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# The role of the Internal Audit Function (IAF) in Integrated Reporting and possible challenges and barriers to internal audit's involvement

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# ABSTRACT

The purpose of this research is to explore the roles of the internal audit function (IAF) in integrated reporting and identify the possible challenges and barriers to internal audit's involvement.  The research was conducted to fulfill three main purposes: to determine if the IAF has any role to play in integrated reporting; to identify the potential challenges and barriers of internal audit's involvement; and to identify and recommend best practices for internal audit's involvement. The potential roles of the IAF in integrated reporting is predicted through current practices and literature. The research approach required an understanding and contextualisation of current practices by interviewing Chief Audit Executives (CAEs), following a qualitative approach within an interpretivist paradigm. The results were analysed using a data analysis spiral. The main conclusion drawn was that the involvement of the IAF in integrated reporting is closely linked to the maturity of the integrated reporting process. The research sample consisted of CAEs of listed companies that are recognised as producing good integrated reports and whose integrated reporting processes are in varying stages of maturity. The practical implications for CAEs are to apply best practices in becoming involved in the integrated reporting process and to avoid potential challenges and barriers.  The role of the IAF in integrated reporting has not yet been identified through prior studies and this can be considered as the most significant contribution of this study.

*Key words* – *Assurance, Integrated reporting, Internal audit*

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**ABBREVIATIONS**

| | |
|---|---|
| **CAE** | Chief Audit Executive |
| **GRI** | Global Reporting Initiative |
| **IAF** | Internal Audit Function |
| **IFAC** | International Federation of Accountants |
| **IIA** | Institute of Internal Auditors |
| **IIARF** | Institute of Internal Audit Research Foundation |
| **IIAS** | International Internal Auditing Standards |
| **IIRC** | International Integrated Reporting Council |
| **<IR>** | Integrated Reporting Framework |
| **IoD** | Institute of Directors in Southern Africa |
| **ISA** | International Standards of Auditing |
| **King III** | King Report on Governance for South Africa 2009 |
| **KPI** | Key Performance Indicator |

**DEFINITIONS**

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|---|---|
| **Assurance** | An engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other that the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria (International Federation of Accountants [IFAC], 2014; O'Dwyer & Owen, 2005a). |
| **Internal Audit Function** | Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an entity's operations. It helps an entity accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Although accounting is an important skill for an internal auditor, the focus for internal auditors is the evaluation of operational, risk management, internal control and the governance processes of the entity (Chambers & Odar, 2015; Institute of Internal Auditors South Africa [IIA], 2015). |
| **Integrated reporting** | A holistic and integrated representation of the entity's performance in terms of both its finance and its sustainability (Brown & Dillard, 2014; de Villiers, Rinaldi, & Unerman, 2014; Simnett & Huggins, 2015; Stubbs & Higgins, 2014). |
| **Stakeholders** | Stakeholders are simplistically defined as a broad range individuals or groups of individuals who can influence or are influenced by an entity. Generally stakeholders are grouped in internal and external stakeholders (Cooper & Owen, 2007; Darnall, Seol, & Sarkis, 2009). |
| **Chief Audit Executive** | An independent corporate executive with the overall executive responsibility for the internal audit. In the case of outsourced internal audit, the partner responsible for the |

| | engagement is considered the Chief Audit Executive (CAE). Alternative designations may be used for this individual including Director of Audit, Director of Internal Audit or Chief Internal Auditor (Institute of Directors [IoD], 2009; Institute of Internal Auditors South Africa  [IIA], 2015). |
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## CHAPTER I - INTRODUCTION

## 1.1    Purpose of this study

The need for public accountability stems back several decades, and emerged during the Industrial Revolution where greater economic activity created the need for broader accountability (Ravenscroft & Williams, 2009). Accounting practices needed to adapt to provide information to a wider audience. The argument was made that the change to provide greater information was not driven by technological changes but by social and political forces (Ravenscroft & Williams, 2009).  Peat (2011), as cited by Stent and Dowler (2015) state that more recently, the need for greater information is driven by issues confronting the world economy, such as population increase, climate change and the depletion and pollution of finite natural resources. This information is conveyed as part of an entity's integrated report (Cooper & Owen, 2007).

