

INTERNAL AUDIT DISCLOSURES IN ANNUAL REPORTS OF METROPOLITAN MUNICIPALITIES IN SOUTH AFRICA

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Abstract

The role of internal audit in governance contributes significantly to accountability. However, its work is limited to internal use, and as such, it does not provide external stakeholders with information about the accountability contributions made by the internal audit function (IAF). The assurance provided by internal audit is equally important as the assurance provided by external auditors. Arguments exist that the inclusion of internal audit disclosure in public annual reports could contribute significantly to transparency and accountability in respect of municipalities. Literature suggest that the advantages of internal audit disclosure outweigh its disadvantages. This paper reports on the extent of internal audit disclosure in the eight metropolitan municipalities in South Africa for the 2012/2013 financial year. To achieve the objective set out in this paper, a mixed method approach was followed. A qualitative content analysis (deductive and inductive) was performed. Qualitative text was displayed showing evidence of the disclosure item (visual presentation of quotes). To complement the qualitative text, Atlas.Ti was further utilised to quantify the codes which showed the differences in the disclosure practices of IAFs across metropolitan municipalities in South Africa. The results of this study show evidence of internal audit disclosure in annual reports despite the fact that no legislative requirements exist for internal audit to report in annual reports of municipalities. The extent and the nature of disclosure varied across metropolitan municipalities in South Africa. The results of this paper could be used to assist with establishing policy guidelines for internal audit disclosure.

Keywords: Internal Auditing, Local Municipalities, Metropolitan Municipalities, South Africa, Disclosure, Annual Reports, Atlas.Ti

1. INTRODUCTION

The internal audit profession and internal audit functions (hereafter IAFs) are integral to the combined assurance model. The role internal audit plays contributes significantly to sound governance and accountability, however, its work is limited to internal use, thus leaving an information gap for external stakeholders (Archambeault, DeZoort & Holt, 2008:375; Boyle, 2012:21). Currently, no statutory requirements exist in South Africa for internal audit to provide disclosure on its work to external stakeholders. The Municipal Finance Management Act (No. 56 of 2003) (hereafter MFMA) only requires the establishment of the IAF and provides guidance to internal audit with regard to its responsibilities (scope) (RSA 2003).

Annual reports provide information to stakeholders on how public funds were used and how the performance management system of the municipality was employed during a specific financial period. Statutory disclosure is required of the municipal manager, the audit committee and, in respect of the audit of the annual financial statements, the Auditor General of South Africa

(AGSA). However, no disclosure is required by internal audit.

2. LITERATURE REVIEW

In their study entitled "The need for an internal auditor report to external stakeholders to improve governance transparency" Archambeault *et al.* (2008:376) asserted that external stakeholders have no information on IAF composition, responsibilities and activities designed to provide assurance on related financial reporting, compliance and operational matters. This is also true for South African municipalities as no statutory requirements exist for them to disclose internal audit-related information. Currently, governance disclosures focus on management, the audit committee and the external auditor (Archambeault *et al.*, 2008:375). This also holds true for South African municipalities. Annual reports of South African municipalities typically include a report from the municipal council, the audit committee and the AGSA; from a statutory perspective, nothing is required of the IAF.

Numerous authors list the benefits of internal audit disclosure as part of annual reports in order to

contribute to transparency and external stakeholder confidence. Lapidés, Beasley, Carcello, DeZoort, Hermanson and Neal (2007:3) conducted a study which summarises governance principles that could "... promote investor, stakeholder and financial statement user interests". One of these governance principles is "... consider[ing] providing an internal audit report to external stakeholders to describe the IAF (for example: composition, responsibilities, and activities)". Archambeault *et al.* (2008:385-386) proposed a framework for internal audit disclosure, suggesting that internal audit should report on their composition, responsibility, accountability, activities and resources. Another study by Holt and DeZoort (2009:71) found that by adding an internal audit report to current governance reports, greater confidence is created in the information presented in the annual report. It is disconcerting to note, however, that more recent reporting guidelines by the International Integrated Reporting Council (IIRC) (2013) make only limited reference to how internal audit should form part of integrated reporting. This is perplexing, given the critical role of internal audit in improving governance.

