Effective internal audit activities in local government: Fact or fiction?

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ABSTRACT

In 2009 government set out to achieve clean audits for all government entities. Studies on internal audit effectiveness reveal that an effective internal audit function enhances organisational governance and is considered a significant governance mechanism in the public sector. Since a clean audit is a function of clean governance, an effective internal audit function as a governance mechanism contributes thereto. Limited published research is available on internal audit effectiveness at the South African local sphere of government. This study, which adopted the qualitative approach, investigates the four micro factors which affect internal audit effectiveness of municipalities in the Vhembe district, situated in the Limpopo province in South Africa. The study reveals that there are internal audit resource restrictions, no quality assurance, enhancement programmes and no external quality assurance. The participants held mixed perceptions of the effectiveness of internal audit functions. All internal auditors do not have professional qualifications, consequently, a low status. Management does not comprehend the challenges experienced by internal auditors. The study identifies areas for future research taking into account perceptions of internal audit resources, processes, relationships and the organisation.

Key words
Clean audit; internal audit effectiveness; local government; audit committee; internal audit independence

1 INTRODUCTION

The literature depicts internal audit as a contemporary corporate governance mechanism (Eulerich, Theis, Velte & Stiglbauer 2013; Soh & Martinov-Bennie 2011; Holt & De Zoort 2009; Zain & Subramaniam 2007; Sarens & De Beelde 2006; Carcello, Hermanson & Raghunandan 2005; Gramling, Maletta, Schneider & Church 2004). Certain scholars hold that without demonstrating effectiveness, an internal audit function (IAF) cannot become a trusted corporate governance mechanism (e.g. Mihret, James & Mula 2010). This study investigates internal audit effectiveness in local government to acquire a clearer comprehension perception of whether it is fact or fiction at municipalities in the Vhembe district in Limpopo, a province in South Africa.

After the first South African democratic elections in April 1994, the intention was to empower people at the local sphere of government to take responsibility for community services (Moller & Dickow 2002:277) and to refrain from ineffective governance and service delivery (Mafunisa 2004:491) practices. Several newspapers reported that based on public dissent (Nqubane 2016: Online; Pather 2016: Online; Sowetan LIVE 2012: Online) and numerous qualified, disclaimed and adverse external audit opinions (AGSA 2016:22), it is questionable whether this noble expectation became a reality – local government governance has remained under the spotlight and has been criticised for demonstrating poor governance. For example, in a recent article published by Dispatch Live (Gowa 2016:3. Online), the outgoing chairperson of the audit committee (CAC) criticised the Buffalo City Metropolitan Municipality council for failing to cascade performance management to all municipal officials; failing to improve service delivery outcome; ineffective risk management processes; and a lack of disaster management planning.

In 2009, the South African government through the Department of Cooperative Government and Traditional Affairs, saw the need to prioritise "clean governance" and “clean audit” through Operation Clean Audit 2009–2014 (COGTA 2009a). A clean audit is defined as an audit that is not qualified based on financial statements, performance and compliance with legislation (AGSA 2015b:144), while clean governance can “only thrive, or even survive, in a social environment that has little tolerance for corruption” (Rosenbloom & Gong 2013:557). The vision of Operation Clean Audit 2009–2014 was to achieve clean audits for all government entities in the local and provincial government spheres by 2014 (COGTA 2009b:10: Online), thus achieving “a new level of improved audit outcomes” (Motubatse 2016). A clean audit is a function of clean governance (COGTA 2009a). In his case study on the Sedibeng District Municipality, Scholtz (2014) revealed that internal control mechanisms (leadership, performance management, planning and governance) are important
attributes in attaining a clean audit. This notion was supported in the quantitative study conducted by Motubatse (2016). The findings revealed that the three independent variables – leadership, financial management and governance – jointly have a significant relationship with clean audit outcomes. An effective IAF enhances the governance of an organisation (Badara & Saidin 2013a; 2013b; Eulerich et al 2013; Mihret & Yismaw 2007; Sarens & De Beelde 2006). Through its role in the control environment, risk assessment and by reviewing governance processes in internal audit contributes towards strengthening the governance structures (Christopher 2015; Motubatse 2016). Since good governance contributes towards obtaining a clean audit, internal audit contributes to audit quality (Chambers & Odar 2015; Mohamed, Mat Zain, Subramaniam, Yusoff & Fadzilah 2012) because it enables management to identify risks and monitor controls (Sarens, Abdolmohammadi & Lenz 2012; Motubatse 2014).

Good governance at the local sphere of government is critical for developing countries such as South Africa to alleviate inefficiencies and impose fiscal discipline (Brinkerhoff & Brinkerhoff 2015). The objectives of local government include the provision of services to communities in a sustainable manner, promote social and economic development within a safe and healthy environment as well as encourage communities and community organisations to participate in local government matters (RSA 1996:82). Local government is thus the sphere of government responsible for delivering services to residents. In May 2016, the Mail & Guardian (Steyn 2016: Online) reported that there were more service delivery protests in 2016 than in previous years. This study investigates local municipal internal audit effectiveness in the Vhembe District of Limpopo, a province in South Africa. These municipalities experienced service delivery protests in 2016 (Tiva 2015: Online), creating an interesting scenario to investigate the four identified factors (resources, organisation, processes and IAF relationships) of internal audit effectiveness during that period.

The remainder of the paper is structured as follows: the next section sets out the purpose of the study, its significance and limitations, followed by a section contextualising the research problem. Next, the literature review is presented and the research design and data collection methods are explained. Thereafter, the findings of the study are presented and the paper concludes with areas for future research.

2 PURPOSE, SIGNIFICANCE AND LIMITATION

In his study on corruption and service delivery in the Limpopo Provincial Government, Mafunisa (2007) identified a shared internal audit service as one of the governance oversight bodies which made recommendations that were not implemented and therefore, appears ineffective. The question remains whether internal audit at local government (also referred to as municipalities in this article) could also be regarded as ineffective, especially in the light of these municipalities’ poor external audit outcomes (AGSA 2015a:56–58). This study, limited to the Vhembe District of Limpopo, comprises of four local municipalities and one district municipality and endeavours to cast light on the effectiveness of IAFs in these municipalities.

The study adds to the body of knowledge on internal audit effectiveness by providing a local government perspective, an area that has captured limited attention by scholars. The latter is confirmed by Badara and Saidin (2013a:18) who criticise such research vacuum because "without establishing an effective internal control system at local government level, detection and control of misconduct in the local government would not be possible." In their literature review Cooper, Leung and Wang (2006:831) explain that the absence of internal audit at local government can be ascribed to staff shortages, lack of audit competencies and “the non-audit personnel and top management are generally unsupportive of internal audit.”

The effectiveness of the IAF is influenced by macro and micro factors (Lenz & Hahn 2015). This study is limited to the micro factors (internal audit resources, process, relationships of the IAF, and the organisation) and does not seek to investigate the effect macro factors have on internal audit effectiveness. The results of the study also makes a practical contribution. Heads of internal audit, or chief audit executives (CAEs), management and audit committee members could become aware of areas they need to focus on when improving the effectiveness of IAFs. The recommendations based on the findings of the study could assist internal auditors (and other role players) to perform their work and enhance internal audit effectiveness in accordance to the Municipal Finance and Management Act (MFMA) (RSA 2003).

