

# A MIXED METHODOLOGY TO VIEW INTERNAL AUDITS INTERNAL CONTROL FUNCTIONING

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## Abstract

The purpose of this paper is to holistically examine internal audit's internal control functioning, by adopting a data transformation triangulation design. This entailed using questionnaire data and transformed qualitative content analysis data, to perform triangulation. It was found that internal audit functions (IAFs) are important role players in assisting audit committees in their internal control oversight responsibility and that a broad range of internal control work is performed by internal audit. However, in the public eye, there is scant information on IAFs' functioning and a gap exists between what IAFs actually do and what is presented in public annual reports. The methodology used can be useful for future mixed method studies exploring the broad field of internal auditing. The results of this paper can be used as a starting point to create guidance on internal audit disclosure in public reports and to cultivate further research in the area of internal audit disclosure.

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## 1. INTRODUCTION AND BACKGROUND

Internationally, legislation such as the Foreign Corrupt Practices Act and the Sarbanes-Oxley Act, contributed to increased responsibility placed on boards and audit committees. This is also evident in South Africa with the King Code of Governance (King III). Audit committees are tasked with reporting back to the board of directors on the state of internal control (especially as it relates to internal financial control), risk management and governance processes (Ferreira, 2007:3). Internal auditors are greatly involved in these areas and are thus in a good position to serve as 'informants' to audit committees which cannot be present on a day-to-day basis. Internal audit can thus assist audit committees in achieving their internal control, risk management and governance oversight responsibilities (Zaman & Sarens, 2013:499).

Audit committees are dependent on internal audit for information and their effectiveness revolves around a strong and well-resourced internal audit function which is able to aid audit committees in meeting their oversight responsibilities (Marx & Voogt, 2010:21). Internal audit should therefore reduce the lack of information availability to the audit committee on matters concerning risk management, internal control and governance. This is emphasised by the Institute of Internal Auditors' Research Foundation (IIARF) (2013:17, 18) which states that "internal audit is being asked by the audit committee to do more than ever before, in identifying emerging risk, providing assurance on the adequacy of the organization's enterprise risk management processes, assessing the adequacy of governance practices, and more". A study conducted by van der Nest (2006:v.232) found that 40% of audit

committees in national government departments in South Africa are not yet effective and are not contributing towards improving internal control, risk management, governance and financial reporting practices. Moreover, van der Nest (2008:182, 184) found that audit committees' effectiveness in contributing to risk management, internal control and governance was measured at 63%, 76% and 62% respectively, indicating that their oversight in these areas, especially risk management and governance, is not yet effective.

## 2. PROBLEM FORMULATION

Various role players in the combined assurance model were blamed for corporate failures such as Enron and WorldCom - and this was partly because of the performance failures of audit committees and internal audit (Ferreira, 2007:4; Arena & Azzone, 2007:92). Marx (2008:xlvi) notes that important governance structures such as the audit committee and internal audit were aware of transactions which led to the demise of Enron. This clearly suggests that the IAFs may not have been functioning properly. Lenz and Sarens (2012:534) further reference major collapses such as Parmalat, Ahold and Lehman Brothers as all being due to corporate governance and risk management failure, areas which are critical for the scope of internal auditors. In a study conducted by Mjiyako (2006:1, 2, 3), it is clearly stated in the 2002-2003 Auditor-General reports in South Africa that IAFs were not functioning as they should be. IAFs were unqualified and inexperienced, they performed duties which they should not have been performing and users were unable to rely on their work. Similar comments were made by the Auditor-General in South Africa who stated that

audit committees and internal audit were “in part to blame for auditees not obtaining clean audit reports” (Auditor-General South Africa, 2012:86). The Auditor-General South Africa specifically stated that IAFs do not adequately evaluate internal control and therefore did not fully communicate with the audit committee on matters such as accounting, risk management and loss control (Auditor-General South Africa, 2011:32; Auditor-General South Africa, 2012:86; Auditor-General South Africa, 2013:31, 35, 75, 103). The Auditor-General South Africa (2012:87) deduced that audit committees are not yet effective in local government, to a large extent due to lack of interaction and information flow from internal audit to executive councils and mayors.