Overall, the fact that no internal audit report is given to external stakeholders could impair internal auditors' accountability and could potentially influence their work, seeing that they are not accountable to the ultimate stakeholder, namely, the public in the government environment (Boyle, 2012:20). Thus, if internal auditors report to external stakeholders, they are likely to feel motivated and obliged to perform better because they experience a feeling of greater responsibility (Archambeault *et al.*, 2008:379; Boyle, 2012:21). Consequently, by providing either an activities-based report (what they did - descriptive in nature) or an assurance-based report, accountability is sure to be enhanced (Boyle, 2012:22).

However, there are also certain negative consequences of internal audit disclosure in annual reports. Examples of these are increased costs due to an increase in internal audit liability, information overload for users, additional costs such as those of preparing the reports and fear of releasing results which could limit the scope of internal audit work (Archambeault *et al.*, 2008:380). It is important for internal audit to consider the risk for the entity associated with disclosing engagement results to external stakeholders (IIA, 2012c:17). In such cases, it is good practice to obtain input from senior management (such as the municipal manager or audit committees) and/or the legal department and implement controls over any further distribution of engagement results (IIA, 2012c:17).

Although they serve different purposes, the assurance provided by internal audit is regarded as equally important as the assurance provided by the AGSA. Arguments exist suggesting that the inclusion of internal audit report disclosure in annual reports would contribute significantly to transparency and accountability. Literature indicates that the benefits of internal audit disclosure in annual reports would outweigh any associated negative aspects.

This paper reports on the extent of internal audit disclosure in order to identify the disclosure that exists on internal audit in public annual reports.

3. RESEARCH METHODOLOGY

This research project is based on a mixed research methodology. Data was collected through the qualitative content analysis of annual reports of eight metropolitan municipalities in South Africa. Frequency counts were created from the codes in order to better understand the qualitative texts (Grbich, 2013:191). Atlas.Ti analysis software was used to identify internal audit disclosure practices, using both deductive (concept-driven) and inductive (data-driven) reasoning. As a primary coding scheme, and in order to retain focus, a coding scheme was developed based on the core nature of the work of internal audit, as described in the International Standards for the Professional Practice of Internal Auditing (*Standards*). In analysing the annual reports, the following key aspects, as derived from *Standard 2100* and the definition of internal auditing, were focused on:

- whether internal audit's scope of work includes matters concerning internal control, risk management and governance processes; and
- whether internal audit is perceived as being independent and objective.

These focus areas were obtained primarily from the definition of internal auditing and *Standard 2100* which states that the IAF must add value to an organisation by contributing to the improvement of risk management, internal control and governance processes whilst maintaining independence and objectivity (the importance of these core areas is emphasised by various authors such as Ramamoorti and Weidenmier, 2004:315; Burnaby, Hass and Abdolmohammadi, 2006:854; D'Onza, Paape and Sarens, 2006:846, 849, 850; Hass *et al.*, 2006:836; Sarens, 2007:65-66, 94, 97; Christopher *et al.*, 2009:201; IIA, 2009a:143; Campbell, 2010:16; Coetzee *et al.*, 2012:8; IIA, 2012d:2; IIA, 2013 and Jones, 2013:10.

In order to collect data on the above areas, the following coding scheme was imposed on the annual reports, allowing all evidence on the above areas to be categorised into the following codes (Schreier, 2012:60).

This approach of identifying codes is thus concept-driven (deductive reasoning), as described in the work of Schreier (2012:61) and only obtains data on the focus areas.

As a secondary coding scheme (inductively achieved), the annual reports were analysed by means of the *auto coding function* in Atlas.Ti, with 'internal audit' as the code to identify any other segments of text regarding internal audit. If the data could not be categorised into the above codes and categories, it was coded inductively or data-driven (on the spot). Thus, in addition to the deductively imposed coding scheme, this paper reports on the broader disclosure practices of internal audit in annual reports. In order to complement the qualitative data, the codes were also quantified. Enumerative content analysis was used to further identify and explain the qualitative segments (Grbich, 2013:191, 195). These are reflected in the tables which illustrate i) the extent of references made to a particular item, ii) differences across metropolitan municipalities in disclosure on the item and iii) the item most prominently disclosed compared to other metropolitan municipalities and/or compared to other items in the table (reflected in the % TOTAL columns).