3 CONTEXTUALISING THE RESEARCH PROBLEM

This study focuses on the effectiveness of internal audit at the local sphere of government in the Limpopo Province. In its report on audit outcomes of the Limpopo Province, the AGSA states that governance at municipalities is greatly enhanced by the support of IAFs which play a critical role in attaining and maintaining a clean audit opinion (AGSA 2015a:18). This conforms to the definition of internal auditing which enables an organisation to "accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes" (IIA 2016b). In the aforementioned report, the AGSA (2015b) reported that municipalities that obtained disclaimed (the auditor was not able to express opinion) or adverse opinions, internal audit provided limited or no assurance on 43% of these audits. The report revealed that for municipalities that obtained a clean audit opinion, assurance on the credibility of financial and non-financial reports emanated primarily from within the management structures and internal audit (AGSA 2015a:18). This notion supports the relevance of this study, namely: that an effective IAF could enhance a municipality’s governance structures, which contribute towards obtaining a clean audit.

Vhembe is a Venda name for the Limpopo River which separates South Africa from Zimbabwe (Vhembe District Municipality 2016: Online). Vhembe District Municipality, one of the five district municipalities in...
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Limpopo, received a qualified opinion in 2009/10 and 2010/11. Prior to 2016, the Vhembe District comprised of four local municipalities and the district municipality. The four local municipalities were Thulamela, Musina, Makhado and Mutale. However, Mutale has since been disestablished and replaced by Collins Chabane Local Municipality. The population size of and audit opinions issued on the financial statements of the Vhembe District Municipality and its prior local municipalities are presented in Table 1 as background information to the study. As illustrated in Table 1, the four local municipalities had better audit outcomes than the district municipality for the period 2009–2014.

<table>
<thead>
<tr>
<th>Table 1: Background information (population size and audit opinions)</th>
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<tr>
<td>Vhembe District Municipality</td>
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<tr>
<td>Population (2011)</td>
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<td>Audit opinion</td>
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<td>2009/10</td>
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Source: (AGSA 2015a:56–58; Statistics SA 2011: Online)

Vhembe District Municipality performed poorly with regression noted in all three areas covered by the external audit (finance, compliance with legislative requirements, and performance information) (AGSA 2015a:54). Internal audit is one of the areas mentioned in the AGSA report which requires intervention to improve the audit outcomes (AGSA 2015b:18). This requirement should, however, be seen against the financial pressures currently experienced by the South African public sector (Gordhan 2016:5-7: Online) which could negatively impact on the resources of an IAF.

4 LITERATURE REVIEW

Internal audit effectiveness has been a subject of study by many researchers such as Eulerich et al (2013) and Lenz and Hahn (2015). Arena and Azzzone (2009:1-3) define internal audit effectiveness as the capacity to attain results that are in line with pre-set objectives. KPMG (2016:3: Online) state in their report (based on the perceptions of more than 400 CACs and chief financial officers) value-seeking through internal audit that an effective IAF should not only report the already known deficiencies, but also provide insight into why these deficiencies occurred and what could be done to prevent them.

Sawyer (2005:225) defines effectiveness as the: “...actual production of an effect or the power to produce an effect”. This implies that internal audit work is not done until the identified deficiencies are corrected and continue to be corrected (Mihret & Yismaw 2007:471). Prinsloo and Roos (2005:9) define effectiveness in performance auditing as the relationship between inputs and objectives. Against this background, it is clear that internal audit is not set up to merely report instances (output) where an organisation may not be compliant with relevant prescripts or internal controls may not be in place, but to help an organisation accomplish its objectives by bringing a systematic approach to evaluate and improve risk management, control and governance processes (IIA 2012). Audit findings and recommendations serve no purpose if management is not committed to implement them (Mihret & Yismaw 2007:470). It thus benefits management to maintain an effective IAF (Adams 1994:8) which improves organisational efficiency and effectiveness through constructive criticism (Cohen & Sayag 2010:296). In this regard Badara and Saidin (2013b:1-2) argue that an effective IAF could be an enabler in improving stakeholder confidence in the financial reporting and cooperate governance of an entity.

Research conducted by the IIA investigated nine elements that contribute towards internal audit effectiveness in the public sector (Macrae & Van Gils 2014:8). These elements include organisational independence, a formal mandate, unrestricted access, sufficient funding, competent leadership, objective staff, competent staff, stakeholder support and professional audit standards (IIA 2015:18-30). Studies have revealed that an effective IAF constitutes a significant governance mechanism in the public sector (Badara & Saidin 2013b; Mihret & Yismaw 2007).

The effectiveness of internal audit in the public sector in South Africa is determined through compliance with the International Standards for the Professional Practice of Internal Audit (ISPP/IA), relevant guidelines such as Circular 65 issued by the National Treasury (National Treasury 2009:25; National Treasury 2012:1), and Section 165(2)(vii) of the Municipal Finance and Management Act (MFMA) (RSA 2003). Establishing an IAF is a legislative requirement in terms of the MFMA. Furthermore, the Municipal Systems Act, Act 32 of 2000, stipulates that IAFs audit the municipality’s performance management systems (RSA 2000). These pronouncements should be seen against the background that governance at a municipality plays a critical role in attaining and maintaining a clean audit opinion (AGSA 2015a:18; Motubatse 2016) and that an effective IAF is considered a governance mechanism (Mihret & Yismaw 2007).

For purpose of this study, internal audit effectiveness will be considered from a micro-level perspective, which entails four micro factors influencing the internal audit effectiveness as identified in the synthesis study by Lenz and Hahn (2015). These include internal audit resources, internal audit processes, internal audit relationships and the organisation. They are further elaborated on in the following sections.
4.1 Internal audit resources

The ISPPIA requires that the CAE ensure that internal audit resources are appropriate, sufficient and deployed to achieve the set outcomes as per the internal audit plan (IIA 2012). According to the interpretation provided in the Standard, the word ‘appropriateness’ refers to a mix of knowledge, skills and other competencies, whereas ‘sufficient’ refers to the number of required resources (IIA 2012). The interpretation concludes that resources are deployed effectively when they are utilised to accomplish the engagement objectives of the approved internal audit plan (IIA 2012). Furthermore, guidance issued by the IIA supports competence of internal auditors, for example, Standard 1210 on proficiency requires that internal auditors possess the knowledge, skills and resources required to fulfil their responsibilities (IIA 2012), while Standard 1230 on continuing professional development requires internal auditors to enhance their knowledge, skills and competencies through such development (IIA 2012).

