



University of KwaZulu-Natal

**Perception of internal audit function of the MBA students
at UKZN GSB&L**

by

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DECLARATION

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ABSTRACT

This study focused on the issue of the perceptions over the internal audit function. Various trains of thoughts exist and there are many debates on the value of the internal audit function. Currently, no study exists in the local context of the KwaZulu-Natal (KZN) market space to determine the value of the internal audit function in organisations. To address the problem, the purpose of the study was to explore the perception of the internal audit function within the KwaZulu-Natal environment.

This study explored perceptions of the internal audit function of the Masters of Business Administration (MBA) students at University of Kwazulu-Natal(UKZN) Graduate School of Business and Leadership(GSB&L). For this purpose, questionnaires were used as the data collection tool. The second year MBA students at the UKZN GSB&L, comprising 80 students (both part time and block release), were selected to be participants for the study. Responses were received from 58 of these students, which was a response rate of 72.5%.

Findings of the study were able to prove that most respondents seemed to think their internal audit is well resourced; that no factors negatively impact their internal audit function; that there is alignment of the corporate governance structures and the internal audit function; and that the internal audit function is well implemented which adds “value” to the organisation. The organisation data collected were divided into the following four themes: The resources allocated to the establishment and maintenance of the internal audit function; factors that affect the implementation of an effective internal audit function that adds value to the organisation; alignment of the internal audit function; and the governance process and future strategy of the organisation. These four themes will be useful to understanding the view of MBA students at UKZN. The findings will assist the organisations to better organise and tailor their internal functions.

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TABLE OF CONTENTS

Description	Page
DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENTS	iv
LIST OF TABLES	x
LIST OF FIGURES	xi
LIST OF GRAPHS	xii
LIST OF ACRONYMS AND ABBREVIATIONS	xiii
1 OVERVIEW OF THE STUDY	1
1.1 INTRODUCTION/BACKGROUND	1
1.1.1 Background to the study	1
1.2 FOCUS OF THE STUDY	3
1.3 PROBLEM STATEMENT	4
1.4 PURPOSE OF THE STUDY	4
1.4.1 Objectives	4
1.4.2 Research questions	4
1.5 EXPECTED OUTCOME OF THE STUDY	5
1.6 DELIMITATIONS/SCOPE OF THE STUDY	5
1.7 LIMITATIONS/ANTICIPATED SHORTCOMINGS	5
1.8 ASSUMPTIONS	6
1.9 CONCLUSION	6
2 THEORETICAL FRAMEWORK AND LITERATURE REVIEW	7
2.1 INTRODUCTION	7
2.2 THE THEORETICAL REVIEW	7
2.3 EMPIRICAL REVIEW	8
2.3.1 Resources level and the internal audit function	8

2.3.1.1	What are the resources needed to fund structures in the business	8
2.3.1.2	Resource allocation and the internal audit function	9
2.3.2	The factors that affect the internal audit function	12
2.3.2.1	Complexity of an organisation	12
2.3.2.2	Lack of skilled resources to staff an internal audit function	13
2.3.2.3	Key changes of the internal audit function	14
2.3.2.4	How does the internal audit function influence its environment after the 2008 worldwide recession	16
2.3.3	The alignment of the corporate governance structures and the internal audit function	17
2.3.3.1	King III and the alignment of the internal audit function	17
2.3.3.2	Leadership and structure of the internal audit function	21
2.4	ASSISTING ORGANISATIONS TO BETTER IMPLEMENT AN INTERNAL FUNCTION THAT CAN ADD “VALUE”	22
2.4.1.1	Expectation gap of what is expected of an internal audit	22
2.4.1.2	What is value according to stakeholder	22
2.5	CONCLUSION	24
2.5.1	Summary of major contributions of significant studies	24
3	RESEARCH METHODOLOGY	25
3.1	INTRODUCTION	25
3.1.1	Research aim and objectives	25
3.2	RESEARCH DESIGN	26
3.3	SAMPLING PLAN AND DESIGN	27
3.4	STUDY AREA	29
3.5	TARGET POPULATION	29
3.6	RESEARCH INSTRUMENTS	29
3.6.1	Survey instrument design considerations	30
3.7	VALIDITY AND RELIABILITY	30
3.7.1	Reliability	30

3.7.2	Validity	31
3.8	DATA COLLECTION TECHNIQUES	31
3.9	DATA ANALYSIS	32
3.10	ETHICAL ISSUES	32
3.11	CONCEPTUAL FRAMEWORKS AND MEASUREMENT OF VARIABLES	32
3.12	CONCLUSION	33
4	RESEARCH FINDINGS: ANALYSIS, AND DISCUSSION	34
4.1	INTRODUCTION	34
4.2	DESCRIPTIVE STATISTICS	34
4.2.1	Response rate	34
4.2.2	Respondents' profile	34
4.3	RELIABILITY AND VALIDITY ANALYSIS	35
4.3.1	Reliability analysis	35
4.3.2	Validity testing	37
4.4	GRAPHICAL PRESENTATION OF RESEARCH RESULTS	39
4.4.1	Objective 1 (Resources level and the internal audit function)	39
4.4.2	Objective 2 (The factors that affect the internal audit function)	43
4.4.3	Objective 3 (The alignment of the corporate governance structures and the internal audit)	48
4.4.4	Objective 4 (To assist the organisation to better implement an internal function that can add "value" to the organisation)	52
4.5	OVERVIEW ON THE EMPIRICAL RESEARCH AND IMPORTANT RECOMMENDATIONS AND CONTRIBUTIONS OF THE STUDY	57
4.5.1	Do you think there is a relationship between resources and the level of the establishment of the internal audit function on organisations?	57
4.5.2	Does the internal audit function add value?	57
4.5.3	In your organisation is there alignment of the corporate governance structures and the internal audit function?	57
4.5.4	In your organisation is the internal audit function implemented well?	58
4.5.5	Is the internal audit function just a compliance exercise?	58

4.5.6	Are the staff of the internal audit function of your organisation well trained and qualified?	58
4.5.7	Is your internal audit function well funded? (i.e. adequate resources to perform well)	58
4.5.8	Does your internal audit function add monetary value to your organisation?	58
4.5.9	Is your internal audit function well staffed?	59
4.5.10	Does your internal audit function lead to a better control environment?	59
4.5.11	Does your organisation have an audit committee?	59
4.5.12	Is your internal audit function independent from your organisation's executive management?	59
4.5.13	Is your chief internal auditor effectively discharging their duties?	59
4.5.14	Are recommendations from your organisation's internal audit function always implemented?	60
4.5.15	Does the internal audit function work well within your organisation with the staff they are auditing?	60
4.5.16	Is your internal audit function well equipped with tools (techniques) to enable them to perform their duties?	60
4.5.17	Is your internal audit function dated?	60
4.6	CONCLUSION	61
5	CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS FOR FUTURE RESEACH	62
5.1	INTRODUCTION	62
5.2	FINDINGS FROM THE LITERATURE	62
5.3	LIMITATIONS AND POSSIBILITIES FOR FUTURE RESEARCH	63
5.3.1	LIMITATIONS	63
5.3.2	POSIBILITIES FOR FUTURE RESEARCH	64
5.4	CONCLUSION	65
	BIBLIOGRAPHY	66
	APPENDIX A: Permission to Conduct Research Letter	71
	APPENDIX B: Ethical Clearance Letter	72

APPENDIX C: Questionnaires	73
APPENDIX D: Informed consent	77

LIST OF TABLES

Number	Description	Page
4.1	Period of employment	35
4.2	Cronbach alpha	36
4.3	Descriptive statistics	36
4.4	Objective 1	37
4.5	Objective 2	37
4.6	Objective 3	38
4.7	Objective 4	38
4.8	Divergent validity	39

LIST OF FIGURES

Number	Description	Page
1.1	Example of the governance structures according to King III code of corporate governance	2

LIST OF GRAPHS

Number	Description	Page
4.1	Is there a relationship between resources and level of establishment of the internal audit function in the organisation?	40
4.2	Is your internal audit function well funded?	41
4.3	Is your internal audit function well staffed?	42
4.4	Is your internal audit function implemented well?	43
4.5	Are staff of the internal audit function well trained and qualified?	44
4.6	Does the internal audit function work well with the staff being audited?	45
4.7	Is the internal audit function well equipped to enable good performance?	46
4.8	Is the internal audit function dated?	47
4.9	Are corporate governance structures and the internal audit aligned?	48
4.10	Does the organisation have an audit committee?	49
4.11	Is the internal audit function independent of the executive management?	50
4.12	Does the chief internal auditor discharge their duties effectively?	51
4.13	Does the internal audit function add value?	52
4.14	Is the internal audit function just a compliance exercise?	53
4.15	Does the internal audit function add monetary value to the organisation?	54
4.16	Does the internal audit function lead to better control environment?	55
4.17	Are recommendations from the internal audit always implemented?	56

LIST OF ACRONYMS AND ABBREVIATIONS

CAE	Chief Audit Executive
CLAA	Corporate Laws Amendment Act
ERM	environmental resources management
GAAP	Generally Accepted Accounting Principles
GRAP	Generally Recognized Accounting Practices
GSB&L	Graduate School of Business and Leadership
IAF	internal audit function
IIA	Institute of Internal Auditors
JSE	Johannesburg Stock Exchange
KING III	King Code of Corporate Governance 3
KPIs	key performance indicators
MBA	Masters of Business Administration
MFMA	Municipal Finance and Management Act
OECD	Organisation for Economic Co-operation and Development
PFMA	Public Finance and Management Act
PwC	PricewaterhouseCoopers
SD	Standard Deviation
SOEs	state-owned enterprises
UKZN	University of KwaZulu-Natal

OVERVIEW OF THE STUDY

1.1 INTRODUCTION/BACKGROUND

This chapter provides the background and the focus of the research problem and research statement of the study. The purpose, specific objectives, expected outcomes and research objectives, scope/delimitations are also presented in the chapter. In addition, the chapter also addresses the limitations and anticipated shortcomings and assumptions.

1.1.1 Background to the study

According to the Chartered Institute of Internal Auditors UK,

“The role of internal audit is to provide independent assurance that an organization’s risk management, governance and internal control processes are operating effectively” (IIA UK, 2016, <https://www.iaa.org.uk/about-us/what-is-internal-audit>).

The chapter three of King III code of corporate governance mandates as follows, that an independent audit committee fulfils a vital role in corporate governance. The audit committee is vital to, among other things, ensure the integrity of integrated reporting and internal financial controls and identify and manage financial risks. (Jackson,2016)

Figure 1.1 below illustrates governance structures according to the King III code.

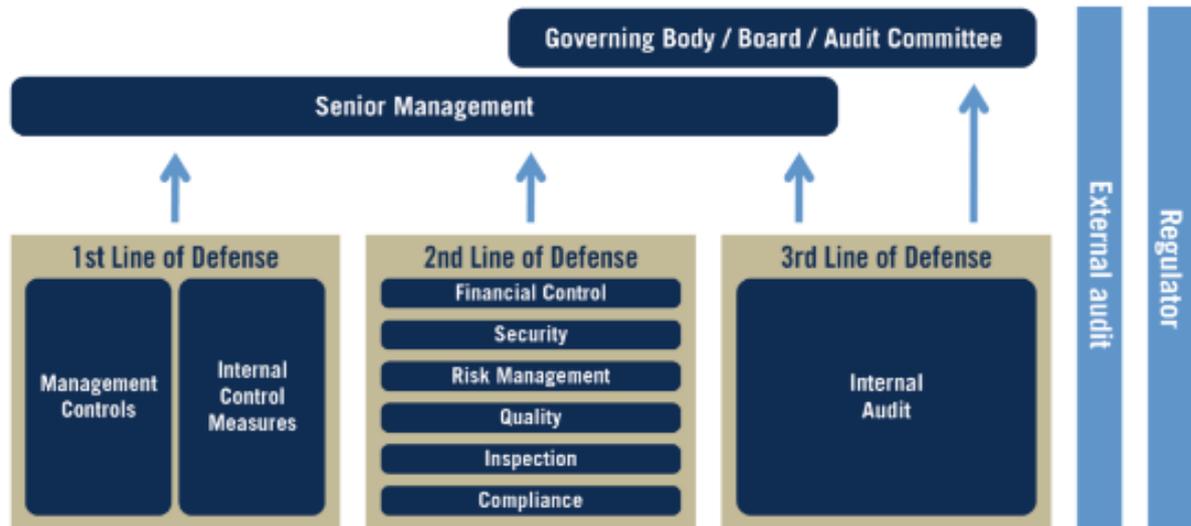


Figure 1.1: Example of the governance structures according to King III code of corporate governance

Source: Organisation for Economic Co-operation and Development (OECD). 2015. *G20/OECD Principles of Corporate Governance*. [Online]. Available WWW: <https://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf> [Accessed July 21, 2017].

There has been some research done on the customer perceptions of work performed by the internal audit function in the public sector in South Africa (Motubatse, 2014). Research to determine the effectiveness of the internal audit function by managers and auditors has been done in the public sector in the Saudi Arabian context (Alzeban & Gwilliam, 2014). A self-perception of internal audit within a corporate governance system has been performed for the European Union (EU) by Eulerich, Theis, Velte, and Stiglbauer (2013). Perception of managers on the effectiveness of the internal audit functions: a case study in TNB, has been performed in Singapore on a company as a reference point (Shamsuddin, Ab Mubin, Mod Zain, Mod Akil, & Abdul Aziz, 2015).

According to the IIA Australia paper on why the internal audit is important, they asserted that, As shown in the three Lines of Defense diagram, internal audit is a key component in the assurance structure of an organisation. Whilst all assurance mechanisms are important, co-ordination of the various assurance activities will provide a holistic assurance environment. Internal audit features prominently in that assurance environment. Internal Audit is a cornerstone of good corporate governance in organisations and can play an important role to improve management and accountability, both financial and non-

financial. Internal audit can be a pivotal activity to provide assurance to the board of directors, the audit committee, and the chief executive officer, and stakeholders that the organisation is governed effectively” (IIA Australia, 2017).

Some research has been done on the internal audit function and is still ongoing. With the advent of the global financial crisis and the implementation of governance standards such as the King III report on corporate governance, there is now a mandate that most firms and public institutions have a robust Internal Audit division. Most studies have not adequately correlated the cost of the internal audit function and addressed the economic value add or answered the question, “Is the internal audit just a compliance function?” There is uncertainty regarding the influence of the internal audit on organisations, and their perceptions of the internal audit in organisations have not been fully explored and understood, especially in the KwaZulu-Natal market. The research question of this study, is What are managers’ perception of the internal audit function in the KwaZulu-Natal organisational environment? The study thus focused on the perceptions of managers within the KZN region about the internal audit.

The classical decision theory is based on beliefs which shape perceptions, and since this theory closely relates to this study it was used for the research. (Sekaran, 2015)

1.2 FOCUS OF THE STUDY

This study was conducted at the University of KwaZulu-Natal Graduate School of Business and Leadership (UKZN GSB&L).

“The University of KwaZulu-Natal was formed on 1 January 2004 as a result of the merger between the University of Durban-Westville and the University of Natal. The new university brings together the rich histories of both the former Universities. The disciplines of the GSB&L relate to Business, Entrepreneurship and Leadership” (UKZN, 2017 <http://gsbl.ukzn.ac.za/Homepage.aspx>)

The focus of the study was on the UKZN GSB&L students’ perception of the internal audit function in their organisational environment. Since managers are from various backgrounds and organisations, their perceptions and beliefs naturally differ, and this study

will assist in understanding how management of organisations perceived the value derived from the internal audit functions in the context of UKZN students.