In the municipal context in South Africa, internal audit functions are legally mandated to exist and play an important role acting as consultants and assurance providers on internal control, risk management and governance. For audit committees to be effective in their oversight responsibilities, they need relevant information from internal audit. If such information is unavailable, key decisions will be based on inaccurate, incomplete and unreliable information (Auditor-General South Africa, 2012:87; Hooper, 2013:15). This sentiment is also echoed by Marx (2008:30) in his doctoral study on audit committees:

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

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

### 3. LITERATURE REVIEW ON INTERNAL AUDIT'S INTERNAL CONTROL RESPONSIBILITY

*Standard 2130* states that internal audit can contribute to the improvement of control processes by evaluating control effectiveness and efficiency

and by promoting continuous improvement (IIA, 2012). Furthermore, the controls that are evaluated must be based on the risks which exist within the entities' governance, operational and information systems processes (Marks, 2013:54). Within these processes, entities have broad objectives, namely:

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

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

It is important to note that while testing controls, internal audit provides reasonable assurance on whether the controls are working as intended. This includes establishing whether the highest levels of productivity were maintained with the available resources across all processes within an entity. In essence, internal audit must also determine whether control activities within organisations are executed in the most efficient manner by employees of the organisation (Gabrini, 2013:32; Zaretto, 2014:31). Therefore, whilst testing internal controls, internal audit as part of its audit procedures, must determine whether the entity is functioning productively with the available resources.

In cases where internal audit provides consulting engagements, the knowledge and status of controls gained during those engagements must be used in assurance engagements (IIA, 2012:12). Other best practices provide clear guidance to CAEs on internal audit functionality regarding control processes. The CAE must develop a flexible internal audit plan (Begelfer, 2012:33) which allows sufficient scope to assess control processes for all major business units and must include major control processes. The plan must allow for the collection of sufficient and appropriate evidence on the status of control processes so that the opinion of the CAE is based on hard evidence. The work of others can also be considered in formulating the final opinion on whether the controls are operational. While evaluating the overall effectiveness of the entity's control processes, the CAE must determine (IIA, 2013):

- Whether significant discrepancies or weaknesses in control were discovered;
- Whether corrections or improvements were made after the discovery of weak controls; and
- Whether the weaknesses discovered could lead to unacceptable risk exposure for the entity.

All the work on control evaluation must be presented in a report highlighting the importance of controls, the nature and the extent of testing

performed by internal audit and the extent of reliance placed on the work of others (IIA, 2013).

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

Effective control over personal information in an important element of governance, risk management and control processes (IIA, 2013). It is good practice for entities to establish a privacy framework and internal audit plays a key role in evaluating the adequacy of controls relating to privacy frameworks (IIA, 2013). While assessing controls relating to the privacy framework it is recommended that internal audit:

- Consider the laws, regulations and policies relating to privacy in the jurisdiction in which it operates;

- Liaise with the in-house legal department to identify laws and regulations applicable to the privacy framework of the entity;

- Liaise with IT to determine that information security and data protection controls are in place and working; and

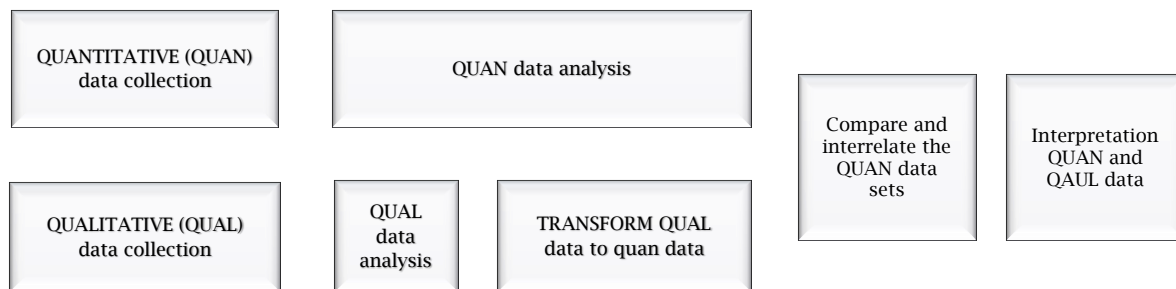
- Assess the level of maturity of the entity's privacy practices.

