Stakeholders’ view on the contribution of public sector internal auditing to enterprise risk management

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ABSTRACT

Although risk management is not a new phenomenon, enterprise risk management (ERM) is a relatively new concept in the business environment. In a very short time, ERM has established its worth in all sectors. This article investigates the views of chief audit executives (CAEs), the chairs of audit committees (CACs) and accounting officers (AOs) with regard to the contribution that the internal audit function (IAF) makes to ERM in the public sector. This contribution is considered in the context of existing ERM structures and the level of coordination between ERM and the IAF. Results indicate that the CAEs have very different views from the other two categories of respondents, and that the existence of ERM structures has very little effect on how the contribution of internal auditing to ERM is perceived.

INTRODUCTION

The rise of the insurance business, which dates back to the early 1700s, resulted in the emergence and development of risk management techniques (Merna and Al-Thani 2005:31-32). However, not all risks are insurable, so much development has taken place in risk management, as this field is known and used by organisations world-wide today. Increasingly, legislation and other forms of guidance on governance include the concept of risk management. One such example is the South African King reports on governance: the first report, King I (IoD 1994), did not discuss risk management; the second, King II (IoD 2002), addressed risk management to a limited extent; the third report, King III (IoD 2009), advanced risk management as a cornerstone of sound governance principles.

The roots of current risk management principles lie in the ultimate objective of private sector management, namely maximising value for shareholders (Meulbroek 2002:5), or the objective of the public sector, namely delivering a service to the public, thus serving the...
country and/or community (Van der Waldt and Du Toit 2005:46). According to the IBM Center for the Business of Government (Hardy 2010:7), risk management is not a new concept in the public sector, and a study performed by Accenture and Oxford Economics (2013:6) indicates that the concept is evolving rapidly. Nevertheless, the idea of viewing risks in a holistic manner (hereafter referred to as Enterprise Risk Management or ERM), is still somewhat unfamiliar in practice, and has been somewhat slower to be implemented across the globe and across various sectors (Accenture and Oxford Economics 2013:22).

According to various studies, including ones by Bolger (2011:12) and De Zwaan, Stewart and Subramaniam (2011:599-600), the internal audit function (IAF) can and should play a prominent role in supporting ERM. Moreover, the governing body of the internal audit profession, the Institute of Internal Auditors (IIA), should provide its members with guidance on how internal auditing can contribute to ERM in an organisation (IIA 2009).

The role of internal auditing in the ERM domain has already been studied, but it seems that not much research has been conducted on the public sector specifically, and nor has the contribution of internal auditing in association with existing ERM structures been investigated. In addition, the views of the IAFs’ stakeholders on this aspect have not yet been obtained and compared. This main objective of the study reported in this article was therefore to determine whether the IAF contributes to ERM in public sector organisations in the opinions of prominent stakeholders of the function. Hence, the views of the heads of internal auditing, referred to as chief audit executives (CAEs), as well as the views of management, specifically chairs of audit committees (CACs) and accounting officers (AOs) in the South African public service were surveyed.

Furthermore, the extent to which ERM is embedded in organisations (the maturity of risk management) and the level of coordination between ERM structures and the IAF are likely to influence the possible contribution made by the IAF. Hence, a secondary objective of the study reported in this article was to determine the contribution of the IAF in association with the ERM structures. This will provide management and CAEs with valuable information on whether internal auditing is perceived to contribute to ERM, as well as on the role that ERM structures play, which could result in CAEs’ or AOs’ implementing a different strategy to enhance ERM, if necessary. It will also provide executive management, via the audit committee, with information on whether internal auditing contributes to ERM, taking into account the existence (or a lack thereof) of ERM structures. Lastly, National Treasury, as the overseeing body of public sector internal auditing, or legislator, could be persuaded to provide clearer guidance or rules in this regard to enhance the effectiveness and efficiency of the risk management of an organisation.