1.3 PROBLEM STATEMENT

There are several unanswered questions regarding the value of the internal audit function in organisations especially from a local KZN perspective, or how the public sector perceptions differ from those of the private sector, as evidenced in the short review of literature referred to in Section 1.1.1. Hence the perception of the MBA students of the UKZN GBS&L regarding the internal audit function in the KwaZulu-Natal organisational environment comprises the research problem. Is the internal audit function just a compliance exercise or a value add?

1.4 PURPOSE OF THE STUDY

The main objective of the study was to determine the perception of the internal audit function among the MBA students at UKZN GSB&L.

1.4.1 Objectives

- To identify the relationship between the resources and the level of the internal audit function in the KZN marketplace.
- To identify factors that affect the implementation of an internal audit function and where the internal audit function adds value to organisations.
- To identify the alignment of the internal audit function to the governance process of organisations.
- To assist organisations to better implement an internal function that can add “value” the organisations.

1.4.2 Research questions

- What are the relationships between resources and the level of the establishment of the internal audit function at organisations?
- What are the factors that affect the internal audit function and determine whether the internal audit function adds value? Is the internal audit function just a compliance exercise?

- What is the alignment of the corporate governance structures and the internal audit function?
- How will this study affect the way managers in KZN view and structure their internal audit departments?

1.5 EXPECTED OUTCOME OF THE STUDY

The study will assist in understanding the perceptions of MBA students at UKZN GSB&L regarding the internal audit function in the KwaZulu-Natal organisational environment. These findings will not only assist organisations to structure their internal audit functions but will also change the way managers look at their internal audit functions. Further, the findings may be used by different provinces for other functions to understand how their decisions impact the effectiveness of internal audit function.

1.6 DELIMITATIONS/SCOPE OF THE STUDY

This study only focused on the students at the UKZN GSB&L with respect to their perception of the internal audit function. It is important to bear in mind that most of the students are based in KwaZulu-Natal.

1.7 LIMITATIONS/ANTICIPATED SHORTCOMINGS

Limitations are facts out of the control of the researcher, i.e. they cannot be controlled by the researcher. Such factors can place restrictions on the methodology of the study or the conclusions reached by the researcher. These limitations can include shortcomings, conditions and factors that influence the study. Limitations that inhibit the results should be mentioned (Sekaran, 2013).

This study did not cover the entire country and was not aimed at any one particular industry. At the outset, it was unclear whether the study would obtain an even mix of public and private sector organisations. The students who participated in the study represented various age groups, genders, educational levels and varied years of work experience. For these reasons, they did not share the same view about the same subject.

1.8 ASSUMPTIONS

The researcher assumed that managers had a certain level of internal audit function knowledge and corporate governance knowledge. Secondly, it was assumed that respondents would have some sort of formal education.

1.9 CONCLUSION

The entire business and corporate governance landscape changed after the Enron issue in America and the 2009 recession. This research study focused on how the internal audit function is perceived by MBA students at UKZN GSB&L. This first chapter has presented an overview of the study with the motivation for the study, a complete description of the problem statement, the focus of the study as well as the aim and objectives of the study. The research methodology was briefly touched on along with the limitations of the study. The following chapter reviews the available literature on the various objectives that have been covered on the subject.

THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1 INTRODUCTION

The focus of the research was the perceptions of students at the UKZN GSB&L regarding the internal audit function in the KwaZulu-Natal organisational environment.

In order to achieve the study objective, multiple sources of literature were reviewed. These included Google Scholar and Emerald Insight which were used to search for relevant literature, using “Managers’ perception of Internal Audit” as the key words in the search criteria. Based on the above, this yielded certain articles that were then selected for review for the study. Articles and journals were scanned for relevance.

After a critical analysis of the literature reviewed, significant contributions, gaps and major flaws were identified – all of which denoted that there is a need for research and more contribution to be extended to gain more knowledge in the area.

2.2 THE THEORETICAL REVIEW

The basis used for selecting the literature for the review for this study is the classical decision theory. This is a theory that originated in the 20th century. The theory is based around instrument rationality which concerns itself with how agents can accomplish their goals in light of their beliefs. Three fundamental concepts that the theory uses are concepts of outcomes, conditions and actions. There are three conditions under which decisions are made:

- Certainty (there is certainty on outcomes of actions)
- Risk (probabilities are understood although outcomes are uncertain)
- Uncertainty (likelihood of outcomes are unknown). (Li, 2009).

According to Li (2008), decision making is a normal part of how human humans function. Decisions of varying importance are made every day, and therefore the idea that decision making can be a rather difficult action is unfathomable. According to Li there many that empirical studies have shown that most individuals in organisations are very poor at making decisions. Therefore, people began to focus more attention on understanding how to make the right decision. (Li, 2009)

As stated, this study focused on managers' perception of the internal audit function in the KwaZulu-Natal organisational environment. The classical decision theory was used in the study as the theory is based on beliefs which shape perceptions.

2.3 EMPIRICAL REVIEW

Internal audit as defined by the Institute of Internal Auditors UK,

“What is internal audit? The role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively” (IIA UK, 2016<https://www.iaa.org.uk/about-us/what-is-internal-audit/> ,).

2.3.1 Resources level and the internal audit function

In this current economic climate of slow growth as reported on the 3rd March 2017 by Statistics South Africa, economic growth for the 2016 year was framed at a meagre 0.6%. This is a far cry from the 6% that the National Growth Plan of the Government of South Africa targeted. This means that entities in South Africa have to compete with strained resources and need to know where to target them. In addition, this means that support functions that are not directly linked to the everyday function in business may not get the allocation of resources they need.

According to the Institute of Internal Auditors UK (IIA UK, 2016), as the guiding framework for the analyses of the study, the objective of the internal audit is defined as:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined Approach to evaluate and improve the effectiveness of risk management, control, and governance processes” (IIA UK, 2016 ,<https://www.iaa.org.uk/about-us/what-is-internal-audit/>).

2.3.1.1 What are the resources needed to fund structures in the business

“Human, financial, physical, and knowledge factors that provide a firm the means to perform its business processes” (Businessdictionary.com, 2017).

A firm has to balance these resources and allocate them in a responsible and correct manner. In the current global context, post 2009 worldwide recession, there is a bigger focus on how to ensure profitability while deriving maximum value from business resources may extend beyond financial reporting and governance to adding overall value to the organisation.(Nidumolu,Prahalad and Pershad, 2009)

2.3.1.2 Resource allocation and the internal audit function

According to PricewaterhouseCoopers (2003), when a strategic framework established by primary stakeholders (that is the audit committee and senior management) enables an internal audit function to better contribute to the governance of the organisation that it functions in, it results in fixing and addressing internal control issues and environmental resources management (ERM) issues. When an organisation has a strategic framework in place, the organisation will be best positioned to make clear the outline of the organisation, the organisational structure, the way of working or the working practices, resourcing models, mission of the internal audit function, and how communications should be handled for the internal audit function (PwC, 2003).

Studies by Alzeban and Gwillam (2014) focused on the relationship between the size of the internal audit function and the quality of the internal audit work and found positive linkages between the two. This means larger internal audit functions have produced better quality internal audit work.

According to the national treasury of South Africa, of the budget allocated to assurance – Sixty-five percent of the annual assurance (including both internal and external auditing) and risk management budget is allocated to internal auditing. Inadequate allocation was, however, indicated as a primary concern influencing the effectiveness of internal audit function. This is also typical of the size of the internal audit budgets that form the bulk of the assurance budgets of organisations. In South Africa the Public sector that is mentioned in the above quote is the biggest spenders in the country on internal audit according to the National Treasury. (RSA, 2014).

According to Deloitte (2013) article on the changing role of the internal audit they asserted. In many businesses Internal audit departments, the audit committee is charged with the approval the assurance budget which includes the internal audit budget. This is

based on management's recommendation and approval. The audit committee should assess whether internal audit:

- Has shown to be effectively using the available resources on hand
- That the internal audit function is appropriately staffed and funded to meet all expectations meant for them both of the business and audit committee.

Internal Audit function has the right balance and mix of skills to achieve its set objectives and manage on an ongoing basis identify and address current and emerging risks.(Deloitte, 2013).

In their 2006 journal article, Zain, Subramaniam and Stewart noted, that a "positive" relationship exists between internal auditors' evaluation of the internal audits contribution to the annual financial statement audits and internal audit function characteristics. These characteristic's include the size of the internal audit function, the prior experience of staff in auditing team, the time available for the audit assignments and the closeness of the internal audits function's relationship with the external assurance providers. The results of their studies indicate that more effective audit committees and well-resourced internal audit units tend to be positively associated with the internal auditors' assessment of their contribution to the external audit" (Zain *et al.*, 2006).

Audit committee's should consider the resources dedicated to the internal audit function and whether these enable internal audit to deliver on its audit plan. Particular attention should be paid to this in times of organisational change and restructuring. This means that the audit committee should be proactive in ensuring that the internal audit function staffing matches the current changes that may occur in the business. This means that the internal audit is part of the business and should be restructured with the business needs and abilities to sustain an effective audit function. (KPMG, 2016)

The study by Arean and Azzone identified organisational drivers of internal audit effectiveness to identify the main indicators of internal auditing effectiveness. They found that the effectiveness of internal auditing is determined by the many characteristics of the internal audit function. These characteristics include the relationships between internal auditing, other auditing activities and processes and the entire assurance function activities and processes. They observed that the internal assurance and audit function is of a higher quality with the appropriate ratios of audit staff and when the auditing management have

the right credentials and qualifications (e.g. of qualifications IIA accredited, CA(SA) etc.). (Arena and Azzone 2009)

According to Louwe, Geiger and Pany (1999), internal audit arrangements can be put into the following five categories. This is based on the business needs or financial level other considerations such as (volume of work legislation etc.). An organisation may not choose to have an in-house internal audit function or one at all if it does not have the resources. Organisations consider one of the 5 types of internal arrangements are for an internal audit function normally:

- i) Not outsourced, done in-house.
- ii) Outsourced to an external audit or other than the one that performed the company's external audits.
- iii) Outsourced to its own external auditor which performed management functions.
- iv) Outsourced to its own external audit to same personnel used for the internal and external audits.
- v) Outsourced to its own external auditor with different personnel used for the internal and external audits”(Louwe *et al.*, 1999).

With the above in mind Selim and Yiannakas (2000), in their article published in the International Journal of Auditing, proposed that although not a new phenomenon, outsourcing is occurring on a much wider scale and is now encompassing numerous traditionally in-house activities. They said that it can be argued whether outsourcing the internal audit function is occurring on a grand scale, and this topic is open to debate. Their paper reported the results of research they had performed in the UK public and private sectors on the issue of outsourcing the internal audit. The authors believed that a great amount of reluctance could be evident among organisations especially around the decision whether the internal audit function should be outsourced. Their suspicions were found to be true by the findings of their research which indicated that organisations do outsource certain functions. Organisations can trust the provision of a wide range of services such as maintenance, security, their information technology hardware and software department to outside service providers, but there is a reluctance to consider outsourcing the internal audit function (Selim & Yiannakas, 2000).

2.3.2 The factors that affect the internal audit function

Factors that affect an internal audit are numerous as each internal audit is tailored to the needs of the business. However, there are many generic factors that affect the internal audit function, namely the type of business (business complexity); the human resources element; the economy (in a bad economy, do we cut resources to the internal audit function?); and lastly, the location of the business. (Selim & Yiannakas, 2000)

2.3.2.1 Complexity of an organisation

According to the book, *Organisation Complexity*, various entities can have multiple potentials for developing more complexity. Something that is not particularly distinguished from things that are similar in nature is effective complexity that can nevertheless be remarkable for the complexity that may be achieved in the future (Mitleton-Kelly et al., 2003). This means that every organisation has an infinite amount of organisational complexity potential. This can be due to growth, political changes or fundamental changes in ownership and the way a business grows. To frame this means that an internal audit function has to be robust to keep up with these changes.

According to Schillemans and Van Twist (2016), the more complex an organisation the more challenging it is for auditors as the audit standards are based on “Management system principles”. Auditors usually perform activities which match procedures and rules in order to ascertain the level of compliance. Current in the world, there are organisations that have been integrated in technical risk assessments and therefore the question is whether their compliance audits are too risky? When governmental organisations are highly complex in and of themselves, does the internal auditor function use standards as the basis for judgements and assurance? “What is an adequate standard for an unpredictable world” is the question asked by the authors (Schillemans & Van Twist, 2016). The results of this research will help the internal auditor in meeting the obligations in performance.

The IIA Standard 2201 the on planning, performance and consideration standards states:

“This says that in planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance

- The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level
- The adequacy and effectiveness of the activity's risk management and control processes compared to a relevant control framework or model
- The opportunities for making significant improvements to the activity's risk management and control processes”.

The standard, as can be seen, makes an internal auditor consider the organisation audited not just blindly and not just to have a ‘one size fits all’ methodology for the internal audit work that has to be done.

2.3.2.2 Lack of skilled resources to staff an internal audit function

According to the Southern Institute of Government Auditors (SAIGA, 2006) in their Position Paper asserts that the adoption in the public sectors of the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA) and other related regulations have effected a huge move away from administration to management and performance management. The new legislation seeks to make the public sector accountability to new levels. Highly specialized skills are needed to implement these pieces of legislation. The Public sector entities (including SOE’s) now prepare annual financial statements; implement international accounting standards specifically developed for the public sector (Generally Recognized Accounting Practices – GRAP). These entities have to manage according to predetermined, measurable objectives and report on their performance. The PFMA and MFMA also state that risk assessments be carried out routinely, and operate sophisticated governance structures such as internal audit functions and audit committees. There is a lack of the skills needed and training can not meet the current needs of SAIGA entities. (SAIGA, 2006).

Hofmeyer and Buckland (cited by Rasool, 2012) asserted that in South Africa Skills shortages are the results of the several complex interplay’s of socio-political and economic factors. Although South Africa’s new democracy in 1994, the “new” regime inherited a divided education and training system .This education and training system comprised fifteen education departments the apartheid government established along racial and regional lines. Super-structural chaos was produced by the apartheid education and training system. This system wasted funds, created inefficiency and very poor graduate outputs. This is now hightended by the current situation. South Africa faces today .It is clear from

the literature research that South Africa is experiencing a high shortage of skills. This extends to all sectors such as the audit profession (Rasool, 2012). This is made only worse by factors like growing inequality, low educational standards, the current stagnant economy and emigration.

In their study of the Skills Supply and Demand in South Africa Labour Market Intelligence Partnership Project, the authors found the education level and skill base of the labour force is lower than that of many other productive economies. Of the employed population, 20% has a tertiary qualification, 32% has completed secondary education, and close to half of the workforce do not have a grade 12 certificate. Sixty percent of the unemployed has less than a grade 12 certificate. This translates to 11.75 million of the labour force with less than a grade 12 certificate. This lead to a demand mismatch examines the shape and trajectory being followed by the economy, the types of jobs being created, and the skills set and expectations of the working-age population. A structural mismatch between labour demand and supply is the most significant type in the South African context, in that the economy and labour market show a demand for high-skilled workers, but there is a surplus of low-skilled worker This basically alluded to the fact that there is labour but that not much skilled labour is available. The skills mix in South Africa may be too skewed.(Reddy, Bhorat, Powell, Visser, & Arends, 2016)..