Table 1. Imposed coding scheme

Focus areas	Main categories	Code assigned in annual report to collect evidence on the main category	Code descriptor and examples
Whether internal audit's scope of work includes matters concerning internal control, risk management and governance processes.	<ul style="list-style-type: none"> ▪ Internal control ▪ Risk management ▪ Governance ▪ Completion of work 	<ul style="list-style-type: none"> ▪ Control mandate ▪ Risk management mandate ▪ Governance mandate ▪ Status of completed work 	Any statements or segments of texts in the annual reports which indicated that internal audit is involved in internal control, risk management and governance were correspondingly coded using the codes. For example, "internal audit evaluate the adequacy of controls" is coded as "Control mandate". This provides evidence that internal audit is perceived as being involved in their core area of internal control. Where evidence existed on the status of completed work, for example, when reference was made in the annual reports to the percentage of completion of the internal audit plan, the text was coded "Status of completed work".
Whether internal audit is perceived as being independent and objective	<ul style="list-style-type: none"> ▪ Organisational status 	<ul style="list-style-type: none"> ▪ Regarded as independent ▪ Remains objective 	Where segments of text indicate that internal audit is independent and objective, the text was coded respectively with "regarded as independent" and "remains objective".

Source: Researcher's own deductions

The trustworthiness of the findings was enhanced by maintaining extensive audit trails. Audit trails were kept for all the codes and main categories (Lincoln & Guba (1985) as cited by Babbie & Mouton, 2012:277-278). In order to ensure the anonymity of the metropolitan municipalities, pseudonyms were used (Metro A, Metro B, Metro C, Metro D, Metro E, Metro F, Metro G and Metro H for the eight participating metropolitan municipalities).

The annual reports for all eight metropolitan municipalities for the year ending 2013 were purposefully selected. The most recent available reports were used because of the time delay in the availability of annual reports. The 2013/2014 annual reports were only be released in 2015 and were thus not available for inclusion in this research at the time of analysis. This analysis was limited to internal audit by only applying the relevant coding schemes.

4. LIMITATIONS

The findings of this paper are geared towards metropolitan municipalities in South Africa and might not be equally applicable to other municipal structures.

5. FINDINGS

Following the analysis of the 2012/2013 annual reports, various aspects of internal audit disclosure were identified for each of the eight metropolitan municipalities in South Africa. The sections below report on these aspects.

5.1. Disclosure on governance, internal control, risk management and compliance mandates

The importance of internal audit is emphasised in key governance codes such as the King Code of Governance for South Africa (King III Report) and the promulgation of internal auditing into law for all municipalities.

The annual reports reflect evidence that internal audit does play an active role in governance, internal control and risk management. This is reassuring, seeing that *Standard 2100* emphasises

governance, internal control and risk management as its core functional areas, by providing independent and objective evaluations of these areas. In addition, the Municipal Systems Act (2000) Act 32 of 2000 makes provision for internal audit to review the performance management system of metropolitan municipalities. Evidence in this regard was also found in the annual reports.

The public as well as other users of annual reports would have greater peace of mind (assurance) that the governance processes of the municipality were being reviewed by independent role players such as internal auditors.

Table 2 below summarises the results of the enumerative content analysis.

Table 2. References made to the broad internal audit work areas

	Control mandate	Governance mandate	Risk management mandate	Compliance
Metro A	4	2	0	0
Metro B	9	6	4	2
Metro C	0	0	0	0
Metro D	8	1	1	4
Metro E	7	3	3	3
Metro F	2	0	2	4
Metro G	1	1	1	1
Metro H	3	1	3	0
%TOTAL	44.74%	18.42%	18.42%	18.42%

Source: Atlas.Ti quantification of codes

The results of the enumerative content analysis are illustrated in Table 2 above which indicates the number of times references were made to the core mandates of internal audit in the 2012/2013 annual reports of the metropolitan municipalities. Overall, compared to the other core functions, metropolitan municipalities made greatest reference to their control mandate (44.74%). Within the control mandate function, Metro B made the most reference on how its internal audit department contributes to internal controls. It is clear from Table 2 that inconsistencies exist in what is being reported in terms of the identified focus areas. There are also inconsistencies in the frequency of reporting on the focus areas between the municipalities in the annual reports. For example, Metro C makes no reference to internal audit involvement regarding internal control, risk management and governance nor to its role in the audit of pre-determined objectives. This

could be attributed to the fact that no legislative requirements exist to report on internal audit in annual reports.

The following quotes are examples of internal audit's involvement in governance, internal control and risk management as well as the audit of pre-determined objectives:

"The Municipality has an established Internal Audit Unit, which conducts regular reviews of systems of control."