The number of entities that issue integrated reports have increased dramatically over the last few years and integrated reporting is expected to become the preferred framework for the discharge of corporate stakeholder responsibilities (Cheng, Green, Conradie, Konishi, & Romi, 2014; Deloitte, 2011). An integrated report conveys the impact an entity has had on its stakeholders, both positive and negative, and explains how the positive impacts will be enhanced and the negative impacts ameliorated (IoD, 2009). The report should address the additional information needs of stakeholders. Subsequent to the release of the King Code of Corporate Governance in 2009 (King III), the International Integrated Reporting Council (IIRC) released a framework to guide companies in drafting an integrated report (International Integrated Reporting Council [IIRC], 2013). The framework focuses on providing a guide to entities on how to prepare an integrated report, the considerations of materiality, an understanding of the 'trade-offs' and the appropriate context of the report (Bepari & Mollik, 2016).

The research around integrated reporting is widespread and diverse. Several  academic

studies have critically analysed external assurance practices in integrated reporting (Cooper & Owen, 2007; Darnall et al., 2009; O'Dwyer & Owen, 2005a; O'Dwyer, Owen, & Unerman, 2011; Simnett, Vanstraelen, & Chua, 2009). Prior research also investigates the demand for sustainability assurance (Simnett et al., 2009); the legitimation of assurance practices (Brown & Dillard, 2014; O'Dwyer & Owen, 2005b; O'Dwyer et al., 2011), and the current practices of sustainability assurance (Mock, Turner, Gray, & Coram, 2009; O'Dwyer & Owen, 2005b; Park & Brorson, 2005). These studies mostly conclude that independent external assurance provisions appear to have more credibility (Ackers, 2009; Haji & Anifwose, 2016; Simnett et al., 2009), but there are numerous challenges for independent external assurance providers. For example, the suitability of conventional assurance models have yet to be determined ([IIRC], 2014a).

Haji & Anifwose (2016) suggests that internal assurance provided by, for example, the IAF and the audit committee are proposed as alternatives. Therefore, there is a need to conduct empirical research to determine whether internal assurance providers, such as the audit committee and the IAF can be alternative assurance providers on integrated reporting (Haji & Anifwose, 2016). However, the need for the involvement by the internal audit specifically in the relatively new <IR> Framework is still evolving and not yet clearly understood (The Institute of Internal Auditors Research Foundation [IIARF], 2014).

The purpose of this research is to explore the roles of the IAF in integrated reporting and identify the possible challenges and barriers to internal audit's involvement. In particular, this research aims to determine the extent to which the IAF can be involved in the integrated reporting process i.e. the IAF's ability to express internal and/or external assurance over the integrated report (Chambers & Odar, 2015; [IIRF], 2014). This study will contribute to the literature concentrating exclusively on the IAF and its role in integrated reporting.

## 1.2 Context of the study

Stiglitz (2002), as cited by Brown & Dillard (2014) states that modern societies are facing significant social and environmental challenges such as 'biodiversity loss, depletion of resources, globalisation and social justice' (Brown & Dillard, 2014). These concepts are often described as sustainability issues and are considered the primary moral and economic imperatives of the twenty-first century (Marx & van Dyk, 2011). The impact that entities have on broader society have resulted in a greater awareness of sustainability issues and its impact on people and the planet. In the 21$^{st}$ century where there exists a greater focus on transparency, stakeholders are demanding more information and accountability from entities. The landscape of investment has changed from investors being concerned only about the financial performance of the entity, to understanding that a failure to take care of society and the environment can lead to financial losses in the long term (Abeysekera, 2013; de Villiers et al., 2014; Simnett et al., 2009; Wong, Wong, Willow, & Chen, 2016).

The deeper understanding of accountability and the need to provide additional non-financial information resulted in the emergence of the sustainability report, issued mostly as a separate document reporting on corporate social and environmental responsibility (Simnett & Huggins, 2015). King III introduced the concept of integrated reporting in South Africa to enable stakeholders to make a more informed assessment of the economic value of an entity based on a holistic view of strategy (IoD, 2009). The integrated report is not an evolution of the sustainability report, but rather an attempt to promote a 'more cohesive and efficient approach to corporate reporting' drawing on different types of reporting ([IIRC], 2013). The integrated report is a means of demonstrating how an entity corporate strategy links to financial aspects and how this strategy impacts upon performance and corporate value. While most entities agree on what the objective of the integrated report is, the content and process of preparing an integrated report has not yet been standardised (Abeysekera, 2013).