Internal audit resources affect internal audit quality. This notion was identified by DeAngelo (1981:116) who investigated audit quality rendered by external auditors and found it to be the probability that an auditor will discover and report deficiencies. The probability to discover a deficiency depends on the auditor’s technical capabilities and independence is defined as the ability to report the discovered breaches (DeAngelo 1981:116). DeAngelo (1981) argues that for the auditors to be effective, it is submitted that they need both the attributes of independence and the ability to identify the breaches (competence). Internal auditor competence has been a topic of interest of the profession (IIA 2010a:1-86; Cangemi 2015; Harrington & Piper 2015) and scholars (Coetzee, Erasmus & Plant 2015:65-74; Fourie 2014:155; Plant, Coetzee, Fourie & Steyn 2015:65-74; Online; Usman 2016:221-226). In his thesis on internal auditor skills, Fourie (2014) lists various skills required by internal auditors in South Africa namely: accountancy-related skills, ability to perform different types of audit, risk-related skills, knowledge of different business areas, managerial skills, knowledge of legislative requirements, and knowledge of internal auditing tools and techniques.

The IIA has undertaken a study to examine and establish a competency framework for internal auditors. This study which was conducted as part of the Common Body of Knowledge have identified various competencies, for example, communication skills; problem identification and problem-solving skills; persuasion, collaboration and critical thinking skills; as well as information technology (IT) skills (IIARF 2010). An additional measure used to demonstrate internal auditor competence is certification (IIA 2012:5). The premier qualification for internal auditors remains to become certified internal auditors (CIAs) (IIA 2010a:1-12; IIA 2012:5). The CAE, as the head of the IAF, should set an example for auditors by having the required competencies to execute his or her work (Coetzee, Fourie, Plant & Barac 2013:56). To enhance the competencies of the IAF, many organisations have introduced staff rotation programmes between internal audit and business (Bhasin 2013:5: Online; Bond 2011:6-23). In 2010, the IIA issued a practice guide on internal audit efficiency and effectiveness that recommends that auditors are rotated between internal audit and the business as another measure of effectiveness (IIA 2010b:1-12). The IIA published an internal audit competency framework that allows for evolutionary improvement of the ten IAF core competencies (IIA 2015:3).

4.2 Internal audit processes

The internal audit process entails planning, execution, reporting and follow-up (Cohen & Sayag 2010:298). The ISPPIA is the blueprint for conducting internal audit processes that requires the CAE to prepare a risk-based plan to determine the priorities of the IAF (IIA 2012). Since attaining and retaining a clean audit should be a priority for municipalities and the IAF (COGTA 2009b:10; Online), internal audit is expected to prioritise it on their plans. Compliance with the internal audit plan and the budget, customer satisfaction, and time management are some of the factors that need to be considered when evaluating the processes followed by internal auditors (Lenz, Sarens & D’Silva 2013:128).

As part of the Standards, the IIA requires that the CAE maintains a quality assurance and improvement programme that covers all aspects of the IAF (IIA 2012:7). In South Africa, public sector organisations are expected to utilise the framework developed by the National Treasury (Motubatse 2014:83). In addition, the Public Sector Audit Committee Forum of the Institute of Directors in Southern Africa provides guidance that requires input from the CAE, audit committee, management and external auditors in the evaluation of the performance of the IAFs (Public Sector Audit Committee Forum 2013:4-12).

As part of the internal audit process, the CAE needs to establish a follow-up process to determine whether the previously reported findings have been resolved (IIA 2012). Sawyer (1995:48) states that the work of internal audit is not done until the identified deficiencies are resolved and remain resolved. A practical solution to reach this goal is offered by the Queensland Government, which suggests that a member of senior management be delegated the responsibility to follow up on previous internal audit findings (Queensland Government 2016:2-4; Online). In this regard, auditors should be advised of the status of implementation so that they can schedule their follow-up reviews as appropriate (Queensland Government 2016:2-4; Online).

The aforementioned implies that auditors should not only identify defects, but ensure that such shortcomings are corrected. Although the resolution of audit findings is outside the control of the IAF, it is a requirement that the CAE follow up on agreed action plans (Chartered Institute of Internal Auditors 2016:1-2; Online). Monitoring and assessing the resolution of internal controls by management is part of internal control monitoring that enables internal audit to become an ally to management (Pinto, Pereira, Imoniana & Peters 2013:70).

4.3 Internal audit relationships

Any organisations’ stakeholders may have expectations from internal audit and may also be internal audit
stakeholders (ICAEW 2008:7). The CAE has a responsibility to identify internal and external stakeholders which affect the IAF because it is required that internal audit identify the relevant stakeholders who either affect or are affected by the work of internal audit, and obtain feedback on a regular basis (IIA 2010a:1). Internal stakeholders include, inter alia, the board of directors, audit committee and senior management whilst external stakeholders include, for example, external auditors, regulatory bodies and standard-setters (IIA 2010a:3).

Once the efficiency and effectiveness measurements have been identified, the IAF should determine the relevant processes for engaging and reporting to stakeholders (IIA 2010a:1-86). Various studies and guidance support the notion that the CAE should functionally report to the audit committee to strengthen the independence of the IAF (IIA 2012; IIA 2016a; IoDSA 2009). This notion is further supported by several surveys further in the internal audit field (Banar, Rama & Sharma 2010:511; Goodwin 2003:274; Tušek 2015:201). The King Code of Governance Principles for South Africa (King III Report), which is recommended practice for all entities in South Africa, further requires the audit committee to be responsible for appointing, assessing the performance of, and terminating the CAE (IoDSA 2009:16-46).

The second key stakeholder of the IAF is senior management. The King III Report recommends that the CAE should have a standing invitation to attend all senior management meetings (IoDSA 2009:16-46). The PwC’s 2016 State of the Internal Audit Profession Study (PwC 2016: Online), observed that only 54% of the respondents stated that internal audit adds significant value to their organisations, which revealed a marginal improvement from the 48% achieved in 2015. However, almost half of the respondents hold that internal audit does not add significant value to their organisations – this is an indictment to the profession. The survey further demonstrates that in more than 90% of the cases where the CAE demonstrates effective leadership, significant value is contributed to the organisations (PwC 2016: Online). Strong vision that aligns with the organisation and the IAF, effective talent management, effective communication, alignment of internal audit with the organisation, and appropriate position, are identified as attributes of effective IAF leaders (PwC 2016:4-9: Online). The survey reports that 62% of the respondents expect more value from internal audit. This percentage includes those already receiving significant value (PwC 2016:4-9: Online).

Internal auditors should communicate what they require management to be acquainted with and not what internal auditors want to tell management (Marks 2016: Online). Direct reporting by internal audit to the audit committee has an unintended consequence of limiting the extent of reporting due to perceptions held by management regarding the audit committee and questioning a direct reporting line to the audit committee (Rose & Norman 2008:11). Internal auditors have exploited the renewed interest in risk management and have structured their functions accordingly (Arena & Azone 2009:55).

Following the adoption of Operation Clean Audit in 2009, internal audit should have reported progress on the implementation of the strategy to management and audit committee on a regular basis in accordance with its role on risk management reporting. Effective internal audit, amongst others, was identified as one of the cornerstones to achieve a clean audit (Parliamentary Monitoring Group 2012: Online). Granted the significance of clean audit in the South African public sector, it should find expression in the risk profile of municipalities.

Internal audit should play a key role in the municipalities’ risk profile and improve risk management processes. Cohen and Sayag (2010: 296) further argue that funding is an important measure to determine whether internal audit enjoys management support. They maintain that when the employees of an organisation realise that top management support the IAF, they in turn cooperate and support them.

