversight responsibility – 100% of audit committees agreed that they relied on internal audit in this regard (Annexure K, question D9).

7.3.4 Audit committee views on internal audit’s risk management functioning

The following sections discuss audit committee views on internal audit’s risk management mandate and the extent to which these areas assist audit committees in discharging their oversight responsibility.
7.3.4.1 Audit committee views on internal audit’s assessments of the risk of fraud occurring

- Objectives of the analysis

The objective of this section is to determine the extent to which audit committees find internal audit’s assessment of fraud risk useful in assisting them in their risk management oversight responsibility (Annexure K, questions E14.3 – E14.4).

- Findings and deductions

Audit committees are tasked with, amongst other things, risk management oversight responsibility (MFMA, 2003:s166). In this regard, audit committees must act in an advisory capacity to the municipal council, the accounting officer and other management staff. Internal audit is in a perfect position to provide feedback to audit committees on the state of risk management within municipalities as it is largely tasked with providing an independent, objective evaluation of the efficiency and effectiveness of risk management processes. The following figures demonstrate the extent to which internal audit is assisting audit committees with risk management oversight responsibly.

![Figure 7.1: Evaluations on fraud](source: Calculated from IBM SPSS output)
The Standards require internal audit, as part of its risk management mandate, to evaluate the potential for fraud occurring and assess how well the municipality manages fraud. Internal audit does not need to have expert knowledge in fraud investigations, but it must be able to identify fraud ‘red flags’ and communicate this to relevant individuals within the municipality. Although audit committees are not directly tasked with oversight responsibility of fraud, they must advise on the financial affairs of the municipality and thus, the possibility of financial statement fraud. In this regard, 75% of audit committees in metros indicated that internal audit’s evaluations of fraud occurring assisted them in their risk management oversight responsibility. Evaluations by internal audit on how well the municipality manages its fraud risk also assisted audit committees (75%) in their risk management oversight responsibility. Internal audit evaluations can thus provide information to audit committees on fraud management programmes designed to counter financial statement fraud.

7.3.4.2 Audit committee views on internal audit’s specific risk management evaluations

- Objective of the analysis

Findings and deductions

Figure 7.2 summarises the results.

Figure 7.2: Specific risk management evaluations

Source: Calculated from IMB SPSS output

Internal audit must contribute to the risk management processes of a municipality by independently and objectively evaluating the efficiency and effectiveness of risk management processes. Internal audit can assist audit committees in their mandate, as found in the MFMA regarding the provision of advice on risk management (MFMA, 2003:s166). The results clearly show that audit committees in metros found internal audit’s work on risk management useful in assisting them with their risk management oversight. Seventy five percent of audit committees indicated that evaluation of risk exposure affecting the safeguarding of assets, the reliability of financial and operational information and compliance with laws and regulations assisted audit committees. Audit committees must also provide advice on compliance issues regarding the MFMA, the Division of Revenue Act and any other relevant legislation (MFMA, 2003:s166) – they therefore find internal audit compliance work useful in assisting them.
7.3.4.3 Audit committee views on internal audit’s promotion of risk management efforts

- **Objective of the analysis**

To determine the extent audit committees find internal audit’s promotion of risk management efforts useful in assisting them in their risk management oversight responsibility (Annexure K, questions E14.5 – E14.6 and E14.10 and E14.12).

- **Findings and deductions**

Figure 7.3 summarises the results.

![Figure 7.3: Promotion of risk management efforts](image)

*Source: Calculated from IBM SPSS output*

The audit committees of two metros indicated that internal audit did not assist them with the identification and assessment of significant risks nor did internal audit’s motivations to implement a risk management process assist them. The majority (75%) of respondents nonetheless indicated that internal audit’s identification and assessment of risks assisted the audit committee in their risk management oversight responsibility. This is due to the fact that audit committees are dependent on internal audit to provide them with risk management information so that they in turn can fulfil
their mandate as stipulated in the MFMA on risk management advice (MFMA, 2003:s166). This can only happen if internal audit communicates risk information and audit committees (75%) feel that these communications assist them to a large extent in their responsibilities. Audit committees do not appear to be overly concerned about the suitability of the chosen risk management methodology as only 62.5% of audit committees indicated that this assisted them. This could be due to the fact that they are more concerned with the effectiveness of risk management and its impact on the municipalities’ objectives.

7.3.4.4 Audit committee views on internal audit’s evaluations on the alignment of risk

- Objective of the analysis

To determine the extent to which audit committees find internal audit’s evaluations of risk alignment with the metros mission statement useful in assisting them in their risk management oversight responsibility (Annexure K, questions E14.7, E14.9 and E14.11).

- Findings and deductions

Figure 7.4 summarises the results.

![Figure 7.4: Evaluations on the alignment of risk with municipality mission](image)

**Source:** Calculated from IBM SPSS output
Fewer audit committees (62.50%) in metros felt that evaluations by internal audit on alignment between risk and metros mission statement assisted them. Only 50% of audit committees felt that evaluations of the alignment of risk responses with the risk appetite of the metro assisted them in their risk oversight responsibility.

7.3.4.5 Audit committee views on internal audit’s knowledge of risk practices

- Objective of the analysis

To determine the extent to which audit committees find internal audit’s knowledge of risk practices useful in assisting them in their risk management oversight responsibility (Annexure K, question E14.13).

- Findings and deductions

Table 7.32 summarises the results.

Table 7.32: Audit committee views on internal audit’s knowledge of risk practices

<table>
<thead>
<tr>
<th>Knowledge on risk practices</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit's broad knowledge on risk practices at the municipality (E14.13)</td>
<td>-</td>
<td>-</td>
<td>3 37.50%</td>
<td>5 62.50%</td>
</tr>
</tbody>
</table>

**Source:** Calculated from IBM SPSS

Only 62.50% of audit committees in metros felt that internal audit’s knowledge of risk practices in municipalities assisted them in their risk oversight responsibility. Best practice states that internal audit must be a source of information to the audit committee and seeing that audit committees are tasked by the MFMA with providing advice on risk management, more must be done for internal audit to be useful in this regard.
7.3.4.6 Qualitative insights on audit committee understanding of internal audit’s role in risk management

- Objective of the analysis

To obtain qualitative feedback on audit committee understanding of how internal audit can assist them in their risk management oversight responsibilities (Annexure K, question E16).

- Findings

The following qualitative texts provide an overview of audit committee understanding of internal audit’s governance mandate.

“By regular reporting on risk management effectiveness”.

“By reviewing and commenting on risk assessment action plans”.

“By reporting on the annual risk assessment and management’s assessment of strategic and operational risk prioritization”.

“Contribute to and audit the functions of the Internal Risk Management department”.

“Internal Audit should follow a risk based approach, instead of the ad hoc approach currently followed”.

Audit Committee Chair is member of Risk Committee. Internal Audit gives independent assurance”.

“By creating more awareness in the various departments, with regards to possible risk areas. By proactively identifying risks before they happen”.

“The risk management unit provides detail feed-back at audit committee meetings. Internal audit provides feed-back on the audit of the effectiveness of risk management”.

“It must highlight significant risks facing the organisation and focus its activities in addressing those risks so that overall the organisation manages its exposure and reduces it to the minimum”.

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“Identification of risk and how the risks are managed. Including the identification of emerging risks”.

“Internal audit is supposed to identify the shortcomings in the risk management area. These shortcomings are brought under the audit committees’ attention and in turn they require explanations and controls for it.”

“By strictly evaluating the application of the approved Risk management framework of the City and on an annual basis evaluate the maturity level of the risk management function of the City. The regular reporting (at least quarterly) to Top management and Council of the progress on the implementation of the risk management framework”.

“Internal audit prepare the audit plan in conjunction with their review of the risk register. The risk register is out of date and coupled with the delay in the appointment of a chief risk officer certain shortcomings have been noted within the current risk register. Internal audit continue to highlight high risk areas, though certain focus through the audit plan may not be in the audit plan due to areas of risk not being identified by the executive directorship. The audit committee through their own evaluation and review have noted certain shortcomings within the current risk register”.

OVERALL DEDUCTION

The research problem was formulated as: Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as is evident from the discussion in Section 1.2, the users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making.

Sections 7.3.4 provided an overview of the risk management work internal audit performs in metropolitan municipalities and the extent to which audit committees find
this useful in assisting them in their risk management oversight responsibility. These sections found that internal audit plays a crucial role in assisting audit committees in their risk management oversight responsibility to varying degrees. This is supported by an overall response obtained from audit committees in metropolitan municipalities which were asked whether they relied on internal audit to assist them in their risk management oversight responsibility – 75% of audit committees agreed that they relied on internal audit in this regard (Annexure K, question E13). One of the metros indicated that it did not rely on internal audit in this regard because it felt internal audit was not capable of conducting this function while the other metro indicated that a separate risk management function was responsible for this.

7.3.5 Audit committee views on internal audit’s legal and regulatory-related functioning

The following sections discuss audit committee views on internal audit’s compliance mandate and the extent to which these areas assisted audit committees in discharging their oversight responsibility.

7.3.5.1 Audit committee views on internal audit’s broad mandate in the MFMA

- Objectives of the analysis

The objective of this section is to describe the scope of work internal audit performs and the extent to which audit committees find this work useful in assisting them in their legal and regulatory responsibility (Annexure K, questions F18.1 – F18.6).

- Findings and deductions

Audit committees are tasked with, amongst other things, acting in an advisory capacity to municipal council, the accounting officer and other management staff. In this regard, audit committees must provide feedback on the performance management system of a municipality, compliance with the MFMA and the Division of Revenue Act and any
other ad hoc compliance issues (MFMA, 2003:s166). Internal audit functions are tasked with performing performance auditing on the performance management system of a municipality and to conduct numerous compliance audits – they are thus in a position to communicate the outcome of these audits to the audit committee so that they in turn can comply with Section 166 of the MFMA. The following figures and tables illustrate the extent to which internal audit assists audit committees with reference to Section 166 of the MFMA requirements and other regulatory requirements.

![Figure 7.5: Internal audit’s broad mandate in the MFMA](image)

**Source: Calculated from IBM SPSS output**

According to the MFMA, each municipality must have an internal audit function and must prepare a risk-based audit plan, advise the accounting officer and report to the audit committee on the implementation of the plan (MFMA, 2003:s165). Internal audit must advise on the following matters, as found in the MFMA Section 165:

- Internal audit;
- Internal controls (covered in Section 7.3.3);
- Accounting procedures and practices;
- Risk and risk management (covered in Section 7.3.4);
- Performance management;
- Loss control;
- Compliance with this Act, the annual Division of Revenue Act; and
Audit committees are tasked with giving advice on internal control (especially internal financial control), effective risk management, performance management and compliance with the MFMA and the Division of Revenue Act (MFMA, 2003:s166). Considering the link between the work of internal audit and audit committee requirements, internal audit is an important role player in assisting the audit committee regarding the above matters. Figure 7.5 above indicates that internal audit greatly assists audit committees in meeting their regulatory demands as outlined in Section 166 of the MFMA.

7.3.5.2 Audit committee views on internal audit’s mandate in Chapter 6 of the MSA

• Objectives of the analysis

To determine the extent to which audit committees find internal audit’s mandate in Chapter 6 of the MSA useful in assisting them in their legal and regulatory oversight responsibility (Annexure K, questions F18.7 – F18.9).

• Findings and deductions

Figure 7.6 summarises the results.
The Municipal Planning and Performance Management Regulations state that internal audit must conduct a compliance audit on Chapter 6 of the Municipal Systems Act which deals with performance management within municipalities. From Figure 7.6 it is clear that internal audit’s assessment of compliance with Chapter 6 of the MSA greatly assisted audit committees (87.50%) in metros in their legal and regulatory oversight, especially as it relates to giving advice on performance management, as stated in the MFMA Section 166. This assists the audit committees in making informed decisions on the status of performance management within the municipality.

7.3.5.3 Audit committee views on internal audit’s mandate in the MPPMR

- Objectives of the analysis

To determine the extent to which audit committees find internal audit’s work required by the MPPMR useful in assisting them in their legal and regulatory oversight responsibility (Annexure K, questions F18.10 – F18.13).

- Findings and deductions

Figure 7.7 summarises the results.
Figures 7.5, 7.6 and 7.7 show strong evidence that audit committees in metros rely on internal audit to assist them in their compliance mandate as in most cases, audit committees indicated the work areas of internal audit assisted them to a large extent. This stems from the fact that audit committees must legally provide advice to the accounting officer, municipal council, political office-bearers and management staff of a municipality as stated in Section 166 of the MFMA. The fact that internal audit is tasked with evaluating the PMS of municipalities is evident in the results as it is in a perfect position to assist audit committees in this regard.

7.3.5.4 Audit committee views on internal audit’s mandate in the MPRMM

- Objective of the analysis

To determine the extent to which audit committees find internal audit’s work required by the MPRMM useful in assisting them in their legal and regulatory oversight responsibility (Annexure K, question 18.14).
• Findings and deductions

Table 7.33 summarises the results.

Table 7.33: Audit committee views on the alignment of performance agreements with the Performance Management Regulations for Municipal Managers and those accountable to Municipal Managers

<table>
<thead>
<tr>
<th>Internal audit’s mandate in the MPRMM</th>
<th>Not at all</th>
<th>%</th>
<th>To a lesser extent</th>
<th>%</th>
<th>To a large extent</th>
<th>%</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit’s assessment on whether the actual performance agreements and contracts are in line with the requirements of the MPRMM</td>
<td>4</td>
<td>50%</td>
<td>2</td>
<td>25.00%</td>
<td>2</td>
<td>25.00%</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS

Only 25% of audit committees felt that internal audit’s assessment of the alignment of actual performance agreements and contracts with the Performance Management Regulations for Municipal Managers and those accountable to Municipal Managers, were assisting audit committees in their oversight responsibility. The Performance Management Regulations for Municipal Managers and those accountable to Municipal Managers set the minimum requirements for the performance agreements of municipal managers and those reporting directly to the municipal manager. It is thus part of the mandate of internal audit to check compliance of the performance agreements and controls with the requirements of these regulations. However, audit committees in metros did not find this useful in assisting them and 50% indicated that this did not assist them at all.

7.3.5.5 Audit committee views on internal audit’s quarterly reports on the internal audit plan

• Objective of the analysis

To determine the extent to which internal audit’s quarterly reports to the audit committee on the status of the internal audit plan assist the audit committees in
discharging their legal and regulatory oversight responsibility (Annexure K, question 18.15).

- Findings and deductions

Table 7.34 summarises the results.

Table 7.34: Audit committee views on quarterly status reports from internal audit

<table>
<thead>
<tr>
<th>Internal audit quarterly reports</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarterly reports from internal audit on the status of the completed internal audit plan</td>
<td>1</td>
<td>12.50%</td>
<td>-</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS

Not surprisingly, 87.50% of audit committees in metros indicated that internal audit’s quarterly report on the status of the completed internal audit plan assisted them in their oversight responsibility. The Treasury Regulations require internal audit to provide this quarterly feedback to the audit committee. This gives audit committees a chance to identify areas where they still need input from internal audit to assist them in their oversight responsibility. The results also show that reports were issued by internal audit and emphasise the importance of these reports as this is the point where audit committees are informed on the status of internal control, risk management, governance and compliance matters.

OVERALL DEDUCTION

The research problem was formulated as: Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as is evident from the
Sections 7.3.5 provided an overview of internal audit’s legislative work it performs in metropolitan municipalities and the extent to which audit committees find this useful in assisting them in their legal and regulatory oversight responsibility. This section found that internal audit plays a crucial role in assisting audit committees in their legal and regulatory oversight responsibility in varying degrees. This is supported by an overall response obtained from audit committees in metropolitan municipalities which were asked whether they relied on internal audit to assist them in their legal and regulatory oversight responsibility – 75% of audit committees agreed that they relied on internal audit in this regard (Annexure K, question F17). There were two metros which indicated that they did not rely on internal audit in this regard. One metro felt internal audit was not capable of conducting this function and the other indicated that a separate committee was responsible for this, especially as it related to the performance management system of the municipality, which was dealt with by a separate Performance Committee.

7.3.6 Audit committee views on internal audit’s competency in its core functional areas of internal control, risk management and governance

- Objectives of the analysis

The objective of this section is to describe the views of audit committees on internal audit’s competence in the core areas of internal control, risk management and governance (Annexure K, question G20).

- Findings and deductions

The IIA has created a competency framework for internal auditors. One area is the technical core competencies in internal control, risk management and governance. In order for internal audit to provide feedback on work done, it is important that internal audit is regarded as competent in these areas; if not, its work will not be used and its functioning is thus undermined.
Overall, audit committees in metros perceived internal audit as being competent in the core technical areas of internal control (87.50%), risk management (62.50%) and governance (87.50%). It must be noted that one metro stated “unable to judge” on internal audit’s competency in risk management due to the following reason:

“Management has set up a Risk Management Committee, it’s this committee that reports to the audit committee and internal audit validates the information that is being given to us”.

The audit committee concerned thus felt that because there was no direct communication between internal audit and the audit committee regarding risk management, it was unable to judge internal audit’s competency in risk management and it therefore affected the given 62.50%. It is important to note that in Table 7.16, 50% of audit committees indicated that they did not regard internal audit as competent – this is for overall competency; Figure 7.8 refers to specific competency areas in which audit committees regard internal audit as being competent.
OVERALL DEDUCTION

The research problem was formulated as: *Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as is evident from the discussion in Section 1.2, the users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making.*

Sections 7.3.6 provided a summary of audit committee responses. This section found that internal audit was regarded as competent in the core technical competencies of internal control, risk management and governance.

7.3.7 Audit committee views on the internal audit report

- Objectives of the analysis

The objective of this section is to obtain audit committees’ views on the internal audit report, whether it is informative, persuasive and calling for action (Annexure K, question H21 – H22).

- Findings and deduction

All work performed by internal audit on internal control, risk management and governance must be communicated to the audit committee. The internal audit report is thus an important aspect of internal audit functioning and a badly written report could affect all the good work performed by internal audit. In this regard, one question was asked of audit committees: do they find the internal audit reports to be informative, persuasive and calling for action. Chapter 5 summarised good practices which, if followed, would result in a report which was informative, persuasive and calling for action. In cases where audit committees in metros indicated ‘no’, the audit committee
was redirected to indicate which report-writing practices resulted in their ‘no’ answer. Figure 7.9 summarises the audit committee responses.

Figure 7.9: An informative and persuasive report calling for action

Source: Calculated from IBM SPSS

Seven out of eight audit committees (87.50%) in metros found the internal audit report to be informative, persuasive and calling for action.