## 4. RESEARCH DESIGN AND METHODS

### 4.1. The selected research design for this study

A mixed methods approach is followed in this study, and specifically, a data transformation triangulation model. This design allows for both quantitative and qualitative data to be collected concurrently which can be combined to give an overall picture of a certain phenomenon as part of the final discussion of findings (Edmonds & Kennedy, 2013:149; Grbich, 2013:29). The data from all the sources is therefore complementary in contributing to the research problem. Figure 1 below provides an overview of the data transformation triangulation model adopted in this study.

Figure 1. Data transformation triangulation design



Source: Creswell, n.d:63

Both qualitative and quantitative data was collected during the study. This data was analysed separately and the qualitative findings were then transformed into quantitative data which was compared with the quantitative results.

### 4.2. Qualitative data collection and analysis procedure

The latest public annual reports were obtained from the various websites of the eight metropolitan municipalities in South Africa. These documents were uploaded onto Atlas.ti which was used to perform a coding exercise. Qualitative content analysis and enumerative content analysis (Grbich, 2013:191, 195) was used to provide a deep textual description of the functioning of IAFs as presented in the public annual reports. The reports were coded using a concept-driven approach. For the concept-driven coding, a coding frame was developed which was imposed on the eight public annual reports. This analysis was focused on internal audit only, applying the relevant coding scheme. The coding

schemes and methodological procedures are discussed below.

#### 4.2.1. Concept-driven coding scheme imposed on public annual reports

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

Whether internal audit's scope of work includes matters concerning internal control.

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

Table 1. Imposed coding scheme for public annual reports

Focus areas	Main categories	Code assigned in MFMA 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	Internal control	Internal control mandate	Any statements or segments of texts in the public annual reports which indicated that internal audit was involved in internal control were correspondingly coded using the codes. For example, "internal audit evaluate the adequacy of controls" was coded "Control mandate". This provided evidence that internal audit was perceived as being involved in its core area of internal control

#### 4.2.2. Transformation of qualitative coding to quantitative data

After applying the coding scheme to the public annual reports, Atlas.ti was used to extract qualitative text from the specific categories for visual presentation. The segments of text with their assigned codes were also transformed into frequency counts using Atlas.ti to change the qualitative text into quantitative data. This is known as *quantitising*, a process whereby qualitative data is transformed into quantitative data (Sandelowski, Voils & Knafl, 2007:208, 209) by assigning numerical values to qualitative text. In this case, frequency counts (Driscoll, Appiah-Yeboah, Salib & Rupert, 2007:22) of a specific code were done using Atlas.ti after imposing the coding schemes explained above. These frequency tables show the number of times that references were made to a specific code and it assisted by showing which areas were most prominently disclosed about IAFs in public annual reports. These frequency counts were further transformed by summing the counts.

#### 4.3. Quantitative data collection and procedures

The functioning of internal audit, as defined by literature, law, internal audit *Standards*, best practice such as the internal audit practice advisories and other rules and regulations, was used to design a questionnaire. The questionnaire was distributed to audit committee chairpersons at the eight selected metropolitan municipalities in South Africa. They were asked to document their views on internal audit functioning as it relates to their internal control functioning. The questionnaires were compiled using Google Drive and the Google Forms function. The questionnaires were completed online via a Uniform Resource Locator (URL) and were sent to the municipalities. Once the forms were completed, they were submitted online. The responses were then extracted into Excel, from where they were captured into the IBM Statistical Analysis Software Package (IBM SPSS) for analysis. Descriptive statistics were used to present the data in tables and figures. The responses were summed to be compared with the transformed qualitative texts.

#### 4.4. Sampling strategy

Purposive sampling was used to form the basis of the selection of the eight metropolitan municipalities in South Africa. Although the term 'purposive sample selection' is the broad sampling technique, Patton (1990:169) and (2003:3, 5) argues that there are many strategies available to

purposefully select *information-rich* cases or samples (also stated by Akengin, 2008:128). In essence, whichever strategy is used under purposive sampling, the goal is the same, namely, to select *information-rich* cases that are intentionally selected to fit a study.

Specifically, a criterion sample selection strategy was used to select samples. The samples must meet predetermined criteria of importance and these criteria can make the samples prone to in-depth enquiry (Patton, 1990:176, 177; Sandelowski, 2000:248). The criteria can be created by the researcher or can consist of a list prepared beforehand (Akengin, 2008:129). Sandelowski (1992), as cited by Coyne (1997:628), refers to this sample selection approach as "sampling subjects according to a preconceived but reasonable set of criteria".