In their research of internal audit effectiveness, Mihret and Yismaw (2007) revealed that management strongly supports the influence of internal audit effectiveness. They consider management support and internal audit quality as the two most important determinants of internal audit effectiveness. Alzebam and Gwilliam (2014:16) also found that management support is a key driver of internal audit effectiveness. This is based in part on the premise that management is responsible for implementing the internal audit recommendations and if not implemented, it directly affects the effectiveness of the IAF directly (Alzebam & Gwilliam 2014:16). Mihret and Yismaw (2007:470-481) also observed that failing to implement internal audit recommendations has a negative effect on the staff morale of internal auditors.

Senior management expects internal audit to provide a supportive role by providing independent assurance on the effectiveness of processes, actively contributing to the improvement of the processes and assisting on risk management processes (Sarens & De Beelde 2006: 219-222). Management expectations have a significant role on internal audit and if it is able to meet the expectations, they get the required support, which in turn further improves the effectiveness of the IAF (Sarens & De Beelde 2006:219-222).

Another key stakeholder of IAF is external auditors. In accordance with professional guidance, the CAE should coordinate the assurance efforts (IIA 2012; IoDSA 2009). Both internal audit and external auditors have an interest in the robustness of the internal control (IIA 2015:2). Previous studies have established that the work performed by internal auditors and competence are the two criteria used by external auditors to determine the level of reliance on the work of internal audit (Haron, Chambers, Ramsi & Ismail 2004:1156-1159).

The difference between internal audit and external audit is acknowledged in the public sector (Arotake 2005:5: Online). It is believed that benefits could arise from coordination and cooperation between external audit and internal audit that include efficiency and effectiveness in public services (INTOSAI n.d:1-11). The International Monetary Fund also endorses the
cooperation and coordination of internal audit and external audit and highlights and recommends periodic meetings between the two structures, exchange of audit reports, and the external auditor comment on the progress made in relation to internal audit reports (Diamond 2002:24).

4.4 Organisation

The last determinant of internal audit effectiveness is the organisational culture. Organisational setting includes the position and status accorded to internal audit within the organisation (Badara & Saidin 2013b:16-18), the budgetary status and the sound established processes for evaluating the auditees’ practices (Enofe, Mgbane, Osa-Erhabor & Ehirobo 2013:164; Mihret & Yismaw 2007), as well as the level of risk maturity of the organisation (Arena & Azzone 2009:45-46). The IAF should be afforded a high enough status to enable it to fulfil its responsibility (Mihret & Yismaw 2007:470-481).

All organisations selected for this study are municipalities that have regulated internal audit. In terms of the MFMA (RSA 2003), each municipality must have an IAF, use a risk-based internal audit plan for each financial year, and operate under the accounting officer (AO) on an effective, efficient and transparent basis in terms of prescribed norms and standards. Unlike other jurisdictions, in South Africa, there are no locally produced government internal audit standards. This is explained in the Treasury Regulations issued in terms of the Public Finance Management Act (RSA 1999) that preceded the MFMA (National Treasury 2005). The ISPPPIA is thus the norms and standards referred to in the MFMA. It is a legal requirement for the AOs to establish and maintain effective IAFs.

5 RESEARCH DESIGN AND DATA COLLECTION

The study aims to investigate internal audit effectiveness of four municipalities in the Vhembe district. The study adopted a qualitative approach, and is based on interviews conducted with AOs, CACs and CAEs of the targeted municipalities. In addition, background information was obtained from CAEs on their IAFs. Questionnaires (refer to Annexure A) were e-mailed directly to CAE participants to gather background information on the number of internal auditors (also those certified), stakeholders of the IAF and resources of the IAF.

Interviews were conducted to obtain a meaningful understanding of the effectiveness of IAFs in the participating municipalities. The interviews were based on 13 interview questions (refer to Annexure B) which were informed by the literature and structured according to the micro factors identified by the synthesis study conducted by Lenz and Hahn (2015). The AO, CAEs and CACs of all four municipalities participated in the study. All the participants were interviewed, except for the CAC at Municipality 1 who only completed the research questions, but was not available for a face-to-face interview.

6 RESULTS/FINDINGS

6.1 Background of municipalities

It is submitted that since the introduction of the Operation Clean Audit, the municipalities would have established policies and procedures to achieve and retain clean audits in the run to the 2014 cut-off date. Question C.10 seeks to establish the extent to which policies and procedures related to clean audit were established and maintained by the municipalities. Although the Operation Clean Audit has been a government-wide flagship project since 2009, this should be prioritised in the risk profile of each municipality.

Only one questionnaire was required to be completed per municipality. The questionnaire included the number of internal auditors, percentage of CIAs, and explanation of whether external auditors, audit committee, management and auditees are considered internal audit stakeholders. The questionnaire also required the participants to indicate their internal audit resources. This included total staff costs in relation to total operating expenditure, internal audit staff costs in relation to total staff costs, and average turnover percentage of internal audit staff for the past three years. The results are presented in Table 2.

Though all CAEs regarded external auditors, audit committee, management and auditees as their key stakeholders, none developed a stakeholder engagement strategy that sought to understand and respond to the needs of these stakeholders. The IAFs in the Vhembe District are not well-resourced to deliver on their mandate. The following are key observations regarding resources:

1. None of the municipalities have a CIA or any other reputable professional qualification such as Chartered Accountant, Certified Information Systems Audit, Certified Fraud Examiner, etc.

2. The IAFs comprise between three and five auditors who are all general internal auditors (none with specialist skills and competencies).

3. Although total staff costs as a percentage of total operational expenditure is between 25% and 50% in all municipalities that participated in the study, the investment in internal audit as demonstrated through the total internal audit staff costs as a percentage of total staff costs is less than 5% for all municipalities.

4. Staff turnover in the past three years has been less than 5% in all municipalities that participated in the study. Less than 5% staff turnover may indicate stability, knowledge of the local government environment, and sound corporate memory amongst surveyed IAFs. However, it may also limit their opportunities in other organisations due to the internal auditor’s limited skills.
Table 2: Background information per municipalities

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<tr>
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<th>Municipality 1</th>
<th>Municipality 2</th>
<th>Municipality 3</th>
<th>Municipality 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Number of internal auditors in your organisation</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>2 Percentage of certified internal auditors (auditors with CIA qualification)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3 Are the following stakeholders of the internal audit function?</td>
<td>External auditors: Yes Yes Yes Yes</td>
<td>Audit committee: Yes Yes Yes Yes</td>
<td>Management: Yes Yes Yes Yes</td>
<td>Auditees: Yes Yes Yes Yes</td>
</tr>
<tr>
<td></td>
<td>4 Indicate your internal audit resources</td>
<td>4.1 Total staff costs in relation to total operating expenditure</td>
<td>5 Total staff costs in relation to total operating expenditure</td>
<td>5 Internal audit staff costs in relation to total staff costs</td>
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<td></td>
<td>4.2 Internal audit staff costs in relation to total staff costs</td>
<td>4.3 Average turnover percentage of internal audit staff in the past three years</td>
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6.2 Internal audit effectiveness

The interview questions were presented in accordance with themes which emerged from the literature (Lenz & Hahn 2015), namely: internal audit resources, internal audit process, relationships and impact of the organisation. The study revealed the following general observations. None of the participating CAEs have clearly defined effectiveness and efficiency indicators. Their IAFs use templates developed by National Treasury to evaluate their performance, though these are not utilised consistently. Furthermore, contrary to the requirements of the ISPPIA, none of the IAFs have quality assurance and improvement programmes. None have had annual/regular quality assurance conducted and none have had an external quality assurance done since inception. On internal audit processes, none of the municipalities have a clean audit strategy aligned to the government-wide clean audit strategy. Moreover, none of the IAFs have prioritised clean audit beyond normal general audit and follow-up reviews. None of the municipalities’ IAFs have adopted efficiency and effectiveness indicators. None of the IAFs assess their efficiency. No stakeholders assess the efficiency of the IAF.