The one metro which selected ‘no’ indicated the following reasons for the report not being informative, persuasive and calling for action:

“Sometimes there is no report. The purpose and scope are not included in the report and the findings are not supported by sufficient and appropriate evidence. Unfavourable opinions are not supported by reasons and sometimes mistakes in the report are not corrected. Reports are released without approval. Internal audit does not report on high residual risks and the findings are not well formulated. Exit meetings are not held so that findings can be discussed while the report is issued to the wrong people. Sometimes I would rather have internal audit give a summary report, an interim report, or a verbal account of findings. I do not get a report after follow-up activities took place and internal audit does not possess the necessary competencies to report on work done”.
Considering that the majority of audit committees in metros stated ‘yes’, the one metro which stated ‘no’ is an exception and in general, audit committees in metros found internal audit reports to be useful.

**OVERALL DEDUCTION**

The research problem was formulated as: *Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as is evident from the discussion in Section 1.2, the users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making.*

Section 7.3.7 provided a summary of audit committee responses. This section found that internal audit provided audit committees with relevant and useful reports with the exception of one metro.

The next section discusses the CAE responses, after which selected data points are triangulated between the annual reports, audit committee responses and CAE responses.

### 7.4 QUANTITATIVE RESULTS: ANALYSIS OF CHIEF AUDIT EXECUTIVE RESPONSES

The following sections describe the CAE responses. An 87.50% response rate was obtained from metropolitan municipalities in South Africa. Unfortunately, the CAE of one metro did not wish to participate in the research as the respondent indicated to be very busy. Most of the CAE participants had between 5-10 years’ experience. Each section is cross-referenced to the specific section in the questionnaire.
7.4.1 CAE views on internal audit’s ethics

- **Objective of the analysis**

To provide evidence on how ethical CAEs view themselves to be with reference to integrity, objectivity, competency and confidentiality. The views of the CAEs are also compared to those of the audit committee (Annexure M, question B4).

- **Findings and deductions**

In Chapter 2 of this study, it was established that if internal audit is perceived as being unethical, it could lead to a loss of credibility in its work and would therefore undermine the proper functioning of internal audit. Fundamental to the work conducted by internal audit is adherence to a professional code of ethics. Figure 7.10 summarises the perception of CAEs in metropolitan municipalities with reference to whether internal audit upholds high ethical standards relating to integrity, competency, objectivity and confidentiality as required by the *Standards*.

![Figure 7.10: CAE views on ethics](image)

*Source: Calculated from IBM SPSS*
Seventy one percent of CAE participants felt that they were honest in conducting their work, competent to do so (85.70%), objective in their approach (71.40%) and treated information confidentially (71.40%). The rest indicated that they sometimes uphold those values, which is concerning in terms of building trust in the IAF. One metro indicated the following reason for choosing the ‘sometimes’ response:

“**Competency levels of the internal audit function needs to be enhanced hence responses are sometimes**.”

The CAE of another metro gave the following positive statement on the internal audit code of ethics:

“**We are committed to competence and comply with our regulatory requirements and the code of conduct as required by the standards. Each auditor signed a declaration to upholding integrity, ethical values, competence, objectivity and independence and confidentiality**.”

In order to compare and validate data, Figure 7.11 summarises the audit committee responses versus those of the CAEs on the areas of integrity, competency, objectivity and confidentiality.

![Figure 7.11: Comparative views on ethics](image)

*Source: Calculated from IBM SPSS*
In the area of overall competency, audit committees (50%) felt that internal audit was not competent as opposed to CAEs (85.70%) who felt they were competent. In areas such as confidentiality, objectivity and integrity, audit committees felt internal audit upheld ethics to a greater extent than was perceived by the CAEs. This is positive seeing that overall, audit committees perceived internal audit as being ethical, which implies that greater trust is placed in the work performed by internal audit. Overall, the results on the competency of the audit committees are consistent with the fact that competency is considered as problematic, something which is also borne out in literature (iKutu, 2014:25).

7.4.2 Internal audit characteristics – attribute standards

- **Objectives of the analysis**

To determine whether CAEs perceive themselves as having the characteristics of a typical internal audit function with reference to the attribute standards (Annexure M, questions C5 – C15).

- **Findings and deductions**

The *Standards* provide certain characteristics or attitudes typical of IAFs which contribute to audit professionalism and quality of work. Possessing such characteristics thus contributes to audit quality and credibility and the reliance placed on the work of internal audit. Table 7.35 summarises the results.

**Table 7.35: Summarised characteristics of internal audit - attribute standards**

<table>
<thead>
<tr>
<th>Characteristic area</th>
<th>Frequency yes response</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose, authority and responsibility clearly defined in the charter</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Charter consistent with the Standards</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Charter consistent with the Code of Ethics</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Charter consistent with the definition of internal auditing</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>CAE reporting lines are defined in the charter</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Characteristic area</td>
<td>Frequency yes response</td>
<td>Percent</td>
</tr>
<tr>
<td>------------------------------------------------------------------</td>
<td>------------------------</td>
<td>---------</td>
</tr>
<tr>
<td>Internal audit department organisationally independent</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Individuals conducting internal auditing are independent</td>
<td>6</td>
<td>85.71</td>
</tr>
<tr>
<td>Proficiency and due professional care are applied</td>
<td>6</td>
<td>85.71</td>
</tr>
<tr>
<td>Keep up to date via CPD</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Quality assurance and improvement programme maintained</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Objectivity is maintained</td>
<td>5</td>
<td>71.43</td>
</tr>
</tbody>
</table>

*Source: Calculated from IBM SPSS*

The internal audit charter is a fundamental point of reference for the audit department. Its sets out the purpose, authority and responsibility of internal audit and thus creates the permission for internal audit to conduct its work (IIA, 2012c:3). All the CAE participants stated that their purpose, authority and responsibility were clearly defined in the internal audit charter, which is consistent with the *Standards* and the code of ethics. Participating CAEs also agreed that their reporting lines were defined in the charter, which contributed to organisational status and independence. One metro stated it was ‘unable to judge’ whether independence was maintained. Another metro indicated it was ‘unable to judge’ whether internal audit applied proficiency and due professional care, as required by *Standard 1200*. This *Standard* requires internal audit to collectively possess the knowledge, skills and other competencies to perform its responsibilities (IIA, 2012c:5). In this regard, the CAEs did indicate that competency was problematic in the department. Two metros also indicated they were ‘unable to judge’ whether internal audit individuals conducting work were objective.

In terms of Quality Assurance and Improvement Programmes (QAIP), all CAE participants indicated that they maintained a QAIP. In this regard, IAFs undergo internal and external quality assessments which cover the entire internal audit activity. One metro indicated the following regarding its QAIP:

“We have defined a QAIP and planning independent validation in line with standard 1300”.
The metro above is thus planning an external assessment whereby an independent qualified assessor will conduct an assessment on whether the IAF conforms to the Standards, the definition of internal auditing and the code of ethics (IIA, 2012c:8).

**OVERALL DEDUCTION**

The research problem was formulated as: *Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as is evident from the discussion in Section 1.2, the users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making.*

Sections 7.4.2 provided a summary of CAE responses. This section found that internal audit did possess the characteristics expected of a typical internal audit function with reference to the attribute standards and addressed areas such as objectivity, independence, proficiency and due professional care. It is worth noting that some participating CAEs did indicate that they were ‘unable to judge’ whether the IAFs were objective and independent.

### 7.4.3 Internal audit characteristics – performance standards

- **Objectives of the analysis**

To determine whether CAEs perceive themselves as having the characteristics of a typical internal audit function with reference to the performance standards (Annexure M, questions D16 – D26).

- **Findings and deductions**

The *Standards* provide certain characteristics or attitudes typical of IAFs which contribute to audit professionalism and quality of work. Having these characteristics
thus contributes to audit quality and credibility and reliance placed on the work of internal audit.

Table 7.36: Planning of engagements

<table>
<thead>
<tr>
<th>Planning of engagements</th>
<th>Yes</th>
<th>%</th>
<th>No</th>
<th>%</th>
<th>Unable to judge</th>
<th>%</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are you of the opinion that internal audit properly plans for each audit engagement? (D16)</td>
<td>5</td>
<td>71.43%</td>
<td>1</td>
<td>14.29%</td>
<td>1</td>
<td>14.29%</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS

Most of the CAE participants (71.43%) indicated that they planned for each internal audit engagement. Internal audit planning is extremely important for the success of the audit in terms of meeting client expectations, together with the efficiency and effectiveness of the execution of the audit. The metro which indicated ‘unable to judge’ provided the following explanation:

“Where the response is unable to judge, it emanates from the fact that competency levels of some of the auditors needs serious enhancement”.

This is concerning, as the CAEs have overall responsibility for the engagement and must ensure that proper planning takes place. In cases where team members do not have the necessary skills to plan the audit, training should be provided or more supervision be given. Standard 2200, Engagement Planning, makes it clear that internal auditors must develop and document a plan for each engagement (IIA, 2012c:13).
Obtaining an understanding of the area under audit gives internal auditor’s background information about activities to be reviewed and enables them to determine the impact on the engagement’s scope and objectives (IIA, 2013c). This helps internal audit to scope engagement emphasis by identifying risk and controls during this process (IIA, 2013c).

Of the CAE participants, 85.71% stated that they obtained an understanding of the area under review. This is positive, as it gives them an understanding of the risk and controls of the area and creates early dialogue with the client.

Table 7.38: Performing a risk assessment from which audit objectives are set

<table>
<thead>
<tr>
<th>Performance of risk assessment</th>
<th>Yes</th>
<th>%</th>
<th>No</th>
<th>%</th>
<th>Unable to judge</th>
<th>%</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you believe that internal audit performs a risk assessment from which audit objectives are set? (D19)</td>
<td>7</td>
<td>100.00%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Calculated from IMB SPSS

All CAE participants indicated that they performed risk assessments from which audit objectives were set. This enables internal audit to spend resources on the most significant risks facing the metro and results in an efficient audit. It also enables it to communicate to management and the audit committee on the status of the most
prominent risks and related controls. Performing risk assessments is required by Standard 2201, Planning Considerations.

**Table 7.39: Summarised characteristics of internal audit - performance Standards**

<table>
<thead>
<tr>
<th>Characteristic area</th>
<th>Frequency response</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval of resources and work plans by senior management and/or audit committee (D17)</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Develops and documents work programmes (D20)</td>
<td>6</td>
<td>85.71%</td>
</tr>
<tr>
<td>Sufficient resources allocated to conduct an audit (D21)</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Clear engagement scope (D22)</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Consensus on expectations of the audit (D23)</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Findings supported by sufficient and appropriate evidence (D24)</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Thorough document work to support findings (D25)</td>
<td>7</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Calculated from IBM SPSS output*

Most of the CAEs stated ‘yes’ for the areas indicated in Table 7.39. Sufficient resources were allocated to perform internal audit engagements as required by Standard 2230, Engagement Resource Allocation. It is essential for internal audit findings to be supported by sufficient and appropriate audit evidence – thus, should internal audit’s work be challenged, it would be able to back up findings. This is embedded in Standard 2310, Identifying Information, which requires internal audit to identify sufficient, reliable, relevant and useful information in order to achieve engagement objectives (IIA, 2012c:14).

Standard 2240, Engagement Work Programmes, states that internal audit must develop and document work programmes which achieve the engagement objectives (IIA, 2012c:14). These work programmes must include procedures for identifying, analysing, evaluating and documenting information during the engagement (IIA, 2012c:14). Before the internal audit executes the work programme, it must be approved as well as any other changes during the fieldwork (IIA, 2012c:14). Most of the CAE participants (85.71%) indicated that they thoroughly developed and documented work programmes to achieve engagement objectives, which is consistent
with *Standard* 2240, Engagement Work Programmes. The metro that indicated ‘no’ is the same one that made the comments about the competency of staff who needed improvement; this could therefore be a reason for stating ‘no’.

**Table 7.40: Supervision of internal audit engagements**

<table>
<thead>
<tr>
<th>Supervision takes place</th>
<th>Yes</th>
<th>%</th>
<th>No</th>
<th>%</th>
<th>Unable to judge</th>
<th>%</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you believe that supervision takes place during the entire internal audit process? (D26)</td>
<td>4</td>
<td>57.14%</td>
<td>2</td>
<td>28.57%</td>
<td>1</td>
<td>14.29%</td>
<td>7</td>
</tr>
</tbody>
</table>

*Source: Calculated from IBM SPSS*

*Standard* 2340, Engagement Supervision, states that internal auditors must be properly supervised to ensure objectives are achieved, quality is assured and staff is developed (*IIA, 2012c:15*). The CAE has overall responsibility for supervision and can delegate certain individuals to supervise (*IIA, 2012c:15*). In this regard, 57.14% of participating CAEs indicated that each internal audit engagement was supervised from start to finish. The one metro which indicated ‘unable to judge’ had the following comment attached to the response:

"The above cases may vary between team leaders with regards to proper supervision. However, the CAE reviews all reports in terms of its findings and evidence".

This is consistent with *Standard* 2340, Engagement Supervision, as it indicates delegation of supervision. However the CAE takes overall responsibility for reviewing all the work done before the release of the results.

**OVERALL DEDUCTION**

The research problem was formulated as: *Internal audit is considered critical in the combined assurance model providing, independent assurance and consulting services on internal control, risk management and governance processes. However,*
if internal audit is providing inadequate services in this regard, as evident from the discussion in Section 1.2, the users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making.

Section 7.4.3 provided a summary of CAE responses. This section found that internal audit does possess the characteristics expected of a typical internal audit function with reference to the performance standards.

7.4.4 CAE views on the extent to which they inform audit committees on their core functional areas

- Objectives of the analysis

The objective of this analysis is to obtain the views of CAE participants on how they perceive themselves as informants to audit committees on internal audit core functional areas (Annexure M, questions E27 – E30).

- Findings

Standard 2100, Nature of Work, provides the core of internal audit work. The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach (IIA, 2012c:11). Table 7.41 summarises the views of the CAE participants.

Table 7.41: CAE views on their core functional areas

<table>
<thead>
<tr>
<th>Area</th>
<th>Percent</th>
<th>Total number of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Not at all</td>
<td>Neutral</td>
</tr>
<tr>
<td>Internal control</td>
<td>0</td>
<td>28.57</td>
</tr>
<tr>
<td>Risk management</td>
<td>0</td>
<td>28.57</td>
</tr>
<tr>
<td>Governance</td>
<td>0</td>
<td>28.57</td>
</tr>
<tr>
<td>Legal and Regulatory</td>
<td>0</td>
<td>14.29</td>
</tr>
</tbody>
</table>

Source: Calculated from IBM SPSS
Chapters 3 and 4 presented an extensive literature review on the core functional areas of internal audit. CAE participants were asked to state their opinion on whether they regarded internal audit as a crucial informant to the audit committee on these matters. Most of the CAE participants (71.43%) stated they were crucial informants to the audit committee on matters relating to internal control, risk management and governance. On compliance matters, 85.71% of participating CAEs felt they were crucial informants. This is corroborated by audit committee responses on these areas where it was indicated that internal audit assisted audit committee members to a large extent.

**OVERALL DEDUCTION**

The research problem was formulated as: Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as evident from the discussion in Section 1.2, the users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making.

Section 7.4.4 provided a broad overview of CAEs’ views on how they assist audit committees in their internal control, risk management, governance and compliance matters. Most CAEs indicated they were crucial informants to the audit committee on these matters. This is supported by an overall response obtained from audit committees in metropolitan municipalities which indicated that internal audit assisted them to a large extent on these matters (refer to Sections 7.3.2-7.3.5).

7.4.5 CAE views on internal audit’s competency in its core functional areas of internal control, risk management and governance

- Objectives of the analysis

The objective of this section is to describe the views of CAE participants on internal audit’s competence in the core areas of internal control, risk management and
Findings and deductions

The IIA created a competency framework for internal auditors. One area is the technical core competencies in internal control, risk management and governance. In order for internal audit to provide feedback on work done, it is important that internal audit is regarded as competent in these areas; if not, its work will not be used and their functioning would thus be undermined. Figure 7.12 summarises the results.

Figure 7.12: CAE views on internal audit’s core technical competencies

Source: Calculated from IBM SPSS

Figure 7.12 suggests that all CAE participants felt that the IAF was competent in the core technical competencies of internal control, risk management and governance. However, in Figure 7.10, participating CAEs did not feel at all that they were competent which could be due to the fact that reference was being made to overall competency whereas Figure 7.12 summarises specific core technical competencies. To corroborate the core technical competency views, Figure 7.13 summarises a comparative view of audit committees and participating CAEs.
Figure 7.13: Comparative views on core technical competencies

*Source: Calculated from IBM SPSS*

From Figure 7.13 it is clear that audit committees in metros held a different perspective of internal audit's competency in the core technical areas. However, they still felt that they were competent in the areas of governance and internal control. It is important to note that one metro stated ‘unable to judge’ because it felt it was not in a position to comment on internal audit’s competency in the areas of risk management because internal audit reports into the risk committee and this influenced the result.

**OVERALL DEDUCTION**

The research problem was formulated as: *Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as evident from the discussion in Section 1.2, the users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making.*

Section 7.4.5 provided a summary of CAE responses. This section found that internal audit was regarded as competent in the core technical competencies of internal control, risk management and governance. Comparative views with the audit committee still showed this, however, it is possible that the area of risk management
could be problematic. One metro indicated that it was unable to judge internal audit’s competency in that regard.

7.4.6 CAE views on the internal audit report

- **Objectives of the analysis**

  The objective of this section is to obtain participating CAEs’ views on whether the internal audit report is informative, persuasive and calling for action. CAEs views are also compared with audit committee views (Annexure M, question G32).

- **Findings and deductions**

  The work which internal audit performs on internal control, risk management and governance must be communicated to the audit committee. The internal audit report is thus an important aspect of internal audit functioning and a badly written report would undermine all the good work performed by internal audit. In this regard, audit committees were asked whether they found internal audit reports to be informative, persuasive and calling for action. Chapter 5 summarised good practices which could result in the report being informative, persuasive and calling for action. Figure 7.14 shows the CAE responses after which a comparison is made with the views of audit committees.
All participating CAEs stated that their internal audit reports were informative, persuasive and calling for action. Figure 7.15 shows a comparison with the views of audit committees.

From Figure 7.15 it is clear that both participating CAEs and audit committees in metros were of the opinion that internal audit reports were informative, persuasive and calling for action. This is the opinion of 87.50% of audit committees, compared with
100% of participating CAEs in metros. This is an important finding for this research as the internal audit report is the end product of the internal audit process.

High quality reporting is critical for internal auditors in order to gain the attention of management; it is an opportunity to show management that internal audit is helping to achieve management’s objectives (Sawyer et al., 2005:687; Sparks, 2011:72). Sawyer et al. (2005:688) further asserts the following on reporting:

Internal audit reports can be powerful instruments when they are well used and constructed. They can create the impression of audit professionalism. They can tell their clients – senior management – about important events they would otherwise not know about. They can change thinking. They can impel action.