A literature review was done to provide a theoretical foundation for the research objectives, after which the empirical research was conducted. The findings of the review and the empirical research are presented in the remainder of the article.

RISK MANAGEMENT AND INTERNAL AUDITING

To answer the research question on what internal auditing contributes to ERM, it is first important to consider ERM structures in an organisation. It is argued that the maturity level of ERM structures is likely to influence the role of internal auditing; conversely, less risk maturity
will probably result in a need for consultation, while a higher level of risk maturity will result in assurance activities (IIA 2009:8). This section thus first addresses ERM structures, and the level of coordination between these structures and internal auditing. Thereafter the main research question is investigated.

**ERM structures and the level of coordination with IAF**

As with any aspect of an organisation, ERM can only be successfully implemented and maintained if there is a well-defined strategy and all the parties involved execute their responsibilities to the best of their ability. Typically, an ERM strategy consists of the totality of the structures, processes, systems, methodology, individuals involved, and so on, that an organisation uses to implement its strategy (Psica 2008:53). To address the needs of a specific organisation, each organisation requires a unique ERM structure which will suit its specific needs based on its strategy. These may include aspects such as the parties responsible, reporting lines, a chief risk officer (CRO) and risk department, to name only a few. Although studies by Accenture and Oxford Economics (2013:23) and the IIA Research Foundation (IIARF 2009a:50), as well as legislation and guidance (IoD 2009:73–74; RSA 1999:47) confirm that executive management is ultimately responsible for the management of risk, management usually delegates this responsibility to an audit (or audit and risk) committee (De Zwaan et al. 2011:594; IIARF 2009a:51; PricewaterhouseCoopers 2008:10), an internal risk steering committee (Coetzee 2010:324), and a CRO reporting mainly to executive management (Accenture and Oxford Economics 2013:14; PricewaterhouseCoopers 2008:10), and possibly heading a separate risk division. Various studies indicate growth in the appointment of risk management personnel – a few years ago, divisions averaged only one to two employees (PricewaterhouseCoopers 2008:10), but by 2013, 58% of organisations indicated a significant increase in staff (Accenture and Oxford Economics 2013:14).

The IIA (2009:3–4) stipulates that the role of internal auditing with regard to ERM is mainly providing assurance on whether an ERM strategy has been correctly defined and implemented to assist the organisation in mitigating its risks. To be able to provide assurance on ERM, the IAF must be independent (IIA 2012:1100). If the assurance engagement(s) performed by the IAF indicates that the ERM strategy is reliable and addresses the needs of the organisation, internal auditing should ensure that the high risk areas identified by ERM are covered in the audit plan (IIA 2012:2010), and should perform risk-based internal audit engagements (IIA 2012:2210. A1). The IIA (2009:4–6) also indicates that the IAF can perform various types of activities related to consulting with regard to ERM, but that this should be done with safeguards – again, the IIA is guiding its members to operate independently from the ERM structures. To provide guidance on internal auditing in the public sector, the IIARF has developed a capability model which identifies the fundamentals for an effective IAF in a government structure and the broader public sector (IIARF 2009b; Ziegenfuss 2010:68). With regard to risk management, for government organisations to be on Level 4 of the five-level capability matrix, internal auditing must provide overall assurance on, inter alia, risk management (IIARF 2009b:61).

In order for the IAF to be able to provide assurance on ERM and incorporate the outcomes of ERM processes into its activities (such as focusing on high risk areas and performing risk-based audit engagements), on the one hand, internal auditing has to be independent from ERM structures; on the other hand, it has to work together with such structures in areas
such as communicating appropriately on risk-related issues (Bolger 2011:12; Liu 2012:288; PricewaterhouseCoopers 2008:11). ERM structures and the IAF should thus constantly update each other on issues such as potential new risks, loss events or a lack of internal controls. A new tendency is to implement an internal risk steering committee (Coetzee 2010:324), where various role players, such as the CAE and CRO, can meet on a regular basis and discuss risk-related issues. However, thus far, not much literature is available on the level of coordination practices between ERM structures and the IAFs; hence, the study reported in this article obtained the views of CAEs, CACs and AOs in this regard for South African public sector national departments. This aim led to the first hypothesis:

\[ H_{0(1a \text{ and } 1b)}: \text{The perceptions of CAEs, CACs and AOs on the existing level of coordination between the IAF and ERM structures do not differ (In-house IAF } H_{0(1a)}; \text{ Outsourced IAF } H_{0(1b)}). \]

\[ H_{1(1a \text{ and } 1b)}: \text{There are differences between the perceptions of CAEs, CACs and AOs on the existing level of coordination between the IAF and ERM structures (In-house IAF } H_{1(1a)}; \text{ Outsourced IAF } H_{1(1b)}). \]

**IAF contribution to ERM**

The IIA provides guidance to its members on the activities that they should, could and should not perform with regard to ERM (IIA 2009). Core activities include providing assurance, as well as evaluating and reviewing the management of risks, such as the ERM processes followed. Legitimate activities that could be performed, but should be performed with caution, include consulting activities at both the strategic and the operational level.

The IIA also stipulates that the IAF’s annual plan should incorporate addressing key risks threatening the organisation (IIA 2012:2010), as well as performing risk-based internal audit engagements (IIA 2012:2210.A1), where each engagement should focus on the risks that affect the activity under review. The audit findings on what influences the current risks documented in the risk register should be communicated to the ERM structures to ensure that the risk register is updated (Campbell 2008), closing the loop which involves ERM structures’ identifying risks, and the IAFs’ providing assurance and reporting back to the ERM structures.

The IIA (2012:2050–2) also provides guidance to its members on the idea of combined assurances, which, according to AngloGoldAshanti (2012), means “no surprises” to the board and management, enhancing adequate management of risk across the organisation, incorporating various assurance parties, but also minimising duplication.

With regard to the various areas discussed above where the IAF can or should contribute to the ERM, several studies, both academic and on the practice, provide supporting evidence on the contributory roles that the IAF needs to maintain to enhance ERM in organisations (De Zwaan et al. 2011:598–599; Liu 2012:290–292; PricewaterhouseCoopers 2013:9). The second hypothesis tested in this study pertains to the views of CAEs, CACs and AOs in this regard for South African public sector national departments:

\[ H_{0(2a - 6)}: \text{Perceptions of CAEs, CACs and AOs on the contribution of the IAF towards ERM do not differ (Risk management assurance } H_{0(2a)}; \text{ Risk management process assurance } H_{0(2b)}; \text{ Strategic consulting } H_{0(2c)}; \text{ Operational consulting } H_{0(2d)}; \text{ Combined assurance } H_{0(2e)}; \text{ Address risks within the audit engagement } H_{0(2f)}; \text{ Update risk register with audit findings } H_{0(2g)}). \]
As mentioned previously, the level of contribution of the IAF towards ERM is influenced by the risk maturity of an organisation; in other words, the extent to which ERM has been embedded across the organisation (IIA 2009:8). However, very few studies integrate an examination of the contribution of the IAF towards ERM with an exploration of the risk maturity of the organisation. In this regard it is relevant that Sarens and Christopher (2010) obtained evidence on the association between governance guidance documents and the practices of risk management in Belgium and Australia. They concluded that weak guidance results in less developed risk management practices, while strong guidance is associated with better developed risk management practices. The question arises whether this tendency will also be reflected in how the existence of an ERM structure (being independent from the IAF, with various levels of coordination between the two parties) influences the contribution of the IAF in seven aspects relating to the management of risk for the organisation (a strong ERM structure results in a high level of contribution by the IAF towards ERM, whereas a weak ERM structure results in a lower level of contribution by the IAF towards ERM). This then led to the third hypothesis:

**H0(3a(i) − 3d(vii))**: There is no association between the existence of an ERM structure, or the ERM structure’s independence from the IAF, or the level of coordination between the ERM structure and in-house IAF, or the level of coordination between the ERM structure and outsourced IAF, and the contribution of the IAF towards ERM (Risk management assurance H0(3a-d(i)); Risk management process assurance H0(3a-d(ii)); Strategic consulting H0(3a-d(iii)); Operational consulting H0(3a-d(iv)); Combined assurance H0(3a-d(v)); Address risks within the audit engagement H0(3a-d(vi)); Update risk register with audit findings H0(3a-d(vii)).

**H1(3a(i) − 3d(vii))**: There is an association between the existence of an ERM structure, or the ERM structure’s independence from the IAF, or the level of coordination between the ERM structure and in-house IAF, or the level of coordination between the ERM structure and outsourced IAF, and the contribution of the IAF towards ERM (Risk management assurance H1(3a-d(i)); Risk management process assurance H1(3a-d(ii)); Strategic consulting H1(3a-d(iii)); Operational consulting H1(3a-d(iv)); Combined assurance H1(3a-d(v)); Address risks within the audit engagement H1(3a-d(vi)); Update risk register with audit findings H1(2a-d(vii)).

The research method and research design applied in the study to test the hypotheses are outlined in the next section.

**RESEARCH METHOD**

To achieve the research objectives, a literature study was conducted to contextualise the existence of an ERM structure, its independence from the IAF, possible coordination between an ERM structure and the IAF, and the effect of these three elements on the possible contribution by the IAF towards ERM.
Data on the status of and demand for internal auditing in South African national government departments were gathered by means of a survey conducted at various national departments. The survey used three different questionnaires. The questionnaires were mainly completed by means of personal or telephonic interviews with the departments’ CAEs, CACs and AOs, or their representatives, namely chief financial officers (CFOs) or chief operation officers (COOs). Some questionnaires were completed by participants on their own, and e-mailed to the research team. The final survey included the views of 32 CAEs, 30 CACs and 31 AOs. This article is based on the data gathered on their perceptions on the existence of an ERM structure in their organisations, and on whether the structure operates independently from the IAF (“yes”/“no”/“unsure”), the level of coordination between the ERM structure and the IAF (“high”/“medium”/“low”/“none”), and the contribution of the IAF with regard to certain ERM activities (a Likert-type scale ranging from 1=no contribution to 5=significant contribution).

Non-parametric Kruskal-Wallis tests were conducted to obtain evidence on the first two hypotheses. The Kruskal-Wallis test was used because the data were ordinal scale data and the sample sizes were small. For the first hypothesis, “high” was coded as 1, “medium” as 2, and “low” as 3. This meant that a lower mean indicated a higher level of coordination between the IAF and the ERM structures. The Chi-square test for independence was conducted to determine whether there was an association between the ERM structures and the contribution of the IAF towards ERM activities. The resultant cross-tabulations did not meet the requirement that less than 20% should have expected counts less than 5 (between 50% to 100% of the cells in each cross-tabulation had expected counts of less than 5), so the Linear-by-Linear test results were used to determine the statistical significance of the association. According to Agresi (1996, cited by Howell 2007), the standard Pearson Chi-square is more sensitive to small sample sizes than the ordinal or linear Chi-square; this underpinned the use of the Linear-by-Linear results in this instance. For this test, the Likert-type scale responses for each question were regrouped into two groups: responses of 1 to 3 were put in a group and recoded as 1, responses of 4 and 5 were put in a separate group and recoded as 2. It was assumed that responses of 1 to 3 indicated a limited contribution by the IAF to ERM activities, whereas responses of 4 and 5 indicated a significant contribution.

Limitations of the study include the fact that the sample is fairly small, although it is fairly representative of the total population of 40 national departments. Furthermore, although most questionnaires were completed by means of a personal interview, some of the questionnaires were completed by the respondent on his/her own and sent to the research team. Lastly, the study was only conducted at national-level departments in the South African government. Further studies should be conducted to include other spheres of government, as well as the public service in other countries.