6.2 Internal audit resources

In relation to internal audit resources, the participants were asked to share their views of internal audit effectiveness, resources utilised by the IAF, competence of internal auditors, and whether they understand the business of municipalities. Their views are presented in the following section.

All CAEs reported that they do not have qualified internal audit staff in their IAFs. The CAE at Municipality 2 maintained that she had an adequate staff complement, while the other three CAEs perceived their IAFs as under-resourced. The CAE at Municipality 1, for example, stated that: "like I have already explained, we've got challenges within the staff complement". After prompting the participant to elaborate, he stated that: “Ah, where I am sitting I cannot really talk too much about qualifications. Let's just talk about the warm bodies".

The lack of competent staff affects the IAFs work negatively. Consequently, an aspect of the work has to be outsourced. However, as the CAE of Municipality 1 revealed, management has to support such a strategy because during financial pressure, it could be challenging: “Maybe the obvious thing, I will just highlight the issue of not fully implementing a plan because of capacity we are forced to outsource those projects that we don’t have the skill to do ... so, we have to fight with management to say we really need these people because [they] really are assisting us”.

The CAE at Municipality 2 reported that her municipality received unqualified audit opinions for two consecutive years due to increased implementation of internal audit findings by management. Therefore, she maintained that her staff has the necessary competence except for forensic auditing skills. Hence, they were only able to audit general IT controls. All other CAEs reported a lack of forensic, IT and project management skills. The CAE at Municipality 4 utilised the poor provision of water as an example to express that project management skills were lacking. In fact, the CAE maintained that his staff only has a basic understanding of internal audit work. There was general consensus from all CAEs that internal audit staff acquire knowledge by attending induction programmes (except for Municipality 3), reading relevant municipal policies and procedure manuals as well as host discussions with other colleagues.

Three CAEs shared their views on internal audit effectiveness. However, the data analysis revealed that such understanding is not communicated to other stakeholders. The CAEs’ perceptions about internal audit effectiveness was as follows: CAE at Municipality 1: "When [the] IAF is able to assist the organisation to..."
achieve its intended objectives, and when the internal audit is able to complete its planned projects and come with value adding recommendation on the identified findings.” CAE at Municipality 3: “All units within the organisations are made aware of the IAF and how it operates. So, it’s to make everyone aware within the organisation as to what are the functions [sic] of internal audit to make it effective.” CAE at Municipality 4: “Internal audit effectiveness means that any internal audit activity must to a reasonable extent acceptable do some things, which include review of governance, risk and internal controls and report to all appropriate structures within the allocated period of time. If you do that to a reasonable extent applicable in accordance with the resources that have been provided then you, you are effective.”

The AOs (or municipal managers) at Municipality 1 and 3 acknowledged limited that the IAFs had limited access to resources and they agreed that the internal audit staff are incompetent to undertake IT audit, project management or forensic work. The AO at Municipality 3 also confirmed that: “there is limited information of the policies and procedures of the IAF”, while the AO at Municipality 1 maintained that the IAF could only perform basic services and could not be considered effective because 90% of the internal audit work had to be outsourced.

The AO at Municipality 2 presented a more favourable image and agreed with the positive views expressed by the CAE of this municipality. The AO believed that the internal audit in the municipality had evolved from policing and checking whether officials were doing their work properly so that disciplinary action can be taken to become a partner to improve the municipality. This AO also identified that the internal auditors lacked IT and project management skills. However, they had the competence to audit finance and risk management processes. He/she also mentioned that the IAF provides technical services: “I am not sure to what level, but I know during the course of the year, they do conduct … mostly on the processes, they do conduct internal audit on technical services division”.

An interesting observation was that the AO at Municipality 4 viewed the IAF and its resources in a positive light, while the CAE of this municipality was more sceptical. The AO believed that the effectiveness of an IAF “is measured through the implementation of its recommendations, which are ultimately having [sic] a positive impact on the operations of the institution”. The AO perceived the IAF competent to audit finance, project and risk management processes, while, as mentioned above, the CAE maintained that his staff only possess a basic understanding of internal audit work.

All the CACs perceived the IAF effective when the audit plan is completed within the agreed time frame. The CACs at Municipalities 2, 3 and 4 also believed that an effective IAF should assist the AGSA audit process. The CACs also acknowledged that the IAFs within their municipalities were under-resourced. The CAC at Municipality 2 who held that the lack of staff resulted in only basic work being conducted by the IAF, contradicts those CAE and AOs who were pleased with the size of the IAF staff component and their related competence. Contrary to the views held by the AO and the CAE, the CAC at Municipality 1 expressed satisfaction with the IAF competency levels except for specialist projects. He asserted that: “they are very competent in the audits which cover their area of specialisation and where special audits are required, they would outsource those to other experts, like IT, forensics”.

All CACs believed their municipalities offered induction programmes for internal audit staff and considered it a means to acquire knowledge of the business. However, not all the CAEs and AOs shared this sentiment. Furthermore, certain CACs highlighted the IAF participation in certain business activities as a source to gather knowledge of the business: “internal audit partake in most programmes of the municipality, e.g. strategic planning, risk management activities, IT governance programmes. They attend all audit meetings, MSCOA activities, etc.” (CAC Municipality 1), and, “through induction, system description, talking to people within the organisation, attending meetings such as management meetings, council meetings, audit committee meeting, I guess will also help and others” (CAC Municipality 2).

### 6.4 Internal audit processes

The following discussion presents the participants’ views of the prioritisation of clean audits by the IAF, how quality internal audits are assured and whether management responds to internal audit findings.

None of the CAEs reported that their IAFs followed a deliberate strategy to assure clean audits. The CAEs at Municipality 1 and Municipality 3 admitted that they had no knowledge that the Operation Clean Audit Strategy was adopted by government in 2009 (COGTA 2009a). The CAE at Municipality 1 concurred the practice followed by his/her municipality. They have an Operation Clean Audit Committee which monitors the resolution of internal audit findings. The CAE tried to introduce a concept of audit champions in the respective units to coordinate the resolution of the audit findings and report to the Operation Clean Audit Committee. Of the five departments within Municipality 1, only two had functional audit champions.