## 1.3    Research question

In the context of the growing importance of integrated reporting and public accountability, the issue of assurance of these reports need to be addressed. Assurance adds to the credibility of the integrated report and provides the required accountability to entities stakeholders. Whilst the role of the external audit in integrated reporting has been explored and defined (IIRC, 2014a), the possibility of obtaining internal assurance has yet to be established. This is particularly relevant in the case of the IAF, whose close proximity to the risks and controls of an entity would be ideally placed to play an integral part of the integrated reporting process.

Firstly, the evidence of the growing interest and importance of integrated reporting worldwide suggests that academic responses are necessary in this area. Having been closely involved in the drafting of King III, the researcher was intrigued by the relatively new concepts introduced, such as integrated reporting and combined assurance. The researcher's personal experience when consulting with entities should that these vital terms were not well understood and greater clarity needed to be provided. Secondly, a gap in the body of knowledge regarding the assurance of the integrated report and the most appropriate sources of such assurance was evident. Much research is available on the concept of assurance and the role of external assurance providers, however the research on the role of internal audit in integrated reporting is very limited. This study aims to add to the body of knowledge of integrated reporting, and specifically the roles of internal assurance providers, such as the IAF.

The objectives of this study are to provide a review of current literature on the topics of assurance, integrated reporting, and internal audit to investigate the potential roles of the IAF in integrated reporting; to identify the potential challenges and barriers for internal audit's involvement in integrated reporting; and to recommend how the IAF can be better utilised in the integrated reporting process. This research further aims to determine if internal assurance mechanisms, such as an IAF, may potentially become

appropriate standalone alternative assurance providers in integrated reporting.

## 1.4     Contributions of the study

The study has the potential to make three sets of contributions. Firstly, it has the potential to extend, broaden and deepen existing literature on integrated reporting, assurance and internal audit, specifically the role of the IAF in the integrated reporting process. Empirical research on integrated reporting is limited (Haji & Hossain, 2016). Secondly, it may assist the IAF to understand their role in integrated reporting and what the challenges and barriers may be. Lastly, it will recommend practices that might be implemented by internal auditors to improve the integrated reporting process.

The study will provide clearer insights about the participants within this study and on how their roles in the integrated reporting process compares to other similar entities. The study will also identify improvements that can be made to the exiting reporting process. By applying the best practices recommendations from this study, entities that have not yet embarked on an integrated reporting process can apply these recommendations and avoid many of the pitfalls identified by other CAEs. This study will encourage those entities that are still at the early stages of integrated reporting to design optimum processes for the involvement of the IAF. Although the study focuses on local entities, the concept of internal audit is globally consistent and the recommendations from this study can equally be applied by international companies.

## 1.5     Limitations of the study

A qualitative exploratory enquiry was deemed most appropriate for the purpose of the study as it contributes to fundamental knowledge and theory of assurance on integrated reporting (Patton, 2015). The results of the study may be limited due to methodological choices. Qualitative research cannot be generalised and the information obtained from

the interviews may not be representative of all entities, the relevant IAFs or CAEs in South Africa. The results of the study may further be limited by the use of semi-structured interviews as a research instrument. An unavoidable risk of interviews is that participants provide commentary that may be biased by the views of their current employer entity (Alvesson, 2003). Structuring the questions in such a manner to obtain the participants' personal opinions, and excluding the name of their current employer entity, attempted to mitigate the potential bias.

Despite these potential limitations, it was envisaged that the findings of this study will be applicable to entities not included in the research. The results of this study will assist IAFs to understand and define their role in the integrated reporting process, to avoid potential pitfalls and follow best practice in preparing integrated reports. The integrated reporting process within an entity involves various parties within, as well as, external to the entity. These would include, amongst others, audit committees, external auditors, finance teams, and operational management. The emphasis of this research will be placed on the IAF and the entire integrated reporting process and any other parties involved in the process is beyond the scope of this study. Several different opinions and models of structuring IAFs exist, including insourcing, outsourcing and co-sourcing (Barac & Motubatse, 2009; Coram, Ferguson, & Moroney, 2008; Papageorgiou, Padia, & Yasseen, 2013; Selim & Yiannakas, 2000).