2.3.2.3 Key changes of the internal audit function

According to PwC (2003), a strategic internal assurance plan plots the way forward and helps develop and plan the firm's risk assessment. The plan is more than a point-in-time risk assessment. The strategic internal assurance plan then does not just act as a current risk assessment for that point in time. The plan lays out what the value proposition of the internal audit function will be, the auditees and stakeholders (both internal and external that it serves) and the "values", both monetary and operational that are to be created in the present and future. The strategic internal plan maps out the operational work and planning needed to achieve both management responsibilities and key objectives of the organisation (PwC, 2003). This has indicated the move away from the previous "cyclical way" of an internal audit to a more "risk-based" methodology that is now widely accepted in the internal audit function. There is also an integrated strategic risk-based thinking to the internal audit function.

According to Shamsuddin *et al.* (2015), there has been a move from an internal audit to a continuous way of performing auditing, which entails recognising issues or problems in critical processes before they occur. Therefore, evaluating KPIs (key performance indicators) is also a risk assessment method performed for an organisation to measure, identify and categorise any risk to the organisation. There are three requisite steps in the risk management process, with requisite one being to define how much risk is acceptable and what steps are being performed to lower the risk of the organisation. The second step required is to formulate what actions should be taken to address the risks and the third and last step is to evaluate whether risks need to be shared, accepted or controlled (Shamsuddin *et al.*, 2015). There is a difference in Procedures that could be taken to add value and protect an organisation and approaches (mentioned previously) that are methodical but do not address the task of protecting and adding value. This can now help the internal audit function identify any manipulations of records in financial reporting and most importantly, fraud. It can be said that not only should internal audit staff be experts in the field of audit, they should also continuously be adding to their knowledge bases on stands and new technologies to be very effective in their task.

According to Louwe *et al.* (1999), The public accounting profession is in the process of attempting to redefine what the profession is and does. This is done in part by expanding the types of services provided by the profession. This expansion of services has raised questions as to whether public accounting profession can maintain their independence and yet provide an ever-increasing array of other types of services to audit clients. In their study Lowe and company address financial statement users' perceptions related to public accounting firms performing internal auditing outsourcing activities. They found there to be a link of negative perceptions especially independence perceptions of accounting firms and their outsourced internal audit perceptions. (Louwe *et al.*, 1999). This means that the independence of the accounting firms will be further regulated and independence further scrutinised of services provided by these firms.

2.3.2.4 How does the internal audit function influence its environment after the 2008 worldwide recession

Citing a survey called IIA Gain Knowledge Report 2009, the IIA Dallas chapter asserted that: Auditors worldwide are refocusing their audit practices to reflect a rapidly new and dynamic economic climate. In this survey they found “A third of organizations in the survey say the downturn is down turn is affecting the focus of their work, with the risk of fraud representing the main area receiving extra attention. Half of the respondents feel that budget cuts across their organization would damage its control environment and its ability to achieve business outcomes this year. The survey said auditors should be reviewing what their organization is doing to maintain its control coverage, but the majority (58%) have no plans to do any work on this risk” This was the start of the profession looking inward and also an acceptance that a worldwide recession like that of 2008 changes the profession. Fewer budgets to perform work leads to new ways of approaching an audit. (IIA Dallas, 2009).

According to Rupsys (2009), It has taken long time for the Internal audit function to gain independence and to gain the rightful recognition of its status in a corporate Governance structure globally. This was done by the internal audit independence empowered by dual reporting lines—administrative and functional, with a direct channel to the board of directors. This was not the norm in Eastern Europe where their study took place. It was instead a common practice for the audit function’s reporting lines to be limited to the CEO or even auditors. This is showing the global trend for independence post 2009 (Rupsys, 2009).

According to Lin and company (2011) found that the internal audit function (IAF) influences the environment it operates in at least three fundamental ways. “First, extant academic research provides evidence that an IAF improves financial reporting quality. Secondly, the IAF is viewed as one of the four cornerstones of corporate governance, thus having a positive influence on governance quality. Lastly an IAF’s impact may extend beyond financial reporting and governance to adding overall value to the organization” Again this is asserting post 2009 recession the importance of internal audit (Lin et al., 2011).

Results of Muqattash’s (2013) study showed that there is a very positive relationship between the independence of the internal audit function and the objectivity of the internal

auditors. This indicated that the internal auditors' objectivity is affected by the degree of independence of the internal audit activity.

According to Rupsys (2009) the perceptions and expectations of business in the former Soviet Republics is not as mature as in Western countries. the same is true of internal auditing. The perceptions and expectations of internal audit functions area is so different when compared to the more mature countries. For example, audit stakeholders—especially the former soviet generation see internal Auditors as revisionist who represent the Soviet system of audit and control base that threaten independence or objectivity. While this holds true to the former Soviet Bloc, parallels can be drawn with South Africa as post-apartheid South Africa is as old as the former Soviet Bloc. Where perceptions can be differ for past and post-apartheid views of the internal audit function (Rupsys, 2009).

2.3.3 The alignment of the corporate governance structures and the internal audit function

2.3.3.1 King III and the alignment of the internal audit function

In an article about the Biggest Corporate failure Enron, the Economist (2002) magazine asserted that the core reason of the audit failures lay with a the business relationships that are fraught with conflicts of interest and ludicrous incentives. There is a difference of what went on and what should have went on. This meant in theory, a company's auditors are appointed independently by its shareholders, to whom they report. In practice, they are chosen by the management who run the organisation, this often meant internal auditors and audit often become beholden to the management of the organisation. Accounting firms frequently sell consulting services to their audit clients; external auditors may be hired to senior management positions or as internal auditors. It has become far too easy to play on an individual audit partner's fear of losing a lucrative audit assignment. Against such a background, it is little wonder that the quality of the audit often suffers. ”(Economist, 2002)

With this in mind, major changes began to take place in the corporate governance standards and legal amendments. In South Africa, there are two primary drivers of the structure of the audit committee, namely the King III and the JSE rules for listed entities. For the literature review, the researcher focused more on King III, The Corporate Laws Amendment Act (CLAA) and The new Companies Act, 71 of 2008 (the Act) as the

principles from these guidelines and legislation are the most widely accepted and used principles and transcend both the public and private sector. The King Committee on governance issued the King Report on Governance for South Africa – 2009 (the “Report”) and the King Code of Governance Principles – 2009 (the “Code”), together referred to as “King III” on 1 September 2009. The PFMA and MFMA in the public sector have used the King III principles.”(Economist, 2002).

King III code of corporate governance should apply to all entities (public and private) regardless of the manner and form of incorporation or establishment. The principles, if adhered to, will result in any entity practicing good governance. For that reason, the Code does not address the application of its principles and each entity will have to consider the approach that best suits its size and complexity. Application of the Code may however be mandated by law or regulation (e.g JSE Limited Listings Requirements). (Jackson, 2016).

The King III code asks that an organisation adopt the combined assurance model. This means that executive managers who run the organisation, the internal providers of assurance (such as internal audit and enterprise risk management) and external providers of assurance (such as external audit or outsourced consultants) are key players in providing assurance to the organisations board’s. A combined assurance model effectively co-ordinates the efforts of management and internal and external assurance providers. The combined assurance model fosters the collaboration of assurance providers. A combined assurance model therefore develops a shared and impactful view of the organization’s risk profile. The combined assurance model aims to be the antidote to “assurance fatigue” which can result from an uncoordinated assurance approach. King III tasks the audit committee with the responsibility of monitoring the appropriateness of the company’s combined assurance model and ensuring that significant risks facing the company are adequately addressed. (Jackson, 2016).

To illustrate the acceptable governance structures in South African I will use the King III and companies act to lay out what the structures should be .According to the King III report on corporate governance and companies Act, S 94 mandates that An independent audit committee fulfils a vital role in corporate governance and is required for most organisations. The audit committee is vital to, among other things, ensure the integrity of integrated reporting and internal financial controls and identify and manage financial risks.

For audit committees carry out their mandate to their maximum capabilities, the audit committee has to be suitably qualified and skilled. They need to be skilled and qualified to perform their responsibilities of coordinating the activities of the entire assurance function (Internal audit, External Audit, ERM) and oversight integrated reporting. The board and management of any company, regardless of size, should be fully committed to the goal of supporting and maintaining an effective audit committee:

1. An audit committee responsibilities has now been expanded beyond the normal financial reporting (including reports) to now also perform the sustainability reporting function,
2. The constitution, size and sufficiency and appropriateness of the skills set of the audit committee may need to be reconsidered by the board,
3. An assessment of in-house skills and the qualifications/track record of external assurance providers should be performed,
4. Audit committees are to coordinate the utilisation of appropriate assurance providers in the assurance model to provide assurance on the identified risks,
5. Increased time and resource commitments are needed for audit committees, management and internal audit to adequately review internal financial controls (Jackson, 2016).

King III further states the need for summarised information in the Annual financial statements, about the assessment of internal financial controls and effectiveness. In the integrated report an assessment risk areas of where the audit committee has to applied its mind in arriving at the most effective and efficient governance solutions for the organisation should be found. This is a unique solution and is tailed to every company and audit committee's .This is needed to ensure that they have the internal audit function has the appropriate blend of experience and skills in to discharge their responsibilities with skill and due care. (Jackson, 2016).

King III also states that an audit committee has the prime responsibility and has the last say decision-making ability regarding corporate governance assurance matters. The audit committee has a statutory responsibility in terms of the Companies Act ,King III and other acts(such as JSE, PFMA ,MFMA etc.) to steer corporate governance and provide guidance to the board of the organisation. There may be conflicts arising within the board should

differences of opinion arise regarding these matters over corporate governance matters. The board should devise a mechanism for resolving such differences of opinion” (PwC, 2017).

The following five principals should be addressed by the audit committee, according to the King III code of corporate governance:

1. It should be ensured that the audit committee have the appropriate blend of skills to discharge its responsibilities, specifically the skills required to oversee integrated reporting.
2. There is a process that has been approved by the board to allow the audit committee to get the opinion with specialists services where needed to assist the audit committee with the performance of its functions.
3. There has to be effective coordination and communication of the board’s oversight activities. This is done to ensure that the audit committee is informed of all actual, potential financial or significant and nonfinancial risks.
4. The Audit committee must ensure that the internal audit function has the appropriate skills and resources to deliver on the audit plan. This is regarding the review of internal financial controls.
5. The audit committee should ensure that a mechanism exist for resolving differences of opinion between the audit committee and the board regarding the audit committee’s statutory responsibilities should such differences arise. (Jackson, 2016).

The audit committee is a big role-player in the relationship with company auditors and approving various types of services provided by any outside assurance providers. The Corporate Laws Amendment Act (CLAA) created an obligation on widely held companies to appoint an audit committee and set out certain specified duties. The new Companies Act, 71 of 2008 (the Act), identified the audit committee as a statutory board committee that all public companies or state-owned companies, or other companies that have voluntarily decided to have an audit committee, shall have appointed by shareholders, not the Board of Directors. In the past the audit committee was a sub-committee of the Board. (PWC,2017)

2.3.3.2 Leadership and structure of the internal audit function

Regardless of the unimpeded views of an organisation (that is top-down) given from the executive management the audit committee, its internal audit function has made progress in assuming a part in risk management teams and will be so in the future. The 2010 IIA Global Internal Audit Survey (a component of the Common Body of Knowledge [CBOK] studies) it indicated that percent of internal audit activities around the world perform audits of enterprise risk management processes. Furthermore, 20% of respondents indicated that they believed performing such audits would become more prominent over the next five years (Sobel, 2011).

According to the Howarth whitepaper on making the internal audit more strategic, Internal audit will not anytime soon to become part of the organization's strategic leadership unless it takes steps to address the potential challenges. To change this view internal audit should start with changing the internal audit mandates. The board's and the management's expectations and perceptions of what internal audit is to clearly reposition the internal audit function as a critical risk management player. This will enable the internal audit function to respond to event-triggered risks with a process aligned with the organization's strategic objectives. This means rolling out the alignment between the ERM and internal audit (Howarth, 2014).

According to the Institute of Internal Auditors South Africa, the Chief Audit Executive (CAE) is the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. In this context, how the CAE goes about the communication of their roles and responsibilities and how they discharge their duties needs to be communicated to the rest of the organisation. There is evidence of the close relationship between audit committees and the head of the internal audit in a recent South African study conducted by Marx and Voogt (2010) among 30 large listed companies. This study was done among 30 of the top 40 listed stocks on the Johannesburg Stock Exchange. In their findings, 93.3% of chief audit committee chairs revealed that their organisations' chief audit executives (CAEs) report to the audit committee and 83.3% meet with the audit committee more than three times a year (Marx & Voogt, 2010).

2.4 ASSISTING ORGANISATIONS TO BETTER IMPLEMENT AN INTERNAL FUNCTION THAT CAN ADD “VALUE”

2.4.1.1 Expectation gap of what is expected of an internal audit

According to Liggio there is an audit expectation gap that is the difference between the levels of expected performance as envisioned by the independent accountant and by the users of financial statements .(Liggio, 1974). This means a gap between auditors’ existing duties and the perceived performance of these duties. It also relates to what an auditee and firm view as duties of the internal auditor and what the internal auditor actually does. This could lead to confusion about the value actually added by the internal audit function (Lélis, 2012). In this framework, the internal audit has become a value to this process as there is no clear owner interaction due to growth of organisations.

2.4.1.2 What is value according to stakeholder

In his study on perceived independence, Mathose (2013) P17 citing Bayhi (2012) stated:

“Internal auditing, and the value it provides to stakeholders, is rooted in independence and objectivity. As internal auditors become trusted business partners for their stakeholders, they must recognise conditions”.

Lélis (2012) further cited studies by Beckmerhagen, Berg, Karapetr-Ovic and Willborn (2004). Effective auditing can be described according to reliability of findings, added value, and client satisfaction, although it may be very difficult to measure added value (Lélis, 2012).

From their 2007 case study, Elliot, Dawson, and Edwards obtained insights from auditors and their clients and auditees of AWE Plc., a British Energy company on parts of the internal auditing activities to interrogate and understand the reasons for which internal auditing is sometimes perceived as not adding value to the company. The responses the authors received during their study indicated that the internal auditing process is very well known and generally perceived as necessary. “There was no agreement as to the benefits and added value generated by internal auditing”. This case study showed that one of the reasons for the low perceived effectiveness and added value related to the internal auditing process. The action resulting from an audit is that the audited management are informed what they are responsible for, indicating a weakness in the important interface between

auditors and auditees, which is essential for the implementation of improvements after the end of the audit process. Currently there is no coordinated plan that involves the auditor and the auditees. Internal auditing work stops at issuing an audit report and is therefore limited. Internal reports detect failures of control systems without generating corrections and improvements that could add value and improve the company's operations (Elliot *et al.*, 2007).

In the study done by Goodwin and Seow (2002), they found that auditors and directors perceive the existence of an internal audit function and strict enforcement of a corporate code of conduct to have a significant impact on the company's ability to strengthen controls, prevent and detect fraud and financial statement errors and enhance audit effectiveness (Goodwin & Seow, 2002). The value that was gleaned by companies was having a strong well-skilled audit and governance structures.

In the 2006 study by Sarens and De Beelde concluded that senior management wants internal audit function to compensate for the loss of control they experience resulting from increased organisational complexity. It seems that senior management expects internal audit to provide a role that is more of a supporting type in the improvement and monitoring of risk management and internal control. Management wants the internal audit function to monitor the corporate culture. Managements then expect the internal audit function to be an apprenticeship for future managers. In contrast the internal audit function expects senior management to be the primary drivers in the formalisation of the risk management systems. Internal audit always looks for senior management support, as this benefits their overall acceptance. Here again there is a difference in the expectations of senior management and internal audit. If there is such a wide gap, how can value be accurately gauged? This is a problem in measuring the values add. (Sarens & De Beelde, 2006).

