INTERNAL AUDIT CAPABILITY: A PUBLIC SECTOR CASE STUDY

by

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DECLARATION

I declare that this dissertation, which I hereby submit for the degree of MCom in Internal Auditing at the University of Pretoria, is my own work and has not previously been submitted by me for a degree at another university. Where secondary material is used, this has been carefully acknowledged and referenced in accordance with university requirements.

ABSTRACT

The South African public sector faces significant challenges that impact on its ability to deliver services to the public. There are several parties that can assist the public sector in addressing these challenges. One of these is the internal audit functions of government organisations. For internal auditing to support effectively the managements of the government organisations they serve, the internal audit function should be sufficiently capable. The questions remain as to whether South African public sector internal audit functions are sufficiently capable and how internal audit capability can be measured.

The Institute of Internal Auditors Research Foundation published the Internal Audit Capability Model (IA-CM) in 2009. The main purpose of the model is to provide a capability self-assessment tool for public sector internal audit functions. This model could be used as a yardstick in measuring public sector internal audit capability within South Africa, should the elements and key process areas (KPAs) of the model be applicable to the South African context. This study therefore aims to determine whether the IA-CM can be applied within a South African context.

The South African public sector, the role of internal auditing within the South African public sector as well as the IA-CM as a tool of measuring public sector internal audit capability were investigated. A literature review was conducted on these topics, as a foundation for the study.

Specific data was obtained on each of the KPAs of the IA-CM through a case study design by selecting an appropriate South African national department and ranking the case against the KPAs of the IA-CM. The ranking was conducted based on a review of relevant documents and interviews with applicable internal audit and management staff and audit committee members of the selected case.

The study concludes that 82.9% of the KPAs of the IA-CM appear to be applicable within a South African context and that, in essence, the model can be applied within a South African context. However, eight hindrances that may

negatively affect the feasibility of implementing the remaining 17.1% of the KPAs or certain components of these KPA's, have been also been identified.

Keywords

Internal auditing, public sector, capability maturity model, Internal Audit Capability Model, capability.

Cut-off date for study purposes

As public sector official documents and literature is updated on a continuous basis, the cut-off date for the purpose of this study is set at **6 May 2014**.

iv

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TABLE OF CONTENTS

INDEX

CHAPTER 2

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

ACC	Audit Committee Chairperson
AGSA	Auditor General of South Africa
ANC	African National Congress
ASX	Australian Securities Exchange Corporate Governance Council
BEE	Black Economic Empowerment
CAE	Chief Audit Executive
CBOK	Common Body of Knowledge
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIA	Certified Internal Auditor
CISA	Certified Information Systems Auditor
CMM	Capability Maturity Model
CMMI	Capability Maturity Model Integration
COO	Chief Operating Officer
DAFF	Department of Agriculture, Forestry and Fisheries
DPE	Department of Public Enterprises
DPLG	Department of Provincial and Local Government
EXCO	Executive Committee
FRC	Financial Reporting Council
IA	Internal Audit(ing)
IA-CM	Internal Audit Capability Model
IIA	Institute of Internal Auditors
IIARF	Institute of Internal Auditors Research Foundation
IIA-SA	Institute of Internal Auditors South Africa
IDP	Integrated Development Planning

xiv

IOD	Institute of Directors
KING III	Third King Report on Governance
KPA	Key Process Area
LMN	Labour Market Navigator
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MPAT	Management Performance Assessment Tool
NCOP	National Council of Provinces
NP	National Party
NT	National Treasury
OECD	Organisation for Economic Co-operation and Development
OGC	Office of the Government Commerce
PFMA	Public Finance Management Act
PMG	Parliamentary Monitoring Group
PSC	Public Service Commission
RIMS	Risk Maturity Model
SA	South Africa
SEI	Software Engineering Institute
SIA	Senior Internal Auditor
SOE	State-Owned Entity
TR	Treasury Regulations
UK	United Kingdom
USA	United States of America
WEF	World Economic Forum

CHAPTER 1
INTRODUCTION TO THE STUDY

1.1 INTRODUCTION

No nation can function in an orderly manner without an effective government. The citizens of a country cannot fulfil all their needs in an individual capacity and are dependent on their government for many basic infrastructural needs. There are many critical success factors that should be in place for a government to be effective, one of which is a sound public administration. No government can achieve its objectives without sound public administration policies and governance structures.

The importance of sound corporate governance has increasingly come under the spotlight in the last few decades and though this increased focus initially originated from the private sector because of corporate scandals, such as Enron and economical shocks, such as the global economic crisis, the importance of good governance also applies to the public sector (IOD 2009:17). Sound corporate governance encompasses many elements and dimensions but its core components relate to good leadership, stakeholder engagement, sustainability and corporate citizenship (OECD 2004; IOD 2009; ASX 2010:10-12; FRC 2010:6-7). An essential contributor to sound governance is internal auditing (OECD 2004:62; IOD 2009:93; ASX 2010:34). In its role as independent evaluator in terms of the assurance and consulting services that it provides, internal auditing should be an integral part of any organisation's governance structure, both in the private sector and the public sector (Subramanian, Ng & Carey 2004:87; IIA 2006:6; IOD 2009:93; Khoury 2011:45).

For internal auditors to perform their role effectively within the public sector governance arena, they have to be sufficiently capacitated and capable in terms of their mandate and objectives (Van Gansberghe 2005:70; Mihret & Yismaw 2007:472; Asare 2009:22-23; IIARF 2009:1). Capability within any profession is

defined in terms of specific and measurable criteria (Mihret & Yismaw 2007:471). As the main directives of internal auditing are to assist management in achieving its objectives and to add value by independently evaluating the adequacy and effectiveness of governance, risk management and control processes (IIA 2011:2), the capability of internal audit functions should be in line with the mandate of the organisations they serve. Internal auditors in the private sector should be fully able to assist their organisations in fulfilling their main mandates, namely profit-making and increasing shareholder value. Likewise, internal auditors in the public sector should be able to assist their organisations in achieving their objectives, namely to provide services to the public and administer the public affairs of the country.

In South Africa, as elsewhere in the world, the importance of internal auditing and its links to sound governance has been recognised and accepted in both the private and public sectors. For the South African public sector, the need for effective and efficient internal audit functions is not only emphasised in guidance documents such as the third King Report on Governance (King III) (IOD 2009) but also clearly defined and legislated in the South African financial management legal framework (SA 1999:28; SA 2003:74,102 & 152; NT 2005:9-10). The South African public sector internal audit profession has fairly comprehensive guidance at its disposal and thus, based on the extensive inclusion in legislation, receives what appears to be significant recognition from government.

However, the question remains as to how capable the internal audit functions of the South African public sector are. Are they sufficiently capacitated and capable in order to achieve their mandates and assist their organisations to enhance the overall levels of service delivery? This study aims to answer these questions through the application of a criteria framework, developed by the Institute of Internal Auditors Research Foundation (IIARF), namely the Internal Audit Capability Model (IA-CM).

This chapter presents the background to this study and provides the reasons why the study is needed. The first part of the chapter is dedicated to the South African public sector and its challenges; internal auditing as one of the means of

2

assisting the public sector in addressing these challenges; the need for internal auditing to be capable; and the IA-CM as a model that can be used in measuring internal audit capability. The second part of the chapter presents the research methodology including the research question, research objectives and research methods followed. Lastly, the chapter summarises the scope and limitations as well as the importance and benefits of this study, where after the layout of the rest of the study is presented.

1.2   THE SOUTH AFRICAN PUBLIC SECTOR

The public sector plays an important role in the administration of any nation. It exists in order to provide services to meet the needs of the country's citizens. (Du Toit, Knipe, Van Niekerk, Van der Waldt & Doyle 2002:11-12). In order to emphasise the uniqueness and context of the public sector, a comparison is made between the public sector and the private sector.

Unlike the private sector, the public sector's reason for existence is based not on profit but on service delivery (SA 1996; Du Toit *et al.* 2002:17-19; Van der Waldt & Du Toit 2005:47). Where the private sector is profit-driven, the public sector is outcomes-driven and service-orientated (Carhill & Kincaid 1989:51-52). Public sector organisations exist to provide services, which cannot be provided in an individual capacity, to the people of the country (Dorasamy 2010b:2088). The main purpose of these services is to improve the wellbeing of the citizens of the country (Van der Waldt & Du Toit 2005:180). Another important difference between the private and public sectors is that the latter operates within strict and legislatively defined parameters. The purpose of the public sector and the differences between the public and private sectors are discussed in more detail in sections 2.2.1 and 2.2.2.

The South African public sector has seen considerable change within the last two decades. In 1994 a new ruling party was elected, which resulted in numerous administrative and structural changes. These changes, along with the fact that South Africa has a diverse multi-cultural population, present the South African

3

public sector with many challenges. These challenges substantially affect the government's process of meeting public needs. For example, the South African public sector is faced with challenges such as the redressing of historical inequities, uneven wealth distribution, unemployment, lack of job creation, fraud and corruption (Luthuli 2005:66; Fraser-Moleketi 2006:61-124; Matshego 2007:47-56; Dorasamy 2010a:57,59; Dorasamy 2010b:2088; PSC 2010a; PSC 2010b; AGSA 2011a; AGSA 2011b; AGSA 2011c; Aikins 2011; AGSA 2012a; AGSA 2012b; AGSA 2013:22-25). These challenges are discussed in more detail in section 2.3.3.

The fact that the South African public sector faces challenges does not make it unique. Any government in the world, whether it is governing a developed or a developing country, faces challenges. The specific blend of challenges faced by every government is, however, unique and thus requires unique and integrated solutions. Several functions and/or bodies exist that can assist governments in addressing these challenges. One of these is the internal audit functions of government organisations.

Internal audit functions that are adequately positioned and capacitated can assist their organisations in addressing their challenges by, for example, evaluating risk exposures and assessing the extent to which public sector objectives are achieved. However, public sector internal audit functions should be sufficiently capable to enable them to assist their organisations in this regard. The uniqueness of the challenges faced by the public sector may require that the capabilities of internal audit functions continuously adapt in order to provide the optimal level of assistance. Internal auditing, as a means of assisting the South African public sector in addressing the challenges it faces, is discussed in the next section.

1.3   INTERNAL AUDITING IN THE SOUTH AFRICAN PUBLIC SECTOR

As mentioned above, the current business environment is defined by continuous change, uncertainty and complex organisational dynamics. Corporate scandals

such as Enron and WorldCom, together with the devastating impact of the global economic crisis have re-emphasized the need for and importance of sound governance (Dorasamy 2010b:2087). As discussed in section 1.1, internal auditing is an essential part of the sound governance of any organisation. An effective internal audit function adds value to its organisation through various assurance and consulting activities (IIA 2011:2,4). In the modern world, internal auditing has evolved into a key support function for all the stakeholders of an organisation. If an organisation's internal audit function is strategically structured and suitably implemented, it can play a vital role in assisting organisations in addressing issues relating to uncertainties in the business environment, as well as effective governance (Sadler, Marais & Fourie 2008:123; IOD 2009:93). This contribution of internal auditing is neither dependant on the type of organisation nor the sector in which the organisation operates. Profit, non-profit and government organisations can benefit from maintaining an effectively implemented and strategically placed internal audit function (Coupland 1993:4; Subramanian *et al.* 2004:87; IIA 2006:6; Khoury 2011:45). Internal audit functions can strengthen governance as well as the monitoring capability of management and audit committees within public sector organisations (AGSA 2013:63-64). Effective monitoring increases the accountability of leaders and therefore enhances service delivery (AGSA 2011a:1; AGSA 2013:19). Thus, public sector organisations in South Africa can benefit greatly from their internal audit functions.

The South African political transformation process that commenced in the early 1990s has affected the manner in which the government approaches general governance, financial management and internal control. Following the implementation of the first King Report on Corporate Governance in 1994 (IOD 1994), the subject of governance for the public sector was legislated by the promulgation of the Public Finance Management Act (PFMA) in 1999 (SA 1999). With the introduction of King III in 2010, the issue of governance within the public sector was brought under the spotlight again. Unlike its two predecessors, King III applies to all entities, regardless of the sector in which they operate (IOD 2009:17). This means that the governance principles discussed in King III can be

applied to all government institutions. One of these principles is the importance of establishing an internal audit function (IOD 2009:93).

Internal auditing has been fairly well established in the South African public sector, as it is legislated for the public sector through the PFMA, Municipal Finance Management Act (MFMA) and the Treasury Regulations (SA 1999:28; SA 2003:74,102 & 152; NT 2005:9-10). This legislation is discussed in more detail within the context of internal auditing in section 2.5.1. Additional internal audit best practice frameworks, such as King III, Protocol on Governance in the Public Sector and the National Treasury Internal Audit Framework are in place as guidance to public sector internal auditors (DPE 2002; IOD 2009; NT 2009). These frameworks are discussed in more detail within the context of internal auditing in section 2.5.2. It would thus be expected that all South African public sector organisations have and maintain an effective and efficient internal audit function.

Although the PFMA specifically states that internal audit functions must be 'effective' (SA 1999:28), the term is not defined in the legislation. Effectiveness can generally be defined as the extent to which intended objectives have been achieved (Pocket Oxford Dictionary 1992:276). Capability can be defined as the extent to which someone or something has the ability to do something (South African Concise Oxford Dictionary 2002:167). As this study will be focussing on the capability of internal auditing within the South African public sector, effectiveness will be addressed only where applicable.

Although most public sector organisations in South Africa have an internal audit function, the Auditor General South Africa (AGSA) identified several instances where organisations do not comply with legislation with regard to internal auditing (AGSA 2013:24-25,34-35,62-63). These findings may impact negatively on the effectiveness of these specific government internal audit functions, as well as their capability to assist their organisations in achieving their service delivery objectives. This impact is discussed in section 2.5.4. Furthermore, as most public sector organisations have an internal audit function, it appears that the South African public sector has at its disposal a mechanism that can support and assist

management to establish effective risk management, internal control and governance processes. As mentioned in section 1.2, public sector internal audit functions can also assist their organisations in addressing the many challenges they face. For example, one of the challenges mentioned in section 1.2 relates to fraud and corruption. Internal auditors can assist their organisations with this challenge, by evaluating the risk of fraud and corruption and by providing assurance on fraud prevention processes.

The strategic structuring and suitable implementation of an internal audit function is, however, related to the extent to which this assistance will contribute towards the enhancement of internal control and ultimately the provision of effective service delivery. In light of this argument, the following questions can be raised: What are the criteria for such a strategically structured and suitably implemented and developed internal audit function? When can it be said that internal audit functions within government are suitably capable to assist their organisations in this regard?

The IIARF has recently developed an international capability model specifically for internal auditing in the public sector (IIARF 2009). The IA-CM was developed purposely to identify the fundamental elements and key process areas (KPAs) that constitute effective internal auditing in the public sector (IIARF 2009:vii; Macrae 2010:68). This model is discussed in the next section, as a mechanism that can be used to measure the capability of public sector internal audit functions.

1.4   INTERNAL AUDIT CAPABILITY MODEL

The use of capability or maturity models has come to the fore over the last decade and is highly recognised worldwide (Hillson 1997:36; Persse 2001; Liebowitz 2007:44; Chapman 2009; Janse van Rensburg & Coetzee 2011:50). The concept dates back to as far as 1973 when Nolan published the stages of growth model for the information technology field (Nolan 1973). The concept was further developed by the Software Engineering Institute (SEI) of the Carnegie

7

Mellon University in the United States of America with the development of a capability maturity model (CMM) with regard to capability within software engineering processes (Liebowitz 2007:44; SEI 2010). The model has subsequently been applied to various business processes and industries, including internal auditing. The development, common elements and benefits of capability models are discussed in more detail in sections 3.2.1, 3.2.2 and 3.2.3 respectively.

The IA-CM was published in 2009 by the IIARF. The main purpose of the model is to provide a capability self-assessment and continuous improvement tool for public sector internal audit functions. The model consists of six elements of internal auditing, five capability levels and 41 KPAs that link the elements to the capability levels. The development, structure, elements, application and applicability of this model are discussed in more detail in sections 3.3.1 to 3.3.4. Literature applicable to each of the six elements of internal auditing, as identified in the model, is discussed in sections 3.3.3.1 to 3.3.3.6.

The questions remain as to how capable or mature South African public sector internal audit functions are and how the IA-CM can be used to measure their capability. More specifically, the question remains as to whether the IA-CM can be applied within a South African context. The IA-CM was developed as a self-assessment or benchmarking tool for public sector internal audit functions, audit committees and the government organisations they serve (IIARF 2009:vii). Should the elements and key process areas of internal auditing identified in the IA-CM be applicable to the South African context, the model could be an aid towards answering the question of how capable South African sector internal audit functions are to assist the organisations they serve.

This study therefore aims to determine whether the IA-CM can be applied within a South African context in terms of South African legislation and guidance applicable to internal auditing, as well as the internal audit functions of the South African public sector. The research methodology that was applied to achieve this overall objective will be discussed in the next section.

1.5   RESEARCH METHODOLOGY

This section provides an overview of the research question, objectives and methods followed that formed the basis of this study.

1.5.1 Introduction to the research question

The South African public sector faces significant challenges that impact on its ability to deliver quality services to the public. There are several parties that can assist government in identifying and addressing these challenges. One of these is the internal audit function of each government organisation. However, for internal auditing to support effectively the managements of the government organisations they serve, the internal audit function should be sufficiently capable. The question remains as to whether South African public sector internal audit functions are in fact sufficiently capable. The IA-CM, being based on the well-accepted SEI model, is a comprehensive capability model that can assist in answering this question.

The purpose of this study is to integrate this capability model into the South African public sector internal audit profession. Extensive research has been done on the public sector in general, as well as specifically on the South African public sector. However, internal auditing within the global and the South African public sector environments appears to be a less researched field. Although some studies that integrate internal auditing with the global public sector (Goodwin 2004; Mihret & Yismaw 2007) as well as the South African public sector (Du Bruyn, Du Plessis & Grobler 2001; Van Gansberghe 2005; Van der Nest 2005; Erasmus, Barac, Coetzee, Fourie, Motubatse, Plant, Steyn & Van Standen 2014) could be identified, these studies appear to be limited. Capability models in general have, however, been researched extensively on an international level (Hillson 1997; Persse 2001; RIMS 2006; Liebowitz 2007; Chapman 2009). This research was conducted mostly in other fields, such as project management, information technology and risk management. The IA-CM was the only study that

9

could be identified in which the concept of a capability model was applied to the field of internal auditing (IIARF 2009).

In addition, it appears that only one study that integrates the IA-CM with internal auditing in the South African public sector was performed (Janse van Rensburg & Coetzee 2011). This study aimed to determine the extent to which South African public sector-related legislation (such as the PFMA) and guidance (such as the King III) address the elements of the IA-CM. The study found that most of the key process areas of the IA-CM are addressed in South African legislation and guidance but that significant deficiencies still exist (Janse van Rensburg & Coetzee 2011:58-59). It also appears that no studies have been conducted on the capability of South African public sector internal audit functions.

1.5.2 Research question

As stated above, the public sector of South Africa is faced with numerous challenges affecting the level of service delivery. Public sector internal audit functions can only effectively fulfil their mandate to support their organisations in service delivery if they are sufficiently capable to do so. This raises the question as to how internal audit capability within the public sector can be determined. The IA-CM provides a comprehensive model to benchmark the internal audit functions against the fundamentals required for effective public sector internal auditing. The research question can therefore be formulated as follows:

> Can the IA-CM elements and key process areas be regarded as applicable to the South African public sector to assist internal audit functions in determining their capability level in order to fulfil their mandates?

1.5.3 Research objective

The main objective of the study, based on the research question mentioned above, is to determine whether the IA-CM can be used by a South African internal audit function to determine its capability level. As the public sector is

legislation-driven it is also important, as a secondary objective, to determine whether current legislation and other applicable guidelines support the concepts that are underlined in the model. If not, the limitations should be addressed appropriately. Another secondary objective is to determine whether the IA-CM should be refined for a South African context by identifying potential implementation hindrances. Lastly, although not part of the main objective of the study, two additional objectives that can be derived from the main objective are to test the IA-CM in a real-life scenario and to make applicable recommendations to the IIARF, as well as to rate the internal audit function of the National Department that has been selected for the study (refer to sections 1.5.4 and 4.3.1) against the capability levels and key process areas (KPAs) of the model.

1.5.4   Research methods followed

Research can be defined as the process of collecting, analysing and interpreting either existing information, as obtained through previous studies, or new information obtained through empirical studies (Leedy & Ormrod 2005:2; Saunders, Lewis & Thornhill 2007:2-3). This study entails the collection, analysis and interpretation of information using both these methods. Firstly, a literature review was conducted to assist in understanding the foundational aspects of this study, namely the South African public sector, internal auditing within the public sector, as well as the IA-CM. Secondly, empirical research methods were used to obtain and analyse new data with regard to the applicability of the KPAs of the IA-CM within a South African context. The empirical phase of the study involved a case study research design, which was applied to one case through a document review and interviews.

1.5.4.1   Literature review

A literature review was conducted to synthesise current literature on the topics of the South African public sector, internal auditing within the public sector, and the IA-CM. This literature review has been documented in chapters two and three. A

literature review aims at examining the theoretical framework and previous research conducted on the topics that are under review (Leedy & Ormrod 2005:64; Hofstee 2006:91). A literature review should integrate relevant literature in order to provide a holistic overview of the aspects that encapsulate the essence of the research topic (Hofstee 2006:94; Saunders *et al.* 2007:58). The literature review conducted as part of this study was also used to support and guide the subsequent empirical effort.

The main objective of this literature study was, firstly, to provide the context and background to the study in terms of internal auditing in the South African public sector and, secondly, the context and foundation of the IA-CM. The literature review therefore focused on the following sub-topics (the chapters in brackets refer to the chapter within the study where the literature review conducted has been documented):

- The South African public sector in general (chapter 2).
- The current challenges faced by the South African public sector (chapter 2).
- The role of internal auditing in the South African public sector (chapter 2).
- The use of capability models (chapter 3).
- The capability levels, elements and key process areas of the IA-CM (chapter 3).

The above-mentioned literature review aimed to provide the theoretical background and outline of the contribution that internal auditing can bring towards the achievement of governmental objectives, as well as the addressing of challenges. In addition, the review also discussed whether internal auditing must be capable in order to provide this contribution. The IA-CM was discussed as the measure that could be used to evaluate South African public sector internal audit capability.

1.5.4.2   Empirical phase – case study

The literature review did not provide the solution to the main research question, which relates to the applicability of the IA-CM to the South African public sector, the identification of potential implementation hindrances as indicated by the IA-CM and how to refine the model for a South African context. To answer the research question, specific data was required with regard to the applicability of the KPAs within the IA-CM for each capability level and element within a South African context. As this requires the application of an existing model within a real-life scenario, a qualitative research methodology and a single case study research design were selected as the research approach for this study. The reasons for selecting this research methodology and design, as well as how the specific case was selected and specific research methods that were applied to the selected case, are discussed in chapter 4.

1.6   SCOPE AND LIMITATIONS

As stated in section 1.3, the study was limited to the capability of South African public sector internal audit functions. The study did not include the effectiveness of these functions. In addition, although the South African public sector consists of three spheres of government (national, provincial and local) as well as additional state-owned entities, the study was limited to national government only. The internal audit functions of provincial government, local government and additional state-owned entities can be researched in future studies. Another limitation of the study is the fact that the case study was performed on only one national department. This limitation could have an impact on the extent to which the results of the study can be generalised to other national departments. The study can, therefore, not reach a final conclusion on the internal audit capability of all national departments. The reason why just one department was selected is that the main purpose of the study entails the application of the elements and KPAs of the IA-CM to test the model in a South African context. In addition, care was taken to select an internal audit function that appeared to be fairly capable in

13

terms of independent public sector assessments (refer to section 4.3.1). The reason for this is based on the assumption that when the model can be applied to a fairly capable internal audit function, it can also be applied to other internal audit functions.

1.7   IMPORTANCE AND BENEFITS OF THE STUDY

Three main stakeholders have been identified that could benefit from this study, namely the selected case (one national department – refer to section 4.3.1), the South African government and the IIARF. The Institute of Internal Auditors South Africa (IIA-SA) has also been identified as a secondary stakeholder.

The selected case was identified as a stakeholder, as many specific improvement observations had been identified during the execution of the case study. The national department that was selected as the sample unit of this study could benefit from the results, as they provide several specific recommendations with regard to enhancing the capability of their internal audit function.

The South African government was identified as a stakeholder, as many general observations were made that could enhance the public sector internal audit profession, if addressed in applicable legislation and guidance specific to internal auditing. As stated above, the South African public sector currently faces several challenges relating to service delivery and internal auditing has a definite role to play in assisting government in addressing these challenges. However, government internal audit functions must be capable in order to provide a valuable contribution. As the main aim of this study is to determine whether the IA-CM can be applied to a South African context, the results of this study could enhance public sector internal auditing by identifying whether the model is applicable to South African public sector internal audit functions and, if not, by refining the model for the South African public sector context. This could provide a framework for public sector internal audit functions to enable them to use the outcomes of the study to understand at which capability levels they rate for each of the six elements that underpin the IA-CM. These internal audit functions could

14

then develop a plan of action by setting goals as to which capability levels they would like to achieve and how they plan to progress to that level. Government organisations that are in an oversight capacity, such as parliament and National Treasury, could benefit from this study by addressing the capability deficiencies through various legislations, adaptation, policy-making and other practical interventions.

The IIARF was identified as a stakeholder, as they are the developers of the model that was used as the basis of this study. The results could be used to improve the model and to highlight potential feasibility hindrances with regard to the implementation of the model, not only within a South African context but also within the context of any other country.

In addition to the main stakeholders, the results of the study could also be used by the IIA-SA in the development of public sector specific internal audit training. The IIA Global and IIA-SA could apply the results of the study during future reviews of the internal audit Common Body of Knowledge (CBOK). The results of the study could also be valuable to other countries that may wish to perform the same study on their own public sector internal audit professions.

From a theoretical perspective, this study also makes a contribution to the knowledge base of South African research material with regard to internal auditing in the South African public sector and the application of the IA-CM to a South African context. As far as could be determined, limited research material is available on this subject. The application of the model to a South African context would also provide an opportunity to test and improve the current model.

1.8   LAYOUT OF THE STUDY

The study comprises six chapters. A brief description of each chapter is summarised below.

1.8.1 Chapter 1 – Introduction to the study

This chapter provides background information that is applicable to the study, formulates a research question and objective for the study based on the background information, and presents the research methods that were followed in the execution of this study.

1.8.2 Chapter 2 – Internal auditing in the South African public sector

In this chapter, the literature relating to the South African public sector, challenges faced by the South African public sector, as well as internal auditing within the South African public sector are reviewed, integrated and summarised in order to link the aforementioned three sub-topics and to illustrate the important role that internal auditing plays within the South African public sector.

1.8.3 Chapter 3 – The Internal Audit Capability Model

This chapter explores the use of capability models in general and expands on the capability levels, key process areas and elements of the IA-CM within the context of measuring the capability of South African public sector internal audit functions. Additional literature is also reviewed and integrated for each of the six elements of the IA-CM.

1.8.4 Chapter 4 – Empirical research plan

In this chapter, the empirical phase of the study is discussed in terms of the research methodology, research design and research methods that were used to answer the main research question.

1.8.5   Chapter 5 – Research results

In this chapter, the research results that were derived from the empirical study through the application of a case study are presented and discussed.

1.8.6   Chapter 6 – Conclusions and recommendations

This chapter concludes the study by providing the proposed recommendations based on the final research findings in terms of the applicability of the IA-CM within a South African context.

1.9   CONCLUSION

This chapter consists of three interrelated parts. Firstly, the background to and the need for the study is provided. Secondly, the research question, objectives and methods are discussed. Thirdly, the scope, limitations and benefits of the study are presented.

The introduction to the study presents the following:

- The South African public sector as an important role-player in South Africa.
- The fact that the South African public sector is faced with many challenges.
- Internal auditing as one of the means of assisting the public sector in addressing these challenges.
- The question as to how public sector internal capability can be measured in South Africa.
- The IA-CM as a model that can be used to measure the capability of public sector internal audit functions, if it could be applied within a South African context.

17

This introduction culminated in the research question whether the IA-CM elements and key process areas could be applicable to the South African public sector to assist internal audit functions in determining their capability level in order to fulfil their mandates.

The main and secondary objectives of this study are to determine whether the IA-CM can be used by a South African public sector internal audit function to determine its capability level, whether current legislation and other applicable guidelines support the concepts that are underlined in the model and whether the model should be refined to be more applicable to the South African public sector.

The research methods used to achieve these objectives consisted of:

- A literature review to provide the context and background to the study in terms of internal auditing in the South African public sector, as well as the context and foundation of the IA-CM.
- An empirical study in the form of a case study, which was based on one public sector organisation where the IA-CM was applied to a real-life scenario.

This study is limited to the capability of public sector internal audit functions and does not include the effectiveness of such internal audit functions. The study is also limited to national government only. As only one national department was tested, the study cannot reach a final conclusion on the overall capability of public sector internal audit functions but rather on the extent to which the IA-CM can be applied within a South African context.

Three main stakeholders that could benefit from this study have been identified, namely the selected case, the South African government and the IIARF. The IIA-SA has been identified as a secondary stakeholder that could also benefit from this study.

The next chapter is the first of the two literature review chapters and focuses mainly on the importance of the South African public sector, as well as the extent to which public sector internal audit functions can assist the South African public sector.

CHAPTER 2

INTERNAL AUDITING IN THE SOUTH AFRICAN PUBLIC SECTOR

2.1   INTRODUCTION

Almost twenty years after the birth of the South African democracy, the public sector of this historically unique country, is faced not only with several opportunities, but also with many challenges. South Africa fills a noteworthy space in the African and even the global economic arena (WEF 2014:11,43). However, challenges such as poverty, unemployment, inequalities, inadequate levels of education and the like, are still a reality for a significant part of the South African population (Van der Nest 2005:75; Bekker 2009; Venter & Landsberg 2011:3-18,225-227; World Bank 2011). Internal public sector difficulties such as corruption and political interference present further hindrances towards public welfare and economic growth (Mafunisa 2007:260-261; Nengwekhulu 2009:357-358; World Bank 2011:120). These challenges threaten the stability of the country as well as its economy (Venter & Landsberg 2011:228) and can only be addressed through an integrated approach of leveraging national strengths and identifying and addressing national weaknesses. Addressing these challenges is no easy task, as public administration has many facets and dimensions. The public sector is not only expected by the country's citizens to address these problems, but also to do so in an effective and financially efficient manner. This is an enormous challenge and the South African public sector requires all the assistance it can possibly receive.

The development of the public sector has a distinctive place in history. Recognisable public administrative systems have already existed in ancient Egypt and China (Hughes cited in Mabala 2006:22) where people realised that working together in an orderly fashion for a common cause enhanced the wellbeing of all and contributed greatly to civilisation. The public sector originated from the realisation that the citizens of a country cannot fulfil all their needs individually and that a collective approach is more beneficial to all. The world has

seen significant changes and growth in all spheres and the public sector is no exception. The way countries are being governed has also been subject to an evolutionary process (Fraser-Moleketi 2006:61; Mabala 2006:17) which runs parallel to general human history. Although historically, many countries were ruled by monarchs chosen by birth, today most world nations are run by elected governments (Mabala 2006:22). Public sectors around the world are faced with the same general challenges as in ancient Egypt and China, namely to meet the needs of its citizens with the limited resources available. An evolutionary process has also affected the South African public sector, which has seen significant changes over the last two decades. The unique history of South Africa, combined with the diverse cultures and people that constitute the population of the country, presents the public sector with several challenges, which ultimately affect the needs of the citizens of South Africa (Fraser-Moleketi 2006:61-124; Matshego 2007:47-56; Deloitte & Touche 2010:1).

There are many critical elements that should be put in place for a public sector to be effective. For example, no public sector can achieve its objectives without sound public administration policies and governance structures. Furthermore, recently the importance of sound governance principles has come to the fore. This increased focus initially originated from the private sector due to many corporate scandals such as Enron and economic shocks such as the global economic crisis of the 21st century (Zhang 2005:1; Dorasamy 2010b:2087). However, the importance of good governance has also been accepted within the public sector (IOD 2009:17). Sound governance encompasses many elements, but its core components, as discussed in various guidance documents, relate to good leadership, transparency, sustainability and corporate citizenship (IOD 2009; FRC 2010:9-11; PWC 2010:2). Another imperative contributor to sound governance is internal auditing (IOD 2009:93; IIA 2011:2,29-30; PWC 2010:4,71-78). In its role of independent evaluator in terms of the assurance and consulting services that it provides, internal auditing can be an essential part of the governance structures of any organisation, both in the private and public sector.

This chapter aims to lay the foundation with regard to the importance, purpose and challenges of the South African public sector and discusses the contribution

that internal auditing can make towards assisting the South African public sector in addressing these challenges and achieving its objectives. In the first section of the chapter, the purpose and uniqueness of the public sector in general is discussed, followed by a brief discussion of the South African public sector in terms of its history, current structures and the main challenges it faces. The second section of the chapter is dedicated to the purpose and general evolution of internal auditing globally, as well as in South Africa, followed by a discussion of internal auditing in the South Africa public sector in terms of applicable legislation and guidance, its standing, the value that it can add and the main challenges it faces.

2.2   PURPOSE AND UNIQUENESS OF THE PUBLIC SECTOR

The public sector plays an important role in the administration of any nation. The citizens of a country cannot fulfil all their needs in an individual capacity and are therefore dependent on their public sector for many basic infrastructural needs. Thus, the public sector exists in order to provide services to meet the needs of the country's citizens (Du Toit, Knipe, Van Niekerk, Van der Waldt & Doyle 2002:11-12; Mabala 2006:18-20; Matshego 2007:49). Citizens' needs such as welfare, defence, education, health, infrastructure development and the like, are normally fulfilled by the public sector because most citizens would not be able to afford such services, had they been provided by the private sector (Mabala 2006:29). The main purpose of rendering these services is to improve the wellbeing of the citizens of the country (Van der Waldt & Du Toit 2005:180; Matshego 2007:49). The public sector of any country is, however, faced with the challenge of meeting continuously increasing service delivery demands, whilst at the same time keeping track of all expenses necessary to produce the required levels of service delivery (Curristine 2005:127). The needs of the people of a given country will always outweigh the resources available to its public sector (PSC 2010b:12). Thus, citizens' needs can be met only through careful planning, prioritisation and effective public administration.

22

Public sector administration has a very long history, one that parallels the concept of government and the development of civilisation (Mabala 2006:21; Hughes cited in Matshego 2007:48). The functions of the public sector are mostly influenced by the needs of citizens and entail the execution of various processes, including policy making, staffing, financing, organisation, work procedures and control (Du Toit *et al.* 2002:6-7; Van der Waldt & Du Toit 2005:180; Mabala 2006:23). The history of the private sector is as old as mankind itself and is even more firmly established than that of the public sector. The private sector has developed from what is known as the "market", which can be defined as an institution for the voluntary exchange of goods and services between producers or suppliers on the one hand, and consumers or users on the other hand (Lindahl 2005:32,36-37). While most of the public sector processes mentioned above are applicable to the private sector, the two sectors approach them from different angles and with different main objectives. To emphasise the uniqueness of the public sector, the main differences and similarities between the two sectors are discussed in the following two sections.

2.2.1 Differences between the public and private sectors

The main difference between the two sectors is that, unlike the private sector, the public sector's reason for existence is based not on profit, but on service delivery (SA 1996; Du Toit *et al.* 2002:17–19; Van der Waldt & Du Toit 2005:47). Where the private sector is profit-driven, the public sector is outcome-driven and service-orientated (Carhill & Kincaid 1989:51-52). As a result, it is much more complex to measure performance in the public sector than in the private sector. In the private sector, it is fairly easy to determine whether an objective has been achieved, as private sector objectives mostly relate to profit (Du Toit *et al.* 2002:18). In the public sector, measuring effectiveness is more complex. For example, how can it be determined whether a school is offering quality education, or whether a public clinic offers quality health care? The answers to these service delivery questions are subjective and depend on the personal opinions of the users of such services (Du Toit *et al.* 2002:18). Another distinct difference between the private and public sectors is the fact that the latter operates within strict legislative

23

parameters. Although the private sector is also subjected to legislation, the public sector's very existence is based on laws and regulations (Van der Waldt & Du Toit 2005:7-8; Venter & Landsberg 2011:20).

The fact that the public sector is not focused on profit, that effectiveness is not easily measured in the public sector and that the public sector is legislation-driven may require processes relating to governance, risk management and internal control to be approached differently. For example, a focus on service delivery may affect the risk profile and risk management processes of a public sector organisation. Likewise, the difficulties in measuring effectiveness may impact on the internal control structures necessary to ensure the achievement of objectives.

2.2.2 Similarities between the public and private sectors

These two sectors also share some similarities. Most managerial processes are generic in terms of structure and execution (Du Toit *et al*. 2002:17-18). For example, most organisations require human resources, thus human resource management processes will be similarly employed by any organisation, regardless of the sector in which they operate. Therefore, the need for proper governance, managerial and internal control structures are equally important to both sectors. In addition, the concept of accountability to stakeholders can also be applied to both sectors, even though the public sector has a different set of stakeholders from those of the private sector. As the purpose of the public sector is to serve its people, and the government is politically elected by its people, it can be argued that the public sector is accountable to all citizens. Therefore, it is important that the public administration policies of any country include specific mechanisms that will ensure the accountability of the public sector to its stakeholders (Van der Waldt & Du Toit 2005:40; Bekker 2009:4).

2.2.3 Conclusion

From the above two paragraphs, it follows that although the public sector and private sector share some similarities, the public sector incorporates several unique aspects that are not applicable to the private sector. These aspects require that *inter alia* governance, risk management and internal control structures within the public sector be approached somewhat differently. This is also applicable to the South African public sector. To understand how these aspects should be addressed in the South African context, it is important to understand its historical development, structures and current challenges.

2.3   THE SOUTH AFRICAN PUBLIC SECTOR

The South African public sector has the same mandate as any public sector: to enhance the wellbeing of its citizens through various services, initiatives and organisations. However, the South African public sector has a unique history as well as a distinctive cultural population blend, which creates a particular set of challenges. In this section, the history, structures and current challenges of the South African public sector are discussed.

2.3.1 History

The world has seen several significant changes in the public sectors of most developing and developed countries since the 1980s. For example, the centralised forms of public administration which were evident in the twentieth century are transforming into more flexible government structures (Fraser-Moleketi 2006:61; Mabala 2006:17,22). The South African public sector has also seen this transformation, along with several other changes.

The internal and external environment of the South African public sector has changed considerably since the early 1990s. These changes started with the

political reforms introduced by the then ruling National Party (NP), which resulted in the first democratic elections in 1994. The African National Congress (ANC) became the new ruling party after the election and introduced several new policies, codes, programmes and acts to address both the historical inequalities that had resulted from the previous apartheid system and the transformation the public service. Several structural changes were implemented such as the formation of nine provinces in stead of four and the creation of new municipal boundaries. Initially, the new democratic government was formed by the three political parties that received the most votes in the 1994 general elections, namely the ANC, the NP and the Inkatha Freedom Party (Bekker 2009:3). This interim government composition was known as the "Government of National Unity" and came to an end in 1999 with the second democratic general elections. A new constitution was promulgated in 1996 to redress the divisions of the past and to lay a democratic foundation for South Africa (SA 1996:1243). A subsequent venture, which built on the constitution, was the introduction of the "White Paper on Transforming Public Service Delivery" in 1997 (also known as the Batho Pele White Paper). In 1994 the public sector was faced with two main challenges, namely the democratic transformation of the public service as well as the modernisation thereof (Fraser-Moleketi 2006:62). The Batho Pele White Paper was introduced to assist in addressing these challenges (Fraser-Moleketi 2006:64).

The South African government also introduced various other acts, policies and ventures which impacted on the public sector. Examples of such initiatives are the Employment Equity Act (1998) and Black Economic Empowerment (BEE) policies, which were implemented in order to address historical inequities. In addition, a new approach was adopted to governance, fiscal and managerial legislation and guidance (Pauw, Woods, Van der Linde, Fourie & Visser 2002:229). Prior to 1994 public sector officials were governed by rule-based instructions such as the Exchequer Act, No 66 of 1975, rather than principle-based guidelines (Van der Waldt & Du Toit 2005:156,302). However, as a result of the transformation of the public sector, which was strongly influenced by the publication of the first King Report on Corporate Governance in 1994 (IOD 1994), the Public Finance Management Act (PFMA) was developed and promulgated in

1999, under which the issue of governance was legislated for the South African public sector (SA 1999). The main aim of the PFMA was to strengthen the financial functions, control activities and reporting within the South African public sector (SA 1999; Matshego 2007:53). Governance and fiscal legislation in the South African public sector was further strengthened by the promulgation of the Municipal Finance Management Act (MFMA) in 2003 and the Treasury Regulations in 2005.

In light of the above, it follows that the history of South Africa, especially during the last two decades, can be described as revolutionary and dynamic. The political and economic environments have seen significant change. These changes did not occur without making an impact on the country. Many South Africans were now provided with more opportunities and freedom. However, it also presented the country with additional challenges and an increased risk profile. Change does not come without ramifications, resistance and risks. It also cannot occur without the country going through a learning curve. The reality in South Africa is that a new and fairly young public sector is faced with a unique set of challenges, brought about by a series of exceptional historical events.