For the purposes of this study, the IAF is defined as an IAF where, although independent, the CAE is a member of the executive team of the entity. This study will use purposive sampling by targeting specific individuals per pre- defined criteria (refer to 3.5). The participants include CAEs from entities that are considered mature in their integrated reporting process. It was decided to only include CAEs that are currently involved in an integrated reporting process who can provide relevant, practical insights, as opposed to CAEs that are not involved in integrated reporting. Due to the choice of the sampling method and the criteria set, a limited number of interviews were conducted. The quantitative benefits and contribution of the IAF's involvement in the integrated reporting process to the value of the entity did not form part of this study. This

could be an area for future research.

## 1.6　　Assumptions

IAFs have a vital role to play in integrated reporting and there is a need for exploring and understanding what this role could be. For example, in 2014, the Institute of Internal Auditor's Research Foundation's issued a request for further research focusing on '*Integrated reporting - What is Internal Audit's Role*' ([IIARF], 2014). This study draws from the theoretical perspective of legitimacy theory. In doing so this study, based on the literature review, develops a hypothesis to predict the role of the overall and specific aspects, of the role of the IAF in integrated reporting. The theoretical perspective on integrated reporting is that of a management as agent providing relevant information to stakeholders. The specific role of the IAF will depend on the overall legitimacy of the IAF hence the use of legitimacy theory. This research study further assumes that the reality generated during the research process depends on the context in which it is constructed (Lukka & Modell, 2010; Rowley, 2012). The context is limited to the actual involvement of the IAF in the integrated reporting process and not the perceived involvement from outside parties.

Ten semi-structured interviews with CAEs within the pre-defined criteria will be conducted. This will allow the interviewer or interviewee to diverge in order to pursue an idea or response in more detail and provide a deeper understanding of social phenomena that would be obtained from purely quantitative methods (Babbie & Mouton, 2010). The flexibility of this approach, particularly compared to structured interviews, also allows for the discovery or elaboration of information where detailed insights are required from individual participants. They are also particularly appropriate for exploring sensitive topics, where participants may not necessarily want to talk about such issues in a public forum. (Alvesson, 2003). The use of interviews as collection instrument for the primary data does introduce some methodological limitations. In particular, complete candour of participants cannot be guaranteed, despite the

safeguards to ensure that responses provided are complete and accurate. Consequently, there is an assumption that all participants have been honest and forthcoming with their responses.

## 1.7    Outline of report

While the first chapter introduces the purpose of this study to determine the role of the IAF in integrated reporting, the second chapter provides a relevant literature review of assurance, integrated reporting and internal audit. This chapter also highlights gaps in the literature. The third chapter sets out the research methodology for this study, identifying a qualitative research methodology as the most appropriate for this particular study. Chapter 4 sets out the findings of this study and provides an analysis of the results from the semi-structured interviews. The last chapter provides a conclusion of the study, recommendations for the role of the IAF in integrated reporting, and suggestions for further qualitative and quantitative research in this area of study.

## CHAPTER II - LITERATURE REVIEW

## 2.1    Introduction

This chapter presents the literature review and identifies gaps in research. It attempts to conceptualise the theoretical frameworks of assurance and integrated reporting, with particular focus on addressing the importance of assurance in integrated reporting. The chapter investigates the potential roles of the IAF in integrated reporting; identifying the potential challenges and barriers for internal audit's involvement in integrated reporting. It further recommends how the IAF can be better utilised in the integrated reporting process and also highlights the gaps in research.

## 2.2    A conceptual framework for assurance

The term 'audit' is derived from the Latin word "audire" which means "to hear".  In conducting an examination and verification of transactions, the auditor has to listen to those being audited (Lee & Ali, 2005). Boyd (1905), as cited by Lee and Ali (2005), states that the  concept of auditing stems back to the ancient civilisations of China, Egypt and Greece, where activities in Greece at around 350 B.C. may be the closest to modern auditing activities (Lee & Ali, 2005). From the 1840s to the 1920s, when manual book-keeping was prevalent, the duties of auditors was to detect fraud and errors (Porter, Simon, & Hatherly, 2005).  The 1920s to 1990s saw the concept of an audit becoming closer aligned to accountability, where the separation of ownership and management became more evident (Lee & Ali, 2005). The term 'accountability' has evolved from the traditional view of "giving and demanding the reasons for conduct" to being 'accountable' (Mulgan, 2000; Roberts & Scapens, 1985; Sinclair, 1995). An independent account from an auditor was required to convince investors to continue providing capital. Essentially the auditor added credibility to the financial statements (Lee & Ali, 2005).