In this regard, Figure 7.15 provides a view of quality reporting to the audit committee which means they are informed on matters relating internal control, risk management, governance and compliance.

OVERALL DEDUCTION

The research problem was formulated as: Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as is evident from the discussion in Section 1.2, the users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making.

Section 7.4.6 provided a summary of participating CAEs’ responses, together with a comparison with audit committee responses. This section found that internal audit provided audit committees with relevant and useful reports. Both participating CAE and audit committees agreed that internal audit reports to the audit committee were always informative, persuasive and calling for action. This is an extremely valuable finding in the context of the study’s main research problem. Internal auditors in metropolitan municipalities are key to the success of audit committees insofar as they
are crucial informants to them on matters relating to internal control, risk management, governance and compliance.

7.5 POINTS OF TRIANGULATION

In Chapter 6 it was explained that a data transformation triangulation model (Creswell, n.d.) had been adopted in this study. Section 7.2 provided a qualitative analysis of the annual reports for the metropolitan municipalities in South Africa, in line with the study focus areas. The areas coded were then transformed into frequency counts (Creswell, n.d.) which made the data quantitative. Selected data from the frequency counts will now be further transformed and compared with the audit committee questionnaires and participating CAE questionnaires.

7.5.1 Internal audit’s core functional areas triangulated with audit committee and participating CAE responses

- Objective of the analysis

To triangulate annual report data with audit committee responses in order to validate, compare and interrelate the work of internal audit in the areas of internal control, risk management, governance and compliance.

- Findings and deductions

In order to triangulate the annual report data with audit committee responses, the relevant frequency counts from Section 7.2 were used.

For each of the work areas (internal control, governance, risk management and compliance) the total amount of work as per the annual reports was calculated by summing the frequency counts for each area of internal audit focus (total perceived work per annual reports). During the literature review, the study defined 20 internal control areas, 21 governance areas, 16 risk management areas and 15 compliance areas (refer to Annexure K, Sections C, D, E and F). These amounts were multiplied
by 8 (all the metros) to arrive at the totals (defined work per literature review). This was expressed as a percentage by dividing the total perceived work per annual reports with the defined work in the literature. The frequency counts were thus further transformed into quantitative data. This calculation is shown in Figure 7.16 below.

![Figure 7.16: Transforming internal audit work areas](image)

**Source:** Atlas.ti output

<table>
<thead>
<tr>
<th>Work areas</th>
<th>Control</th>
<th>Governance</th>
<th>Risk management</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total perceived work per annual reports</td>
<td>34</td>
<td>14</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Defined work per literature review</td>
<td>160</td>
<td>168</td>
<td>128</td>
<td>120</td>
</tr>
<tr>
<td>Expressed as a percentage</td>
<td>21%</td>
<td>8%</td>
<td>11%</td>
<td>12%</td>
</tr>
</tbody>
</table>

**Source:** Researcher’s own calculation
Based on annual report data, the perception given is that internal audit only performs 21% of possible internal control work, 8% of possible governance work, 11% of possible risk management work and 12% of possible compliance work. This is a negative perception for the reader of annual reports and is not a true reflection of the work performed by internal audit. The audit committee responses on the areas of internal control, risk management, governance and compliance were totalled for areas where audit committees indicated both ‘to a large extent’ and ‘to a lesser extent’ in the audit committee questionnaire. The fact that audit committees selected ‘to a lesser extent’ does not mean internal audit did not perform the work, hence its inclusion in the total. Figure 7.17 shows the results.

<table>
<thead>
<tr>
<th>Work areas</th>
<th>Control</th>
<th>Governance</th>
<th>Risk management</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total actual work as per audit committee questionnaires (all metros)</td>
<td>159</td>
<td>160</td>
<td>123</td>
<td>111</td>
</tr>
<tr>
<td>Defined work per literature review</td>
<td>160</td>
<td>168</td>
<td>128</td>
<td>120</td>
</tr>
<tr>
<td>Expressed as a percentage</td>
<td>99%</td>
<td>95%</td>
<td>96%</td>
<td>93%</td>
</tr>
<tr>
<td>Annual report data from figure 7.16</td>
<td>21%</td>
<td>8%</td>
<td>11%</td>
<td>12%</td>
</tr>
</tbody>
</table>

**Figure 7.17: Totalled audit committee responses for internal audit work areas**

*Source: Researcher's own calculation*

From Figure 7.17 it is clear that internal audit’s scope of work done is much greater than what is depicted in the annual reports. This discrepancy could be due to the fact that no legal obligation exists for internal audit to report in MMFA annual reports. There is thus a golden opportunity for internal audit disclosure. Audit committees in metros indicated that internal audit conducted 99% of internal control work (21% in annual reports), 95% of governance work (8% in annual reports), 96% of risk management work (12% in annual reports) and 93% of legal and regulatory work (13% in annual reports). The fact that internal audit does more is also reflected in participating CAE responses which indicated that they were crucial informants to the audit committee in the areas of internal control, risk management, governance and compliance (refer to Table 7.41).
7.5.2 Competency triangulated with audit committee and participating CAE responses

- **Objective of the analysis**

To triangulate annual report data with audit committee responses in order to validate, compare and interrelate data on internal audit competency.

- **Findings and deductions**

In order to triangulate the annual report data with audit committee responses, the relevant frequency counts from Section 7.2 were used and are presented in Figure 7.18 below.

The frequency counts were dichotomously transformed (Creswell, n.d.) by assigning a ‘yes’ or a ‘no’ response against each metro depending on whether evidence existed in the annual report on competency or not. Zero means no evidence was found in the MFMA annual reports and =>1 means evidence was found in the MFMA annual reports. Thus, the frequency accounts were transformed by allocating a ‘yes’ to all frequency counts =>1 and a ‘no’ to all frequency counts equal to zero. This made it possible to calculate a percentage which was compared to the audit committee questionnaire and CAE questionnaire for the relevant areas. Figure 7.18 below presents these results.
Figure 7.18: Transformed competency for triangulation

Source: Atlas.ti output

<table>
<thead>
<tr>
<th>Metro</th>
<th>Evidence of incompetency</th>
<th>Evidence of competence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro B</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Metro C</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Metro D</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro E</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Metro F</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Metro G</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Metro H</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>%TOTAL</td>
<td>25.00%</td>
<td>75.00%</td>
</tr>
</tbody>
</table>

Dichotomous transformation

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Metro B</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Metro C</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Metro D</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Metro E</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Metro F</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Metro G</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Metro H</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Competence all metros</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>%Competence all metros</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Researcher's own calculation

Figure 7.18 shows whether internal audit is regarded as competent based on annual reports. Based on this transformation, the perception in annual reports is that only 50% of metros’ IAFs were regarded as competent. In Figure 7.11 it was established that 50% of audit committees in metros felt that overall, internal audit was not always
competent versus 85.71% of participating CAEs who stated that overall, internal audit was always competent. The audit committee responses corroborate what is in the annual reports, although this was not intentionally stated in the annual reports of the metros.

7.5.3 Triangulating CAE reporting relationships in annual reports with participating CAE responses

- **Objective of the analysis**

  To triangulate annual report data with participating CAE responses in order to validate, compare and interrelate CAE reporting relationships between data.

- **Findings and deductions**

  In order to triangulate the annual report data with participating CAE responses, the relevant frequency counts from Section 7.2 were used and the results are presented in Figure 7.19 below.

  The frequency counts were dichotomously transformed (Creswell, n.d.) by assigning a ‘yes’ or a ‘no’ response against each metro depending on whether evidence existed in the annual report on competency. Zero means no evidence was found in the MFMA annual reports and =>1 means evidence was found in the MFMA annual reports. Thus, the frequency accounts were transformed by allocating a ‘yes’ to all frequency counts =>1 and a ‘no’ to all frequency counts equal to zero. This made it possible to calculate a percentage which was compared to the audit committee questionnaire and CAE questionnaire for the relevant areas. Figure 7.19 below presents the results.
Based on Figure 7.19, the perception reflected in the annual reports indicates that only 38% of metros’ CAE reporting relationships were formally defined in the charter. In Table 7.35 it was shown that all participating CAEs’ (100%) reporting relationships were formally defined in the internal audit charter. Again, the annual report perception differs from the CAE views. This could be due to the fact that internal audit is not mandated to report in MFMA annual reports. However, an opportunity exist for internal audit disclosure policy to be implemented.
7.5.4 Triangulating participating CAE responses on quality assurance and improvement programmes with annual reports

- Objective of the analysis

To triangulate annual report data with participating CAE responses in order to validate, compare and interrelate data on quality assurance and improvement programmes of IAFs.

- Findings and deductions

In order to triangulate the annual report data with participating CAE responses, the relevant frequency counts from Section 7.2 were used and the results are presented in Figure 7.20 below.

The frequency counts were dichotomously transformed (Creswell, n.d.) by assigning a ‘yes’ or a ‘no’ response against each metro depending on whether evidence existed in the annual reports on competency. Zero means no evidence was found in the MFMA annual reports and =>1 means evidence was found in the MFMA annual reports. Thus the frequency accounts were transformed by allocating a ‘yes’ to all frequency counts =>1 and a ‘no’ to all frequency counts equal to zero. This made it possible to calculate a percentage which was compared to the audit committee questionnaire and CAE questionnaire for the relevant areas. The results are presented in Figure 7.20 below.
Only one metro indicated in the annual reports that its IAF upheld a quality assurance and improvement programme. Thus, only 13% of metros were perceived as having a quality assurance and improvement programme in place. Table 7.35 shows that all participating CAEs (100%) maintained a quality assurance and improvement programme. One metro also indicated in the questionnaires that it was planning an external review in the following year. Annual report data was again different from the questionnaire data and a potential opportunity exists for internal audit disclosure policy.
7.5.5 Triangulating internal audit approach in annual reports with participating CAE responses

- **Objective of the analysis**

To triangulate annual report data with participating CAE responses in order to validate, compare and interrelate data on internal audit approach.

- **Findings and deductions**

In order to triangulate the annual report data with participating CAE responses, the relevant frequency counts from Section 7.2 were used.

The frequency counts were dichotomously transformed (Creswell, n.d.) by assigning a ‘yes’ or a ‘no’ response against each metro depending on whether evidence existed in the annual reports on competency. Zero means no evidence was found in the MFMA annual reports and =>1 means evidence was found in the MFMA annual reports. Thus the frequency accounts were transformed by allocating a ‘yes’ to all frequency counts =>1 and a ‘no’ to all frequency counts equal to zero. This made it possible to calculate a percentage which was compared to the audit committee questionnaire and CAE questionnaire for the relevant areas. The results are presented in Figure 7.21 below.
In the annual reports of all metros, it was made clear that internal audit was following a risk-based approach. This is corroborated by participating CAE responses which all indicated that a risk-based approach was being followed (refer to Table 7.38).

### 7.5.6 Triangulating internal audit organisational status in annual reports with participating CAE responses

- **Objective of the analysis**

   To triangulate annual report data with participating CAE responses in order to validate, compare and interrelate data on internal audit organisational status.
Findings and deductions

In order to triangulate the annual report data with participating CAE responses, the relevant frequency counts from Section 7.2 were used.

The frequency counts were dichotomously transformed (Creswell, n.d.) by assigning a ‘yes’ or a ‘no’ response against each metro depending on whether evidence existed in the annual reports on competency. Zero means no evidence was found in the MFMA annual reports and =>1 means evidence was found in the MFMA annual reports. Thus the frequency accounts were transformed by allocating a ‘yes’ to all frequency counts =>1 and a ‘no’ to all frequency counts equal to zero. This made it possible to calculate a percentage which was compared to the audit committee questionnaire and CAE questionnaire for the relevant areas. The results are presented in Figure 7.22 below.

<table>
<thead>
<tr>
<th>Metro</th>
<th>Approved IA Charter</th>
<th>Approved IA Plan</th>
<th>Regarded as independent</th>
<th>Balance on internal audit</th>
<th>Remainder objective</th>
<th>Resourced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro A</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro B</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Metro C</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro D</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Metro E</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Metro F</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Metro G</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Metro H</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>% TOTAL</td>
<td>11.11%</td>
<td>13.89%</td>
<td>16.67%</td>
<td>33.33%</td>
<td>8.33%</td>
<td>16.67%</td>
</tr>
</tbody>
</table>

Figure 7.22: Triangulated organisational status in annual reports with participating CAE and audit committee responses

Source: Atlas.ti output
From this transformation, the perception reflected in MFMA annual reports is that only 50% had an approved internal audit charter, 38% had an approved internal audit plan, 25% were regarded as independent and objective and reliance was placed on only 63% of IAFs in metros. This paints a bleak picture of internal audit’s functioning in these areas as they are fundamental to internal audit’s credibility and the reliance placed on its work in the public eye. Table 7.42 presents the CAE responses against the annual report data.

Table 7.42: Triangulated attribute standard areas

<table>
<thead>
<tr>
<th>Characteristic area</th>
<th>CAE responses</th>
<th>Annual report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose, authority and responsibility clearly defined in the charter</td>
<td>100%</td>
<td>50%</td>
</tr>
<tr>
<td>Internal audit department organisationally independent</td>
<td>100%</td>
<td>25%</td>
</tr>
<tr>
<td>Individuals conducting internal auditing are independent</td>
<td>85.71%</td>
<td>25%</td>
</tr>
<tr>
<td>Objectivity is maintained</td>
<td>71.43%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Accepting that participating CAEs responded ethically, it is clear that information in annual reports is very scant in terms of the areas above for metropolitan municipalities in general. In terms of reliance placed on internal audit’s work, this is also triangulated by audit committees which indicated that they relied extensively on the work of internal audit in the areas of internal control, risk management, governance and compliance.
SUMMATIVE COMMENT

Section 7.5 triangulated selected MFMA annual data with audit committee and CAE questionnaire responses. This was achieved by using the frequency counts created in Section 7.2 and by further transforming this data into meaningful percentages for comparison.

This showed that IAFs’ functioning, as portrayed in MFMA annual reports, is not a true reflection when compared to the audit committee and CAE responses from the questionnaires. Opportunity thus exists to create internal audit disclosure policies which could increase public confidence and the overall functioning of IAFs as they would be under public scrutiny.

7.6 CHAPTER SUMMARY

This chapter presented the results of the study. The three data sets were presented separately and linked back to the research problem. Selected sections were triangulated in order to validate, compare and interrelate findings between the data sets.

The results indicate that IAFs in metros are providing a broad scope of work in the areas of internal control, risk management, governance and compliance. In this regard, audit committees stated that IAFs assist them to a large extent in fulfilling their oversight responsibility and a lot of reliance are placed on IAFs. CAEs are also of the opinion that they are crucial informants to audit committees. While performing their work, IAFs are perceived as being ethical, competent in their core technical areas and uphold the attributes of a typical IAF, which are key aspects of their proper functioning. However, annual report data of metros shows little information on the functioning of IAFs and this is not a true reflection of their functioning.

The next chapter will summarise the study, provide recommendations and areas for future research.
CHAPTER 8

CONCLUSIONS AND RECOMMENDATIONS

8.1 INTRODUCTION

Chapter 7 described the results of the empirical study. This chapter concludes the study by describing how the objectives were achieved and how the underlying research problem was addressed. Recommendations are formulated based on the results and areas for future research are indicated.

8.2 OVERVIEW OF THE RESEARCH

In Chapter 1, the research problem for this study was defined as follows:

*Internal audit is considered critical in the combined assurance model, providing independent assurance and consulting services on internal control, risk management and governance processes. However, if internal audit is providing inadequate services in this regard, as is evident from the discussion in Section 1.2, the users of internal audit services may be uninformed on these critical areas which could, in turn, affect decision-making. This called for a study into the functioning of internal audit with a primary focus on its internal control, risk management and governance mandate.*

In order to contribute to the research problem, certain focus areas were formulated and were addressed through an extensive literature study and empirical work. The MFMA annual reports for all metropolitan municipalities were analysed for the objectives and two sets of questionnaires were sent, one to the audit committee of each metro and one to the CAE. The three data sets were presented separately in Chapter 7 and the results were linked back to the study objectives and research problem. Selected results were then triangulated between the three data sets in order
to compare, validate and interrelate the data. The following sections provide a summary of how each of the objectives of the study was achieved and conclusions are presented by reviewing the main findings from the literature review and the empirical results.

8.2.1 Internal audit’s ethics as fundamental to its functioning – study objective 4

In Chapter 2 it was established that to enhance the credibility of internal audit’s work, it is important for IAFs to uphold their ethical values as prescribed by the IIA’s Code of Ethics. It is therefore important for internal audit to conduct its work with honesty, diligence and responsibility. It must remain objective and not participate in any activity or relationship which may impair, or presume to impair, its assessments. Confidentiality must be maintained and IAFs must therefore be prudent in the use of information acquired during the course of their work. IAFs must also only perform work for which they have the necessary knowledge, skills and experience.

CONCLUSION
Both audit committee members and CAEs felt that overall, their IAFs were ethical. With the exception of overall competency, audit committees in metros view IAFs as having integrity, being objective and being confidential. This means that more trust is placed on internal audit work which contributes to their proper functioning. This can be seen in Sections 7.3.1 and 7.4.1 in Chapter 7.

8.2.2 Internal audit’s core functional areas – study objectives 1, 2 and 5

In Chapter 3, an extensive literature review was conducted on internal audit’s core mandate found in Standards 2100. Internal audit’s work is geared towards improving the efficiency and effectiveness of internal control, risk management and governance processes.
Internal auditors are not responsible for the implementation of internal controls. This responsibility lies with management and, in the case of municipalities, with the municipal council. Municipal officials such as the municipal manager and other managers are responsible for internal control implementation and monitoring to ensure organisation-wide objectives are met. Audit committees are tasked with providing municipal council feedback on the state of internal controls, and especially internal financial controls. The work of internal audit on internal control evaluations is therefore paramount in assisting audit committees in achieving their mandate. Furthermore, responsibility for governance lies with the municipal council.

Controls must be implemented to ensure the metro is controlled and directed in a manner which adheres to the highest levels of governance practices. IAFs serve as an independent assurance partner in these implemented governance processes, measuring the processes against best practices and making recommendations to improve the processes. This evaluation conducted by internal audit is provided to the users of internal audit services such as the audit committee so that it in turn can achieve its governance mandate. Organisations worldwide are required to adhere to good governance practices apart from maintaining a competitive advantage or being the best deliverer of services (in the case of municipalities). It is therefore paramount that organisations implement good risk management practices to help manage risks which could cause organisations to not meet their objectives. This entails having a risk management framework or policy and having the right people to actively implement and monitor the risk management processes of the organisation.