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

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

1. A conurbation featuring:
  - Areas of high population density;
  - An intense movement of people, goods and services;
  - Extensive development;
  - Multiple business districts and industrial areas.
2. A centre of economic activity with a complex and diverse economy;
3. A single area for which integrated development planning is desirable; and
4. Having strong interdependent social and economic linkages between its constituent units.

In South Africa, the only municipalities meeting these criteria are the eight metropolitan municipalities. They are thus regarded as *information-rich* and conclusions reached could be informative to other settings.

### 5. PRESENTATION OF RESULTS

#### 5.1. Qualitative text matrices from public annual reports

The following sections provide a qualitative discussion of the functioning of IAFs in metropolitan municipalities in South Africa, as reflected by public annual reports. Table 2 below presents the qualitative findings which were derived by imposing the concept-driven coding scheme explained in Section 3. To protect the confidentiality of the municipalities, pseudonyms were used throughout the empirical study.

Internal control is one of the three core functional areas defined in *Standard 2100*. It follows then, that if internal audit wishes to add value, it must provide internal control consulting and

assurance services to the metro. After the analysis of the annual reports of the metros, the following items were evident as they relate to internal audit's internal control mandate.

**Table 2.** Internal audit's work on internal control

	<i>Metro A</i>	<i>Metro B</i>	<i>Metro C</i>	<i>Metro D</i>	<i>Metro E</i>	<i>Metro F</i>	<i>Metro G</i>	<i>Metro H</i>
<b>CONTROL MANDATE</b>	<ul style="list-style-type: none"> <li>•Regular reviews of the system of internal control</li> <li>•Compliance testing relating to acts and regulations</li> <li>•Control testing on absenteeism and overtime claims</li> </ul>	<ul style="list-style-type: none"> <li>•Evaluate and improve control processes</li> <li>•Assess the efficiency, adequacy and effectiveness of controls</li> <li>•Audit of operational efficiency and effectiveness</li> <li>•Controls audited are those affecting the municipality's strategic objectives</li> <li>•Inform audit committee quarterly on control testing done</li> </ul>	None	<ul style="list-style-type: none"> <li>•Identify weak controls</li> <li>•Evaluate adequacy and effectiveness of controls</li> <li>•Review the reliability and integrity of financial and operating information</li> <li>•Report on such findings</li> <li>•Compliance testing on laws, policies and procedures of the municipality</li> <li>•Evaluate controls over the safeguarding of assets</li> <li>•Appraise the economy and efficiency with which resources are employed</li> </ul>	<ul style="list-style-type: none"> <li>•Contribute to the control environment by evaluating and improving the effectiveness of controls</li> <li>•Compliance testing of laws, regulations, policies and procedures</li> <li>•Adequacy and cost-effectiveness of implemented controls</li> <li>•Identify weak controls</li> <li>•Value for money audits - evaluation of the efficiency, economy and effectiveness of operational and managerial controls</li> <li>•Identify areas of wastage and inefficiency</li> <li>•Monitor disposition of controls identified by external audit</li> </ul>	<ul style="list-style-type: none"> <li>•Compliance testing on policies and procedures</li> <li>•Evaluate controls resulting in high residual risks</li> <li>•Advise the municipality on the system of internal control</li> </ul>	Perform continuous audit reviews on internal control systems and procedures	<ul style="list-style-type: none"> <li>•Written assessment of the effectiveness of internal control, including internal financial controls</li> <li>•Advise audit committee on serious breakdowns in internal control</li> <li>•Audit controls outside the risk appetite of the municipality</li> </ul>

Source: ATLAS.ti output, "Control Mandate", Metro A - Metro H

It can be seen from Table 2 above that there is significant variation between the different metros in what internal audit discloses regarding its internal control work as well as the extent of description of what is being done. It is also clear that very broad statements are used to describe how internal audit is contributing to the internal control system of the metros. Furthermore, internal audit's mandate regarding internal control is broad and multifaceted, which is not clearly described in the annual reports.

In order to better understand the qualitative text matrices, Table 3 below summarises the work areas using enumerative content analysis (Grbich, 2013:195). Table 3 above shows the number of times reference was made to the core mandate of internal audit in the public annual reports of the metropolitan municipalities. Within the control mandate function, Metro B made the greatest number of references to how its IAF contributes to internal control.