Since the 1990s, the auditing profession has seen the greatest change, having to focus

extensively on systems and having a deep understanding on the risks facing an entity. The external audit focused more on providing 'assurance' to stakeholders than the pure 'audit' or account of transactions (Lee & Ali, 2005). Various studies have emphasised the importance of assurance in providing credibility to information provided by management (Curtis & Turley, 2007; Gong, Kim, & Harding, 2014; Holland, 2005; O'Dwyer & Owen, 2005a; Porter, O'hO'gartaigh, & Baskerville, 2009; Power, 2003; Vanstraelen, Schellenman, Hofmann, & Meuwissen, 2011). Fraser & Pong (2009) suggests that the concept of assurance is not as simplistic as implied by Shakespeare in the work Timon of Athens:

> *"If you suspect my husbandry of falsehood call me before the exactest auditors and set me on the proof"*.

Stewart (1984), as cited by Mzensi and Gaspar (2015), identifies accountability as a relationship between various parties, arguing that this relationship can only be effective if the accountee must "possess the power to hold the accountor to account". Furthermore, Stewart identifies five forms of accountability: probity and legality; process; performance; programme and policy. It is his contention that each type of accountability requires different information, which then determines its success (Mzensi & Gaspar, 2015).

**Table I – "Stewart's ladder" of accountability (Mzensi & Gasper, 2015, p. 684)**

The provision of assurance is the result of an external audit process, with the purpose of allowing stakeholders to hold the entity accountable for its actions (Mzensi & Gaspar, 2015). However, the accountability of entities has broadened in the last century and stakeholders are much more focused on performance accountability, leading to the introduction of the integrated report (Abeysekera, 2013). This study uses the concept of accountability as described by Stewart (1984) in defining assurance on the integrated report. The theoretical framework of assurance, and the importance of accountability (as depicted in Table I), emphasises the need for assurance on all types of corporate reporting, including the integrated report. In understanding the conceptual framework for integrated reporting, the question should be asked if assurance is necessary on the

integrated report.

## 2.3    A conceptual framework for integrated reporting

Brudney (1985), as cited by Abeysekera (2013) warns against the power imbalances in disclosure. Stakeholders do not have first-hand knowledge of entities and can only rely on information provided by managers, and this asymmetry of information results in an agency problem. With the evolution of social media and greater transparency, stakeholders are becoming more vociferous in holding entities accountable for their activities (Abeysekera, 2013; Dumay, Bernardi, Guthrie, & Demartini, 2016). Chow (1982), as cited by Wong et.al, states that entities generally disclose information to the public to allow the principal to verify the actions of the agent. In the case of integrated reporting there is information asymmetry between broader stakeholders and the entity, resulting in a demand for sustainability [integrated] reporting (Simnett et al., 2009).

Integrated reporting is aimed at bringing together material financial and non-financial information in an integrated and concise manner, demonstrating how corporate strategy aligns with the financial aspects, allowing market participants to understand how this strategy affects performance and value (Brown & Dillard, 2014; de Villiers et al., 2014; Haji & Anifwose, 2016; Simnett & Huggins, 2015; Stent & Dowler, 2015; Stubbs & Higgins, 2014) This reduces information asymmetry and enhanced accountability, providing greater transparency (Wong et al., 2016).

An increasing number of countries have introduced specific reforms to encourage reporting of non-financial information to enhance the quality of reports and disclosures (Haji & Anifwose, 2016; IIRC & Black Swan, 2014; [IoD], 2009). Internationally, over one thousand entities have adopted integrated reporting practices, with over 35 per cent of the world's largest entities producing integrated reports. Moreover, regulations in an increasing number of jurisdictions are requiring entities to produce an integrated report. In particular, in South Africa, this requirement is included in the listing requirement in 2010 for listed companies in South Africa. The UK government released a Strategic Report in

2013 requiring companies to provide non-financial information on the effect of the business plan on communities, employees and the environment. The European Union Council issued a concept paper which will require companies to provide non-financial information on organisation policies, risk and business outcomes (Haji & Anifwose, 2016; IIRC & Black Swan, 2014). There are also ongoing considerations in Australasia to introduce related measures (de Villiers et al., 2014). However, the value of the integrated report, and the broader acceptance of the report, depends on assurance provided on the integrated report. In identifying and understanding the importance of assurance on integrated reporting, the most appropriate sources for such assurance should be identified.