The ultimate responsibility for this lies with the municipal councils (oversight) and other levels of management (implementation and monitoring). Internal auditors are in a prime position to assist in the management of risks through continuous monitoring of the adequacy and effectiveness of the organisation’s risk management processes. The work conducted in this regard is critical for oversight committees such as the audit committee so that they can, in turn, achieve their governance mandate.
CONCLUSION

The results of the empirical study provided evidence that IAFs conduct a broad scope of work in the areas of internal control, risk management and governance processes. In this regard, audit committees expressed the view that IAFs assisted them in their oversight responsibilities. CAEs were also of the view that IAFs were crucial informants to audit committees. This is discussed in Sections 7.3.2, 7.3.3, 7.3.4 and 7.4.4 in Chapter 7.

Fundamental to the work of internal audit is the fact that it must uphold the attributes of a typical IAF, as discussed in Sections 7.4.2 and 7.4.3 in Chapter 7. In this regard, CAEs were of the view that their IAFs uphold these attributes.

8.2.3 Internal audit’s legislative and regulatory mandate – study objectives 1 and 2

In Chapter 4, a review of the relevant laws and regulations showed internal audit’s mandate according to laws and regulations in the municipal environment. In particular, the MFMA, the MSA, MPPMR, MPRMM and the Treasury Regulations make provision for IAFs and outline certain mandates which must be accomplished by IAFs if they wish to add value.

CONCLUSION

The empirical study found that internal audit’s compliance work assisted audit committees in discharging their oversight responsibility in varying degrees. Two metros indicated that they did not rely on internal audit in this regard. One metro felt internal audit was not capable of conducting this function and the other indicated that a separate committee was responsible for this, especially as it related to the performance management system of the municipality, which was dealt with by a separate Performance Committee.

This is discussed in Sections 7.3.5 and 7.4.4 of Chapter 7.
8.2.4 Internal audit’s competency in its core technical areas – study objective 6

Competency was discussed as essential to internal audit’s functioning in Chapters 3 and 5. In this regard, respondents were asked to rate the level of competency of IAFs in the core technical areas of internal control, risk management and governance.

CONCLUSION

To function properly, IAFs must be competent to do their work. For the core technical competencies, both audit committees and CAEs felt that internal audit was competent in their core technical areas of internal control, risk management and governance. However, overall competency was perceived as problematic by audit committees. The results of the competency aspects are discussed in Sections 7.3.1, 7.3.6, 7.4.1 and 7.4.5 of Chapter 7.

8.2.5 Audit committee understanding of IAFs’ work – study objective 3

An important aspect of IAFs is an understanding of their work so that it can be best utilised to serve the needs of its users. In this regard, qualitative feedback was obtained from audit committees which shows that overall, audit committees did understand IAFs work in the core areas of internal control, governance and risk management. This is discussed in Sections 7.3.2.8, 7.3.3.8 and 7.3.4.6 in Chapter 7.

8.2.6 The internal audit report – study objectives 7 and 8

The literature review in Chapter 5 outlined practices which, if adhered to, would result in an internal audit report which was informative, persuasive and calling for action. This is an important aspect of internal audit functioning as the report is used by audit committees and other management in their decision-making process. Respondents were asked an overall question on the internal audit report to determine whether they regarded the report as being informative, persuasive and calling for action. If
respondents answered ‘no’, they were redirected to the specific report practices where they could indicate what report practices were lacking.

**CONCLUSION**

Overall, audit committees and CAEs were of the opinion that internal audit reports were informative, persuasive and calling for action. This is discussed in Sections 7.3.7 and 7.4.6 in Chapter 7.

### 8.2.7 Internal audit's disclosure in MFMA annual reports – study objective 9

MFMA annual reports for all eight metropolitan municipalities in South Africa were analysed for internal auditing to determine what was being reported on internal audit in the public eye, thus providing a reflection of its functioning. Disclosure was made on internal audit’s internal control, governance, risk management and compliance mandates, however, this was scanty and inconsistencies existed on the extent of disclosure. The most prominently disclosed work area of internal audit was its control mandate, followed by governance, risk management and compliance, all of which were equally disclosed in terms of prominence (the results are presented in Table 7.5).

Other notable disclosures on IAFs relate to their organisational status indicating that internal audit charters and audit plans were approved and IAFs were regarded as independent and objective. However, not all metros disclosed this and therefore differences exist between metros on these items (the results are presented in Table 7.8).

**CONCLUSION**

Overall, evidence was found on the following disclosure items on internal audit:

- Evidence on its core mandate, as found in *Standard 2100, Nature of Work* (Sections 7.2.1-7.2.3);
- Evidence on its compliance mandate, as legislated in municipalities (Section 7.2.4);
• Evidence on the status of the completed internal audit plan (Section 7.2.6.1);
• Evidence on the competency of internal audit (Section 7.2.6.2);
• Evidence on the organisational status of internal audit (Section 7.2.6.3);
• Evidence on the internal audit approach (Section 7.2.6.4);
• Evidence to the fact that it performs follow-up audits (Section 7.2.6.5);
• Evidence of disclosure of CAE remuneration (Section 7.2.6.6);
• Evidence on the fact that internal audit provides opinions (Section 7.2.6.7);
• Evidence on how internal audit is resourced (Section 7.2.6.8);
• Evidence on the established reporting relationship of the CAE (Section 7.2.6.9);
• Evidence that internal audit has quality assurance and improvement programmes (Section 7.2.6.10).

The information provided in annual reports in the above areas was very scant. It is acknowledged that internal audit is not required to report in public reports. It is nonetheless clear that attempts were made (in the areas identified) to disclose internal audit’s functions within metropolitan municipalities. However, the nature of the disclosure and its extent differed from metro to metro. Opportunity thus exists for internal audit disclosure policy.

It is also important to note that differences exist in the functioning of IAFs as presented in MFMA annual reports and as expressed in the views of audit committees and CAEs, which were triangulated under Section 7.5.

Annexure T provides an overall reference framework for the study with important conclusions.
**KNOWLEDGE CLAIM**

Information communicated by internal audit to the audit committee and other users of internal audit services on the work areas of internal control, risk management and governance is critical for audit committees and other users in fulfilling their governance mandate. Should the functioning of these areas of internal audit be deficient, it is likely that audit committees and other users will struggle to fulfil their responsibilities effectively. This called for a study into the functioning of internal audit with primary focus on its internal control, risk management and governance mandate.

The study found contrary evidence to the problem statement. Within the current framework of the *Standards*, relevant best practices and laws and regulations, internal audit in metropolitan municipalities in South Africa is not deficient in its functioning, as it relates to its core mandate of internal control, risk management, governance and compliance matters. Internal audit plays a crucial role in assisting audit committees in their oversight responsibility and the scope of work performed by internal audit assists audit committees to a large extent. This is underpinned by the fact that internal audit is regarded as ethical, competent in its core technical areas, possesses attributes expected of internal audit and provides a product (report) which is informative, persuasive and calling for action. Figure 8.1 below portrays a typical IAF in metropolitan municipalities in South Africa.
However, in the public eye, internal audit’s true functioning could be perceived as being negligible. Very limited information is published in MFMA annual reports which could inform the public on the functioning of internal audit. It is acknowledged that no requirement exists for internal audit to report in public reports, which could be the principal reason for the annual report findings. In reality, internal audit does much more than is indicated in MFMA annual reports.
8.3 RECOMMENDATIONS

Based on the literature review and results of the study, the following recommendations are made:

8.3.1 For audit committees and internal audit

— Continuous dialogue should be maintained with the CAE on what is expected in terms of internal control, risk management, governance and compliance. In this way, internal audit will address the needs of audit committees and will utilise internal audit resources efficiently.

— Training should be provided to audit committees on areas in which internal audit can assist them in their oversight responsibility and to help audit committees understand how the work of internal audit can assist them. In particular, the following areas have been identified as areas where audit committees do not find the work useful:

a. Internal control
   i. How results of privacy audits can benefit audit committees.

b. Governance
   i. How internal audit, in an advisory capacity relating to ethics, can assist audit committees;
   ii. How internal audit’s assessments of the establishment of a robust ethics programme can assist audit committees;
   iii. How assessments of legal and compliance processes can assist audit committees;
   iv. How internal audit’s change agent role in governance structures can assist audit committees; and
   v. How meetings with the legal department can assist and protect audit committees before the release of internal audit results.
c. Risk management
   i. How internal audit’s assessments of the alignment of risk responses with the risk appetite can assist audit committees.

d. Legal and regulatory
   i. How internal audit’s assessment of performance agreements of municipal managers can assist audit committees in their performance management mandate.

— Overall, the competency of internal audit should be addressed through ongoing training and continuing professional development.
— Continuous ethics awareness by internal audit and making audit committees aware of internal audit’s ethical code and how it abides by the code will increase confidence in internal audit’s work.
— Internal audit must continue to execute engagements adhering to quality standards as this ensures work for the client is informative, persuasive and calling for action.

8.3.2 For National Treasury

Evidence shows clear opportunities for internal audit disclosure policy. To contribute to transparency, accountability and, in effect, to public confidence, guidelines must be developed for internal audit disclosure. In this regard, guidance statements should be established to assist internal audit drafting sections for MFMA annual reports in the areas of internal audit composition, responsibility, accountability, activities and resources. It is also acknowledged that information supply and demand must be established. It is therefore recommended that the type of report issued by internal audit should be based on activities as opposed to assurance (or opinion).
8.3.3 For the Institute of Internal Auditors

Guidance should be created for internal audit disclosure in public reports for the public sector. These guidelines should be of such a nature as to increase public confidence by requiring disclosure of important aspects of internal audit’s work.

8.4 AREAS FOR FUTURE RESEARCH

The following areas for future research are recommended:

- Using extreme case sampling from the results of this study, in-depth interviews can be conducted to obtain a deeper understanding of internal audit’s functioning in metropolitan municipalities in South Africa;
- Using extreme case sampling from the results of this study, in-depth interviews can be conducted with city managers of the metros which can then be further triangulated with the results of this study;
- Extending the research to other municipalities in South Africa and use advanced statistical techniques to test for significance;
- Extending the research to other levels of government, using the same approach adopted in this study;
- Extending the research to the private sector and comparing it with this research;
- Using the results of this study to perform a comparative study with the Common Body of Knowledge (CBOK) results;
- Pursuing metros which did not participate in this study in order to present all results on a case-by-case basis;
- Conducting further comparative studies on internal audit disclosure from year to year by analysing MFMA annual reports;
- Conducting archival research at the metros in order to further validate the results of this study; and
- Undertaking comparative studies with other countries following the same approach used in this study.
8.5 LIMITATIONS OF THE STUDY

The results of this study are geared towards metropolitan municipalities in South Africa and generalisation is subjective. The scope of this study is limited to the areas outlined in Chapter 1 and it is acknowledged that many other aspects could have impacted on the stated research problem.

8.6 CONTRIBUTIONS TO THE EXISTING BODY OF KNOWLEDGE

This study contributed to the description of a typical internal audit function in metropolitan municipalities in South Africa, from three perspectives: audit committees, CAEs and annual report data. The findings of this research thus provides a holistic view on internal audit functioning (through triangulation) and the results can be used to assist IAFs in general to implement ways to meet the expectations of the users of internal audit services. Specifically in the areas of internal control, risk management and governance. The results can be used by other municipalities as a benchmark for their IAF with reference to the scope of work being performed in the areas of internal control, risk management, governance and compliance matters. The audit committee results on these core functions also show critical areas where audit committees feel internal audit can best assist them. By adopting these areas as part of internal audit work, could assist municipalities towards obtaining unqualified opinions as audit committees in their oversight capacity will be at the forefront of relevant information from internal audit.

The study also contributed to the existing body of knowledge in the area of public sector internal auditing by virtue of the selected municipalities, as they are regarded as information rich, and can be used in local and global studies to compare the practice of internal auditing in the public sector.

Lastly, this study contributed to research design and methodology for internal auditing research and can be used as a benchmark for a data transformation triangulation model to conduct research. In this regard, this study used Atlas.ti software to perform
qualitative coding which were used to quantify the results for triangulation with the questionnaire data and to assist in further interpretation of internal audit functioning. This mixed method approach made it possible to identify a disclosure gap between what IAFs actually do in reality and what is reflected in annual reports. This study thus contributes to the limited existing body of knowledge regarding internal audit disclosure and can be used as a starting point for internal audit policy in this regard.

8.7 FINAL CONCLUSION

The study found that internal audit is crucial for audit committees in assisting them in their oversight responsibility in metropolitan municipalities in South Africa. The study therefore rejects the fact notion that internal audit is not informing audit committees on these important matters. Internal audit was also found to be competent in core technical areas, although overall competency remains problematic. Internal audit was perceived as upholding high ethical standards which contribute to the reliance placed on its work. Internal audit reports were found to be informative, persuasive and calling for action in the opinion of both the audit committees and the CAEs in metropolitan municipalities. This was evinced by the professionalism of the reports and the quality of procedures followed, which were in accordance with the guidelines stipulated in the Standards.
REFERENCE LIST


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ANNEXURE A

DEFINITIONS OF GOVERNANCE
Crowe Horwath, as cited by Boyle, Wilkins and Hermanson (2012:14), states that governance is:

“The systems and processes an organization has in place to protect and enhance the interests of its diverse stakeholder groups”.

The Toronto Stock Exchange, as cited by the IIA (2006:18) and Campbell (2010:11), defines corporate governance as:

“The process and structure used to direct and manage business and affairs of the corporations with the objective of enhancing shareholder value, which includes ensuring the financial viability of the business. The process and structure define the division of power and establish mechanisms for achieving accountability among shareholders, the board of directors and management. The directors of the business should take into account the impact on other stakeholders, such as employees, customers, suppliers and communities.”

The Australian Stock Exchange (2003), as cited by the IIA (2006:18), defines governance as:

“The system by which companies are directed and managed. It influences how objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised.”

The Belgium Commission on Corporate Governance (1998), as cited by the IIA (2006:18), contributes to the definition of governance:

“The set of rules applicable to the management and control of the company. It is the duty of the board of directors to manage the company’s affairs exclusively in the interest of the company and all its shareholders, within the framework of the laws, regulations and conventions under which the company operates.”

The Japan Corporate Governance Committee (2001) defines governance as:
“The nature of supervision by a present-day board of directors, having independent directors at the heart of its activities, is the undertaking of appropriate monitoring from the aspect of fulfilling the duties entrusted to them, while motivating the executive managers and employees with an appropriate compensation system in order to encourage independence. The balancing of this supervision with management is called governance….Governance, which is the primary role of the independent director, is to ensure the introduction and correct functioning of the internal audit and compensations systems…Corporate governance is a scheme for ensuring that the executive managers, who have been placed in charge of the company, fulfil their duties.”
ANNEXURE B

DEFINITIONS OF RISK MANAGEMENT
Some of the most prominent definitions on risk management and broader enterprise risk management are given below:

Valsamakis, Vivian & Du Toit (2005:79) defines risk management as follows:
“Risk management is a managerial function aimed at protecting the organisation, its people, assets and profits against the physical and financial consequences of risk.”

Australian Standards Board and New Zealand Standards Board (AS/NZS) (2004:v) provides the following definition:
“Risk management involves managing to achieve an appropriate balance between realizing opportunities for gains while minimizing losses. It is an integral part of good management practice and an essential element of good corporate governance. It is an iterative process consisting of steps that, when undertaken in sequence, enable continuous improvement in decision-making and facilitate continuous improvement in performance”.

The Institute of Risk Management (IRM) (2002:2) defines risk management as:
“It is the process whereby organisations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.”

The Treasury Board of Canada Secretariat (2001) states the following on risk management:
“Risk management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk aspects.”

COSO (2004:2) provides a definition on broader enterprise risk management:
“Enterprise risk management is a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the
enterprise, designed to identify potential events that may affect the entity and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives”

IIA (2009) in their position paper on internal audits role in enterprise risk management provides the following definition:

“Enterprise-wide risk management is a structured, consistent and continuous process across the whole organisation for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives.”

The United Kingdom Cabinet Office (2002:25) gives the following definition on risk management:

“Risk management covers all the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress. Good risk management helps reduce hazard, and builds confidence to innovate”. 
ANNEXURE C

IIA CORE TECHNICAL COMPETENCIES
## Governance, risk and control technical competencies

<table>
<thead>
<tr>
<th>Competency</th>
<th>Staff auditor</th>
<th>Internal Audit Manager</th>
<th>CAE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educates senior management and board (or municipal council) on best practices in governance, risk and control.</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Evaluates the appropriateness of the entity’s frameworks for governance, risk and control.</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Contributes to the development of risk-oriented culture within the entity.</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Maintains a comprehensive insight into the entity’s current and emerging risk profile.</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Monitors future risk changes to the entity based on political, economic, social, environmental, legal or technological factors and their potential impact.</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Operates within the entity’s frameworks for governance, risk and control.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Creates audit engagement plans based on the risk and its impact on the entity.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Applies the concepts of controls during audit activities.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Assesses IT governance.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Ensures internal audit activities are aligned with, and enhance, the entity’s enterprise risk management strategy and risk profile.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Ensures that proposals for improvements to internal controls are balanced with entity’s objectives and capabilities.</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Provides an explanation on the risk profile of the entity to the board (or municipal council) and senior management.</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Provides an explanation on the risk profile of the internal audit engagement to relevant parties.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Supports a culture of fraud risk awareness at all levels of the entity.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Assesses and accounts for the potential for fraud risk and identifies common types of fraud associated with the entity.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Assesses and accounts for the potential for fraud risk and identifies common types of fraud associated with internal audit engagement.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Maintains an understanding of the processes used to support fraud investigations.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