A South African study done by Marx and Voogt in 2010, it was suggested that the internal audit adds value through improving the internal control and control compliance procedures within organisations by finding and reporting fraud both through detection techniques and whistleblowers. The study also suggested that the insourced internal audit function is more effective than outsourced internal audit functions. This study also revealed that chief audit committee chairs were extremely satisfied with the contribution that an internal audit makes to corporate governance (Marx, 2010).

2.5 CONCLUSION

2.5.1 Summary of major contributions of significant studies

An internal audit is mostly undertaken by organisations with significant resources and staffing. An internal audit is highly structured via the audit committee or a similar committee. In South Africa for example, 60% of the assurance budget can be used for the internal audit function. The strategic internal audit plan drives the internal audit function and has the most bearing on the internal audit function. This is where extent and timing are discussed. There has been a move from traditional audits to a more risk-based audit approach in internal auditing. This approach is widely accepted by executive management, audit bodies and academic institutions. The mandate of an internal audit is driven by executive management and could be better integrated to make the internal audit more strategic. It is hard to compare internal audit functions as their mandates and scopes differ. Various industries and audit professionals use various tools and techniques to enable the internal audit function.

No study compares the private sector's internal audit to that of the public sector and how they perceive the internal audit function. No comparisons exist on the resources used or their corporate governance structures to the internal audit function in which made it difficult for this study to draw comparisons. There is actually little work done to determine if the internal audit function is just a compliance exercise or whether it is adding value – and if it is adding value, what that perceived value is. Most companies that have an internal audit function spend a lot of money but none of the studies on internal auditing have determined whether there is any value being derived from these spends. With the financial crisis and austerity in the public sector, the role of the internal audit function is now questioned more than ever as it is a costly function.

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This study measured the perception of the internal audit function of the MBA students at UKZN GSB&L. This chapter details the research design, and contains an overview of the research problems and how the research problems were formulated. The chapter provides an account of the methodology used in the study and the background of the data collection instruments used. Surveys were used as the research instrument, in both hardcopy and electronic forms, and the chapter thus presents an overview of the strengths and limitations of surveys as well as the application of surveys. The methodology used to determine validity and reliability of data collected is discussed, and an overview is provided of the strengths and weaknesses of the population tested. The data analysis process that was used in this research is also discussed as well as the data storage methods used and the ethical measures applied. Finally, the chapter discusses how informed consent, anonymity and confidentiality were guaranteed and how privacy and deception were avoided.

3.1.1 Research aim and objectives

The aim of the study was to understand the perceptions of MBA students at UKZN GSB&L regarding the internal audit function.

The following were the objectives of the study:

- To identify the relationship between the resources and the level of the internal audit function in the KZN market space.
- To identify factors that affect the implementation an internal audit function and where the internal audit function adds value to organisations
- To identify the alignment if the internal audit function to the governance process of organisations.
- To assist organisations to better implement an internal function that can add “value” the organisations.

3.2 RESEARCH DESIGN

A research design can differ in numerous ways from one study to another, depending on who and what are being researched.

According to Mouton (2001), a research design can be described as a plan or a blueprint. This is an indicator of how the researcher intends conducting the research.

Sekaran (2013), on the other hand, stated that, research design is a more of a blueprint for the collective measurement and analysis of data. This is based on the research questions of the study.

And Given (2008) P 702 argued that,

“Quantitative research is the systematic empirical investigation of observable phenomena via statistical, mathematical or computational techniques”.

A quantitative research design was used for this research. This quantitative study comprised the perceptions of the MBA students at UKZN GSB&L regarding the internal audit function. The quantitative approach used by the researcher did not only explore factors such as resources allocated to the internal audit function but also the perceptions created by the internal audit function, i.e. how an internal audit is perceived by the students at the UKZN GSB&L. More specifically, this was an exploratory study as not much information is known about the situation at hand, i.e. the managers' perceptions of the internal audit function within the KZN region.

Sekaran (2013) defined an exploratory study as follows:

“An exploratory study is undertaken when not much is known about the situation at hand, or no information is available on how similar research issues have been solved in the past”.

The design chosen for this study was that of an exploratory research design. A control group was not utilised due to time and cost constraints. Variables were measured by using a questionnaire. The research was primarily quantitative and was measured on a Likert scale.

Sekaran (2013) also stated that the object of a descriptive study is to describe, and that this type of study is often designed to collect data that describes the characteristics of persons, events and situation.

The current study was also conducted as descriptive research. That is research in which the objective is to describe the characteristics of an existing phenomenon. The existing phenomenon in the current study is the Perception of the MBA students at UKZN GSB&L regarding the internal audit function.

3.3 SAMPLING PLAN AND DESIGN

According to Walliman (2011) A sampling plan has the following elements that is first selecting the type of sampling method to be used in the research, secondly is then defining the population and the sampling frame. Normally samples are selected from the population they represent, this due to the fact often it is impossible to test an entire population. Testing an entire population is virtually impossible due to limitations of resources (time, money manpower, etc). Walliman (2011)

Salkind (2000) added that to make certain that a sample is as representative of the population as possible, a good sampling plan is needed. This also ensures that results can be generalised for the population. According to the book, ‘Statistics for people who (think they) hate statistics’, when you select a sample it should be a sample that is as nearest to being representative of the entire population. Any observation you then could make regarding that sample should also be true for the population (Salkind, 2000).

According to Sekaran (2013), in probability sampling “the elements in the population are known”, with no chance or probability of being selected as sample subjects, whereas for nonprobability sampling “the elements do not have a known or predetermined chance” of being selected as a subject Probability sampling was used for the study as the elements in the population were known. Based on this, an initial analysis performed to ensure a high probability that the desired outcome may achieved. (Sekaran, 2013).

When attempting to use probability sampling, it sometimes arise that simple random sampling is often not practical due the difficulty or impossibility of obtaining a population list (sampling frame) among other information. To get an efficient sample

that is one that provides a given precision in a statistical sense (standard error of the mean or proportion) means using a smaller sample size. The Sekaran added that cluster sampling is where samples are gathered in groups or chunks of elements that ideally are natural aggregates of elements in the population. This means that for cluster sampling, the target population you use is first divided into clusters (Sekaran, 2013).

For this study, a cluster sampling was used as the target. The data collection was conducted based on a survey from the selected public sector offices that have UKZN second year MBAs in their offices.

Since the population of the sample size was relatively small, the researcher compared the UKZN GSB&L and the KZN region which has a large sample size. This was done to ensure a reasonable confidence level. Sampling is representative and a sample of less than 100% of the population has to be considered. A sample size of 80 was thus considered a valid sample size for the study.

A scientist needs to follow a scientific approach to research to help a researcher get to the truth about a subject of research. There are four perspectives to this, namely positivism, constructionism, critical realism and pragmatism.

The researcher followed positivism for this study. It can be said that some positivists believe that the goal of the research is to only describe phenomena and that one can directly observe and objectively measure.

According to Sekaran (2013), in a positivist view of the world, science research is seen as a way to get to the truth, that is:

- the positivist believes that there is an objective truth put there; and
- the positivist aims to understand the world well enough so that they can predict and control it (Sekaran, 2013).

In this study, deductive reasoning was used and scientific research was conducted, which are traits of positivists.

3.4 STUDY AREA

The study area was conducted in the KwaZulu-Natal region of South Africa. Both the public and private sector with the internal audit function were studied. The reason for choosing the KwaZulu-Natal region is that the researcher is based in the region as a professional who comes from an internal audit background and has the influence in the accounting and audit industry to facilitate research with the targeted managers in both the private and public sector. This study will contribute directly to helping organisations to determine where their internal audit currently fits in the region and how to better plan their resources accordingly.

3.5 TARGET POPULATION

A population of 80 MBA second year students was targeted, which comprised the entire class of both block release and part time students. They represented the KwaZulu-Natal region made up of both public and private sector individuals. The sample included both middle and executive managers coming from the private and public sectors. As there are more public sector organisations than private sector organisations in the KZN district, the researcher expected the sample to have a public sector sway. A confidence level of 95% was used and a margin error of 7% was used for this study.

Responses were received from 58 of the 80 that is 72.5% targeted students which was due to non-attendance or respondents not wanting to participate in the study.

3.6 RESEARCH INSTRUMENTS

A questionnaire that had to be self-completed was designed to address the investigative questions to which this study sought answers.

Questionnaires were the primary research instrument used. This was followed up with interviews if there were gaps after completion of questionnaires. The questionnaires used were in the form of a Likert-type scale (showing respondents' agreement or disagreement) by constructing questions with a five point scale where the lowest scale represented 'strongly disagree' and the highest scale represented 'strongly agree' (Likert, 1932). The questionnaires were structured in two parts: the first part comprised the demographic question regarding the respondents, and the second part contained items relating to the effectiveness of the internal audit and its determinants.

3.6.1 Survey instrument design considerations

It must be taken into consideration that self-administered surveys or questionnaires can have a very low response rate compared to the overall population. To counter this, a covering letter was provided with the questionnaire survey to give respondents a look into objectives of the study undertaken and to define to them and explain specific definitions that would provide respondents with an in-depth understanding and thus assist them to answer the questions. Further, to negate a low response rate, time was negotiated with the lecturer of the UKZN MBA second year students for the block release and part time classes to administer and receive the responses in the same day. It took respondents approximately 15 minutes to complete the questionnaire.

The questionnaire consisted of two sections:

- Section one obtained demographic information of importance such as gender, sector of their organisation (public or private), age, educational level and employment history.
- The second section was more information-seeking with questions relating to perceptions of the internal audit.

3.7 VALIDITY AND RELIABILITY

Various procedures were used to check the validity of findings and these are discussed in depth in the chapter with the results. Procedures that could be used included rich and thick descriptions to convey the findings, member checking, and triangulation. Clarifying any bias that the researcher might bring to the study, presenting negative or discrepant information, spending prolonged time in the field together with peer debriefing were also ensured.

3.7.1 Reliability

The coefficient alpha, also known Cronbach alpha, is widely accepted and very widely used in study statistics of testing a score of reliability in many life sciences studies. According to Morera and Stokes (2016), like most statistical tools, the Cronbach alpha requires that a number of assumptions are met. These include assumptions underlying the classical test theory and the following:

- Item responses form an unidimensional scale
- Error scores from the items are uncorrelated
- The items are essentially T-equivalent, meaning that the items' true scores differ by additive constants (Morera & Stokes, 2016).

Cronbach Alpha was used as a measure for this study.

3.7.2 Validity

According to Walliman (2011) P104,

”In order to be able to generalize the results beyond the confines of the experiment itself, the experiment should really reflect the situation in the real world – i.e. it should possess both internal validity (the extent to which the ideas about cause and effect are supported by the study) and external validity (the extent to which findings can be generalized to populations or to other settings)”.

Validity testing for this study us discussed in detail in Chapter 4.

3.8 DATA COLLECTION TECHNIQUES

The techniques of data collection involve purposeful selection of sites and persons for the study to be undertaken, i.e. a population that will best understand and answer the research problem. Hence it was deemed appropriate to select senior and middle managers for this study.

The four criteria that were taken into account:

- The place of research (KZN region);
- Who would form part of the interview (MBA students);
- What the person being interviewed does (how they interact with the internal audit function);
- The entire process of the internal audit function in the organisations of the managers.

The number of sites considered were only those of students in the UKZN GSB&L.

3.9 DATA ANALYSIS

The data to be analysed took place on two levels; a detailed step-by-step and a general level. Computer assistance for the quantitative research was utilised to analyse the data. For the qualitative data, a computer program called QuestionPro was used. Microsoft Excel was also used to interrogate the statistics.

The techniques of descriptive statistics (i.e. mean, variance and standard deviation) were used in the study. This was used for both the validity determined by calculation and reliability by the Cronbach alpha which uses the variance as an input.

A constraint that affected the calculations was the small population and low number of responses to the study.

3.10 ETHICAL ISSUES

Prior to undertaking the study, ethical issues were considered. Ethical issues were considered at certain points during the study, i.e. at the beginning of the proposed study, the collecting of data stage for the study, when analysing and reporting data of the study and the sharing and sorting of the data. The researcher obtained a gatekeepers letter, signed by the UKZN Registrar's office confirming that the researcher could conduct the research with students at the UKZN GSB&L. An informed letter consent was also attached to the questionnaires to ensure consent from participants to use the research and detailing to the reason for the research and the participants' right to withdraw at any stage if they so wished.

As this study is a perception study does not use a respondent's organisation information that can be tracked back to an individual firm. Even from an answered questionnaire the information is general in nature and not be traced back to a single firm. All information is aggregated and provides a holistic view of the UKZN GSB student's perception only.

3.11 CONCEPTUAL FRAMEWORKS AND MEASUREMENT OF VARIABLES

The dependent variable of the study was the internal audit function. The independent variables were the resources, value added by an internal audit and the governance structures. The relationship was between resources and the internal audit function, factors

that affect the implementation of the internal audit function and factors affecting the internal audit function from adding value. The governance structures around the internal audit function and strategy of the internal audit function and how they align to management's strategy were measured in the interviews in the KwaZulu-Natal region.

The conceptual framework above represents the interactions between the dependent and independent variables.

- Resources and the internal audit function
- Factors that affect the implementation of the internal audit function
- The internal audit function, governance process and strategic thinking
- The an internal audit function on its own without the other factors affecting it

3.12 CONCLUSION

In this chapter, the research method employed in obtaining the results of the study has been discussed. This included a discussion on the basic research design, the sampling and the data collection as well as the statistical techniques used to analyse the results. This was a statistical study that attempted to describe the likely characteristics of the population by making inferences from the sample characteristics. This study used a cluster sample of MBA students from the part time and block release classes. The degree with which the research question crystallized required an exploratory study designed to glean a comprehensive understanding of the perceptions of MBA students at the UKZN's GSB&L regarding the internal audit. This statistical study attempted to describe the likely characteristics of the population by making inferences from the sample characteristics. The study used a stratified random sample of residential consumers based on a stratified geographical sampling frame.

RESEARCH FINDINGS: ANALYSIS, AND DISCUSSION

4.1 INTRODUCTION

As stated in the previous chapter, the main attempt of this study was to investigate the perceptions of the MBA students at UKZN GSB&L regarding the internal audit function. This chapter presents the analysis and discussions of the research findings obtained from the questionnaires. It reports the investigation of results obtained from MBA students at the UKZN GSB&L who completed the questionnaire. The discussion begins with the questionnaires' response rate followed by the descriptive statistics of the related questions, such as the period of their employment, and the sector they worked in. The results of the reliability analysis and the regression assumption test done are also reported and finally the results of hypothesis testing are presented.

4.2 DESCRIPTIVE STATISTICS

4.2.1 Response rate

The questionnaires were distributed to second year MBA students of the UKZN GSB&L. Eighty questionnaires were distributed both to the second year MBA block release students and the part time students, from which 58 completed questionnaires were collected (providing a response rate of 72.50%). This shows a good response rate from the students.

4.2.2 Respondents' profile

Table 4.1 below indicates the general findings regarding the period of employment and the sector in which respondents worked. Being MBA students, all the respondents had a tertiary education. Most of the respondents had been employed in their roles for more than ten years, that is 22 of the respondents (36.27%) and 24.13% had been employed between five and ten years. This indicates the students/respondents know their organisations well and are entrenched in the operations of their organisations.