**5.2. Descriptive results from audit committee questionnaires**

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

**Table 3.** Quantified qualitative text

	<i>Control mandate</i>	<i>%Total</i>
Metro A	4	11.76%
Metro B	9	26.47%
Metro C	0	0.00%
Metro D	8	23.53%
Metro E	7	20.59%
Metro F	2	5.88%
Metro G	1	2.94%
Metro H	3	8.82%

Source: ATLAS.ti output

It is clear from Table 3 that inconsistencies exist between what is being reported in terms of the focus area identified. There are also inconsistencies in the frequency of reporting on the focus areas between the municipalities in the public annual reports. For example, Metro C makes no reference to what internal audit is doing regarding internal control.

**5.2.1. Audit committee views on internal audit's control evaluations**

Audit committees are tasked with, amongst other things, internal control oversight responsibility, especially as it relates to internal financial control (MFMA, 2003:s166). IAFs are in a perfect position to provide feedback to audit committees on the state of internal controls within municipalities as they are largely tasked with providing an independent,

objective evaluation of the efficiency and effectiveness of internal controls. Table 4 below demonstrates the extent to which internal audit

assists audit committees with internal control oversight responsibly with reference to specific control evaluations.

**Table 4.** Audit committee views on internal audit's control evaluation

Work area	To a lesser extent	To a large extent	Total	Percent	
				To a lesser extent	To a large extent
Evaluation of control effectiveness (D10.1)	1	7	8	12.50	87.50
Evaluation of control efficiency (D10.2)	1	7	8	12.50	87.50
Evaluation of the adequacy of controls (D10.3)	1	7	8	12.50	87.50
Evaluation of controls leading to high risk exposure (D10.4)	2	6	8	25.0	75.0

Source: Calculated from IBM SPSS

According to the *Standards* and the definition of internal auditing, internal audit must evaluate the effectiveness, efficiency and adequacy of controls. Audit committees in metros found these work areas useful to a large extent in assisting them in their internal control oversight responsibility. Internal audit's evaluation of control effectiveness, control efficiency and adequacy was regarded as assisting audit committees to a large extent (87.50%). In addition, evaluations of weak controls which could lead to high residual risk, assist audit committees (75%) in their internal control oversight responsibility. This is positive as the Treasury

Regulations task internal audit with conducting engagements according to the *Standards* and this corresponds to recommendations in King III, which state that internal audit must provide the audit committee with a written report on the status of internal financial control. It is clear that the control testing of internal audit is regarded as very important to audit committees and that internal audit is serving audit committees well in that regard.

#### 5.2.2. Audit committee views on internal audit's information integrity and reliability assessments

**Table 5.** Audit committee views on internal audit's information integrity and reliability assessments

Work area	To a lesser extent	To a large extent	Total	Percent	
				To a lesser extent	To a large extent
Evaluation of information integrity and reliability (D10.5)	2	6	8	25.0	75.0
Communications of weaknesses in information integrity and reliability (D10.7)	2	6	8	25.0	75.0
Recommendations on information integrity and reliability (D10.8)	2	6	8	25.0	75.0

Source: Calculated from IBM SPSS

One area where internal audit can add value to audit committees is through its evaluation of the efficiency and effectiveness of internal controls, especially as they relate to financial statements. Audit committees (75%) found internal audit's evaluations of information integrity and reliability useful in assisting them in their internal control oversight responsibility. Furthermore, communication of weaknesses and recommendations on improving ineffective controls in information integrity and reliability assisted audit committees in their oversight responsibility (75%).

Information integrity and reliability are of the utmost importance as this information forms the basis for important decision-making, be it by audit committees or senior management. Internal audit plays a crucial role in providing independent, objective feedback on the integrity and reliability of information distributed through municipalities.

#### 5.2.3. Audit committee views on internal audit's specific control evaluations

Table 6 below summarises the results.