*Source: IIA, 2013d:10*
ANNEXURE D

LAWS AND REGULATIONS GOVERNING INTERNAL AUDIT IN THE EUROPEAN UNION
<table>
<thead>
<tr>
<th>Austria</th>
<th>Belgium</th>
<th>Bulgaria</th>
<th>Cyprus</th>
<th>Czech Republic</th>
<th>Denmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Austria internal audit is not part of the public internal control system. However, the Minister can, according to the Federal Ministries Act, call for an internal audit on any of the ministries (European Commission, 2012:27). Two ordinances have been issued by the Minister of Finance which state the position of internal audit and the audit charter which regulates the activities of internal audit. The type of activities performed include financial and regularity audits and operational and management audits (European Commission, 2012:28).</td>
<td>The internal audit function in Belgium is enshrined by the Royal Decree of 17 August 2007 (European Commission, 2012:36). The royal decree states the basic mission of internal audit and also requires that internal audits be performed in compliance with the Standards.</td>
<td>The Public Sector Internal Audit Act (PSIAA) regulates the existence and scope of work of internal audit and is in line with the Standards (European Commission, 2012:44). Article 5 of Chapter 1 of the PSIAA provides the scope of work for internal audit.</td>
<td>Internal audit services in Cyprus are headed by the Commissioner of Internal Audit (European Commission, 2012:52). Furthermore, the activities of internal audit are governed by the Law on Internal Audit of 2003.</td>
<td>Chapters 3 part 4 of the Financial Control Act govern the work and existence of internal audit in the Czech Republic and include activities such as independently providing assurance on the risk management, control and governance processes (European Commission, 2012:58). The internal audit departments also provide assurance whether any legislative requirements are being met by management.</td>
<td>Internal audit departments in Denmark can come into existence under what is called a Section 9 agreement. This agreement is established between the Auditor-General, under the Auditor General Act, and the specific minister concerned (European Commission, 2012:66). The internal audits must then be carried out based on good audit practice and based on sections of the Auditor General Act.</td>
</tr>
<tr>
<td>Estonia</td>
<td>Finland</td>
<td>France</td>
<td>Germany</td>
<td>Greece</td>
<td>Hungary</td>
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<tr>
<td>The Government Act provides for the establishment of the internal audit function, allowing internal audit to evaluate the implementation of the internal control systems and their efficiency (European Commission, 2012:79). This enables internal audit to report on whether the risks are managed and whether public funds are spent appropriately.</td>
<td>The existence of internal audit is at the discretion of management (European Commission, 2012:89). This discretionary power is provided for in Section 70 of the State Budget Decree. The duties to be performed by internal audit would be based on the control needs and the needs of management (European Commission, 2012:89).</td>
<td>The establishment of an internal audit department in France is not legally mandated, however internal audit departments do exist. France is undergoing a gradual implementation of better risk management processes of which internal audit is part (European Commission, 2012:103-104).</td>
<td>Internal audit in Germany is not legally mandated. However, the internal audit functions are established and follow guidelines produced by the Federal Ministry called Recommendations for internal audits in the Federal Administration (European Commission, 2012:106).</td>
<td>Internal audit departments are established at all ministries and regions in Greece. This establishment is mandated by Law 3492/2006 (European Commission, 2012:113). Internal audit must contribute towards improving the effectiveness of the processes which govern operations, risk management and control.</td>
<td>Act no XXXVIII of 1992 on public finances (PFA) embeds the establishment of an internal audit function (European Commission, 2012:124). Numerous guidelines are created under a government decree such as the MoFs Directive no. 2 of 2009 which provides national internal audit standards which must be followed</td>
</tr>
<tr>
<td>Ireland</td>
<td>Italy</td>
<td>Latvia</td>
<td>Lithuania</td>
<td>Luxembourg</td>
<td>Malta</td>
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</tbody>
</table>
| Internal audit is regarded as very important in assisting accounting officers achieve their objectives and all systems of a government department or office are subject to internal audits (European Commission, 2012:136) | No legal basis exists for the formation of internal audit in Italy (Arena et al., 2007:92). However, many forms of internal audit exist which are performed by the offices of the Ministry of the Economy and Finance aiming at contributing to the efficiency and efficacy of public expenditure (European Commission, 2012:146). | The Law on Internal Audit provides for the establishment of an internal audit function. Furthermore, it gives criteria for the operation, coordination, tasks of internal audit and principles of independence to be followed (European Commission, 2012:154). | Numerous laws and guidance exist in Lithuania governing internal audit. These include (European Commission, 2012:161):  
- The Law on Internal Control and Internal Audit (the PIFC Law);  
- The Standard Charter of the Internal Audit Unit;  
- The Rules of the Professional ethics for Internal Auditors;  
- The Standard Internal Audit Methodology; and  
- The Internal Audit Guidelines. | The organic law regarding the General Inspectorate of Finance makes no reference to the establishment of an internal audit department in the Luxembourg public sector (European Commission, 2012:172). | The internal audits in Malta are performed under the Internal Audit and Investigations Department (IAID) (European Commission, 2012:182). In 2003, the IAID was mandated under the Internal Audit and Financial Investigations Act |
<table>
<thead>
<tr>
<th>Poland</th>
<th>Portugal</th>
<th>Romania</th>
<th>Slovakia</th>
<th>Slovenia</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit in Poland is legally mandated by the Act of 27 August 2009 on Public Finance. Internal audit mainly executes assessments of the adequacy, efficiency and effectiveness of management control in the government administration (European Commission, 2012:207).</td>
<td>Internal audit departments exist in most of the ministries and public sector in Portugal, although there is no legal basis for its existence (European Commission, 2012:218).</td>
<td>The internal audit mandate in Romania is in line with the definition of the IIA. Public sector internal audit is defined in Law no. 672/2002 (European Commission, 2012:227).</td>
<td>The Act on Financial Control provides for the basic legal framework for the establishment of internal audit (European Commission, 2012:236).</td>
<td>The Public Finance Act lays down the requirement for the establishment of an internal audit department (European Commission, 2012:246). Other regulations are also created such as the Guidelines for State Internal Auditing and the Act on the Organisation and Operations of Internal Audit which summarise some of the competencies and responsibilities of internal audit departments (European Commission, 2012:246).</td>
<td>The basis for internal control in Spain can be found in Law no. 47/2003 on the General Budget (LGP) (European Commission, 2012:251). Under this law, the General Control and Audit Office (IGAE) is responsible for internal auditing (European Commission, 2012:251, 255). The auditing rules are also governed by the LGP and the Public Sector Auditing Rules (European Commission, 2012:255).</td>
</tr>
</tbody>
</table>
In 2008 a set of rules (some new, some amended) were set in motion in Sweden which govern internal control. These are (Sterck, 2006; European Commission, 2012:263):

- The Government Agency Ordinance;
- The Ordinance on Internal Control;
- The Internal Audit Ordinance; and
- The Ordinance on Annual Reports and Budget Documentation.

Sections 66 and 67 of the Dutch Government Accounts Act of 2001 in the Netherlands provide clear direction for the internal audit departments regarding their auditing mandate (Coetzee, 2010:17; European Commission, 2012:197):

No legislation mandates the establishment of internal audit in the United Kingdom (Sperck, 2006; European Commission, 2012:274), but it is preferred as a mandatory tool for governance described in policy rules.
ANNEXURE E

CHAPTER 6 OF THE MSA
As part of the establishment of the PMS, the municipality must promote a culture of performance management among its political structures, political office bearers and councillors and its administration. While establishing the PMS the municipality must administer its affairs in an economical, effective, efficient and accountable manner.

(Municipal Systems Act, 2000:s39)

The municipality must develop a PMS. The executive committee or executive mayor or, if non-existent, a committee of councillors, must do the following in terms of developing a PMS:

- Manage the development of the PMS;
- Assign responsibilities to the municipal managers regarding PMS; and
- Submit the proposed PMS to the municipal council for adoption.

(Municipal Systems Act, 2000:s38)

Furthermore the municipality must establish mechanisms to monitor and review its PMS. While developing the PMS, certain core components must form part of the PMS:

- Setting of appropriate key performance indicators as a yardstick for measuring performance, including the outcomes and impact with regard to the municipality’s development priorities and objectives as set out in the IDP;
- Measurable performance targets must be set for each of the development priorities and objectives;
- For each of the development priorities and objectives together with the key performance areas, the performance must be monitored and measured and reviewed at least once a year;
- Take steps to achieve targets should they not be met;
- Establish a process of reporting to the council, other political structures, political office bearers and staff of the municipality;
- Establish a process of reporting to the public and appropriate organs of state; and
- The system to monitor performance must be able to serve as an early warning signal for under-performance.
In setting the key performance indicators the municipality concerned must involve the local community in the development, implementation and review of the municipality’s PMS, in particular, in setting the appropriate key performance indicators and performance targets. Once this process is finalised and documented, the municipality must again make known, internally and externally, the key performance indicators and targets.

General key performance indicators can be set by the Minister, after consulting with the executive council (MEC for local government) and a representative who represents the local government nationally. These general key performance indicators can also be reviewed and adjusted where necessary and they must include any general key performance indicators which are applicable to the municipality (Municipal Systems Act, 2000:s43).

Once the municipality makes the performance reports available, they must be audited by internal audit (quarterly) and yearly by the Auditor-General of South Africa.

The municipality must then annually submit a report which contains the following:

- A performance report containing:
  - The performance of the municipality and any service providers, showing comparative figures for targets and performance with the previous year;
  - The development and service delivery priorities and the performance targets set by the municipality for the next financial year; and
  - Actions taken or to be taken to improve performance.
- The financial statements for the year;
- The audit report of the Auditor-General and the audit conducted on performance measures; and
- Any other requirements in terms of other applicable legislation.

(Municipal Systems Act, 2000:s46(1))
The annual report must be tabled within one month of receiving the Auditor-General's report.

(Municipal Systems Act, 2000:s46(2))

The municipal managers must ensure the following regarding the annual report:

• By prior notice in the media, inform the local community of the meeting or meetings of the council at which the annual report is to be tabled or discussed, which meetings must be open to the public
• Give written notice of such meetings to the Auditor-General and the MEC for local government in the province; and
• Submit copies of those meetings to the Auditor-General and the MEC for local government in the province.

(Municipal Systems Act, 2000:s46(3))

Representatives of the Auditor-General and the MEC for local government in the province are entitled to attend and to speak at such meetings and the municipal managers must be available to respond to questions related to the annual report. The municipality must then adopt its annual report, and within 14 days, make copies of the report available to the public, interested organisations and the media, free of charge or at a reasonable price. Lastly a copy of the report must be submitted to the MEC for local government in the province, the Auditor-General and any other such institutions as may be prescribed by regulation.

(Municipal Systems Act, 2000:s46(3)(b), s46(4))

Once the MEC for local government in the province receives the report, an annual report must be compiled by the MEC and submitted to the provincial legislatures and the Minister. The report must be consolidated and include information on the performance of municipalities in the province. This report must:

• Contain under-performing municipalities;
• Contain remedial action to be taken by under-performing municipalities; and
• Be published in the Provincial Gazette.

A copy of the report must also be submitted to the National Council of Provinces.
Upon receiving the report above, the Minister must annually compile and submit to Parliament and the MECs for local government a consolidated report of local government performance in terms of general key performance indicators. Again, this report must be published in the Gazette.

(Municipal Systems Act, 2000:s48)
ANNEXURE F

DEFINITIONS OF PERFORMANCE AUDITING
Performance assesses whether business processes are performed economically, efficiently and effectively (Coetzee et al., 2012a:72). Coetzee et al., (2012b:116) provide the following definition of performance auditing:

“Performance auditing is an independent process performed to evaluate and report on the management actions implemented to ensure the economical acquisition and the efficient and effective utilisation of resources, according to pre-determined formal criteria.”

Sawyer et al., (2005:30) give the following definition of performance auditing:

“The comprehensive review of the varied functions within an enterprise to appraise the efficiency and economy of operations and the effectiveness with which those functions achieve their objectives”.

Damen and Groenendijk (2012:2) gave the following definition of performance auditing in the context of the public sector:

“An evaluative activity which produces assessments regarding performance or information about performance, of such a reliable degree and with such a freedom from investigatory and reporting constraints, that it can be used in the realm of accountability.”

The South African Institute of Chartered Accountants (SAICA), in its Guide on Performance Auditing in the Public Sector, defines performance auditing as follows (SAICA, 2006:4; Roos, 2009:22-23):

“A performance audit may be described as an independent auditing process aimed at evaluating the measures instituted by management, or the lack of these measures; ensuring that resources have been acquired economically and are utilised efficiently and effectively; and reporting on the acquisition and use of resources to management or the relevant authority.”
ANNEXURE G

OVERVIEW OF THE PERFORMANCE REGULATIONS FOR MUNICIPAL MANAGERS AND THOSE ACCOUNTABLE TO MUNICIPAL MANAGERS
Brief overview

Chapter 1 gives an overview of the relevant definitions in this regulation.

Chapter 2 – Establishment of employment contracts for municipal managers and managers directly accountable to municipal managers

This chapter deals with criteria that must be met in terms of the employment contract of the individual and the municipality while establishing the contract. This includes sections to be included in the contract regarding the place of work, offices hours, remuneration and bonuses, motor vehicles, mobile telephones, retirement and provident fund provisions, medical aid provisions, overtime, deductions from salary, leave, precautionary suspension, termination, dealing with grievances and severability.

Chapter 3 – Performance agreements for municipal managers and managers directly accountable to municipal managers

This chapter gives an overview of the purpose of the performance agreement. Furthermore, it gives criteria regarding the commencement and duration of performance agreements and assists in the establishment and structuring of performance objectives. The chapter also provides an overview of what is expected from municipal managers and other managers regarding the performance management system of the municipality and how their performance will be evaluated and by when. The chapter also makes it compulsory to create a personal development plan after performance has been evaluated. The employer (municipality) is also tasked in this chapter with enabling an environment in which the municipal managers and other managers can perform their jobs and achieve objectives. Lastly, this chapter deals with the management of evaluation outcomes and dispute resolutions should managers challenge the outcome of performance evaluations.

Chapter 4 – Job description for municipal managers

This chapter sets out the criteria which must be included in the job description of the municipal managers, together with detailed statements of the job purpose. It gives criteria for the main accountabilities of the municipal managers and the minimum requirements for the position regarding educational background, years of experience and competencies (all of which must be stated in the advertisement for the position). Lastly, this chapter deals with transitional arrangements regarding the application of these regulations, municipal managers who do not meet the competencies and those exempted from Regulation 38 which deals with job requirements.
ANNEXURE H

INTERNAL AUDIT CAPABILITY MODEL
<table>
<thead>
<tr>
<th>Element</th>
<th>Key Performance Areas</th>
</tr>
</thead>
</table>
| **Services and Role of Internal Auditing** | • Conducting compliance audits;  
• Conducting performance audits (value for money audits);  
• Providing advisory services to management (training, facilitation activities, counselling, control self-assessment);  
• Providing assurance on risk management, internal control and governance processes; and  
• Recognising internal audit as a key agent of change (having a “seat at the table”). |
| **People Management**           | • Identifying and recruiting skilled staff;  
• Ensuring continuous professional development of staff;  
• Coordinating the workforce;  
• Ensuring staff is professionally qualified;  
• Ensuring team building and competency;  
• Ensuring workforce planning;  
• Supporting professional bodies through internal audit activity;  
• Contributing to management development through internal audit activity;  
• Ensuring workforce projection; and  
• Ensuring leadership involvement with professional bodies. |
| **Professional Practices**      | • The audit plan is based on management and stakeholder priorities;  
• Compliance with professional practices;  
• Risk-based audit plans;  
• Quality management of internal audit;  
• Audit strategy leverages organisations’ management of risk’  
• Strategic internal audit planning; and  
• Continuous improvement in professional practices. |
| **Performance Management and Accountability** | • Internal audit business plan exists;  
• Internal audit operating budget exists;  
• Internal audit management reports;  
• Cost information; |
Organisational Relationships and Culture

<p>| | |</p>
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>• Performance measures;</td>
<td>• Managing within the internal audit activity;</td>
</tr>
<tr>
<td>• Integration of qualitative and quantitative performance measures;</td>
<td>• Integral component of the management team;</td>
</tr>
<tr>
<td>• Public reporting of internal audit effectiveness.</td>
<td>• Coordination with other review groups;</td>
</tr>
<tr>
<td></td>
<td>• CAE advises and influences top level management; and</td>
</tr>
<tr>
<td></td>
<td>• Effective and ongoing relationships.</td>
</tr>
</tbody>
</table>

Governance structures

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reporting relationships established;</td>
<td>• Reporting relationships established;</td>
</tr>
<tr>
<td>• Full access to the organisation’s information, assets and people;</td>
<td>• Full access to the organisation’s information, assets and people;</td>
</tr>
<tr>
<td>• Funding mechanisms;</td>
<td>• Funding mechanisms;</td>
</tr>
<tr>
<td>• Management oversight of the internal audit activity;</td>
<td>• Management oversight of the internal audit activity;</td>
</tr>
<tr>
<td>• CAE reports to top level management;</td>
<td>• CAE reports to top level management;</td>
</tr>
<tr>
<td>• Independent oversight of the internal audit activity;</td>
<td>• Independent oversight of the internal audit activity;</td>
</tr>
<tr>
<td>• Independence, power and authority of the internal audit activity.</td>
<td>• Independence, power and authority of the internal audit activity.</td>
</tr>
</tbody>
</table>

Source: IIARF, 2009:19-25
ANNEXURE I

CORE COMMUNICATION COMPETENCIES
<table>
<thead>
<tr>
<th>Communication competencies</th>
<th>Staff auditor</th>
<th>Internal audit manager</th>
<th>CAE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secures the trust of others through positive use of communication</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fosters open communication</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Demonstrates respect for others and customises messages to reflect the needs of the target audience</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Organises and expresses ideas clearly and with confidence in order to influence others</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Extracts key information from a variety of sources to support communication</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Selects appropriate communication forms (verbal, non-verbal, visual, written) and media (face-to-face, electronic, paper-based)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Correctly employs the technical conventions of language (spelling, punctuation, grammar, etc.)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Listens actively, asking questions as required to check own understanding</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Solicits feedback from audience to gauge the effectiveness of the communication</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Anticipates reactions to communication and plans responses in advance</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Discusses audit findings and their impact professionally and confidently with appropriate levels of the organisation</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Interprets and uses body language to reinforce communication</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Uses graphical methods to communicate processes and other complex information</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Delivers information in a structured fashion to foster learning and development among members of the audience</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Applies appropriate communication skills in interviews</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: IIA, 2013d:12*
Dear Sir/Madam

DOCTORAL RESEARCH IN CATEGORY “A” MUNICIPALITIES IN SOUTH AFRICA WITH FOCUS ON INTERNAL AUDIT

Internal audit is tasked with the very important mandate of assisting municipalities in achieving their objectives by systematically evaluating the efficiency and effectiveness of internal control, risk management and governance processes. Internal audit is also perfectly positioned to assist audit committees, particularly in discharging their responsibilities. However, research indicates that audit committees in the local government sector are not always effective in their internal control, risk management and governance mandates. This is concerning seeing that internal audit plays a crucial role in informing the audit committee on these critical areas. Thus, the question arises as to what the current status of the functioning of internal audit in local government sector entities is as it relates to the core mandate of internal audit.

Doctoral research in the field is currently being undertaken by Mr Christo Ackermann of the University of Johannesburg. His study is entitled *The functioning of internal audit in Category “A” municipalities in South Africa*. The aim of the research is to gain insight into the functioning of IAFs with reference to their internal control, risk management
and governance mandate.

The results will be of value to audit committees as areas will be identified on how internal audit can better serve audit committees in the South African public sector context.

As part of the study, questionnaires will be completed by the audit committees and CAEs of the eight Category “A” municipalities in South Africa.

All data collected will focus on the internal audit department and results will be based on aggregates. Thus, individual metropolitan municipalities will not be revealed.