RESULTS

The findings of the statistical analysis are presented in this section. For the first hypothesis, the differences between the perceptions of the CAEs, CACs and AOs on the level of coordination between the IAF and ERM structures were tested by using the Kruskal-Wallis test. The results are presented in Table 1. Fewer participants (between 12 and 19, compared
(to 28 to 30) answered the question relating to the outsourced IAFs’ level of coordination because the structure of most IAFs was either in-house (all internal audit activities were performed by an in-house function) or co-sourced (most activities were performed by an in-house IAF with only a few activities outsourced to an external provider).

For the first hypothesis, there was sufficient sample evidence, at a 5% level of significance, to reject $H_{0a}$ in favour of $H_{1a}$. Thus, there was a statistically significant difference between the three groups with regard to the level of coordination between the in-house IAF and the ERM structures. Furthermore, the mean ranks indicated that the CAE group (with a mean rank of 34.15) tended to rate this level of coordination as more prominent than the AO and CAC groups (with mean ranks of 45.17 and 53.34 respectively). However, for the views on the outsourced IAFs, at a 5% level of significance, the sample evidence was not sufficient to reject $H_{0b}$ in favour of $H_{1b}$. This implies that the three sets of stakeholders did not differ statistically significantly on the level of coordination between the outsourced IAF to the ERM structure (with a mean rank for CAEs of 21.42, and a mean rank for both CACs and AOs of 22.46).

Prior studies identified seven areas where the IAF can contribute to ERM. Kruskal-Wallis tests were performed to ascertain whether the three groups perceived the contribution of the IAF towards these ERM activities differently. The results are shown in Table 2.

### Table 1: Level of coordination between IAF and ERM structures

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>In-house IAF</th>
<th>Outsourced IAF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$\chi^2$</td>
<td>Sig.</td>
</tr>
<tr>
<td>CAEs</td>
<td>30</td>
<td>9.755</td>
</tr>
<tr>
<td>CACs</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>AOs</td>
<td>29</td>
<td></td>
</tr>
</tbody>
</table>

### Table 2: Contribution of the IAF towards ERM activities

<table>
<thead>
<tr>
<th>Contribution</th>
<th>CAEs</th>
<th>CACs</th>
<th>AOs</th>
<th>$\chi^2$</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assurance on ERM</td>
<td>27</td>
<td>27</td>
<td>31</td>
<td>3.494</td>
<td>0.174</td>
</tr>
<tr>
<td>Assurance on risk management process(es)</td>
<td>30</td>
<td>28</td>
<td>30</td>
<td>5.349</td>
<td>0.069</td>
</tr>
<tr>
<td>Strategic consulting</td>
<td>29</td>
<td>26</td>
<td>29</td>
<td>16.763</td>
<td>0.000</td>
</tr>
<tr>
<td>Operational consulting</td>
<td>31</td>
<td>24</td>
<td>30</td>
<td>17.266</td>
<td>0.000</td>
</tr>
<tr>
<td>Combined assurance</td>
<td>29</td>
<td>28</td>
<td>29</td>
<td>5.463</td>
<td>0.065</td>
</tr>
<tr>
<td>Risks included in audit engagements</td>
<td>32</td>
<td>29</td>
<td>29</td>
<td>10.607</td>
<td>0.005</td>
</tr>
<tr>
<td>Update risk register with audit findings</td>
<td>30</td>
<td>26</td>
<td>28</td>
<td>8.754</td>
<td>0.013</td>
</tr>
</tbody>
</table>
Table 3: Association between ERM structures and contribution of IAF towards ERM activities