2.3.2 Structures

The South African government structures are illustrated in figure 2.1 below. Owing to the complexity of the structure, the figure is limited to a high-level depiction only, and does not include all the government reporting lines and other structural connections.
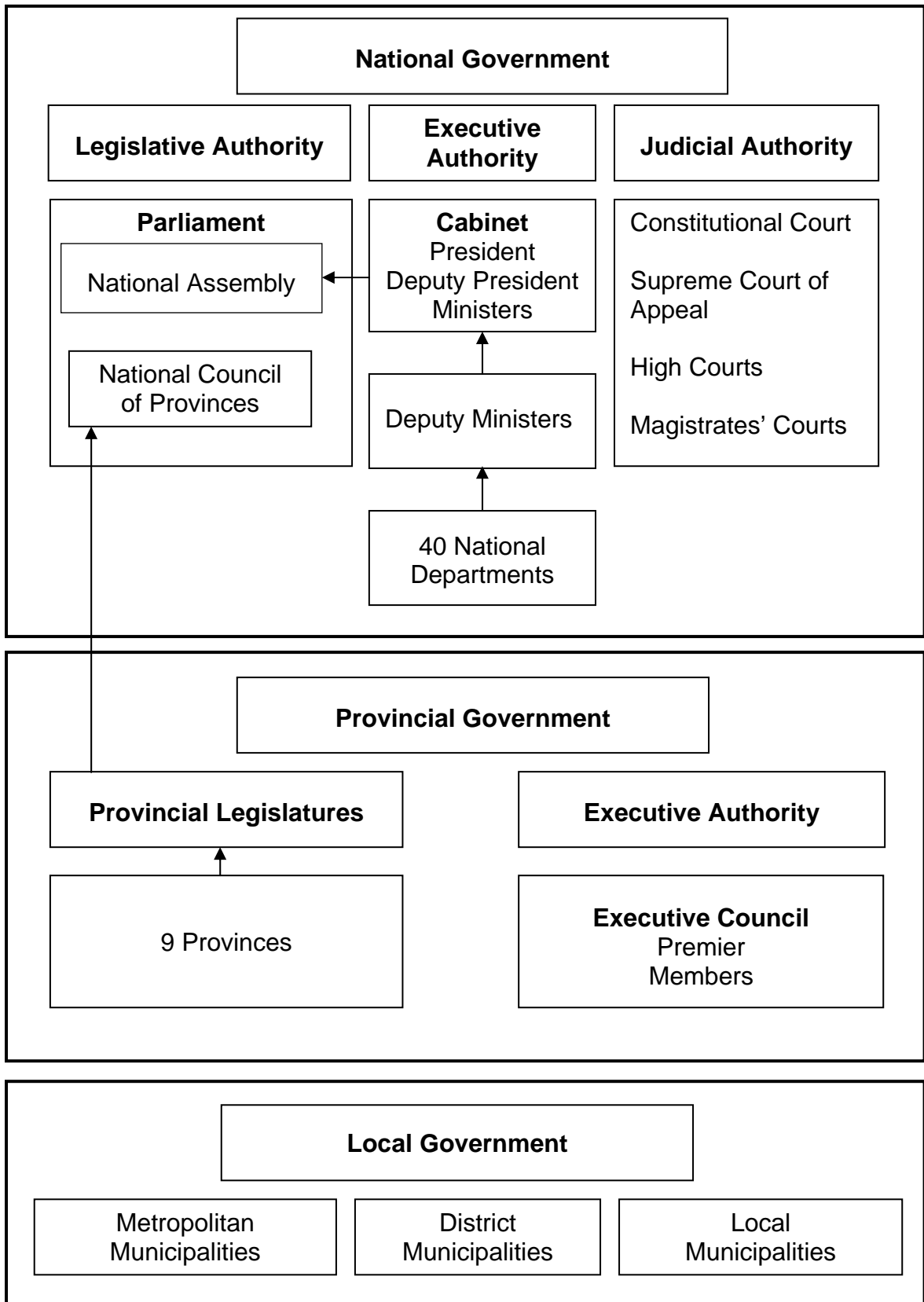
Figure 2.1: Structure of the South African government

The government of South Africa is elected through a formal election process under the control of the Independent Electoral Commission (IEC). General elections are held once every five years to elect the Parliament, which consists of two houses, namely the National Assembly and the National Council of Provinces (NCOP) (PMG n.d.; SA Government Information n.d.).

The National Assembly is elected to represent the citizens of South Africa and to ensure the continuous application of democratic governance. It consists of 350 to 400 members who are elected through a process of proportional representation based on the general election's voting results. The head of state (president) is also elected by the National Assembly. The president, deputy president and ministers constitute the South African cabinet and the executive authority of the National Assembly consists of the cabinet and the deputy ministers (PMG n.d.; SA Government Information n.d.).

The NCOP represents the nine provinces of South Africa and ensures that provincial matters are taken into account at national level. Each province selects ten delegates to serve on the NCOP as the delegations from that province. Six of these delegates are permanent NCOP members, while four are non-permanent. Each provincial delegation is headed by the premier of that province (PMG n.d.).

South African government structures are further classified according to Section 40 of the Constitution (SA 1996:1267) into the three spheres of government, namely national government, provincial government and local government.

At the beginning of May 2014 (which is considered the cut-off date for this study), national government consists of 40 national departments, headed by a minister who reports to the National Assembly. Each of the nine provinces has its own legislature, similar to the concept of the National Assembly. Members of provincial legislatures are also appointed through a system of proportional representation based on the general election's voting results. The executive council of a province consists of a number of members of the executive council (MECs), reports to the National Assembly and is headed by a premier, who is appointed by the president. Both national and provincial departments are

managed administratively by an accounting officer known as a Director-General. Local government consists of 278 municipalities, which are the government vehicles for growing local economies and providing infrastructure and services to communities. The local government arena is also divided into three spheres, namely metropolitan municipalities, district municipalities and local municipalities. A metropolitan municipality can mainly be defined as a municipality of which the municipal area can be described as a city or a centre of economic activity with a higher population and a complex economy (SA 1998:16). A local municipality is defined as a municipality with an area that contains a smaller population and that shares authority with the district municipality in which it falls (SA 1996:1331; SA 1998:16). A district municipality can be defined as a municipality that has authority in an area that includes more than one local municipality (SA 1996:1331). A municipality is governed by a municipal council which is elected by means of local government elections once every five years. Councillors are appointed by proportional representation based on the voting results of the local government election. The council is headed by a mayor, whereas a municipality is managed administratively by an accounting officer known as a municipal manager (SA Government Information n.d.).

According to the Constitution, all three spheres of government are distinctive, interdependent and interrelated and must ensure a coordinative and inclusive government approach, which is known as cooperative government (SA 1996:1267-1269). This implies that the three spheres of government are not subordinate to one another, but they are however, required to collaborate their efforts and assist one another in the delivery of services. In addition, although provincial and local government is not subordinate to national government, provincial and local policies cannot contradict national policies (Venter & Landsberg 2011:124-125; Erasmus 2012).

The government structures of South Africa appear to be complex when one considers the size of the country. Nine provincial legislatures and 278 municipalities significantly decentralise the administration of public affairs and this arrangement complicates the coordination of efforts. It can be debated whether such a structure is to the benefit or the detriment of the principles of effective

cooperative government. In 1999, the Department of Provincial and Local Government (DPLG) requested an audit of the intergovernmental relationships in South Africa. The results of this audit culminated in the establishment of the Intergovernmental Relations Framework Act, No 13 of 2005 (SA 2005). The facilitation of the coordination efforts amongst the three spheres of government was the main objective of this Act. However, many have argued that the current coordination efforts of the three spheres government are still not effective (Carrim 2009; PSC 2010a:4). Studies have shown that complex organisational structures can have a negative effect on organisational effectiveness, execution of strategies and the effectiveness of coordination (Comfort, Dunn, Johnson, Skertich & Zagorecki 2004; Federman 2010:331-345). In addition, the complex structures of the South African government have also impacted on its human resources expenditure. In the 2010 budget speech, the Minister of Finance indicated that public sector remuneration had doubled in five years (Gordhan 2010:20-21). The question can be asked as to whether such a complex structure is optimal, especially in the light of the need for the economic, efficient and effective use of resources.

Apart from the challenges of the South African public sector based on its complex government structures, further challenges can also be identified. These challenges are discussed in the next section.

2.3.3 Challenges

As discussed in section 2.3.1, South Africa is still in a phase of transformation after the first democratic elections in 1994 (Venter & Landsberg 2011:8-18). The population of South Africa is made up of people from different backgrounds and cultures, a fact that further complicates the task of the public sector in meeting the public's needs (Van der Waldt & Du Toit 2005:7-9). It can be argued that the main challenge faced by the South African public sector is to redress historical inequalities. In addition to this challenge, the review of applicable literature reveals that the South African public sector faces several significant challenges, which impact negatively on the public sector's ability to meet public needs

(Dorasamay 2010a:57,59; Dorasamy 2010b:2088; PSC 2010a). For example, it is the responsibility of the public sector to protect the public as well as the economy to the best of its ability from the effects of the recent global economic crisis (Dorasamy 2010b:2088). This presents the public sector of South Africa with a significant challenge, as the devastating ripple effects of this crisis were evident throughout the world. To prepare a complete list of all the challenges faced by the public sector is no easy task. All the difficulties, risks, problems and potential problems that may be faced need to be considered.

The Public Service Commission (PSC) was created in terms of the Constitutions of South Africa in 1996 to enhance effective and efficient public administration by, *inter alia*, monitoring the administration of the public service (SA 1996). The role of this commission is an oversight function with regard to public institutions (Dorasamy 2010a:2089). The PSC evaluates the public sector on an annual basis in terms of the public administration values and principles as established by the constitution (SA 1996:1331(17)). This evaluation provides a sound basis for the identification of challenges faced by public sector.

In the 2010 State of the Public Service Report (PSC 2010a), the PSC reported on the current state of each of the nine public administration principles listed in Section 195 of the Constitution of South Africa (SA 1996). The contents of this report summarise the current state of the South African public service and also addresses some of the main challenges that it faces. This is especially true with regard to the challenges that relate to integration and coordination (PSC 2010a:4). Owing to the time difference in some of the reports used to compile this report, not all of these challenges mentioned were reported for the immediate previous financial year. The discussion of the challenges mentioned in the report is supported by additional literature in order to compile a more complete summary of the main challenges currently faced by the South African public sector as discussed below (Luthuli 2005:66; Fraser-Moleketi 2006:61-124; Matshego 2007:47-56; Bekker 2009; Prinsloo & Pieterse 2009:53; Dorasamy 2010a:57,59; Dorasamy 2010b:2088; PSC 2010a; PSC 2010b; AGSA 2011a; AGSA 2011b; AGSA 2011c; Aikins 2011; Venter & Landsberg 2011; PSC 2011; AGSA 2013:22-25).

- The main challenge faced by the South African public sector relates to the redressing of historical inequities. The South African transformation, which commenced in the early 1990s, resulted in the public sector having to deliver increased services, with limited resources, to a larger population which now includes previously disadvantaged communities. This presents a major challenge, as most previously disadvantaged communities had little or no infrastructure by means of which services could be channelled to them.

- South Africa's wealth is not evenly distributed, resulting in an oversupply of unskilled labour. Unemployment and a lack of job creation result in more South Africans having to live below the poverty line, which impacts on the number of social grant recipients.

- Although South Africa has some of the best anti-corruption legislation and bodies, compliance with these laws is limited and corruption and unethical leadership is still evident in the South African public sector.

- South African public services are slow as a result of focusing on adherence to rules instead of endorsing productivity. Service delivery in South Africa is further influenced by a lack of commitment by public officials to go beyond what is expected.

- The increase in public protests against inadequate service delivery can be seen as an indication that the public sector is not always responsive to citizen needs. This is mainly due to inadequate coordination amongst the different public sector institutions as well as different spheres of government.

- Resource abuse and the ineffective and inefficient utilisation of state resources are also on the rise. This includes unauthorised, fruitless, wasteful and irregular expenditure.

- Low levels of service delivery can often be ascribed to skills shortages or positions that are filled with individuals who do not meet the minimum requirements. There is also the matter of a lack of performance standards. Skill shortages can be ascribed to South Africa's low overall education outcomes, which result in poor literacy and numeracy levels among high school graduates.

- The performance of public sector employees is generally poor when measured against recruitment and personnel development standards. Public sector institutions comply with basic requirements in general such as human resource policies and strategic plans, but the quality and implementation of these documents are not optimal. In addition, human resource plans of the public sector do not adequately address the strategic needs of the public sector as a whole.

- The insufficient level of compliance with the financial disclosure framework which is present within the public sector raises several concerns about accountability. This non-compliance is evidenced in the high percentage of qualified and adverse external audit opinions across all three spheres of government.

- Coordination of efforts amongst different departments as well as different spheres of government appears to be one of the biggest causes of many of the challenges faced by the South African public sector. Planning activities, such as budgeting are based on individual departmental efforts and functional lines, rather than on a collective, and holistic approach. Owing to the complex governmental structures in South Africa, which covers 40 national departments, nine provinces and 278 municipalities, many inconsistencies and perceived unfair allocation and distribution of resources occur.

- All public sector institutions do not comply with the resource allocation guidelines set out by National Treasury. The norms, standards and guidelines are in place to ensure equal levels of service delivery throughout the country, but they are not applied consistently.

- The public sector accountability system, embodied in the signing and evaluation of performance agreements for ministers and heads of departments, is not effective. The process must still be cascaded downward to other levels of management across all the spheres of government. In addition, all heads of departments do not comply with the requirement of filing their performance agreements with the PSC. The contents of performance agreements as well as the usability of these agreements for managing performance, is also not optimal and almost half of the heads of

34

departments have not been evaluated on their performance in terms of outcomes.

- Although the quality of public sector performance information has improved, the overall figure is still not satisfactory. Serious deficiencies still exist in the quality of performance information as presented in annual reports. This is mostly as a result of inadequate coordination amongst different departments and different spheres of government, which may result in conflicting reporting on the performance of outcomes. In addition, public sector record-keeping management is still inadequate, which presents a challenge with regard to the issue of transparency in the public sector.

- Although the public sector has seen a significant change with regard to the representation of black (including African, Coloured and Indian) people in senior positions over the past few years, representation targets in terms of gender and disability have not been achieved yet. The reason for the non-achievement of these targets relates mainly to skills shortages. The matter is further complicated by the fact that the private sector is also under pressure to transform with regard to employment equity, which intensifies the competition for recruiting competent, highly-skilled, previously disadvantaged candidates.

- Many of the policies and acts, such as the PFMA, the Batho Pele White Paper, the Promotion of Access to Information Act (2000) and the Administrative Justice Act (2000) are not fully complied with by all public sector institutions.

It is recognised that although the aspects listed above may not constitute all the challenges that are faced by the South African public sector, they do comprise the most important challenges. By analysing these problems, it can be noted that the main challenges faced by the South African public sector can be grouped into four main categories, namely services delivery, economic, human resource and compliance challenges. These categories are summarised in table 2.1 below.

Table 2.1: Challenges faced by the South African public sector

Category	Challenges
Service delivery challenges	• Historical inequities. • Slow public services/lack of commitment by public officials. • Inadequate response to citizen needs. • Inadequate coordination amongst the three spheres of government. • Unsatisfactory performance information.
Economic challenges	• Unemployment and lack of job creation. • Fraud and corruption. • Ineffective and inefficient utilisation of state resources. • Insufficient resources.
Human resource challenges	• Skill shortages. • Inadequate human resource performance and plans. • Ineffective public sector accountability systems. • Gender and disability human resource representation targets not achieved..
Compliance challenges	• High percentage of qualified/adverse external audit opinions. • Non-compliance with legislation and guidelines.

From the above table it appears that the majority of the South African public sector challenges relate to service delivery, followed by issues of economic and human resources and lastly, compliance issues. Challenges such as these can have a serious impact on the ways the public perceives their government as well as on the general economic welfare and growth of the country. The impact will also differ from category to category: for example, service delivery challenges will impact on the degree of satisfaction by citizens, while human resource challenges would affect the quality of services rendered.

Most of the challenges summarised in table 2.1 are not unique to South Africa. For example, a study performed by Aikins (2011:306) indicated that the United

States of America's (USA) public sector suffers equally from a shortage of financial resources, thus facing similar economic challenges. This shortage presents the USA public sector with the same challenges associated with meeting the continuously increasing demand of citizens, with limited resources.

Although all the challenges mentioned above are relevant, two will be discussed in more detail in order to demonstrate further the impact they have on South Africa. Looking at recent newspaper articles, it appears that the challenges relating to public sector responsiveness to citizens' needs (service delivery challenge) and to fraud and corruption (economic challenge) deserve special attention. These will be discussed below.

2.3.3.1   Public sector's responsiveness to citizens' needs

As discussed in section 2.2, the main mandate of the public sector is to deliver services to meet the needs of citizens. This principle has been reiterated in Section 195(2) of the Constitution of South Africa (1996:1331), which states that the public must be consulted in policy-making and that their needs must be addressed. These needs are met through a prioritisation process based on budgeting and are channelled through various public sector institutions across all three spheres of government. Service delivery protests by dissatisfied community members have increased significantly in South Africa over the last ten years (Van Zyl 2007; Claasen 2009; Viljoen 2010; PSC 2010a:40; Viljoen 2011; News24 2012a; News24 2012b). Several communities, such as the one at Kya Sands in Johannesburg (News24 2012a), have protested against what they claim to be inadequate service delivery. These claims range from inadequate housing, water and sanitation to insufficient roads and even the number of businesses owned by foreign nationals (News24 2012a; News24 2012b). Many of these protests were of a violent nature involving vandalism and looting, with even the homes of municipal ward councillors being burned down (News24 2012b).

These protests could be an indication that the public sector is not always responsive to citizens' needs. The challenge that the public sector faces is to

meet these needs with the limited resources available. Service delivery must be prioritised in accordance with the budget. If this does not happen, no services can be delivered. This budget allocation process has also been the reason for many service delivery protests, as many citizens felt that resources were not being allocated fairly and transparently. This is especially the case with regard to the allocation of houses (PSC 2010a:35).

Most of these protests are directed at local government, as most citizens do not distinguish between the different spheres of government or the different public sector organisations that are mandated to deliver services (PSC 2010a:40). Although most protests are aimed at municipalities, the reasons for the lack of responsiveness reside with all three levels of government. It appears that inadequate coordination amongst all levels of government could be the greatest contributor to public sector unresponsiveness in South Africa. The PSC (2010a:39-47) identified poor coordination, unaccountable municipal ward councillors and lack of policy implementation as the main reasons for inadequate responsiveness to citizen needs. As all three spheres of government are legally required to coordinate their efforts (SA 1996:1269), it can be argued that inadequate coordination and service delivery at local government level are problems that can equally be ascribed to provincial and national government. To deliver effective services at local government level, supporting policies must be set at national and provincial government level. For example, municipalities are mandated to develop local economies, but cannot fulfil this role if macro-economic policies are not in place on a national level to encourage economic growth and job creation (PSC 2010a:3).

2.3.3.2   Fraud and corruption

Another challenge faced by the South African public sector is the high level of fraud, corruption and the many irregularities in the public service, as part of economic challenges (refer to table 2.1). Despite extensive legislation, such as the Prevention and Combating of Corrupt Activities Act (2004) and the Protected Disclosures Act (2000), as well as the establishment of numerous anti-corruption

bodies, such as the Anti-corruption Coordinating Committee, corruption remains one of the main challenges within South Africa (PSC 2010a:13; News24 2012c; Transparency International 2014). As with the abovementioned problem of unresponsiveness, the challenge of corruption is also much more an issue of policy implementation than lack of policy. According to various news articles, Mr Willie Hofmeyr, the previous head of the Special Investigation Unit, indicated that the number of corruption cases under investigation by his unit were on the rise in early 2011 (News24 2011; Ferreira 2011). Investigations were conducted across all three spheres of government into several public entities and into public sector subsidy systems. Allegations and convictions include bribery, procurement with entities in which officials had undeclared interests, payments without approval, following of quotation processes when a tender process should have been followed, BEE fronting, to name but a few (News24 2011; Ferreira 2011).

The fact that corruption was increasing in the South African public sector was confirmed by the PSC in the "2011 Fact Sheet on the State of the Public Service" (PSC 2011:7). According to this report, the number of financial misconduct cases reported to the PSC increased from 434 cases in 2001 to 1135 cases in 2010 (162%). The challenge is further complicated by the fact that many of the officials who are under investigation resign before their disciplinary hearings are completed (PSC 2010a:11). Furthermore, the PSC (2010a:11-12) reported that there were numerous instances where senior public servants did not declare their interests in private companies with whom their public sector organisations did business. Lastly, the PSC (2011:5,9) also indicated that a lack of investigative capacity increases the problem of corruption, as most reported cases (63%) appear not to be investigated.

The problem of corruption in South Africa is, therefore, a multi-dimensional one and it appears that inadequate coordination is also one of the main causes of this challenge (refer to the discussion on the effects of complicated structures on coordination in section 2.3.2). The PSC (2010a:13) reiterated the fact that a cross-societal effort is required to combat corruption and to improve the ethical behaviour of public officials. At the Institute of Internal Auditors South Africa (IIA-SA) 2012 Public Sector Forum, the head of the Special Investigation Unit, Mr

Willie Hofmeyr stated that the public sector would have to streamline and coordinate its processes more closely in order to combat corruption. Hofmeyr suggested that "a single place where accountability rests" is required in order to address corruption (News24 2012c).

The level of corruption in the public sector does not only raise questions regarding ethical behaviour and ethical leadership, but also the economic and efficient acquisition and utilisation of public sector resources. For example, corruption such as undeclared business interests, bribery, and following quotation processes when tender processes should have been followed may result in uneconomical purchases, as the most economical supplier has not necessarily been identified. This challenge is thus both an ethical dilemma, and an economic problem.

2.3.4   Conclusion

The fact that the South African public sector faces challenges does not make it unique (refer to the discussion of table 2.1 in section 2.3.3). Any government in the world, whether it is governing a developed country, such as the USA, or a developing country, such as South Africa, faces several challenges. The specific blend of challenges faced by a public sector is however different and therefore requires exclusively consolidated and integrated solutions. The South African public sector is no exception. The unique historical development, complex government structures and diverse nature of the South African population, expose the country to a distinctive set of risks and challenges. It follows from the above discussions that the complex government structures of South Africa have a negative effect on the coordination of public sector efforts. According to the 2010 State of the Public Service Report, insufficient coordination among the three spheres of government appears to be the cause of many public sector problems.

The PSC has made several recommendations to address the challenges that surfaced as a result of their review. In addition to the PSC, several other functions and/or bodies exist that can assist the public sector in dealing with

these challenges. One of these is the internal audit functions of public sector organisations. The specific contribution to and role of internal auditing within the public sector is discussed in the next section.

2.4 INTERNAL AUDITING IN THE PUBLIC SECTOR

Internal auditing is a fairly new, but rapidly growing profession. It has evolved from a small business function that evaluated mainly internal financial compliance to a significant business partner that is seen as an essential part of modern governance (Sadler, Marais & Fourie 2008:123). The Institute of Internal Auditors (IIA) defines internal auditing as "…an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes." (IIA 2011:2). An effective internal audit function, therefore, adds value to its organisation through various independent assurance and consulting activities (IIA 2011:2,4).

This value is not limited to a specific sector. Internal auditing is present in both the private and the public sectors (Coupland 1993:4; Subramanian, Ng & Carey 2004:87; Van Gansberghe 2005:70; IIA 2006:6; Khoury 2011:45). Profit, non-profit and public sector organisations can all benefit from maintaining an effectively implemented and strategically placed internal audit function. The mandate of internal audit functions is the same for any internal audit function, regardless of the sector in which its organisation operates. Both private and public sector internal auditors are mandated to assist their organisations in the achievement of objectives by independently evaluating the effectiveness of governance, risk management and control processes.

The importance of internal auditing in the public sector is further highlighted by the increased focus on and need for accountability in this sector (SA 1996:1331; PSC 2010a:49; Venter & Landsberg 2011:139; World Bank 2011). As public sector organisations do not have the same built-in performance and

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accountability measures as the private sector, additional accountability structures, such as internal audit functions, can add significant value.

Changes have been evident in both sectors over the last few years, with the public sector experiencing an increased focus on the accountability, effectiveness and efficiency of its services during the last two decades. Citizens are demanding more transparency and better services, while resources are growing at a slower pace. This presents a unique set of risks for the public sector and requires a different approach to control as well as a different internal audit approach. In such a challenging business environment, a public sector internal audit function can play an important role. It can assist its organisation in establishing accountability and ensuring performance by providing assurance on the adequacy and effectiveness of controls and the extent to which value for money has been achieved (IIA 2006:11-14; Khoury 2011:45). In addition, public sector internal audit functions can support their organisations by providing advice and assurance on how service delivery can be improved in order to achieve its objectives and address the many challenges it faces (Mihret & Yismaw 2007:471; Turlea & Stefanescu 2009:212).

Traditionally, public sector internal audit efforts were mainly directed at the review of financial controls (financial audits). Subsequently, internal audit focus shifted to all organisational processes, initially, from a compliance audit point of view. However, during the last two decades, attention has shifted to the evaluation of the economic, efficient and effective allocation and utilisation of public resources (Coupland 1993:4; Diamond 2002:4; Goodwin 2004:641; Van Gansberghe 2005:69-70; Sterck & Bouckaert 2006:49; Khoury 2011:42). In addition, aspects such as public sector performance budgeting, accrual accounting and the accountability of reported results have come to the fore (Sterck & Bouckaert 2006:49; Khoury 2011:41). The reason for this re-emphasis can be ascribed to the limited resources within the public sector and the restrictions in the allocation of such resources (Coupland 1993:4; Aikins 2011:306). The importance of internal auditing in the public sector is further highlighted by the various public sector specific guidance documents and forums developed by the IIA (IIA 2006; IIARF 2009; IIA-SA 2013).

Internal audit functions in the public sector will operate a little differently from those in a private sector organisation. This is due to the different objectives, mandates and approaches of a public sector organisation (refer to section 2.2.1). The differences and similarities of internal audit functions in the public sector compared to those in the private sector, are discussed in the next two sections to emphasise the uniqueness of internal auditing in the public sector.

2.4.1 Differences between internal auditing in the public and private sectors

As discussed in section 2.2, the main objective of the private sector is the maximisation of profit and shareholder wealth, whereas the public sector's main objective relates to the delivery of services to the people of the country. This key difference could have an impact on the manner in which internal audit activities are conducted in the two sectors (Carhill & Kincaid 1989:51-52; Goodwin 2004:641; Turlea & Stefanescu 2009:210). Although it can be argued that the nature of internal audit work is mostly the same in both sectors, the public sector internal auditor operates within a legislative-driven and service-orientated environment (Carhill & Kincaid 1989:51-52; Goodwin 2004:641). Public sector internal audit functions are less concerned with cost and profitability factors and more with how resources are obtained and used. They are more concerned about the extent to which objectives have been achieved and how the taxpayer's money has been spent in order to achieve such objectives. This broadens the scope of the public sector internal auditor. Firstly, the abovementioned aspects present public sector organisations with a unique risk profile, which require a different internal control and internal audit approach (Turlea & Stefanescu 2009:210). Secondly, additional audit engagements such as performance auditing (also known as value-for-money-auditing) are added to the internal audit scope of public sector internal audit functions (refer to the discussion below table 2.2). Public sector internal auditors are therefore required to have a different set of skills in order to address the unique risks and to perform performance audits.

43

Goodwin (2004:642-648) carried out a study in Australia and New Zealand, which revealed several differences and similarities between internal auditing in the two sectors. In addition, Coetzee (2010:315-358) conducted a study on certain areas pertaining to the differences between internal auditing in the two sectors within a South African context. The results of these studies with regard to the main differences in the two sectors are summarised in table 2.2 below.

Table 2.2: Main differences between internal auditing in the public and private sectors

Prominent internal audit area	Public Sector	Private Sector
Status of internal auditing: independence	• Internal auditing reports to the chief executive officer (CEO), and audit committee.	• Internal auditing reports to various senior management positions.
Status of internal auditing: staffing of the internal audit function	• Permanent employment of internal audit staff is more favoured.	• The internal audit function is more often considered a training facility for future managers.
	• Internal audit functions tend to be more understaffed.	• Internal audit functions appear to be better staffed.
	• Fewer staff members (25.1%) hold a professional qualification.	• More staff members (63.8%) hold a professional qualification.
	• Higher levels of internal audit experience, with 67.9% of staff members having more than five years' experience.	• Lower levels of internal audit experience, with 37.5% of staff members having more than five years' experience.
Percentage outsourced	• More likely to outsource the internal audit function.	• Less likely to outsource the internal audit function.

44

Prominent internal audit area	Public Sector	Private Sector
	• More likely to employ the organisation's external auditors to provide internal audit services.	• Less likely to employ the organisation's external auditors to provide internal audit services.
Nature of internal auditing: risk management	• Financial risk management activities comprise less (33%) of the total scope of risk management activities.	• Financial risk management activities comprise more (50%) of the total scope of risk management activities.
Nature of internal auditing: value-for-money auditing	• Value-for-money (performance) auditing more common.	• Value-for-money auditing less common.
Environment in which the internal audit function operates: organisational risk maturity	• None of the South African national departments is risk mature. • Internal auditing is less risk mature (1.83/5).	• 75% of the South African top 40 private sector organisations are risk mature. • Internal auditing is more risk mature (3.58/5).

(Sources: Goodwin 2004:642-648; Coetzee 2010:315-358)

The differences noted in the table above are discussed below with regard to the six prominent internal audit areas identified in the table, as well as in the context of the main aim of this study, namely the capability of the public sector internal auditing. Firstly, it appears that internal auditing in the public sector is generally more independent than its private sector counterparts. The reporting lines of the internal audit function directly affect the independence of the function (IOD 2009:97; IIA 2011:49). The Internal Audit Capability Model (IA-CM) specifically lists independence as a key performance area towards ensuring proper internal audit governance structures, optimal internal audit scope and influence and ultimately, internal audit capability (IIARF 2009:35,97). It can be argued that owing to its superior independence, public sector internal audit functions are in a better position to add value to their organisations.

45

Secondly, with regard to the staffing of the internal audit function, four main differences were noted. Public sector organisations appear to be less likely to use the internal audit function as a corporate stepping stone. As organisations in the public sector tend to employ internal auditors on a permanent basis, it can be argued that public sector internal audit functions are in a more favourable position to contribute to their organisations, add value and ultimately improve the quality of internal audit output (Coetzee 2010:27). However, it should be noted that this potential advantage will be dependent on the capability of such internal audit functions. Although permanent internal auditors may be more profitable to the organisation, the right mix of competence, experience, professionalism, staff complement as well as several other capability factors are also required to enable an internal audit function to add the required level of value. Studies, as addressed in table 2.2, indicate that public sector internal auditors are less likely to hold professional qualifications such as Chartered Accountant-related designations and the Certified Internal Auditor (CIA) designation. In addition, public sector internal audit functions tend to be more understaffed than their private sector counterparts. These two differences might be limiting factors for the public sector with regard to capability. However, on the other hand, it is also indicated that the general level of internal audit experience is somewhat higher for the public sector.

Thirdly, although both sectors prefer in-house internal audit functions to outsourced functions, public sector internal audit functions tend to rely more on outsourced internal audit services than their private sector counterparts. In addition, instances of employing the organisation's external audit firm as internal audit service providers are also more common in the public sector. Although outsourcing provides many benefits, such as access to specialists, cost savings and more internal audit independence, it also holds disadvantages, such as lack of organisational knowledge and relationships, less confidentiality and fewer training opportunities (Coetzee 2010:75-79; Coetzee, Barac, Erasmus, Fourie, Motubatse, Plant, Steyn & Van Staden 2010:34-35). The advantages of outsourcing are, therefore, more or less equal to the disadvantages and that the decision to outsource will depend on the specific circumstances of each individual organisation. However, the independence advantage of outsourcing is mostly lost

when such outsourcing is performed by the organisation's external auditors (Van Peursem & Jiang 2008:224). It can therefore be argued that the fact that public sector internal audit functions are more likely to employ their organisation's external auditors as internal auditors may place them at a disadvantage with regard to independence, and also with regard to capability. It should, however, be noted that the study that reported this fact (Goodwin 2004), was conducted in Australia and New Zealand and that this similarity might not be equally true for South Africa, as public sector external audit services are provided by the Auditor-General of South Africa (AGSA).

Fourthly, it appears that the public sector internal auditor is less concerned with financial risk management activities than its private sector counterpart. This is to be expected to some degree, considering the fact that the public sector is not profit-driven and therefore financial risk will receive less emphasis than in the private sector. In terms of capability, in light of the fact that financial risk management comprises a smaller portion of the public sector internal audit scope, it appears that the internal auditors of the public sector are not required to be financial risk experts. However, the public sector must be held accountable for how its resources are used. As financial resources comprise the largest part of the public sector resource pool, it can be argued that financial risk should receive more attention. This is especially true with regard to irregular, unauthorised, fruitless and wasteful expenditure, as described in the PFMA (SA 1999:24,26, 28,30-33).

Fifthly, although value-for-money-audits (performance audits) are conducted in the private sector, it is less common and the scope is significantly smaller than in the public sector (Goodwin 2004:4). This is due to the fact that the public sector does not have the built-in performance measures of the private sector, for example profit targets. Public sector organisations should therefore employ different tactics to measure performance. Performance auditing is one of these tactics as its scope includes the extent to which resources have been acquired economically, and utilised efficiently and effectively. In terms of capability, it should be noted that performance auditing is a specialised field and therefore require a unique set of internal audit skills, qualifications and experience.

47

Lastly, the public sector appears to be less risk mature than the private sector. This is also true for internal auditing. The risk maturity of an organisation directly impacts the internal audit approach, as it affects the extent to which risk can be incorporated into an internal audit engagement (Coetzee 2010:264). The internal auditors of risk immature organisations will, for example, be able to perform only limited risk-based internal audit engagements and will have to conduct more consulting engagements with regard to establishing a risk management framework (De la Rosa 2008; Coetzee 2010:265). In addition, such internal auditors will also have to perform their own risk assessments before conducting an assurance engagement with regard to any business process. This, in turn, will also have an effect on the required level of capability of public sector internal auditors, as they will require specific skills in order to provide the necessary consulting in terms of establishing a risk management framework, facilitating risk assessment processes and promoting enterprise-wide risk management approaches (Coetzee 2010:265).

2.4.2 Similarities between internal auditing in the public and private sectors

The private and public sectors share certain similarities. Although the nature of the two sectors' objectives may differ, both have the same main purpose, namely to achieve their objectives (Du Toit *et al.* 2002:24). According to the definition of internal auditing, internal auditors are specifically mandated to assist their organisations with this task (IIA 2011:2). This mandate directly affects the manner in which internal audit activities are conducted, regardless of the sector in which the internal audit function operates. Internal audit functions largely fulfil this mandate by providing assurance and consulting services to management with regard to governance, risk management and internal control processes. This will remain the main focus and mandate of any internal audit function, regardless of whether it operates in the private or public sector. In addition, both private and public sector internal audit functions use the IIA Standards as a basis to accomplish this mandate. For the South African public sector, compliance with these standards are legislated in the Treasury Regulations (NT 2005:9-10).

48

Although not mandatory for the private sector, internal audit functions in this sector also use these standards as criteria.

Goodwin (2004:642-648) and Coetzee (2010:315-358) identified further similarities between the two sectors according to the prominent internal audit areas mentioned above (refer to section 2.4.1). These similarities are summarised in table 2.3 below.

Table 2.3: Similarities between internal auditing in the public and private sectors

Prominent internal audit area	Similarities between the public and private sectors
Size of internal auditing: budgets	• The size of internal audit budgets is similar.
Percentage outsourced	• Although both sectors make use of outsourcing, in-house internal audit functions are more common than outsourced internal audit functions in both sectors.
Nature of internal auditing	• Assurance engagements (as opposed to consulting engagements) are the main priority in both sectors. • Internal audit activities in terms of time spent on process audits, systems audits, financial audits, internal controls and risk management activities are similar. • Both sectors spend a similar amount of time on operational, strategic and environmental risk management activities.
Relationships with external auditors	• The extent of internal auditors' interaction with external auditors, and the impact of internal auditing on the cost of external auditing, is similar.
General adherence to the IIA Standards.	• Internal audit functions in both sectors generally adhere to the IIA Standards.

(Sources: Goodwin 2004:642-648; Coetzee 2010:315-358)

The similarities noted in the table above are discussed below with regard to the five prominent internal audit areas identified in the table, as well as in the context

of the main aim of this study, namely the capability of public sector internal auditing. Firstly, the size of the budget does not differ significantly with regard to internal auditing in the two sectors. This means that public sector internal audit functions should have access to the same amount and quality of resources. They should also be equally able to employ the level of competence required to achieve capability.

Secondly, both private and public sector organisations generally appear to prefer in-house internal audit functions to outsourced internal audit services. Public sector internal audit functions should, therefore, also be able to enjoy the benefits of an in-house internal audit function. Studies have identified these benefits as: better knowledge of the organisation, increased relationships and structures, better training opportunities, as well as increased confidentiality (Van Peursem & Jiang 2008:220; Coetzee 2010:75-79; Coetzee *et al.* 2010:24-25). All these benefits should have a positive effect on the capability of public sector internal audit functions. For example, the increased level of organisational knowledge of in-house public sector internal auditors will ultimately increase their overall capability to add value to the organisation.

Thirdly, the nature of internal audit activities, in terms of the priority of assurance engagements, time spent on different types of audit engagements and time spent on strategic, operational and environment risk management activities, is similar. Public sector internal audit functions should then require more or less the same level of capability compared to their private sector counterparts.

Fourthly, external auditors have equal access to both public sector and private sector internal audit working papers. It appears that external auditors rely on the work of internal auditors, regardless of the sector. This may indicate that an equal level of capability is required by the internal auditors of both sectors in order to ensure adequate coordination with external auditors at all times. It should, however, be noted that the study that reported this fact (Goodwin 2004) was conducted in Australia and New Zealand, so this similarity might not be equally true for South Africa. For example, evidence do exist that the AGSA is reluctant

to rely on the work of internal auditing, because of the ineffectiveness of some internal audit functions (AGSA 2011a:23).

Lastly, general adherence to the IIA Standards appears to be similar for internal audit functions in both sectors. The same levels of capability are required in order to maintain this adherence. The most common non-adherence to the IIA Standards noted in the literature is that of non-performance of quality assurance reviews (Nel n.d.; IIARF 2007:30; Coetzee 2010:331). This could be a reflection on the quality and effectiveness of public sector internal audit functions.

2.4.3 Conclusion

Public sector internal audit efforts have evolved from a traditional financial focus to the modern focus on the economic, efficient and effective utilisation of resources. Resource acquisition and utilisation are, therefore, more prominent in public sector organisations than cost and profitability factors. This presents a unique set of risks for the public sector and requires a different control approach as well as a different internal audit approach. In such a challenging business environment, a public sector internal audit function can play an important role. Through various consulting and assurance engagements, the internal audit functions of public sector organisations can assist their organisations in addressing these unique risks and controls. Ultimately, effective and capable internal audit functions can be instruments for improving the performance of the public sector.

Although public sector internal audit functions share many similarities with their private sector counterparts, the internal audit approach will be different in the public sector. Public sector internal audit functions do not differ significantly in terms of aspects such as budget size, the nature of internal audit activities, external audit relationships, perceptions in status and general adherence to the IIA Standards. However, significant changes have been noted in terms of independence, staffing, outsourcing, risk management prioritisation, value-for-money auditing and risk maturity. These similarities and differences may have a

significant impact on the level of capability that is required for public sector internal audit functions.

As this study focuses on internal auditing in the South African public sector, the above-mentioned contribution and impact of internal auditing is discussed within a South African context.

2.5 INTERNAL AUDITING IN THE SOUTH AFRICAN PUBLIC SECTOR

Organisational complexity, environmental uncertainty and continuous change are all factors that constitute the current reality in South Africa (Van der Waldt & Du Toit 2005:7-9; PSC 2010a:2). As discussed in sections 2.3.1 and 2.3.3, the South African public sector has seen considerable change within the last two decades. The renewed focus on public sector governance, accountability, effectiveness and efficiency (as discussed in sections 2.2 and 2.4) are also evident in South Africa today. Therefore, the contribution that internal auditing can bring is equally applicable within a South African public sector context.

Internal auditing has claimed a noteworthy space within the South African public sector. Following the implementation of the first King Report on Corporate Governance in 1994 (IOD 1994), the subject of governance for the public sector was legislated in South Africa by the promulgation of the PFMA in 1999 (SA 1999). Both the first King Report and the PFMA addressed the need for an effective and efficient internal audit function (IOD 1994; SA 1999:23). The importance of sound governance as well as the establishment of an internal audit function was reemphasised by the publication of the second King Report on Corporate Governance (IOD 2002), as well as the third King Report on Governance (King III), which was published in 2009 (IOD 2009). In addition, the PFMA is currently in the process of being updated through the review of the Treasury Regulations (Nair 2013).

Internal auditing is an important part of sound governance (IOD 2009:15,93; AGSA 2011a:46). This fact has been recognised in South Africa and reiterated by

King III, which devoted an entire chapter to internal auditing (IOD 2009:92-98). Another important factor about the King III is that unlike its predecessors, this report does not only apply to the private sector exclusively, but to all organisations regardless of the sector in which they operate (IOD 2009:17). The governance principles that relate to internal auditing as discussed in King III, therefore apply to the broader public sector of South Africa. The AGSA (2011a:23,33,46), who is responsible for the external audits of all public sector organisations in South Africa, describes South African public sector internal audit functions as an important contributor towards sound internal controls and as an essential governance mechanism for the South African public sector.

The internal audit profession has deep roots in the South African public sector. By the end of the 2012/2013 financial year most public sector organisations (94%) in South Africa on national and provincial level did have an internal audit function (AGSA 2013:63). By the end of the 2011-12 financial year 94% of local government organisations did have an internal audit function (AGSA 2012c:2012:133). The remainder of this section provides an overview of internal auditing in the South African public sector in terms of the applicable legislation and guidance, as well as value that can be added, the standing, and challenges faced by the profession.

2.5.1 Legislation

The South African public sector is subject to a wide range of legislation. For the purpose of this study, only the legislation that is pertinent to internal auditing in the public sector will be discussed. The PFMA, Treasury Regulations, MFMA as well as the Local Government Municipal Planning and Performance Management Regulations have been identified as most pertinent in this regard. These legislations are discussed below, along with a summary of how each document relate to internal auditing. However, it is important to note that the scope of this study does not include public sector organisations at provincial and local government level (refer to figure 2.1 and section 1.6). Therefore, legislation that is not applicable to national government will be mentioned only briefly.

2.5.1.1   Public Finance Management Act, No. 1 of 1999

As stated above, the introduction of the PFMA in 1999 legislated the concept of governance for the South African public sector. The main aim of this legislation was to regulate effective, efficient and economical financial and resource management practices and governance in the delivery of services to the people of South Africa (SA 1999:1). The Act is applicable to all national departments, provincial departments and public entities, which is a state owned organisation that has been established in terms of national legislation and is accountable to Parliament (SA 1999:10-12). It therefore addresses two of the three spheres of South African government. The promulgation of the PFMA also had a significant effect on the internal audit profession in the South African public sector. Section 38(a)(ii) of the Act places, *inter alia*, a regulatory responsibility on the accounting officers of all the organisations to which the Act applies to have and maintain "a system of internal audit" which must be controlled and directed by the audit committee (SA 1999:23). Section 51(a)(ii) applies this same responsibility to the accounting authorities of public entities (SA 1999:30). The impact of these sections is that national and provincial government are required by law to have internal audit functions. Another noteworthy section of the Act with regard to the aforementioned is Section 86, which states that an accounting office who wilfully or negligently does not comply with Sections 38, 39 or 40 is guilty of an offence and liable to a fine or imprisonment (SA 1999:42). In addition, Section 76(2)(e) mandates National Treasury to issue more specific guidelines or regulations with regard to components and functioning of public sector internal audit functions. This mandate has been fulfilled in the Treasury Regulations of 2005.