Table 4.1: Period of employment

Demographic questions		Responses	
		Frequency	Percentage
Employment with current employer	Greater than 10 years	21	36.20%
	6 to 10 years	14	24.13%
	4 to 5 years	5	8.62%
	2 to 3 years	10	17.24%
	0 to 1 years	8	13.81%
	Total	58	100.00%
Sector of employment	Public	33	56.90%
	Private	35	43.10%
	Total	58	100.00%
Education level	Bachelor's Degree	23	39.66%
	Honours	31	53.45%
	Masters	3	5.17%
	Doctorate	1	1.72%
		58	100.00%

In terms of the level of educational background, most students who participated in the study had an honour's degree (53, 45%), followed by 39, 66% with a bachelor's degree. This shows the majority of the respondents were educated/or professional and could contribute value to their work and contribute to the discussion of the subject of this study.

Most of the respondents (56.90%) were from the public sector. This meant that there would be a majority public sector slant on the responses received.

4.3 RELIABILITY AND VALIDITY ANALYSIS

4.3.1 Reliability analysis

To measure the consistency of the questionnaire, particularly the Likert-type scale, reliability analysis was essential in reflecting the overall reliability of constructs being measured. To carry out the reliability analysis, Cronbach's Alpha (α) is the most common measure of scale reliability. This reference discusses the acceptability of the Cronbach alpha coefficient. It takes into account the number of items, and construct validity. In any case the alpha coefficient of 0.6 could be acceptable (Loewenthal, 2001).

Table 4.2: Cronbach alpha

	Objective 1	Objective 2	Objective 3	Objective 4	Overall
Cronbach alpha	0.46	0.9	0.7	0.63	0.67

As can be seen from Table 4.2, the acceptability of the reliability was good except for objective 1. Cronbach's alpha is the measure of the reliability and consistency of the sampling instrument and examine whether all the data were measuring the same underlying construct. For the alpha result that is 0.46 it is acceptable but weak and particularly in a qualitative study. This is due to two overriding factors, one being the diversity of the population as they were not judging the same internal audit function resources and thus many of the responses were of a neutral nature. This skew could be also caused by the neutral responses due to the diversity of population. (Loewenthal, 2001)

Table 4.3: Descriptive statistics

Objective 1	Q1	Q2	Q3		
Mean	2.05	2.40	2.67		
Variance	0.45	0.74	0.92		
SD	0.67	0.86	0.96		
Objective 2	Q1	Q2	Q3	Q4	Q5
Mean	2.23	2.28	2.43	2.42	2.23
Variance	0.91	0.97	0.75	0.94	0.68
SD	0.96	0.98	0.86	0.97	0.82
Objective 3	Q1	Q2	Q3	Q4	
Mean	2.23	2.02	2.55	2.40	
Variance	0.91	0.85	1.21	1.01	
SD	0.96	0.92	1.10	1.00	
Objective 4	Q1	Q2	Q3	Q4	Q5
Mean	1.83	2.72	2.60	2.27	2.67
Variance	0.71	1.24	1.01	0.96	1.06
SD	0.84	1.11	1.00	0.98	1.03

Table 4.3 shows the descriptive statistics, N (the number of respondents) is 58, mean, standard deviation, median and range which is 5 with regard to the measuring instrument (statements on a Likert scale). The lower the mean value, the more the respondents agreed with the statement. For instance, Q1 of objective 1 because the mean is 2,05.

The individual results from the statements in the research instrument are shown in individual graphs. Table 4.3 above shows the central tendency and distribution of the statement in question. It contains findings on statements where a strongly agree, agree,

neutral/don't know, disagree or strongly disagree response was required. Implications of this table are discussed in detail under paragraph 4.4.

4.3.2 Validity testing

As the questionnaire was to be used for the first time and was not based on an existing tested instrument, validity testing was performed.

Convergent validity and divergent validity are ways to assess the construct validity of a measurement procedure (Campbell & Fiske, 1959). Convergent validity could help to establish construct validity when the researcher uses two different measurement procedures and research methods (e.g. participant observation and a survey). Divergent validity helps to establish construct validity by demonstrating the construct the researcher is interested in (e.g. anger).

Table 4.4: Objective 1

Objective 1			
	<i>q1</i>	<i>q2</i>	<i>q3</i>
q1	1.00		
q2	0.20	1.00	
q3	0.14	0.32	1.00

As can be seen in the above, there were no problems in Objective 1 regarding convergent validity.

Table 4.5: Objective 2

Objective 2					
	<i>q1</i>	<i>q2</i>	<i>q3</i>	<i>q4</i>	<i>q5</i>
q1	1.00				
q2	0.27	1.00			
q3	0.28	0.62	1.00		
q4	0.33	0.54	0.58	1.00	
q5	0.38	0.47	0.42	0.65	1.00

As can be seen in the above, there were no problems in Objective 2 convergent regarding validity.

Table 4.6: Objective 3

Objective 3				
	<i>q1</i>	<i>q2</i>	<i>q3</i>	<i>q4</i>
q1	1.00			
q2	0.204	1.00		
q3	0.337	0.34	1.00	
q4	0.372	0.46	0.51	1.00

As can be seen in the above, there were no problems in Objective 3 regarding convergent validity.

Table 4.7: Objective 4

Objective 4					
	<i>q1</i>	<i>q2</i>	<i>q3</i>	<i>q4</i>	<i>q5</i>
q1	1.00				
q2	0.15	1.00			
q3	0.36	0.12	1.00		
q4	0.50	0.08	0.51	1.00	
q5	0.11	-0.01	0.47	0.37	1.00

As can be seen in the above, there were no problems in Objective 4 regarding convergent validity.

Convergent validity helps to establish construct validity when you use two different **measurement procedures** and **research methods** (e.g. participant observation and a survey) in one's research to collect data about a **construct** (e.g. anger, depression, motivation, task performance). The extent to which convergent validity has been demonstrated is established by the **strength of the relationship** between the **scores** that are obtained from the **two different** measurement procedures and research methods that the researcher has used to collect data about the construct of interest. The idea is that if these scores **converge, despite the fact** that two different measurement procedures and research methods have been used, then it must be the **same construct** that has been measured (Sekaran, 2013).

As illustrated in Table 4.4 to 4.7, there were no problems with the convergences for Objectives 1 to 4 for convergent validity.

Table 4.8: Divergent validity

Divergent validity

	1q1	1q2	1q3	2q1	2q2	2q3	2q4	2q5	3q1	3q2	3q3	3q4	4q1	4q2	4q3	4q4	4q5
1q1	1.00																
1q2	0.20	1.00															
1q3	0.14	0.32	1.00														
2q1	0.26	0.19	-0.01	1.00													
2q2	0.15	0.34	0.40	0.27	1.00												
2q3	0.25	0.31	0.52	0.28	0.62	1.00											
2q4	0.22	0.40	0.45	0.33	0.54	0.58	1.00										
2q5	0.27	0.50	0.25	0.38	0.47	0.42	0.65	1.00									
3q1	0.26	0.19	-0.01	1.00	0.27	0.28	0.33	0.38	1.00								
3q2	0.23	0.60	0.31	0.20	0.38	0.41	0.49	0.63	0.20	1.00							
3q3	0.21	0.49	0.32	0.34	0.26	0.40	0.44	0.35	0.34	0.34	1.00						
3q4	0.17	0.39	0.42	0.37	0.41	0.49	0.53	0.43	0.37	0.46	0.51	1.00					
4q1	0.43	0.23	0.06	0.61	0.20	0.15	0.29	0.30	0.61	0.20	0.24	0.34	1.00				
4q2	0.29	0.19	0.04	-0.13	0.07	-0.08	-0.03	0.09	-0.13	0.09	-0.25	0.03	0.15	1.00			
4q3	0.35	0.44	0.42	0.10	0.30	0.49	0.41	0.40	0.10	0.19	0.44	0.41	0.36	0.12	1.00		
4q4	0.25	0.51	0.31	0.40	0.40	0.39	0.64	0.71	0.40	0.44	0.43	0.60	0.50	0.08	0.51	1.00	
4q5	0.20	0.30	0.44	0.25	0.44	0.61	0.51	0.39	0.25	0.34	0.40	0.47	0.11	-0.01	0.47	0.37	1.00

Unlike convergent validity, where the researcher is interested in the extent to which the scores converge (i.e. to see a strong relationship between the two scores on the same construct), with divergent validity, the researcher is interested in the extent to which the scores diverge (i.e. to see little or no relationship between the two scores from the two constructs) (Sekaran, 2013).

As can be seen, for Objective 4, Questions 1 to 4, there was some divergence that was negative – this was due to the direction of the questions.

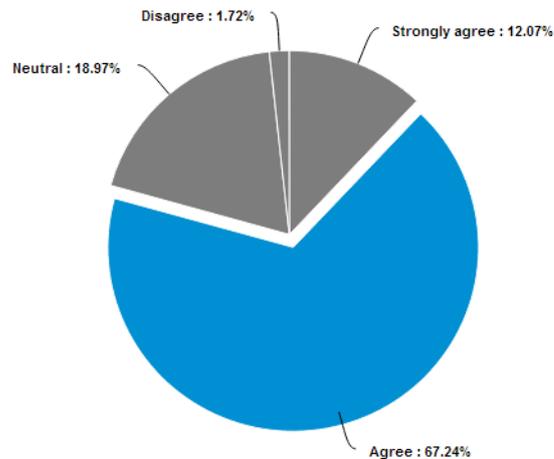
4.4 GRAPHICAL PRESENTATION OF RESEARCH RESULTS

In this section the results per objectives according to individual statements in the measuring instruments are discussed and analysed.

4.4.1 Objective 1 (Resources level and the internal audit function)

Objective 1 was made up of three questions grouped and discussed as follows.

Do you think there is a relationship between resources and the level of the establishment of the Internal audit function on organisations?



Graph 4.1: Is there a relationship between resources and level of establishment of the internal audit function in the organisation?

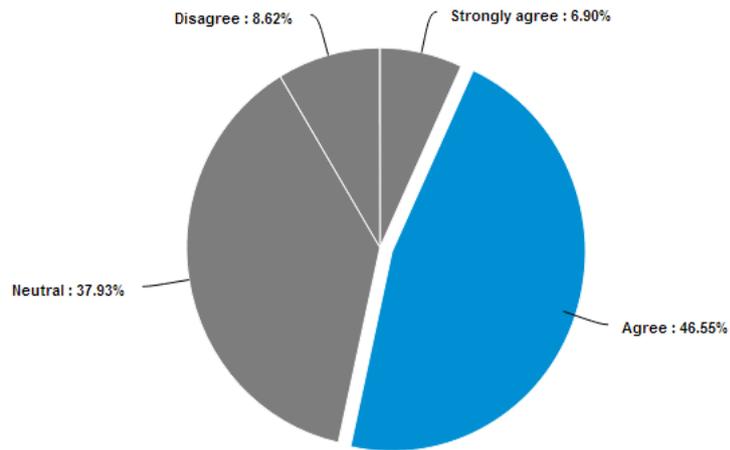
According to Louwe, Geiger and Pany (1999), internal audit arrangements can be put into the following five categories. This is based on the business needs or financial level other considerations such as (volume of work legislation etc.). An organisation may not choose to have an in-house internal audit function or one at all if it does not have the resources. Organisation’s consider one of the 5 types of internal arrangements are for an internal audit:

- i) Not outsourced, done in-house.
- ii) Outsourced to an external audit or other than the one that performed the company's external audits.
- iii) Outsourced to its own external auditor which performed management functions.
- iv) Outsourced to its own external audit to same personnel used for the internal and external audits. (Louwe, 1999)

Outsourced to its own external auditor with different personnel used for the internal and external audits”(Louwe et al., 1999)Studies by Alzeban and Gwillam (2014) focused on the relationship between the size of the internal audit function and the quality of the internal audit work and found positive linkages between the two. This means larger internal audit functions have produced better quality internal audit work. (Alzeban , 2014)

In terms of resource levels and the establishment of the internal audit function, 79.49% (12.07 strongly agreeing) agreed with the statement. This by default means that respondents know their internal audit function exists. However, 18.97% were neutral or did not know whether there was a link between resources and the internal audit and this is indicative of a knowledge gap or the diversity of the respondents' backgrounds.

Is your internal audit function well funded? (i.e adequate resources to perform well)

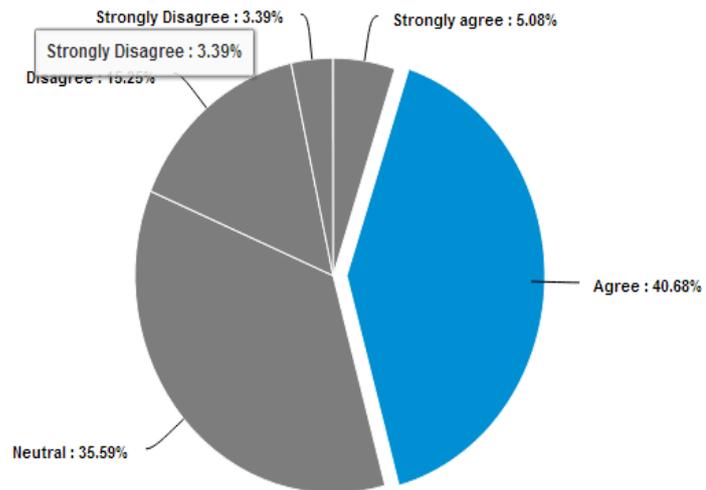


Graph 4.2: Is your internal audit function well funded?

Studies by Alzeban and Gwillam (2014) focused on the relationship between the size of the internal audit function and the quality of the internal audit work and found positive linkages between the two. This means larger internal audit functions have produced better quality internal audit work. (Alzeban , 2014).

For the question, ‘Is your internal audit function well funded?’, most respondents (53.45%, with 6.90% strongly agreeing) agreed that their internal audit was well funded. This would indicate that their organisations value audit and ensure that the internal audit function has the resources to perform well. However, 37.93 % were neutral or did not know whether their internal audit function is well funded and this is indicative of a knowledge gap or the diversity of the respondents' backgrounds. This is worrying as this percentage was more than a quarter of the respondents.

Is your internal audit function well staffed?



Graph 4.3: Is your internal audit function well staffed?

According to Hough (2011), building core competencies and capabilities can give firms a competitive advantage, with staff being a cornerstone of that and thus contributing to gaining competitive advantage. With this in mind it is with the right staff levels and quality a competitive advantage could be gained from a well-staffed internal audit function.

For the question, 'Is your internal audit function well funded?', most respondents (45.76%, with 5.08% strongly agreeing) agreed that their internal audit function was well staffed. This would indicate that their organisations value audits and ensure that the internal audit function has the human resources to perform well. Staffing therefore is not an indication for them of poor internal audit performance. However, 35.59% were neutral or did not know whether their internal audit function is well staffed and this indicative is of a knowledge gap or the diversity of the respondents' backgrounds. This is worrying as this percentage was more than a quarter of respondents.