"The entity's audit committee oversees the monitoring of compliance with the entity's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the entity. The audit committee is assisted in its oversight role by the entity's internal audit function."

"Internal audit reviews the results of performance measures in the entity."¹³

5.2. Disclosure on completion of work

Evidence of work completed in the 2012/2013 annual reports of the metropolitan municipalities was coded as "status of completed work".

Table 3 below shows the number of times the metropolitan municipalities made reference to the status of the completed annual internal audit plan. Metro F made reference to the completed annual audit plan more than once, which could be indicative of the measure of importance it attributes to the completion of the audit plan. However, this municipality did not get 100% coverage of its audit plan (see below). The annual report of Metro H did not make any reference to the percentage of completion of its internal audit plan or at least part of it. The other seven metropolitan municipalities did make reference to the percentage of work completed.

Table 3. References made to the status of planned internal audit work as noted in 2012/2013 annual reports

	Status of completed work	%TOTAL
Metro A	1	10.00%
Metro B	1	10.00%
Metro C	1	10.00%
Metro D	1	10.00%
Metro E	1	10.00%
Metro F	3	30.00%
Metro G	2	20.00%
Metro H	0	0.00%

Source: Atlas.Ti quantification of codes

From the IAF reports to the audit committee, the percentage of completion of the planned audit plan indicated above, shows positive signs that the audit committee could be informed of important aspects facing the entity, assuming that all internal audit reports on the completed work were communicated to the audit committee and other relevant role players. On the other hand, the fact that in some metropolitan municipalities the entire internal audit plan was not fully executed could also be problematic as audit committees and senior management would remain uninformed and thus not aware of incomplete matters. This lack of information could prove problematic for the audit committee in fulfilling its mandate to the municipal

council. Overall, the majority of metropolitan municipalities (87.5%) did disclose the status of completed internal audit work.

5.3. Disclosure on competency

The IIA's Internal Auditor Competency Framework (IACF) provides four domains which define the competency of internal auditors, namely, competency in the *Standards*, core technical skills, interpersonal skills and competency in certain knowledge areas. Although it is not a requirement to report on the competency of internal auditors in the annual reports, some (very few) metropolitan municipalities indirectly made references to whether the IAF was regarded as competent or incompetent in doing its work.

No segments of text directly referred to the term 'competency' in the annual reports. Table 4 below summarises instances where references were or were not made.

Table 4. References made to competency/incompetency of internal audit functions

	Evidence of incompetency	Evidence of competence
Metro A	0	0
Metro B	0	3
Metro C	0	1
Metro D	0	0
Metro E	0	1
Metro F	2	0
Metro G	0	1
Metro H	0	0
%TOTAL	25.00%	75.00%

Source: Atlas.Ti quantification of codes

The annual reports were coded with 'competence' or 'incompetence' where any evidence existed on whether internal audit was regarded as competent or not. As can be seen from Table 4 above, very little is reported in the 2012/2013 annual reports on the competency of internal audit. Metro B gave some confidence to the public in mentioning the 'work competency' of the IAF. This was also noted by Metros C, E and G. In instances where references were made with regards to competencies of the IAF (either positive or negative), most references (75%) were made to the effect that the IAF was regarded as competent. It can thus be argued that, knowing that systems and structures were reviewed by competent internal auditors, it would be beneficial to report on the levels of competency of IAFs across all municipalities as this could give more assurance to the users of the annual report of municipalities.

5.4. Disclosure on organisational status

The key areas under organisational status are *internal audit independence, objectivity, approval of the internal audit charter, approval of the annual internal audit plan, reliance on the work of internal audit and resources* - these are all areas which are reflected in the annual reports with regard to the IAF.

In order to better understand the extent of disclosure on the above matters, the codes were quantified in Atlas.Ti. Table 5 below shows the extent of, and differences in, reporting on the above matters.