The Chief Audit Executive and Audit Committee Questionnaire will not take longer than 10-15 minutes to complete. Your input as a business leader will be of immense value and your response as part of only eight Category “A” Municipalities is critical to the success of the research. If you have any objection to completing the questionnaire, please state your reason and notify the researcher for control purposes.

The researcher can be contacted at:
Mr Christo Ackermann
Suite 517, Private Bag x09, Weltevreden Park, 1715
Tel: 011 477 3515
Cell: 076 040 5851
Email: cackermann@uj.ac.za

We thank you in advance for your cooperation.

SIGNED

Professor Doctor Ben Marx
Study Leader
DEPARTMENT OF ACCOUNTANCY

(011) 559-3086
ANNEXURE K

QUESTIONNAIRE FOR THE AUDIT COMMITTEE
QUESTIONNAIRE FOR THE AUDIT COMMITTEE ON INTERNAL AUDIT FUNCTIONING

The following questionnaire aims to obtain the perceptions of audit committee chairpersons and members in metropolitan municipalities in South Africa. The questionnaire is geared towards the core functional areas of internal auditing, namely internal control, risk management and governance, which are key areas for audit committees in fulfilling their governance mandate. Other secondary aspects which are included in the questionnaire are the internal audit report to the audit committee and internal audit competency.

Please note that under no circumstances will a specific municipality be identified by name in the research report. Aggregates will be used to discuss the overall results and confidentiality is assured.

INSTRUCTIONS:

1. Please mark your answer by selecting the relevant options given in each question.

2. If you would like to change an answer, you can go back and forth using the "back" and "continue" buttons.

3. Please note that the aim is to obtain the views of audit committees on how they experience internal audit on the matters covered in the questionnaire.

4. Once the questionnaire has been completed, please click on the “submit” button. Your responses will be stored electronically.

5. The researcher can be contacted at:

   Mr Christo Ackermann
   Tel: 011 477 3515
   Cell: 076 040 5851
   Email: cackermann@uj.ac.za
A. DEMOGRAPHIC INFORMATION

1. Please indicate the relevant metropolitan municipality below. Please note that this is for control purposes only.
   - [ ] Buffalo City
   - [ ] City of Cape Town
   - [ ] Ekurhuleni Metropolitan Municipality
   - [ ] City of eThekwini
   - [ ] City of Johannesburg
   - [ ] Mangaung Municipality
   - [ ] Nelson Mandela Metropolitan Municipality
   - [ ] City of Tshwane

2. Please indicate your position by clicking the relevant option.
   - [ ] Audit committee chairperson
   - [ ] Audit committee member
   - [ ] Other (please specify) ________________________________

3. Please indicate the number of years of experience you have in your current position.
   - [ ] 0-1 year
   - [ ] 1-3 years
   - [ ] 3-5 years
   - [ ] 5-10 years
   - [ ] More than 10 years
**B. ETHICAL PERSPECTIVES**

4. Please indicate the extent to which you feel internal audit upholds the following:

<table>
<thead>
<tr>
<th>Always</th>
<th>Sometimes</th>
<th>Never</th>
<th>Unable to judge</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrity</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Competency</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Objectivity</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Confidentiality</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

**C. GOVERNANCE**

Governance is the way in which a municipality is managed, controlled and directed in order to achieve municipal objectives.

Please indicate your view on the statement below.

5. Do you rely on internal audit to assist you in your **governance** oversight responsibility?

☐ Yes

☐ No

6. Please indicate the **extent** to which the following work areas/activities of internal audit **assist the audit committee in its** governance oversight responsibility:
<table>
<thead>
<tr>
<th>Work area/activity</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit’s promotion of ethics and values within the municipality</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Internal audit’s assessment of the ethical climate of the municipality</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Internal audit’s advisory role on ethics-related issues</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Internal audit’s evaluation of the design, implementation and effectiveness of ethics-related objectives and programmes in the municipality</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Internal audit’s assistance in establishing a robust ethics programme within the municipality</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Internal audit’s assessment of the legal and compliance processes within the municipality</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Internal audit meetings with the audit committee in order to define governance processes within the municipality</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Internal audit meetings with the audit committee in order to define the scope of a governance audit</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Internal audit’s knowledge from other audits used to define a clear scope for governance audits</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Work area/activity</td>
<td>Not at all</td>
<td>To a lesser extent</td>
<td>To a large extent</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------------</td>
<td>------------</td>
<td>--------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Internal audit meetings with management to discuss audit findings before release to the audit committee</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit meetings with the legal department in order to define the scope of a governance audit</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit meetings with the legal department to discuss audit findings before release to the audit committee</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit communications on risk and control information</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit recommendations after a governance audit</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s risk assessments (identifying high risk governance processes)</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s assessment of weak controls in governance processes</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s assessment of the municipality’s performance management and accountability</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s assessment of information technology controls in support of governance objectives</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Work area/activity</td>
<td>Not at all</td>
<td>To a lesser extent</td>
<td>To a large extent</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------------</td>
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<td>-------------------</td>
</tr>
<tr>
<td>Internal audit’s attempts to increase the governance maturity (governance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>effectiveness) levels of the municipality</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal audit’s coordination of audit activities between the audit committee,</td>
<td></td>
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<tr>
<td>external audit and management</td>
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<tr>
<td>Internal audit’s role as change agent in the governance structures of the</td>
<td></td>
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<tr>
<td>municipality</td>
<td></td>
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</tr>
</tbody>
</table>

7. Comments


8. Please elaborate on your understanding of how internal audit can or should assist you in discharging your governance oversight responsibility.


D. INTERNAL CONTROL
Internal control involves specific policies and procedures established to contribute to the achievement of the municipality’s objectives.

Please indicate your view on the statement below.

9. Do you rely on internal audit to assist you in your internal control oversight responsibility?

☐ Yes

☐ No

10. Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its internal control oversight responsibility:
<table>
<thead>
<tr>
<th>Work area/activity</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit’s evaluation of control effectiveness</td>
<td></td>
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<td></td>
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<tr>
<td>Internal audit’s evaluation of control efficiency</td>
<td></td>
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<tr>
<td>Internal audit’s evaluation of the adequacy of controls</td>
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<tr>
<td>Internal audit’s evaluation of controls with high risk exposure</td>
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<tr>
<td>Internal audit’s evaluation of information integrity and reliability</td>
<td></td>
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<tr>
<td>Internal audit’s evaluation of the maturity levels of the municipality’s privacy practices</td>
<td></td>
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<tr>
<td>Internal audit’s communications of weaknesses in information integrity and reliability</td>
<td></td>
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<tr>
<td>Internal audit’s recommendations on information integrity and reliability</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Internal audit’s evaluation of controls contributing to the achievement of the strategic objectives of the municipality</td>
<td></td>
<td></td>
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<tr>
<td>Internal audit’s evaluation of controls contributing to the achievement of the reliability and integrity of financial and operational information</td>
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<tr>
<td>Work area/activity</td>
<td>Not at all</td>
<td>To a lesser extent</td>
<td>To a large extent</td>
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</tr>
<tr>
<td>Internal audit’s evaluation of controls contributing to the achievement of legal and regulatory objectives</td>
<td>☐</td>
<td>☐</td>
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</tr>
<tr>
<td>Internal audit’s evaluation of the municipality’s privacy framework</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s coordination with the legal department during privacy framework audits</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s promotion of continuous improvement in internal controls</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s risk assessment of control processes</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s knowledge/experience obtained from other audits</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s communication of weaknesses and improvements in controls to the audit committee</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s communication to the audit committee on the nature and extent of control testing</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s preparation of an internal audit plan allowing for control testing</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Work area/activity</td>
<td>Not at all</td>
<td>To a lesser extent</td>
<td>To a large extent</td>
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<tr>
<td>Internal audit’s opinion on the status of the internal control system</td>
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</tr>
</tbody>
</table>

11. Comments

12. Please elaborate on your understanding of how internal audit can or should assist you in discharging your internal control oversight responsibility.
E. RISK MANAGEMENT

Risk management is the process of managing key risks facing the municipality.

Please indicate your view on the statement below.

13. Do you rely on internal audit to assist you in your risk management oversight responsibility?

☐ Yes

☐ No
14. Please indicate the **extent** to which the following work areas/activities of internal audit **assist the audit committee in its** risk management oversight responsibility:

<table>
<thead>
<tr>
<th>Work areas/activity</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To a large extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit’s evaluation of risk exposures affecting the safeguarding of assets</td>
<td></td>
<td></td>
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<tr>
<td>Internal audit’s evaluation of risk exposures affecting compliance with laws, regulations, policies and procedures</td>
<td></td>
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<tr>
<td>Internal audit’s evaluation of the possibility of fraud occurring</td>
<td></td>
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<tr>
<td>Internal audit’s evaluation of how well fraud risk is managed</td>
<td></td>
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<tr>
<td>Internal audit’s encouragements to implement a risk management process (if non-existent)</td>
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<tr>
<td>Internal audit’s evaluation of the suitability of the chosen risk management methodology</td>
<td></td>
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<tr>
<td>Internal audit’s evaluations of key objectives of the risk management processes</td>
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<tr>
<td>Internal audit’s evaluation of the effectiveness of risk management processes</td>
<td></td>
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</tr>
<tr>
<td>Work areas/activity</td>
<td>Not at all</td>
<td>To a lesser extent</td>
<td>To a large extent</td>
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<tr>
<td>-----------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Internal audit’s evaluation of whether the municipality’s objectives are aligned with its mission</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s identification and assessment of significant risks</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Internal audit’s evaluation of whether risk responses align with the municipality’s risk appetite</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Internal audit’s communication of risk information</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s broad knowledge of risk practices at the municipality</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s evaluation of risk exposures affecting strategic objectives</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s evaluation of risk exposures affecting the reliability and integrity of financial and operational information</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Internal audit’s evaluation of risk exposures affecting the effectiveness and efficiency of operations and programmes</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

15. Comments
16. Please elaborate on your understanding of how internal audit can or should assist you in discharging your risk management oversight responsibility.
F. LEGISLATIVE AND REGULATORY

Please indicate your view on the statement below.

17. Do you rely on internal audit to assist you in your legal and compliance related oversight responsibility?
   □ Yes
   □ No

18. The following sections of acts and regulations makes to the work of internal audit. Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance related oversight responsibility:

<table>
<thead>
<tr>
<th>Work area/activity</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To large extent</th>
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</thead>
<tbody>
<tr>
<td>Section 165 of the Municipal Finance Management Act</td>
<td></td>
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<tr>
<td>• The preparation of a risk-based audit plan</td>
<td>□</td>
<td>□</td>
<td>□</td>
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<tr>
<td>• Internal audit’s advice on accounting procedures and practices</td>
<td>□</td>
<td>□</td>
<td>□</td>
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<tr>
<td>• Internal audit’s advice on performance management</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Work area/activity</td>
<td>Not at all</td>
<td>To a lesser extent</td>
<td>To large extent</td>
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<td>-----------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>• Internal audit’s advice on loss control</td>
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<tr>
<td>• Internal audit’s compliance testing on the MFMA</td>
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<tr>
<td>• Internal audit’s compliance testing on the Division of Revenue Act</td>
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<tr>
<td><strong>Chapter 6 of the Municipal Systems Act</strong></td>
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<tr>
<td>• Internal audit’s assessment of whether the Performance Management Systems of the municipality are commensurate with its resources</td>
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<tr>
<td>• Internal audit’s assessment of whether the Performance Management System of the municipality is best suited to its circumstances</td>
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<tr>
<td>• Internal audit’s assessment of whether the Performance Management System is in line with the Integrated Development Plan</td>
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<tr>
<td><strong>The Municipal Planning and Performance Management Regulations</strong></td>
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<tr>
<td>• Internal audit’s assessment of the functionality of the Performance Management System of the municipality</td>
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<tr>
<td>• Internal audit’s assessment of whether the Performance Management System of the municipality adheres to the Municipal Systems Act (Chapter 6)</td>
<td></td>
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<tr>
<td>• Internal audit’s assessment of the reliability of performance measures</td>
<td></td>
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<tr>
<td>• Internal audit’s quarterly report on the Performance Management System of the municipality</td>
<td></td>
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</tbody>
</table>

371
<table>
<thead>
<tr>
<th>Work area/activity</th>
<th>Not at all</th>
<th>To a lesser extent</th>
<th>To large extent</th>
</tr>
</thead>
</table>

**The Performance Management Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers**

- Internal audit’s assessment of whether actual performance agreements and contracts are in line with the requirements of this regulation

- The Treasury Regulations

- Quarterly reports from internal audit on the status of the completed internal audit plan

19. Please elaborate on your understanding of how internal audit can or should assist you in discharging your legal and compliance related oversight responsibility.
G. INTERNAL AUDIT CORE TECHNICAL COMPETENCIES

20. For each of the functional areas listed below, please indicate the level of competency you experience from internal audit.

<table>
<thead>
<tr>
<th>Area of:</th>
<th>Competent</th>
<th>Not competent</th>
<th>Unable to judge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal control</td>
<td></td>
<td></td>
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<tr>
<td>Risk management</td>
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<td></td>
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<tr>
<td>Governance</td>
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<td></td>
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</tbody>
</table>

H. INTERNAL AUDIT REPORTING

Please provide your view on the statement below.

21. Is the internal audit report informative and persuasive and does it call for action on matters presented?
   ☐ Yes
   ☐ No (If no, please complete section H1)

H1. Reporting concerns

22. Please indicate which of the following matters prevents the internal audit report from being relevant and useful. You can select as many options as you feel necessary.
Sometimes there is no report

The purpose and scope are not included in the report

The findings are not supported by sufficient and appropriate evidence

Unfavourable opinions are not supported by reasons

Mistakes in the report are not corrected

Reports are released without approval

Internal audit does not report on high residual risks

The findings are not well formulated

Exit meetings are not held so that findings can be discussed

The report is issued to the wrong people

Sometimes I would rather have internal audit give a summary report

Sometimes I would rather have internal audit give an interim report

Sometimes I would rather have internal audit give a verbal account of findings

I do not get a report after follow-up activities have taken place

Internal audit must only give a report as part of the MFMA annual report as this would be beneficial to the public

Internal audit does not possess the necessary competencies to report on work done

THANK YOU FOR YOUR VALUABLE INPUT. ALL RESPONSES WILL BE TREATED AS CONFIDENTIAL AND UNDER NO CIRCUMSTANCES WILL INDIVIDUAL RESULTS BE DIVULGED. ALL RESULTS WILL BE BASED ON AGGREGATES.

Manual responses can be posted to:
Suite 517
Private Bag x09
Weltevreden Park
1715
ANNEXURE L

COVERING LETTER TO THE CHIEF AUDIT EXECUTIVE

UNIVERSITY OF JOHANNESBURG
DOCTORAL RESEARCH IN CATEGORY “A” MUNICIPALITIES IN SOUTH AFRICA WITH FOCUS ON INTERNAL AUDIT

Internal audit is tasked with the very important mandate of assisting municipalities in achieving their objectives by systematically evaluating the efficiency and effectiveness of internal control, risk management and governance processes. Internal audit is also perfectly positioned to assist audit committees, particularly in discharging their responsibilities. However, research indicates that audit committees in the local government sector are not always effective in their internal control, risk management and governance mandates. This is concerning seeing that internal audit plays a crucial role in informing the audit committee on these critical areas. Thus, the question arises as to what the current status of the functioning of internal audit in local government sector entities is as this relates to the core mandate of internal audit.

Doctoral research in the field is currently being undertaken by Mr Christo Ackermann of the University of Johannesburg. His study is entitled *The functioning of internal audit in Category “A” municipalities in South Africa.* The aim of the research is to gain insight into the functioning of IAFs with reference to their internal control, risk management and governance mandate.
As part of the study, questionnaires will be completed by the audit committee chairpersons and members and CAEs of the eight Category “A” municipalities in South Africa.

All data collected will be geared towards the internal audit department and results will be based on aggregates. Thus, individual metropolitan municipalities will not be revealed.

The Chief Audit Executive and Audit Committee Questionnaire will not take longer than 10 minutes to complete. Your input as a business leader will be of immense value and your response as part of only eight Category “A” Municipalities is critical to the success of the research. If you have any objection to completing the questionnaire, please state your reason and notify the researcher for control purposes.

Due to your reporting relationship with the audit committee, will you also distribute the Audit Committee Questionnaire to the audit committee chairperson and members for completion?

The researcher can be contacted at:
Mr Christo Ackermann
Suite 517, Private Bag x09, Weltevredenpark, 1715
Tel: 011 477 3515
Cell: 076 040 5851
Email: cackermann@uj.ac.za

We thank you in advance for your cooperation.

SIGNED

Professor Doctor Ben Marx
Study Leader
DEPARTMENT OF ACCOUNTANCY

(011) 559-3086
ANNEXURE M

QUESTIONNAIRE FOR THE CHIEF AUDIT EXECUTIVE
QUESTIONNAIRE FOR THE CHIEF AUDIT EXECUTIVE ON INTERNAL AUDIT FUNCTIONING

The following questionnaire aims to obtain feedback from the chief audit executives and internal audit staff members of metropolitan municipalities in South Africa. The questionnaire is geared towards the core functional areas of internal auditing, namely, internal control, risk management and governance. Questions on secondary aspects such as ethics, internal audit characteristics and reporting are also included.

Please note that under no circumstances will a specific municipality be identified by name in the research report. Aggregates will be used to discuss the overall results and confidentiality is assured.

INSTRUCTIONS:
1. Please mark your answer by selecting the relevant options given for each question.
2. If you would like to change an answer, you can go back and forth using the "back" and "next" buttons.
3. Please note that this questionnaire must be completed by the chief audit executive/head of internal audit and internal audit staff members – the aim is to obtain the views of the provider of internal audit services on how they perceive themselves in the matters covered in the questionnaire.
4. Once the questionnaire has been completed, please click on the “submit” button and your responses will be stored electronically.
5. The researcher can be contacted at:
   Mr Christo Ackermann
   Tel: 011 477 3515
   Cell: 076 040 5851
   Email: cackermann@uj.ac.za
A. DEMOGRAPHIC INFORMATION

1. Please indicate the relevant metropolitan municipality below. Please note that this is for control purposes only.

- Buffalo City
- City of Cape Town
- Ekurhuleni Metropolitan Municipality
- City of eThekwini
- City of Johannesburg
- Mangaung Municipality
- Nelson Mandela Metropolitan Municipality
- City of Tshwane

2. Please indicate your position by clicking the relevant option.

- Chief Audit Executive/Head of Internal Audit
- Internal Audit Trainee
- Junior Internal Auditor
- Internal Auditor
- Senior Internal Auditor (supervisory)
- Manager Internal Audit

Other

3. Please indicate the number of years of experience you have in your current position.

- 0-1 years
- 1-3 years
- 3-5 years
- 5-10 years
- More than 10 years
B. ETHICAL PERSPECTIVES

4. Please indicate the extent to which you feel internal audit upholds the following:

<table>
<thead>
<tr>
<th></th>
<th>Always</th>
<th>Sometimes</th>
<th>Never</th>
<th>Unable to judge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrity</td>
<td></td>
<td></td>
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<tr>
<td>Competency</td>
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<tr>
<td>Objectivity</td>
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<td></td>
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<tr>
<td>Confidentiality</td>
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<td></td>
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</tr>
</tbody>
</table>

Comments:

C. GENERAL INTERNAL AUDIT CHARACTERISTICS

Please provide your view on each of the statements below.