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>ERM structures</th>
<th>Contribution of IAF to ERM activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assurance on ERM</td>
<td>Assurance on risk management process(es)</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>$\chi^2$</td>
</tr>
<tr>
<td>CAEs</td>
<td>Full-time</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>Independent</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Coordinate (In-house)</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Coordinate (Outsourced)</td>
<td>16</td>
</tr>
<tr>
<td>CACs</td>
<td>Full-time</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>Independent</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Coordinate (In-house)</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Coordinate (Outsourced)</td>
<td>11</td>
</tr>
<tr>
<td>AOs</td>
<td>Full-time</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>Independent</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Coordinate (In-house)</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>Coordinate (Outsourced)</td>
<td>12</td>
</tr>
</tbody>
</table>
For three activities, the second hypothesis, $H_{0(2a,b,e)}$ was not rejected at a 5% level of significance, which implies that the three stakeholder groups did not perceive the level of contribution by the IAF towards providing assurance on ERM and the risk management processes as well as combined assurance differently. However, for four of the seven activities, statistically significant differences at a 5% level of significance were recorded between the three groups ($H_{0(2c,d,f,g)}$ rejected) with regard to the perceived level of contribution by the IAF. These four activities were strategic consulting, operational consulting, internal auditing incorporating risks into the internal audit engagement(s), and the updating of the risk register with the internal audit findings.

Furthermore, the mean ranks indicated that the CAE group (55.64) tended to rate the contribution of the IAF towards strategic consulting as more significant than the AO group (40.64) and the CAC group (29.92) did. Similarly, the CAE group (55.64) tended to rate the contribution of the IAF towards operational consulting as more significant than the AO group (42.80) and the CAC group (27.94) did. This pattern continued for the perceptions of the three groups on the contribution of the IAF in incorporating the risks of the organisation into its internal audit engagement plans (the CAEs' mean rank was 55.86, the CACs' mean rank was 43.43, and the AOs' mean rank was 36.14), as well as on the updating of the risk register with the findings of internal audit engagements (the CAEs' mean rank was 52.53, the CACs' mean rank was 38.23, and the AOs' mean rank was 35.71).

With regard to the third hypothesis, on the association between the ERM structures and the contribution of the IAF towards risk management activities, Linear-by-Linear Association tests were used. The ERM structures included the existence of a full-time ERM structure, the operation of the ERM structure independent from the IAF, the level of coordination between the ERM structure and in-house IAF, and the level of coordination between the ERM structure and outsourced IAF. The contribution of the IAF towards ERM activities included the IAF providing assurance on ERM and the risk management processes, the IAF's being a consultant on a strategic and operational level, the IAF's being part of the combined assurance activities, the IAF's plan addressing the key risks of the organisation in its engagements, and the updating of the organisation's risk register with the internal audit findings. All these specifically influenced the risks. The results are set out in Table 3.

For this hypothesis, $H_3$ was not rejected at a 5% level of significance for most associations, except for assurance on ERM in association with in-house IAF's coordination with ERM structures for the CAC group ($H_{13c(iii)}$), assurance on the risk management process(es), strategic and operational consulting, combined assurance, risk incorporated into internal audit engagements, and the updating of the risk register with internal audit findings, in association with in-house IAF coordination with ERM structures for the AO group ($H_{13c(iv-vii)}$), and assurance on ERM, strategic and operational consulting in association with outsourced IAF coordinating with ERM structures for the AO group ($H_{13d(d,ix,ix)}$). It can thus be concluded that there was a statistically significant association between the ERM structures and the contribution of the IAF towards risk management activities in only ten of the 84 cross-tabulations, and for nine of the ten for the AO group. This may be due to perceptions among management that in-house IAFs should contribute to providing assurance on ERM (four of the six activities), and that outsourced IAFs should contribute more on consulting advice (two of the three activities).
CONCLUSION AND RECOMMENDATIONS

In this article, the contribution of internal auditing to the ERM activities of public sector organisations, as perceived by the main stakeholders of an IAF (CAEs as heads of the IAF, CACs and AOs representing top management) was investigated. The literature confirms that internal auditing should play a prominent role in risk-related activities to ensure that the risks threatening an organisation are mitigated to an acceptable level. The perceptions of these three sets of stakeholders on the contributions made by the IAF with regard to ERM activities were investigated in the context of the ERM structures currently in place, as well as the level of coordination between these structures and the IAF. The reason for this is that the role that internal auditing can play where a sound ERM structure and proper coordination are in place should differ vastly from its role where these are not in place.