Although legislating internal auditing for the public sector can be seen as a contributor towards ensuring good governance and accountability, the question can be asked as to whether it is beneficial to require public sector organisations to have internal audit functions by law. It can be argued that when something is legislated, compliance can be superficially enforced merely for the sake of compliance and that the effectiveness of the requirement is thus compromised.

The effectiveness of internal auditing in the public sector can therefore be at risk, due to the fact that it is required by law.

2.5.1.2   Treasury Regulations of 2005

Along with Section 76 of the PFMA, Section 216(1) of the Constitution of South Africa mandates the National Treasury to issue regulations that will provide guidelines on uniform treasury and accounting norms and standards to public sector organisations. The purpose of these regulations is to ensure accountability and transparency in public sector organisations in South Africa (NT 2005). The Treasury Regulations, which came into effect in March 2005, fulfilled this mandate. These regulations are applicable to all national departments, provincial departments, constitutional and public entities (NT 2005:3).

The regulations provide specific guidelines on internal auditing within the context of internal control and its relation to the audit committee. Paragraph 3.1.10 instructs audit committees to, *inter alia*, review the effectiveness of the internal audit function (NT 2005:8). Under paragraph 3.2, several internal audit specific guidelines, instructions and/or mandates are provided (NT 2005:9-10). The regulations that are deemed relevant to this study are discussed in the next paragraph.

The fact that all institutions to which the regulations and the PFMA apply must have an internal audit function, is reiterated. Accounting officers are responsible to adhere to this rule and implement this function. The purpose, authority and responsibilities of each internal audit function must be defined in a charter which is in accordance with the IIA internal audit definition. In addition, internal audit engagements must be conducted in accordance with the IIA Standards. All internal audit functions are required to prepare a three-year rolling internal audit plan based on the departmental risk assessment, an annual internal audit plan for the first year of the three "rolling years", plans that indicate the proposed scope of each audit in the annual plan, and a quarterly report to the audit committee detailing performance against these plans. The regulations also require that

55

internal audit functions be independent and report directly to the accounting officer and the audit committee. Lastly, internal audit functions should assist their accounting officers in maintaining controls and achieving organisational objectives by evaluating the effectiveness and efficiency of the internal controls, as well as the processes by which objectives are determined, communicated and monitored. This evaluation should include a review of the processes by which accountability and corporate values are established and protected.

2.5.1.3   Municipal Finance Management Act, No. 56 of 2003

With the promulgation of the MFMA in 2003, the principles of the PFMA have been applied to a local government context in South Africa. The main objective of this legislation is to ensure sound financial management within municipalities and municipal entities (SA 2003:2,22). In Section 62(1)(c)(ii), the MFMA requires all municipal accounting officers to ensure that their organisations have an internal audit function but adds that such systems of internal audit should be "effective, efficient and transparent" (SA 2003:74). The same responsibility is placed on the accounting officers of municipal entities in Section 95(c)(ii) (SA 2003:102). Although the scope of this study does not include municipal public sector organisations, the outcome of the study can be applied and adapted in further studies which are aimed at local government level.

2.5.1.4   Local   Government: Municipal   Planning   and   Performance Management Regulations of 2001

The Municipal Systems Act, No. 32 of 2000 mandates the Minister responsible for local government in Section 120 to issue any additional regulations that may be necessary in terms of the Act. Such regulations were issued in August 2001 for activities relating to municipal planning and performance management, as Regulation number 796. These regulations are known as the Local Government: Municipal Planning and Performance Management Regulations (hereafter referred to as Regulation 796). The main objective of these regulations is to

56

provide more specific guidance, standards, norms and requirements on specific municipal processes, namely integrated development planning (IDP) and performance management, which includes the development and measurement of performance indicators (DPLG 2001).

Regulation 796 contains specific requirements and guidelines for the internal audit functions within the South African local government arena with regard to the above-mentioned two municipal processes. As with the MFMA, Regulation 796 does not fall within the scope of the study, although the outcome of the study can be applied and adapted in further studies.

2.5.1.5   Conclusion

From the summary of four legislative documents above, it is evident that the main legal impact on internal auditing in the public sector is the fact that public sector institutions, across all three spheres of government are required by law to have an internal audit function. This is a noteworthy impact, as the same is not true for the private sector. In addition, the legislation contains specific guidance, norms and requirements to assist public sector internal audit functions in the performance of their duties. However, the question can be asked as to whether such legislation is sufficient. A study by the Labour Market Navigator (LMN 2012:5) suggested that the South African public sector is lagging behind its private counterpart in terms of economic growth and productivity. In addition, with the exception of the Treasury Regulations, legislation at national and provincial government level appears to be vague in terms of providing internal auditing with requirements and guidelines. The PFMA merely requires public sector organisations to have internal audit functions, but does not provide any further guidelines. This gap has been partially filled by the Treasury Regulations, which contains 12 regulations that are internal audit-specific. However, given the complexity, growth and dynamics of the internal audit profession, it can be argued that more specific guidelines might be required and that public sector-specific internal audit guidance documents might be more beneficial than

legislation. The existence, extent and benefits of such guidance are discussed in the next section.

2.5.2 Guidance

In addition to the legislation discussed above, other public sector-specific internal audit guidance is available to internal auditors to assist them in the performance of their duties. As the causes of many South African challenges relate to policy implementation, rather than policy formulation (PSC 2010a:33), guidance documents can arguably play an important role in a legislative-driven public sector. Legislation does not always provide sufficient guidelines. Additional guidance documents can address these shortcomings, as such documents are usually much more specific. King III (IOD 2009), the Protocol on Corporate Governance in the Public Sector (DPE 2002), as well as the National Treasury Internal Audit Framework (NT 2009) have been identified as guidance documents that contain guidelines that are internal audit-specific. These guidance documents are discussed below, along with a summary of how each document relates to internal auditing.

2.5.2.1 Third King Report on Governance

King III was published in 2009 and came into effect in March 2010. The report superseded the first report, King I, published in 1994 (IOD 1994), and the second report, King II, published in 2002 (King II). The original purpose of these reports was to present a code of corporate governance best practices for private sector companies listed on the Johannesburg Stock Exchange Limited. This was the case with King I (IOD 1994:5). King II, which replaced King I, expanded its application to include public sector enterprises and agencies (IOD 2002:21). The need to update King II emanated from several factors, such as the new Companies Act, No. 71 of 2008, as well as changing global governance trends (IOD 2009:5). King III applies to all business entities regardless of the sector in which they operate (IOD 2009:17). The governance best practice principles

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discussed in King III are, therefore, applicable to the broader South African public sector. However, Prinsloo and Pieterse (2009:53) argue that although King III is applicable to the South Africa public sector, there are numerous challenges to its implementation. For example, defining governance leadership for all three spheres of government is not easy, as the concept of the board of directors cannot be easily applied to national and provincial government. National and provincial departments do not have an oversight function that can be compared to the board of a private sector listed company (as discussed and defined in King III). This is not applicable to municipalities, as all local governments have a municipal council which provides an oversight function (refer to section 2.3.2). However, other governance principles such as audit committees, risk management, governance of information technology and internal auditing can be applied easily, as these principles are more generic and therefore applicable to the public sector.

King III provides several internal audit-specific guidelines by dedicating an entire chapter to internal auditing with five internal audit governance principles (IOD 2009:92-98). However, in the light of the above-mentioned problem of defining governance leadership for the public sector, the question can be raised as to whether all these principles can be applied to the public sector. King III assigns specific responsibilities in terms of internal audit oversight to the "board". Although many public sector organisations, such as public entities, do have board structures in place, this is not the case with national and provincial departments. It should then be acknowledged that although most of the King III internal audit-specific governance principles can be applied to the public sector, it is not clear to whom the board responsibilities, as defined in King III, should be assigned to in national and provincial departments.

In a guidance document provided by PWC (2010) the principles of King III, including the principles relating to internal auditing (PWC 2010:71-78), have been applied to the South African public sector. The King III principles that relate to internal auditing and their applicability to the South African public sector in terms of applicable legislation, are shown in table 2.4 below; where applicable reference to the source document is provided.

59

Table 2.4: King III principles relating to internal auditing in the public sector

King III Principle (IOD 2009:92-98)	King III recommendation summary (PWC 2010)	Applicability to the South African public sector
7.1 – Board should ensure an effective internal audit function.	• Provide assurance on effective governance, risk management and internal control (p. 93).	• Required to establish an internal audit function (PFMA section 38(a)(ii); MFMA section165; Treasury Regulations (TR) 3.2.2). • Effectiveness of internal audit functions to be reviewed by audit committees (MFMA section 165(2)(ii)).
	• Evaluation of governance processes (p. 93).	• Internal audit functions required to comply with the IIA Standards, which include requirements for internal audit functions to assess governance processes (TR 3.2.6; IIA 2011:2,4,29-30).
	• Internal audit charter (p. 93).	• Establish internal audit charter (TR 3.2.5).
	• Director responsible for internal auditing when outsourced (p. 93).	• Outsourcing provisions (MFMA section 165(1); TR 3.2.4).
7.2 – Internal audit planning should follow a risk-based approach.	• Internal audit planning directed by organisational strategy and risk assessment (p. 94).	• Internal audit functions to take organisational strategic plans and risk assessments into account when developing internal audit plans (MFMA section 165(20(a); TR 3.2.7(a)).

King III Principle (IOD 2009:92-98)	King III recommendation summary (PWC 2010)	Applicability to the South African public sector
	• Chief audit executive (CAE) discusses availability of internal audit resources and skills required to address risk with audit committee (p. 94).	• Effectiveness of internal audit functions to be reviewed by audit committees and internal audit functions to comply with the IIA Standards, which include requirements that the CAE ensure sufficient skills and resources (MFMA section 165(2)(ii); TR 3.2.6; IIA 2011:27-28). • Internal audit function to prepare risk-based internal audit plans (MFMA section 166(a)(vi); TR 3.1.10(c)).
7.3 – Internal auditing should provide written assessment on the effectiveness of internal control and risk assessment processes.	• Internal auditing part of the combined assurance model and provides the necessary written assessments in terms of internal control and risk assessment (p. 95).	• Internal audit functions required to coordinate assurance efforts and report on internal controls and risks (MFMA section 165(2)(b)(ii); TR 3.2.10). • The principle can be expanded through internal audit charters (PWC 2010:74).
7.4 – Internal audit function should be overseen by the audit committee.	• Internal auditing provides independent and objective assurance to audit committee (p. 95).	• Only requirement is for the audit committee to oversee the effectiveness of the internal audit function (MFMA section 165(2)(a; TR 3.1.10(b)).
	• Internal audit remuneration determined differently from the rest of organisation to ensure independence (p. 96).	• The remuneration principle is not currently addressed, but can be addressed through further empowering audit committees through public service regulation (PWC 2010:75).
	• Internal auditing performs an important role in the combined assurance model (p. 96).	• Internal audit functions required to coordinate with other assurance providers (TR 3.2.10).

61

King III Principle (IOD 2009:92-98)	King III recommendation summary (PWC 2010)	Applicability to the South African public sector
7.5 – Internal auditing should be strategically positioned to enable them to achieve its objectives.	• CAE standing invitation to all executive committee (EXCO) meetings (p. 97).	• Currently no requirement for the CAE to attend EXCO meetings. This could be corrected in legislation and/or internal audit charters (PWC 2010:76).
	• Internal auditing reports functionally to the audit committee (p. 97).	• CAE required to report functionally to the audit committee and administratively to the accounting officer (PFMA 38(a)(ii); MFMA 165(2)(a); TR 3.2.9).
	• Internal auditing maintains a quality assurance programme (p. 98).	• Internal audit functions required to comply with IIA Standards. Standard 1300 requires the maintenance of a quality assurance programme (TR 3.2.6; IIA 2011:77-97).

(Source: refer to table and discussion)

From the above table it appears that all five broad internal audit governance principles mentioned in King III can be applied to the South African public sector. Many of the specific recommendations of the report are already addressed by legislation (see the third column of table 2.2 above). However, it appears that some shortcomings still exist which could be addressed in future reviews of the PFMA, MFMA and Treasury Regulations. These shortcomings are the expansion of the combined assurance principle; the independent determining of internal audit remuneration and the requirement for the CAE to attend executive committee (EXCO) meetings.

2.5.2.2   National Treasury Internal Audit Framework of 2009

This framework, which is mandated by both the PFMA and the MFMA, was developed in 2003 and revised in 2009 (NT 2009). The main purpose of the framework is to present public sector internal audit functions with guidance on the

establishment and maintenance of internal auditing and compliance with applicable legislation and additional guidance (NT 2009:2). In addition, the framework aims at standardising internal audit practice within the public sector (NT 2009:3). The framework also impacts internal auditing in the public sector by providing specific assistance and guidance in the development and effective functioning of internal auditing towards the achievement of internal audit objectives (NT 2009:4-5).

The key guidance topics discussed include the legislative mandate and international guidance of internal auditing related to the South African public sector (NT 2009:1-11); the legal framework, charter, roles, responsibilities, composition and membership of the audit committee (NT 2009:12-24); establishment of the internal audit function (NT 2009:25-44); the nature of internal audit work in terms of risk management, internal control and governance (NT 2009:45-53); an outline of the internal audit process (NT 2009:54-70); and consulting activities (NT 2009:71-74).

Taking into account the above mentioned topics that are covered, it appears that this document provides fairly comprehensive guidance to public sector internal audit functions. Although the framework was not developed as a prescriptive legal document, it provides a valuable tool towards improving internal auditing as an effective mechanism for enhanced service delivery by the public sector. As it combines the internal audit-related instructions of the legislation documents discussed in section 2.5.1, as well as additional guidance such as the IIA Standards, it is considered especially relevant to this study.

2.5.2.3   Protocol on Corporate Governance in the Public Sector of 2002

The Department of Public Enterprises (DPE) published the revised Protocol on Corporate Governance for the South African Public Sector in 2002. The main objective of this protocol is to provide a corporate governance framework for South African state-owned entities (SOEs). The document was developed because the South African public sector recognises the important role that these

entities play in service delivery (DPE 2002:2-4). The protocol is applicable to all state-owned entities, specifically all public entities and their subsidiaries.

The impact of this protocol on internal auditing can be summarised in its contribution towards recognising internal auditing as an imperative part of effective corporate governance within the public sector of South Africa. In addition, the report reiterates the fact that all SOEs must have an internal audit function and that the function should be independent (DPE 2002:39). It also provides several additional instructions and guidance to the internal audit functions of SOEs. As this document falls outside the scope of this study, it is only briefly discussed. However, the outcome of the study can be applied and adapted in further studies, which are aimed at state-owned entities.

2.5.2.4 Conclusion

From the discussion of the above three guidance documents, it is evident that a relatively sound best practice framework structure exists for internal auditing within the South African public sector. It should, however, be noted that although fairly extensive guidance is provided, some shortcomings do exist in terms of applicability to the South African public sector. For example, although King III is applicable to the public sector, the shortcomings relating to combined assurance, internal audit remuneration and attendance at EXCO meetings (refer to table 2.4) should be addressed in South African legislation in order to further enhance the applicability of King III.

Furthermore, numerous comprehensive legal and best practice guidance documents are available for the South African public sector internal audit function. Such guidance has been developed in order to assist internal audit functions to comply, *inter alia*, with applicable legislation and be more effective, prominent and visible. It can therefore be argued that if the internal audit functions in the South African public sector adhere to the guidance as stipulated in the above-mentioned documents, the value-adding ability and the standing of public sector internal audit functions in South Africa would be enhanced.

2.5.3   Value adding of internal auditing

As is evident from the IIA's definition, internal auditing is designed to add value to organisations (IIA 2011:2). This value can be added through various assurance and consulting activities. Although internal auditors can add value in both the private and public sectors, the concept of value is defined differently in the two sectors. As discussed in section 2.2.1, the private sector is more financially driven, as performance is mostly measured in terms of profit. It can therefore be argued that the concept of value will also be defined in terms of profitability in the private sector. Likewise, as the public sector's main mandate is service delivery, it is also expected that value within the public sector will be defined in terms of delivering services.

Public sector internal auditors can add value in many ways. According to the IIA (2006:11), public sector internal auditors support the governance roles of oversight, insight and foresight in the public sector organisations they serve. In their oversight capacity, public sector internal auditors evaluate the extent to which their organisations fulfil their mandates in expenditure as well as in compliance with applicable laws and regulations (IIA 2006:12). In their insight capacity, public sector internal auditors determine which activities, policies and programmes are functioning in terms of the organisational mandate and which are not (IIA 2006:13). Lastly, in their foresight capacity public sector internal auditors assist their organisations by identifying potential problems, which can then be addressed before they occur (IIA 2006:13). Through these three roles, public sector internal auditors can contribute to the protection of the core values of accountability, transparency, integrity and fairness (IIA 2006:7-9,14). For example, public accountability is strengthened when compliance performance information is presented to key stakeholders as part of the oversight role.

In addition, internal audit functions add value by assisting their organisations in addressing the risks and controls that are unique to the public sector. Ultimately, effective and capable internal audit functions can be instruments for improving the performance of the public sector and increasing the confidence of citizens in

the government (Khoury 2011:45). Public sector internal auditors can support their organisations by providing advice and assurance on how service delivery can be improved in order to achieve its objectives and address the many challenges it faces.

As discussed in section 2.3.3, the South African public sector does indeed face many challenges. The question can then be raised as to how internal audit functions can assist public sector organisations in addressing these challenges. In order to answer this question, the context of each challenge needs to be analysed. For the purpose of this study the two challenges that were highlighted in section 2.3.3, will be used as examples to illustrate the value that internal auditing can bring to the public sector.

2.5.3.1   Public sector responsiveness to citizens' needs

The first challenge that was highlighted relates to the responsiveness of the public sector to citizens' needs. Municipal internal audit functions can add value by providing assurance on the IDP process (refer to section 2.5.1), specifically on the process of consulting with the community. At the national and provincial governmental level, internal auditing can add value in terms of this challenge by understanding the mandate and objectives of the national department, provincial department or public entity they serve. This understanding will enable them to provide assurance and/or consulting on the extent to which their organisation meets its mandate, achieves its objectives and ultimately responds to the specific public need that they are mandated to meet. For example, the National Department of Agriculture, Forestry and Fisheries (DAFF) exists in order to improve and sustain the agriculture sector in South Africa through, *inter alia*, economic growth, job creation, rural development (DAFF 2011). This department has developed numerous strategic objectives in order to meet this vision and mission. One such objective is to promote safe food by managing the level of risks associated with food, diseases, pests, and so forth. This strategic objective relates to the public need of health and easy access to food products. In order to achieve this objective and thus meet this need, the department needs to

implement various processes and activities, such as import and export policy formulation for agricultural products. The internal audit function of this department can add value by reviewing these processes and linking the daily activities of the import and export policy unit to the strategic objective and therefore determining the extent to which the objective has been achieved and, ultimately, the extent to which the applicable public need has been addressed. The department can use the results of such internal audit reviews to improve the public service it provides.

2.5.3.2 Fraud and corruption

The second challenge that was highlighted in section 2.3.3 is the high level of fraud, corruption and irregularities in the South African public service. Although internal auditors are not expected to be fraud experts, they can play an important role in the detection and prevention of fraud and corruption (IIA 2011:20-21). The IIA Standards require internal auditors to be able to assess the risk, probability and potential of fraud as well as to design their internal audit plans and processes in such a way that they can identify the indicators of fraud (IIA 2011:20-21). Internal auditors in South African public sector organisations can add value by ensuring that the risk of fraud and corruption is sufficiently evaluated in terms of the context of the organisation and the likelihood of corruption occurring. In addition, public sector internal auditors can provide assurance on the fraud and corruption prevention processes by evaluating the extent to which fraud is managed within their organisations. Adequate declaration of interests by directors, proper tender and other procurement processes and the monitoring of the implementation of and adherence to anti-bribery policies and legislation, are all examples of internal controls which can be assured by internal auditors. This can ultimately contribute to the detection and prevention of fraud and corruption. This fact is reiterated in a corruption case study performed by Mafunisa (2007:260), where the internal audit function is identified as a specific measure for combating fraud and corruption in the public sector. From a consulting point of view, internal auditors can add value by providing advice, recommendations and other applicable assistance when no anti-corruption policies or monitoring processes are in place.

The value of internal auditing with regard to fraud and corruption in the public sector can also be related to increased accountability. The presence of an internal audit function within a public sector organisation can contribute towards ensuring that managers and directors are held accountable. It can be argued that public sector employees will be more careful with public resources and more reluctant to commit fraud when an active, effective and capable internal audit function evaluates their actions on a continuous basis. A study performed by Ngwakwe (2012) suggested that the scope of public sector auditors should go beyond mere fiscal evaluations and include strategic planning examinations. The study recommends that public sector auditors should include a review of the entire decision management process (including planning, budgeting and implementation) and that a causative audit approach be taken where the focus is placed on causes rather than effects. This role of internal auditors will contribute towards the improvement of accountability structures and ultimately towards the prevention of fraud, which will add significant value.

2.5.4   Standing of internal auditing

The value that can be added by internal auditing directly influences the standing of internal auditing as a profession. The standing of internal auditing can be described as the extent to which internal audit functions are recognised in their organisations as functions that truly add value (Coetzee *et al.* 2010:3). Internal audit functions that are recognised as value adding will ultimately receive more investment from their organisations which, in turn, can positively influence the quality of the internal audit service. Coetzee (2010:131) describes the standing or authority of internal auditing within an organisation as a key factor that will enhance the effectiveness of the internal audit function. Furthermore, in a study performed in South Africa on the standing of internal auditing in public companies, (Coetzee *et al.* 2010:3-9), the profiles of the CAE and audit committee; organisational awareness of the IIA's activities; the structure and reporting lines of the internal audit function; and the value added by the internal audit function to the organisation were identified as four key factors that underpin

the standing of internal auditing. The profiles of the CAE refer to the qualifications and background of the CAE, as well as the extent to which the CAE endorses IIA membership and the CIA qualification. The profile of the audit committee includes its composition and the scope of its duties (Coetzee *et al.* 2010:4-5). Organisational awareness refers to the extent to which the users of internal audit services are aware of the IIA and the IIA Standards (Coetzee *et al.* 2010:5). The structure and reporting lines refer to the extent to which internal audit services are outsourced, as well as to whom the internal audit function reports in order to establish independence and objectivity (Coetzee *et al.* 2010:6-7). Lastly, the value added by the internal audit function refers to the extent to which the function is regarded by its stakeholders as a value adding support function that assists the organisation in achieving its objectives (Coetzee *et al.* 2010:8-9).

A second study (Erasmus, Barac, Coetzee, Fourie, Motubatse, Plant, Steyn & Van Staden 2014) expanded on the aforementioned study by determining the standing of the internal audit function within a public sector context. The study found that the ability of the internal audit functions of national departments to add value are negatively affected by the global changing role of internal auditing and the shortage of competent internal auditors in South Africa (Erasmus *et al.* 2014:vii). In addition, the study noted several other significant findings that can bring the status of internal auditing into question. The findings reported in the study that are considered to be relevant to this study, are summarised below (Erasmus *et al*. 2014:viii-x):

- Despite the fact that 65% of the annual assurance budget is allocated to internal auditing, inadequate budget allocation was indicated as the major contributor to internal audit ineffectiveness.
- Some perception gaps do exist among the accounting officers, CAEs and audit committee chairs in terms of reporting structures. This could have a negative effect on the independence of South African public sector internal audit functions.

- Although in-house internal audit functions are preferred, outsourced internal audit functions add more value. This is mainly due to the requirement of specialised skills and a shortage of competent internal auditors.

- The in-house internal audit contribution to combined assurance was generally perceived as low.

- Almost 24% of national departments do not have formal risk management structures.

- Most CAEs appear not to have the required level of skills and competencies as recommended by the IIA.

- A high number of internal audit vacancies exist, internal audit staff turnover rates are high and the level of internal audit experience is generally lower than what is required.

The above findings may well indicate that South African public sector internal audit functions are not fully meeting the needs of their stakeholders, and that the value added by them is not optimal. In addition, the above findings also reiterate the fact that internal audit functions should be sufficiently capable in order to be in the best position to add value. Capacity problems, such as a shortage of competent internal auditors, will negatively affect the ability of internal auditors to add value. However, several other challenges exist that can negatively affect internal audit capability. These challenges are discussed in the next section.

2.5.5 Challenges

In light of the public sector challenges, as discussed in section 2.3.3, as well as the fact that the current business environment is characterised by complexity, continuous change and uncertainty (refer to section 2.5), it follows that internal auditing in the South Africa public sector also faces several significant challenges. Ongoing challenges are inherent to the environment in which internal auditors operate (Van der Nest 2006:136; Nel n.d.), as factors such as changing legislation, dynamic and uncertain circumstances, as well as increasing focus on accountability and governance are pertinent to the internal audit environment. Nel (n.d.), De Jager (2006) and the AGSA (2013:79,83) further argue that the main

70

challenges faced by South African public sector internal auditors relate to a lack of skills and resources (especially human resources), increased pressure due to audit committee requirements, lack of external quality assessments and the creation of real value to organisations. These challenges are briefly discussed below.

Legislative changes introduced by the PFMA (1999), MFMA (2003) and the Treasury Regulations (2005) compelled all South African public sector organisations to establish an internal audit function. Although this illustrates that the South African public sector recognises the important role that internal auditing can play, it resulted in an increased demand for skilled and experienced internal auditors, which resulted in a lack of skilled internal auditors. In a study performed by De Jager (2006), which was directed at 429 public servants, 65% of the participants indicated that their internal audit functions did not have sufficient staff. In addition, merely 19% indicated that their internal auditors were sufficiently qualified. The reason for this is mainly due to the sudden growth of the South African public service and the increased opportunities for career advancement, especially with regard to heads of departments (Nel n.d.). This creates a gap that needs to be filled through training, co-sourcing and learnerships.

Although the requirement for audit committees in public sector organisations enhances sound governance in this sector (Van der Nest 2005:75), it entails additional pressure for internal audit functions. The increased need to ensure accountability and accurate information results in management placing more reliance on the audit committee. Audit committees, in turn, expect expert advice from internal auditors. In addition, the quality of audit committee members is essential to ensure internal audit effectiveness, as audit committees are required to review, *inter alia*, the effectiveness of the internal audit functions (NT 2005:8; Van der Nest 2008:179-180). In a study performed by Van der Nest (2008:186), the appointment of appropriately qualified audit committee members was specifically identified as a characteristic of an effective audit committee. However, public sector organisations generally do not have the same financial freedom as private sector companies. So it is more difficult to attract audit committee

members with the required level of competency (Nel n.d.; Van der Nest 2005:77,83). This can have a significant impact on public sector internal audit functions, as the effectiveness of an internal audit function largely depends on the effectiveness of the audit committee (Marx 2008:51-52).

Internal audit standards have changed regularly over the past few years. One of the most significant changes is the requirement for all internal audit functions to have an external quality assessment performed by 1 January 2007 (Nel n.d.; IIA 2011:77-97). South African public sector internal audit functions are still struggling to comply with all the IIA Standards, especially at local government level where many internal audit functions are still fairly young and have not been subjected to an external quality assessment (Nel n.d.; Coetzee 2010:331).

As discussed in section 2.5.3, adding value is an important part of the definition and mandate of internal auditing. To add this value, public sector internal auditors need to understand the risks faced by their organisations, as well as the importance of effective and efficient operations (Nel n.d.). As discussed in section 2.5.4, the study by Erasmus *et al.* (2014) revealed several findings that can negatively affect the value that public sector internal auditors can add in South Africa. Some of these findings related to differences in the perceptions of accounting officers, audit committee chairs and CAEs. Public sector internal audit functions in South Africa are faced with the challenge to be recognised by audit committees, management and executive authorities as instruments of value.

Although most South African public sector organisations do have an internal audit function, the AGSA identified several instances where such organisations do not comply with legislation with regard to internal auditing. These challenges may impact negatively on the effectiveness of the public sector internal audit functions and their capability to assist their organisations in achieving their service delivery objectives. The non-compliance issues noted by the AGSA in the 2010/2011, 2011/2012 and 2012/2013 (where applicable) outcomes reports are summarised below as per the three spheres of government. It should be noted that all three reports were not reviewed for all three spheres of government, as not all the reports were finalised at the time of the review.

With regard to national government, the AGSA (2011a:23; 2012a:35; 2013:63) noted that not all the internal audit functions of South African national departments and/or public entities were effective. Ineffective internal audit functions may impact negatively on the soundness of internal control as well as on the credibility of accounting information. The AGSA recommends internal audit processes as an area of improvement in various cases to ensure effective, efficient and transparent internal controls (AGSA 2011a:22-23, 28-29; 2013:62-63). The internal audit non-compliance issues identified in the reports related mostly to inadequate approval of internal audit plans by audit committees, insufficient internal audit human resources and insufficient level of assurance provided by the internal audit function (AGSA 2011a:23; 2012a:82,133; 2013:79,83). Internal audit plans that are not approved by the audit committee are not only a contravention of legislation but can also impact negatively on the quality and completeness of internal audit activities and ultimately internal audit effectiveness. Inadequate staffing of internal audit functions can also impact on internal audit capability and effectiveness, as audit plans cannot be executed without sufficient staff.

At provincial government level, the AGSA (2011b:45) identified internal audit non-compliance findings at 24% of the 103 provincial departments and at 28% of the 89 provincial public entities. The main findings identified are tabled below with the percentage of organisations to which each finding applies.

Table 2.5: Main AGSA findings relating to internal auditing at provincial government level

Finding	Provincial Departments	Provincial Public Entities
Internal audit functions not controlled by the audit committee.	16%	6%
Three year internal audit rolling plan not approved by the audit committee.	11%	1%
No internal audit functions in place.	0%	12%
No audit committee in place.	12%	15%

(Source: AGSA 2011b:45)

In addition, the AGSA (2011b:64,91,95, 2012a:132; 2013:63) also identified the following internal audit challenges at provincial level:

- Inadequate working relationships between the internal audit functions and their audit committees.
- Internal audit recommendations are not always implemented.
- Insufficient capacity in internal audit functions.
- Assurance roles are not always adequately fulfilled, especially with regard to financial information and the evaluation of compliance to laws and regulations.
- The supply chain management processes and controls are not always evaluated by internal audit functions.
- Performance information systems are not always evaluated by internal audit functions.
- Information systems are not always evaluated by internal audit functions.

At local government level, the AGSA (2011c:32-34,62; 2012c:133) identified the following non-compliance challenges for municipal internal audit functions:

- Ineffective audit committees or lack of audit committees.
- Ineffective internal audit functions, with limited or no impact on audit outcomes.

74

- No internal audit function established.

- Lack of internal audit plans.

- Lack of audit committee review of internal audit performance.

- Instances were noted where internal audit functions did not perform the duties assigned to them by their accounting officers.

- Inadequate working relationships between the internal audit functions and their audit committees.

- Excessive outsourcing of internal audit functions.

- Insufficient capacity in internal audit functions.

- Municipal supply chain management processes and controls, performance information and compliance processes are not always evaluated by internal audit functions.

From the above discussion it appears that internal auditing within the South African public sector faces numerous challenges. These problems, along with the other capacity problems noted in section 2.5.4, have the potential to threaten the standing and the value adding potential of internal auditing within the public sector.

2.5.6 Conclusion

Internal auditing occupies an essential and important place within the South African public sector. Not only is it a legal requirement for all public sector organisations, but it is also supported by several guidance documents. Owing to their strategic organisational position and based on the fact that most public sector organisations (especially at national government level) do have internal audit functions, public sector internal audit functions have the potential to add noticeable organisational value. However, several challenges exist that can negatively affect this potential. These challenges may detract from the effectiveness of public sector internal audit functions and their capability to assist their organisations in achieving service delivery objectives.

2.6 CONCLUSION AND RELEVANCE TO THE STUDY

A background to the study is provided through this chapter by summarising and debating several aspects and arguments with regard to:

- The South African public sector; and
- Internal auditing in the South African public sector.

This section summarises the aspects that are most relevant to the study, as identified in the literature.

The public sector plays an important role in the administration of any nation. It is mandated to enhance the well-being of its citizens through various services, initiatives and organisations. Citizens cannot fulfil all their needs individually and rely on the public sector for a number of basic infrastructural needs. In contrast, the private sector is focused on the maximisation of profit and shareholder wealth. This difference between the two sectors, places the public in a distinctive field that requires the public sector to approach organisational aspects such as governance, management and internal control structures differently.

The South African public sector is mandated to meet the needs of the people of South Africa. However, the distinctive population, historic development and government structures of the South African public sector present a unique set of challenges and problems that have to be addressed. South Africa has been exposed to significant political, social and other changes during the last two decades. These changes included a new government, a complete transformation of the public sector as well as several legislative and structural adjustments. These changes presented many opportunities as well as several challenges and risks. These challenges are listed, discussed and classified in this chapter as service delivery challenges, economic challenges, human resource challenges and compliance challenges. Two specific challenges, namely responding to citizens' needs as well as fraud and corruption in the public sector, are discussed

76

in more detail as examples to illustrate the impact of challenges on the South African public sector.

Several bodies and/or functions exist that can assist the public sector in addressing these challenges. One of these is the internal audit functions of public sector organisations. The contribution of internal auditing, as a governance mechanism, is dependent on neither the type of organisation nor the sector in which the organisation operates. Although there are many similarities in internal auditing between the public and the private sector, the profession is, however, applied differently in the two sectors. Public sector internal auditors are less concerned with cost and profitability factors and more concerned with how resources are obtained and utilised. In this way they can add value to their organisations. Ultimately, effective and capable internal audit functions can be instruments for improving the performance of the public sector.

Internal auditing has a definite role to play in the South African public sector. In addition to the legislation, several internal audit-specific guidance documents are also available to assist the profession in supporting their public sector organisations to achieve their objectives. Public sector internal auditors can add significant value towards the achievement of public sector objectives and addressing the numerous challenges faced by the public sector. However, public sector internal auditors in South Africa are faced with several challenges of their own, which have the potential to threaten the effectiveness and value of the profession, if not adequately addressed.

This chapter aimed at laying the foundation with regard to the importance, purpose and challenges of the South African public sector and discussed the contribution that internal auditing can bring in assisting the South African public sector in addressing these challenges and achieving its objectives. Internal auditing can, however, only make this contribution if the auditors are suitably qualified, competent and capable to do so. As the main focus of this study revolves around internal audit capability, the question can be raised as to when it can be said that an internal audit function within the public sector is suitably capable of effectively assisting their organisations. In the next chapter the

capability of internal auditors in the South African public sector is discussed with reference to the Internal Audit Capability Model.

CHAPTER 3

THE INTERNAL AUDIT CAPABILITY MODEL

3.1   INTRODUCTION

Business processes continuously strive towards effectiveness. In essence, this relates to the achievement of organisational objectives. However, capability is a prerequisite for the achievement of any objective. Without the ability to perform a function, it cannot be executed effectively. The concept of capability can be applied to any discipline and has been the subject of many research studies in various fields   (De Bruin, Freeze, Kaulkarni & Roseman 2005; Lu 2006; IIARF 2009; Tooksoon & Mohamad 2010; Becker, Niehaves, Poeppelbuss & Simons 2010; Goh, Elliot, & Quon 2012).

Capability can also be applied to the field of internal auditing. For the public sector, it can be assumed that to be an effective internal audit function, organisations have an obligation to determine the optimum level of internal audit capability (IIARF 2009:6). Thus, an internal audit function cannot be effective if it does not possess the necessary capabilities. In addition, an internal audit function cannot add value and meet its mandate if it is not effective. Capability can be defined as the quality of being able or qualified (Dictionary.com 2013). In the context of internal auditing, capability is defined as the necessary qualities that an internal audit function requires in order to be considered able and qualified to meet its mandate.

The Institute of Internal Auditors Research Foundation (IIARF) developed the Internal Audit Capability Model (IA-CM) to serve as an international yardstick for the self-assessment and improvement of public sector internal audit capability (IIARF 2009:1,55). This chapter aims to contextualise and discuss the IA-CM within the scope of this study. In the first section of the chapter, the use, development, common elements and benefits of capability models are discussed. In the second section, the elements and application of the IA-CM are discussed

within the context of the study. The chapter is concluded with the question as to whether the model can be applicable in a South African context.

3.2 THE USE OF CAPABILITY MODELS

The use of capability or maturity models has come to the fore over the last decade and is recognised world-wide (Hillson 1997:36; Persse 2001; De Bruin *et al.* 2005; Liebowitz 2007:44; Chapman 2009; Becker *et al.* 2010:2). A study performed by Becker *et al.* (2010:10) concluded that capability models have received significant research attention and is a topic of increasing importance. The study also identified the topic of capability models as a field of great relevance for future research opportunities. It can be defined as a multi-level evolutionary path that outlines the aspects required for maturity with regard to a specific process or activity (Gillies & Howard 2003:780; De Bruin *et al.* 2005; Becker *et al.* 2010:2). The evaluation of maturity includes capability, competency and level of sophistication. In order to illustrate the importance and uses of capability models, the development, common elements and benefits of such models are discussed. It should be noted that although the literature on these models occasionally refer to "maturity models", whilst at other times referring to "capability models", the two terms are considered synonyms for the purpose of this study and the term "capability model" will be used.

3.2.1 Development

The concept originated in the field of information technology and dates back as far as 1973 when Nolan (1973) published the stages of a growth model. The model proposes six stages of growth for information technology in an organisation, commencing with the initiation stage and concluding with the maturity stage. Subsequently, as project management became increasingly important within the information technology environment, Crosby developed the "Quality Management Maturity Grid" in 1979 (Crosby 1979). This model describes five process maturity levels, commencing with the uncertainty level and

80

concluding with the certainty level. The concept was further developed in the late 1980s when the Software Engineering Institute (SEI) of the Carnegie Mellon University in the United States of America (USA) developed a capability maturity model (CMM) with regard to capability within software engineering processes (Liebowitz 2007:44; SEI 2010). This model is widely used in practice and in research and forms the basis for most subsequent capability models (Hillson 1997:36; De Bruin *et al.* 2005; Liebowitz 2007:14; Persse 2007:15; Chapman 2009; Becker *et al.* 2010:10). It consists of five maturity levels for software development, commencing with the initial level and concluding with the optimising level. In 2001, the SEI refined the model by introducing the CMM Integration (CMMI) model, which is a successor to the original CMM.

Capability models (such as the CMM and CMMI) are developed mainly to assist organisations with the assessment and improvement of processes, quality and capabilities (Bamberger 1997:112; Gillies & Howard 2003:779; De Bruin *et al.* 2005; Becker *et al.* 2010:2). It is designed to allow organisations to assess the current status of the applicable activity under review against a set of criteria and to identify and implement process improvements. Bamberger (1997:113-114) further contextualises this description by stating that the two most common objectives of a capability model are to provide "enablers" and "evaluators" of good practices. It assists organisations in answering the questions of where they currently are, where they would like to be and how they will know when they have reached that intended destination regarding their current practices. The "enablers" pertain to the aspects or activities that are required in order to take the organisation from the current position to the desired position, while the "evaluators" pertain to the indicators that the desired position has been achieved.

Although the capability model concept originated from the software development field through the SEI model, it has subsequently been applied to various business processes and industries. For example, the data governance maturity model (DataFlux n.d), enterprise architecture maturity model (Nascio 2003), business process maturity model (Roseman & de Bruin 2005), risk maturity model (RIMS 2006) and portfolio, programme and project management maturity model (OGC 2010). These models all stress the fact that the main purpose of a capability

model is to provide assessment, process improvement and benchmarking tools for the capabilities of the applicable business practice or activity under review.

3.2.2 Common characteristics

As the SEI model appears to be the foundation of many modern capability models (Becker *et al.* 2010:10), the basic characteristics of this model are briefly discussed. The SEI model proposes that a comprehensive and quality capability model comprise a structure that contains at least the following three components (Paulk, Weber, Garcia, Chrissis & Bush 1993:7-30; Hillson 1997:35; Persse 2001; CMU 2002:11-20; Chapman 2009):

- Capability levels or phases of development.
- The specific process areas or process categories which cluster the related practices or elements of the process under review.
- Key practices or key process areas (KPAs), describing the desired capabilities that should be in place to move from one capability level to the next.

The capability levels should be clearly defined within the principle that the higher stages build on the lower levels. The CMM and CMMI propose five capability levels, namely initial (level 1), repeatable (level 2), defined (level 3), managed (level 4) and optimising (level 5). However, the number of levels can vary from model to model (De Bruin *et al.* 2005).

Although models exist that do not contain all the above components (Coetzee 2010:209-210), all four of the components should be present in order to provide optimal assessment, process improvement and benchmarking opportunities. However, it should be noted that achieving the highest capability level of a given capability model, should not necessarily be the goal of all model users. Bamberger (1997:113), who was one of the original authors of the CMM, emphasised that a capability model should serve as a guideline rather than a set of absolute criteria. Implementing the necessary activities to achieve the KPAs

82

that are required for the highest level of capability might be too expensive for a given organisation and the cost might exceed the benefit (IIARF 2009:8).

3.2.3 Benefits of using capability modules

As discussed in section 3.2.1, the three main purposes of capability models are to provide assessment, process improvement and benchmarking tools. These purposes can also be described as benefits and have been reiterated by De Bruin *et al.* (2005), where capability models are described as being descriptive, prescriptive or comparative in nature. The study suggests that the three model types represent evolutionary stages in a model's lifecycle. Descriptive capability models merely allow an assessment of the current situation, while prescriptive models provide clear pathways to improvement and comparative models enable benchmarking. The main benefit of capability models can, therefore, be described as a tool to assist organisations with the assessment, improvement and benchmarking of their capabilities.

In addition to the above main benefit, other relevant benefits have been reported in the literature. Persse (2007:15) suggests that the CMM and, more recently, the CMMI have proven their value over time and that several organisations have experienced tangible benefits, such as improved processes and increased productivity. Most of these benefits have been reported as early as 1994, three years after the publication of the CMM. A study performed by Herbsleb, Carleton, Rozum, Ziegel and Zubrow (1994) revealed that the CMM resulted in significant improvements in the cost of the process improvement, productivity, calendar time, quality and business value. These benefits are reiterated in more recent studies, which revealed that process improvements brought about by implementing capability models have resulted in cost reductions, rework reductions, quality improvements, improved timeliness and improved retention of competitive advantages (De Bruin *et al.* 2005; Persse 2007:15; Van Loon 2007:30; Becker *et al.* 2010:2).