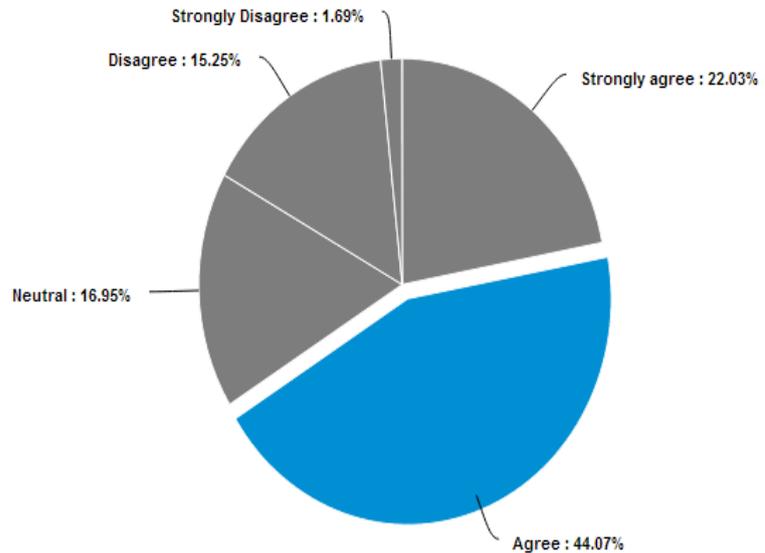
Summary of objective 1 (Resources level and the internal audit function) research findings

Most respondents did not seem to think their internal audit lacks resources as the majority knew of their audit function and a link therefore exists between resource levels and the existence of the internal audit function. There was a positive link of staff and resources in respondents' internal audit function as respondents indicated that internal audit functions were well staffed and had resourced to perform their duties.

4.4.2 Objective 2 (The factors that affect the internal audit function)

Objective 2 was made up of five questions grouped and discussed as follows.

In your organisation is internal audit function implemented well?

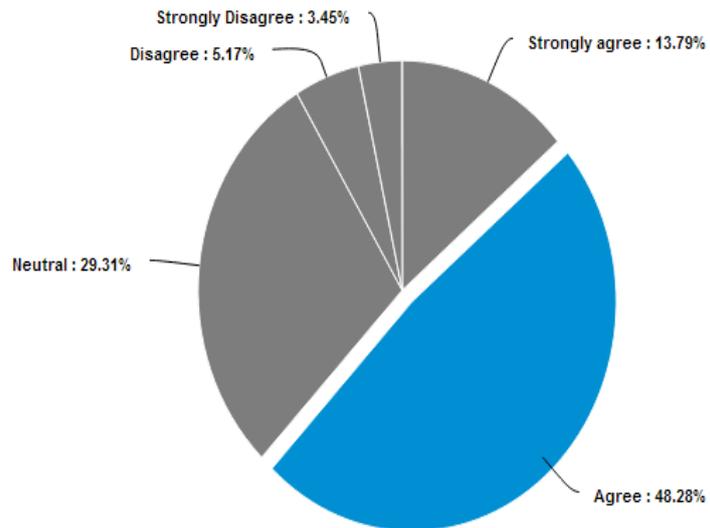


Graph 4.4: Is your internal audit function implemented well?

According to Deloitte a leading big “4” worldwide accounting firm the key activities of a current and well implemented internal audit functions should align with the expectations of the audit committee and management. The internal audit function should be flexible enough to meet the ever evolving business strategies and needs of the organization it services. (Deloitte, 2013)

The majority of the respondents (66.1%, with 22.03% strongly agreeing) agreed that the internal audit function in their organisations is well implemented. This means they view their internal audit function as working well. Again we see the trend of 16.95% of the respondents who were neutral or did not know if their internal audit function was implemented well in their organisations and this is indicative of a knowledge gap or the diversity of the respondents’ backgrounds.

Is the staff of the internal audit function of your organisation well trained and qualified?

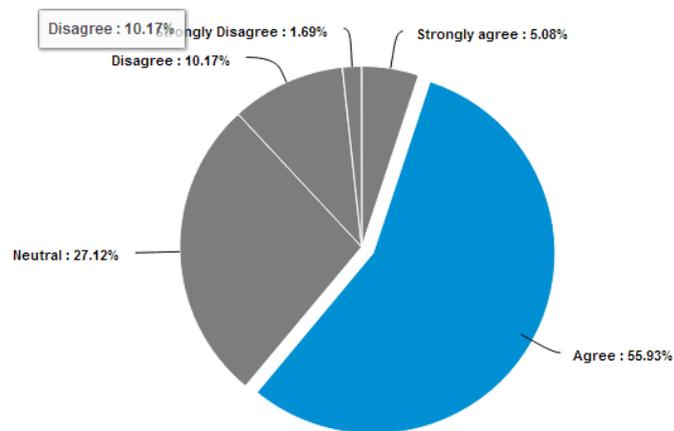


Graph 4.5: Are staff of the internal audit function well trained and qualified?

According to Hough (2011), Staff learning from their initial performances, and developing methods to perform the activity consistently well at marketable and profitable costs, sets the stage to transform the ability into a tried-and-true business acquiring competence or capability. This means applies to all staff in the organisation including the internal audit staff can transform the internal audit function. (Hough ,2011)

It is noted that majority of the respondents (62.07%, with 13.79% strongly agreeing) agreed that their internal audit function staff are well trained and qualified. This is positive in a country that is short of skills and where shortages of skilled audit staff exist, according to organisations like the Southern Institute of Government Auditors .Over a quarter of respondents (29.31%) did not know or were neutral to the statement. This could be indicative of a knowledge gap or the diversity of the respondents' backgrounds.

Does the Internal audit function work well within your organisation with the staff they are auditing?

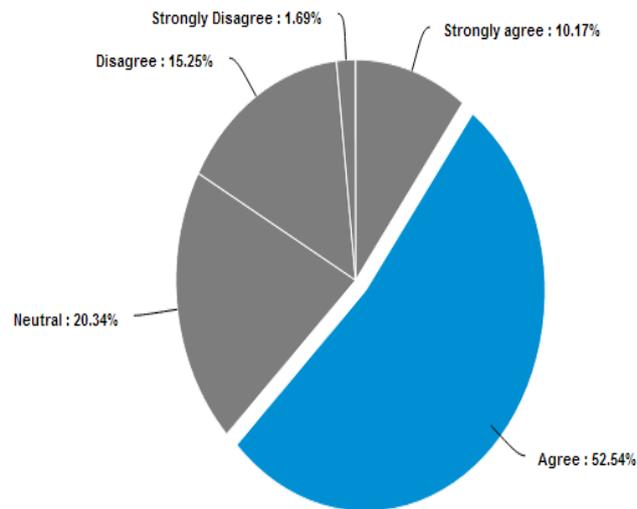


Graph 4.6: Does the internal audit function work well with the staff being audited?

According to PwC (2003), a strategic internal assurance plan plots the way forward and helps develop and plan the firms risk assessment. The plan is more than a point-in-time risk assessment. The strategic internal assurance plan then acts not just as a current risk assessment for that point in time. The plan then lays out what the value proposition of the internal audit function will be, the auditees and stakeholders (both internal and external that it serves) and the “values” (both monetary and operational) that are to be created in the present and future. The strategic internal plan maps out the operational work and planning needed to achieve both management responsibilities and key objectives of the organisation (PwC, 2003). This indicated the move away from previous “cyclical way” of internal audit to a more “risk-based” methodology that is now widely accepted in the internal audit function. There is also an integrated strategic risk-based thinking to the internal audit function.

It is noted that the majority of the respondents (62.07%, with 13.79% strongly agreeing) agreed that their internal audit function is working well within their organisations. This seems to indicate a stratification of the internal audit function’s integration and work within their organisations. Over a quarter of respondents (27.12%) did not know or were neutral to the statement. This could be indicative of a knowledge gap or the diversity of the respondents’ backgrounds.

Is your internal audit function well equipped with tools (techniques) to enable them to perform their duties?

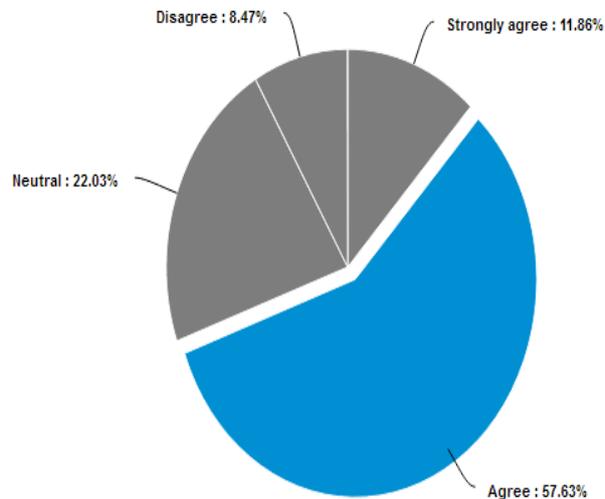


Graph 4.7: Is the internal audit function well equipped to enable good performance?

According to Rao (2016), successful strategy execution is dependent on capable and efficient members of the organisation in the following dimension, Acquiring adequate Resources and Staff: Appropriate infrastructure, adequate equipment and a talented, can-do team with the needed experience, technical skills, and intellectual capital. (Rao ,2016)

It is noted that the majority of the respondents (62.71%, with 10.17% strongly agreeing) agreed that their internal audit function has the tools to perform their mandates. This seems to indicate a stratification that the internal audit functions can discharge their duties to required standards and competencies as they do not lack the tools to perform their work. Just under a fifth of respondents (20.34%) did not know or were neutral to the statement. This could be indicative of a knowledge gap or the diversity of the respondents' backgrounds.

Is your internal audit function dated?(that is from the reporting to the audit standards used , areas that they audit)



Graph 4.8: Is the internal audit function dated?

According to Deloitte (2013), by adopting an integrated oversight approach, the credibility and relevance of outputs increase, which serves as a greater opportunity to be seen as an essential participant in major projects from the outset. This means adopting an integrated approach that encompasses the ever-changing landscape of new standards, social media. To add the old adage, it is a case of adapt or die. Deloitte (2013)

It is noted that the majority of the respondents (69.5%, with 11.87% strongly agreeing) agreed that their internal audit function is not dated. This seems to indicate a stratification of the internal audit function discharging their duties to using the latest standards and competency to perform their work. Just over a fifth of respondents (22.03%) did not know or were neutral to the statement. This could be indicative of a knowledge gap or the diversity of the respondents' backgrounds.

Summary of objective 2 (The factors that affect the internal audit function) research findings

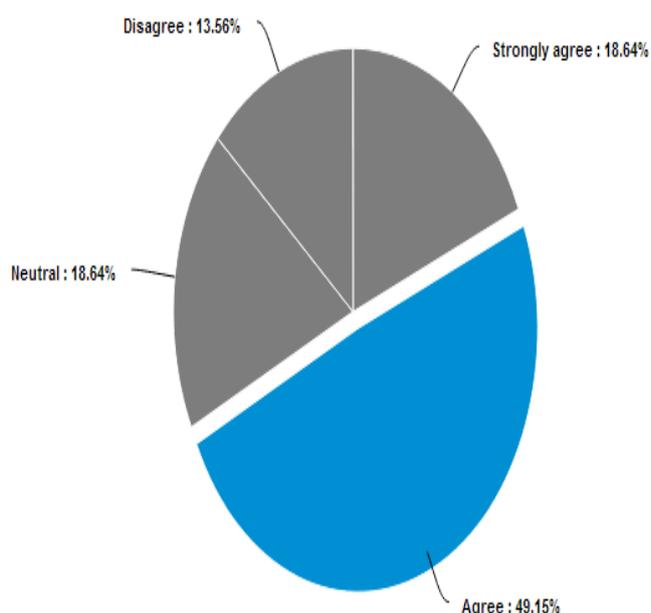
There seem to be no factors that negatively impact respondents' internal audit function. Most of the respondents seemed to think that their internal audit factors, such as staffing qualification, training, areas audited and tools the audit functions possess are not factors

that would stop the internal audit functions in their organisations from working well. They also indicated a satisfaction that their internal audit functions are well implemented.

4.4.3 Objective 3 (The alignment of the corporate governance structures and the internal audit)

Objective 3 was made up of four questions grouped and discussed as follows.

In your organisation is there alignment of the corporate governance structures and the internal audit function?



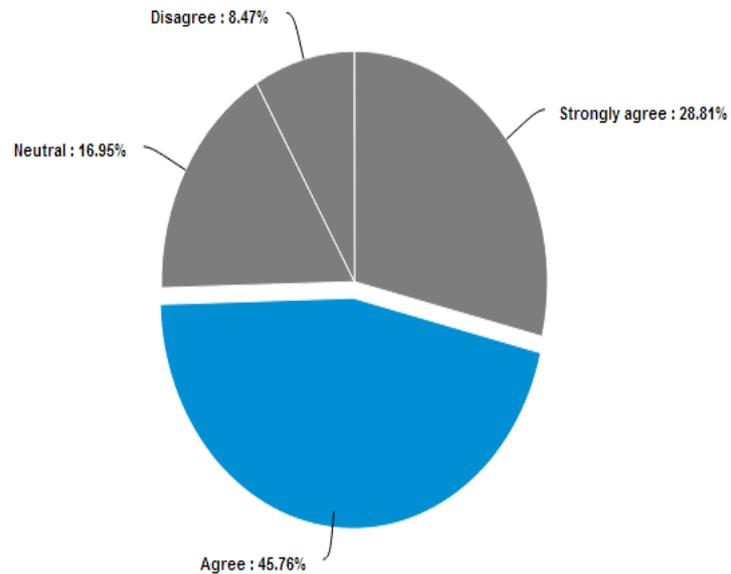
Graph 4.9: Are corporate governance structures and the internal audit aligned?

The King III, The Corporate Laws Amendment Act (CLAA) and The new Companies Act, 71 of 2008 (the Act) drive corporate governance. The principles from these guidelines and legislation are the most widely accepted and used principles and transcend both the public and private sector. These acts are intended to align the corporate governance structures (PwC, 2017). This is the framework on which most organisations base their corporate governance structures and they align them to these acts. (Jakson,2016)

It is noted that the majority of the respondents (66.79%, with 18.64% strongly agreeing) agreed that their internal audit function and corporate governance structures are aligned. This indicates an alignment of the internal audit function and governance structures and committees in their organisations. Just under a fifth of respondents (18.64%) did not know

or were neutral to the statement. This could be indicative of a knowledge gap or the diversity of the respondents' backgrounds.

Does your organisation have an audit committee?

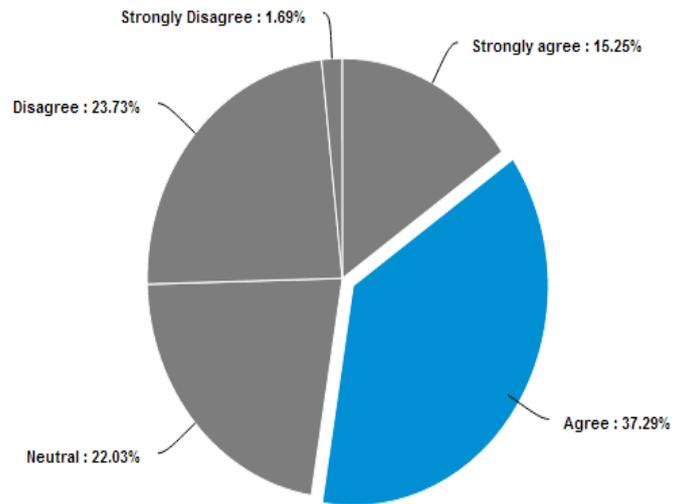


Graph 4.10: Does the organisation have an audit committee?

According to the King III report on corporate governance. An independent audit committee fulfils a vital role in corporate governance. The audit committee is vital to, among other things, ensure the integrity of integrated reporting and internal financial controls and identify and manage financial risks. (PwC, 2017).

It is noted that the majority of the respondents (74.57%, with 18.64% strongly agreeing) agreed that their organisation has an audit committee. This seems to indicate knowledge of the existence of the audit committee. Just under a fifth of respondents (16.76%) did not know or were neutral to the statement. This could be indicative of a knowledge gap or the diversity of the respondents' backgrounds.