¹³ Various quotes from annual reports extracted with Atlas.Ti

Table 5. References made to organisational status areas

	Approved IA Charter	Approved IA Plan	Regarded as independent	Reliance on internal audit	Remains objective	Resourced
Metro A	0	0	0	0	0	0
Metro B	1	0	2	3	2	0
Metro C	1	0	0	0	0	0
Metro D	0	2	0	0	0	2
Metro E	1	1	4	4	1	2
Metro F	0	2	0	1	0	0
Metro G	0	0	0	1	0	1
Metro H	1	0	0	3	0	1
% TOTAL	11.11%	13.89%	16.67%	33.33%	8.33%	16.67%

Source: Atlas.Ti quantification of codes

As can be seen from Table 5 above, not all the municipalities made reference to the fact that the IAF’s purpose, authority and responsibility were documented and approved in a charter and that the internal audit plan was approved. It also shows the variations in reporting reliance on internal audit, which could be attributed to the fact that no legislation exists making it compulsory for municipalities to report on the IAF in the annual report. Also disturbing is the fact that only a limited number of metropolitan municipalities (25%) made reference to the independence of the IAF. This is of utmost importance to the reader of the annual report, especially the public, as this adds credibility to the overall report and to the work done by internal audit – an important governance partner. It is ironic to note that so little is stated in the annual report on internal audit’s independence and its work given the high level of reliance placed on the work of internal audit. The credibility of internal audit could thus remain questionable in the mind of the users of annual reports. The objectivity of internal audit is also inconsistently reported on in the annual reports. Only two out of eight (25%) metropolitan municipalities made reference to the independence of the IAF.

5.5. Disclosure on internal audit approach

It was evident from the annual reports that internal audit follows a risk-based approach. Table 6 below summarises the number of times this was referenced in the annual reports.

Table 6. References made to internal audit approach

	Risk based	%TOTAL
Metro A	1	7.14%
Metro B	3	21.43%
Metro C	1	7.14%
Metro D	2	14.29%
Metro E	3	21.43%
Metro F	1	7.14%
Metro G	2	14.29%
Metro H	1	7.14%

Source: Atlas.Ti quantification of codes

It can be deduced from Table 6 that all IAFs’ work is based on the most important risks facing the entity. This could provide evidence that IAFs carry out their work in accordance with IIA Standards. It would appear important to inform users of annual reports that a risk-based approach is followed by internal audit as all the metropolitan municipalities have made reference to this aspect. However, the

number of times emphasis is placed on this aspect varies between the municipalities.

5.6. Disclosure on performance of follow-up audits

Some annual reports stated that internal audit was performing follow-up engagements on the disposition of previous internal audit findings and on findings raised by the Auditor General of South Africa (AGSA).

Table 7 below further illustrates the inconsistency of reporting on follow-up engagements as not all metropolitan municipalities reported on this matter. Thus only half of the municipalities reported on the fact that the IAF performed follow-up engagements.

Table 7. References made to follow-up audits

	Perform follow ups	%TOTAL
Metro A	1	25.00%
Metro B	1	25.00%
Metro C	0	0.00%
Metro D	1	25.00%
Metro E	0	0.00%
Metro F	0	0.00%
Metro G	1	25.00%
Metro H	0	0.00%

Source: Atlas.Ti quantification of codes

The follow quotes are illustrative:

“...AG[AGSA] in liaison with the Internal Audit and Audit Committee monitor the implementation of the actions”

“Follow-up internal audits indicated that...”

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

5.7. Disclosure on the remuneration of Chief Audit Executives

The remuneration of Chief Audit Executives (CAEs) is reported in some cases in the annual reports of metropolitan municipalities.

Table 8 below shows that half of the metropolitan municipalities reported on the remuneration of the CAE. It is evident from Table 8 that variations exist between the instances reported by metropolitan municipalities on the remuneration of CAEs.

Table 8. References made to the remuneration of CAEs

	Remuneration of head of internal audit	% TOTAL
Metro A	0	0.00%
Metro B	0	0.00%
Metro C	1	25.00%
Metro D	1	25.00%
Metro E	0	0.00%
Metro F	0	0.00%
Metro G	1	25.00%
Metro H	1	25.00%

Source: Atlas.Ti quantification of codes

Table 8 shows the inconsistencies in disclosing CAE remuneration in municipalities in South Africa.

5.8. Disclosure on internal audit opinions

Internal audit should be in a position to express an opinion on the overall efficiency and effectiveness of the entity’s system of internal control. However, after analysis of the annual reports, only limited instances of internal audit opinions were found.

Table 9 below shows the variations in disclosure on internal audit opinions. Only 25% (two out of eight) of metropolitan municipalities made mention of internal audit opinions in the annual reports – the fact that internal audit expressed an opinion on the system of internal control. Metro B made two references to an internal audit opinion on the status of the system of internal control.