3.2.4 Conclusion

Capability models appear to fill a meaningful space in both research and practice with regard to assessing, improving and benchmarking specific capabilities in a number of industries. When such models are well-designed and correctly implemented, they can be valuable process improvement tools for the activities, organisations or domains for which they were developed.

Internal audit processes can also profit from the assessment, improvement and benchmarking benefits of a capability model. The IA-CM, which was designed specifically for internal audit functions in the public sector, is discussed in the next section.

3.3 INTERNAL AUDIT CAPABILITY MODEL

The IA-CM was published in 2009 by the IIARF. The main purpose of the model is to provide a capability self-assessment and continuous improvement tool for public sector internal audit functions. In order to illustrate the importance of the IA-CM within the context of this study, the development, structure, elements and application of the model are discussed.

3.3.1 Development

The need for the model was first expressed by the Public Sector Committee of the IIA Global in 2004 (IIARF 2009:1). The Public Sector Committee recommended the development of a model in order to strengthen the important role that internal auditing plays within public sector accountability and governance. Another reason behind the recommendation was the lack of a universal model that can be applied to internal auditing in any country's public sector. The model was developed for the public sector, owing to the many external influences that face public sector organisations, such as legislation and political influences.

After extensive research, the IIARF developed the IA-CM and published the model in 2009. The model was based on the SEI CMM as well as the SEI CMMI models (IIARF 2009:1; Macrae 2010:68). The main objective of the model was to enhance the effectiveness of internal auditing in the public sector worldwide, by identifying the essential aspects that are required for effectiveness. This objective was achieved through a research project that identified, firstly, applicable capability levels, secondly, the main elements of internal auditing and, thirdly, the essential process areas that are required to progress from one capability level to the next (IIARF 2009:2). The research was mainly conducted through literature reviews, focus groups and workshops.

As the IA-CM was developed based on the SEI model (IIARF 2009:1), which is considered a quality model (refer to sections 3.2.1 and 3.2.2), it can be regarded as a yardstick to be used by internal auditors in the public sector. This was supported in a study performed by Janse van Rensburg and Coetzee (2011:50), in which three of the elements required by the SEI model were linked to the IA-CM. The study found that the IA-CM was a comprehensive model as it contains the following:

- The IA-CM contains five capability levels similar to the SEI model (CMU 2002:13; IIARF 2009:7-9).
- The IA-CM contains assessment criteria in the form of six essential elements similar to the process areas or process categories of the SEI model (CMU 2002: 14; IIARF 2009:9-12).
- Each level and each element of the IA-CM is linked through specific KPAs, which correspond with the key practices as identified in the SEI model (CMU 2002:15; IIARF 2010:18-25).

When compared to the four components of quality capability models discussed in section 3.2.2, it appears that the IA-CM can be described as a well-developed model.

In the development of the model, the research team recognised the fact that the public sector of different countries are unique and that the constraints of internal audit functions in one country might differ significantly from those in another country (IIARF 2009:4). For example, the organisational capacity, access to infrastructure, governance arrangements and risk profiles differ significantly in developed countries, such as the USA, compared to developing countries, such as South Africa. These differences will impact on internal auditing in the public sector, as public sector organisations are subject to the above-mentioned factors and such factors may have an effect on the ability of a nation's public sector to implement effective internal audit functions and internal audit capabilities. However, the aim of the model was to take these differences into account and to present a universally applicable model for the assessment and improvement of internal audit capabilities within the public sector (IIARF 2009:4-5). The IA-CM can therefore also be a valuable tool to aid in the improvement of South African public sector internal auditing. It could be a helpful yardstick in determining the overall capability of public sector internal audit functions, as its development took into account the important role that internal auditing plays in improving the service delivery levels across all three spheres of government (IIARF 2009:1,4-5). In light of the above, the remaining sections of this chapter will focus on the model in general, as well as its application within a South African context.

3.3.2 Structure

The IA-CM comprises a matrix that consists of three main components, namely, capability levels, elements of internal auditing and KPAs. The model consists of five capability levels, six essential elements of internal auditing as well as 41 KPAs, which should be present for an internal audit function to progress from one capability level to the next. Refer to Annexure A for a matrix depiction of the three components of the model. In order to provide a brief overview of the model, the capability levels and elements of internal auditing are outlined in figure 3.1 and briefly summarised below. Each element is discussed in more detail, along with its corresponding KPAs in section 3.3.3.

86
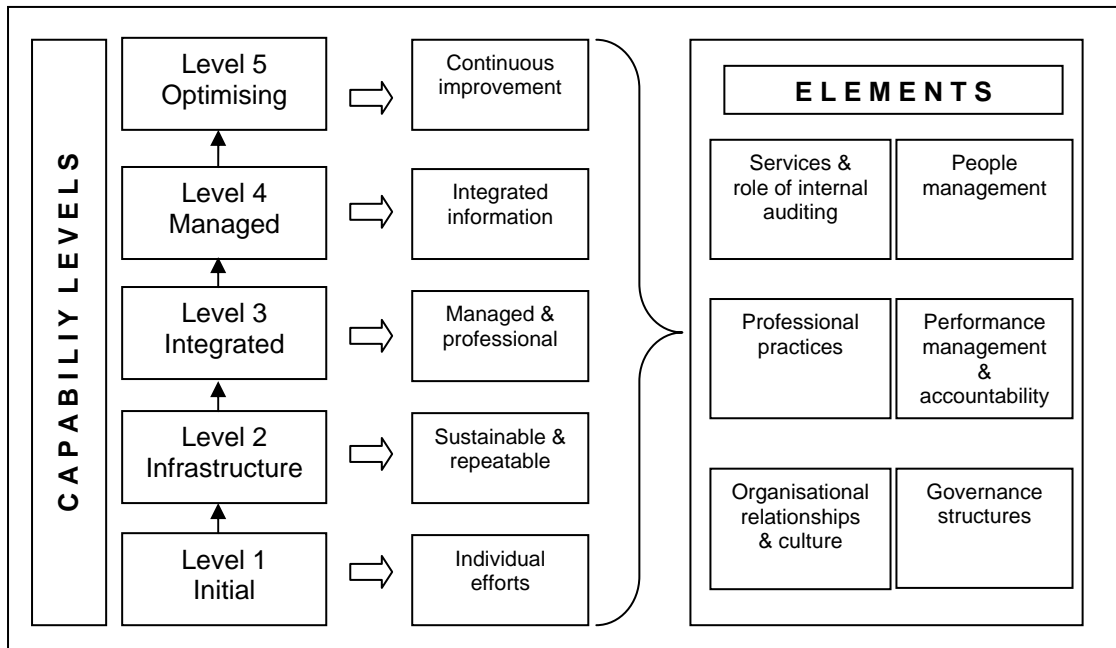
Figure 3.1: The capability levels and elements of the IA-CM

The IA-CM endeavoured to link the nature and complexity of public sector organisations with the level of internal audit capability that is required to support it (IIARF 2009:7). The capability levels of the IA-CM can be summarised as follows (IIARF 2009:7-9):

- The first and lowest level of capability is referred to as the initial level. This capability level indicates that the internal audit function is not structured and depends on individual efforts. No specific KPAs are provided for this level.

- The second capability level is referred to as the infrastructure level. This level indicates that a certain level of repeatability and sustainability is in place with regard to the practices of the internal audit function.

- The third level of capability is referred to as the integrated level. This level suggests that the management, policies and processes of the internal audit function are integrated with the organisational policies and consistently applied.

- The fourth level of capability is referred to as the managed level and indicates that the internal audit function's expectations are generally aligned with the expectations of key stakeholders.

87

- The fifth and highest capability level is referred to as the optimising level and indicates that the internal audit function is optimal in being an agent of change within the organisation. It suggests that the internal audit function is continuously learning and improving.

The model was developed in such a way that the KPAs within each capability level provides the building blocks to move from one capability level to the next. Capability levels can, therefore, not be passed over (IIARF 2009:54).

The elements that were identified to serve as the assessment criteria of the IA-CM can be summarised as follows (IIARF 2009:11-12,14):

- "The services and role of internal auditing" refers to the nature and scope of the services that the internal audit function provides, as well as the responsibility to assist in the achievement of organisational goals through various independent audit assessments.
- "People management" focuses on the extent to which internal audit human resources are acquired and developed.
- "Professional practices" reflects the processes, frameworks and policies required to capacitate the internal audit function to perform its duties effectively and professionally.
- "Performance management and accountability" refers to the required information that enables the internal audit function to operate effectively and to give account of its performance.
- "Organisational relationships and culture" refers to the internal and external position of and relationships with the internal audit function, as well as its relationship with the organisation it serves.
- "Governance structures" constitutes the functional and administrative reporting structures of the chief audit executive (CAE), as well as the organisational position of the internal audit function within the organisation.

The IA-CM also distinguishes between KPAs that can be influenced by the internal audit function and those that cannot (IIARF 2009:13). For example, a

public sector internal audit function will more likely be able to control the extent to which compliance and performance audits are included in the annual internal audit plan (as part of the services and role element) than over the extent to which reporting structures are established (as part of the governance structures element). On the one-page matrix of the model (refer to Annexure A), the KPAs that can be influenced by the internal audit function, are highlighted in darker blocks. The lighter blocks depict those KPAs that the internal audit function is less likely to be able to control.

3.3.3 Elements

As discussed in section 3.3.2, the IA-CM identified six essential elements of internal auditing. The first four elements relate to the internal aspects of the internal audit function, whereas the last two elements refer to the internal audit function's relationship to its organisation and external environment (IIARF 2009:10). Each of these six elements contains specific KPAs that clearly indicate the aspects that should be in place for a public sector internal audit function to progress from one capability level to the next. Each element along with its corresponding KPAs is discussed in sections 3.3.3.1 to 3.3.3.6. However, it should be noted that the literature discussed below aims to cover the extent to which the literature supports the KPAs listed within each element rather than to reach a conclusion as to whether all the required KPAs have been identified. The discussion of each element is also not aimed at presenting the current state of internal auditing in the public sector, but rather to synthesise applicable literature with regard to each element, as well as its application to the South African public sector. In addition, literature referring to a South African context is also discussed in sections 3.3.3.1 to 3.3.3.6 with regard to each element. Limited studies could be identified in this regard and the discussion is, therefore, done by analysing three studies. The findings relevant to the applicable element are examined after the discussion of each element.

Firstly, the Management Performance Assessment Tool (MPAT) of the Presidency, which was developed to assess the management practices of the

South African public sector, is discussed as far as it can be aligned to the KPAs of each element. The MPAT includes internal auditing as a performance area and provides performance statements in accordance with four performance levels, similar to the capability levels of the IA-CM (The Presidency 2011:26).

Secondly, the results of a study performed by Janse van Rensburg and Coetzee (2011) are aligned to each element. In this study, the extent to which South African public sector legislation and guidance address the six elements of the IA-CM was assessed. The legislation included in the study was the Public Finance Management Act (PFMA), Treasury Regulations, Municipal Finance Management Act (MFMA) and the Local Government: Municipal Planning and Performance Management Regulations (Regulation 796). The public sector specific guidance included in the study was the third King Report on Governance (King III), Protocol on Corporate Governance in the Public Sector, the National Treasury Internal Audit Framework and the International Standards for the Professional Practices of Internal Auditing. The study found that although most of the elements and KPAs of the IA-CM are addressed to some extent, certain shortcomings still exist (Janse van Rensburg & Coetzee 2011:58-59).

Thirdly, the findings noted in a study performed by Erasmus, Barac, Coetzee, Fourie, Motubatse, Plant, Steyn and Van Staden (2014) are also aligned with each element. In this study, the status of and demand for internal auditing in the national departments of the South African government, was determined through questionnaires directed at CAEs, chairpersons of audit committees and accounting officers of national departments. The study noted several specific findings that relate to internal auditing.

3.3.3.1   Services and role of internal auditing

This element refers to the nature and scope of the services that the internal audit function provides, as well as the responsibility to assist in the achievement of organisational goals through various independent audit assessments. Services include the extent to which assurance and consulting engagements are

conducted and can consist of any specific type of audit engagement. These services can be performed by the in-house internal audit function itself or through outsourcing or co-sourcing with external service providers (IIARF 2009:11).

The KPAs that have been identified for this element according to the IA-CM are tabled below along with each KPA's main purpose and the corresponding capability level. As discussed in section 3.3.2, no level one KPAs are applicable, as this level refers to an unstructured internal audit function.

Table 3.1: Key process areas for services and role of internal auditing

KPA	Capability Level	Purpose
Compliance auditing	Level 2 (Infrastructure)	Conducting engagements that assess the adherence of a process or area to criteria such as policies, contracts or laws.
Performance / value-for-money auditing	Level 3 (Integrated)	Conducting engagements that assess the economy, efficiency and effectiveness of operations or processes.
Advisory services	Level 3 (Integrated)	Conducting consulting engagements in an advisory role without assuming management responsibility, for example, providing facilitation, training or control self-assessment services.
Overall assurance on governance, risk management and control	Level 4 (Managed)	Conducting sufficient audit engagement to provide an overall opinion on the governance, risk management and internal control processes of the organisation.
Internal auditing recognised as a key agent of change	Level 5 (Optimising)	The internal audit function has developed the capacity to provide foresight and to be a catalyst for positive change in the organisation.

(Source: IIARF 2009:19)

According to the model, the services and role of internal auditing include compliance auditing, value-for-money auditing, consulting engagements, overall assurance on governance, risk management and internal control, as well as the extent to which the internal audit function is recognised as a catalyst for change.

91

It therefore appears that the model considers internal audit functions that merely perform compliance audit engagements as fairly immature in terms of adding value to its organisations. Mihret and Woldeyohannis (2008:567-569), as well as Lueng, Cooper and Perera (2011:795) reiterate this fact by emphasising that organisational change over the last few decades is forcing internal auditors to move beyond mere compliance reviews in order to add value. In addition, the studies also highlight the fact that internal audit functions are attempting to increase the level of value they add by moving away from a detection-focused and control approach to a more strategic, prevention-focused and risk-based approach.

As discussed in section 2.4.1, owing to the increased focus on the economic, efficient and effective utilisation of resources, the role of internal auditors in terms of performance or value-for-money auditing, is becoming increasingly important in the public sector. Therefore, it is also expected that this type of audit will be reflected in the context of internal audit capability in the IA-CM at a level higher than compliance auditing.

The literature also underlines the importance of consulting engagements as a key focus point to increase the value added in the role and services of internal auditing (Elliot, Dawson & Edwards 2007:553; Mihret & Woldeyohannis 2008:569; Lueng *et al.* 2011:795; Ernst & Young 2012:18). Internal audit functions that are merely providing assurance in terms of compliance are generally considered to be on the immature side of the spectrum, while those that are considered as strategic advisors to their organisations, are regarded as more mature (Ernst & Young 2012:18).

King III (IOD 2009:93,95), Rezaee (2010:47-48) and Swanson (2010:75-77) discuss the need for internal audit functions to provide overall assurance on governance, risk management and control to the governing body. Swanson (2010:75) does, however, warn that expressing opinions on the adequacy of internal control, for example, should be approached cautiously, as it can create expectation gaps. Internal audit functions should consider a number of factors, such as the evaluation criteria, scope, responsibility for internal control and the

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type of opinion when providing overall assurance. It therefore appears that the IA-CM correctly ranked this KPA at a higher level, namely level four (the managed level).

With regard to the services and role of internal auditing in a South African context, the internal audit performance criteria listed in the MPAT includes three areas that apply to the services and role element of the IA-CM, namely compliance auditing at performance level 3, performance auditing at performance level 3 and extent to which management responds to internal audit reports at performance level 4. The MPAT, therefore, reiterates the fact that internal audit functions that conduct performance audits in addition to compliance engagements, are operating at a higher level of performance. In addition, internal audit reports that receive responses from management also place the applicable internal audit function at higher performance levels, as it brings about change in the organisation. This MPAT criterion can therefore be linked to the highest KPA of the services and role element of the IA-CM, namely "internal auditing recognised as a key agent of change".

Janse van Rensburg and Coetzee (2011:51-53) found that although this element is fairly well addressed in South African legislation and guidance, none of the level five KPAs is addressed. In addition, the level three KPA, performance auditing is also addressed to a limited extent. The following KPA's are therefore not addressed efficiently:

- Performance / value-for-money auditing (level 3).
- Internal auditing recognised as key agent of change (level 5).

However, in terms of the overall analysis in the study, this element was addressed the most comprehensively by the legislation and guidance, along with governance structures (Janse van Rensburg & Coetzee 2011:58).

Erasmus *et al.* (2014:15) noted that the internal audit functions of South African national departments offer compliance audit services, as well as performance

93

audit services and consulting services (as required at levels two and three of the IA-CM). In addition, although the study does not specifically refer to an overall opinion on governance, risk management and control (as required by level four of the IA-CM), it was found that internal audit functions contribute towards the assurance of governance, risk management and the control environment (Erasmus *et al.* 2014:13-14). Lastly, with regard to the KPA at level five of the IA-CM, which relates to the extent to which the internal audit function is recognised as an agent of change, the study identified variances in the perceptions of whether internal audit recommendations are implemented. For in-house internal audit functions, 77% of CAEs, 74% of ACCs and 80% of accounting officers indicated that internal audit recommendations are implemented. The corresponding percentages for outsourced internal audit functions are 75%, 72% and 83% respectively. These variances in perceptions can raise questions as to whether public sector internal audit functions are regarded as agents of change. The study further identified six reasons for not implementing internal audit recommendations, namely that no reliance is placed on recommendations; recommendations are not cost-effective; recommendations made are not practical; incompetence of departmental staff; vacancies in the department; and inferior status of the internal audit function (Erasmus *et al.* 2014:9).

3.3.3.2   People management

This element refers to the extent to which internal audit human resources are acquired and developed. It includes the identification of suitable candidates, job descriptions and performance standards, as well as the provision of adequate remuneration, training, coaching, and promotion and development opportunities (IIARF 2009:11).

The KPAs that have been identified for this element according to the IA-CM are tabled below along with each KPA's main purpose and the corresponding capability level.

Table 3.2: Key process areas for people management

KPA	Capability Level	Purpose
Skilled people identified and recruited	Level 2 (Infrastructure)	To recruit internal audit staff with the required skills and knowledge.
Individual professional development	Level 2 (Infrastructure)	To ensure that internal audit staff maintain and enhance their capabilities on a continuous basis.
Workforce coordination	Level 3 (Integrated)	To coordinate the internal audit plan to the human resource levels within the internal audit function to ensure that sufficient staff capacity exists to execute the plan.
Professionally qualified staff	Level 3 (Integrated)	To recruit and retain professionally qualified internal audit staff.
Team building and competency	Level 3 (Integrated)	To develop internal audit staff members' ability to function effectively in teams.
Workforce planning	Level 4 (Managed)	To develop a workforce plan that establishes the resources, skills, training and other tools required to execute internal audit plans successfully.
Internal audit function supports professional bodies	Level 4 (Managed)	To provide internal audit staff with development opportunities by supporting their involvement in professional bodies.
Internal auditing contributes to management development	Level 4 (Managed)	To integrate the development of the organisation's managers with the training of the internal audit function, especially with regard to governance, risk management and control.
Workforce projection	Level 5 (Optimising)	To develop a strategic workforce development plan that outlines the internal audit function's goals for competency development, in conjunction with the organisation's strategic needs.
Leadership involvement with professional bodies	Level 5 (Optimising)	To support the active involvement of the top leaders of the internal audit function in the leadership of relevant professional bodies.

(Source: IIARF 2009:20-21)

95

The above KPAs cover the human resources elements of internal audit staff planning, recruitment, development, training, retention, involvement in management development, as well as involvement in professional bodies. To determine the accuracy and completeness of these KPAs in terms of the element "people management", relevant literature is reviewed and discussed.

In order to address the many current challenges in the midst of a dynamic and changing global environment, organisations need to invest in more vigorous and proactive internal audit functions (McDonald 2003:47; Sumners & Soileau 2008:1,7-9; Coetzee 2010:79,227; Swanson 2010:65). Internal audit functions are, therefore, required not only to address the standard internal audit demands but also to be flexible enough to be able to assist management in the mitigation of new risks, brought about by global changes such as the economic crisis and increased legislative requirements. The internal audit resources should therefore also exhibit the same flexibility and depth to enable the internal audit function to add value. Internal audit human resources are the greatest of these resources, as no internal audit engagement can be conducted without people. The literature reiterates the importance of not only recruiting adequately qualified internal audit staff, but also sufficiently capacitating, developing and retaining such staff (Frank 2007:28-30; Cecere 2008:48,50; Singer 2008:3; Sumners & Soileau 2008:3-6; The Presidency 2011:26). Recruitment refers to the sourcing and appointment of adequately qualified staff. In addition, Sumners & Soileau (2008:3) recommended that internal audit staff should also be professionally qualified in applicable certifications such as the Certified Internal Auditor (CIA) and the Certified Information Systems Auditor (CISA) qualifications. If adequately certified staff members cannot be sourced, appointed staff members should be encouraged to obtain the necessary certification. Development of staff includes competency building, training and continuously improving the capabilities of internal audit staff members. Internal audit staff retention refers to endeavours employed by the organisation to retain its internal audit staff members, such as motivation, staff development, career mapping, promotion opportunities, mandate rotation and mentoring (Frank 2007:28; Cecere 2008:48; Singer 2008:4-8).

Applicable literature presents the ability of an internal auditor to function in a team, as a critical success factor for internal audit effectiveness. Chambers and McDonald (2013:1,8) identified teamwork as one of the seven attributes of highly effective internal auditors. Collaboration among internal auditors with different technical expertise is essential in order to provide a better service and add more value to stakeholders (Soh & Martinov-Bennie 2011:614; Chambers & McDonald 2013:8).

Literature also emphasises the need to link the internal audit workforce to the internal audit plan. Cecere (2008:47) and Swanson (2010:72) illustrate that effective auditing of the organisational processes cannot be accomplished without comprehensive workforce planning. Singer (2008:6-7) expands on this by adding that workforce planning should include a competency management model detailing the required levels of competencies and competency gaps. This competency model should be based on organisational needs and strategies. This corresponds to the definition of "workforce projection" as described in the IA-CM. McDonald (2003:48) further illustrates that internal audit direction should be based on risk priorities and not on available resources. The workforce should, therefore, be coordinated with the internal audit plan, not the other way around. The literature generally concurs with the KPAs of workforce coordination, workforce planning and workforce projection as depicted in the "people management" element of the IA-CM.

The fact that the internal audit function can contribute to management development is also discussed in applicable literature. Chambers (2012) highlighted that in the modern world, the internal audit profession provides many career opportunities, as it can be considered a long-term career or as a "stepping stone" to other parts of the organisation. The latter career opportunity can be accomplished through rotational policies and programmes, where future operational managers are exposed to internal auditing on a rotational basis. Christopher, Sarens and Lueng (2009:207-208) confirm that this practice is fairly common in the business world, as the internal audit function provides a solid training ground for the different functional areas of the organisation, but warns that it might negatively affect the independence of internal auditors. Therefore, it

97

should be noted that although there are management development benefits to such a rotational programme, some disadvantages do exist and should be considered with regard to its implementation.

Although limited studies could be found with regard to leadership involvement in professional bodies, the Departmental Head of Executive Leadership Network at the Institute of Internal Auditors South Africa (IIA-SA) confirmed that the involvement of CAEs in the profession is essential, as they are important stakeholders who play a fundamental role in steering the IIA (Hechter 2014).

The MPAT supports two of the KPAs listed for this element. Firstly, it reiterates the importance of the IA-CM level two KPA of recruiting suitably qualified internal audit staff. The MPAT also rates this area at level 2, supporting the notion that it is a basic requirement for all public sector internal audit functions (The Presidency 2011:26). Secondly, the MPAT ranks internal audit functions which encourage its members to be registered with the Institute of Internal Auditors (IIA) at level four, supporting the fact that it is a more superior position to be in than merely to have recruited adequately qualified staff (The Presidency 2011:26). In addition, involvement with professional bodies can strengthen the internal audit function, as staff members are recognised as professionals and the internal audit function has access to technical support and products, training, advice and guidance, quality assessment services and international benchmarking opportunities (IIA-SA 2010).

This element is poorly addressed in South African public sector legislation and guidance, as it ranked second last in terms of representation analysis performed in the study by Janse van Rensburg and Coetzee (2011:53-54). The study found that one of the level three and none of the level four and five KPAs are addressed (Janse van Rensburg & Coetzee 2011:53-54,58). The following KPAs are not addressed:

- Team building and competency (level 3).
- Workforce planning (level 4).

- Internal audit activity supports professional bodies (level 4).

- Internal auditing contributes to management development (level 4).

- Workforce projection (level 5).

- Leadership involvement with professional bodies (level 5).

Erasmus *et al.* (2014:23-26) noted several hindrances to effective people management within South African public sector internal audit functions. The study reported that internal audit vacancies and a lack of competent internal audit staff are two of the reasons why internal audit findings are not implemented by management. The study revealed that a vacancy rate of 43% exists in South African national departments. Two other people management hindrances noted by the study are: almost 50% of CAEs do not have a professional qualification and national departments struggle greatly to find suitably qualified internal auditors. These hindrances can negatively affect the capability of South African public sector internal audit functions, especially with regard to the KPAs at levels two and three of this element in the IA-CM. With regard to the KPAs at level four of the model, which relate to the extent to which the internal audit function supports professional bodies, the study found that in general CAEs are aware of the services of the IIA and that all the CAEs who took part in the study, were members of the IIA.

3.3.3.3 Professional practices

This element reflects the processes, frameworks and policies required to capacitate the internal audit function to perform its duties effectively and professionally. It includes the internal audit function's ability to align its own priorities with the organisational priorities and risk management strategies, as well as the internal audit function's contribution to continuous improvement through the maintenance of a quality assurance programme (IIARF 2009:11).

The KPAs that have been identified for this element according to the IA-CM are tabled below, along with each KPA's main purpose and the corresponding capability level.

99

Table 3.3: Key process areas for professional practices

KPA	Capability Level	Purpose
Audit plan based on management / stakeholder priorities	Level 2 (Infrastructure)	To prepare internal audit plans that are informed by stakeholder consultation.
Professional practices and processes framework	Level 2 (Infrastructure)	To maintain a professional practices and processes framework, which includes the policies, processes and procedures that will direct the internal audit function in ensuring that internal audit engagements are conducted with independence, objectivity, proficiency and due professional care.
Risk-based audit plans	Level 3 (Integrated)	To prepare internal audit plans that are informed by regular organisational risk assessments.
Quality management framework	Level 3 (Integrated)	To establish processes to monitor and assess the performance and effectiveness of the internal audit function on a continuous basis.
Audit strategy leverages organisation's management of risk	Level 4 (Managed)	To align the internal audit plan to organisation's enterprise risk management strategy.
Strategic internal audit planning	Level 5 (Optimising)	To understand the organisation's future needs and emerging issues and to continuously adapt the internal audit function's skills and services in order to be able to address these future needs and issues.
Continuous improvement in professional practices	Level 5 (Optimising)	To respond to the results and feedback of the internal audit function's quality assurance programmes in order to continuously improve the internal audit function's ability to be excellent.

(Source: IIARF 2009:22)

The KPAs tabled above illustrate the importance of aligning the internal audit planning processes to the priorities of key stakeholders, the strategy and the risk profile of the organisation. It also covers the need for internal audit policies and

procedures, as well as quality assurance and improvement with regard to internal audit processes.

Applicable literature confirms the need for internal audit functions to ensure that internal audit plans are based on stakeholder and risk priorities (IOD 2009:94; Coetzee 2010:242-246; Swanson 2010:79-84; IIA 2011:26,99-106; The Presidency 2011:26). Coetzee (2010:79-80) argues that internal auditors will add more value if they focus on the future, instead of the past. More value can be added if internal audit efforts are focused on management's key priorities and concerns. The value added through *ad hoc* and unstructured internal audit plans is limited. Swanson (2010:79-84) and Güner (2008:22) discuss the importance of internal audit functions consulting management as well as other applicable stakeholders, such as the board, before developing the internal audit plan. In addition, the internal audit plan should be risk-based, as it should be based on the annual risk assessment of the organisation. The high risk areas of the organisation should be the top priorities of the internal audit function (IIA 2011:26,99-106).

The IIA Standards require CAEs to establish policies and procedures that will guide the internal audit function, such as administrative and technical audit manuals (IIA 2011:28,111). Aumann (2006:23) confirms the importance of a professional practices and processes framework and recommends that such framework should at least include administrative, technical audit and post-audit sections. As this is a requirement of the Standards it is, therefore, to be expected that this KPA will be reflected at level 2 of the IA-CM as an essential basic requirement.

The literature also confirms the need for effective quality management processes for internal audit functions (Dixon & Goodall 2007:3-6; Kinsella 2010:10; IIA 2011:21-25,77-98). Quality assurance reviews are required by the IIA Standards (IIA 2011:21-25). External quality assurance review should be conducted once every five years and can provide valuable insights as to how the internal audit function has performed in terms of its purpose, role, people, position, risk focus, quality of documentation and reporting (Dixon & Goodall 2007:3-6; Kinsella

101

2010:10-12). It follows that such a review should be followed by a feedback process to enable the internal audit function to improve its professional practices and ultimately the level of value added to the organisation (Kinsella 2010:12; Hill, Highful, Baca, Driver, Garner, Goodson, MacCabe & Young 2009:2).

The literature also supports the need for the internal audit function to incorporate the organisation's strategic needs into the internal audit planning processes in order to assist management in anticipating and addressing future problems and opportunities (Sarens & De Beelde 2006:236; Güner 2008:22-23; Ernst & Young 2010:8; PWC 2012:15). The 2012 state of the internal audit profession study (PWC 2012:15) found that internal audit stakeholders require internal audit functions to place more emphasis on strategic issues such as talent, labour, new products and economic uncertainty. Sarens and De Beelde (2006:236) further state that internal audit functions should play a more consultative role in order to achieve this. Internal audit planning processes, such as the annual internal audit plan, as well as staff and other resource requirement planning, should take this into account to ensure that the internal audit function is always ready to assist management with new emerging issues.

With regard to professional internal audit practices within a South African context, the MPAT addresses one of the IA-CM KPAs, namely the level three requirement that internal audit plans should be risk-based. The MPAT ranks this requirement at two different levels. Firstly, it is ranked at level two, stating that the internal audit plan should be based on the organisational risk assessment. Secondly, reference to the requirement is again made at level four, where it is required for internal audit function to update their internal audit plans on an annual basis (The Presidency 2011:26).

Janse van Rensburg and Coetzee (2011:54-55,58) found that this element has been addressed fairly well in South African legislation and guidance, as it ranked third in terms of representation analysis. Only one KPA, namely continuous improvement in professional practices (level 5) has not been addressed.

The study by Erasmus *et al.* (2014) did not report on professional practices, however references were made to the level two KPA that relates to risk-based audit plans, as well as the level four KPA that relates to audit strategy that is linked to organisational risk management activities. The study found that internal audit functions were taking risk assessments into account when preparing internal audit plans (Erasmus *et al.* 2014:18). In addition, the study also found that although CAEs are generally satisfied that their internal audit functions contribute to the organisation's risk management framework and risk management activities, the accounting officers and audit committee chairpersons (ACCs) were less satisfied with this contribution (Erasmus *et al.* 2014:17-18).

3.3.3.4   Performance management and accountability

This element refers to the information that is required to enable the internal audit function to operate effectively and to give an account of its performance. It includes the identification and communication of the information that internal audit staff members at all levels will require in order to perform their responsibilities. In addition, it includes the gathering, protection and reporting of performance information pertaining to the effectiveness of the internal audit function (IIARF 2009:12).

The KPAs that have been identified for this element according to the IA-CM are tabled below, along with each KPA's main purpose and the corresponding capability level.

Table 3.4: Key process areas for performance management and accountability

KPA	Capability Level	Purpose
Internal audit business plan	Level 2 (Infrastructure)	To establish a periodic, administrative and support service plan for the internal audit function.

KPA	Capability Level	Purpose
Internal audit operating budget	Level 2 (Infrastructure)	To have its own internal audit budget to plan the activities of the internal audit function.
Internal audit management reports	Level 3 (Integrated)	To prepare and use internal audit management reports to support the internal audit operations, decision-making and accountability structures.
Cost information	Level 3 (Integrated)	To have sufficient access to cost information to allow the internal audit function to manage its activities economically and efficiently and to integrate the relationships between inputs and outputs.
Performance measures	Level 3 (Integrated)	To develop, monitor and report on clear performance measures for the internal audit function.
Integration of qualitative and quantitative performance measures	Level 4 (Managed)	To effectively balance the use of quantitative and qualitative performance data in measuring and monitoring performance measures.
Public reporting of internal audit effectiveness	Level 5 (Optimising)	To demonstrate transparency by public reporting of the effectiveness of the internal audit function.

(Source: IIARF 2009:23)

The KPAs of this element covers internal audit aspects such as a business plan and budget for the internal audit function, performance information and performance reporting mechanisms.

The IIA Standards highlight the importance of internal audit business plans and budgets as basic planning tools (IIA 2011:26-27,109-110). The CAE is primarily responsible for both documents. The internal audit plan should, as a minimum, reflect the planned activities of the internal audit function and the resources required to execute the plan (IIARF 2009:80; IIA 2011:26,110). In order to ensure that the resource needs are sufficient and that resources are deployed effectively, an internal audit operating budget should be developed. Coetzee (2010:130-131) identified an adequate budget as one of the essential elements that ensures an

effective internal audit function. The study identified that the internal audit budget for South African private sector organisations is 0.28% of revenue and for public sector organisations, 0.17% of expenditure, both much higher than the international norm of 0.04% (IIA 2007:9; Coetzee 2010:321-322). As the internal audit plan and the internal audit budget are two basic requirements to ensure internal audit effectiveness, it is expected that these two KPAs will be reflected at level 2 of the IA-CM.

The literature has emphasised the importance of internal and external monitoring of the performance of internal audit functions (Gramling & Hermanson 2007:39; Archambeault, DeZoort & Holt 2008; Gramling & Hermanson 2009:36). Such performance monitoring activities should include internal audit management reports, cost information, as well as other performance measures. Internal audit management reports entail the reporting of internal audit performance and management information required to manage the day-to-day activities of the internal audit function (IIARF 2009:82). Cost information relates to the cost of the services provided by the internal audit function. In a study performed by Hill *et al.* (2009), several commonly-used performance measures have been identified for internal audit functions. These measures were categorised according to environmental measures, output measures, quality measures, efficiency measures and impact measures (Hill *et al.* 2009:11-16). The efficiency measures mentioned in the study specifically highlight the importance of cost information as a performance measure for the internal audit function, although the study found that such measures are not frequently used (Hill *et al.* 2009:14-15). Archambeault *et al.* (2008:384) as well as Gramling and Hermanson (2009:36), further recommend that internal audit performance reporting should be done to external stakeholders. This concurs with the IA-CM's highest level KPA for this element, namely public reporting of internal auditing effectiveness.

The MPAT of the Presidency does not refer to any of the KPAs listed for this element. However, the MPAT is a public report that includes reporting on internal audit effectiveness, and therefore addresses the level five requirement of public reporting of internal audit effectiveness.

According to the study performed by Janse van Rensburg and Coetzee (2011:55,58), this element is addressed the least in the South African public sector legislation and guidance. Various KPAs at all levels have not been addressed. These unaddressed KPAs are:

- Internal audit operating budget – addressed to a limited extent (level 2).
- Business plan – addressed to a limited extent (level 2).
- Cost information (level 3).
- Internal audit management reports (level 3).
- Integration of qualitative and quantitative performance measures (level 4).
- Public reporting of internal audit effectiveness (level 5).

With regard to the level two KPA of the IA-CM for this element that relates to internal audit budgets, Erasmus *et al.* (2014:11) noted that the majority of national departments highlighted insufficient budget allocations as their main hindrance to effectiveness. Internal audit activities cannot be executed effectively without the required resources and this can also negatively affect the capability of South African public sector internal audit functions. When analysing the study performed by Coetzee (2010:321-322), it appears that the internal audit budgets of South African public sector organisations are sufficient, when compared to the international norm. It can therefore be argued that South African public sector internal audit functions should manage their resources more efficiently.

3.3.3.5   Organisational relationships and culture

This element refers to the internal and external position and relationships of the internal audit function, including its relationship with the organisation it serves. These relationships include the CAE's relationship with senior management, the internal audit function's relationship with other organisational units, as well as with other assurance providers, such as external auditors. It also includes the impact of organisational policies and culture on the internal audit function's ability to access the information it requires to conduct its activities (IIARF 2009:12).

The KPAs that have been identified for this element according to the IA-CM are tabled below, along with each KPA's main purpose and the corresponding capability level.

Table 3.5: Key process areas for organisational relationships and culture

KPA	Capability Level	Purpose
Managing within the internal audit function	Level 2 (Infrastructure)	To focus on the internal management and internal relationship of the internal audit function itself. Communication with external stakeholders is focused on the internal business of the internal audit function.
Integral component of management team	Level 3 (Integrated)	To participate in organisational management activities and being recognised as part of the management team.
Coordination with other review groups	Level 3 (Integrated)	To adequately coordinate assurance and consulting efforts with service providers to ensure maximum coverage and no overlap.
CAE advises and influences top-level management	Level 4 (Managed)	To be regarded by management as a key advisor and influencer in the vision, leadership and foresight of the organisation.
Effective and ongoing relationships	Level 5 (Optimising)	To maintain a strong and ongoing relationship with management, audit committee and other key stakeholders.

(Source: IIARF 2009:24)

The KPAs of this element describe how the internal audit function is focused on its own management (at the lower level) and how it relates to the management team, other assurance providers and top-level management (at the higher levels).

The literature confirms that internal audit functions are considered superior if their relationships with management and the board are not merely focused on their own affairs. Sarens and De Beelde (2006:220) confirm that such self-focused internal audit functions run the risk of being regarded as obstacles to the achievement of organisational objectives instead of valued advisors and assurance providers that are part of the management team. Relevant literature

107

has also accentuated the importance of this relationship by illustrating the many expectation gaps that exist between the internal audit function and stakeholders (Sarens & De Beelde 2006:228-238; Güner 2008:23-31). The fact that these gaps exist, reveals that the relationships between the internal audit function and management are not always optimal. An optimal and professional relationship between the internal audit function and senior management can be mutually beneficial to both parties. The internal audit function can provide management with valuable independent assurance and advice on governance, risk management and control processes, while management can play an important role in providing the necessary administrative support for the accomplishment of day-to-day internal audit activities (Sarens & De Beelde 2006:223-224; Güner 2008:21). For this relationship to be established, the internal audit function should be regarded as an integral part of the management team and should be in a strong position to influence top-level management (Glascock 2006:100). This is especially true for the CAE. Glascock (2006:100) further emphasises that if the CAE has full access to senior management and the board, the internal audit function will be in a better position to compare what management presents to the board as reality and what the CAE perceives as organisational reality. In addition, attendance of board meetings will also raise the status of the internal audit function and can assist the CAE to understand the risks and challenges of the organisation better.

Other important stakeholders include, *inter alia,* the other assurance providers of the organisation. Internal audit efforts should be coordinated with the efforts of these assurance providers in order to ensure optimal assurance coverage and minimum overlap (IOD 2009:62). For example, Gramling and Vandervelde (2006:26) aligned the quality of the internal audit function with the ability of external auditors and other assurance providers to rely on the work of internal auditing. The study identified some obstacles in this coordination process with regard to the difference in the perceptions of internal audit objectivity between external and internal auditors. The study also concluded that although attention should be given to these obstacles, the two different assurance providers are well positioned to work together effectively and efficiently (Gramling & Vandervelde 2006:32-33).

Although it is concluded that the KPAs that are listed for this element are in essence supported by the literature, one area that appears to be neglected in this regard is the relationship between the internal audit function and the audit committee. Although the importance of an audit committee is included in the next element (governance structures), it does not refer to the relationship between the audit committee and the internal audit function. Marx (2008:295), Van der Nest (2008:179), Christopher *et al.* (2009:204) and the IIA (2011:51) emphasize the importance of an established relationship and open line of communication between the CAE and the chairperson of the audit committee. Such a relationship does not only strengthen internal audit independence, but also contributes to the effectiveness of internal audit efforts (Christopher *et al.* 2009:204). It is expected, therefore, that this relationship should be listed as one of the KPAs of this element.

The MPAT of the presidency does not refer to any of the KPAs listed for this element.

Janse van Rensburg and Coetzee (2011:55-56,58) found that although all the KPAs of this element are addressed by South African legislation and guidance, the level four and five KPA are only addressed in the King III report, and therefore only to a limited extent. Therefore, the following two KPAs are only partially addressed:

- CAE advises and influences top-level management (level 4).
- Effective and ongoing relationships (level 5).

Erasmus *et al.* (2014) address only one of the KPAs for this element, namely the coordination of internal audit efforts with the assurance efforts of other review groups. The study found that external auditors do, in general, rely on internal audit work but only to a certain extent (Erasmus *et al.* 2014:10). The accounting officers, ACCs and CAEs that participated in the study indicated that perceived reliance ranged from 51.6% to 61.3% for in-house internal audit functions and from 55.6% to 66.7% for outsourced internal audit function. As the reliance

109

appear to be less for in-house internal audit functions, compared to outsourced internal audit functions, the study recommends that this be included as an area for staff competency development.

3.3.3.6 Governance structures

This element constitutes the functional and administrative reporting structures of the CAE, as well as the organisational position of the internal audit function within the organisation. It includes the mandates, authorities, policies and procedures that are established to ensure independence and objectivity of the internal audit function (IIARF 2009:12).

The KPAs that have been identified for this element according to the IA-CM are tabled below, along with each KPA's main purpose and the corresponding capability level.

Table 3.6: Key process areas for governance structures

KPA	Capability Level	Purpose
Reporting relationships established	Level 2 (Infrastructure)	To establish formal reporting relationships.
Full access to the organisation's information, assets and people	Level 2 (Infrastructure)	To have the authority to gain full access to the organisation's information, assets and people.
Funding mechanisms	Level 3 (Integrated)	To establish a vigorous funding process that ensures sufficient resources for the internal audit function to accomplish its goals.
Management oversight of the internal audit function	Level 3 (Integrated)	To establish an organisational mechanism that provides oversight, advice and independent monitoring of the internal audit function to strengthen its independence.
CAE reports to top-level authority	Level 4 (Managed)	To ensure that the CAE reports functionally to the governing body and administratively to the chief executive officer (CEO) or the governing body.

110

KPA	Capability Level	Purpose
Independent oversight of the internal audit function	Level 4 (Managed)	To establish an oversight body that is independent of the organisation to strengthen the independence and enhance the influence of the internal audit function.
Independence, power and authority of the internal audit function	Level 5 (Optimising)	To fully establish the independence, power and authority of the internal audit function.