Is your internal audit function independent from your organisations executive management?

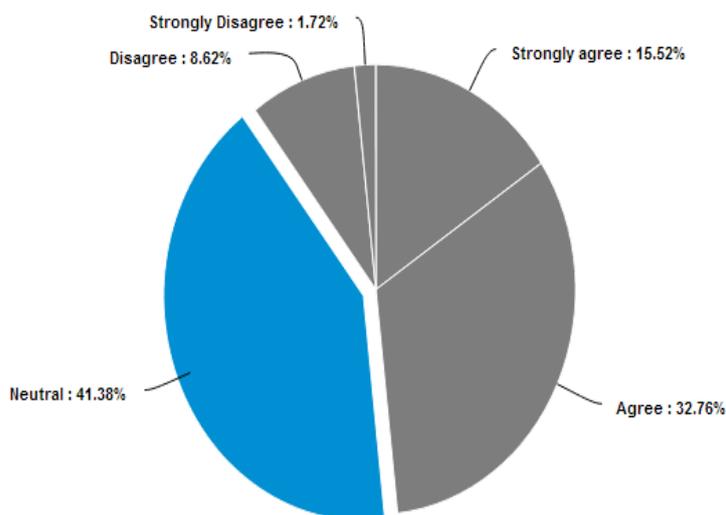


Graph 4.11: Is the internal audit function independent of the executive management?

According to the chapter three of King III code of corporate governance mandates as follows, that an independent audit committee fulfils a vital role in corporate governance. The audit committee is vital to, among other things, ensure the integrity of integrated reporting and internal financial controls and identify and manage financial risks. (Jackson, 2016)

It is noted that a slight majority of the respondents (52.54%, with 15.25% strongly agreeing) agreed that their organisation’s internal audit function is independent. This indicates that respondents only just believe that their internal audit function is independent from executive management. This is worrying as independence is a cornerstone of the internal audit process. Just over a fifth of respondents (22.03%) did not know or were neutral to the statement. This could be indicative of a knowledge gap or the diversity of the respondents’ backgrounds.

Is your Chief Internal Auditor effectively discharging his or hers duties?



Graph 4.12: Does the chief internal auditor discharge their duties effectively?

According to the Institute of Internal Auditors South Africa, the Chief Audit Executive (CAE) is the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. In this context, how the CAE goes about the communication of their roles and responsibilities and how they discharge their duties needs to be communicated to the rest of the organisation. There is evidence of the close relationship between audit committees and the head of the internal audit in a recent South African study conducted by Marx and Voogt (2010) among 30 large listed companies. This study was done among 30 of the top 40 listed stocks on the Johannesburg Stock Exchange. In their findings, 93.3% of chief audit committee chairs revealed that their organisations' chief audit executives (CAEs) report to the audit committee and 83.3% meet with the audit committee more than three times a year (Marx & Voogt, 2010).

It is noted that a slight majority of the respondents (48.28%, with 15.25% strongly agreeing) agreed that their organisation's chief internal auditor is discharging their duties effectively. This indicates that respondents only just believe this key member of their organisation is performing their duties. This is worrying as chief internal audit is a cornerstone of the internal audit process. Just over a two fifths of respondents (41.38%) did not know or were neutral to the statement. This could be indicative of a knowledge gap or

the diversity of the respondents' backgrounds. This could mean CAE's are to them not spelling out clearly what they do.

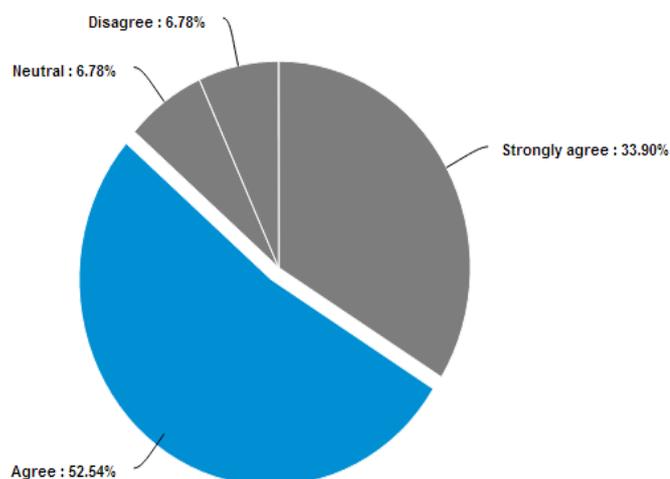
Summary of Objective 3 (The alignment of the corporate governance structures and the internal audit) research findings

There seems to be alignment of the corporate governance structures and the internal audit function. Most of the respondents seemed to think there is alignment of audit and governance structures, and that their organisations have an audit committee. There is, however, some concern among respondents about the independence of the internal audit function and executive management and the effectiveness of the chief internal auditor to discharge their duties.

4.4.4 Objective 4 (To assist the organisation to better implement an internal function that can add “value” to the organisation)

Objective 4 was made up of five questions grouped and discussed as follows.

Does the internal audit function adds value?



Graph 4.13: Does the internal audit function add value?

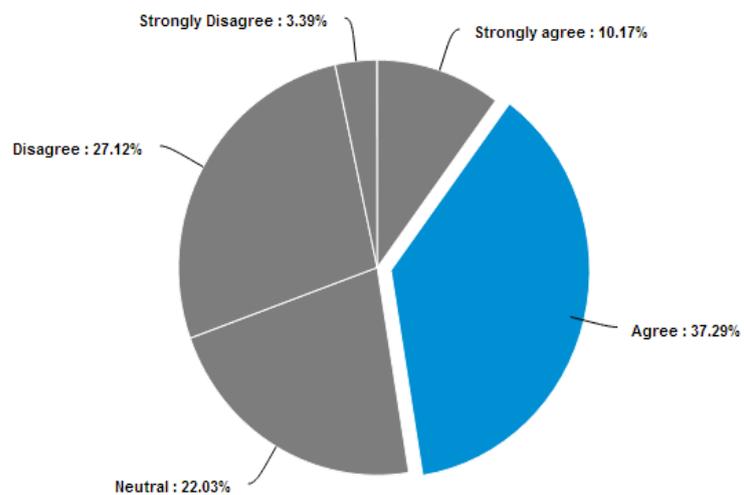
The concept of value creation says nothing about profit, according to in their Management issue paper on maximizing shareholders (Grant Thornton, 2017).

According to Smallwood, in his 2010 article in the Harvard Business Review, company valuation or market value has two parts: tangible value, like cash flow and earnings, and

intangible value. Intangible value is based on the market's perception of whether a company is likely to keep its promises about future growth (Smallwood, 2010).

It is noted that a slight majority of the respondents (86.44%, with 33.9% strongly agreeing) agreed that their organisation's internal audit function adds value. This means the internal audit is viewed as value adding. Just 6% and 6.78% of respondents respectively did not know or were neutral to the statement. This could be indicative of a knowledge gap or the diversity of the respondents' backgrounds.

Is the internal audit function just a compliance exercise?



Graph 4.14: Is the internal audit function just a compliance exercise?

Internal audit is defined by the Institute of Internal Auditors UK (IIA UK, 2016) as follows:

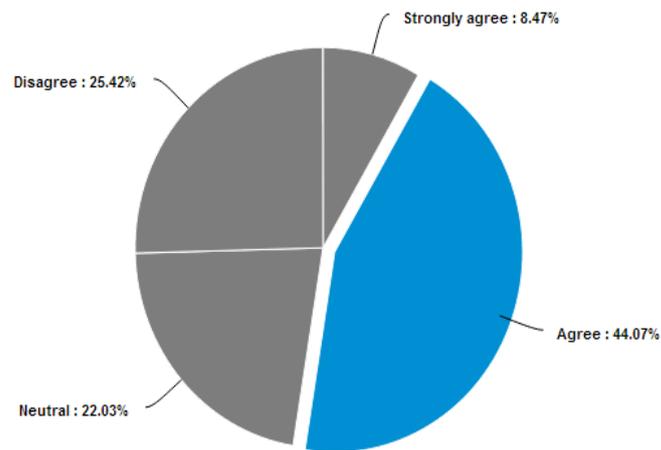
“Internal audit provides independent assurance that an organization's risk management, governance and internal control processes are operating effectively”.

It must be noted that nowhere is the word compliance used or inferred.

It is noted that the majority of the respondents (47.46%, with 10.17% strongly agreeing) agreed that their internal audit function is a compliance exercise. This seems that respondents believe that the internal audit is just for compliance. This is worrying as the internal audit function is a cornerstone of the corporate governance process. Does this mean that people just comply and do not ask why the internal audit process is occurring?

Internal audit is supposed to be risk based and about organisation improvement, not just compliance. Just over a fifth of respondents (22.03%) did not know or were neutral to the statement. This could be indicative of a knowledge gap or the diversity of the respondents' backgrounds.

Does your internal audit function add monetary value to your organisation?

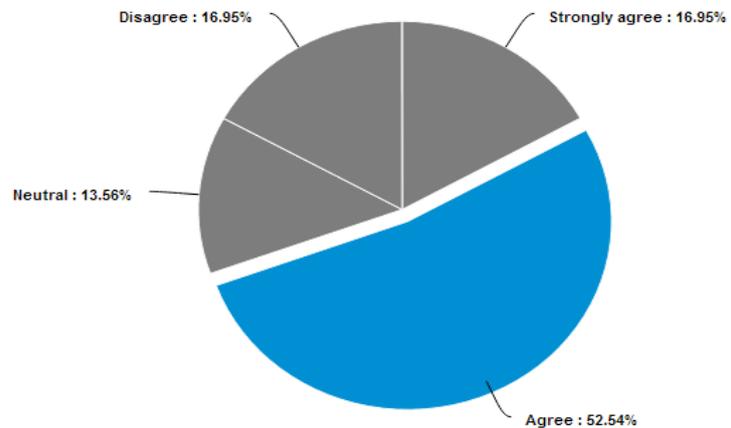


Graph 4.15: Does the internal audit function add monetary value to the organisation?

Lélis (2012, citing studies by Beckmerhagen, Berg, Karapetr-ovic & Willborn, 2004) stated that Effective auditing could defined as describing work that adds to reliability of findings, adds value, and client satisfaction. The audit wrk it may be very difficult to measure added value especially monetart vale as value is subjective. (Lélis ,2012)

It is noted that the majority of the respondents (52.54%, with 8.47% strongly agreeing) agreed that their internal audit function adds monetary value. Just over a fifth of respondents (22.03%) did not know or were neutral to the statement. This could be indicative of a knowledge gap or the diversity of the respondents' backgrounds.

Does your internal audit function lead to a better control environment?

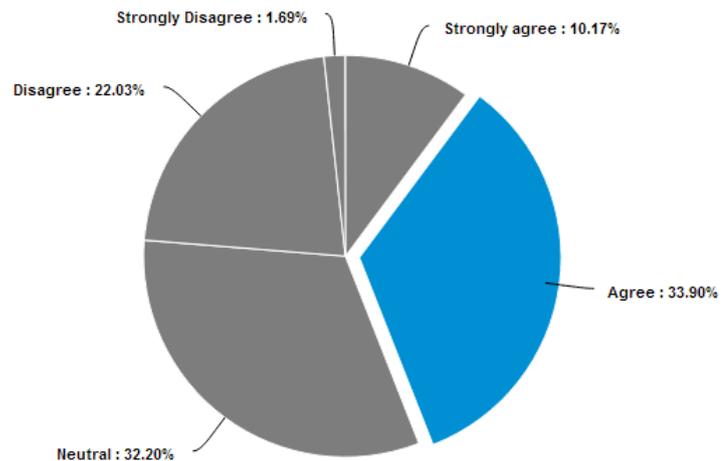


Graph 4.16: Does the internal audit function lead to better control environment?

In their 2006 study, Sarens and De Beelde concluded that senior management wants internal audit function to compensate for the loss of control they experience resulting from increased organisational complexity. It seems that senior management expects internal audit to provide a role that is more of a supporting type in the improvement and monitoring of risk management and internal control. Management wants the internal audit function to monitor the corporate culture. Managements then expects the internal audit function to be an apprenticeship for future managers. In contrast the internal audit function expects senior management to be the primary drivers in the formalisation of the risk management systems. Internal audit always looks for senior management support, as this benefits their overall acceptance.. (Sarens & De Beelde, 2006).

It is noted that the majority of the respondents (69.49%, with 16.95% strongly agreeing) agreed that their internal audit function leads to a better control environment. Just 13.56% did not know or were neutral to the statement. This could be indicative of a knowledge gap or the diversity of the respondents' backgrounds.

Are recommendation from your organisations internal audit function always implemented ?



Graph 4.17: Are recommendations from the internal audit always implemented?

According to Deloitte (2013), In assessing the effectiveness of internal audit, it is critical that the audit committee understands how internal audit relates to, and interacts with, other risk or assurance-related functions, such as enterprise risk management, legal, security, health and safety, loss prevention, and compliance. This is normally in the form of their recommendations and their application of such findings.(Deloitte ,2013)

It is noted that the majority of the respondents (44.07%, with 10.17% strongly agreeing) agreed that their internal audit function recommendations are always implemented. This seems that respondents feel that this internal audit recommendation may not be implemented. This is worrying as the internal audit function is a cornerstone of the corporate governance process and recommendations are supposed to improve the organisation. Does this mean that after an audit the recommendations of the audit are not followed up or are recommendations not feasible to implement? Just over a fifth believe this as 22.03 % disagreed with that their internal audit function recommendations are implemented. Just under a third of respondents (32.20%) did not know or were neutral to the statement. This could be indicative of a knowledge gap or the diversity of the respondents' backgrounds.

Summary of Objective 4 (To assist organisations to better implement an internal function that can add “value” to the organisations) research findings

Respondents believe that their organisation’s internal audit function adds function overwhelmingly, adds monetary value and leads to a better control environment. However,

there is a feeling that the internal audit is a compliance exercise and there are some doubts as to whether recommendations from the internal audit function are in fact implemented.

4.5 OVERVIEW ON THE EMPIRICAL RESEARCH AND IMPORTANT RECOMMENDATIONS AND CONTRIBUTIONS OF THE STUDY

In order to provide a logical sequence to this section, the headings have been aligned to the questions that emerged from the survey questionnaire. This approach also provides a framework for the discussion of the conclusions drawn from the findings of the empirical study.

4.5.1 Do you think there is a relationship between resources and the level of the establishment of the internal audit function on organisations?

In terms of resource levels and the establishment of the internal audit function, 79.49% (with 12.07% strongly agreeing) agreed with the statement. This by default means that respondents know their internal audit function exists and an internal audit function is only established if the necessary resources are available.

4.5.2 Does the internal audit function add value?

A slight majority of the respondents (86.44%, with 33.9% strongly agreeing) agreed that their organisation's internal audit function adds value. This means the internal audit is viewed as value adding. Considering the cross section of students and their educational level, with most respondents being well educated and long serving employees of their organisations, the internal audit function can be viewed as value adding.

4.5.3 In your organisation is there alignment of the corporate governance structures and the internal audit function?

The majority of the respondents (66.79%, with 18.64% strongly agreeing) agreed that their internal audit function and corporate governance structures are aligned. This seems to indicate an alignment of the internal audit function and governance structures and committees in their organisations. This ties in with the finding that the majority of respondents know about the audit committee which is the primary corporate governance structure.

4.5.4 In your organisation is the internal audit function implemented well?

The majority of the respondents (66.1% , with 22.03% strongly agreeing) agreed that the internal audit function in their organisations is well implemented. This means they view their internal audit function as working well and implemented. This bodes well considering the cross section of the respondents.