The CAE at Municipality 4 reported that an initiative was attempted to establish a steering committee to discuss progress made in resolving internal audit findings. However, the first and even second attempts to introduce such a steering committee proved unsuccessful. “There was another task team that was formed which I was also a member of, eh, which would go and review all the policies for the finance department in order to see what is it that can be done in order to ensure that there is improvement. That committee, that task team that was formed has never set [sic] and so it did not work either”. It would seem that Municipality 4 establishes committees and does not follow up to ensure its effectiveness.

All the CAEs confirmed that they did not have a quality assurance and improvement plan for their IAFs. For example, Municipality 1 CAE stated that: “I don’t want to lie; we don’t really have this one”. This is contrary to the requirements by ISPPIA (IIA 2012). The CAE at
Municipality 2 also stated that the audit committee does not assess the performance of IAFs which does not conform to the requirements of functional reporting (IoDSA 2009). Moreover, the CAE asserted that he would like to engage the audit committee on the matter. The CAE at Municipality 4 tried to explain this oversight as follows: “The reason is that we don’t want to set ourselves for failure. Because we still know that we, we need to, to develop”. The data analysis revealed that although municipal management responds to the IAFs findings, they seldom implement the recommendations made. The following views expressed by CAE participants confirmed this notion: “Most of the times they [auditees] will say, ‘but we don't have the resources’” (CAE Municipality 2); “Instead of trying to understand that [findings], they try to be defensive in some other cases” (CAE Municipality 3).

All AOs acknowledged that no formal assessment procedures were followed to evaluate their IAFs. Certain AOs identified this weakness as an area for improvement. For example, the Municipality 3 AO asserted: “… moving forward, I think we will need that tool to assist them. We will also need guidance on how they should be assessed”. The AO at Municipality 1 AO expressed concern about the work conducted by the IAF on financial matters but ascribed it to the background of internal auditors: “Because, maybe they don’t really go and study accounting as per se”. This AO stated that internal auditors are not able to audit bank reconciliations and fixed asset reconciliations due to limitations in their formal studies coupled with limited experience in the workplace.

All AOs viewed the need for a clean audit from an external audit perspective. The AO at Municipality 2, for example, stated: “Because the thing is that if the finding [by external auditors] has been identified, eh, say this financial year, we do not expect the same finding to be reported again the following year. It must be resolved once and for all”.

Contrasting views were received regarding management’s responses to internal audit findings. Certain AOs agreed with the CAEs. However, the recommendations made by IAFs are seldom implemented by municipal management. The AO at Municipality 3 corroborated the statement: “Like I said, there is a culture of not responded [sic] to internal audit findings. Since we have started engaging in internal audit in our management meetings, things are starting to improve. You know, managers see internal audit as a hindrance. When they come to perform its [sic] own work, they see them as questioning their work and sometimes they do not want to cooperate, but we are working on it as management tend to in that [sic] and educate managers that the work of internal auditors is to assist us to improve our day-to-day function”. The AO at Municipality 4 held a contrasting view: “My view is internal audit findings received the same attention that is afforded to AGSA”. The same sentiment was shared by the AO at Municipality 2: “If they [internal audit] visit a department of this financial year, the following year they will go to check whether what they have identified has been addressed. And if it has not been addressed, that will then be escalated to myself as the accounting officer to say we’ve identified this and we’ve agreed with the senior manager that this is going to be addressed. Now after a year, things have not been addressed. Then I intervene”.

CACs acknowledged that IAFs do not have quality assurance and improvement programmes. The CAC at Municipality 1 tried to justify the oversight: “As part of their approved audit methodology, internal audit follows quality assurance procedures that follow different levels of review with the internal audit manager being responsible for the final quality review”. Certain CAC participants had optimistic views about management’s responses to internal audit findings. The following quote demonstrates this: “Management have been cooperating with internal audit and have shown the commitment to correct all the findings raised as well as recommendations by the governing structures” (CAC Municipality 1). The CAC at Municipality 4 explained that most internal audit findings are submitted to the audit committee without comments by management due to lack of cooperation between the latter and the IAF.

As in the case with AOs, the CACs also viewed a clean audit from the external auditor’s perspective. Most were unsure whether the municipality has a documented Operation Clean Audit Strategy that conforms to the one developed by the COGTA in 2009. When asked how internal auditors prioritise Operation Clean Audit, the CAC at Municipality 1 acknowledged the role played by IAF as follows: “Internal auditors do follow up on external audit findings. Their own audits which are risk-based also assist in early detecting control weaknesses which also assist during the external audit”. The CAC was not sure whether the municipality has a documented Operation Clean Audit Strategy that conforms to the one developed by the COGTA in 2009.

6.5 Relationships

The participants were asked to share their views of the relationship between the audit committee and management as well as how it affects internal audit effectiveness. The questions included relationships with the audit committee and external auditors. The responses are presented in the following section.

All CAEs report in an administrative capacity to AOs and as a functionary to audit committees. As part of functional reporting, audit committees approve, inter alia, internal audit plans, methodologies, charters and reports. The AGSA has not relied on internal audits in all municipalities in the region. None of the municipalities’ IAFs have a deliberate clean audit strategy, except Municipality 1 that has Operation Clean Audit Committee meetings and has introduced audit champions.

All CAEs revealed that they do not hold in-committee meetings with audit committees as often as they would prefer. The CAEs’ perceptions of their relationships with other stakeholders included: CAE at Municipality 1 asserted that: “I feel like the current audit committee, they’re not doing much in terms of trying to show the support and the interest for internal audit issues. But, I feel like, you know, maybe I’m expecting too much. But
I don’t get that, I don’t have a feeling that these people are here to protect me, and also to advise me at the very same time”. He further asserted that the municipality has a Combined Assurance Framework and Plan, which has not been reviewed for several years. CAE Municipality 2: What is the relationship with the audit committee? The CAE posited that “We do not engage outside of the audit committee meetings”. When asked about her relationship with the AGSA, she stated: “With AG, I don’t really talk to them about operational functional issues, it’s as and when maybe they want to understand certain things. And then they will call. Maybe, it’s mainly when they come to do the external audit”. The CAE explained that external auditors utilise the internal audit reports during the planning phase to identify challenges that need to be focused on. He also explained that AGSA refers to the IAF when queries are posed to management. The CAE at Municipality 3 asserted that the audit committee advises internal audit on how audit projects can be executed. The CAE at Municipality 4 posited that: “The only time when we would meet would be when we are meeting in the audit committee meeting. Which is not very useful, because there are some issues which must be brought to the attention of the IAF in the absence of management so that we do not reduce the support that internal audit activity should have”. The CAE further stated that: “We have had a challenge where, eh, no serious focus is given on internal audit. We are given probably five minutes to discuss so many things. And then there is more time spent on financial matters”. The CAE retorted that: “I have been always saying that no-one can fire me in this institution because you cannot fire me when you have not done performance assessment, or performance appraisal, that was duly signed by the audit committee which should oversee my way work”. The AOs at all municipalities expressed a positive view of the role played by audit committees to improve the quality of the IAFs. This is contrary to the view expressed by the CAE of Municipality 4 whose perception was that the audit committee do not support the IAF. AO Municipality 1: The AO believes that the IAF can do more with regard to Operation Clean Audit by analysing the actions taken, verifying progress to resolving the findings as opposed to merely documenting what management had told them. The AO attributes the less than ideal effectiveness of the IAF to vacancies that continue to exist within the IAF. When asked about external auditors’ reliance on the work of the internal audit, the AO stated that “OK, at this stage the auditors do obtain the internal audit reports and review them. We have not really seen reliance on the work of the internal audit for reliance”. The AO at Municipality 2 was asked about the relationship with the audit committee. It was explained that the audit committee assists a great deal with the work conducted by internal audit within the municipality. The AO also posited that: “In every meeting, the internal audit is expected to give a report as to what is it that they’ve done and they also get some advices [sic] on how to improve in some of the things. So, I think the involvement, of the audit committee is really assisting the internal audit”. The AO at Municipality 3 was asked about the responsiveness of the IAF to Operation Clean Audit. The response was that: “There are limitations; however, there are improvements going forward. I think the office was firstly resourced by one person and then employed another one and a learner, so year in year out they are improving and we cannot say we are there yet, but there are improvements”. With regard his views on the internal audit reliance on the work conducted by the internal auditors, the AO at Municipality 3 asserted that: “I would like internal auditors when they perform the function, they should do it without favour because if they are to do favours then the external auditors will not rely on their work”. The AO at Municipality 4 explained that the audit committee discharges its responsibilities without any interference from management. Furthermore, “the audit committee is also given a space to do its work without any interference by management”. The AO also confirmed that the AGSA does not rely on the work conducted by the internal auditors.