(Source: IIARF 2009:25)

The KPAs of this element cover the aspects necessary to ensure that the internal audit function has the required level of access to the organisation's people, assets and information, internal audit funding mechanisms are established, functional and administrative reporting lines are in place, and that the required level of management and independent oversight over the internal audit function has been established.

The fact that the internal audit function should have unrestricted access to the information, assets and people of the organisation are addressed in the IIA Standards as a basic and essential internal audit requirement (IIA 2011:15,47). In addition, the Standards also require that any impairment to independence should be adequately disclosed (IIA 2011:19). The Glossary to the Standards specifically lists restrictions on access to the records, personnel or property of the organisation as an impairment. The internal audit function will not be able to achieve its mandate without sufficient access to the records, personnel and assets of the organisation it serves (Mihret & Yismaw 2007:481). For example, if restrictions are placed on the extent to which the internal audit function can access records, the function will not be able to make the necessary conclusions with regard to the risks and controls applicable to the area under review. It is, therefore, expected that this KPA should be positioned on the infrastructure level (level 2) of the IA-CM as a basic requirement.

Funding mechanisms (listed as a level 3 KPA for this element) can also be seen as a critical success factor for ensuring good governance and the independence

of the internal audit function. This process should be robust and independent of management influence (IIARF 2009:94). It entails the independent determination of internal audit resource needs, as well as a transparent budgeting process to fund such resource needs. Refer to section 3.3.3.4 for the literature review discussion on budgets.

The IIA Standards establish the basis for management oversight of the internal audit function by requiring the internal audit charter to be approved by senior management and the board. In addition, the Standards require that the internal audit plan, as well as the performance of the internal audit function against this plan, be communicated to senior management and the board (IIA 2009:10-14,26-28). This implies that management should provide advice and oversight to the internal audit function by ensuring its purpose, authority and responsibility as well as by providing insight into the activities of the internal audit function.

The literature has emphasised the importance of establishing internal audit reporting lines. The issue of reporting lines is also normally discussed within the context of internal audit objectivity and independence (Nueske 2007:28). According to the IIA Standards, the CAE should report to a level within the organisation that best allows the internal audit function to achieve its objectives (IIA 2011:16-17). The literature has suggested that in order to achieve this, the internal audit function should report administratively to the highest level of management and functionally to the audit committee (Marx 2008:291; Christopher, *et al.* 2009:214; IOD 2009:97; Stewart & Subramaniam 2010:331). Holt (2012:886-892) performed a study on the extent to which internal audit reporting relationships affect investor perceptions and found that perceived disclosure credibility is notably higher when the CAE reports administratively to the CEO and functionally to the audit committee. In addition, a study performed by Christopher *et al.* (2009:214) in Australia, found that several organisations do not comply with the latter part of this requirement and that this poses a risk of lost independence. The reason for this is the fact that the audit committee serves as an independent oversight body for the internal audit function (Van der Nest 2005:76; Marx 2008:1,289-290). If this reporting relationship is distorted, independence could be lost.

The MPAT includes one of the IA-CM KPAs, namely the requirement that the CAE reports to top-level authority. The MPAT requires that the CAE should report administratively to the accounting officer and functionally to the audit committee (The Presidency 2011:26). This requirement ranks at level two of the MPAT.

The study performed by Janse van Rensburg and Coetzee (2011:56-58) found that this element, along with the services and role of internal auditing is the best addressed. The only KPA that has not been mentioned in any of the legislation and guidance documents is funding mechanisms (level 3).

Erasmus *et al.* (2014:5-6) noted that CAE reporting lines are mostly in line with recommendations contained in the IIA Standards, as they generally report functionally to the audit committee and administratively to the accounting officer. This is in line with the required levels two and four KPAs of this element of the IA-CM. With regard to the level three KPA that relates to funding mechanisms, Erasmus *et al.* (2014:11) noted that the majority of national departments highlighted insufficient budget allocations as their main hindrance to effectiveness (as discussed in section 3.3.3.4). Lastly, with regard to the level 4 KPA that relates to independent oversight of the internal audit function, the study identified several factors that influence the effectiveness of audit committees, which serves as the independent oversight body of the internal audit function (Erasmus *et al.* 2014:12-13). These factors includes *inter alia* membership composition; membership knowledge; the non-financial information the audit committee is furnished with; time period of members serving on the audit committee; membership objectivity and independence; meeting attendance of members as well as accounting officers, membership contributions; discussion of internal audit findings and the fairness of members' self-evaluations. The study found that a high level of perceived audit committee effectiveness exist among CAEs, ACCs and accounting officers. On average, 72.7% of accounting officers, 78.3% of ACCs and 76.1% of CAEs rated their audit committees as effective in terms of the aforementioned factors.

3.3.3.7   Conclusion

In sections 3.3.3.1 to 3.3.3.6, each element of the IA-CM was analysed in terms of applicable literature. These sections presented applicable supporting literature for the KPAs of each element. Although it can be concluded that the KPAs of all six IA-CM elements of internal auditing are adequately supported by literature, it should be noted that the aim of the discussion was not to determine the completeness of the KPAs listed for each element. With regard to the South African context of the elements of the IA-CM, as discussed above, three conclusions can be drawn.

Firstly, the KPAs listed in the MPAT align with applicable KPAs in the IA-CM. Seven of the 41 IA-CM KPAs (17%) are supported by those listed in the MPAT, covering four of the six elements of the IA-CM.

Secondly, the above discussions of the IA-CM elements presented the results of applicable South African literature with regard to the extent to which each element is addressed by legislation and guidance. In this regard, it appears that a total of 18 of the 41 KPAs (43.9%) listed in the IA-CM are not covered by the most prominent South African legislation and guidance. Therefore, 56.1% of the IA-CM's KPAs are covered by South African legislation and guidance. This might present a potential hindrance in the application of the model within a South African context. However, it should also be noted that the shortcomings mostly pertain to the KPAs at levels four and five of each element. As the purpose of a capability model is not necessarily to obtain the highest level of capability, it is therefore understandable, to a certain extent, that legislation and guidance may not prescribe all the KPAs, especially those at the higher capability levels.

Thirdly, the above discussions of the elements of the IA-CM also revealed that the results of the study performed by Erasmus *et al.* (2014) supports sixteen of the 41 KPAs (39%) listed in the IA-CM, covering all six the elements of the model.

114

However, in light of the above, the following questions still remain: firstly, whether this model has been successfully applied to evaluate an internal audit function's capability and, secondly, whether this application can be done within a South African context.

3.3.4   Application of the model

Owing to the fact that this is a fairly new model, only limited literature on the application of the model could be found. However, the IA-CM has been applied successfully in the central government of the United Kingdom (UK) (Macrae 2010:69; Macrae 2012:18). The UK's Ministry of Defence used the IA-CM, among other tools, as a self-assessment tool during 2010 in order to review its internal audit capability (NAO 2012:24). The results of the review indicated several positive and several developmental findings reflecting on the existing state of this internal audit function. The positive findings include that sufficient feedback is received from internal audit customers, sufficient opportunities exist for the internal audit function to influence the organisation, a good internal audit working environment exists and improved quality of internal audit work. The developmental findings include that the internal audit function generally has a low credibility and profile in the organisation, the level of value added is not sufficient, audit methods are in need of development and reporting times are too slow (NAO 2012:24). In addition, Macrae (2012:18) noted that the review in the UK central government provided the following lessons that were learned from the exercise:

- The purpose, structure and principles of the IA-CM need to be clearly understood before the tool is utilised.
- The IA-CM may have to be customised to suit the needs of the specific internal audit function under review.
- The IA-CM can only be applied if there is a clear commitment from top management in terms of the review itself, as well as to the outcomes and action plan that result from the review.
- Openness and honesty must be encouraged.
- An approach of inclusivity must be followed.

115

The above factors will be considered during the execution of the empirical phase of this study, which is aimed at answering the second question mentioned in section 3.3.3.7 above, namely whether the IA-CM can be applied in a South African public sector organisation.

3.4   CONCLUSION AND RELEVANCE TO THE STUDY

The use of capability models, as well as the elements and KPAs of the IA-CM, are discussed and debated in this chapter. This section summarises the aspects that are most relevant to the study, as identified in the literature.

The use of capability models within practice and in research has increased significantly over the last decade. Capability models can be traced back to the early 1970s with the introduction of several models relating to growth and maturity within the field of information technology. These models culminated in the development of the CMM of the SEI, which was also developed for the software development field. Subsequently, capability models have been developed for many other business processes and industries. The SEI model appears to have formed the foundation of many of these subsequent capability models.

The SEI model proposes that a capability model include at least the following:

- Capability levels.
- Process areas/categories.
- Key practices.

The development and application of a capability model can provide many benefits for the process under review. These include the following:

- It can be a tool for organisations with regard to process assessment, improvement and benchmarking of capabilities.

116

- It can contribute to cost reductions, timeliness, higher productivity, improved retention of competitive advantages and increased quality.

The concept of capability models has also been applied to the internal audit field, with the publication of the IA-CM in 2009. The model was specifically developed for the public sector and contains all the common elements as found in the SEI model. The IA-CM consists of five capability levels, namely the initial level, the infrastructure level, the integrated level, the managed level and the optimising level. In addition, the model identified six elements of internal auditing, namely the services and role of internal auditing, people management, professional practices, performance management and accountability, organisational relationships and culture and governance structures. Each of the six elements also contains several KPAs which describe the desired capabilities that should be in place to move from one capability level to the next.

Based on the SEI model, which is considered a quality model, the IA-CM can be regarded as a yardstick to be used by public sector internal audit functions with regard to measuring capability. However, the following two factors, as highlighted by the model, may potentially limit the extent to which the model could be used within a South African context:

- Public sector internal audit environments differ from country to country. Factors such as organisational capacity levels, access to infrastructure, and risk profiles, for example, will not be the same for all countries. These differences can impact on internal auditing in the public sector and may have an effect on the ability of a nation's public sector to implement effective internal audit functions and internal audit capabilities.
- The IA-CM also acknowledged the fact that internal audit functions have more control over certain KPAs, than others. Some KPAs, especially those at the higher capability levels, require external environmental prerequisites, over which the internal audit function has little or no control.

The two limitations above relate directly to the main objective of this study, namely to determine the applicability of the model within a South African context. Based on the assumption that no two countries are the same and that internal audit functions do not have control over all the KPAs, the question remains as to whether the IA-CM can be applied within a South African context. The question that precedes this one is whether the contents of the model are addressed by South African public sector legislation and guidance. The literature review conducted in this chapter concluded that 56.1% of the KPAs listed in the IA-CM are covered by the most prominent South African legislation and guidance. This might present a potential hindrance in the application of the model within a South African context. However, it should also be noted that the shortcomings mostly pertain to the higher capability levels and that the purpose of a capability model is not necessarily to obtain the highest level of capability.

The literature review also highlighted the following two positive aspects with regard to the applicability of the IA-CM that are relevant to this study:

- The literature generally supports the KPAs listed in the model for each of the six elements. In addition, most of the KPAs of each element can also be aligned to applicable South African literature in terms of legislation, guidance and other studies that are applicable to the South African public sector.
- The IA-CM has been applied successfully in the UK. The application provided the applicable organisation with insight into several internal audit strengths and weaknesses. In addition, it also provided several lessons learned from the exercise. These lessons will be taken into account for the empirical phase of this study. Taking into account the experience of the central government of the UK, it should be noted that although the IA-CM has been developed as a universal model for public sectors around the world, no two countries are the same. The question therefore arises as to whether the model can be applied in its current state in any country.

In light of the main objective of this study the above question can be rephrased as follows: can the IA-CM be practically applied within a South African context. In the next chapter, the empirical research design and methodology that have been used in order to answer this research question, is discussed.

CHAPTER 4

EMPIRICAL RESEARCH PLAN

4.1   INTRODUCTION

The main research objective of this study, as discussed in section 1.5.3, is to determine whether the Internal Audit Capability Model (IA-CM) can be used by a South African public sector internal audit function to determine its capability level. A literature review was conducted in the two preceding chapters to synthesise current literature on the topics of the South African public sector, internal auditing within the public sector, as well as the IA-CM. In chapter two, the extent to which the South African public sector faces challenges that impact on its ability to deliver quality services to the public, was discussed. In addition, public sector internal auditing was also considered as one of the several parties that can assist government in identifying and addressing these challenges. However, for internal auditing to support effectively the managements of the government organisations they serve, the internal audit function of these organisations should be sufficiently capable. This raises the question as to whether South African public sector internal audit functions meet this criterion of capability. In chapter three, the IA-CM was discussed as a comprehensive capability model that can assist in measuring public sector internal audit capability. However, the question remains whether this model can be applied within a South African context. This is the main research question of this study.

This chapter provides an exposition of the empirical research methodology that was followed in this study in order to answer the main research question. Firstly, it includes an explanation of the research methodology, design, and methods that were used in this study. Secondly, a discussion on how the case was selected and how the data was obtained and analysed is also provided.

4.2 RESEARCH METHODOLOGY AND DESIGN

This section provides an exposition of the research methodology, design and methods chosen for this study.

4.2.1 Research methodology

Mouton (2001:144), Saunders, Lewis and Thornhill (2007:132-134) and Yin (2011:287) list the various research methodologies that can be used in empirical studies, namely quantitative, qualitative and mixed-method methodologies. Quantitative research aims at studying the relationships among variables to explain or predict phenomena, while qualitative research aims at analysing the complex nature of phenomena in order to describe and understand those phenomena (Leedy & Ormrod 2005:94). A qualitative study is, therefore, more likely to conclude with provisional answers about what was observed. Yin (2011:7-8) adds that the main characteristics of a qualitative research methodology include the study of phenomena within real-world conditions, based on the views and perceptions of different people and covering the contextual conditions within which people operate.

The main objective of this study requires that specific data be obtained with regard to the applicability of an existing model within a real-world scenario. As this approach includes structured interviews to gain the perceptions of different people within the selected case, in order to understand, rather than predict phenomena, a qualitative research methodology was used.

4.2.2 Research design

In order to answer the main research question, specific data was required with regard to the key process areas (KPAs) within the IA-CM for each capability level and element. As the objective of the study essentially involves the application of an already existing model and in light of the specific information that is required in order to meet this objective, a single case study research design was selected.

The main objective of the case study is to determine whether the IA-CM can be applied within a South African public sector organisation and the extent to which the model, as well as the selected organisation or government legislation and guidance, should be adapted in order for the model to be applicable within a South African context.

A case study can be defined as a qualitative research method in which detailed, rich data is gathered within a real-life context in order to improve the understanding of a specific situation or phenomenon (Leedy & Ormrod 2005:108; Saunders *et al.* 2007:139; Yin 2009:4). The main advantage of a case study approach is that it is especially suitable for research problems about which little is known (Leedy & Ormrod 2005:136) and research questions that must be answered by asking "how" and "why" (Yin 2009:8). Yin (2009:8-9) further illustrates that a case study research design is applicable when the researcher has no control over the actual behavioural events that pertain to the phenomenon under review and when the study's focus is on contemporary rather than historic events. As this study calls for an in-depth investigation and analysis of the real-life internal audit operations of a public sector organisation (over which the researcher has no control), it appears that a case study research design would provide the best opportunity to achieve the research objectives.

The main disadvantage of a case study, however, is that when only a single case is studied, the results cannot necessarily be generalised to all situations and must therefore await additional support from future studies (Leedy & Ormrod 2005:136; Yin 2009:15). The chosen research design, therefore, places a limitation on this study, as the results obtained for the selected national department cannot necessarily be generalised to other national departments or other spheres within government.

4.3   SELECTION OF THE CASE AND RESEARCH METHODS

As stated in section 4.2.2, a case study research design was selected, which involved the selection of a South African public sector organisation as the case

and the application of the IA-CM to the selected case. This section provides an overview of, firstly, how the case was selected and, secondly, which specific research methods and activities were applied to the selected case in order to achieve the research objective.

4.3.1 Selection of the case

The South African public sector can be categorised across the three spheres of government, namely, in national government, provincial government and local government (refer to section 2.3.2. Owing to the broad scope of the IA-CM, it would be impractical to apply the model to all three spheres of government. Consequently, it was decided to limit the study to the internal audit functions of national government only. The reason why national government departments were chosen is that, according to the Auditor-General of South Africa (AGSA) (2011a:21-22), the internal audit functions of this sphere of government are more effective as a key control over financial management and reporting than the internal audit functions of provincial government (AGSA 2011b:33,40) or local government (AGSA 2011c:2-3,32). In addition, according to the AGSA (2011a:1; 2011b:14; 2011c:1), national government performed significantly better in terms of receiving unqualified audit opinions (74%), compared to provincial government (56%) and local government (40%). These figures suggest that national government would most probably have a better chance of having mature internal audit functions and would therefore be more applicable to the IA-CM, which is a prerequisite in addressing the research question. The target population for the selection of the case included the 40 national departments of South Africa as on 6 May 2014. A sample of one national department was selected from the target population and was subjected to a case study. Yin (2009:47-48) argues that a single case is justifiable when the study aims to critically test, confirm, challenge or extend an existing theory. As the main objective of the study entails the application of the elements and KPAs of the IA-CM (an existing model) to the South African context, it can be argued that the study aims to confirm, challenge, extend and refine the IA-CM and that a single case would, therefore, be sufficient in order to achieve the main research objective.

In order to select the most appropriate case from the target population, an attempt was made to analyse the current capability of South African public sector internal audit functions. The analysis was based on three assessment reports, namely the Presidency's Management Performance Assessment Tool (MPAT) (refer to section 3.3.3) scorecard of national departments self-assessment, the MPAT formal assessment report, as well as the 2011/2012 consolidated general report on national and provincial audit outcomes (part 2) of the AGSA (2012b). All three reports used a four-scale assessment criteria framework. The two MPAT reports rated the internal audit functions at four performance levels, where level 1 constitutes a national department that does not have an internal audit function, while level 4 refers to a national department that has an active internal audit function where management acts on internal audit reports. The AGSA report also rated the internal audit functions of national departments on four levels, where level 1 refers to a condition where a significant control deficiency exists, level 2 refers to a condition where intervention is required, level 3 is classified as a causing concern and level 4 as a good internal audit function (AGSA 2012b). The main purpose of this analysis was to identify the top ten departments in terms of internal audit capability in order to select the most appropriate case for the case study. The results of the analysis are documented in table 4.1 below.

Table 4.1:   Analysis of South African public sector internal audit capability according to assessment reports

	National Department	MPAT - Self Assessment	MPAT - Audit	AGSA	Weighted average
1	Agriculture, Forestry and Fisheries	4	1	1	2
2	Arts and Culture	4	1	4	3
3	Basic Education	3	2	3	2.7
4	Communications	3	2	4	3
5	Cooperative Governance and Traditional Affairs	3	2	3	2.7
6	Correctional Services	3	2	3	2.7
7	Defence and Military	Not assessed	1	2	1.5
8	Economic Development	2	2	4	2.7
9	Energy	3	2	4	3
10	Environmental Affairs	4	1	4	3
11	Government Communication and Information System	4	4	4	4
12	Health	Not assessed	4	3	3.5

124

	National Department	MPAT - Self Assessment	MPAT - Audit	AGSA	Weighted average
13	Higher Education and Training	Not assessed	2	3	2.5
14	Home Affairs	2	2	1	1.7
15	Human Settlements	4	2	4	3.3
16	Independent Complaints Directorate	Not assessed	1	4	2.5
17	International Relations and Cooperation	3	2	4	3
18	Justice and Constitutional Development	1	2	2	1.7
19	Labour	4	3	4	3.7
20	Military Veterans	3	1	1	1.7
21	Minerals Resources	4	2	4	3.3
22	National Treasury	Not assessed	2	4	3
23	Performance Management and Evaluation	3	3	4	3.3
24	Police	Not assessed	1	4	2.5
25	Public Administration and Leadership Academy	4	1	4	3
26	Public Enterprises	4	4	4	4
27	Public Service and Administration	3	4	4	3.7
28	Public Service Commission	Not assessed	2	4	3
29	Public Works	3	3	2	2.7
30	Rural Development and Land Reform	3	2	4	3
31	Science and Technology	4	4	4	4
32	Social Development	4	4	3	3.7
33	Sport and Recreation South Africa	3	1	4	2.7
34	Statistics South Africa	Not assessed	3	4	3.5
35	The Presidency	3	4	4	3.7
36	Tourism	4	3	4	3.7
37	Trade and Industry	4	4	3	3.7
38	Transport	Not assessed	2	2	2
39	Water Affairs	3	3	3	3
40	Women, Children and People with Disabilities	1	2	1	1.3

Based on the above results, the final population for the selection of the case was narrowed down to nine departments. The above table indicates that only three national departments scored a weighted average of 4, namely the Departments of Government Communication and Information Systems, Public Enterprises, and Science and Technology. An additional six departments scored an average of 3.7, namely the Departments of Labour, Public Services and Administration, Social Development, The Presidency, Tourism, and Trade and Industry. These nine departments were selected as the final population. Two additional departments scored an average of 3.5, namely the Departments of Health and

Statistics South Africa. However, these two departments were not included in the final population, owing to the fact that all three assessments were not applied to them. One of these nine departments was selected to be the sample unit of this study based on professional judgement and accessibility to the final target population. For confidentiality purposes, the name of the selected department is not disclosed.

4.3.2 Research methods

In order to answer the main research question (refer to section 1.5.2), detailed data of the internal audit function of the selected case was required. The data was gathered primarily through a documentary review and semi-structured interviews with various applicable role players within the selected case, in order to obtain all the required information as per the structure of the IA-CM.

A documentary review can be defined as scrutinising the content of applicable text or documents (Mouton 2001:165). The principal advantage of a documentary review is that it is not dependent upon a response rate from the research subjects. This implies that the errors linked to the interaction between researchers and research subjects are avoided. In addition, the document review is very helpful for research involving large volumes of data (Mouton 2001:166). On the negative side, the validity of the data sources used might present a methodological limitation (Mouton 2001:166). Since no interaction will take place with the research subject, there is little room for validating or confirming the content of the documents under review. In addition, there is also the risk that a documentary review will not be sufficient to provide all the required information to reach the stated research objectives. These two limitations have been addressed by the fact that semi-structured interviews with selected officials within the case have been conducted.

Saunders *et al.* (2007:611) define a semi-structured interview as one that commences with a predefined set of questions but where additional questions can be added during the interview, based on the answers received. Semi-

structured interviews have been selected as the main data collection method, owing to the fact that although the KPAs of the IA-CM constitute the bulk of the questions that should be answered in order to achieve the research objectives, additional "why" or "why not" questions were required in order to identify potential instances where the model cannot be easily implemented within a South African context. The main advantage of conducting interviews as a means of data collection, is that they enable the researcher to establish a relationship with the participants and therefore enhance cooperation (Leedy & Ormrod 2005:184-185). Interviews also allow the researcher to clarify ambiguous questions or answers and to obtain follow-up information. The main disadvantage of interviews is the time involved in the collection of data (Leedy & Ormrod 2005:185).

The detailed data collection and analysis steps that were followed in the case study are discussed in sections 4.3.2.1 to 4.3.2.5 below.

4.3.2.1   KPA question checklist

A detailed KPA question checklist was prepared in order to identify all the specific questions that should be answered by the empirical phase of the study. This checklist was based on the literature review and is documented in Annexure B. The checklist includes questions that pertain to the 41 KPAs of the IA-CM. These questions are categorised, firstly, according to the six elements of the model and, secondly, according to the five capability levels within each element. The questions were designed in such a manner that they reflect the essential aspects of each KPA in order to determine the extent to which the applicable KPA was achieved, partially achieved or not achieved. The questions were also designed in such a manner that they could be answered by "Yes", "No" or "Partially".

4.3.2.2   Documentary review

Based on the KPA question checklist (refer to Annexure B), a review of applicable documents was performed on the selected case. This review included applicable documents that relate to the internal audit function, such as the internal audit charter, the internal audit plan, internal audit performance reports, audit committee meeting minutes, and so forth. All the questions on the KPA checklist that could be answered by the documentary review were captured on the checklist as "Yes" or "No" in the "Document" column, along with the applicable source in the "Source" column. Instances where the applicable KPA question could not be answered by the documentary review (where no applicable document exists to verify the KPA question), were indicated as "N/A" in the "Document" column of the KPA question checklist. Questions to which no answer could be obtained or questions to which the answer appeared to be "No", were flagged and transferred to a separate semi-structured questionnaire (documented in Annexure C). The main purpose was, therefore, to obtain the required information, as per the structure of the IA-CM, that can be derived from applicable internal audit documents.

4.3.2.3   Interview questionnaire

An interview questionnaire (refer to Annexure C) was drafted based on the literature review, the KPA question checklist and the documentary review. Firstly, 15 additional questions were derived from the literature review documented in sections 2.3.3, 2.4.1, 2.4.2, 2.5.2 and 3.3. The additional questions pertain to the general public sector environment, the use of capability models, as well as background information to the internal audit function of the selected National Department. Secondly, all the questions that could not be answered by the documentary review and those that received negative answers, were transferred from the checklist (Annexure B) to the questionnaire (Annexure C). Thirdly, the questionnaire was restructured in order to categorise related questions. This was done to simplify the interview process and to eliminate duplicated questions.

128

Questions were re-categorised in one of the following six categories: general, establishing of the internal audit function, governance aspects, managing the internal audit function, audit engagements and performance of the internal audit function. Lastly, four interviewees were identified on the questionnaire, namely the chief audit executive (CAE), audit committee chairperson (ACC), chief operating officer (COO) and a senior internal auditor (SIA). The CAE was chosen based on the fact that the CAE is the process owner of internal auditing and most of the questions pertaining to the internal management of the internal audit function can only be answered by him/her. The ACC was identified based on the fact that he/she represents the audit committee, which is one of the main stakeholders, as well as the independent overseer of the internal audit function and many of the questions in the questionnaire pertain to the audit committee perception of the internal audit function. The COO was identified based on the fact that he/she represents management as one of the main stakeholders of the internal audit function and many of the questions in the questionnaire pertain to the management perception of the internal audit function. The SIA was identified based on the fact that some of the questions in the questionnaire pertain to the internal audit staff perception. The interview questionnaire (Annexure C) also indicates which question was addressed to which of the above interviewees. Each question was only addressed to the interviewee(s) considered appropriate based on the official's knowledge and position within the organisation.

4.3.2.4   Interviews

Interviews were conducted with the identified officials based on the questionnaire. Questions were captured as "Yes", "No" or "Partially" in the "Interview" column on the KPA question checklist (Annexure B). Instances where the applicable KPA question was answered by the documentary review (refer to section 4.3.2.2), are indicated as "N/A" in the "Interview" column of the KPA question checklist. Additional questions were posed to the interviewees, especially when a "No" or "Partially" answer was provided. The main purpose of these additional questions was to determine the reasons why a specific KPA was not implemented, as well

129

as to identify instances were potential feasibility hindrances exist with regard to the applicability of a specific KPA within a South African context.

4.3.2.5   Ranking against the IA-CM

Based on the information obtained during the documentary review and the interviews, as captured in the KPA question checklist (Annexure B), the internal audit function of the selected case was ranked in terms of the extent to which each KPA had been "Achieved", "Partially Achieved" or "Not Achieved". A KPA was regarded as "Achieved" when all the questions for a specific KPA were captured as "Yes". A KPA was regarded as "Partially Achieved" when 50% or more (but fewer than 100%) of the questions for a specific KPA were captured as "Yes". A KPA was regarded as "Not Achieved" when fewer than 50% of the questions for a specific KPA were captured as "Yes". Where applicable, the reasons for providing "No" answers, as well as where potential feasibility hindrances were identified, were documented separately. Refer to sections 5.2.1 to 5.2.7 and 5.3 as well as table 5.26 for the presentation of the findings.

Based on the above ranking of the KPAs, the selected case was also ranked in terms of the extent to which the five capability levels of the IA-CM for each of the six elements of internal auditing identified in the IA-CM, were "Achieved", "Partially Achieved" or "Not Achieved". A capability level was regarded as "Achieved" when all the KPAs for that level were ranked as "Achieved". A capability level was regarded as "Partially Achieved" when 50% or more (but fewer than 100%) of the KPAs for that level were ranked as "Achieved". A capability level was regarded as "Not Achieved" when fewer than 50% of the KPAs for that level were ranked as "Achieved". Refer to section 5.3 and table 5.27 for the results.

Lastly, based on the additional answers and reasons provided by the interviewees, the extent to which each KPA can be applied within a South African context was determined. In addition, instances were potential feasibility hindrances could be identified with regard to the applicability of a specific KPA

130

within a South African context, were discussed and summarised. Refer to section 5.3 and table 5.28 for the results.

4.3.3 Conclusion

The main aim of the study was to determine the extent to which the IA-CM can be applied to a South African context. As mentioned above, this research question was empirically answered through a case study. The case study involved a documentary review as well as the conducting of semi-structured interviews. The main objective of the documentary review was to obtain the required information, as per the structure of the IA-CM, that can be derived from applicable internal audit documents. The main aim of the interviews was to obtain the additional information required in order to, firstly, rank the internal audit function of the selected case against the KPAs and capability levels of the model and, secondly, to identify potential feasibility hindrances with regard to the applicability of specific KPAs within a South African context.

4.4 CONCLUSION AND RELEVANCE TO THE STUDY

This chapter provides an exposition of the empirical research methodology and design that was followed in the study. The research was developed in such a manner that the main research objective, namely to determine whether the IA-CM can be used by a South African internal audit function to determine its capability level, can be achieved. The empirical method included a case study, where the IA-CM was applied in a practical way to a selected case. The main aim of the case study was to apply the IA-CM to a real-life South African context. This case study involved a documentary review, as well as semi-structured interviews. The results of the empirical studies are documented in the next chapter.

CHAPTER 5

RESEARCH FINDINGS

5.1   INTRODUCTION

In this chapter, the results of the empirical study are summarised and discussed. As mentioned in section 4.2.2, the empirical phase of this study covered a case study in which the internal audit function of a selected South African national department was analysed and compared to the key process areas (KPAs) of the Internal Audit Capability Model (IA-CM). The objective throughout this study is to determine whether the IA-CM, which was developed by the Institute of Internal Auditors Research Foundation (IIARF) for the global public sector, can be applied within a South African context. This was determined by ranking the capability of the selected National Department against the KPAs of the model. The research results consist of information that has been obtained through the review of applicable internal documentation and the conducting of semi-structured interviews with the chief audit executive (CAE), the audit committee chairperson (ACC), the chief operating officer (COO) and a senior internal auditor (SIA) of the selected National Department. In the next section, the results of the empirical research are discussed, followed by a discussion in which the selected National Department is ranked according to the capability levels of the IA-CM.

5.2   RESULTS OF THE EMPIRICAL RESEARCH

The results of the empirical research are documented in sections 5.2.1 to 5.2.7 as well as tables 5.1 to 5.25 below. Section 5.2.1 addresses the general questions of the interview questionnaire, while sections 5.2.2 to 5.2.7 address the questions pertaining to levels two to five of each of the six elements of the IA-CM. The answers to the questions are documented as "Yes", "No", or "Partially".

The horizontal rows of each table contain the applicable questions that were identified in the KPA question checklist (Annexure B) as well as the additional general questions that were identified in the interview questionnaire (Annexure C). The columns of the tables indicate the answer to each applicable question, as well as the source of the answer in terms of document review or interviews conducted with the CAE, ACC, COO or SIA. The answers provided in each table are discussed below the applicable table. This discussion includes a reference to the applicable KPA, whether the KPA has been achieved, not achieved or partially achieved, with applicable reasons obtained from the interviewees when the KPA were not achieved or partially achieved. Refer to section 4.3.2.5 for the discussion on the criteria used for the ranking of KPAs. Instances in the tables below that are indicated as "N/A" (not applicable), indicate that the applicable question was not included in either the documentary review or in the interview with the specific person.

The discussion of each element of the IA-CM is also concluded with a sentence on whether the applicable level of the IA-CM had been achieved, partially achieved or not achieved for the specific element of the model. The results of the overall achievement of all the KPAs are summarised in tables 5.26 and 5.27.

5.2.1 General

As discussed in section 4.3.2.3, the interview questionnaire (refer to Annexure C) included 15 questions that pertain to the general public sector environment, the use of capability models and background information to the internal audit function of the selected National Department. The answers to these questions, as obtained from the four interviewees, are documented in table 5.1 below. Table 5.1 does not contain a column for documentation reviewed ("Doc") owing to the fact that these questions were not included in the KPA checklist and were thus not subjected to the documentary review.

Table 5.1: General results

Question	CAE	ACC	COO	SIA
Are any of the public sector challenges listed below applicable to this National Department?				
• Service delivery challenges, such as historical inequities, slow public services, lack of commitment from public officials, inadequate coordination.	Partially: (Inadequate coordination)	Partially (for example: discipline on internal control)	No	N/A
• Economic challenges, such as unemployment, fraud and corruption, insufficient resources.	No	No	No	N/A
• Human resources challenges, such as skills shortages, inadequate accountability systems, inadequate gender and disability representation.	No	No	No	N/A
• Compliance challenges, such as high percentage of qualified external audit opinions and known non-compliance with legislation.	No	Partially (minor instances of non-compliance)	Partially (minor instances of non-compliance)	N/A

134

Question	CAE	ACC	COO	SIA
Would you describe this National Department as risk mature? (Provide a score between 1 and 5).	Partially (3/5)	Partially (4/5)	Partially (3.5/5)	Partially (3/5)
Would you describe the IAF as understaffed to perform its required duties?	No	No	Yes	Yes
How is the IAF structured?	Refer to discussion.	Refer to discussion.	N/A	N/A
What % of the IAF work is outsourced?	5%	N/A	N/A	N/A
Would you describe assurance or performance audit engagements as your main priority?	Assurance	Assurance	N/A	Assurance
Do you agree that internal auditing is legislated for the public sector?	Yes	Yes	Yes	Yes
Is the official guidance provided to public sector IAFs sufficient?	Yes	Partially	Partially	Yes
Does the IAF add value to the organisation?	Yes	Yes	Yes	Yes
What prevents the IAF from adding optimal value?	Capacity challenges and IA business management processes.	Level of the CAE and IA business management processes.	Lack of staff understanding with regard to the purpose of IA and lack of IA marketing.	Capacity challenges and budget restraints.
Do you understand the purpose of a capability model?	Yes	Yes	Yes	Yes
Do you know about the IA-CM? What is your opinion of the model and its applicability to this National Department?	No, but based on what I've seen, it appears to be applicable.	No, but based on what I've seen, it appears to be applicable.	No, but based on what I've seen, it appears to be applicable.	No, but based on what I've seen, it appears to be applicable.

The first four questions pertained to the public sector challenge categories as identified in table 2.1 (section 2.3.3). The results indicate that although the

selected case does face many of the challenges mentioned in section 2.3.3, most of the challenges are not experienced at a critical level. According to the COO and the ACC, this is mostly because the selected case does not work directly with the public and the service that is delivered by this National Department is on an indirect basis.

The fifth question pertained to the perceived risk maturity of the selected case. On average, all respondents agreed that although the applicable National Department was not risk mature yet, it cannot be classified as completely risk immature either. This is because the risk management unit of the selected case is still fairly new. This finding supports the literature review of this study (refer to section 2.4.1), which found that none of the South African national departments is risk mature.

Questions six to nine pertained to staffing, outsourcing and the main audit coverage focus of the internal audit function. As the internal audit function of the selected case recently changed from a co-sourced internal audit function to a fully in-house internal audit function, the resourcing needs of the internal audit function cannot be determined accurately. The applicable respondents indicated that the current structure of the internal audit function included one director (the CAE), four deputy directors (or SIAs), two assistant directors, one administration officer and two interns. The COO and SIA (stakeholder and employee) indicated that the internal audit function was understaffed, while the CAE and ACC (manager and overseer of the internal audit function) indicated that understaffing was not a major concern at present, but would be re-assessed by the end of the next financial year. In addition, the current outsourcing percentage amounted to about 5% (for forensic services only). However, according to the CAE this percentage was above 50% in previous years. The literature (refer to section 2.4.1), which states that public sector internal audit functions are more likely to be outsourced or co-sourced, is partially supported. With regard to the internal audit coverage focus, the literature (refer to section 2.4.2), which states that assurance engagement tends to be the main focus of internal audit functions, is also supported.

The tenth and eleventh questions pertained to the fact that internal auditing is legislated for the public sector, as well as to the available guidance for public sector internal audit functions. All respondents agreed that internal auditing should be legislated for the public sector. However, two of the respondents, namely the COO and ACC (management and overseer of the internal audit function), indicated that public sector internal audit guidance could be more specific and more practical in terms of what is expected of public sector internal auditors.

The next two questions pertained to the perceived value of the internal audit function of the selected case. All respondents agreed that, in general, the internal audit function is adding value. However, it was also agreed that some hindrances exist which prevent the internal audit function from adding optimal value. These hindrances can be summarised as internal capacity and budget constraints, the appointment level of the CAE, as well as inadequate internal audit business planning and marketing processes. With regard to capacity constraints, both the CAE and the ACC indicated that this matter would be reviewed by the end of the next financial year, as the internal audit function had only recently changed from a co-sourced to a fully in-house internal audit function. With regard to the appointment of the CAE, the ACC and CAE raised the concern that the CAE was not at the correct post level, as the CAE is at a director's level. This is one level lower than the chief financial officer (CFO), for example. The ACC indicated that this could affect the independence of the CAE and the internal audit function negatively. However, the COO did not agree with this and indicated that the CAE's responsibility level could not be compared to that of the CFO. With regard to the business planning and marketing processes, the CAE, ACC and COO agreed that the internal audit function's business planning processes should be improved in order to include a more specific vision, mission and objectives for the internal audit function itself. The COO added that this process should include marketing strategies to market the internal audit function's importance and value more extensively to the rest of the organisation.

The last two questions pertained to the respondents' knowledge and opinion of the IA-CM. Firstly, all the respondents indicated that they did understand the

purpose of a capability model. Secondly, the respondents indicated that they had been presented with the IA-CM for the first time when participating in this study. In addition, all respondents indicated that based on the contents of the one-page summary of the model (refer to annexure A), it appeared that the model was applicable to the selected National Department.

5.2.2 Services and role of internal auditing

The results of the questions that pertain to the level two to five KPAs of the service and role element of the IA-CM, are documented in sections 5.2.2.1 to 5.2.2.4 and tables 5.2 to 5.5 below.

5.2.2.1 Level 2

This level included only the performance of compliance auditing by the internal audit function. The results of this KPA are documented in table 5.2 below.

Table 5.2: Services and role of internal auditing – Level 2

Question	Doc	CAE	ACC	COO	SIA
Does the IA charter include the nature of assurance services?	Yes	N/A	N/A	N/A	N/A
Can the planned engagements be substantiated by compliance audit: • working papers?	Yes	N/A	N/A	N/A	N/A
• reports?	Yes	N/A	N/A	N/A	N/A
Are IA reports submitted to the appropriate parties (auditee, audit committee, etc)?	Yes	N/A	N/A	N/A	N/A
Are management action plans documented after compliance audits?	Yes	N/A	N/A	N/A	N/A

The above results indicate that assurance engagements in the form of compliance assurance engagements are conducted by the internal audit function of the selected case. The above questions were all answered based on the

document review. In addition, all respondents indicated that assurance engagements formed the main priority of the internal audit function, and that the bulk of the internal audit plan consisted of compliance engagements (refer to section 5.2.1).

It appears that the KPA regarding compliance auditing has been achieved and that this KPA is applicable within a South African context. In addition, based on the fact that the only KPA for level 2 has been achieved, the internal audit function of the selected case has, therefore, achieved this level.

5.2.2.2   Level 3

The KPAs included for this level are performance auditing (indicated above the bold line) and advisory services (indicated below the bold line) – refer to table 5.3 below.

Table 5.3: Services and role of internal auditing – Level 3

Question	Doc	CAE	ACC	COO	SIA
Does the IA charter include the nature of assurance services?	Yes	N/A	N/A	N/A	N/A
Can the planned engagements be substantiated by performance audit • working papers?	Yes	N/A	N/A	N/A	N/A
• reports?	Yes	N/A	N/A	N/A	N/A
Are IA reports submitted to the appropriate parties (auditee, audit committee, etc)?	Yes	N/A	N/A	N/A	N/A
Are management action plans documented after performance audits?	Yes	N/A	N/A	N/A	N/A
Does the IA charter include: • the nature of consulting services?	Yes	N/A	N/A	N/A	N/A
• the authority and prerogative of the CAE with regard to the performance of consulting services?	No	No	No	No	N/A

139

Question	Doc	CAE	ACC	COO	SIA
• the responsibility of management in the implementation of recommendations (sufficient management support)?	Yes	N/A	N/A	N/A	N/A
Do internal policies and procedures exist for conducting consulting services?	No	No	No	No	No
Can the engagements be substantiated by consulting audit working papers and reports?	No	No	No	No	No
Does the IAF only take on consulting services for which it possesses the necessary competencies?	No	N/A No Consulting	N/A No Consulting	N/A No Consulting	N/A No Consulting
Does the IAF implement measures to reduce the impact of impaired independence/ objectivity?	No	N/A No Consulting	N/A No Consulting	N/A No Consulting	N/A No Consulting

The above results indicate that although performance audit engagements are conducted by the internal audit function of the selected case, consulting or advisory services are not conducted. All respondents agreed that the authority and execution of consulting engagements should be included in the internal audit charter as well as in the scope of the internal audit function, as that would add value.

Therefore it appears that the KPA regarding performance auditing has been achieved, while the KPA regarding consulting advisory services has not been achieved. Although only one of the two KPAs has been achieved, both appear to be applicable to a South African context. However, the internal audit function of the

5.2.2.3   Level 4

The only KPA included for this level is the expression of an overall opinion on governance, risk management and control – refer to table 5.4 below.

Table 5.4: Services and role of internal auditing – Level 4

Question	Doc	CAE	ACC	COO	SIA
Does the IA charter include the authority to express an organisation-wide opinion?	No	No	No	No	N/A
Is an annual governance audit conducted?	No	Partially	N/A	N/A	N/A
Is an annual risk management audit conducted?	Yes	N/A	N/A	N/A	N/A
Does the IAF express an overall opinion on whether the governance, risk management and control processes are effective?	No	No	No	No	N/A
Is this opinion included in the organisation's annual statement of internal control?	No	No	No	No	N/A

The above results indicate that although current or past internal audit plans have included governance- and risk management-related engagements, the internal audit function does not express an overall opinion on governance, risk management and control. In addition, the internal audit charter also does not include the authority of the internal audit function to express such an opinion. Three of the respondents, namely the CAE, ACC and COO agreed that value would be added if the IA charter included this authority and the internal audit function expressed such an opinion. The ACC raised a concern that such an opinion might cause a misunderstanding and that the parameters should be clearly explained when this recommendation was implemented.