## 2.4    Importance of assurance on integrated reporting

One of the main concerns of integrated reporting, as with any voluntary corporate disclosure, is the completeness and credibility of the information provided (Merkl-Davies & Brennan, 2007). Both academic research, regulatory bodies and standard setters have emphasised the importance of external and internal assurance provisions in enhancing the credibility and reliability of non-financial disclosures (Haji & Anifwose, 2016;  [IIRC], 2014a; Simnett et al., 2009).

If reliance cannot be placed on integrated reports there is a potential for these reports to be perceived as marketing documents absent of credible  and decision- useful information (Simnett & Huggins, 2015). Assurance is considered one of the  means through which the completeness and credibility of information can be assured (O'Dwyer et al., 2011). In fact, assurance is considered an important tool in validating integrated reports and enhances the credibility of the information and stakeholder confidence in the matters reported (Millington & Wong, 2014). As early as 1972, David Rockefeller of Chase Manhattan Bank said that:

> *"…because of the growing pressure for greater corporate accountability, I can foresee the day  when, in addition to the annual financial statements certified by*

*independent accounts, corporations may be required to publish a social audit [report], similarly certified" (Ackers, 2009).*

This early prediction highlights the growing tendency and need for assurance on integrated reports (Bepari & Mollik, 2016). In fact, Cheng *et al.* (2014) question whether stakeholders will be interested in the integrated report without assurance. There are, however, no statutory or regulatory requirements for assurance on integrated reporting, either internationally or in South Africa, and requirements for independent assurance are only contained in guidelines such as the Global Reporting Initiative (GRI) G3 guidelines and King III (Marx & van Dyk, 2011).

The IIRC states that assurance will enhance the trustworthiness of the integrated report and that credibility and trust will ensure that the aims of integrated reporting are achieved ([IIRC], 2014b).

Carey et al. (2000), as cited by Wong & Millington (2014), suggests that the decision to obtain assurance over integrated reports is influenced by external stakeholders. Wallage (2000), as cited by Millington & Wong (2014), believes that increased credibility of reporting will result in an improved relationship with stakeholders and ultimately increase stakeholder confidence (Millington & Wong, 2014). In fact, Kolk and Perego (2010), as cited by Marx & van Dyk (2011) suggest that the demand for assurance on sustainability reporting is higher in countries that are more stakeholder oriented.

Assurance is, however discretionary and costly for entities and the benefits should outweigh the costs (Simnett et al., 2009). Due to the costs of independent assurance, only entities that are committed to reliable disclosure will be willing to incur the additional expense (Cho, Michelon, Patten, & Roberts, 2014). Assurance practices for assurance on integrated reporting are on the agendas of several standard setting bodies and entities. For example, the International Auditing and Assurance Standards Board (IAASB) have developed an assurance standard applicable to assurance engagements of non-financial information and Accountability developed its own Sustainability Assurance standard

(Bepari & Mollik, 2016). Despite the potential obstacles, there is a need for new accounting audit methodologies to enable the reporting and assurance on non-financial information and both internal and external auditors have a significant role to play (Royal NIRVA, 2008).

There are, however some issues for assurance on non-financial information. It should be established if the IAF has any role to play in integrated reporting, by highlighting the various factors that impact assurance in integrated reporting. The sections below address the most pertinent of these challenges for an IAF playing a role in the integrated reporting process from an assurance perspective, namely the nature and levels of assurance the IAF may be able to express, the competence of the internal auditor to be able to express assurance, lack of assurance standards on integrated reporting and the legitimacy of the IAF.

### 2.4.1  Nature and levels of assurance

The nature of assurance will differ depending on the manner in which the integrated report is structured. In cases where the entity produces separate sustainability and financial reports, separate assurance engagements and assurance statements may be produced. However, separate assurance statements on the financial statements and the sustainability report could potentially confuse users (O'Dwyer & Owen, 2005a). A merger of sustainability information into an annual report requires greater effort to ensure the connectivity of information but separate assurance engagements and statements addressing financial and non-financial information may not adequately reflect the integration. Eccles *et al*. (2012), as cited by Simnett & Huggins (2015), state that an integrated report requires the integration of financial and non-financial information in a holistic manner and a single assurance statement should be constructed. In fact, the majority of the respondents to the IIRC discussion paper preferred integrated assurance (Hoang & Simnett, 2013).