**Table 6.** Audit committee views on internal audit's specific control evaluations

Work area	To a lesser extent	To a large extent	Total	Percent	
				To a lesser extent	To a large extent
Evaluation of controls contributing to strategic objectives (D10.9)	1	7	8	12.50	87.50
Evaluation of controls contributing to reliability and integrity of financial and operational information (D10.10)	1	7	8	12.50	87.50
Evaluation of controls contributing to legal and regulatory objectives (D10.11)	1	7	8	12.50	87.50

Source: Calculated from IBM SPSS

Audit committees in municipalities are tasked with providing advice to municipal council, the accounting officer, political office-bearers and management on matters relating to the adequacy, reliability and accuracy of financial reporting and information (MFMA, 2003:s166). Furthermore, advice must be given on compliance with the MFMA, the Division of Revenue Act and any other applicable legislation, as deemed necessary (MFMA, 2003:s166). This can be a difficult task for members who are not involved in the day-to-day operations of the municipality. In this regard, internal audit assists audit committees to a large extent; 87.50% of audit committees in metros stated that internal audit's evaluation of controls contributing to the reliability and integrity of financial and operation information

assisted them in their internal control oversight. Moreover, 87.50% of audit committees in metros stated that internal audit's evaluation of controls contributing to legal and regulatory objectives assisted them. The fact that internal audit evaluates the reliability of financial information greatly assisted audit committees in their review of the financial statements, seeing that they are required to provide council feedback on the financial statements.

#### 5.2.4. Audit committee views on internal audit's privacy audits

Table 7 below summarises the results.

**Table 7.** Audit committee views on internal audit's privacy audits

Work area	Not at all	To a lesser extent	To a large extent	Total	Percent		
					Not at all	To a lesser extent	To a large extent
Evaluation of the maturity levels of municipalities' privacy practices (D10.6)	2	2	4	8	25.0	25.0	50.0
Evaluations of the municipalities' privacy framework (D10.12)	2	4	2	8	25.0	50.0	25.0
Coordination with the legal department during privacy audits (D10.13)	3	3	2	8	37.50	37.50	25.0

Source: Calculated from IBM SPSS

Internal audit's work on the privacy practices of municipalities did not assist audit committees in achieving their internal control oversight responsibility. In all three areas in Table 7 audit committees felt that internal audit's work on privacy practices and frameworks was of little use to audit committees. This could be due to the fact that audit committees do not have a direct responsibility relating to the municipalities' privacy practices and

frameworks. However, on a municipal level, the work of internal audit could be of value as it could assist municipalities in areas where non-compliance exists regarding privacy rules and regulations.

#### 5.2.5. Audit committee views on internal audit's promotion of continuous improvement activities

Table 8 below summarises the results.

**Table 8.** Audit committee views on internal audit's promotion of continuous improvement

Continuous improvement in internal control	Not at all	%	To a lesser extent	%	To a large extent	%	Total response
Internal audit's promotion of continuous improvement in internal controls (D10.14)	1	12.50%	-	-	7	87.50%	8

Source: Calculated from IBM SPSS

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

audit stays abreast of the latest internal control issues within the municipality, which assists audit committees.

#### 5.2.6. Audit committee views on internal audit's risk assessment processes

Table 9 below summarises the results.

**Table 9.** Audit committee views on internal audit's risk assessments of control processes

Risk assessment of control processes	Not at all	%	To a lesser extent	%	To a large extent	%	Total response
Internal audit's risk assessment of control processes (D10.15)	1	12.50%	-	-	7	87.50%	8

Source: Calculated from IBM SPSS

According to the MFMA, audit committees must act in an advisory capacity on the risk management processes of municipalities. Internal audit can assist in this regard by performing risk assessments of control processes to determine whether the controls

are effective and efficient in mitigating risks. Audit committees stated (87.50%) that this assisted them to a large extent in their internal control oversight responsibilities.

### 5.2.7. Audit committee views on internal audit's communications on internal control

Table 10 below summarises the results.

**Table 10.** Audit committee views on the usefulness of internal audit's communications

Work area	To a lesser extent	To a large extent	Total	Percent	
				To a lesser extent	To a large extent
Communication of weaknesses and improvements in internal control (D10.17)	1	7	8	12.50	87.50
Communication on the nature and extent of control testing (D10.18)	2	6	8	25.0	75.0
Preparation of an internal audit plan allowing for control testing (D10.19)	1	7	8	12.50	87.50
Opinion on the status of the system of internal control (D10.20)	1	7	8	12.50	87.50

Source: Calculated from IBM SPSS

Internal audit performs its job effectively if it communicates the work it has performed. This is reflected by the audit committees (87.50%) which felt that internal audit's communication of weaknesses and improvements in internal control assisted them to a large extent in their internal control oversight responsibility. Best practice requires audit committees to approve the internal audit plan and in effect, this is the point where internal audit informs the audit committee on the control testing that needs to be performed. Audit committees are thus able to provide input into the plan. In this regard, audit committees in metros (87.50%) felt that the fact that internal audit prepares an internal audit plan which allows for internal control testing greatly

assists them in their oversight responsibility. Lastly, audit committees must provide feedback on the status of internal control, especially as it relates to internal financial control, to municipal council and other management staff. The fact that internal audit provides an opinion on the status of the system of internal control assisted audit committees (87.50%) to a large extent in their internal control oversight responsibility.