4.5.5 Is the internal audit function just a compliance exercise?

The majority of the respondents (47.46%, with 10.17% strongly agreeing) agreed that their internal audit function is a compliance exercise. This seems that respondents believe that the internal audit is just for compliance. This is worrying as the internal audit function is a cornerstone of the corporate governance process and an organisation. Does this mean that people just comply and do not ask why the internal audit process is occurring? Internal audit is supposed to be risk based and about organisational improvement, not just compliance. Just over a fifth of respondents (22.03%) did not know or were neutral to the statement. This could be indicative of a knowledge gap or the diversity of the respondents' backgrounds.

4.5.6 Are the staff of the internal audit function of your organisation well trained and qualified?

Many respondents (45.76%, with 5.08% strongly agreeing) agreed that their internal audit function was well staffed. This indicates that their organisations value audit and ensure that the internal audit function has the human resources to perform well. Staffing therefore is not an indication for them of poor internal audit performance.

4.5.7 Is your internal audit function well funded? (i.e. adequate resources to perform well)

Most respondents (53.45%, with 6.90% strongly agreeing) agreed that their internal audit was well funded. This indicates that their organisations value audit and ensure that the internal audit function has the resources to perform well.

4.5.8 Does your internal audit function add monetary value to your organisation?

The majority of the respondents (52.54%, with 8.47% strongly agreeing) agreed that their internal audit function adds monetary value. This means that the respondents see a money return from the internal audit function.

4.5.9 Is your internal audit function well staffed?

Most respondents (45.76%, with 5.08% strongly agreeing) agreed that their internal audit function was well staffed. A total of 35.59% of the respondents were neutral or did not know whether their internal audit function is well staffed and is this indicative of a knowledge gap or the diversity of the respondents' backgrounds. This is worrying as this percentage is more than a quarter of respondents.

4.5.10 Does your internal audit function lead to a better control environment?

The majority of the respondents (69.49%, with 16.95% strongly agreeing) agreed that their internal audit function leads to a better control environment. This is encouraging, considering that the cross section of both private and public sector participants shares the sentiment that the internal audit function has an impact.

4.5.11 Does your organisation have an audit committee?

The majority of the respondents (74.57%, with 18.64% strongly agreeing) agreed that their organisation has an audit committee. Considering the cross section of MBA students and their backgrounds, this shows that they are aware of the audit committee that drives the internal audit function.

4.5.12 Is your internal audit function independent from your organisation's executive management?

A slight majority of the respondents (52.54%, with 15.25% strongly agreeing) agreed that their organisation's internal audit function is independent. This seems that respondents only just believe that their internal audit function is independent from executive management. This is worrying as independence is a cornerstone of the internal audit process.

4.5.13 Is your chief internal auditor effectively discharging their duties?

A slight majority of the respondents (48.28%, with 15.25% strongly agreeing) agreed that their organisation's chief internal auditor is discharging their duties effectively. This seems that respondents only just believe that this key member of their organisation is performing their duties. This is worrying as the chief internal auditor is a key person of the internal audit process. Just over two fifths of respondents (41.38%) did not know or were neutral to

the statement. This could be indicative of a knowledge gap or the diversity of the respondents' backgrounds.

4.5.14 Are recommendations from your organisation's internal audit function always implemented?

The majority of the respondents (44.07%, with 10.17% strongly agreeing) agreed that their internal audit function recommendations are always implemented. This seems that respondents feel that this internal audit recommendation may not be implemented. This is worrying as internal audit function is the cornerstone of the corporate governance process and recommendations are supposed to improve the organisation. Does this mean that after an audit the recommendations of the audit are not followed up or are recommendations not feasible to implement? Could it be as a result of respondents not viewing the internal audit as being independent from executive management?

4.5.15 Does the internal audit function work well within your organisation with the staff they are auditing?

The majority of the respondents (62.07%, with 13.79% strongly agreeing) agreed that their internal audit function is working well within their organisations. This seems to indicate a stratification of the internal audit function's integration and work within their organisations.

4.5.16 Is your internal audit function well equipped with tools (techniques) to enable them to perform their duties?

The majority of the respondents (62.71%, with 10.17% strongly agreeing) agreed that their internal audit function has the tools to perform their mandates. This seems to indicate that the internal audit function can discharge their duties to required standards and competencies as they do not lack the tools to perform their work.

4.5.17 Is your internal audit function dated?

The majority of the respondents (69.5%, with 11.87% strongly agreeing) agreed that their internal audit function is not dated. This seems to indicate that the internal audit function can perform their duties by using the latest standards and competency to perform their work.

4.6 CONCLUSION

Chapter 4 presented the data and discussed the results that had been analysed. The data collected by the researcher was reliable and the questionnaire developed was aligned appropriately to obtain the information required to meet the researcher's objectives.

The discussion has highlighted the perceptions of internal audit of MBA students at UKZN's GSB. There is mostly a positive relationships of the Internal audit function

The next chapter presents the researcher's key findings, based on the review of literature for this study. It also states the limitations of this research as noted by the researcher. Furthermore, Chapter 5 also offers suggestions of possible research that can be developed from this study and lastly it presents the researcher's recommendations for transformational cost reduction in the hospital and the final conclusion that has been reached in this study.

CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS FOR FUTURE RESEARCH

5.1 INTRODUCTION

Chapter 5 presents a summary of the findings, conclusions and limitations, as well as suggestions for future research based on the results of this research. The objectives of this study were to conduct a literature review on the subject of organisations' resources level and the internal audit function; the factors that affect the internal audit function; the alignment of the corporate governance structures and the internal audit function; and to assist organisations to better implement an internal function that can add "value" to the organisations.

Summary of the research findings (as the study aimed to provide answers to the research question):

- future research suggestions (derived from this study)
- deficiencies reflected as a result of limitations of this study
- a conclusion that briefly sums up the study as a whole.

5.2 FINDINGS FROM THE LITERATURE

The world evolves constantly and changes as a result of factors such as global and economic changes. The internal audit function and the internal audit profession therefore will have to adapt to these changes if the internal audit function is to remain value adding and relevant.

Chapter 1 provided the overview to the study run, giving a background of the UKZN GSB&L, where the study was conducted. This was followed by Chapter 2, which presented an extensive review of literature relating to the objectives of the study. Some of the critical recommendations and findings of the literature study are indicated next.

The literature study offered a comprehensive overview of organisations' resources level and the internal audit function. Through this, the study determined that building a capable organisation and strategy is fundamental to any resource question added. One element to

be learnt from this aspect of the literature review was the issue of staffing. Building core competencies and competitive capabilities are fundamental to resource allocation to the internal audit function

The literature review discussed the link, *the factors that affect the internal audit function*. The establishment of this link was important in determining the complexity of an organisation, and how the internal audit function influences the organisation's environment in the post 2009 recession by considering factors that affect the internal audit function.

The literature review touched on the alignment of the corporate governance structures and the internal audit function. Legislation and governance standards such as King III and the alignment of the internal audit function to these standards were discussed. The role of the chief internal auditor was looked at to determine why the role is so fundamental to the internal audit function. Leadership and structure of the internal audit function were also briefly discussed, including the effects of leadership on the internal audit function.

Lastly, the literature touched on how to assist organisations to better implement an internal function that can add "value" the organisations. The concept of what value is to a company was explored, leading to the intangible value of a business and this is concluded by exploring the value of the internal audit according to stakeholders. The expectation gap, that is, what is expected of the internal audit, was also explored during the review of the literature.

5.3 LIMITATIONS AND POSSIBILITIES FOR FUTURE RESEARCH

5.3.1 LIMITATIONS

Sections 5.2 provided a brief overview of the literature and empirical study that was performed. This section deals with multiple factors that were identified regarding future research that could be performed, among other factors.

Only the most important limitations of the study are briefly mentioned. Each of the identified limitations have possibilities on how to overcome the limitations, for example, by making use of other research methodologies or points of departure than those used in

this study. There could be room for more in-depth research possibilities (that do not necessarily flow from the limitations of the study) that can be considered. From the following discussion, some of the most pertinent findings and recommendations regarding the study's limitations and further research possibilities are considered. Based on the research findings of this study, new questions that must now be answered could arise. The findings of this study have revealed that students of the UKZN GSB&L view the internal audit in a positive light and that the internal audit adds value.

Limitations of the research are provided next with regard to the empirical study:

- The study was not conducted within one organisation as respondents were from various organisations.
- The results of the research relate to UKZN GSB&L students only.
- The results of the research reflect only the views of employees from varied organisations and it is difficult to relate them to a specific sector or type of organisation.
- This study was not able to integrate the reasoning why respondents replied in a certain way to the questions. For example, respondents felt that their internal audit is well implemented and the question arises, what constitutes well implemented?

5.3.2 POSIBILITIES FOR FUTURE RESEARCH

More research could be performed on a wider scale to determine the perception of the internal audit independence and the reasons for those perceptions. The research could possibly be performed to formulate a countrywide (South African) or regional (provincial like KwaZulu-Natal) perspective. Future research can also discover the real reasons for the perceptions of the internal audit function. Another way to extend the study would be to explore further activities or measures that should be put in place by internal audit functions, as well as their activities and how they reflect on the perspectives of the organisations they audit.

5.4 CONCLUSION

This research was able to prove that most respondents seem to think their internal audit is well resourced; that there seem to be no factors that negatively impact respondents' internal audit function; that there seems to be alignment of the corporate governance structures and the internal audit function; and that the internal audit function is well implemented, which adds "value" the organisations.

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APPENDIX A:

PERMISSION TO CONDUCT RESEARCH LETTER



6 March 2017

Mr Vernon Nayiager (SN 9801003)
Graduate School of Business and Leadership
College of Law and Management Studies
Westville Campus
UKZN
Email: vernonnayiager@gmail.com

Dear Mr Nayiager

RE: PERMISSION TO CONDUCT RESEARCH

Gatekeeper's permission is hereby granted for you to conduct research at the University of KwaZulu-Natal (UKZN), towards your postgraduate degree, provided Ethical clearance has been obtained. We note the title of your research project is:

"Perception of internal audit function of the MBA students at UKZN GSB&L."

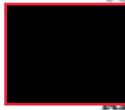
It is noted that you will be constituting your sample by handing out questionnaires to students from the Graduate School of Business and Leadership on the Westville campus.

Please ensure that the following appears on your notice/questionnaire:

- Ethical clearance number;
- Research title and details of the research, the researcher and the supervisor;
- Consent form is attached to the notice/questionnaire and to be signed by user before he/she fills in questionnaire;
- gatekeepers approval by the Registrar.

You are not authorized to contact staff and students using 'Microsoft Outlook' address book. Data collected must be treated with due confidentiality and anonymity.

Yours sincerely



MR S S MOKOE
REGISTRAR

Office of the Registrar

Postal Address: Private Bag X54001, Durban, South Africa

Telephone: +27 (0) 31 260 8005/2206 Facsimile: +27 (0) 31 260 7824/2204 Email: registrar@ukzn.ac.za

Website: www.ukzn.ac.za

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APPENDIX B: ETHICAL CLEARANCE LETTER



30 March 2017

Mr Vernon Naylager 9801003
Graduate School of Business and Leadership
Westville Campus

Dear Mr Naylager,

Protocol Reference Number: HSS/0238/017M
Project Title: Perception of Internal Audit function of the MBA students at UKZN GSBL

Full Approval – Expedited Application

In response to your application received 14 March 2017, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted FULL APPROVAL.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully


.....
Dr Shenuka Singh (Chair)
Humanities & Social Sciences Research Ethics Committee

/pm

cc Supervisor: Dr A Kader
cc Academic Leader Research: Dr M Hoque
cc School Administrator: Ms Zarina Bullyrsj

Humanities & Social Sciences Research Ethics Committee
Dr Shenuka Singh (Chair)
Westville Campus, Govin Mbeki Building
Postal Address: Private Bag 264001, Durban 4006
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Website: www.ukzn.ac.za



**APPENDIX C:
QUESTIONNAIRES**

Questionnaire

Part 1: Demographic data

Name and your current position in: _____

Practice / Employment Address: _____

Your Current Qualification: _____

Your Current Period of Employment _____

What Sector are you Private or Public _____

Part 2: Statements about Internal audit

Instruction

The following statements describe some of the components associated with strategic levers and its influence in process management at your business unit. Kindly examine these statements and signal, based on your experience, the degree with which you agree or disagree with the statements. Please respond to the statements by placing a cross (X) in the applicable box.

No	Statement Made	Strongly Agree	Agree	Neutral	Dis- Agree	Strongly Dis- Agree
1.	Do you think there is a relationships between resources and the level of the establishment of the Internal audit function on organisations?					

2.	Does the internal audit function adds value?					
3.	In your organisation is there alignment of the corporate governance structures and the internal audit function?					
4.	In your organisation is internal audit function implemented well?					
5.	Is the internal audit function just a compliance exercise?					
No	Statement Made	Strongly Agree	Agree	Neutral	Dis- Agree	Strongly Dis- Agree
6.	Is the staff of the internal audit function of your organisation well trained and qualified?					
7.	Is your internal audit function well					

	funded? (i.e adequate resources to perform well)					
8.	A Does your internal audit function add monetary value to your organisation?					
9.	Is your internal audit function well staffed?					
10.	Does your internal audit function lead to a better control environment?					
11.	Does your organisation have an audit committee?					
12.	Is your internal audit function independent from your organisations executive management?					
13.	Is your Chief Internal Auditor effectively discharging his or hers duties?					
14.	Are recommendation from your organisations internal audit function always implemented ?					
15.	Does Internal audit function work well within your organisation with the staff they are auditing?					
16.	Is your internal audit function well equipped with tools (techniques) to enable them to perform their duties?					
17.	Is your internal audit function					

	dated? (that is from the reporting to the audit standards used , areas that they audit)					
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APPENDIX D: INFORMED CONSENT

INFORMED CONSENT (QUESTIONNAIRE)

Graduate School of Business & Leadership
University of KwaZulu-Natal
Westville Campus

Dear Respondent

I, Vernon **Nayjager** (student number: 980103) am currently studying towards a Master's Degree in Business Administration at the University of KwaZulu-Natal's Graduate School of Business and Leadership. In partial fulfilment of the requirement for the award of this degree, I am researching "Perception of internal audit function of the MBA students at UKZN GSB&L".

Your assistance is kindly requested in the answering of a questionnaire which will aid in sourcing the relevant data required to conduct this study. Answering of the questionnaire will take approximately 15 minutes of your time.

Please be reminded that your participation in this research is entirely voluntary. All information supplied will be treated in a confidential manner. Any information submitted by you cannot be used against you, and the collected data will be used for purposes of this research only. Data will be stored in secure location and destroyed after 3 years.

Please note that your involvement is purely for academic purposes and there are no financial benefits involved.

The academic leader overseeing this research project is Professor A. Kader who can be contacted on cellphone number: +27 82 901 0225 or e-mail: abdulk@nedbank.co.za

You may also contact, the HSSREC Research Office: 031 260 8350 or email [Mariette Snyman](mailto:Mariette.Snyman@ukzn.ac.za), should you have any concerns in this regard.

I hereby confirm that I understand the contents of this document and the nature of the research project and consent/do not consent to being a voluntarily participant to this study. I further understand that I am at liberty to withdraw from the project at any time, should I so desire.

Name:.....
Signature:.....
Date:.....

Thank you for your contribution to this research.

Vernon **Nayjager**
email: vernonnayjager@gmail.com
Cell: +27 82 495 7458