Table 9. References made to internal audit opinions

	Opinion given	%TOTAL
Metro A	0	0.00%
Metro B	2	66.67%
Metro C	0	0.00%
Metro D	0	0.00%
Metro E	1	33.33%
Metro F	0	0.00%
Metro G	0	0.00%
Metro H	0	0.00%

Source: Atlas.Ti quantification of codes

Table 9 above shows clear evidence that IAFs in metros in South Africa did not disclose their opinion on the effectiveness of the internal control system. This could be due to the fact that there are no legal requirements for them to do so.

5.9. Disclosure on the structure of the internal audit function (in-house, co-sourced and outsourced)

Some metropolitan municipalities made reference to the fact that the IAF was in-house, co-sourced or outsourced.

The extent to which metropolitan municipalities made reference to the structure of their IAF varied amongst the municipalities. These variations are concerning and re-emphasise the differences in internal audit disclosure in annual reports (refer to Table 10 below). Three out of eight (37.5%) metropolitan municipalities made reference to the fact that they had either an in-house, outsourced or co-sourced internal audit function.

Table 10. References made to in-house, co-sourced and outsourced internal audit functions

	Co-sourcing	In-house	Outsourced
Metro A	0	0	0
Metro B	0	1	0
Metro C	0	0	0
Metro D	0	0	0
Metro E	0	0	0
Metro F	0	0	1
Metro G	1	0	0
Metro H	0	0	0
% TOTAL	33.33%	33.33%	33.33%

Source: Atlas.Ti quantification of codes

It is clear from Table 10 above that few municipalities made reference to how IAFs were

structured in terms of being in-house, co-sourced or outsourced.

5.10. Disclosure on reporting relationships

Reference was made to the fact that both administrative and functional reporting relationships exist for the CAE. This contributes to the organisational independence of the IAF and adds credibility to its work, and thus, could enhance the standing of the IAF.

One of the metropolitan municipalities depicted the reporting relationship through an organogram. In order to explain the extent of the reporting relationship, Table 11 below summarises the variations in disclosure regarding the CAE reporting relationships.

Table 11. References made to CAE reporting relationships

	Reporting relationship	% TOTAL
Metro A	0	0.00%
Metro B	2	50.00%
Metro C	0	0.00%
Metro D	0	0.00%
Metro E	1	25.00%
Metro F	0	0.00%
Metro G	1	25.00%
Metro H	0	0.00%

Source: Atlas.Ti quantification of codes

Only 37.5% (three out of eight) metropolitan municipalities made reference to the fact that the CAE had administrative and functional reporting lines within the entity. Metro B made the greatest number of references to the fact that it had established reporting lines for the CAE within the entity. Again, variations existed between metropolitan municipalities on this item as the majority made no reference to the reporting relationship of the CAE.

5.11. Disclosure on Quality Assurance and Improvement Programmes (QAIP)

Metro B made reference to the fact that the IAF had undergone a quality assurance and improvement review which asserted that the specific IAF complied with the highest standards of internal auditing in the course of its work. Such disclosure serves to enhance public confidence.

Table 12. References made to Quality Assurance and Improvement Programmes

	Quality assurance programmes	% TOTAL
Metro A	0	0.00%
Metro B	1	100.00%
Metro C	0	0.00%
Metro D	0	0.00%
Metro E	0	0.00%
Metro F	0	0.00%
Metro G	0	0.00%
Metro H	0	0.00%

Source: Atlas.Ti quantification of codes

Only Metro B reported on the fact that its IAF had undergone a quality assurance review. Variations were also noticed in disclosures on this item.

6. DISCUSSION OF FINDINGS

Authors who have explored the benefits of internal audit disclosure in public reports follow two schools of thought regarding the type of disclosure internal audit can provide in public reports. Boyle (2012:21/22) describes the use of an activities-based report. Such reports are descriptive in nature and serve to inform readers of internal audit's activities over the reporting period. Just by providing a descriptive report, public confidence can be increased and, furthermore, internal audit becomes more accountable given that it is under public scrutiny (Boyle, 2012:22). IAFs can also provide assurance-based reports where an internal audit opinion is expressed on the effectiveness of the system of internal control. This enhances accountability on the part of the IAF. It is possible that both types of reports can be submitted to the public report by the IAF (Boyle, 2012:22). In essence, based on accountability theory, if internal audit were to report in public accounts, an increase in public confidence would be expected (Boyle, 2012:20).