5. Do you believe that internal audit’s purpose, authority and responsibility a clearly defined in the internal audit charter?
   - [ ] Yes
   - [ ] No
   - [ ] Unable to judge

6. Do you believe that the internal audit charter is consistent with the International Standards for the Professional Practice of Internal Auditing?
   - [ ] Yes
   - [ ] No
   - [ ] Unable to judge

7. Do you believe that the internal audit charter is consistent with the code of ethics prescribed by the Institute of Internal Auditors?
8. Do you believe that the internal audit charter is consistent with the definition of internal auditing?
   - Yes
   - No
   - Unable to judge

9. Are the reporting lines of the Chief Audit Executive clearly defined in the internal audit charter?
   - Yes
   - No
   - Unable to judge

10. Do you regard the internal audit department as being organisationally independent?
    - Yes
    - No
    - Unable to judge

11. Do you believe individuals conducting internal audit engagements are independent?
    - Yes
    - No
    - Unable to judge

12. Do you believe individuals conducting internal audit engagements are objective?
    - Yes
    - No
Unable to judge

13. Do you believe internal audit is proficient and applies due professional care when conducting its engagements?

☐ Yes
☐ No
☐ Unable to judge

14. Do you believe that internal audit strives to keep up with the latest knowledge through continuing professional development?

☐ Yes
☐ No
☐ Unable to judge

15. Do you believe internal audit continuously upholds a quality assurance and improvement programme?

☐ Yes
☐ No
☐ Unable to judge

Comments:
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

D. MANAGING THE INTERNAL AUDIT ACTIVITY

Please provide your view on each of the statements below.

16. Are you of the opinion that internal audit properly plans for each audit engagement?
17. Do you believe that internal audit’s work plans and resource requirements are communicated and approved by senior management and the municipal council (or via the audit committee)?
   - Yes
   - No
   - Unable to judge

18. Do you believe internal audit obtains a good understanding of the area under review before the audit starts?
   - Yes
   - No
   - Unable to judge

19. Do you believe that internal audit performs a risk assessment from which audit objectives are set?
   - Yes
   - No
   - Unable to judge

20. Do you believe that internal audit thoroughly develops and documents work programmes to achieve audit objectives?
   - Yes
   - No
   - Unable to judge

21. Do you believe sufficient resources are allocated by the CAE to conduct a specific engagement?
   - Yes
   - No
Unable to judge

22. Do you believe the scope of each audit engagement is clear to those for which the audit is conducted (e.g., the audit committee and management)?
   - Yes
   - No
   - Unable to judge

23. Before a specific audit commences, does internal audit have a final meeting with the management responsible for the area under review to ensure consensus on expectations?
   - Yes
   - No
   - Unable to judge

24. Do you believe that internal audit findings are supported by sufficient and appropriate evidence?
   - Yes
   - No
   - Unable to judge

25. Do you believe that internal audit thoroughly documents evidence to support findings?
   - Yes
   - No
   - Unable to judge

26. Do you believe supervision takes place during the entire internal audit process?
   - Yes
   - No
   - Unable to judge
E. INTERNAL AUDIT CORE FUNCTIONAL AREAS

For each of the following broad statements, please indicate the extent to which you feel internal audit is informing the audit committee.

27. Do you believe, in all respects required, that internal audit informs the audit committee on important risk management concerns facing the municipality?

1  2  3
Not at all  ○  ○  ○  Crucial informant on this matter

28. Do you believe, in all respects required, that internal audit informs the audit committee on important governance concerns facing the municipality?

1  2  3
Not at all  ○  ○  ○  Crucial informant on this matter

29. Do you believe, in all respects required, that internal audit informs the audit committee on important internal control concerns facing the municipality?

1  2  3
Not at all  ○  ○  ○  Crucial informant on this matter

30. Do you believe, in all respects required, that internal audit informs the audit committee on important matters as required by the Municipal Finance Management Act Section 165?

1  2  3
F. INTERNAL AUDIT CORE TECHNICAL COMPETENCIES

31. For each of the functional areas of internal control, risk management and governance, indicate the level of competency you feel internal audit collectively possesses.

<table>
<thead>
<tr>
<th></th>
<th>Competent</th>
<th>Not competent</th>
<th>Unable to judge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Control</td>
<td></td>
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<tr>
<td>Risk Management</td>
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<td>Governance</td>
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Comments:

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________________________________________________________________________________________

________________________________________________________________________________________

________________________________________________________________________________________

________________________________________________________________________________________

G. THE INTERNAL AUDIT REPORT

Please provide your view on the statement below.

32. The internal audit report is informative, persuasive and calls for action on matters presented.
THANK YOU FOR YOUR VALUABLE INPUT. ALL RESPONSES WILL BE TREATED AS CONFIDENTIAL AND UNDER NO CIRCUMSTANCES WILL INDIVIDUAL RESULTS BE DIVULGED. ALL RESULTS WILL BE BASED ON AGGREGATES.

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Weltevreden Park
1715

Should you feel the need to contact the researcher, the contact details are as follows:

Mr Christo Ackermann
Tel: 011 477 35 15
Cell: 076 040 5851
Email: cackermann@uj.ac.za
ANNEXURE N

COVERING LETTER TO THE CITY MANAGER
Dear Sir/Madam

DOCTORAL RESEARCH IN CATEGORY “A” MUNICIPALITIES IN SOUTH AFRICA WITH FOCUS ON INTERNAL AUDIT

Internal audit is tasked with the very important mandate of assisting municipalities in achieving their objectives by systematically evaluating the efficiency and effectiveness of internal control, risk management and governance processes. Internal audit is also perfectly positioned to assist audit committees in particular in discharging their responsibilities. However, research indicates that audit committees in the local government sector are not always effective in their internal control, risk management and governance mandates. This is concerning seeing that internal audit plays a crucial role in informing the audit committee on these critical areas. Thus, the question arises as to what the current status of the functioning of internal audit in local government sector entities is as this relates to the core mandate of internal audit.

Doctoral research in the field is currently being undertaken by Mr Christo Ackermann of the University of Johannesburg. His study is entitled *The functioning of internal audit in Category “A” municipalities in South Africa*. The aim of the research is to gain insight into the functioning of IAFs with reference to their internal control, risk management and governance mandate.
This research can assist the Office of the City Manager in achieving its mandate by identifying areas where internal audit can better add value to the entity. As part of the study, questionnaires will be completed by the audit committee chairpersons and members and CAEs of the eight Category “A” municipalities in South Africa.

All data collected will be geared towards the internal audit department and results will be based on aggregates. Thus, individual metropolitan municipalities will not be revealed.

We ask for your support of this research project and permission to allow the researcher to contact the City’s Audit Committee and Internal Audit Services.

The researcher can be contacted at:
Mr Christo Ackermann
Suite 517, Private Bag x09, Weltevredenpark, 1715
Tel: 011 477 3515
Cell: 076 040 5851
Email: cackermann@uj.ac.za

We thank you in advance for your cooperation.

Yours sincerely,

SIGNED

Professor Doctor Ben Marx
Study Leader
DEPARTMENT OF ACCOUNTANCY

(011) 559-3086
ANNEXURE O

RELIABILITY TESTS WITH ITEM ANALYSES
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<td>.844</td>
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<tr>
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<td>31.952</td>
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ANNEXURE P

ETHICAL CLEARANCE

UNIVERSITY OF JOHANNESBURG
26 March 2015

To whom it may concern

ETHICAL APPROVAL FOR THE C ACKERMANN STUDY ON THE FUNCTIONING OF IAFS IN CATEGORY A MUNICIPALITIES IN SOUTH AFRICA

<table>
<thead>
<tr>
<th>Student name</th>
<th>C Ackermann</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student number</td>
<td>201464267</td>
</tr>
<tr>
<td>Qualification registered for</td>
<td>PhD Auditing</td>
</tr>
<tr>
<td>Title of study</td>
<td>The functioning of IAFs in category A municipalities in South Africa</td>
</tr>
<tr>
<td>Supervisor(s)</td>
<td>B Marx</td>
</tr>
<tr>
<td>Co-supervisor(s)</td>
<td>NA</td>
</tr>
</tbody>
</table>

1. The FEFS ethics committee has scrutinised the two separate questionnaires (one intended for completion by the CAEs and another intended for the relevant audit committee members) intended to be used to complete the abovementioned study.
2. The committee is satisfied that adequate introduction, purpose of the study and information regarding anonymity and the use of the data gathered has been provided to participants.
3. Both questionnaires make the following statements:
a. No specific municipality will be identified by name in the research report;
b. Aggregates will be used to discuss overall results;
c. Confidentiality is assured; and
d. Under no circumstances will individual results be divulged.

4. The questionnaires are professionally worded and structured. They indicate an ethical consciousness in the data gathering process and are generally considered by the committee to be in line with ethical data gathering practices and norms.

5. The questions contained in the questionnaire appear clear and unambiguous.

The Ethics Committee of the Faculty of Economic and Financial Sciences at the University of Johannesburg hereby provides ethical clearance for the abovementioned questionnaire to be distributed for completion by the relevant participants, provided that the statements made regarding anonymity and the use of data as indicated in point 3 above, are adhered to.

Signed at Johannesburg, this ___26th____ day of ___March________, 2015.

________________________
K Heathcote
FEFS Ethics Committee Chairperson
krystah@uj.ac.za
ANNEXURE Q

ATLAS.TI AUDIT TRAIL

UNIVERSITY OF JOHANNESBURG
20122013 reports

Generator: ATLAS.ti WIN 7.0 (Build 77)
Date: 2015/06/19 01:07:34 PM

Original ATLAS.ti project: 20122013 reports.atlc

Table of Contents

- General
- Statistics
- Primary Documents
- Codes Summary
- Commented Codes
- Memos
- Primary Document Families
- Code Families
- Memo Families
- Network Views
- Code Neighbor List (Thesaurus)
- Code Hierarchy

General:
Author(s): Super

Created: 2014/09/07 04:43:18 PM. Modified: 2015/06/19 01:05:45 PM.

Statistics:

- Co-Authors: 0
- Primary Texts: 17
- Quotations: 750
- Codes: 27
- Codings: 538
- Memos: 0
- Primary Document Families: 8
- Code Families: 9
- Memo Families: 0
- Network Views: 1
- Code-Code Links: 0
- Hyper-Links: 0
Primary documents:

P 1: Buffalo city audit comm report.pdf

File name: F387A98E4DC79A8C33803BD66C6C208A_227113.atldoc (media type: pdf)
2 quotations

Codes (1): Perform follow ups

Memos (0):

P 2: Buffalo city audit general findings.pdf

File name: DFF3DA0A9E77634EB1D487112E366DAA_113455.atldoc (media type: pdf)
0 quotations

Codes (0):

Memos (0):

P 3: Buffalo city consolidated_aud report1213.pdf

File name: 7EF798F410A7F7921BE40DCCC12B1B5_1091141.atldoc (media type: pdf)
0 quotations

Codes (0):

Memos (0):

P 4: Buffalo city executive summary.pdf

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Codes (0):

Memos (0):

P 5: Buffalo city financial performance.pdf

File name: 662CBC05F8675CF9500D741C7B5EAEDF_539452.atldoc (media type: pdf)
2 quotations

Codes (1): remuneration
Memos (0):

**P 6: Buffalo city governance.pdf**

File name: 4737953F4377B190D658D6585C5A9B4B_632909.atldoc (media type: pdf)
12 quotations

Codes (3): Control mandate, Governance mandate, Risk based

Memos (0):

**P 7: Buffalo city intro.pdf**

File name: C05D4D9E90ED848D1F200276E39839EA_116699.atldoc (media type: pdf)
0 quotations

Codes (0):

Memos (0):

**P 8: Buffalo city organisational development.pdf**

File name: EEA7860E43F203087CE15FE302A34C2E_254989.atldoc (media type: pdf)
0 quotations

Codes (0):

Memos (0):

**P 9: Buffalo city service delivery.pdf**

File name: 992CA41C935CFB590DB9E5B468E3E2E0_2925627.atldoc (media type: pdf)
8 quotations

Codes (2): Control mandate, Status of completed work

Memos (0):

**P10: City of Capetown Integrated Annual Report.pdf**

File name: ED8B29BC5958A99E046D6B6160A154D4_6444093.atldoc (media type: pdf)
121 quotations
**Codes (18):** Approved IA Charter, Assurance based opinion, Control mandate, Governance mandate, In-house, internal audit, Involved audit of pre determined objectives, Perform follow ups, Quality assurance programmes, Regarded as competent, Regarded as independent, Reliance on internal audit, Remains objective, remuneration, Reporting relationship, Risk based, Risk management mandate, Status of completed work

**Memos (0):**

**P11: City of Johannesburg Integrated Annual report.pdf**

File name: 2D6CDA66D51BCAAFF4285037EC982057_3897209.atldoc (media type: pdf) 95 quotations

**Codes (7):** Approved IA Charter, internal audit, Regarded as competent, remuneration, Remuneration of head of internal audit, Risk based, Status of completed work

**Memos (0):**

**P12: Ekurhuleni Integrated Annual Report.pdf**

File name: 3BFB53C1B629AC236DF5C3D8535BE51F_13916335.atldoc (media type: pdf) 68 quotations

**Codes (12):** Approved IA Plan, Control mandate, Governance mandate, internal audit, Involved audit of pre determined objectives, Perform follow ups, remuneration, Remuneration of head of internal audit, Resourced, Risk based, Risk management mandate, Status of completed work

**Memos (0):**

**P13: eThekwini Integrated Annual Report.pdf**

File name: 87C8C5298621B8C25252A75F7F515392_21821527.atldoc (media type: pdf) 188 quotations

**Codes (16):** Approved IA Charter, Approved IA Plan, Control mandate, Governance mandate, internal audit, Involved audit of pre determined objectives, Regarded as competent, Regarded as independent, Reliance on internal audit, Remains objective, remuneration, Reporting relationship, Resourced, Risk based, Risk management mandate, Status of completed work

**Memos (0):**
P14: Mangaung Integrated Annual report.pdf

148 quotations

Codes (12): Approved IA Plan, Control mandate, Incompetent, internal audit, Involved audit of pre determined objectives, Not functioning, Outsourced, Reliance on internal audit, remuneration, Risk based, Risk management mandate, Status of completed work

Memos (0):

P15: NMMU Audit committee report.pdf

File name: EB29A4C4DA1068F49EB9256D2377802C_548548.atldoc (media type: pdf)
1 quotations

Codes (1): Reliance on internal audit

Memos (0):

P16: NMMU Integrated report.pdf

File name: D8927026FC24101F199BA69FAE329EE_2764875.atldoc (media type: pdf)
54 quotations

Codes (14): Co-sourcing, Control mandate, Governance mandate, internal audit, Involved audit of pre determined objectives, Perform follow ups, Regarded as competent, remuneration, Remuneration of head of internal audit, Reporting relationship, Resourced, Risk based, Risk management mandate, Status of completed work

Memos (0):


File name: 9ABB8ECDBD3B3B0CB164F8BD267E9F1_9114135.atldoc (media type: pdf)
51 quotations

Codes (10): Approved IA Charter, Control mandate, Governance mandate, internal audit, Reliance on internal audit, remuneration, Remuneration of head of internal audit, Resourced, Risk based, Risk management mandate

Memos (0):

Codes Summary
(Commented codes are clickable)
**All codes used:** Approved IA Charter {4-0}, Approved IA Plan {5-0}, Assurance based opinion {2-0}, Co-sourcing {1-0}, **Control mandate {34-0}~**, Governance mandate {14-0}~, In-house {1-0}, Incompetent {2-0}, internal audit {150-0}, Involved audit of pre determined objectives {14-0}, Not functioning {1-0}, Not resourced {0-0}, Outsourced {1-0}, Perform follow ups {4-0}, Quality assurance programmes {1-0}, Regarded as competent {6-0}~, Regarded as independent {6-0}, **Reliance on internal audit {12-0}~**, Remains objective {3-0}, remuneration {223-0}, Remuneration of head of internal audit {4-0}, Reporting relationship {4-0}, Resourced {8-0}, Risk based {14-0}, Risk management mandate {14-0}, Status of completed work {10-0}, THEMES ON INTERNAL AUDIT {0-0}

### Codes sorted by Alphabet:

<table>
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<tr>
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<td>Approved IA Plan</td>
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<tr>
<td>Assurance based opinion</td>
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<tr>
<td>Co-sourcing</td>
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<tr>
<td>Control mandate</td>
<td>34-0~</td>
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<tr>
<td>Governance mandate</td>
<td>14-0~</td>
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<tr>
<td>In-house</td>
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<td>Incompetent</td>
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<tr>
<td>Not functioning</td>
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<tr>
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<tr>
<td>In-house</td>
<td>1-0</td>
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<tr>
<td>Outsourced</td>
<td>1-0</td>
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<tr>
<td>Quality assurance programmes</td>
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</tr>
<tr>
<td>THEMES ON INTERNAL AUDIT</td>
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<tr>
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### Codes sorted by Density:

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<td>Quality assurance programmes</td>
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<tr>
<td>In-house</td>
<td>1-0</td>
</tr>
<tr>
<td>Incompetent</td>
<td>2-0</td>
</tr>
</tbody>
</table>

### Commented Codes only:

**Control mandate {34-0}~**

*Identification of weaknesses in internal control*

*Efficiency and effectiveness of operations*

**Governance mandate {14-0}~**

*Implied that they are keen on IA being involved in governance...ie directing and controlling the co*
Regarded as competent {6-0}~

*ad hoc assignments*

Reliance on internal audit {12-0}~

*Work of internal audit is RM IC and G...so AC to deliver to MC, they have to rely on work of internal audit*