Three CAC participants confirmed that the audit committee does not hold in-committee meetings with the CAE. The CAC at Municipality 1 accentuated the reporting lines of his IAF and argued “that the IA department functions unhindered and without fear”. The CAC at Municipality 2 reported that: “We have not had an in-committee meeting with her. If there is anything she wants to discuss privately with us, we would allow her to do that”. With regard to reliance on the internal auditors work by external auditors, the s CAC stated that: “In Limpopo, AGSA took a decision that they would not rely on the work of the internal audit. They just do their work as per their methodology whether you have internal audit or not”.

6.6 Organisation

The organisational status of a CAE surveyed in the municipalities included below senior managers, who are referred to as “Section 57 Managers” (eThekwini Municipality 2016: Online). In Municipalities 1, 2 and 3, the CAEs are two levels below Section 57 Managers. In Municipality 4, the CAE is three levels below Section 57 Managers.

The status of the CAE within municipalities elicited opposing opinions. The CAE of Municipality 1 believed that organisational status does not influence the perceived significance of the IAF. Upon further investigation, the CAE acknowledged that failure to attend senior management, executive committee (EXCO) and council meetings due to his level constitutes unconscious discriminatory practice because he is not permitted to attend senior management meetings. The CAE also stated that the IAF audits risk management on an annual basis and the resultant report is submitted to the AO and audit committee. Furthermore, due to his non-attendance of senior management meetings, the reports are discussed with the AO before audit committee meetings. The CAE at Municipality 2 maintained that the post level of the CAE does not affect the reporting lines of the CAE. The CAE explained that he reports in an administrative position to the AO and as a functionary to the audit committee. The CAE further explained that the IAF audits risk management annually and the reports are submitted to management and the audit committee. He stated that
his position does not affect the effectiveness of internal audit as he may attend all senior management meetings and contribute on an equal basis.

Contrary to the above, the CAE at Municipality 3 stated that he does not have influence and his position, being below Section 57 Managers, affects the effectiveness of the IAF negatively. He further confirmed that he had recently started attending senior management meetings since the previous audit committee meeting at which his presence at senior management meetings was underscored by the audit committee. The CAE stated that risk management processes are audited annually and the reports are submitted to management and audit committee. The Municipality 4 CAE is appointed three levels below senior managers. He held that it makes him junior compared with other CAEs in the district who are all two levels below senior managers. Furthermore, he stated that: “At least if the CAE was put at level two, which is what I think, National Treasury has tried in the past to say, at least let us try to put them at least not more than two levels below the level of the of the accounting officer. It influences acceptability of the input, but unfortunately it has not happened”.

The AOs’ views of the impact of the organisation on the effectiveness of the CAE are explained below.

The AO at Municipality 1: Similar to the CAE, the AO believed that the position of the CAC does not influence the effectiveness of internal audit within the municipality. When asked if the CAE attends all senior management meetings, she stated that: “At this stage not, except if it is your general senior management meeting – yes. But, that’s related to performance and audit-related issues”. The AO acknowledged that the absence of CAE senior management and EXCO at council meetings affects internal audit effectiveness.

The AO at Municipality 2 explained that the CAE position is at a level below senior managers. However, although she is below senior managers, she is not disadvantaged because she attends all EXCO and council meetings including those by senior managers. The AO believes that the CAE who is managerially junior to the senior managers does not have any or perceived influence on internal audit effectiveness. The AO further confirmed that internal auditors audit risk management quarterly.

The AO at Municipality 3 asserted that: “As an accounting officer, I understand and take his role with high regard; however, like I indicated, as an organisation I have a sense that other managers see it as a hindrance to them. They don’t embrace internal audit so it is something that is in the culture of the organisation”. The AO further stated that: “We are working on it to try and improve on how they should embrace the internal audit as a function”. Furthermore, according to the AO he doubted that the position has a role to play, but the view held by certain managers that they do not want any individuals, including internal audit to “poke their nose” in their work.

The AO was unsure of how often internal auditors audit risk management, but assumed it was conducted quarterly. The difference in the views held by management and the CAE on the frequency of risk management audits could be due to insufficient clarification by the CAE of the work the IAF does within the municipality.

The AO at Municipality 4 was content with the competencies of the incumbent CAE. He stated that: “I think we have got a capable and qualified CAE and I think the only way that his work can be influential in the institution it [sic] is when his recommendations are taken seriously and implemented by management. He further stated, "Even though the perception was more negative, I think now things have changed”.

The optimistic view expressed by the AO on management’s perception of the role of internal audit is inconsistent with the views expressed by the CAE. This could be because the AO was seconded by the Provincial Treasury to the municipality at the beginning of 2016 and he may lack experience at the municipality. He further explained that the position of the CAE does not influence the effectiveness of the IAF. The AO confirmed that the IAF audits risk management processes annually, and the reports are submitted to management and the audit committee.

The CAC at Municipality 1 stated that: “The CAE has to be a leader and knowledgeable in the field and set the tone in terms of the high level of standards expected of him/her and the IAF team”. The CAE was unavailable for the follow-up questions. The CAC further explained that the IAF audits risk management every three years and the reports are submitted to management and the audit committees.

The CAC at Municipality 2 posited that: “Some managers may view her to be junior, organisationally. But, that has not been observed since I started serving on the audit committee”. The CAC further confirmed that the IAF audits risk management annually and the reports are submitted to management and the audit committee.

The CAC at Municipality 3 asserted that: “The CAE is very junior. He does not attend senior management meetings. He only focuses on internal audit execution”. The CAC explained that the IAF audits risk management on an annual basis. The CAE’s perception of Municipality 3’s CAE appointment is more junior than similar positions in other municipalities within the district could be attributed to the skills and competencies capacity compared to the counterparts.