It appears that the KPA regarding overall assurance on governance, risk management and control has not been achieved. However, based on the comments of the respondents, it appears that this KPA can be applied within a South African context. The internal audit function of the selected case has, however, not achieved this level.

5.2.2.4 Level 5

The only KPA included for this level is the extent to which the internal audit function is recognised as a key agent of change. Refer to table 5.5 below.

Table 5.5: Services and role of internal auditing – Level 5

Question	Doc	CAE	ACC	COO	SIA
Does the strategic documents/vision/ mission of the IAF include: • the need for internal auditing to bring about positive strategic change in the organisation?	No	No	No	No	No
• ERM strategies?	No	No	No	No	N/A
• innovation, client service and value?	No	No	No	No	N/A
Does the IAF provide full assurance and advisory services on: • governance?	N/A	Yes	Yes	Yes	Yes
• entity level controls?	N/A	Yes	Yes	No	Yes
• fraud?	N/A	Yes	Partially	Yes	Partially
• new strategic initiatives, programmes and business practices?	N/A	Yes	No	No	Partially
Does senior management regard the IAF as a key player that contributes to the organisation's vision and establishes change?	N/A	N/A	N/A	Yes	N/A
Does the audit committee regard the IAF as a key player that contributes to the organisation's vision and establishes change?	N/A	N/A	Partially	N/A	N/A

The above results indicate that although management and the audit committee do consider the internal audit function as value adding and a key player in the governance, risk management and control arenas, it cannot be fully described as a key agent of change, as prescribed by the model. The main reasons for this are the fact that the strategic documents of the internal audit function do not include objectives with regard to bringing about positive change in the organisation, as

well as the fact that assurance and advisory services are not provided for entity level controls and new strategic initiatives. Although the CAE, ACC and SIA indicated that entity level controls were subjected to assurance engagements, the COO disagreed. In addition, the respondents also disagreed on the extent to which new strategic initiatives were subjected to assurance engagements. Based on the fact that the COO, who can be considered as one of the management stakeholders of the internal audit function, was one of the parties that indicated that this was not the case, the KPA is classified as not achieved. All the respondents did, however, indicate that the implementation of the above-mentioned areas in the strategic documents of the internal audit function, as well as the provision of full assurance services on entity level controls and new strategic initiatives, were feasible and that the implementation of these KPAs would add value to the organisation.

Another question on which the respondents disagreed is whether assurance is provided on fraud. The CAE and COO indicated that it was provided, while the ACC indicated that it was not possible to provide assurance with regard to fraud. The SIA indicated that fraud services in the form of investigations were provided when fraud was detected or suspected during the execution of the internal audit plan.

The ACC further highlighted that the lower post level of the CAE also limited the value that could be added and the extent to which the CAE could be regarded as a key agent of change, as this could have a negative effect on the independence of the internal audit function.

It appears that the KPA regarding internal auditing being recognised as a key agent of change, has not been achieved. In addition, based on the comments of the respondents, it appears that although the KPA, in general, can be applied within a South African context, some application hindrances may exist. For example the ability to provide full assurance on fraud may not be applicable and the lower post level of the CAE could negatively affect the extent to which this KPA is achievable within a South African context.

The internal audit function of the selected case has, therefore, not achieved this level.

5.2.2.5   Conclusion

Based on the above results, it appears that the services and role element of the IA-CM has not been successfully achieved by the internal audit function of the selected case. Only two of the five KPAs (40%) and one of the capability levels (level two) have been fully achieved. However, four of the five KPAs (80%) appear to be applicable within a South African context without any apparent hindrances, as the respondents generally indicated that implementation of the KPAs not in place was feasible and would enhance the internal audit function. The only exception to this is the level five KPA regarding the extent to which the internal audit function is regarded as a key agent of change. The ability to provide full assurance on fraud, as required by the services and role level five KPA regarding the extent to which the internal audit function is regarded as a key agent of change, may not be applicable within a South African context. In addition, the fact that the CAE is at a lower post level compared to other executive staff members, such as the CFO, may also affect the applicability of this KPA negatively.

5.2.3 People management

The results of the questions that pertain to the level two to five KPAs of the people management element of the IA-CM are documented in sections 5.2.3.1 to 5.2.3.4 and tables 5.6 to 5.9 below.

5.2.3.1   Level 2

The KPAs included for this level are the extent to which skilled individuals are identified and recruited (indicated above the bold line), as well as the individual

144

professional development of internal audit staff members (indicated below the bold line) – refer to table 5.6 below.

Table 5.6: People management – Level 2

Question	Doc	CAE	ACC	COO	SIA
Does a valid and credible staffing and recruitment process/policy exist?	N/A	Partially	Partially	Yes	Yes
Is the recruitment of IA staff under the control of the CAE?	N/A	Yes	Yes	Yes	Yes
Are the current IA staff members (including the CAE) suitably competent and qualified?	N/A	Yes	Yes	Yes	Yes
Have sufficient job descriptions been developed for IA staff?	Yes	N/A	N/A	N/A	N/A
Are IA staff members remunerated in accordance with an appropriate classification system?	N/A	No	No	Yes	Partially
Is the percentage of the IA periodic plan that was executed in line with best practice?	Yes	N/A	N/A	N/A	N/A
Is the percentage IA recommendations implemented in line with best practice?	Yes	N/A	N/A	N/A	N/A
Are IA staff training needs: • identified?	Yes	N/A	N/A	N/A	N/A
• documented?	Yes	N/A	N/A	N/A	N/A
• tracked?	Yes	N/A	N/A	N/A	N/A
Does a training budget exist?	Yes	N/A	N/A	N/A	N/A
Does a documented personal training and development plan exist for each IA staff member?	Yes	N/A	N/A	N/A	N/A
Is this plan continuously tracked to monitor the development of each staff member?	Yes	N/A	N/A	N/A	N/A

Firstly, the above results indicate that in general, skilled people are identified and recruited. According to the CAE, 100% of the internal audit plan is executed annually and, according to the audit committee pack which was reviewed as part of the document review, 187 of the 301 findings (62%) were addressed, 84 (28%) were partially addressed and 30 (10%) were not addressed. These two facts may be an indication that skilled internal audit staff members are recruited.

145

However, the CAE and the ACC indicated that the audit committee was not involved in the appointment of the CAE. According to the CAE this might be due to an oversight but should definitely be corrected for future purposes. In addition, with regard to remuneration classification systems, the ACC and CAE indicated that the CAE was not at the correct post level that would ensure the sufficient and optimal standing and independence of the internal audit function. However, the COO did not agree with this and indicated that the CAE's responsibility level could not be compared to that of the CFO, for example. These two concerns may have a negative effect on the achievement and the applicability of this KPA in a South African context.

Secondly, the above results indicate that individual professional development processes appear to be in place, as personal development plans and training needs are documented and tracked.

It appears that the KPA regarding skilled people being identified and recruited has only partially been achieved. In addition, based on the comments of the respondents, it appears that although the KPA, in general, can be applied within a South African context, the lower post level of the CAE may negatively affect the extent to which this KPA is achievable within a South African context. The KPA regarding individual professional development has been achieved and it can, therefore, be concluded that this KPA can be applied within a South African context.

Based on the fact that only one of the two KPAs has been fully achieved, the internal audit function of the selected case has therefore only partially achieved this level.

5.2.3.2   Level 3

The KPAs included for this level are the extent to which workforce coordination is conducted (indicated above the first bold line), professionally qualified staff are employed (indicated between the two bold lines) and team building and

146

competency management processes are executed (indicated below the second bold line) – refer to table 5.7 below.

Table 5.7: People management – Level 3

Question	Doc	CAE	ACC	COO	SIA
Does the IA plan take staff levels and competencies into account?	N/A	Yes	Yes	N/A	Yes
Are staff members fully utilised on the IA plan?	N/A	Yes	Yes	N/A	Yes
Has an IA competency framework been developed to support professional growth?	N/A	Yes	N/A	N/A	Yes
Does the IAF use the National Treasury competency framework?	N/A	No	N/A	N/A	No
Has explicit and objective performance evaluation criteria been developed for each staff member?	Yes	N/A	N/A	N/A	N/A
Is the performance of staff periodically evaluated against these criteria?	Yes	N/A	N/A	N/A	N/A
Is support provided for staff members to become professionally qualified (CIA qualification) in terms of personal development plans, training, study leave, etc?	N/A	Yes	Yes	N/A	Partially
Are formal incentive and recognition programmes in place in order to ensure staff retention?	No	No	Unsure	No	Partially
Does the IAF engage in coordination measures, such as periodic team meetings and shared team data resources?	Yes	N/A	N/A	N/A	N/A
Have criteria for effective teamwork behaviour been developed and included in the competency framework?	No	No	N/A	N/A	No
Are team leadership roles assigned to selected individuals with regard to audit projects?	N/A	Yes	N/A	N/A	Yes
Is training provided on topics such as teamwork and team building?	N/A	No	N/A	N/A	No

147

The above results indicate, firstly, that workforce coordination is conducted, as the internal audit plan appears to be coordinated with internal audit staff levels and competencies. According to all respondents, staff members are perhaps rather over-utilised on the internal audit plan, instead of under-utilised. This is mainly based on the fact that the internal audit function is currently in a transition phase from a co-sourced agreement to a full in-house internal audit function.

Secondly, although provision is made for the recruitment and the development of professional internal audit staff members in terms of the development of a competency framework and training and development plans, no formal retention policies are in place. This was confirmed by the CAE, COO and SIA. There appear to be differing opinions on this matter, though. The CAE indicated that staff retention activities should be in place through incentive and recognition programmes, but that the lack of organisational policies prevented them from doing so. The COO indicated that he did not agree with such a recommendation, as the career development of staff members should not be hindered when they found alternative employment that could improve their career paths. This concern may have a negative effect on the achievement as well as the applicability of this KPA. With regard to the competency framework, the CAE indicated that although the National Treasury framework was not used, the internal audit function made use of the Institute of Internal Auditors (IIA) competency framework and that this framework was considered when the personal development plans of staff members were developed. In addition, the SIA indicated that owing to the current over-utilisation of staff members, there was not enough time available for study leave purposes to enable staff members to become professionally qualified. It should be noted that the SIA's answer in this regard differed from those of the CAE and ACC, who both indicated that support was provided to staff members. This difference in perceptions could be an indication of internal audit management being under the impression that sufficient support is provided, while in reality that is not the case. As the SIA is the main recipient of the support mentioned in this KPA, the SIA's answer has been regarded as the most pertinent in this regard.

Thirdly, it appears that although periodic team meetings and the assignment of leadership roles are in place, team building and team competency activities are not engaged in due to inadequate criteria development and budget restraints. Both the CAE and the SIA indicated that this should be implemented and could enhance to the effectiveness of the internal audit function.

It appears that the KPA regarding workforce coordination has been achieved and can therefore be applied within a South African context. The KPA regarding professionally qualified staff has been only partially achieved. In addition, it appears that although the KPA, in general, can be applied within a South African context, the differing opinions regarding retention policies may negatively affect the extent to which this KPA is achievable within a South African context. Lastly, it appears that the KPA regarding team building and competency has been partially achieved. However, based on the comments of the applicable respondents, this KPA can be applied within a South African context.

Based on the fact that only one of the three KPAs has been fully achieved, the internal audit function of the selected case has, therefore, only partially achieved this level.

5.2.3.3 Level 4

The KPAs for this level include the extent to which workforce planning is conducted (indicated above the first bold line), the internal audit function supports professional bodies (indicated between the two bold lines) and the internal audit function's contribution towards management development (indicated below the third bold line) – refer to table 5.8 below.

Table 5.8: People management – Level 4

Question	Doc	CAE	ACC	COO	SIA
Have the staffing resource, skills, training and tools that are required to address the significant risks of the organisation been identified?	N/A	Yes	Yes	Yes	Yes
Have these requirements been compared to the available staffing resources and has the gap between the required resources and the available resources been identified?	N/A	Yes	Yes	Yes	Yes
Have specific strategies to address this gap been documented and communicated to senior management?	N/A	Yes	Yes	Yes	N/A
Does management take responsibility for implementing strategies to close this gap?	N/A	Yes	Yes	Yes	N/A
Is there any recognition provided for IA staff members who contribute/support professional bodies, such as the IIA?	N/A	No	No	No	No
Do the IAF's performance reports include performance on the function's contribution to the profession?	No	No	No	No	N/A
Does a rotation policy exist between the IAF and the rest of the organisation?	No	No	No	No	Yes
Does the IAF provide training to management on governance, risk management and control aspects?	N/A	Yes	N/A	Yes	N/A

The above results indicate that it appears that workforce planning activities are in place at the internal audit function of the selected case. All respondents agreed that required resource skills and training needs had been identified, compared to available needs and that the applicable forums did exist to address any gaps identified.

However, the KPA regarding the involvement of the internal audit function with professional bodies, such as the IIA, has not been achieved. All respondents indicated that no recognition or performance measures existed for contribution

and support to professional bodies. All the respondents also indicated that this KPA should be implemented, as involvement with professional bodies was important in order to keep the internal auditing profession relevant.

The above results also indicate that although the internal audit function does provide training to management on issues such as governance, risk management and control, a formal rotation policy between the internal audit function and the rest of the organisation is not in place. The respondents seemed to disagree on the feasibility of implementing this KPA. The ACC and COO indicated that implementing this practice would contribute positively to management development. The CAE agreed that it would add value, but raised the concern with regard to the protection of sensitive information. The SIA was of the opinion that the current secondment policy, by means of which interns from other departments are used, was a sufficient rotation policy.

It appears that the KPA regarding workforce planning has been achieved and can therefore be applied within a South African context. However, the KPA regarding the involvement of the internal audit function with professional bodies, such as the IIA, has not been achieved. Nevertheless, based on the comments of the respondents, the KPA can be applied within a South African context. The KPA regarding internal auditing's contribution to management development has been only partially achieved. In addition, it appears that although the KPA, in general, can be applied within a South African context, the differing opinions regarding rotation policies may negatively affect the extent to which this KPA is achievable within a South African context.

Owing to the fact that only one of the three KPAs has been fully achieved, the internal audit function of the selected case has only partially achieved this level.

5.2.3.4   Level 5

The KPAs for this level include the extent to which workforce projection is executed (indicated above the bold line) and the leaders of the internal audit

function are involved in professional bodies (indicated below the bold line) – refer to table 5.9 below.

Table 5.9: People management – Level 5

Question	Doc	CAE	ACC	COO	SIA
Have the future internal audit skills and resource requirements been identified, documented and analysed?	No	Partially	Partially	N/A	N/A
Has a strategic workforce plan been developed that sets out the IAF's objectives for competency development and future workforce needs?	No	No	N/A	N/A	N/A
Does a proposal to strengthen the capacity of the IAF exist?	No	No	No	No	N/A
Are the IAF leaders actively involved at leadership level in relevant professional bodies such as the IIA?	N/A	No	No	No	N/A
Have the IAF leaders been involved in any projects that contributed to the advancement of the profession?	N/A	No	No	No	N/A

The above results indicate that workforce projection, as described by the model, is not in place at the internal audit function of the selected case. Although future internal audit skills and resource needs are identified on an *ad hoc* basis, a formal strategic workforce plan has not been prepared. The CAE indicated that such a workforce plan could be developed and would add value to the internal audit people management processes. However, the CAE and ACC added that the internal audit function was currently in a transition phase to a full in-house function and that the need for a proposal to strengthen its capacity would be assessed by the end of the next financial year.

In addition, the KPA regarding the involvement of the internal audit leaders with professional bodies, such as the IIA, has not been achieved. The CAE indicated that although this KPA should be implemented, available time might be a limiting factor in this regard. The ACC and COO indicated that this KPA should be

152

implemented, as leadership involvement with professional bodies was important in order to keep the internal auditing profession relevant.

Therefore it appears that the KPA regarding workforce projection has not been achieved. However, based on the comments of the applicable respondents, it appears that the KPA can be applied within a South African context. The KPA regarding leadership involvement with professional bodies has also not been achieved. In addition, it appears that although the KPA, in general, can be applied within a South African context, the time availability of the leaders of the internal audit function may negatively affect the extent to which this KPA is achievable within a South African context.

The internal audit function of the selected case has therefore not achieved this level owing to the fact that both KPAs for this level have not been achieved.

5.2.3.5   Conclusion

Based on the above results, it appears that the people management element of the IA-CM has not been satisfactorily achieved by the internal audit function of the selected case. Only three of the ten KPAs (30%) have been fully achieved, while four KPAs (40%) have been partially achieved and three KPAs (30%) have not been achieved at all. None of the capability levels have been fully achieved. However, six of the ten KPAs (60%) appear to be applicable within a South African context without any apparent hindrances, as the respondents generally indicated that implementation of the KPAs not in place, are feasible and would enhance the internal audit function. Potential implementation hindrances have, however, been identified with regard to the remaining four KPAs of this element. Firstly, the fact that the CAE is at a lower post level compared to that of other executive staff members, such as the CFO, may negatively affect the extent to which the level two KPA regarding the recruitment of skilled people is applicable within a South African context. Secondly, the differing perceptions regarding retention policies may negatively affect the extent to which this component of the level three KPA regarding the extent to which professionally qualified staff are

recruited and retained, is applicable within a South African context. Thirdly, the differing perceptions regarding rotation policies may negatively affect the extent to which this component of the level four KPA regarding internal auditing's contribution towards management development, is applicable within a South African context. Lastly, the limited time availability of the leaders of the internal audit function may negatively affect the extent to which the level five KPA regarding leadership involvement with professional bodies, is applicable within a South African context.

5.2.4 Professional practices

The results of the research questions that pertain to the level two to five KPAs of the professional practices element of the IA-CM are documented in sections 5.2.4.1 to 5.2.4.4 and tables 5.10 to 5.13 below.

5.2.4.1 Level 2

The KPAs included for this level are the extent to which the internal audit plan is based on stakeholder priorities (indicated above the bold line) and a professional practices and processes framework has been implemented (indicated below the bold line) – refer to table 5.10 below.

Table 5.10: Professional practices – Level 2

Question	Doc	CAE	ACC	COO	SIA
Is the audit universe of the organisation documented?	No	No	No	N/A	No
Are senior management and other stakeholders consulted before/when IA priorities are determined and documented in the audit plan?	Yes	N/A	N/A	N/A	N/A
Are senior management and other stakeholders consulted before/when the time-frame of the IA plan is determined?	Yes	N/A	N/A	N/A	N/A

154

Question	Doc	CAE	ACC	COO	SIA
Does the IA plan include: • the necessary engagements (required audit projects)?	Yes	N/A	N/A	N/A	N/A
• engagement objectives?	No	No	N/A	N/A	No
• scope?	Yes	N/A	N/A	N/A	N/A
• resource requirements?	Yes	N/A	N/A	N/A	N/A
• capability requirements?	No	No	N/A	N/A	No
Has the IA plan been approved by senior management and/or applicable governing body?	Yes	N/A	N/A	N/A	N/A
Does the IAF have a documented professional practices and processes manual, such as internal policies and procedures?	No	No	No	N/A	No
Does this manual include standardised: • guidance?	N/A	No	No	N/A	No
• methodologies?	N/A	No	No	N/A	No
• repeatable processes?	N/A	No	No	N/A	No

The above results indicate that although the internal audit plan is based on stakeholder input, no audit universe is documented and the internal audit plan does not include all the requirements as prescribed by the model. The internal audit plan does not include engagement objectives and capability requirements. All respondents agreed that the documentation of the audit universe would add value to the internal audit planning processes of the selected case, in terms of completeness. However, with regard to the requirements of the internal audit plan, all the respondents were not in agreement. The CAE agreed that the two missing requirements should be included in the internal audit plan, while the SIA agreed with including only the capability requirements. The SIA indicated that, should engagement objectives be included in the plan, changes to such objectives would have to go through audit committee approval before an engagement could commence. However, based on the seniority of the CAE, the CAE's answer has been regarded as the most pertinent in this regard.

The KPA regarding the audit planning being based on stakeholder priorities has, therefore, been only partially achieved, while the KPA regarding professional

practices and processes framework has not been achieved. However, based on the comments of the applicable respondents, it appears that both KPAs can be applied to a South African context.

The KPA regarding the professional practices and processes framework has not been achieved. The CAE and ACC acknowledged the importance of a complete internal audit policies, procedures and methodology framework, indicating that this process was currently in progress and should be finalised before the end of the next financial year.

The internal audit function of the selected case has only partially achieved this level owing to the fact that one of the KPAs has not been achieved.

5.2.4.2 Level 3

The KPAs for this level include the extent to which internal audit plans are risk-based (indicated above the bold line) and a quality management framework has been implemented (indicated below the bold line) – refer to table 5.11 below.

Table 5.11: Professional practices – Level 3

Question	Doc	CAE	ACC	COO	SIA
Is a periodic risk assessment conducted on a regular basis?	Yes	N/A	N/A	N/A	N/A
Is the IA periodic plan based on the main risk exposures of the organisation?	Yes	N/A	N/A	N/A	N/A
Are the roles, responsibilities and accountabilities for performing, reviewing and approval of internal audit work products clearly developed and documented?	No	No	N/A	N/A	Yes
Are the following quality assessments that continuously monitor and report on the effectiveness of the IAF in place: • internal monitoring?	N/A	Yes	Yes	N/A	Yes
• internal assessments?	N/A	No	Yes	N/A	Yes

Question	Doc	CAE	ACC	COO	SIA
• external assessments?	N/A	Yes	No	N/A	Yes
Are there any systems/ procedures in place to monitor the performance of the IAF?	Yes	N/A	N/A	N/A	N/A
Do follow-up procedures exist to ensure that the results and recommendations of such assessments are implemented?	Yes	N/A	N/A	N/A	N/A

Firstly, the above results indicate that the internal audit plan appears to be based on the main risk exposures of the organisation, as a risk assessment is conducted on a regular basis and the internal audit plan is based on this risk assessment.

Secondly, the above results indicate that although certain quality assurance activities are in place, such as staff supervision and performance monitoring procedures, no internal quality assessments are conducted. The applicable respondents also appeared to differ in their opinions on the extent to which these assessments are conducted. This may be an indication that all the respondents do not clearly understand what each assessment entails. Another difference in perception was observed in terms of the extent to which roles, responsibilities and accountabilities for internal audit work have been developed. The CAE indicated that such a framework had not been developed, while the SIA indicated that it had. However, based on the seniority of the CAE, the CAE's answers have been regarded as the most pertinent with regard to the two differences mentioned above.

The internal audit function of the selected case has only recently reached its first five-year mark, which requires an external assessment. According to the applicable respondents, a so-called "readiness audit" was currently being conducted by National Treasury, which serves as a prelude to the planned external review that will be conducted in the following financial year.

It appears that the KPA regarding risk-based internal audit plans has been achieved and can therefore be applied within a South African context. The KPA

regarding the quality management framework has been only partially achieved. However, based on the comments of the applicable respondents, it appears that this KPA can also be applied within a South African context.

The internal audit function of the selected case has, therefore, only partially achieved this KPA and capability level as only one of the two KPAs has been fully achieved.

5.2.4.3   Level 4

This level included only the extent to which the internal audit strategy leverages the organisation's management of risk – refer to table 5.12 below.

Table 5.12: Professional practices – Level 4

Question	Doc	CAE	ACC	COO	SIA
Does the IAF consult with senior management with regard to ERM strategies?	N/A	Yes	Yes	Yes	Yes
Is the IA periodic plan linked to the organisation's ERM strategies and practices?	N/A	Yes	Yes	Yes	Yes
Does the IAF continually monitor the organisation's risk profile and revise the IA periodic plan, if necessary?	N/A	Yes	Yes	N/A	Yes
Has an ERM audit been conducted?	Yes	N/A	N/A	N/A	N/A

The above results indicate that the internal audit strategy does leverage the organisation's management of risk, as a formal risk management unit has been established. The internal audit plan is based on the main risk exposures as indicated by this unit and adapted according to new risks, and a risk management audit is conducted regularly.

It appears that the KPA regarding audit strategy leverage of the organisation's management of risk has been achieved, can be applied within a South African

context and that the internal audit function of the selected case has achieved this level.

5.2.4.4 Level 5

The KPAs for this level include the extent to which strategic internal audit planning (indicated above the bold line) and continuous improvement processes (indicated below the bold line) are in place – refer to table 5.13 below.

Table 5.13: Professional practices – Level 5

Question	Doc	CAE	ACC	COO	SIA
Does the IAF continuously analyse the internal and external environment of the organisation to identify emerging trends and risks?	N/A	Partially	No	N/A	Partially
Does the IAF periodically conduct a gap analysis to identify any gaps in IA practices, tools and skills that resulted from identified emerging trends and risks?	N/A	No	No	N/A	Partially
Have solutions to such gaps, as well as possible revisions to the IA plan, been identified and implemented?	N/A	No	No	N/A	Partially
Are the IAF's charter, policies, practices and procedures reviewed and updated on a regular basis to reflect international best practice?	N/A	Partially	Partially	N/A	Partially
Are the performance data, feedback received from quality assurance efforts and global leading practices integrated with the professional practices of the IAF to ensure continuous improvement?	N/A	Yes	No	N/A	Yes

The above results indicate that strategic internal audit planning processes are not formally in place. The CAE and ACC indicated that the external environment of the organisation was not analysed on a formal basis. Both respondents also agreed that this process could and should be formally implemented in order to improve the professional practices of the internal audit function. With regard to

159

conducting a periodic gap analysis between internal audit practices and emerging risks, the SIA indicated that this process was partially in place, as the internal environment was analysed. However, the CAE and ACC indicated that no such processes were in place. Based on the seniority of the CAE, the CAE's answer has been regarded as the most pertinent in this regard.

In addition, it appears that the KPA regarding continuous improvement in professional practices has also not been achieved. Although the CAE and SIA indicated that continuous improvement did take place, the ACC did not agree and indicated that although the internal audit processes were above average, there was still room for improvement with regard to integrating global best practice with the professional practices of the internal audit function. Based on the fact that the ACC is one of the main stakeholders of internal audit services, the ACC's answer has been taken as the most pertinent in this regard.

Both the KPAs regarding strategic internal audit planning and continuous improvement in professional practices have not been achieved. However, based on the comments of the applicable respondents, it appears that both KPAs can be applied within a South African context.

The internal audit function of the selected case has, therefore, not achieved this level because neither of the two KPAs has been achieved.

5.2.4.5   Conclusion

Based on the above results, it appears that the professional practices element of the IA-CM has not been satisfactorily achieved by the internal audit function of the selected case. Only two of the seven KPAs (28.6%) have been fully achieved, while two KPAs (28.6%) have been partially achieved and three KPAs (42.8%) have not been achieved at all. Only one of the capability levels has been fully achieved (level four). However, all seven KPAs appear to be applicable within a South African context without any apparent hindrances, as the respondents

generally indicated that implementation of the KPAs not in place, are feasible and would enhance the internal audit function.

5.2.5 Performance management and accountability

The results of the research questions that pertain to the level two to five KPAs of the performance management and accountability element of the IA-CM are documented in sections 5.2.5.1 to 5.2.5.4 and tables 5.14 to 5.17 below.

5.2.5.1 Level 2

The KPAs included for this level are the extent to which an internal audit business plan (indicated above the bold line) and operating budget (indicated below the bold line) are implemented – refer to table 5.14 below.

Table 5.14: Performance management and accountability – Level 2

Question	Doc	CAE	ACC	COO	SIA
Does the IAF have a business plan?	Yes	N/A	N/A	N/A	N/A
Does the plan include: • business objectives?	Yes	N/A	N/A	N/A	N/A
• services to be delivered?	Yes	N/A	N/A	N/A	N/A
• administrative and support services?	No	No	N/A	N/A	N/A
• expected results?	Yes	N/A	N/A	N/A	N/A
• resources required?	No	No	N/A	N/A	N/A
Has the business plan been approved by the appropriate governing body?	Yes	N/A	N/A	N/A	N/A
Does the IAF have its own operating budget?	Yes	N/A	N/A	N/A	N/A
Does the budget reflect the cost of implementing the business plan?	N/A	Yes	Yes	Yes	N/A
Is the budget formally approved by senior management?	N/A	Yes	Yes	Yes	N/A
Is the budget reviewed on a regular basis to ensure that it remains realistic?	N/A	Yes	Yes	Yes	N/A

161

The above table indicates that, in general, an internal audit business planning process is in place, with business objectives, services to be rendered and expected results being documented for the internal audit function. At a level two capability, it could be argued that this is sufficient for achieving the level and that the KPA regarding internal audit business planning has been achieved. It should be noted that two of the model's requirements for an internal audit business plan, namely support services and resources required, are not included. However, as these two aspects are only sub-sections of the model requirements regarding an internal audit business plan, the answer to this question is regarded as "Yes". The CAE indicated that it was feasible and it would add value to include these two missing elements.

The above results also indicate that an internal audit operational budgeting process is in place, as the internal audit function has its own operating budget, which is approved and reviewed on a regular basis.

It appears that the KPAs regarding the internal audit business plan and the internal audit operating budget have been achieved, can be applied within a South African context and that the internal audit function of the selected case has, therefore, achieved this level.

5.2.5.2   Level 3

The KPAs included for this level are the extent to which internal audit management reports (indicated above the bold line), cost information (indicated between the two bold lines) and performance measures (indicated below the second bold line) are used to measure and manage the performance of the internal audit function – refer to table 5.15 below.

Table 5.15: Performance management and accountability – Level 3

Question	Doc	CAE	ACC	COO	SIA
Does the IAF receive relevant information/reports that are required to manage the function?	N/A	Yes	N/A	N/A	N/A
Are these reports received on a timely basis?	N/A	No	N/A	N/A	N/A
Does the IAF monitor/use these reports to ensure continued relevance?	N/A	Yes	N/A	N/A	N/A
Are the costs of IA services accurately identified and captured?	N/A	Yes	N/A	N/A	N/A
Is information on the cost of IA services available?	N/A	Yes	N/A	Yes	N/A
Is this information used and analysed to ensure the economic and efficient management of costs relating to the IAF?	N/A	Yes	N/A	No	N/A
Are actual IA costs compared to budgeted costs on a regular basis?	N/A	Yes	N/A	Yes	N/A
Have performance measures and performance targets been developed for the IAF?	Yes	N/A	N/A	N/A	N/A
Is the performance of the IAF evaluated and reported on regularly?	Yes	N/A	N/A	N/A	N/A
Are such reports presented to senior management?	Yes	N/A	N/A	N/A	N/A

Firstly, the above results indicate that although the internal audit function receives applicable management reports that are required to manage the function, the CAE indicated that these reports were not always received on time. This was due to external factors that resided in other divisions in the organisation.

Secondly, although the cost information applicable to the internal audit function was available, the CAE and COO disagreed on whether this information was used to evaluate the cost efficiency of the internal audit function. The COO indicated that this KPA should be implemented in order to review the effectiveness and efficiency of the internal audit function on a regular basis. As the COO also performs an oversight over the internal audit function, the COO's answer has been regarded as most pertinent in this regard.

Lastly, it appears that performance measures have been developed for the internal audit function, that such measures have been used to evaluate the performance of the function, and that the performance against such measures have been reported to senior management.

It appears that the KPAs regarding internal audit management reports and internal audit cost information have been only partially achieved, while the KPA regarding performance measures has been achieved. However, based on the comments of the applicable respondents, it appears that all three KPAs can be applied within a South African context.

Based on the fact that only one of the three KPAs has been fully achieved, the internal audit function of the selected case has, therefore, only partially achieved this level.

5.2.5.3   Level 4

The only KPA included for this level is the extent to which qualitative and quantitative performance measures have been integrated in order to achieve optimal performance management of the internal audit function – refer to table 5.16 below.

Table 5.16: Performance management and accountability – Level 4

Question	Doc	CAE	ACC	COO	SIA
Have the strategic objectives of the IAF been identified and documented?	Partially	Partially	No	N/A	N/A
Are the results of the performance management system used to improve the IAF?	N/A	Yes	Yes	N/A	Yes
Are the inputs of key stakeholders regularly obtained with regard to the effectiveness and quality of the IAF?	N/A	No	Yes	Yes	Yes

164

Question	Doc	CAE	ACC	COO	SIA
Are the results of the performance management system and the quality assurance reviews incorporated and used to improve IA performance?	N/A	Partially	No	N/A	Partially
Is the implementation of the IAF's recommendations monitored on a regular basis to assess the value added to the organisation?	Yes	N/A	N/A	N/A	N/A
Do the performance measures of the IAF include measures for • stakeholder satisfaction?	No	No	No	N/A	Partially
• IA process and results?	Yes	N/A	N/A	N/A	N/A
• innovation?	No	No	No	N/A	Yes
• capabilities?	No	No	No	N/A	Yes

Firstly, the above results indicate that certain performance measures are in place, such as the monitoring of the extent to which the internal audit function's recommendations are implemented and the fact that the results of the performance management system appears to be used for the improvement of the internal audit function.

Secondly, the above results also indicate that the performance management process of the internal audit function does not appear to be optimal because the strategic objectives and performance measures of the internal audit function are not complete and the input of key stakeholders with regard to the effectiveness of the internal audit function is not always obtained. The respondents reacted differently with regard to the extent to which the input of key stakeholders is obtained with regard to the effectiveness of the internal audit function. The ACC, COO and SIA indicated that this was the case, while the CAE indicated that it was not. The ACC indicated that the audit committee met with the CAE in a closed session after every audit committee meeting, and that this, along with the fact that the performance of the internal audit function was measured annually, was sufficient with regard to obtaining key stakeholder input. However, the CAE indicated that stakeholder input could be expanded to include, for example, client satisfaction surveys.

Thirdly, the results indicate a difference in perception with regard to the extent to which the results of the performance management system and the quality assurance reviews are incorporated to improved internal audit performance. The CAE and SIA indicated that these results were incorporated and used, while the ACC indicated that he was not aware of any external assessments. Based on the fact that the ACC is one of the main stakeholders of internal audit services, the answer of the ACC is accepted as most pertinent in this regard. However, it should also be noted that the internal audit function of the selected case has only recently reached its first five-year mark, so an external assessment has not been required until recently. According to the applicable respondents, a so-called "readiness audit" was currently being conducted by National Treasury, which served as a prelude to the planned external review and would be conducted in the following financial year. The CAE also indicated that the results of the "readiness audit", as well as the future external assessment, would be used to improve internal audit performance.

Lastly, the ACC and the COO indicated that the business planning process of the internal audit function needed significant improvement with regard to establishing a mission, vision, more specific objectives and a marketing strategy. The CAE agreed that the implementation of this KPA was both feasible and would add value to the effectiveness of the internal audit function. In addition, stakeholder satisfaction was not included as a specific performance measure for the internal audit function. The CAE, ACC and SIA agreed that the performance measure should be updated to reflect this and that client satisfaction surveys should be distributed after the completion of every audit engagement.

It appears that the KPA regarding integration of qualitative and quantitative performance measures has not been achieved. Based on the comments of the respondents, it appears that it can be applied in a South African context. The internal audit function of the selected case has, however, not achieved this level.

5.2.5.4   Level 5

The only KPA included for this level is the extent to which public reporting of the internal audit function takes place – refer to table 5.17 below.

Table 5.17: Performance management and accountability – Level 5

Question	Doc	CAE	ACC	COO	SIA
Have impact measures been established?	N/A	No	N/A	N/A	N/A
Have organisational-level impacts of the IAF been identified?	N/A	No	N/A	Yes	N/A
Is there a report on the effectiveness of the IAF that is publicly available?	Yes	N/A	N/A	N/A	N/A
Is feedback obtained from external stakeholders to improve the effectiveness of the IAF?	N/A	Yes	Yes	Yes	Yes

The above results indicate that although some form of public reporting does take place, impact measures and organisation-level impacts for the internal audit function have not been clearly defined and identified. The CAE and ACC indicated that the AGSA and the Office of the Presidency did publicly report on the effectiveness of the internal audit function on an annual basis, but that this reporting was limited and that the development of impact measures and organisation-level impacts would add value in terms of measuring the public impact of the internal audit function.

It therefore appears that the KPA regarding public reporting of internal audit effectiveness has been partially achieved. However, based on the comments of the respondents, it appears that the KPA can be applied within a South African context. The internal audit function of the selected case has, however, only partially achieved this level.

167

5.2.5.5   Conclusion

Based on the above results, it appears that the performance management and accountability element of the IA-CM has not been satisfactorily achieved by the internal audit function of the selected case. Only three of the seven KPAs (42.9%) have been fully achieved, while three KPAs (42.9%) have been partially achieved and one KPA (14.2%) has not been achieved at all. Only one of the capability levels has been fully achieved. However, all seven KPAs appear to be applicable within a South African context without any apparent hindrances, as the respondents generally indicated that implementation of the KPAs not in place, was feasible and would enhance the internal audit function.

5.2.6 Organisational relationships and culture

The results of the research questions that pertain to the level two to five KPAs of the organisational relationships and culture element of the IA-CM, are documented in sections 5.2.6.1 to 5.2.6.4 and tables 5.18 to 5.21 below.

5.2.6.1   Level 2

The only KPA included for this level is the extent to which the internal audit function is managed from within – refer to table 5.18 below.

Table 5.18: Organisational relationships and culture – Level 2

Question	Doc	CAE	ACC	COO	SIA
Does the IAF have an appropriate internal organisational structure that is consistent with the organisation's needs and culture?	N/A	Yes	Yes	Partially	Partially
Does the IAF have all the audit and technology-based tools necessary to perform its functions?	N/A	Yes	Yes	N/A	Partially

Question	Doc	CAE	ACC	COO	SIA
Are the communication channels within the IAF effective?	N/A	Yes	N/A	N/A	N/A

The above results indicate that, in general, the operations of the internal audit function are managed internally with an appropriate organisational structure, sufficient technology-based tools and communication channels. The CAE and ACC indicated that this structure was currently sufficient but that it would be reviewed by the end of the next financial year to determine its sufficiency with regard to the number of staff members. The COO indicated that some additional skills development activities might be required to enhance the internal audit function, while the SIA indicated that the current structure was not entirely sufficient to meet the needs of the organisation. With regard to technology-based tools, all respondents indicated that the internal audit function had all the required hardware technology available, though not necessarily all the required software tools. The SIA indicated that additional internal audit software packages could enhance the effectiveness of the internal audit function.

It appears that the KPA regarding managing the internal audit function from within has been partially achieved. Based on the comments of the applicable respondents, it appears that this KPA can be applied within a South African context.

The internal audit function of the selected case has, however, only partially achieved this level.

5.2.6.2 Level 3

The KPAs included for this level are the extent to which the internal audit function is regarded as an integral component of the management team (indicated above the bold line), as well as the extent to which the different assurance efforts are coordinated (indicated below the bold line) – refer to table 5.19 below.

Table 5.19: Organisational relationships and culture – Level 3

Question	Doc	CAE	ACC	COO	SIA
Does the CAE serve on key management committees and/or forums?	N/A	Yes	N/A	Yes	N/A
Does the CAE receive all relevant key management plans and information reports?	N/A	Yes	Yes	Yes	N/A
Does senior management contribute to the development of IA plans?	N/A	Yes	N/A	Yes	Yes
Does organisational policy and structure formally include the CAE as a member of the organisation's management team?	N/A	Yes	Yes	Yes	N/A
Have all relevant internal and external assurance providers been identified?	N/A	Yes	Partially	N/A	No
Are processes and mechanisms established to coordinate and communicate the efforts of all assurance providers in order to minimise duplication and to maximise coverage?	N/A	Yes	Partially	N/A	Yes
Are regular meetings conducted with other assurance providers, such as external auditors?	N/A	Yes	Yes	N/A	Yes

Firstly, the above results indicate that the internal audit function and, more specifically, the CAE is regarded as an integral component of the management team. All respondents indicated that the CAE served on all key management committees and received all applicable management information. This is also established in the internal audit charter.

Secondly, the results indicate that the respondents were not in agreement with regard to the coordination of other assurance providers. The CAE indicated that all assurance providers had been identified and that assurance efforts were coordinated to minimise duplication. However, the ACC and SIA indicated that this process did not formally form part of audit committee meetings. The ACC acknowledged that this should not be the case and that assurance coordination efforts should be discussed at audit committee levels. The ACC also indicated that the external auditors of the selected case did not generally rely on the work

of internal audit, which might impact negatively on assurance coordination and on the feasibility of implementing this KPA within a South African context.

Therefore it appears that the KPA regarding the internal audit function, being considered an integral component of the management team, has been achieved and can be applied within a South African context. However, the KPA regarding the coordination with other review groups has been only partially achieved. Although this KPA, in general, can be applied within a South African context, the above-mentioned apparent unwillingness of the external auditors to rely on the work of internal audit may negatively affect the extent to which this KPA is achievable within a South African context.

The internal audit function of the selected case has only partially achieved this level because one of the two KPAs has not been fully achieved.

5.2.6.3   Level 4

The KPA included for this level is the extent to which the CAE advises and influences top-level management – refer to table 5.20 below.

Table 5.20: Organisational relationships and culture – Level 4

Question	Doc	CAE	ACC	COO	SIA
Does the CAE meet regularly with top-level management?	N/A	Yes	Yes	Yes	N/A
Does the CAE contribute towards emerging business and strategic issues as part of the management team?	N/A	Yes	No	No	N/A
Do forums exist where the CAE can share knowledge on best practices with operational managers throughout the organisation?	N/A	Yes	Yes	No	N/A
Can the CAE correspond openly and frankly with top-level management?	N/A	Yes	Yes	Yes	N/A

Question	Doc	CAE	ACC	COO	SIA
Does top-level management make special requests to the CAE on specific issues/concerns?	N/A	Yes	Yes	Yes	N/A
Has a formal reporting relationship been established?	Yes	N/A	N/A	N/A	N/A

The above results indicate that although the CAE is generally considered as a key player in the management team and meets regularly with top-level management, the CAE cannot be described as an advisor and influencer, as prescribed by the model. The CAE indicated that contribution towards emerging business and strategic issues were made. However, the perception of the ACC and COO differed in this regard. Both respondents indicated that although the CAE did contribute towards strategic issues, this contribution was limited and should be deepened. The COO added that the forums where best practices are shared are limited to top-level management only and should be expanded in order to include operational managers as well. Based on the fact that the ACC and COO represent the key stakeholders of the internal audit function, namely the audit committee and management, their answers are considered the most pertinent in this regard. The COO also added that certain personal development and training activities might be required so as to enhance the CAE's contribution.