With regard to the perceptions of these groups on the level of coordination between the IAF and the ERM structures, the participants rated the perceived level of coordination between outsourced IAF and the ERM structures as lower (although not at a statistically significant level) than that between the in-house IAF and the ERM structures. The only significant difference between the three groups was that the CAE group indicated a significantly higher level of coordination than the other two groups for their in-house IAF. However, the CAE group’s objectivity could be questioned, as the CAEs are responsible for the activities of the in-house IAF. It is a matter for concern that especially the CAC group, as the overseers of the IAF, did not hold the same views as the CAE group on the level of coordination between the in-house IAFs and the ERM structures.

However, whether there is coordination between the IAF and ERM structures or not, the question could be asked whether the CACs and AOs of the organisation perceive the IAFs’ contribution to ERM to be at an acceptable level (high or medium). In respect of the perceptions of the three groups on the contribution of the IAF towards ERM, both the CAC and AO groups consistently ranked the contribution on the seven activities listed below that reflected by the perceptions of the CAE group. As was expected, for the three assurance-related contributions, no significant differences were found between the three groups.

There were some causes for specific concern. Firstly, the CAC group, as overseers of the IAF, rated the contribution of the IAF as very low (especially in respect of its providing assurance on the risk management process, but also strategic consulting and operational consulting). Secondly, there were some areas where statistically significant differences were recorded (strategic consulting, operational consulting, the IAFs’ incorporating the risks of the organisation into internal audit engagement plans, the updating of risk registers with internal audit engagements’ findings). Thirdly, the CAEs consistently rated their perceived contributions much more highly than the other two groups did. Especially the results on core IAF activities, such as the IAF’s providing assurance on the risk management process (a prerequisite for risk-based internal auditing), the IAF’s incorporating the risks of the organisation into internal audit engagement plans (a result of a risk-based audit strategy), and the risk register’s being updated with internal audit engagements’ findings (a result of management’s trust in the work of the IAF), were reason for concern. These findings again reflected the negative perceptions of the CAC group and the AO group on the contribution of the IAF towards core ERM activities as stipulated by the IIA.
The analysis of the various ERM structures and level of coordination in association with the contribution of the IAF towards ERM activities showed that only 11.9% of the cross-tabulation displayed a statistically significant association, mostly identified by the AO group (7.15%) with regard to the level of coordination between the in-house IAF and the ERM structures. However, even where the groups indicated that no formal ERM structures existed or that the level of coordination between the IAF and the ERM structures was very poor or not applicable, the contribution of the IAF towards the risk management activities was not influenced. This could be an indication that in organisations where ERM structures do not exist or are weak, the IAF fulfils these duties, to ensure that the organisation still adheres to the guidance and legislation applicable to the public sector.

Given the finding that both management groups perceive the contribution of the IAF towards risk management activities as rather weak, CAEs should take cognisance of this fact and should try to improve this perception. Management could investigate the organisation’s ERM structures and the role that internal auditing plays, which could be enhanced if the proper level of coordination is established. CACs should encourage the IAF to improve its role in risk management activities, because a sound ERM framework is vital for a risk-based internal audit approach. National Treasury, as the provider of guidance to both risk management and internal auditing in the South African public sector, should consider whether more specific guidance should be provided on the coordination between the two parties. If so, this coordination could also be stipulated more clearly in the legislation.

REFERENCES


**AUTHOR'S CONTACT DETAILS**

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