The CAC at Municipality 4 was asked about his views on the effect of the position of the CAE on internal audit effectiveness. The CAC posited that: “I don’t think the level is a problem there. The governance of the institution is the problem”. The CAC further explained that the IAF conducts annual risk management audits. These reports are submitted to management and the audit committees.

6.7 Summary

The findings of the research revealed several shortcomings – both within the IAFs and the broader organisations within which the internal auditors work.
Certain shortcomings require the CAEs to raise their IAF profile and assert the presence of thereof in a more meaningful manner. The CAEs are progressively expected to identify key stakeholders and proactively respond to their expectations timeously. Furthermore, the CAEs are required to articulate the role of the IAFs in a systematic and organised manner. The CAEs are also expected to communicate their needs clearly, including resources to the AOs and audit committees so that the stakeholders are aware of the key challenges facing the IAFs and consequently, respond appropriately.

### Table 3: Summary of results and findings

<table>
<thead>
<tr>
<th>Driver</th>
<th>No.</th>
<th>Conclusion</th>
<th>Recommended future studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Internal audit resources</td>
<td>1.</td>
<td>None of the interviewed CAEs have qualified internal auditors in their teams.</td>
<td>A future study could determine a development framework for CAEs in municipalities. Such a framework should make provision for both formal (professional and academic qualifications) and informal learning (to remain abreast of the latest developments).</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>IAF does not have the requisite competencies.</td>
<td>More work needs to be done on the competencies required by municipal CAEs to strive for clean audits. Future research could determine these competencies and whether it differs from those identified by the IIA.</td>
</tr>
<tr>
<td></td>
<td>3.</td>
<td>Lack of internal audit capability framework.</td>
<td>Building on the internal audit profession’s capability models, a future quantitative study could determine at which level(s) of internal audit capability a municipality (or local government structure) should function to have an impact on the organisation’s performance.</td>
</tr>
<tr>
<td>B. Internal audit processes</td>
<td>1.</td>
<td>Non-existent quality assurance and improvement programme.</td>
<td>A future study could determine how IAFs should be structured for municipalities (at local government level) to ensure quality assurance. For example, should internal audits be centralised at the local sphere of government, or at provincial or national level, or would a decentralised model with centralised oversight be a solution.</td>
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<td></td>
<td>2.</td>
<td>Non-existent Operation Clean Audit Strategy.</td>
<td>The exact role of an IAF in following an Operation Clean Audit Strategy could be determined through future research.</td>
</tr>
<tr>
<td>C. Relationships</td>
<td>1.</td>
<td>Lack of in-committee meetings between CAEs and AOs.</td>
<td>There is a need for future research on stakeholder engagements of a municipal IAF. Such a study could consider communication, oversight responsibilities as well as the impact of engagements on the performance of CAEs and IAFs.</td>
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<tr>
<td></td>
<td>2.</td>
<td>Audit committees are not involved in the performance management of CAEs.</td>
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<tr>
<td></td>
<td>3.</td>
<td>Lack of effective stakeholder engagements.</td>
<td></td>
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<tr>
<td>D. Organisation</td>
<td>1.</td>
<td>Certain CAEs are too low on the organogram.</td>
<td></td>
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<tr>
<td></td>
<td>2.</td>
<td>Inconsistent understanding of the concept of risk management audit.</td>
<td>Another area for future research is the status of the CAE. A future study could determine the relationship between the standing and/or effectiveness of the IAF and involvement/profile of the CAE.</td>
</tr>
<tr>
<td></td>
<td>3.</td>
<td>Acting AOs resulting in inconsistent understanding of the challenges facing the IAF.</td>
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## 7 CONCLUSION AND AREAS FOR FUTURE RESEARCH

This study investigated the effectiveness of internal audit activities within municipalities in the Vhembe District, Limpopo province in South Africa. The study considered four factors which affect the supply side of internal effectiveness namely: internal audit resources, internal audit processes, IAF relationships and the organisation. Based on the participants’ perceptions of the aforementioned factors, the study also identified areas for future studies.

The study revealed that municipalities in the Vhembe District experienced internal audit restrictions. A future study could develop a long-term internal audit capability framework for municipalities with such limitations. The study further identified limited stakeholder engagements. A future study could qualitatively investigate how stakeholder engagement can add value and quantitatively to what extent improved stakeholder engagement will affect internal audit effectiveness. Another study could explore how the AGSA as specific stakeholder comprehends the contemporary role of an IAF.

On the practical level, the study identified that participating municipalities have not implemented quality assurance and improvement plans. A future study could propose such a plan for the municipalities. Furthermore, training material can be developed to assist all stakeholders to participate in such a programme.

This study was limited to municipalities in the Vhembe District located in the Limpopo Province in South Africa. Future studies could expand on this limitation by including the entire local government sector in South Africa and other developing countries. Comparisons could be made and lessons learnt to inform practices.
Effective internal audit activities in local government: Fact or fiction?

ENDNOTE:
1 Municipal Standard Chart of Accounts.

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Effective internal audit activities in local government: Fact or fiction?


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ANNEXURE A

Questionnaire (background)

1. Number of internal auditors in your organisation

2. Percentage of certified internal auditors (auditors with CIA qualifications).

3. Do the following stakeholders conduct internal audit functions?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Yes</th>
<th>No</th>
<th>Don't know</th>
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</thead>
<tbody>
<tr>
<td>External auditors</td>
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<td>Audit committee</td>
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<td>Management</td>
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<tr>
<td>Auditees</td>
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</table>

4. Select your internal audit resources

<table>
<thead>
<tr>
<th>Resource</th>
<th>0–5%</th>
<th>5–10%</th>
<th>10–25%</th>
<th>25–50%</th>
<th>&gt;50%</th>
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<tbody>
<tr>
<td>Total staff costs in relation to total</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>operating expenditure</td>
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<td>Internal audit staff costs in relation</td>
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<td>to total staff costs</td>
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<tr>
<td>Average turnover % of internal audit</td>
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<td>staff in the past three years</td>
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ANNEXURE B

Interview Questions

A  Internal Audit Resources

1. What do you perceive as internal audit effectiveness?

2. How do internal audit resources within your organisation impact on internal audit effectiveness?

3. What are your views of the competencies of internal auditors in relation to all the business areas of the organisation, (including IT, risk, finance, project management, forensic auditing, etc.)?

4. How does your organisation ensure internal auditors understand the business?

B  Internal Audit Processes

5. What are your views on the prioritisation of clean audits by internal auditors?
Effective internal audit activities in local government: Fact or fiction?

6 How is the quality of the internal audit assured in your organisation?

7 What are your perceptions of management responses to internal audit report findings?

8 How does your organisation assess the efficiency and effectiveness of the internal audit function (IAF)?

C Relationships

9 What are your views of the audit committee’s association with the IAF?

10 How does your IAF respond to the Operation Clean Audit Strategy?

11 What are your views of the external auditors’ reliance on the work of internal audits?

D Organisation

12 How do you view the organisational status of the chief audit executive and his/her influence on the effectiveness of the IAF?

13 How often does the internal audit evaluate the adequacy and effectiveness of risk management processes? Do the resultant reports serve before senior management and the audit committee?