### 5.2.8. Audit committee views on internal audit's knowledge and experience obtained from other audits

Table 11 below summarises the results.

**Table 11.** Audit committee views on internal audit's knowledge and experience obtained from other audits

Knowledge from other audits	Not at all	%	To a lesser extent	%	To a large extent	%	Total response
Internal audit's knowledge/experience obtained from other audits (D10.16)	-	-	2	25.00%	6	75.00%	8

Source: Calculated from IBM SPSS

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

## 6. POINTS OF TRIANGULATION

As part of the research design, it was explained that a data transformation triangulation model (Creswell, n.d.) had been adopted in this study. Qualitative analysis of the annual reports for the metropolitan municipalities in South Africa were presented in a text matrix. The areas coded were then transformed into frequency counts (Creswell, n.d.) which made the data quantitative (see Table 3). The frequency counts was further transformed and compared with the audit committee questionnaires in order to obtain a holistic view on internal audits internal control mandate.

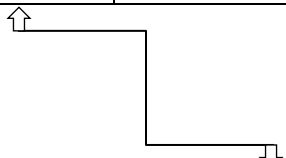
For the work area (internal control), the total amount of work as per the annual reports was calculated by summing the frequency counts (total perceived work per annual reports). During the literature review, the study defined 20 internal control areas of what internal audit must do and these were used to design the questionnaire. This amount was multiplied by eight (all the municipalities) to arrive at the totals (defined work per literature review). This was expressed as a percentage by dividing the total perceived work per annual report with the defined work in the literature. The frequency counts were thus further transformed into quantitative data. This transformation is shown in Figure 2 below.

Based on annual report data, the perception given is that internal audit only performs 21% of possible internal control work. This is a negative perception for the reader of public annual reports and is not a true reflection of the work performed by internal audit. The audit committee responses on the areas of internal control were totalled for those areas where audit committees had indicated both 'to a large extent' and 'to a lesser extent' in the audit committee questionnaire. Table 12 below shows the results.



**Figure 2.** Summed frequency counts for all metros

	<i>Control mandate</i>	<i>%Total</i>
Metro A	4	11.76%
Metro B	9	26.47%
Metro C	0	0.00%
Metro D	8	23.53%
Metro E	7	20.59%
Metro F	2	5.88%
Metro G	1	2.94%
Metro H	3	8.82%



<i>Work area</i>	<i>Control</i>
Total perceived work per annual reports	34
Defined work per literature review	160
<i>Expressed as a percentage</i>	21%

**Table 12.** Totalled audit committee responses against public annual report data

<i>Work areas</i>	<i>Control</i>
Total actual work as per audit committee questionnaires (all metros)	159
Defined work per literature review	160
<i>Expressed as a percentage</i>	99%
<i>Annual report data from figure 2</i>	21%

From Table 12 it is clear that the scope of work carried out by internal audit is much greater than what is depicted in the public annual reports. Audit committees in metros indicated that internal audit conducted 99% of internal control work (vs 21% in annual reports).

**7. CONCLUSIONS**

This study employed a mixed methods approach to viewing internal audit’s internal control functioning. The questionnaire data showed that internal audit is a key role player in assisting audit committees in their internal control oversight responsibility and that a broad range of internal control work is performed by internal audit. The content analysis of public annual reports showed scant information on the work carried out by internal audit, and discrepancies exist between what they are doing and the extent of work they perform. The triangulation of the questionnaire data and transformed qualitative content analysis provides a new dimension to the results, indicating that internal audit is doing much more than is depicted in public annual reports. This highlights gaps in internal audit disclosure practices and a need exists to further explore internal audit disclosure practices in order to establish demand for disclosure. The disclosure of internal audit work in public annual reports could lead to more transparency, increased public confidence and ultimately better functioning IAFs, as they will be under public scrutiny.

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