PD Families

Metro A


Metro B


Metro C

**Primary Documents**(1): P11: City of Johannesburg Integrated Annual report.pdf

Metro D


Metro E


Metro F

**Primary Documents**(1): P14: Mangaung Integrated Annual report.pdf
Metro G

**Primary Documents(2):** P15: NMMU Audit committee report.pdf, P16: NMMU Integrated report.pdf

Metro H

**Primary Documents(1):** P22: City of Tshwane Integrated Annual Report.pdf

**Code Families**

Audit of pre-determined objectives

**Codes(2):** Involved audit of pre determined objectives, THEMES ON INTERNAL AUDIT

Competency

**Codes(3):** Incompetent, Regarded as competent, THEMES ON INTERNAL AUDIT

Completion of work

**Codes(2):** Status of completed work, THEMES ON INTERNAL AUDIT

Governance

**Codes(2):** Governance mandate, THEMES ON INTERNAL AUDIT

Internal Audit approach

**Codes(2):** Risk-based, THEMES ON INTERNAL AUDIT

Internal Control

**Codes(2):** Control mandate, THEMES ON INTERNAL AUDIT

Monitoring progress

**Codes(1):** Perform follow-ups
Organisational status

**Codes(6):** Approved IA Charter, Approved IA Plan, Regarded as independent, Reliance on internal audit, Resourced, THEMES ON INTERNAL AUDIT

Risk Management

**Codes(2):** Risk management mandate, THEMES ON INTERNAL AUDIT

Memo Families

Network Views

*Nodes are prefixed with a single letter denoting its type: C = Code, M = Memo, Q = Quotation, P = Primary Document*

**INTERNAL AUDIT THEMES**

**Nodes (9):** CO:THEMES ON INTERNAL AUDIT {0-0}, CF:Internal Control (2), CF:Organisational status (6), CF:Risk Management (2), CF:Internal Audit approach (2), CF:Competency (3), CF:Audit of pre-determined objectives (2), CF:Governance (2), CF:Completion of work (2)

---

**Code Hierarchy**

- Approved IA Charter <is> Root
- Approved IA Plan <is> Root
- Assurance based opinion <is> Root
- Co-sourcing <is> Root
- Control mandate <is> Root
- Governance mandate <is> Root
- In-house <is> Root
- Incompetent <is> Root
- Internal audit <is> Root
- Involved audit of pre determined objectives <is> Root
- Not functioning <is> Root
- Not resourced <is> Root
- Outsourced <is> Root
- Perform follow ups <is> Root
- Quality assurance programmes <is> Root
- Regarded as competent <is> Root
- Regarded as independent <is> Root
- Reliance on internal audit <is> Root

---

409
Remains objective <is> Root
remuneration <is> Root
Remuneration of head of internal audit <is> Root
Reporting relationship <is> Root
Resourced <is> Root
Risk based <is> Root
Risk management mandate <is> Root
Status of completed work <is> Root
THEMES ON INTERNAL AUDIT <is> Root
ANNEXURE R

QUALITATIVE TEXT MATRICES ON INTERNAL AUDIT CORE FUNCTIONAL AREAS
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<tr>
<th>Questionnaire Area</th>
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<th>AC 1</th>
<th>AC 2</th>
<th>AC 3</th>
<th>AC 4</th>
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<th>AC 10</th>
<th>AC 11</th>
<th>AC 12</th>
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</thead>
<tbody>
<tr>
<td>Governance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit’s promotion of ethics and values within the municipality]</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
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<td>☑️</td>
</tr>
<tr>
<td>Governance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit’s assessment of the ethical climate of the municipality]</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
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<td>☑️</td>
</tr>
<tr>
<td>Governance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit’s advisory role on ethics-related issues]</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
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<td>☑️</td>
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<tr>
<td>Governance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit’s evaluation of the design, implementation and effectiveness of ethics-related objectives and programmes in the municipality]</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
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<td>☑️</td>
</tr>
<tr>
<td>Governance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit’s assistance in establishing a robust ethics programme within the municipality]</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
<td>☑️</td>
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<td>Question</td>
<td>AC 1</td>
<td>AC 2</td>
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<tr>
<td>Governance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit's assessment of the legal and compliance processes within the municipality]</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
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</tr>
<tr>
<td>Governance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit meetings with the audit committee in order to define governance processes within the municipality]</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
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<td></td>
</tr>
<tr>
<td>Governance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit meetings with the audit committee in order to define the scope of a governance audit]</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit’s knowledge from other audits used to define a clear scope for governance audits]</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
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<td>Governance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit meetings with management to discuss audit findings before release to the audit committee]</td>
<td>☺☺ ☺</td>
<td>☺☺ ☺</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit communications on risk and control information]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit’s attempts to increase the governance maturity (governance effectiveness) levels of the municipality]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit’s coordination of audit activities between the audit committee, external audit and management]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit’s role as change agent in governance structures of the municipality]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Internal audit meetings with the legal department to discuss audit findings before release to the audit committee]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its governance oversight responsibility. [Discussions with the legal department in order to define the scope of governance audits]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its internal control oversight responsibility. [Internal audit's evaluation of the adequacy of controls]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its internal control oversight responsibility. [Internal audit's evaluation of controls leading to high risk exposure]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its internal control oversight responsibility. [Internal audit's evaluation of information integrity and reliability]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its internal control oversight responsibility. [Internal audit's evaluation of the maturity levels of the municipality's privacy practices]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its internal control oversight responsibility. [Internal audit's communications of weaknesses in information integrity and reliability]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its internal control oversight responsibility. [Internal audit's evaluation of the municipalities privacy framework]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its internal control oversight responsibility. [Internal audit's coordination with the legal department during privacy framework audits]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit's evaluation of the possibility of fraud occurring]</td>
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<td>Risk management</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit’s evaluation of how well fraud risk is managed]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit’s encouragements to implement a risk management process (if non-existent)]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit’s evaluation of the suitability of the chosen risk management methodology]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit’s evaluations of key objectives of the risk management processes]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit’s evaluation of the effectiveness of risk management processes]</td>
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<td>Risk management</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit's evaluation of whether the municipality's objectives are aligned with its mission]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit's identification and assessment of significant risks]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit's evaluation of whether risk responses align with the municipality's risk appetite]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit's communication of risk information]</td>
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<td>Risk management</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit's broad knowledge on risk practices at the municipality]</td>
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<td>Risk management</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit's evaluation of risk exposures affecting strategic objectives]</td>
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<td>Risk management</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit's evaluation of risk exposures affecting the reliability and integrity of financial and operational information]</td>
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<td>Risk management</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its risk management oversight responsibility. [Internal audit's evaluation of risk exposures affecting the effectiveness and efficiency of operations and programmes]</td>
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<td>Legal and compliance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility. [The preparation of a risk-based audit plan]</td>
<td>☺☺ ☺☺ ☺☺ ☺☺ ☺☺ ☺☺ ☺☺ ☺☺ ☺☺ ☺☺ ☺☺ ☺☺ ☺☺</td>
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<td>Legal and compliance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility. [Internal audit's advice on accounting procedures and practices]</td>
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<td>Legal and compliance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility [Internal audit’s advice on performance management]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility [Internal audit’s advice on loss control]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility [Internal audit’s compliance testing on the MFMA]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility [Internal audits compliance testing on the Division of Revenue Act]</td>
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<td>Legal and compliance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility [Internal audit’s assessment on whether the Performance Management System of the municipality is commensurate with its resources]</td>
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<td>Legal and compliance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility [Internal audit's assessment of whether the Performance Management system of the municipality is best suited to its circumstances]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility [Internal audit's assessment of whether the Performance Management System is in line with the Integrated Development Plan]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility [Internal audit's assessment of the functionality of the Performance Management System of the municipality]</td>
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<td>Legal and compliance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility [Internal audit's assessment of whether the Performance Management System of the municipality adheres to the Municipal Systems Act (Chapter 6)]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility [Internal audit’s assessment of the reliability of performance measures]</td>
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<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility [Internal audit’s quarterly reports on the Performance Management System of the municipality]</td>
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<td>Legal and compliance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility [Internal audit’s assessment of whether the actual performance agreements and contracts are in line with the requirements of this regulation]</td>
<td>☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻</td>
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<tr>
<td>Legal and compliance</td>
<td>Please indicate the extent to which the following work areas/activities of internal audit assist the audit committee in its legal and compliance-related oversight responsibility [Internal audits quarterly reports to the audit committee on the status of the completed internal audit plan]</td>
<td>☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻ ☻☻</td>
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</tbody>
</table>

Source: Researcher’s own deductions

Key:
😊 To a large extent
😊 To a lesser extent
😡 Not at all
ANNEXURE S

QUALITATIVE TEXT MATRICES FOR CAE QUESTIONNAIRE
<table>
<thead>
<tr>
<th>Question</th>
<th>MANIA</th>
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<tbody>
<tr>
<td>Are you of the opinion that internal audit properly plans for each audit engagement?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<tr>
<td>Do you believe internal audit obtains a good understanding of the area under review before the audit starts?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<tr>
<td>Do you believe that internal audit performs a risk assessment from which audit objectives are set?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<tr>
<td>Do you believe sufficient resources are allocated by the CAE to conduct a specific engagement?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<tr>
<td>Do you believe the scope of each audit engagement is clear to those for which the audit is conducted (e.g. the audit committee and management)?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<tr>
<td>Before a specific audit commences, does internal audit have a final meeting with the management responsible for the area under review to ensure consensus on expectations?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<td>Do you believe that internal audit findings are supported by sufficient and appropriate evidence?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<td>Do you believe that internal audit thoroughly documents evidence to support findings?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<td>Do you believe supervision takes place during the entire internal audit process?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<tr>
<td>Do you believe that internal audit's purpose, authority and responsibility are clearly defined in the internal audit charter?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<td>Do you believe that the internal audit charter is consistent with the International Standards for the Professional Practice of Internal Auditing?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<td>Do you believe that the internal audit charter is consistent with the code of ethics prescribed by the Institute of Internal Auditors?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<td>Do you believe that the internal audit charter is consistent with the definition of internal auditing?</td>
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<td>Are the reporting lines of the chief audit executive clearly defined in the internal audit charter?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<td>Do you regard the internal audit department as being organisationally independent?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<tr>
<td>Do you believe individuals conducting internal audit engagements are independent?</td>
<td>☑ ☑ ☑ ☑ ☑ ☑ ☑ ☑</td>
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<td>Do you believe internal audit is proficient and applies due professional care in conducting its engagements?</td>
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<td>Do you believe that internal audit strives to keep up with the latest knowledge through continuing professional development?</td>
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<td>Do you believe internal audit continuously upholds a quality assurance and improvement programme?</td>
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<td>The internal audit report is ALWAYS informative, persuasive and calls for action on matters presented.</td>
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<td>Please indicate the extent to which you feel internal audit upholds the following: [Integrity]</td>
<td>Always</td>
<td>Sometimes</td>
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<tr>
<td>Please indicate the extent to which you feel internal audit upholds the following: [Competency]</td>
<td>Always</td>
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<td>Please indicate the extent to which you feel internal audit upholds the following: [Objectivity]</td>
<td>Always</td>
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<tr>
<td>Please indicate the extent to which you feel internal audit upholds the following: [Confidentiality]</td>
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<tr>
<td>Do you believe individuals conducting internal audit engagements are objective?</td>
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<td>Do you believe that internal audit's work plans and resource requirements are communicated and approved by senior management and the municipal council (or via the audit committee)?</td>
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<tr>
<td>Do you believe that internal audit thoroughly develops and documents work programmes to achieve audit objectives?</td>
<td>☺☺ ☺☺</td>
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<td>Do you believe, in all respects required, that internal audit informs the audit committee on important risk management concerns facing the municipality?</td>
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<tr>
<td>Do you believe, in all respects required, that internal audit informs the audit committee on important internal control concerns facing the municipality?</td>
<td>MANIA CRUCIAL INFORMANT CAE CRUCIAL INFORMANT CAE CRUCIAL INFORMANT CAE NEUTRAL CAE CRUCIAL INFORMANT CAE CRUCIAL INFORMANT CAE NEUTRAL CAE NEUTRAL</td>
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<tr>
<td>Do you believe, in all respects required, that internal audit informs the audit committee on important governance concerns facing the municipality?</td>
<td>MANIA CRUCIAL INFORMANT CAE CRUCIAL INFORMANT CAE NEUTRAL CAE CRUCIAL INFORMANT CAE CRUCIAL INFORMANT CAE NEUTRAL CAE NEUTRAL</td>
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<td>Do you believe, in all respects required, that internal audit informs the audit committee on important matters as required by the Municipal Finance Management Act Section 165?</td>
<td>MANIA CRUCIAL INFORMANT CAE CRUCIAL INFORMANT CAE NEUTRAL CAE CRUCIAL INFORMANT CAE CRUCIAL INFORMANT CAE NEUTRAL CAE NEUTRAL</td>
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<td>For each of the functional areas of internal control, risk management and governance, indicate the level of competency you feel internal audit collectively possesses. [Internal control]</td>
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<td>For each of the functional areas of internal control, risk management and governance, indicate the level of competency you feel internal audit collectively possesses. [Risk management]</td>
<td>Competent Competent Competent Competent Competent Competent</td>
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<td>For each of the functional areas of internal control, risk management and governance, indicate the level of competency you feel internal audit collectively possesses. [Governance]</td>
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</table>

*Source: Researcher's own deductions*

*Key:* ☻ Yes ☹ No/Unable to judge
ANNEXURE T

REFERENCE FRAMEWORK FOR THE STUDY FOCUS AREAS
<table>
<thead>
<tr>
<th>Areas</th>
<th>Literature review</th>
<th>Section links to the empirical study</th>
<th>Questionnaire section</th>
<th>Annual report analyses</th>
<th>Questionnaire analyses</th>
<th>Overall conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal audit ethics</td>
<td>Chapter 2</td>
<td>2.4.1</td>
<td>Audit committee questionnaire Section B, CAE questionnaire Section B</td>
<td>n/a</td>
<td>7.3.1; 7.4.1</td>
<td>IAFs are perceived as being ethical as defined in the IIA Code of Ethics. Overall, CAEs perceive themselves to be more ethical compared to audit committee responses. Overall competency is an area audit committees feel IAFs are not on par.</td>
</tr>
<tr>
<td>Governance</td>
<td>Chapter 3, Section 3.4.1</td>
<td>3.4.1.3</td>
<td>Audit committee questionnaire Section C, CAE questionnaire Section E</td>
<td>7.2.3; 7.2.5</td>
<td>7.3.2; 7.4.4</td>
<td>CAEs perceive themselves as crucial informants to the audit committee on governance. Audit committees agree that they place a lot of reliance on the work of internal audit and internal audit’s governance mandate greatly assists them in their governance oversight.</td>
</tr>
<tr>
<td>Internal control</td>
<td>Chapter 3, Section 3.4.2</td>
<td>3.4.2.3</td>
<td>Audit committee questionnaire Section D, CAE questionnaire Section E</td>
<td>7.2.1; 7.2.5</td>
<td>7.3.3; 7.4.4</td>
<td>CAEs perceive themselves as crucial informants to the audit committee on internal control. Audit committees agree that they place a lot of reliance on the work of internal audit and internal audit’s internal control mandate greatly assists them in their internal control oversight.</td>
</tr>
<tr>
<td>Risk management</td>
<td>Chapter 3, Section 3.4.3</td>
<td>3.4.3.4</td>
<td>Audit committee questionnaire Section E, CAE questionnaire Section E</td>
<td>7.2.2; 7.2.5</td>
<td>7.3.4; 7.4.4</td>
<td>CAEs perceive themselves as crucial informants to the audit committee on risk management. Audit committees agree that they place a lot of reliance on the work of internal audit and internal audit’s risk management mandate greatly assists them in their risk management oversight.</td>
</tr>
<tr>
<td>Compliance</td>
<td>Chapter 4, Section 4.4</td>
<td>4.4.1.1; 4.4.2.1; 4.4.3.1; 4.4.4.1; 4.4.5.1</td>
<td>Audit committee questionnaire Section F, CAE questionnaire Section E</td>
<td>7.2.4; 7.2.5</td>
<td>7.3.5; 7.4.4</td>
<td>CAEs perceive themselves as crucial informants to the audit committee on legal and regulatory matters. Audit committees agree that they place a lot of reliance on the work of internal audit and internal audit’s compliance mandate greatly assists them in their compliance oversight.</td>
</tr>
<tr>
<td>Areas</td>
<td>Literature review</td>
<td>Section links to the empirical study</td>
<td>Questionnaire section</td>
<td>Annual report analyses</td>
<td>Questionnaire analyses</td>
<td>Overall conclusion</td>
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<tr>
<td>Internal audit characteristics</td>
<td>Chapter 3, Section 3.3</td>
<td>3.3.1; 3.3.2.1</td>
<td>CAE questionnaire sections C and D</td>
<td>7.2.6</td>
<td>7.4.2; 7.4.3</td>
<td>Internal audit possesses the characteristics of a typical internal audit function which contributes to the credibility and reliance placed on work performed. However, annual reports provides a scant picture of internal audit characteristics and thus the perception of the public could be negative.</td>
</tr>
<tr>
<td>Competency in the core functional areas</td>
<td>Chapter 3, broadly Section 3.5</td>
<td>3.5</td>
<td>Audit committee questionnaire sections G, CAE questionnaire Section F</td>
<td>7.2.6.2</td>
<td>7.3.6; 7.4.5</td>
<td>Internal audit is regarded as competent in the core functional areas of internal control, risk management and governance. Risk management governance showed some concern but the results were influenced by the fact that the audit committee was unable to judge competency in the areas because the internal audit reports to the risk committee in this regard. It must be stated that overall competency of internal audit is perceived as being problematic which corroborates the qualitative analysis of the annual reports in Section 7.2.6.2</td>
</tr>
<tr>
<td>Reporting via a written report</td>
<td>Chapter 5</td>
<td>5.3.1.1; 5.3.2.1; 5.3.3.1; 5.3.4.1; 5.4.1</td>
<td>Audit committee questionnaire sections H and H1, CAE questionnaire Section G</td>
<td>7.3.7; 7.4.6</td>
<td>Very little is stated in annual reports on internal audit reporting within the metro. Audit committee and CAE questionnaires on reporting indicated that internal audit reports are very informative, persuasive and calling for action. This is an important overarching finding as the reports are the product presented to the client. It signals professionalism, credibility and competence. In this regard, all CAEs indicated this fact and 7/8 audit committees found the reports to be informative, persuasive and calling for action. The one metro that stated ‘no’, indicated that it did not regard internal audit competent to do a report.</td>
<td></td>
</tr>
<tr>
<td>Understanding of internal audit’s work</td>
<td>All chapters are fundamental to this</td>
<td>n/a</td>
<td>Audit committee questionnaire sections E8, D12 and E12.</td>
<td>n/a</td>
<td>n/a</td>
<td>Qualitative texts shows evidence of a broad understanding of internal audit’s work in the areas of internal control, governance and risk management.</td>
</tr>
</tbody>
</table>

*Source: Researcher’s own deductions*