It therefore appears that the KPA regarding the extent to which the CAE advises top-level management has been partially achieved. However, based on the comments of the respondents, it appears that this KPA can be applied within in a South African context.

The internal audit function of the selected case has, however, only partially achieved this level.

5.2.6.4 Level 5

The KPA included for this level is the extent to which effective and on-going relationships are established between the internal audit function and the organisation – refer to table 5.21 below.

Table 5.21: Organisational relationships and culture – Level 5

Question	Doc	CAE	ACC	COO	SIA
Does the CAE participate in all organisational mission-critical committees?	N/A	Yes	Yes	Yes	N/A
Has a mechanism/forum been established to facilitate regular interaction with management?	N/A	Yes	N/A	Yes	Yes
Has a mechanism/forum been established to facilitate regular interaction with the audit committee?	N/A	Yes	Yes	N/A	N/A
Has a mechanism/forum been established to facilitate regular interaction with the organisation's external auditor?	N/A	Yes	Yes	N/A	N/A
Has a mechanism/forum been established to facilitate regular interaction with other key stakeholders?	N/A	Yes	No	Yes	N/A
Does the CAE contribute to the audit committee's effectiveness by, for example, refining the audit committee charter and/or training of audit committee members?	N/A	Yes	Yes	Yes	N/A

The above results indicate that effective and on-going relationships have been established between the internal audit function and various parties within the organisation. All respondents generally agreed that the internal audit function interact regularly and effectively with management, the audit committee and the external auditors. The ACC indicated that meetings with other stakeholders, such as National Treasury, did not take place on a regular basis, but also highlighted that should such interactions be implemented, the required outcomes should first be carefully considered. However, the CAE and COO indicated that such

meetings did take place. This difference in perception might be due to the fact that the ACC is not aware of these interactions with National Treasury.

It appears that the KPA regarding effective and on-going relationships has been achieved, can be applied within a South African context and that the internal audit function of the selected case has achieved this level.

5.2.6.5   Conclusion

Based on the above results, it appears that the organisational relationships and culture element of the IA-CM has not been satisfactorily achieved by the internal audit function of the selected case. Only two of the five KPAs (40%) have been fully achieved, while the remaining three KPAs (60%) have been partially achieved. Only one of the capability levels has been fully achieved (level five). However, four of the five KPAs (80%) appear to be applicable within a South African context without any apparent hindrances, as the respondents generally indicated that implementation of the KPAs not in place, are feasible and would enhance the internal audit function. A potential implementation hindrance has, however, been identified with regard to the remaining KPA of this element. The apparent unwillingness of the external auditors to rely on the work of the internal audit function, may affect negatively the extent to which the level three KPA regarding coordination with other review groups is applicable within a South African context.

5.2.7 Governance structures

The results of the research questions that pertain to the level two to five KPAs of the governance structures element of the IA-CM are documented in sections 5.2.7.1 to 5.2.7.4 and tables 5.22 to 5.25 below.

5.2.7.1   Level 2

The KPAs included for this level are the extent to which formal reporting relationships have been established (indicated above the bold line), as well as the extent to which the internal audit function access to information, assets and people has been established (indicated below the bold line) – refer to table 5.22 below.

Table 5.22: Governance structures – Level 2

Question	Doc	CAE	ACC	COO	SIA
Does the IA charter formally define the: • purpose of the IAF?	Yes	N/A	N/A	N/A	N/A
• authority of the IAF?	Yes	N/A	N/A	N/A	N/A
• responsibility of the IAF?	Yes	N/A	N/A	N/A	N/A
• reporting relationship of the CAE?	Yes	N/A	N/A	N/A	N/A
Has the IA charter been approved by the governing body?	Yes	N/A	N/A	N/A	N/A
Has the IA charter been communicated throughout the organisation?	N/A	Yes	No	Yes	No
Does the CAE report administratively to the Director-General and functionally to the audit committee?	N/A	Yes	Yes	Yes	N/A
Does the IA charter clearly provide the necessary authority for the IAF to have full access to the information, assets and people of the organisation?	Yes	N/A	N/A	N/A	N/A
Do the organisational policies and procedures clearly provide the necessary authority for the IAF to have full access to the information, assets and people of the organisation?	No	No	No	No	No
Have formal procedures been established as to how such records, properties and personnel will be assessed?	No	No	N/A	No	No

175

Question	Doc	CAE	ACC	COO	SIA
Have formal procedures been established that need to be followed when management chooses not to disclose documents required during an IA engagement?	No	No	No	No	Yes

Firstly, the above results indicate that in general, formal reporting relationships have been established for the internal audit function, both in the internal audit charter and in reality. The CAE and COO indicated that the charter had also been communicated throughout the organisation. However, the ACC and SIA disagreed, indicating that the lower levels had most likely not been included in this communication. The SIA further indicated that problems had been experienced during audit engagements with lower level personnel who did not understand the authority and role of the internal audit function. As the SIA interacts with the lower staff levels on a more regular basis, the SIA's answer are regarded as most pertinent in this regard.

Secondly, the above results also indicate that generally the internal audit function has sufficient access to the information, assets and people of the organisation. However, all respondents indicated that no formal policies and procedures existed with regard to how records and properties should be assessed or the procedures that need to be followed when management chose not to disclose documents. All respondents agreed that the implementation of such policies and procedures were both feasible and would add value to internal audit processes. In addition, respondents also indicated that the authority to access information, assets and people were not documented in any other organisational policies, besides the internal audit charter. The CAE, COO and ACC indicated that owing to the fact that this authority was also documented in legislation, it was sufficient and that additional organisational policies were unnecessary within a South African context.

It appears that the KPA regarding the establishment of reporting relationships has been partially achieved. However, based on the comments of the applicable respondents, it appears that this KPA can be applied within a South African

context. The KPA regarding full access to the organisation's information, assets and people has not been achieved. Based on the comments of the applicable respondents, it appears that, in general, this KPA can be applied within a South African context. However, the feasibility of implementing the model requirement regarding organisational policies providing authority to the internal audit function (which is one of the components of this KPA) appears not to be achievable within a South African context.

The internal audit function of the selected case has, however, not achieved this level.

4.2.7.2 Level 3

The KPAs included for this level are the extent to which internal audit funding mechanisms (indicated above the bold line) and management oversight of the internal audit function (indicated below the bold line) have been established – refer to table 5.23 below.

Table 5.23: Governance structures – Level 3

Question	Doc	CAE	ACC	COO	SIA
Does the IAF have sufficient funding to carry out the activities of the IAF?	N/A	Yes	Yes	N/A	N/A
Is the IA funding process transparent and independent of management's influence (under the control of the CAE)?	N/A	Partially	Yes	Partially	N/A
Has the impact of resource limitations been identified and communicated to senior management?	N/A	Yes	Yes	Yes	N/A
Has a mechanism/forum/ committee been established where senior management oversees and advises the IAF?	N/A	Yes	Yes	Yes	N/A
Have policies and procedures for the IAF to communicate and interact with this mechanism/ forum/committee been established?	N/A	Partially	Yes	No	N/A

Question	Doc	CAE	ACC	COO	SIA
Has a mechanism/forum/ committee been established where the results of the IAF's activities are coordinated and shared?	N/A	Yes	Yes	Yes	N/A

The above results indicate that although a transparent funding process is in place, the budgeting process does not appear to be completely under the control of the CAE. However, the COO and CAE indicated that the funding process was driven by management, but that as soon as it was awarded to the internal audit function, it was under the control of the CAE. The COO added that in his view, this was sufficient as the accounting officer was ultimately accountable for the allocation and spending of funds. The CAE also indicated that internal audit resource limitations were communicated to management and that management provided sufficient assistance in this regard. Therefore, although two of the respondents indicated that the funding process is only partially under the CAE's control, the KPA regarding funding mechanisms will nonetheless be regarded as "Achieved", as the COO's explanation appears to be sufficient and because the CAE indicated that management provides sufficient assistance with regard to funding needs.

The above results also indicate that a mechanism does exist where management oversees the internal audit function. The COO indicated that he was partially responsible for this function but that it was also implemented through regular meetings such as management committee meetings. However, the results further indicate that no policies and procedures for the internal audit function to interact with this mechanism, as required by the model, are in place. The CAE indicated that such policies did exist at departmental level, but not specific to internal auditing's interaction with the management oversight function. The COO added that the implementation of such policies and procedures specific to internal auditing was feasible and would add value to the internal audit oversight process.

It therefore appears that the KPA regarding funding mechanisms has been achieved and that this KPA can, therefore, be applied within a South African

context. The KPA regarding management oversight of the internal audit function has been partially achieved. Based on the comments of the applicable respondents, it appears that this KPA can also be applied within a South African context.

The internal audit function of the selected case has, therefore, only partially achieved this level.

5.2.7.3   Level 4

The KPAs included for this level are the extent to which the internal audit function reports to top-level management (indicated above the bold line), as well as the extent to which independent oversight is exercised over the internal audit function (indicated below the bold line) – refer to table 5.24 below.

Table 5.24: Governance structures – Level 4

Question	Doc	CAE	ACC	COO	SIA
Does the CAE report directly to the Director-General?	Yes	N/A	N/A	N/A	N/A
Is this reporting line specified in organisational policies and in the IA charter?	Yes	N/A	N/A	N/A	N/A
Does the CAE meet regularly with the Director-General?	N/A	Yes	Yes	Yes	N/A
Does the IAF report to an independent oversight body (such as an audit committee)?	Yes	N/A	N/A	N/A	N/A
Does the IAF contribute to the establishment and performance of this oversight body by: • recommending membership attributes?	N/A	Yes	Yes	N/A	N/A
• assisting in the development of its charter?	N/A	Yes	Yes	N/A	N/A
• providing secretarial support?	N/A	Yes	Yes	N/A	N/A
• influencing the agenda of its meetings?	N/A	Yes	Yes	N/A	N/A
Is this reporting line specified in organisational policies and in the IA charter?	Yes	N/A	N/A	N/A	N/A

Question	Doc	CAE	ACC	COO	SIA
Is the role of the oversight body with regard to the appointment and removal of the CAE, formally established?	Yes	N/A	N/A	N/A	N/A
Does legislation require the: • establishment of such an oversight body?	Yes	N/A	N/A	N/A	N/A
• relationship of such a body with the IAF?	Yes	N/A	N/A	N/A	N/A

The above results indicate that the CAE does report directly to top-level management. All respondents agreed that this reporting line was in place and that the CAE did meet regularly with the Director-General.

The above results also indicate that the internal audit function does report to an independent oversight body. All respondents agreed that this function of independent oversight was effectively executed by the audit committee. In addition, this reporting line and the role of the audit committee was established in the internal audit charter as well as in legislation.

It therefore appears that the KPA regarding the extent to which the CAE reports to top-level management, as well as the KPA regarding independent oversight of the internal audit function have both been achieved and that both KPAs can be applied within a South African context.

The internal audit function of the selected case has, therefore, also achieved this level.

5.2.7.4 Level 5

The KPA included for this level is the extent to which the independence, power and authority of internal audit function has been fully established – refer to table 5.25 below.

Table 5.25: Governance structures – Level 5

Question	Doc	CAE	ACC	COO	SIA
Have the independence, power and authority of the IAF been fully established through: • legislation?	Yes	N/A	N/A	N/A	N/A
• management support?	N/A	Yes	Yes	Yes	N/A
• oversight body support?	N/A	Yes	Yes	Yes	N/A
Do the words, actions (strategies) of senior management, the oversight body and other key stakeholders demonstrate full acceptance of the IAF?	N/A	Yes	Yes	Yes	N/A

The above results indicate that, based on the opinions of the CAE, ACC and COO, the independence, power and authority of the internal audit function has been established.

It appears that the KPA regarding the independence, power and authority of the internal audit function has been achieved, that this KPA can be applied within a South African context and that the internal audit function of the selected case has achieved this level.

5.2.7.5 Conclusion

Based on the above results it appears that the governance structures element of the IA-CM has been fairly well achieved by the internal audit function of the selected case. Four of the seven KPAs (57.1%) have been fully achieved, while two KPAs (28.6%) have been partially achieved and one KPA (14.3%) has not been achieved. Two of the capability levels have been fully achieved (levels four and five). In addition, six of the seven KPAs (85.7%) appear to be applicable within a South African context without any apparent hindrances, as the respondents generally indicated that implementation of the KPAs not in place, was feasible and would enhance the internal audit function. A potential implementation hindrance has been identified with regard to the remaining KPA

of this element. The opinion of respondents that organisational policies providing authority to the internal audit function in addition to the internal audit charter was unnecessary, may affect negatively the extent to which this component of the level two KPA regarding full access to the organisation's information, assets and people, is applicable within a South African context.

5.3   RANKING OF THE INTERNAL AUDIT FUNCTION

In this section the research findings documented in sections 5.2.2 to 5.2.7 are further analysed and summarised. Firstly, the extent to which the KPAs for each element have been achieved by the selected case is summarised and documented. Secondly, the internal audit function of the selected case has been ranked according to the capability levels of the IA-CM. Lastly, the extent to which the KPAs for each level can be applied within a South African context is summarised and documented.

The extent to which the KPAs for each level have been achieved by the selected case is summarised and documented in table 5.26 below.

Table 5.26: Extent to which the KPAs of the IA-CM has been achieved by the internal audit function of the selected case

Elements / No of KPAs	S & R	PM	PP	PM & A	OR & C	GS	TOTAL
Total	5	10	7	7	5	7	41
Achieved	2	3	2	3	2	4	**16 (39.1%)**
Not achieved	3	3	3	1	0	1	**11 (26.8%)**
Partially achieved	0	4	2	3	3	2	**14 (34.1%)**
Achievement Rate	40% (2/5)	50% (5/10)	42.9% (3/7)	64.3% (4.5/7)	70% (3.5/5)	71.4% (5/7)	56.1% (23/41)

The above results indicate that 16 KPAs (39.1%) have been fully achieved, 14 KPAs (34.1%) have been partially achieved and 11 KPAs (26.8%) have not been

achieved at all. The results also indicate that a total achievement rate of 56.1% has been recorded for the internal audit function of the selected case. This achievement rate (indicated in the bottom row of table 5.26 above) was calculated by assigning a score of 1 for each KPA achieved, 0 for each KPA not achieved and 0.5 for each KPA partially achieved. With regard to the different elements of the model, the governance structures element of the IA-CM scored the highest achievement rate (71.4%). The elements relating to organisational relationships and culture, as well as performance management and accountability scored an above-average level (70% and 64.3% respectively). The remaining elements, namely people management, professional practices and the services and role of internal auditing scored the lowest achievement rates.

Based on the extent to which the KPAs for each level has been achieved in terms of the each element of the model, the internal audit function of the selected case has been ranked according to the capability levels of the IA-CM. The results of this ranking have been documented in table 5.27 below.

Table 5.27: Ranking of the internal audit function of the selected case according to the capability levels of the IA-CM

Capability Level	Services & Role	People Man	Prof Practices	Perf Man & Acc	Org R & C	Gov Structures
5	Not Achieved	Not Achieved	Not Achieved	Partially Achieved	Achieved	Achieved
4	Not Achieved	Partially Achieved	Achieved	Not Achieved	Partially Achieved	Achieved
3	Partially Achieved	Partially Achieved	Partially Achieved	Partially Achieved	Partially Achieved	Partially Achieved
2	Achieved	Partially Achieved	Partially Achieved	Achieved	Partially Achieved	Not Achieved
1	Ad-hoc Level No KPAs					

The above results indicate that most of the capability levels have been partially achieved (50%) by the internal audit function of the selected case, 25% of the capability levels have not been achieved, while 25% of the levels have been fully

183

achieved. The results also indicate that the governance structures element of the model has been achieved at the highest level, followed by the organisational relationships and culture and the performance management and accountability elements. An important observation is the fact that the model does not appear to be hierarchical when applied within a South African context. For example, in the professional practices element, level four appears to have been fully achieved, while levels three and two have been only partially achieved. As is evident in table 5.27, this scenario also occurred in the organisational relationships and culture element, as well as in the governance structures element.

As the main objective of this study relates to the extent to which the model can be applied within a South African context, the results as discussed in sections 5.2.2 to 5.2.7 are further summarised to present the extent to which the KPAs for each level can be applied within a South African context. This summary is documented in table 5.28 below.

Table 5.28: Extent to which the KPAs of the IA-CM are applicable within a South African context

Elements / No of KPAs	S & R	PM	PP	PM & A	OR & C	GS	TOTAL
Total	5	10	7	7	5	7	**41**
No apparent feasibility hindrances	4	6	7	7	4	6	**34**
With potential feasibility hindrances	1	4	0	0	1	1	**7**

The above results indicate that 34 of the 41 KPAs of the IA-CM (82.9%) appear to be applicable within a South African context without any apparent feasibility hindrances. However, the results also indicate that certain hindrances may negatively affect the feasibility of implementing the remaining 17.1% of the KPAs or certain components of these KPAs. These hindrances can be summarised as follows:

- The ability to provide full assurance on fraud, as discussed in section 5.2.2.4.

- The fact that the CAE is at a lower post level compared to that of other executive staff members, such as the CFO, as discussed in sections 5.2.1, 5.2.2.4 and 5.2.3.1.

- The differing perceptions regarding retention policies, as discussed in section 5.2.3.2.

- The differing perceptions regarding rotation policies, as discussed in section 5.2.3.3.

- The limited time availability of the leaders of the internal audit function, as discussed in section 5.2.3.4.

- The apparent unwillingness of the external auditors to rely on the work of the internal audit function, as discussed in section 5.2.6.2.

- The opinion of respondents that organisational policies providing authority to the internal audit function in addition to the internal audit charter is unnecessary, as discussed in section 5.2.7.1.

5.4   CONCLUSION AND RELEVANCE TO THE STUDY

In this chapter the results of the empirical phase of this study have been presented and discussed. This part of the study involved a case study in which the internal audit function of a selected South African National Department was analysed and compared to the KPAs of the IA-CM. The objective was to determine whether the IA-CM can be applied within a South African context. This research question was answered by reviewing applicable internal audit specific documentation of the selected case and conducting interviews with selected individuals within the case. The results obtained from the document review, together with the interviews, were documented in this chapter along with applicable explanations which were obtained from the interviewees. These results were used to rank the capability of the internal audit function of the case against the KPAs, as well as against the capability levels of the model in terms of fully achieved, partially achieved or not achieved. The results were then used to determine the extent to which the KPAs of the model can be applied within a

South African context and to identify any apparent feasibility hindrances to the implementation of any of these KPAs.

Firstly, the results indicate that 39.1% of the KPAs have been fully achieved, 34.1% of the KPAs have been partially achieved and 26.8% have not been achieved at all. The reasons for not achieving or partially achieving a KPA were also documented in this chapter and will be further discussed in the next chapter, in the context of the research objectives.

Secondly, the results indicate that 25% of the capability levels of the model have been fully achieved, 50% of the levels have been partially achieved and 25% of the levels have not been achieved at all. The effects of these achievement rates will be further discussed in the next chapter, in the context of the research objectives.

Thirdly, the results indicate that 82.9% of the KPAs of the IA-CM appear to be applicable within a South African context without any apparent feasibility hindrances. However, the results also indicate that certain hindrances may affect negatively the possible implementation of the remaining 17.1% of the KPAs or certain components of these KPAs. These hindrances can be summarised as follows, but will be further integrated in the next chapter, within the context of the research objectives:

- The ability to provide full assurance on fraud, as required by the services and role level five KPA regarding the extent to which the internal audit function is regarded as a key agent of change, may not be applicable within a South African context.
- The fact that the CAE is at a lower post level compared to that of other executive staff members, such as the CFO, may negatively affect the independence of the internal audit function. In addition, it may also negatively affect the extent to which the services and role level five KPA regarding whether the internal audit function is regarded as a key agent of

change, as well as the people management level two KPA regarding the recruitment of skilled people, are applicable within a South African context.

- The differing perceptions regarding retention policies may negatively affect the extent to which this component of the people management level three KPA, regarding the extent to which professionally qualified staff are recruited and retained, is applicable within a South African context.

- The differing perceptions regarding rotation policies may negatively affect the extent to which this component of the people management level four KPA regarding internal auditing's contribution towards management development, is applicable within a South African context.

- The limited time availability of the leaders of the internal audit function may negatively affect the extent to which the people management level five KPA regarding leadership involvement with professional bodies, is applicable within a South African context.

- The apparent unwillingness of the external auditors to rely on the work of the internal audit function may negatively affect the extent to which the organisational relationships and culture level three KPA regarding coordination with other review groups, is applicable within a South African context.

- The opinion of respondents that organisational policies providing authority to the internal audit function, in addition to the internal audit charter, is unnecessary may negatively affect the extent to which this component of the governance structures level two KPA regarding full access to the organisation's information, assets and people, is applicable within a South African context.

In the next chapter, the final conclusions and recommendations of the study are discussed in light of the literature review as well as the research findings.

187

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1   INTRODUCTION

In chapters 2 and 3, the literature review was presented as a foundation for the study, while the detailed results of the empirical phase of this study were presented and discussed in chapter 5. In this chapter, a final research conclusion is provided and the recommendations and conclusions that can be drawn from the literature review, as well as the empirical phase of this study, are presented and discussed. In addition, areas for future research are identified and a final conclusion is provided.

6.2   RESEARCH CONCLUSION

The main research question as to whether the Internal Audit Capability Model (IA-CM) can be applied within a South African context was presented in chapter 1. The research findings, as presented in chapter 5, revealed that 82.9% of the KPAs of the IA-CM appear to be applicable within a South African context without any apparent feasibility hindrances. Therefore, it can be concluded that in essence the model can be applied within a South African context. However, the findings also identified eight hindrances that may negatively affect the feasibility of implementing the remaining 17.1% of the key process areas (KPAs) or certain components of these KPAs. These eight hindrances affect seven KPAs of the IA-CM and are summarised below.

- The services and role level five KPA regarding the extent to which the internal audit function is regarded as a key agent of change. One of the components of this KPA requires that the internal audit function include audit coverage on fraud (IIA 2009:62). Some of the respondents who participated in this study indicated that this may imply that full assurance of

fraud is required, which is not possible. The applicable respondents indicated that the internal audit function can only investigate known fraud and/or identify the indicators of fraud.

- Another factor that may limit the extent to which the internal audit function is regarded as a key agent of change, is the fact that the chief audit executive (CAE) is at a lower post level compared to other executive staff members, such as the chief financial officer (CFO). This affected the perception of the audit committee chairperson (ACC) regarding the internal audit function's ability to act as a key agent of change, which is one of components of this KPA. This may negatively affect the independence of the internal audit function and therefore also its ability to bring about change in the organisation.

- The people management level two KPA regarding the recruitment of skilled people. One of the components of this KPA requires that internal audit staff be remunerated in accordance with an appropriate classification system. The fact that the CAE is at a lower post level compared to other executive staff members, such as the CFO, indicates that the CAE is not appointed at the correct post level to ensure optimal independence and an optimal level of skills.

- The people management level three KPA regarding the extent to which professionally qualified staff are recruited and retained. The respondents who participated in this study were not in agreement as to whether retention policies should be implemented or not. The difference in these opinions may present a hindrance in the implementation of the staff retention component of this KPA.

- The people management level four KPA regarding internal auditing's contribution towards management development. The respondents who participated in this study did not agree on whether a rotation policy between the internal audit function and the rest of the organisation should be implemented or not. The difference in these opinions may present a hindrance in the implementation of the rotation component of this KPA.

- The people management level five KPA regarding leadership involvement with professional bodies. Although all the relevant respondents who

participated in this study indicated that the internal audit leaders should be involved in the projects and leadership of professional bodies, the limited time available to the leaders of the internal audit function may negatively affect the feasibility of implementing this KPA.

- The organisational relationships and culture level three KPA regarding coordination with other review groups. It was mentioned by participants that the external auditors are mostly unwilling to rely on the work of the internal audit function. This may negatively affect the extent to which assurance efforts can be coordinated, as willingness to rely on other assurance efforts is an essential part of the combined assurance model.

- The governance structures level two KPA regarding full access to the organisation's information, assets and people. The respondents who participated in this study indicated that organisational policies providing authority to the internal audit function, in addition to the internal audit charter, are not feasible and are unnecessary, as the authority of the internal audit function is established in legislation through the Treasury Regulations. This may present a hindrance in the implementation of the component of this KPA that requires that additional organisational policies and procedures establish the authority of the internal audit function.

Two observations can be made from the above hindrances. Firstly, four of the eight hindrances (50%) relate to the people management element of the model. Secondly, the KPAs that are affected by the hindrances cover all five of the capability levels of the model. No specific trend in terms of the capability levels has been identified.

6.3   RECOMMENDATIONS

The recommendations that can be derived from the literature review, as well as the empirical phase of this study, are discussed in this section. The recommendations are presented to the three main stakeholders of this study, namely the selected case, the South African government and the Institute of Internal Auditors Research Foundation (IIARF), as identified in section 1.7. Most

of the recommendations documented below have been derived from three main sources.

Firstly, recommendations have been derived from the literature review that was conducted in chapter three with regard to the extent to which the elements and KPAs of the IA-CM have been addressed by South African legislation and guidance (refer to sections 3.3.3.1 to 3.3.3.7). In the main, these recommendations affect the South African government and so are documented in sections 6.3.2.1 to 6.3.2.7.

Secondly, recommendations have been derived from the areas that have been identified where the selected case agreed that the implementation of the applicable requirements of the model are feasible and would add value (refer to section 5.2.1 to 5.2.7). These recommendations mostly affect the selected case and are therefore documented in sections 6.3.1.1 to 6.3.1.7.

Thirdly, recommendations have been derived from the eight hindrances as identified in section 6.2. These recommendations affect all three identified stakeholders. Table 6.1 below presents a summary of the seven KPAs that are affected by the eight hindrances identified in section 6.2 above. The table indicates the applicable KPA that is affected, the applicable component of the KPA that is affected, the corresponding capability level of the affected KPA, the applicable stakeholders that are affected by the hindrance and the sections in which the applicable recommendations to the affected stakeholders are discussed in this chapter.

Table 6.1: KPAs affected by the feasibility hindrances identified

IA-CM element and KPA affected	Component of KPA affected	Level of KPA	Stakeholders affected	Sections discussed
Services and role: IA recognises as key agent of change	Audit coverage on fraud	5	• IIARF	6.3.3.2
	Management and audit committee perceptions of the post level of the CAE	5	• Selected case • SA Government	6.3.1.2 6.3.2.2
People management: recruitment of skilled people	Remuneration classification system	2	• Selected case • SA Government • IIARF	6.3.1.3 6.3.2.3 6.3.3.3
People management: professionally qualified staff	Retention policies	3	• Selected case • IIARF	6.3.1.3 6.3.3.3
People management: IA contributes to management development	Rotation policies	4	• Selected case • IIARF	6.3.1.3 6.3.3.3
People management: leadership involvement with professional bodies	Leadership involvement with professional bodies	5	• Selected case • IIARF	6.3.1.3 6.3.3.3
Organisational relationships and culture: coordination with other review groups	Assurance coordination processes	3	• Selected case • SA Government • IIARF	6.3.1.6 6.3.2.6 6.3.3.4
Governance structures: full access to the organisation's information, assets and people	Additional organisational policies on the authority of the internal audit function	2	• IIARF	6.3.3.5

192

6.3.1 Recommendations to the selected case

The research findings that were derived from applying the IA-CM to the selected case revealed several areas of improvement that, if implemented, could add value to the internal audit function of the selected case. The relevant interview respondents indicated that the implementation of these observations is feasible and would enhance the effectiveness and capability of the internal audit function. These recommendations are summarised in sections 6.3.1.1 to 6.3.1.7 below, firstly in terms of the general observations and secondly, in terms of the six elements of the IA-CM. It should be noted that based on the fact that one of the more capable national department internal audit functions was selected (refer to section 4.3.1), many of these recommendations may be applicable to other internal audit functions in the South African public sector.

6.3.1.1   General recommendations

- The CAE should ensure that the internal audit function is continuously made aware of guidance documents that are published by the Institute of Internal Auditors (IIA). All the respondents who participated in this study indicated that they were not aware of the IA-CM.

6.3.1.2   Services and role of internal auditing

- Consulting and advisory services should be considered as a means of providing a broader and more value adding internal audit service to management. Firstly, the authority and prerogative of the CAE to provide such services should be stipulated in the internal audit charter. Secondly, internal audit policies and procedures should be drafted to guide the performance of such services. Thirdly, the management and the internal audit function of the selected case should discuss and investigate areas where such services could be provided.

- The internal audit function should be mandated to express an overall opinion on the effectiveness of governance, risk management and control processes. This mandate should be documented in the internal audit charter.

- The strategic documents of the internal audit function should be updated to include the need for internal auditing to bring about positive change in the organisation, enterprise risk management strategies, innovation, client service and value. The internal audit function should also ensure that it provides full assurance areas, such as entity level controls and new strategic initiatives.

- Management should consider raising the post level of the chief audit executive (CAE) in order to ensure optimal independence of the internal audit function. Optimally, the CAE should be at one post level lower than that of the accounting officer, at the same level as the chief financial officer (CFO), for example.

6.3.1.3   People management

- Special steps should be taken to ensure that the audit committee is always involved in the appointment of the CAE.

- Management should consider raising the post level of the chief audit executive (CAE) in order to ensure optimal independence of the internal audit function (refer to section 6.3.1.2).

- The sufficiency of the current internal audit structure in terms of staff complement should be carefully monitored to ensure that the future needs of the internal audit function and organisation as a whole are met.

- Internal audit management should carefully consider whether enough support is provided to internal audit staff to become professionally qualified, specifically with regard to time available for staff to take study leave in terms of the current structure of the organisation. Internal audit staff should be consulted in order to obtain their perceptions in this regard.

- The implementation of formal recognition programmes for internal audit staff should be considered. This will enhance internal audit staff performance and retention.

- The implementation of a formal retention policy for internal audit staff should be considered. This will enhance internal audit staff retention (refer to section 3.3.3.2). Although some of the respondents who participated in this study indicated that such a policy should not be implemented owing to career limitations, however, it is suggested that the importance of such a policy be reconsidered.

- Criteria for effective teamwork behaviour should be developed and included in the competency framework of the internal audit function. Training should also be provided on topics such as teamwork and team building.

- The performance measurement criteria of internal audit staff and the internal audit function should include measures of the extent to which contributions are made to the internal audit profession. Recognition should also be given to internal audit staff who support professional bodies, such as the IIA.

- The implementation of a formal rotation policy between the internal audit function and the rest of the organisation should be considered. This will enhance the internal audit contribution to management development, as the internal audit function can be seen as a valuable source for the development of future managers (refer to section 3.3.3.2). Although some of the respondents who participated in this study indicated that such a policy should not be implemented because of potential problems with the confidentiality of information, it is strongly suggested that the importance of such a policy be reconsidered.

- A formal strategic workforce plan should be developed. In this plan the internal audit function's objectives for competency development and other workforce needs should be formally identified, documented and analysed.

- Leaders of the internal audit function (for example the CAE) should participate in the projects and leadership structures of professional bodies, such as the IIA. One of the respondents who participated in this study indicated that the availability of time might be a hindrance with regard to the implementation of this recommendation. It is further recommended that this

195

requirement be specifically drafted into the performance agreements, performance measurement processes and job descriptions of the internal audit leaders.

6.3.1.4   Professional practices

- The audit universe of the organisation should be formally documented.

- The periodic internal audit plan should be updated to include engagement objectives and capability requirements.

- The internal audit professional practices and processes manual should be finalised and implemented. This manual should include guidance, methodologies and processes.

- The roles, responsibilities and accountabilities for performing, reviewing and approval of internal audit work should be clearly developed and documented.

- Internal assessments of the internal audit function should be conducted on a regular basis to monitor and report on the effectiveness of the function.

- Independent external assessments of the internal audit function should be conducted on a regular basis to monitor and report on the effectiveness of the function.

- The internal audit function should continuously monitor the internal and external environment of the organisation to identify emerging trends and risks. This analysis should be used to identify gaps in internal audit practices, tools and skills that resulted from such emerging trends and risks. Solutions to such gaps should be identified and implemented.

- Internal audit policies, practices and procedures should be reviewed on a regular basis and compared to international best practice. Such best practices should be used along with performance data feedback from internal and external assessments and should be integrated into the professional practices of the internal audit function, in order to ensure continuous improvement.

6.3.1.5 Performance management and accountability

- The business plan of the internal audit function should be updated to include administrative and support services, as well as required resources.
- Management should ensure that the internal audit function receives applicable management information reports on a timely basis to ensure effective management of the internal audit function.
- Internal audit cost information should be analysed to monitor the economic, efficient and effective management of costs relating to the internal audit function.
- The strategic objectives of the internal audit function should be reviewed and updated to reflect the complete mandate of the internal audit function.
- The inputs of key stakeholders with regard to the effectiveness of the internal audit function should be obtained on a regular basis.
- The performance measures of the internal audit function should be updated to include measures for stakeholder satisfaction, innovation and capabilities.
- Performance measures that measure the organisational-level impact of the internal audit function should be developed to enhance the public reporting of the internal audit function.

6.3.1.6 Organisational relationships and culture

- The internal audit function should carefully consider whether it has all the technology-based tools necessary to perform its functions. For example, additional software such as data manipulation packages could be considered.
- Management, the internal audit function and the audit committee should ensure that all relevant internal and external assurance providers have been identified and that a combined assurance process is in place at management level and monitored at audit committee level to minimise assurance duplication and to maximise coverage. Furthermore, one of the respondents participating in this study indicated that the external auditors do

not always rely on the work of the internal audit function. It is suggested that the audit committee obtain formal reasons for this in order to address this issue.

- The personal training and development of the CAE should be reviewed and updated to include training that enhances the CAE's ability to contribute towards emerging business and strategic issues.

- Forums should be established where the CAE can share knowledge on best practices with operational managers throughout the organisation.

- The organisation should consider whether appropriate interaction takes place with all key stakeholders of the internal audit function.

6.3.1.7   Governance structures

- The internal audit charter should be communicated throughout the organisation to ensure that all staff levels are aware of the mandates and authority of the internal audit function.

- Formal internal policies and procedures should be established with regard to how the internal audit function should assess the information, assets and personnel of the organisation.

- Formal internal policies and procedures should be established with regard to the formal procedures that the internal audit function should follow if management chooses not to disclose information required during an internal audit engagement.

- Policies and procedures should be established for the internal audit function to communicate and interact with the senior management forum which oversees the internal audit function.

6.3.2 Recommendations to the South African government

The literature review, as well as the empirical research findings, revealed several aspects that could be implemented by the South African government through legislation and guidance to enhance the capability of public sector internal audit

functions. These recommendations are summarised in sections 6.3.2.1 to 6.3.2.7 below, firstly in terms of the general observations and secondly, in terms of the six elements of the IA-CM.

6.3.2.1   General recommendations

- Public sector internal audit guidance should be refined to be more practical and specific in terms of what is expected of a public sector internal auditor. This refinement process should be done in consultation with different public sector organisations, as well as the different internal stakeholders within each organisation (such as the internal audit function, management and the audit committee) in order to ensure that the needs of the public sector organisation, as a whole, are met.
- The IA-CM should be marketed as a tool to be used for determining public sector internal audit capability.

6.3.2.2   Services and role of internal auditing

- Public sector-specific legislation and guidance with regard to internal auditing should be reviewed and updated to address the following two services and role KPAs adequately, as presented by the IA-CM:
  - Performance / value-for-money auditing (level 3).
  - Internal auditing recognised as a key agent of change (level 5).
- A review of the post levels of CAEs within public sector organisations should be conducted to ensure optimal independence of the internal audit function and optimal skills at CAE level.

6.3.2.3   People management

- Public sector-specific legislation and guidance with regard to internal auditing should be reviewed and updated to address the following five people management KPAs adequately, as presented by the IA-CM:

- o Team building and competency (level 3).
- o Workforce planning (level 4).
- o Internal audit function support to professional bodies (level 4).
- o Internal audit contributions to management development (level 4).
- o Workforce projection (level 5).
- o Internal audit leadership involvement with professional bodies (level 5).
- A review of the post levels of CAEs within public sector organisations should be conducted to ensure optimal independence of the internal audit function and optimal skills at CAE level.

6.3.2.4 Professional practices

- Public sector-specific legislation and guidance with regard to internal auditing should be reviewed and updated to address the following professional practices KPA adequately, as presented by the IA-CM:
  - o Continuous improvement in professional practices (level 5).

6.3.2.5 Performance management and accountability

- Public sector-specific legislation and guidance with regard to internal auditing should be reviewed and updated to address the following six performance management and accountability KPAs adequately, as presented by the IA-CM:
  - o Internal audit operating budget (level 2).
  - o Internal audit business plan (level 2).
  - o Internal audit cost information (level 3).
  - o Internal audit management reports (level 3).
  - o Integration of qualitative and quantitative performance measures (level 4).
  - o Public reporting of internal audit effectiveness (level 5).

6.3.2.6 Organisational relationships and culture

- Public sector-specific legislation and guidance with regard to internal auditing should be reviewed and updated to address the following two organisational relationships and culture KPAs adequately, as presented by the IA-CM:
  - CAE advises and influences top-level management (level 4).
  - Effective and on-going relationships (level 5).
- The relationship between the internal audit function and the audit committee should be defined in more detail in applicable legislation.
- A formal review should be conducted on the extent to which the external auditors of public sector organisations rely on the work of internal auditors and, if not, the reasons determined for not relying on their work.

6.3.2.7 Governance structures

- Public sector-specific legislation and guidance with regard to internal auditing should be reviewed and updated to address the following governance structure KPA adequately, as presented by the IA-CM:
  - Funding mechanisms for the internal audit function (level 3).

6.3.3 Recommendations to the IIA Research Foundation

The research findings identified several observations with regard to the applicability and potential refinement of the IA-CM within a South African context. These recommendations are summarised in sections 6.3.3.1 to 6.3.3.5 below, firstly in terms of the general observations and secondly, in terms of the affected elements of the IA-CM. Although these recommendations are made with regard to a South African context, it should be noted that the feasibility hindrances and other refinement recommendations might also be applicable when the model is applied in other countries.

6.3.3.1 General recommendations

- In the ranking of the internal audit function of the selected case against the capability levels of the IA-CM, the research findings revealed that the model does not appear to be hierarchical when applied within a South African context. For example, in the professional practices element, level four appears to have been fully achieved, while levels three and two have been only partially achieved. This scenario also occurred in the professional practices, the organisational relationships and culture element, as well as in the governance structures element (refer to table 5.27 in section 5.3), where the higher capability levels were fully achieved, while the corresponding lower levels were partially achieved or not achieved. The model specifically states that capability levels cannot be passed over (IIARF 2009:54). However, in the application of the model to the selected case, the opposite proved to be true. The hierarchical building block foundation of the model should therefore be reviewed.

- The respondents who participated in this study indicated that they had been unaware of the IA-CM before this study. The IA-CM should be marketed to increase awareness of its ability to assist public sector internal audit functions in measuring capability. The IIA SA can assist in this marketing function.

6.3.3.2 Services and role of internal auditing

- The component of the services and role level five KPA regarding the provision of full assurance on fraud, should be rephrased to indicate that internal auditors should design their processes to include the indicators of fraud.

6.3.3.3   People management

- When the model is applied within other countries, it should be taken into account that the following potential implementation hindrances, which were identified when the model was applied in a South African context, may exist:
    o CAEs in public sector internal audit functions are not always appointed at the correct post level.
    o Public sector organisations may not be willing to implement internal audit staff retention policies.
    o Public sector organisations may not be willing to implement a rotation policy between the internal audit function and the rest of the organisation.
    o Internal audit leaders within public sector organisations may not be able to be involved in the projects and leadership structures of professional bodies because of time constraints.

6.3.3.4   Organisational relationships and culture

- The relationship between the internal audit function and the audit committee should be considered as an additional KPA of the model within this element.
- When the model is applied within other countries, the fact that the external auditors of public sector organisations may not be willing to rely on the work of internal auditors, as identified when the model was applied in a South African context, should be taken into account.

6.3.3.5   Governance structures

- The component of the governance structures level two KPA regarding additional organisational policies and procedures that clearly provide the necessary authority for the internal audit function to have full access to the information, assets and people of the organisation, should be removed

when the model is applied within a South African context. This should also be considered as a potential implementation hindrance when the model is applied within other countries. The respondents who participated in this study indicated that organisational policies providing authority to the internal audit function, in addition to the internal audit charter, are not feasible and are unnecessary, as this is a legal requirement. Based on the fact that this authority is specified both in the internal audit charter and the Treasury Regulations, it can be argued that the requirement to have it specified in additional organisational policies, is not necessary.

6.4   FURTHER RESEARCH

The following potential further research studies were identified during the course of this study:

- The applicability of the IA-CM within other spheres of government, for example, provincial government or local government.
- The current state of public sector internal audit capability in South Africa through the use of the IA-CM.
- A comparison of South African application of the IA-CM with the application of the model within other countries.

6.5   CONCLUSION

Internal audit capability is an essential driver of effective public sector internal audit functions. However, it is also a difficult area to measure, as capability can be interpreted in a different way by different internal auditors, as well by the different stakeholders of internal auditing. This study presents the importance of internal auditors in assisting public sector organisations in achieving the many challenges they face. It also discusses the important link between the ability of internal auditors to provide this assistance and the capability of the applicable

internal audit functions. The IA-CM is presented as a means of measuring internal audit capability in the public sector of South Africa. The study further investigates the extent to which this model is applicable within a South African context and identified several potential implementation hindrances. The results can, firstly, assist public sector internal audit function by enhancing its capability and, therefore, ultimately its effectiveness. Secondly, the results can assist the government of South Africa in providing sufficient legislation and guidance with regard to public sector internal auditing. Lastly, it can assist the developers of the IA-CM to refine the model to be more applicable within the context of other countries. The IA-CM justly indicates that "public sector internal audit environments differ around the world." (IIARF 2009:4). As such, this study can strengthen the model by providing insight into its applicability within the context of other countries.