Based on the analysis of the annual reports, it would appear that IAFs in the metropolitan municipalities were leaning more towards providing activities-based reporting in the annual reports as limited annual reports contain internal audit opinions on the status of internal controls within the metropolitan municipalities (refer to Table 9, Section 5.8). Archambeault *et al.* (2008:385) suggest that internal audit disclosure in public reports should focus on internal audit composition, responsibilities, accountability, activities and resources. These points are discussed below in context of the analysis performed on the annual reports for the 2012/2013 financial year of the eight metropolitan municipalities in South Africa.

No evidence of the qualifications of internal audit staff or of CAEs were found. In some cases, the metropolitan municipalities did make reference to the number of staff in the IAF which could be indicative of their profile - their capacity to do internal audit work. Some metropolitan municipalities did make reference to the fact that their IAFs were in-house, outsourced or co-sourced. In certain cases where the IAF was outsourced or co-sourced, no information was given in the annual reports on the service providers.

As can be seen in Table 2 in Section 5.1 above, numerous references to the IAFs' control, risk management and governance responsibilities were made in the annual reports. It was also noted that the IAF could disclose on the fact that it was involved in the audit of pre-determined objectives, which is mandated by the Municipal Systems Act (2000) Act 32 of 2000, Chapter 6 (refer to Table 2, Section 5.1). A number of examples of qualitative text were mentioned in Section 5.1. Variations also existed in this disclosure item - Metro C made no reference to internal audit's nature and scope of activities and the extent of disclosure on this item.

Very few metropolitan municipalities made reference to the reporting relationships within the entity (refer to Table 11, Section 5.10). One metro made reference to the fact that its IAF had undergone a quality assurance review. Submitting itself to such an independent quality review provides evidence of the IAF's accountability as to

the quality of its work as well as improving the credibility of the IAF's work.

The analysis of the annual reports clearly indicates that internal audit did disclose on the type of audits performed, for example, some reported that they conducted compliance testing and operational audit or were involved in internal control testing. However, it is clear that there were variations between the municipalities in the nature of information disclosed and the extent of that disclosure. There was also evidence of relationships between the IAFs and the audit committees, implying regular meetings between internal audit, management and the audit committee (given that management and the external auditor generally attend audit committee meetings). This can be seen in Table 5 (refer to Section 5.4) where substantial reference was made to the fact that reliance is placed on the work of internal audit. It can thus be deduced that interaction and/or cooperation exists between internal audit and key users of internal audit services (the audit committee, management and external audit). The majority of the metropolitan municipalities made reference to the completion of the internal audit plan (Table 3, Section 5.2). As the internal audit plan reflects internal audit activities, a statement as to the percentage of completed work could increase public confidence.

The analysis of the annual reports indicates that half of the metropolitan municipalities (50%) made reference to the remuneration of the CAE (refer to Table 8, Section 5.7). It was noted that 50% of the metropolitan municipalities made it clear that IAFs had the necessary resources to perform their work (refer to Table 5, Section 5.4). It was also noted that one metro had a table showing the number of internal audit staff in the IAF, together with the budget for the department.

7. CONCLUSION AND RECOMMENDATIONS

This paper reported on the extent of internal audit disclosure in the 2012/2013 annual reports for the eight metropolitan municipalities in South Africa. From the empirical evidence, it is clear that attempts have been made (in the areas identified in Section 5) to disclose on internal audit composition, responsibilities, accountability, activities and resources of IAFs in metropolitan municipalities. However, the nature of what is disclosed and the extent of this disclosure differs between the metropolitan municipalities. In light of the developments in integrated reporting, disclosure on the IAF profile and its work could contribute substantially to accountability and public confidence.

It is thus clear from the findings reported in this paper that definite attempts have been made at disclosure of IAF activities in the annual reports of metropolitan municipalities. The findings also substantiate that better assurance could result from the inclusion of activities of IAFs in these annual reports, and consequently, the profile, demand for and standing of IAFs in metropolitan municipalities could be enhanced.

However, limited guidance exists in the *Standards* and South African legislation on exactly what matters to disclose. This should be subjected to further research as both public and private sector

IAFs could benefit from an improved awareness of their role by the their stakeholders. It is recommended that the IIA Global (United States of America), the IIA South Africa and government authorities in South Africa develop and provide clear guidance to public sector organisations on the disclosure of IAF activities in the annual reports of these organisations.

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