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213

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216

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224

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LIST OF ABBREVIATIONS FOR ANNEXURES

ACC	Audit Committee Chairperson
AGSA	Auditor General of South Africa
CAE	Chief Audit Executive
CIA	Certified Internal Auditor
COO	Chief Operating Officer
CL	Capability Level
DD	Deputy Director
ERM	Enterprise Risk Management
IA	Internal Audit(ing)
IA-CM	Internal Audit Capability Model
IAF	Internal Audit Function
IIA	Institute of Internal Auditors
IQQN	Interview Questionnaire Question Number
KCN	KPA Checklist Number
KPA	Key Process Area
MPAT	Management Performance Assessment Tool
N/A	Not Applicable
SIA	Senior Internal Auditor

Internal Audit Capability Model Matrix					
	Services and Role of IA	**People Management**	**Professional Practices**	**Performance Management and Accountability**	**Organisational Relationships and Culture**	**Governance Structures**
Level 5: Optimi-sing	IA Recognised as Key Agent of Change	Leadership Involvement with Professional Bodies Workforce Projection	Continuous Improvement in Professional Practices Strategic IA Planning	Public Reporting of IA Effectiveness	Effective and Ongoing Relationships	Independence, Power, and Authority of the IA Activity
Level 4: Mana-ged	Overall Assurance on Governance, Risk Management and Control	IA Contributes to Management Development IA Activity Supports Professional Bodies Workforce Planning	Audit Strategy Leverages Organisation's Management of Risk	Integration of Qualitative and Quantitative Performance Measures	CAE Advises and Influences Top-level Management	Independent Oversight of the IA Activity CAE Reports to Top-level Authority
Level 3: Inte-grated	Advisory Services Performance/Value-for-Money Audits	Team Building and Competency Professionally Qualified Staff Workforce Coordination	Quality Management Framework Risk-based Audit Plans	Performance Measures Cost Information IA Management Reports	Coordination with Other Review Groups Integral Component of Management Team	Management Oversight of the IA Activity Funding Mechanisms
Level 2: Infra-struc-ture	Compliance Auditing	Individual Professional Development Skilled People Identified and Recruited	Professional Practices and Processes Framework Audit Plan Based on Management/ Stakeholder Priorities	IA Operating Budget IA Business Plan	Managing within the IA Activity	Full Access to the Organisation's Information, Assets, and People Reporting Relationships Established
Level 1: Initial	*Ad hoc* and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent on the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organisational unit; no established capabilities; therefore, no specific key process areas.					

[Source: IIA Research Foundation 2009:14]

230

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
1.1	2	Services & role of IA: Are compliance audits conducted by the IAF?	• Does the IA charter include the nature of assurance services?	Yes	N/A	IA charter, p.5.
1.2			• Can the planned engagements be substantiated by compliance audit: o working papers?	Yes	N/A	Compliance audit file.
1.3			o reports?	Yes	N/A	Compliance audit file.
1.4			• Are IA reports submitted to the appropriate parties (auditee, audit committee, etc)?	Yes	N/A	Compliance audit file
1.5			• Are management action plans documented after compliance audits?	Yes	N/A	IA executive summaries for 2012 & 2103.
2.1	3	Services & role of IA: Are performance audits conducted by the IAF?	• Does the IA charter include the nature of assurance services?	Yes	N/A	IA charter, p.5.
2.2			• Can the planned engagements be substantiated by performance audit: o working papers?	Yes	N/A	Performance audit file.
2.3			o reports?	Yes	N/A	Performance audit file.
2.4			• Are IA reports submitted to the appropriate parties (auditee, audit committee, etc.)?	Yes	N/A	Performance audit file.
2.5			• Are management action plans documented after performance audits?	Yes	N/A	Performance audit file.

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
3.1	3	Services & role of IA: Are consulting/advisory services provided by the IAF?	• Does the IA charter include: o the nature of consulting services?	Yes	N/A	IA charter, p.5.
3.2			o the authority and prerogative of the CAE with regard to the performance of consulting services?	No	No No No	CAE ACC COO
3.3			o the responsibility of management in the implementation of recommendations (sufficient management support)?	Yes	N/A	IA charter, p.6.
3.4			• Do internal policies and procedures exist for conducting consulting services?	No	No No No No	CAE ACC COO SIA
3.5			• Can the engagements be substantiated by consulting audit working papers and reports?	No	No No No No	CAE ACC COO SIA
3.6			• Does the IAF only take on consulting services for which they possess the necessary competencies for?	No	N/A no consulting	N/A no consulting
3.7			• Does the IAF implement measures to reduce the impact of impaired independence/ objectivity?	No	N/A no consulting	N/A no consulting
4.1	4	Services & role of IA: Does the IAF provide overall assurance on the governance, risk management and control of the organisation?	• Does the IA charter include the authority to express an organisation-wide opinion?	No	No No No	CAE ACC COO
4.2			• Is an annual governance audit conducted?	No	Partially	CAE
4.3			• Is an annual risk management audit conducted?	Yes	N/A	IA plan 2013/2014.
4.4			• Does the IAF express an overall opinion on whether the governance, risk management and control processes are effective?	No	No No No	CAE ACC COO

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
4.5			• Is this opinion included in the organisation's annual statement of internal control?	No	No No No	CAE ACC COO
5.1	5	Services & role of IA: Would you describe the IAF as a key agent of change?	• Does the strategic documents/vision/ mission of the IAF include: o the need for internal auditing to bring about positive strategic change in the organisation?	No	No No No No	CAE ACC COO SIA
5.2			o ERM strategies?	No	No No No	CAE ACC COO
5.3			o innovation, client service and value?	No	No No No	CAE ACC COO
5.4			• Does the IAF provide full assurance and advisory services on: o governance?	N/A	Yes Yes Yes Yes	CAE ACC COO SIA
5.5			o entity level controls?	N/A	Yes Yes No Yes	CAE ACC COO SIA
5.6			o fraud?	N/A	Yes Partially Yes Partially	CAE ACC COO SIA
5.7			o new strategic initiatives, programs and business practices?	N/A	Yes No No Partially	CAE ACC COO SIA

233

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
5.8			• Does senior management regard the IAF as a key player that contributes to the organisation's vision and that establishes change?	N/A	Yes	COO
5.9			• Does the audit committee regard the IAF as a key player that contributes to the organisation's vision and that establishes change?	N/A	Partially	ACC
6.1	2	People management: What processes are in place to ensure that skilled IA staff are identified and recruited?	• Does a valid and credible staffing and recruitment process/policy exist?	N/A	Partially Partially Yes Yes	CAE ACC COO SIA
6.2			• Is the recruitment of IA staff under the control of the CAE?	N/A	Yes Yes Yes Yes	CAE ACC COO SIA
6.3			• Are the current IA staff members (including the CAE) suitably competent and qualified?	N/A	Yes Yes Yes Yes	CAE ACC COO SIA
6.4			• Have sufficient job descriptions been developed for IA staff?	Yes	N/A	DD performance agreement documents.
6.5			• Are IA staff members remunerated in accordance with an appropriate classification system?	N/A	No No Yes Partially	CAE ACC COO SIA
6.6			• Is the percentage of the IA periodic plan that was executed in line with best practice?	Yes (100%)	N/A	Performance report.
6.7			• Is the percentage IA recommendations implemented in line with best practice?	Yes	N/A	Audit committee pack 28 Nov 2013.

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
7.1	2	People management: Are individual professional development activities in place to ensure the maintenance and enhancement of IA staff?	• Are IA staff training needs: o identified?	Yes	N/A	Staff personal development plans.
7.2			o documented?	Yes	N/A	
7.3			o tracked?	Yes	N/A	
7.4			• Does a training budget exist?	Yes	N/A	Budget for 2013/2014 financial year.
7.5			• Does a documented personal training & development plan exist for each IA staff member?	Yes	N/A	Staff personal development plans.
7.6			• Is this plan continuously tracked to monitor the development of each staff member?	Yes	N/A	
8.1	3	People management: Is the IA plan coordinated with the IA staff levels (workforce coordination)?	• Does the IA plan take staff levels and competencies into account?	N/A	Yes Yes Yes	CAE ACC SIA
8.2			• Are staff members fully utilised on the IA plan?	N/A	Yes Yes Yes	CAE ACC SIA
9.1	3	People management: Are professionally qualified staff recruited and retained?	• Has an IA competency framework been developed to support professional growth?	N/A	Yes Yes	CAE SIA
9.2			• Does the IAF use the National Treasury competency framework?	N/A	No No	CAE SIA
9.3			• Has explicit and objective performance evaluation criteria been developed for each staff member?	Yes	N/A	DD performance agreement documents.
9.4			• Is the performance of staff periodically evaluated against these criteria?	Yes	N/A	Bi-annual performance appraisal reviews for all IA staff.

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
9.5			• Is support provided for staff members to become professionally qualified (CIA qualification) in terms of personal development plans, training, study leave, etc?	N/A	Yes Yes Partially	CAE ACC SIA
9.6			• Are formal incentive and recognition programs in place in order to ensure staff retention?	No	No Unsure No Partially	CAE ACC COO SIA
10.1	3	People management: Is the capacity of IA staff members to function in a team environment specifically developed?	• Does the IAF engage in coordination measures such as periodic team meetings and shared team data resources?	Yes	N/A	Minutes for IA strategic planning meetings Sep 2013.
10.2			• Have criteria for effective teamwork behaviour been developed and included in the competency framework?	No	No No	CAE SIA
10.3			• Are team leadership roles assigned to selected individuals with regard to audit projects?	N/A	Yes Yes	CAE SIA
10.4			• Is training provided on topics such as teamwork and team building?	N/A	No No	CAE SIA
11.1	4	People management: Is workforce planning conducted?	• Have the staffing resource, skills, training and tools that are required to address the significant risks of the organisation been identified?	N/A	Yes Yes Yes Yes	CAE ACC COO SIA
11.2			• Have these requirements been compared to the available staffing resources and has the gap between the required resources and the available resources been identified?	N/A	Yes Yes Yes Yes	CAE ACC COO SIA
11.3			• Has specific strategies to address this gap been documented and communicated to senior management?	N/A	Yes Yes Yes	CAE ACC COO

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
11.4			• Does management take responsibility for implementing strategies to close this gap?	N/A	Yes Yes Yes	CAE ACC COO
12.1	4	People management: Are the involvement and participation of IA staff in professional bodies such as the IIA encouraged and supported?	• Is there any recognition provided for IA staff members that contribute/support professional bodies, such as the IIA?	N/A	No No No No	CAE ACC COO SIA
12.2			• Do the IAF's performance reports include performance on the function's contribution to the profession?	No	No No No	CAE ACC COO
13.1	4	People management: Does the IAF contribute to management development?	• Does a rotation policy exist between the IAF and the rest of the organisation?	No	No No No Yes	CAE ACC COO SIA
13.2			• Does the IAF provide training to management on governance, risk management and control aspects?	N/A	Yes Yes	CAE COO
14.1	5	People management: Is workforce projection conducted?	• Have the future IA skills and resource requirements been identified, documented and analysed?	No	Partially Partially	CAE ACC
14.2			• Has a strategic work force plan been developed that sets out the IAF's objectives for competency development and future workforce needs?	No	No	CAE
14.3			• Does a proposal to strengthen the capacity of the IAF exist?	No	No No No	CAE ACC COO

237

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
15.1	5	People management: Are the leaders of the IAF actively involved as key leaders in professional bodies?	• Are the IAF leaders actively involved at leadership level of relevant professional bodies such as the IIA?	N/A	No No No	CAE ACC COO
15.2			• Have the IAF leaders of the IAF been involved in any projects that contributed to the advancement of the profession?	N/A	No No No	CAE ACC COO
16.1	2	Professional practices: Is the IA plan based on management/ stakeholder priorities?	• Is the audit universe of the organisation documented?	No	No No No	CAE ACC SIA
16.2			• Are senior management and other stakeholders consulted before/when IA priorities are determined and documented in the audit plan?	Yes	N/A	Strategic risk register 2012/13.
16.3			• Are senior management and other stakeholders consulted before/when the time-frame of the IA plan is determined?	Yes	N/A	IA plan 2013/14.
16.4			• Does the IA plan include: o the necessary engagements (required audit projects)?	Yes	N/A	Operational plan 31 March 2014.
16.5			o engagement objectives?	No	No No	CAE SIA
16.6			o scope?	Yes	N/A	Operational plan 31 March 2014.
16.7			o resource requirements?	Yes	N/A	Operational plan 31 March 2014.
16.8			o capability requirements?	No	No No	CAE SIA

238

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
16.9			• Has the IA plan been approved by senior management and/or applicable governing body?	Yes	N/A	Three year strategic IA plan 31 March 2016; Operational plan 31 March 2014.
17.1	2	Professional practices: Does the IAF have a professional practices and processes framework?	• Does the IAF have a documented professional practices and processes manual, such as internal policies and procedures?	No	No No No	CAE ACC SIA
17.2			• Does this manual include standardised: o guidance?	N/A	No No No	CAE ACC SIA
17.3			o methodologies?	N/A	No No No	CAE ACC SIA
17.4			o repeatable processes?	N/A	No No No	CAE ACC SIA
18.1	3	Professional practices: Is the IA periodic plan risk-based?	• Is a periodic risk assessment conducted on a regular basis?	Yes	N/A	Strategic risk register 2012/13.
18.2			• Is the IA periodic plan based on the main risk exposures of the organisation?	Yes	N/A	Strategic risk register 2012/13; Three year strategic IA plan 31 March 2016; Operational plan 31 March 2014.

239

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
19.1	3	Professional practices: Are there any internal and external quality assessments that continuously monitor the effectiveness of the IAF?	• Are the roles, responsibilities and accountabilities for performing, reviewing and approval of IA work products clearly developed and documented?	No	No Yes	CAE SIA
19.2			• Are the following quality assessments that continuously monitor and report on the effectiveness of the IAF: o internal monitoring?	N/A	Yes Yes Yes	CAE ACC SIA
19.3			o internal assessments?	N/A	No Yes Yes	CAE ACC SIA
19.4			o external assessments?	N/A	Yes No Yes	CAE ACC SIA
19.5			• Are there any systems/ procedures in place to monitor the performance of the IAF?	Yes	N/A	Performance report.
19.6			• Do follow-up procedures exist to ensure that the results and recommendations of such assessments are implemented?	Yes	N/A	Three year strategic IA plan 31 Mar 2016; Operational plan 31 March 2014; IA executive summaries for 2012 & 2013.

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
20.1	4	Professional practices: Is the IA plan linked to the organisation's ERM strategies and practices?	• Does the IAF consult with senior management with regard to ERM strategies?	N/A	Yes Yes Yes Yes	CAE ACC COO SIA
20.2			• Is the IA periodic plan linked to the organisation's ERM strategies and practices?	N/A	Yes Yes Yes Yes	CAE ACC COO SIA
20.3			• Does the IAF continually monitor the organisation's risk profile and revise the IA periodic plan, if necessary?	N/A	Yes Yes Yes	CAE ACC SIA
20.4			• Has an ERM audit been conducted?	Yes	N/A	Three year strategic IA plan 31 Mar 2016; Operational plan 31 March 2014.
21.1	5	Professional practices: Are the IAF's skill sets and audit services constantly adapted to the organisation's strategic direction and emerging issues?	• Does the IAF continuously analyse the internal and external environment of the organisation to identify emerging trends and risks?	N/A	Partially No Partially	CAE ACC SIA
21.2			• Does the IAF periodically conduct a gap analysis to identify any gaps in IA practices, tools and skills that resulted from identified emerging trends and risks?	N/A	No No Partially	CAE ACC SIA
21.3			• Have solutions to such gaps as well as possible revisions to the IA plan been identified and implemented?	N/A	No No Partially	CAE ACC SIA

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
22.1	5	Professional practices: Are professional practices continuously improved/ strengthened?	• Are the IAF's charter, policies, practices and procedures reviewed and updated on a regular basis to reflect international best practice?	N/A	Partially Partially Partially	CAE ACC SIA
22.2			• Are the performance data, feedback received from quality assurance efforts and global leading practices integrated with the professional practices of the IAF to ensure continuous improvement?	N/A	Yes No Yes	CAE ACC SIA
23.1	2	Performance management & accountability: Does the IAF have a business plan for delivering services?	• Does the IAF have a business plan?	Yes	N/A	IA business plan 1 Apr 2013 to 31 Mar 2014, pp. 3, 8 & 18.
23.2			• Does the plan include: o business objectives?	Yes	N/A	
23.3			o services to be delivered?	Yes	N/A	
23.4			o administrative and support services?	No	No	CAE
23.5			o expected results?	Yes	N/A	IA business plan 1 Apr 2013 to 31 Mar 2014, pp. 3, 8 & 18.
23.6			o resources required?	No	No	CAE
23.7			• Has the business plan been approved by the appropriate governing body?	Yes	N/A	IA business plan 1 Apr 2013 to 31 Mar 2014, pp. 3, 8 & 18.

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
24.1	2	Performance management & accountability: Does the IAF have its own operating budget?	• Does the IAF have its own operating budget?	Yes	N/A	Budget for 2013/2014 financial year.
24.2			• Does the budget reflect the cost of implementing the business plan?	N/A	Yes Yes Yes	CAE ACC COO
24.3			• Is the budget formally approved by senior management?	N/A	Yes Yes Yes	CAE ACC COO
24.4			• Is the budget reviewed on a regular basis to ensure that it remains realistic?	N/A	Yes Yes Yes	CAE ACC COO
25.1	3	Performance management & accountability: Does the IAF receive and use the necessary information to manage the IAF's day-to-day operations, support decision making and demonstrate accountability?	• Does the IAF receive relevant information/ reports that are required to manage the function?	N/A	Yes	CAE
25.2			• Are these reports received on a timely basis?	N/A	No	CAE
25.3			• Does the IAF monitor/use these reports to ensure continued relevance?	N/A	Yes	CAE

243

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
26.1	3	Performance management & accountability: Does the IAF receive sufficient cost information to understand and manage IA costs economically and efficiently?	• Are the costs of IA services accurately identified and captured?	N/A	Yes	CAE
26.2			• Is information on the cost of IA services available?	N/A	Yes Yes	CAE COO
26.3			• Is this information used and analysed to ensure the economic and efficient management of costs relating to the IAF?	N/A	Yes No	CAE COO
26.4			• Are actual IA costs compared to budgeted costs on a regular basis?	N/A	Yes Yes	CAE COO
27.1	3	Performance management & accountability: Is the performance of the IAF monitored?	• Have performance measures and performance targets been developed for the IAF?	Yes	N/A	IA business plan 1 Apr 2013 to 31 Mar 2014, pp. 9-13.
27.2			• Are the performance of the IAF evaluated and report on regularly?	Yes	N/A	Performance report.
27.3			• Are such reports presented to senior management?	Yes	N/A	
28.1[1]	4	Performance management & accountability: Do the performance measures include quantitative and qualitative measures?	• Have the strategic objectives of the IAF been identified and documented?	Partially*	Partially No	CAE ACC
28.2			• Are the results of the performance management system used to improve the IAF?	N/A	Yes Yes Yes	CAE ACC SIA
28.3			• Are the inputs of key stakeholder regularly obtained with regard to the effectiveness and quality of the IAF?	N/A	No Yes Yes Yes	CAE ACC COO SIA

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[1] * Question 28.1 was included in the interview questionnaire, as the objectives documented appeared to be insufficient

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
28.4			• Are the results of the performance management system and the quality assurance reviews incorporated and used to improve IA performance?	N/A	Partially No Partially	CAE ACC SIA
28.5			• Is the implementation of the IAF's recommendations monitored on a regular basis to assess the value added to the organisation?	Yes	N/A	Audit committee pack 28 Nov 2013.
28.6			• Do the performance measures of the IAF include measures for: o stakeholder satisfaction?	No	No No Partially	CAE ACC SIA
28.7			o IA process and results?	Yes	N/A	IA business plan 1 Apr 2013 to 31 Mar 2014, pp. 9-13.
28.8			o innovation?	No	No No Yes	CAE ACC SIA
28.9			o capabilities?	No	No No Yes	CAE ACC SIA
29.1	5	Performance management & accountability: Is the effectiveness of the IAF reported on publically?	• Have impact measures been established?	N/A	No	CAE
29.2			• Have organisational-level impacts of the IAF been identified?	N/A	No Yes	CAE COO
29.3			• Is there a report on the effectiveness of the IAF that is publically available?	Yes	N/A	AGSA; MPAT.
29.4			• Is feedback obtained from external stakeholders to improve the effectiveness of the IAF?	N/A	Yes Yes Yes Yes	CAE ACC COO SIA

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
30.1	2	Organisation relationships & culture: Is the IAF managed within?	• Does the IAF have an appropriate internal organisational structure that is consistent with the organisation's needs and culture?	N/A	Yes Yes Partially Partially	CAE ACC COO SIA
30.2			• Does the IAF have all the audit and technology-based tools necessary to perform its functions?	N/A	Yes Yes Partially	CAE ACC SIA
30.3			• Are the communication channels within the IAF effective?	N/A	Yes	CAE
31.1	3	Organisation relationships & culture: Is the CAE considered as an integral component of the management team?	• Does the CAE serve on key management committees and/or forums?	N/A	Yes Yes	CAE COO
31.2			• Does the CAE receive all relevant key management plans and information reports?	N/A	Yes Yes Yes	CAE ACC COO
31.3			• Does senior management contribute to the development of IA plans?	N/A	Yes Yes Yes	CAE COO SIA
31.4			• Does organisational policy and structure formally include the CAE as a member of the organisation's management team?	N/A	Yes Yes Yes	CAE ACC COO
32.1	3	Organisation relationships & culture: Are IA assurance efforts coordinated with the efforts of other assurance providers?	• Have all relevant internal and external assurance providers been identified?	N/A	Yes Partially No	CAE ACC SIA
32.2			• Are processes and mechanisms established to coordinate and communicate the efforts of all assurance providers in order to minimise duplication and to maximise coverage?	N/A	Yes Partially Yes	CAE ACC SIA
32.3			• Are regular meetings conducted with other assurance providers such as external auditors?	N/A	Yes Yes Yes	CAE ACC SIA

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
33.1	4	Organisation relationships & culture: Can the CAE advise and influence top level management?	• Does the CAE meet regularly with top-level management?	N/A	Yes Yes Yes	CAE ACC COO
33.2			• Does the CAE contribute towards emerging business and strategic issues as part of the management team?	N/A	Yes No No	CAE ACC COO
33.3			• Do forums exist where the CAE can share knowledge on best practices with operational managers throughout the organisation?	N/A	Yes Yes No	CAE ACC COO
33.4			• Can the CAE correspond openly and frankly with top-level management?	N/A	Yes Yes Yes	CAE ACC COO
33.5			• Does top level management make special requests to the CAE on specific issues/concerns?	N/A	Yes Yes Yes	CAE ACC COO
33.6			• Has a formal reporting relationship been established?	Yes	N/A	IA charter, p.6.
34.1	5	Organisation relationships & culture: Does the CAE maintain effective and on-going relationships with key stakeholders, management and the audit committee?	• Does the CAE participate at all organisational mission-critical committees?	N/A	Yes Yes Yes	CAE ACC COO
34.2			• Has a mechanism/forum been established to facilitate regular interaction with management?	N/A	Yes Yes Yes	CAE COO SIA
34.3			• Has a mechanism/forum been established to facilitate regular interaction with the audit committee?	N/A	Yes Yes	CAE ACC
34.4			• Has a mechanism/forum been established to facilitate regular interaction with the organisation's external auditor?	N/A	Yes Yes	CAE ACC
34.5			• Has a mechanism/forum been established to facilitate regular interaction with other key stakeholders?	N/A	Yes No Yes	CAE ACC COO

247

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
34.6			• Does the CAE contribute to the audit committee's effectiveness by for example refining the audit committee charter and/or training of audit committee members?	N/A	Yes Yes Yes	CAE ACC COO
35.1	2	Governance structures: Are formal reporting relationships clearly established for the IAF in the IA charter?	• Does the IA charter formally define the: ○ purpose of the IAF?	Yes	N/A	IA charter, p.3.
35.2			○ authority of the IAF?	Yes	N/A	IA charter, p.6.
35.3			○ responsibility of the IAF?	Yes	N/A	IA charter, p.4.
35.4			○ reporting relationship of the CAE?	Yes	N/A	IA charter, p.7.
35.5			• Has the IA charter been approved by the governing body?	Yes	N/A	IA charter, p.7.
35.6			• Has the IA charter been communicated throughout the organisation?	N/A	Yes No Yes No	CAE ACC COO SIA
35.7			• Does the CAE report administratively to the Director-General and functionally to the audit committee?	N/A	Yes Yes Yes	CAE ACC COO
36.1	2	Governance structures: Does the IAF have full access to the information, assets and people of the organisation?	• Does the IA charter clearly provide the necessary authority for the IAF to have full access to the information, assets and people of the organisation?	Yes	N/A	IA charter, p.6.
36.2			• Do the organisational policies and procedures clearly provide the necessary authority for the IAF to have full access to the information, assets and people of the organisation?	No	No No No No	CAE ACC COO SIA
36.3			• Have formal procedures been established as to how such records, properties and personnel will be assessed?	No	No No No	CAE COO SIA

248

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
36.4			• Have formal procedures been established to follow when management choose not to disclose documents required during an IA engagement?	No	No No No Yes	CAE ACC COO SIA
37.1	3	Governance structures: Has a robust and transparent funding process been established for the IAF?	• Does the IAF have sufficient funding to carry out the activities of the IAF?	N/A	Yes Yes	CAE ACC
37.2			• Is the IA funding process transparent and independent from management influences (under the control of the CAE)?	N/A	Partially Yes Partially	CAE ACC COO
37.3			• Has the impact of resource limitations been identified and communicated to senior management?	N/A	Yes Yes Yes	CAE ACC COO
38.1	3	Governance structures: Does management provide oversight, advice as well as a review of the results of the IAF?	• Has a mechanism/forum/committee been established where senior management oversee and advise the IAF?	N/A	Yes Yes Yes	CAE ACC COO
38.2			• Have policies and procedures for the IAF to communicate and interact with this mechanism/forum/committee been established?	N/A	Partially Yes No	CAE ACC COO
38.3			• Has a mechanism/forum/committee been established where the results of the IAF's activities are coordinated and shared?	N/A	Yes Yes Yes	CAE ACC COO
39.1	4	Governance structures: Does the CAE report directly to the top-level authority?	• Does the CAE report directly to the Director-General?	Yes	N/A	IA charter, p.6.
39.2			• Is this reporting line specified in organisational policies and in the IA charter?	Yes	N/A	IA charter, p.6.
39.3			• Does the CAE meet regularly with the Director-General?	N/A	Yes Yes Yes	CAE ACC COO

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
40.1	4	Governance structures: Does the IAF report to an independent oversight body (with members that are independent of the organisation)?	• Does the IAF report to an independent oversight body (such as an audit committee)?	Yes	N/A	Audit committee pack 28 Nov 2013.
40.2			• Does the IAF contribute to the establishment and performance of this oversight body by: o recommending membership attributes?	N/A	Yes Yes	CAE ACC
40.3			o assisting in the development of its charter?	N/A	Yes Yes	CAE ACC
40.4			o providing secretariat support?	N/A	Yes Yes	CAE ACC
40.5			o influencing the agenda of its meetings?	N/A	Yes Yes	CAE ACC
40.6			• Is this reporting line specified in organisational policies and in the IA charter?	Yes	N/A	IA charter, p.6.
40.7			• Is the role of the oversight body with regard to the appointment and removal of the CAE, formally established?	Yes	N/A	Audit committee charter 2013/14.
40.8			• Does legislations require: o the establishment of such and oversight body?	Yes	N/A	Treasury Regulations.
40.9			o the relationship of such a body with the IAF?	Yes	N/A	Treasury Regulations.

KPA Question Checklist

KCN	CL	KPA Question	Specific Questions	Document	Interview	Source
41.1	5	Governance structures: Do senior management, the oversight body and all key stakeholders fully accept and support the IAF?	• Have the independence, power and authority of the IAF been fully established through: o legislation?	Yes	N/A	PFMA; Treasury Regulations.
41.2			o management support?	N/A	Yes Yes Yes	CAE ACC COO
41.3			o oversight body support?	N/A	Yes Yes Yes	CAE ACC COO
41.4			• Do the words, actions (strategies) of senior management, the oversight body and other key stakeholders demonstrate full acceptance of the IAF?	N/A	Yes Yes Yes	CAE ACC COO

251

Interview Questionnaire

KCN	IQQN	Specific Questions	CAE	COO	ACC	SIA
G	1	• Are any of the public sector challenges listed below applicable to this National Department: o service delivery challenges, such as historical inequities, slow public services, lack of commitment from public officials, inadequate coordination, etc?	✔	✔	✔	
G	2	o economic challenges, such as unemployment, fraud and corruption, insufficient resources, etc?	✔	✔	✔	
G	3	o human resources challenges, such as skills shortages, inadequate accountability systems, inadequate gender and disability representation, etc?	✔	✔	✔	
G	4	o compliance challenges, such as high percentage of qualified external audit opinions and known non-compliance to legislation?	✔	✔	✔	
G	5	• Would you describe this National Department as risk mature? If yes, please explain. If no, please explain.	✔	✔	✔	✔
G	6	• Do you agree with the fact that internal auditing is legislated for the public sector?	✔	✔	✔	✔
G	7	• Is the official guidance provided to public sector IAF's sufficient? If yes, please explain. If no, please explain.	✔	✔	✔	✔
G	8	• Do you understand the purpose of a capability model?	✔	✔	✔	✔
G	9	• Do you know about the IA-CM? What is your opinion of the model and its applicability to this National Department?	✔	✔	✔	✔
G	10	• How is the IAF structured?	✔	✔	✔	
30.1	11	• Does the IAF have an appropriate internal organisational structure that is consistent with the organisation's needs and culture?	✔	✔	✔	✔
G	12	• What % of the IA work is outsourced? Which specific functions are outsourced?	✔			
23.4	13	• Does the IA business plan include: o administrative and support services?	✔			
23.6	14	o resources required?	✔			

Interview Questionnaire

KCN	IQQN	Specific Questions	CAE	COO	ACC	SIA
37.2	15	• Is the IA funding process transparent and independent from management influences (under the control of the CAE)?	✔	✔	✔	
37.3	16	• Has the impact of IA resource limitations been identified and communicated to senior management?	✔	✔	✔	
24.3	17	• Is the budget formally approved by senior management?	✔	✔	✔	
35.6	18	• Has the IA charter been communicated throughout the organisation?	✔	✔	✔	✔
3.4	19	• Do internal policies and procedures exist for conducting consulting services?	✔	✔	✔	✔
3.5	20	• Can consulting engagements be substantiated by consulting audit working papers?	✔	✔	✔	✔
3.2	21	• Why does the IA charter not include the authority and prerogative of the CAE with regard to the performance of consulting services?	✔	✔	✔	
4.4	22	• Does the IAF express an organisation wide opinion on whether the governance, risk management and control processes are effective?	✔	✔	✔	
4.5	23	• This opinion included in the organisation's annual statement of internal control?	✔	✔	✔	
4.1	24	• Why does the IA charter not include the authority to express an organisation wide opinion?	✔	✔	✔	
4.2	25	• Is an annual governance audit conducted?	✔			
36.2	26	• Do the organisational policies and procedures clearly provide the necessary authority for the IAF to have full access to the information, assets and people of the organisation?	✔	✔	✔	✔
36.3	27	• Have formal procedures been established as to how organisational records, properties and personnel will be assessed/audited?	✔	✔		✔
36.4	28	• Have formal procedures been established to follow when management choose not to disclose documents required during an internal audit engagement?	✔	✔	✔	✔
39.3	29	• Does the CAE meet regularly with the Director-General?	✔	✔	✔	

253

Interview Questionnaire

KCN	IQQN	Specific Questions	CAE	COO	ACC	SIA
35.7	30	• Does the CAE report administratively to the Director-General and functionally to the audit committee?	✔	✔	✔	
31.4	31	• Does organisational policy and structure formally include the CAE as a member of the organisation's management team?	✔	✔	✔	
33.1	32	• Does the CAE meet regularly with top-level management?	✔	✔	✔	
34.5	33	• Has a mechanism/forum been established to facilitate regular interaction with other key stakeholders?	✔	✔	✔	
31.1	34	• Does the CAE serve on key management committees and/or forums?	✔	✔		
33.4	35	• Can the CAE correspond openly and frankly with top-level management?	✔	✔	✔	
38.1	36	• Has a mechanism/forum/committee been established where senior management oversee and advise the IAF?	✔	✔	✔	
38.2	37	• Have policies and procedures for the IAF to communicate and interact with this mechanism/forum/committee been established?	✔	✔	✔	
38.3	38	• Has a mechanism/forum/committee been established where the results of the IAF's activities are coordinated and shared?	✔	✔	✔	
41.2	39	• Have the independence, power and authority of the IAF been fully established through: o management support?	✔	✔	✔	
41.3	40	o oversight body support?	✔	✔	✔	
31.2	41	• Does the CAE receive all relevant key management plans and information reports?	✔	✔	✔	
33.2	42	• Does the CAE contribute towards emerging business and strategic issues as part of the management team?	✔	✔	✔	
33.3	43	• Do forums exist where the CAE can share knowledge on best practices with operational managers throughout the organisation?	✔	✔	✔	
33.5	44	• Does top level management make special requests to the CAE on specific issues/concerns?	✔	✔	✔	

Interview Questionnaire

KCN	IQQN	Specific Questions	CAE	COO	ACC	SIA
34.1	45	• Does the CAE participate at all organisational mission-critical committees?	✔	✔	✔	
34.2	46	• Has a mechanism/forum been established to facilitate regular interaction between the IAF and management?	✔	✔		✔
34.3	47	• Has a mechanism/forum been established to facilitate regular interaction with the audit committee?	✔		✔	
34.6	48	• Does the CAE contribute to the audit committee's effectiveness by for example refining the audit committee charter and/or training of audit committee members?	✔	✔	✔	
40.2	49	• Does the IAF contribute to the establishment and performance of the audit committee by: o recommending membership attributes?	✔		✔	
40.3	50	o assisting in the development of its charter?	✔		✔	
40.4	51	o providing secretariat support?	✔		✔	
40.5	52	o influencing the agenda of its meetings?	✔		✔	
34.4	53	• Has a mechanism/forum been established to facilitate regular interaction with the organisation's external auditor?	✔		✔	
32.1	54	• Have all relevant internal and external assurance providers been identified?	✔		✔	✔
32.2	55	• Are processes and mechanisms established to coordinate and communicate the efforts of all assurance providers in order to minimise duplication and to maximise coverage?	✔		✔	✔
32.3	56	• Are regular meetings conducted with other assurance providers such as external auditors?	✔		✔	✔
25.1	57	• Does the IAF receive relevant information/ reports that are required to manage the function?	✔			
25.2	58	• Are these reports received on a timely basis?	✔			
25.3	59	• Does the IAF monitor/use these reports to ensure continued relevance?	✔			
37.1	60	• Does the IAF have sufficient funding to carry out the activities of the IAF?	✔		✔	

Interview Questionnaire

KCN	IQQN	Specific Questions	CAE	COO	ACC	SIA
24.2	61	• Does the budget reflect the cost of implementing the business plan?	✔	✔	✔	
24.4	62	• Is the budget reviewed on a regular basis to ensure that it remains realistic?	✔	✔	✔	
30.2	63	• Does the IAF have all the audit and technology-based tools necessary to perform its functions?	✔		✔	✔
30.3	64	• Are the communication channels within the IAF effective?	✔			
26.1	65	• Are the costs of internal audit services accurately identified and captured?	✔			
26.2	66	• is information on the cost of internal audit services available?	✔	✔		
26.3	67	• Is this information used and analysed to ensure the economic and efficient management of costs relating to the IAF?	✔	✔		
26.4	68	• Are actual internal audit costs compared to budgeted costs on a regular basis?	✔	✔		
G	69	• Would you describe the IAF as understaffed to perform their required duties?	✔	✔	✔	✔
6.1	70	• Does a valid and credible staffing and recruitment process/policy exist?	✔	✔	✔	✔
6.2	71	• Is the recruitment of IA staff under the control of the CAE?	✔	✔	✔	✔
6.3	72	• Are the current IA staff members (including the CAE) suitably competent and qualified?	✔	✔	✔	✔
6.5	73	• Are IA staff members remunerated in accordance with an appropriate classification system?	✔	✔	✔	✔
9.6	74	• Are formal incentive and recognition programs in place in order to ensure staff retention?	✔	✔	✔	✔
9.1	75	• Has an internal audit competency framework been developed to support professional growth?	✔			✔
9.2	76	• Does the IAF use the National Treasury's Competency Framework?	✔			✔
9.5	77	• Is support provided for staff members to become professionally qualified (CIA qualification) in terms of personal development plans, training, study leave, etc?	✔		✔	✔
8.1	78	• Does the IA plan take staff levels and competencies into account?	✔		✔	✔
8.2	79	• Are staff members fully utilised on the IA plan?	✔		✔	✔

256

Interview Questionnaire

KCN	IQQN	Specific Questions	CAE	COO	ACC	SIA
11.1	80	• Have the staffing resource, skills, training and tools that are required to address the significant risks of the organisation been identified?	✔	✔	✔	✔
11.2	81	• Have these requirements been compared to the available staffing resources and has the gap between the required resources and the available resources been identified?	✔	✔	✔	✔
11.3	82	• Has specific strategies to address this gap been documented and communicated to senior management?	✔	✔	✔	
11.4	83	• Does management take responsibility for implementing strategies to close this gap?	✔	✔	✔	
14.1	84	• Have the future internal audit skills and resource requirements been identified, documented and analysed?	✔		✔	
14.2	85	• Has a strategic work force plan been developed that sets out the IAF's objectives for competency development and future workforce needs?	✔			
14.3	86	• Does a proposal to strengthen the capacity of the IAF exist?	✔	✔	✔	
G	87	• Would you describe assurance or performance audit engagements as your main priority?	✔			✔
16.1	88	• Is the audit universe of the organisation documented?	✔		✔	✔
20.1	89	• Does the IAF consult with senior management with regard to ERM strategies?	✔	✔	✔	✔
20.2	90	• Is the IA plan linked to the organisation's ERM strategies and practices?	✔	✔	✔	✔
16.5	91	• Does the IA plan include: o engagement objectives?	✔			✔
16.8	92	o capability requirements?	✔			✔
20.3	93	• Does the IAF continually monitor the organisation's risk profile and revise the IA plan, if necessary?	✔		✔	✔
31.3	94	• Does senior management contribute to the development of internal audit plans?	✔	✔		✔
17.1	95	• Does the IAF have a documented professional practices and processes manual, such as internal policies and procedures?	✔		✔	✔

Interview Questionnaire

KCN	IQQN	Specific Questions	CAE	COO	ACC	SIA
17.2	96	• Does this manual include standardised: o guidance?	✔		✔	✔
17.3	97	o methodologies?	✔		✔	✔
17.4	98	o repeatable processes?	✔		✔	✔
22.1	99	• Are the IAF's charter, policies, practices and procedures reviewed and updated on a regular basis to reflect international best practice?	✔		✔	✔
21.1	100	• Does the IAF continuously analyse the internal and external environment of the organisation to identify emerging trends and risks?	✔		✔	✔
21.2	101	• Does the IAF periodically conduct a gap analysis to identify any gaps in internal audit practices, tools and skills that resulted from identified emerging trends and risks?	✔		✔	✔
21.3	102	• Have solutions to such gaps as well as possible revisions to the IA plan been identified and implemented?	✔		✔	✔
19.1	103	• Are the roles, responsibilities and accountabilities for performing, reviewing and approval of internal audit work products clearly developed and documented?	✔			✔
10.2	104	• Have criteria for effective teamwork behaviour been developed and included in the competency framework?	✔			✔
10.3	105	• Are team leadership roles assigned to selected individuals with regard to audit projects?	✔			✔
10.4	106	• Is training provided on topics such as teamwork and team building?	✔			✔
28.1	107	• Have the strategic objectives of the IAF been identified and documented?	✔		✔	
5.1	108	• Does the strategic documents/vision/ mission of the IAF include: o the need for internal auditing to bring about positive strategic change in the organisation?	✔	✔	✔	✔
5.2	109	o ERM strategies?	✔	✔	✔	
5.3	110	o innovation, client service and value?	✔	✔	✔	
5.4	111	• Does the IAF provide full assurance and advisory services on: o governance?	✔	✔	✔	✔
5.5	112	o entity level controls?	✔	✔	✔	✔
5.6	113	o fraud?	✔	✔	✔	✔

Interview Questionnaire

KCN	IQQN	Specific Questions	CAE	COO	ACC	SIA
5.7	114	o new strategic initiatives, programs and business practices?	✔	✔	✔	✔
13.1	115	• Does a rotation policy exist between the IAF and the rest of the organisation?	✔	✔	✔	✔
13.2	116	• Does the IAF provide training to management on governance, risk management and control aspects?	✔	✔		
28.2	117	• Are the results of the performance management system used to improve the IAF?	✔		✔	✔
28.3	118	• Are the inputs of key stakeholder regularly obtained with regard to the effectiveness and quality of the IAF?	✔	✔	✔	✔
28.4	119	• Are the results of the performance management system and the quality assurance reviews incorporated and used to improve the IAF and internal audit performance?	✔		✔	✔
28.6	120	• Do the performance measures of the IAF include measures for: o stakeholder satisfaction?	✔		✔	✔
28.8	121	o innovation?	✔		✔	✔
28.9	122	o capabilities?	✔		✔	✔
29.1	123	• Have public impact measures been established?	✔			
29.2	124	• Have organisational-level impacts of the IAF been identified?	✔	✔		
12.1	125	• Is there any recognition provided for IA staff members that contribute/support professional bodies, such as the IIA?	✔	✔	✔	✔
12.2	126	• Do the IAF's performance reports include performance on the function's contribution to the profession?	✔	✔	✔	
15.1	127	• Are the IAF leaders actively involved at leadership level of relevant professional bodies such as the IIA?	✔	✔	✔	
15.2	128	• Have the leaders of the IAF been involved in any projects that contributed to the advancement of the profession?	✔	✔	✔	
19.2	129	• Are the following quality assessments that continuously monitor and report on the effectiveness of the IAF: o internal monitoring and supervision?	✔		✔	✔
19.3	130	o internal assessments?	✔		✔	✔
19.4	131	o external assessments?	✔		✔	✔

259

Interview Questionnaire

KCN	IQQN	Specific Questions	CAE	COO	ACC	SIA
22.2	132	• Are the performance data, feedback received from quality assurance efforts and global leading practices integrated with the professional practices of the IAF to ensure continuous improvement?	✔		✔	✔
29.4	133	• Is feedback obtained from external stakeholders to improve the effectiveness of the IAF?	✔	✔	✔	✔
5.8	134	• Does senior management regard the IAF as a key player that contributes to the organisation's vision and that establishes change?		✔		
5.9	135	• Does the audit committee regard the IAF as a key player that contributes to the organisation's vision and that establishes change?			✔	
41.4	136	• Do the words, actions (strategies) of senior management, the oversight body and other key stakeholders demonstrate full acceptance of the IAF?	✔	✔	✔	
G	137	• Does the IAF add value to the organisation?	✔	✔	✔	
G	138	• What prevents the IAF from adding optimal value?	✔	✔	✔	