The existing assurance frameworks and statements allow for two levels of assurance,

namely reasonable and limited assurance and the uninformed user may not understand the differences. The usefulness of the assurance statement could be questioned (Ackers, 2009). The *Glossary of Terms* of the International Standards of Auditing (ISA) defines a reasonable assurance engagement as:

> '*An engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject against criteria. The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria*' ([IFAC], 2014).

The <IR>Framework provides the criteria against which an integrated report can be evaluated. In order to apply the definition of an assurance engagement on an integrated report a formulation of a conclusion on whether the integrated report is prepared in accordance with the <IR> Framework can be evaluated (IIRC, 2014a). Entities that are relatively new to integrated reporting and have an immature or underdeveloped reporting system may include only limited information in the integrated report. It is questionable whether the assurance provider will be able to assess the accuracy and completeness of the information reported and assurance will be limited (Park & Brorson, 2005). Reasonable assurance is possible only in the context of suitable criteria and in cases where the assurance provider is confident in the completeness and accuracy of the information reported.

The question, however, is if the <IR> Framework constitutes suitable criteria or, if additional measurement frameworks are required. The <IR> Framework provides a principles-based approach to preparing an integrated report as opposed to financial reporting frameworks that provide for measurement and recognition criteria. Consequently, disclosures in integrated reports vary significantly (International Integrated Reporting Council [IIRC], 2014a). If it is accepted that a consistent framework, such as the <IR> Framework will allow any assurance provider to evaluate an integrated report against the set criteria and only limited assurance will be expressed, it should be

possible for assurance to be obtained from internal sources, such as the IAF.

## 2.4.2  The competence of the assurance provider

Assurance on integrated reports will only be useful if stakeholders can rely on the assurance statements. In their 2014 study, Millington & Wong (2014), posited that the demand for assurance is positively related to the perceived value of corporate social disclosures in decision making and if the information is useful and validated (Millington & Wong, 2014). The research conducted by Park & Brorson (2005) determined that the main reasons entities do not obtain independent assurance included: the lack of external pressure; prioritising other work; the high cost of assurance and uncertainty about the value of assurance. The independence of the assurance providers and the degree of management control over the assurance process may also negatively impact the value of the assurance, and pose a challenge to the IAF in providing assurance on the integrated report. In addition, traditional assurance models may not be appropriate for assurance on integrated reports (Simnett & Huggins, 2015).

In order for the assurance process to be reliable it needs to be based on 'sufficient, reliable information, be performed independently of the underlying processes and be evidenced by a report' (European Confederation of Institutes of Internal Auditing (ECIIA), 2015). The assurance on integrated reports presently are often limited to selected sustainability indicators, GRI application level confirmations and sometimes less often on accountability principles. The level of assurance also varies from mostly limited assurance to reasonable assurance in some cases (Cheng et al., 2014). Respondents to the IIRC Assurance Discussion Paper listed issues such as: the nature and levels of the assurance; the competence of assurance providers; the robustness of internal controls and the lack of assurance standards as matters that concern stakeholders and practitioners alike (IIRC, 2014b).

Traditionally, assurance services have been provided by certification bodies,

specialist consultants and professional accounting firms (O'Dwyer et al., 2011). Research conducted by Ackers (2009) showed that in the earlier years of assurance in sustainability reports most the assurance statements were provided by professional accounting firms. Some studies have found that stakeholders do not consider assurance statements as trustworthy and tend to place more trust on assurance provided by consultants rather than financial auditors (Millington & Wong, 2014). The fact that there are differences in assurance providers suggests that the quality of assurance and the credibility of the report depends on the type of assurance provider (Mock et al., 2009; Wong et al., 2016). Some research opines that assurance expressed by members of the accounting profession is regarded of a higher quality than non-accounting assurance providers (Wong et al., 2016). However, O'Dwyer & Owen (2005b) finds that financial auditors provide a limited approach resulting in lower levels of assurance whereas assurance provided by consultants offer higher levels of assurance, nevertheless this does not affect the perceived quality of external providers.

Assurance on the integrated report requires broadened skill sets compared to financial statement assurance engagements due to the range of resources and relationships that are being assured. Integrated audit teams are likely to be multidisciplinary to ensure that there is sufficient subject matter expertise (Simnett & Huggins, 2015). Organisations may also consider outsourcing specific specialist areas to experts (ECIIA, 2015).On the basis that the appropriate, specialist skills are available within the IAF, whether in-sourced, co-sourced or outsourced, the IAF should be able to play a significant role in integrated reporting.

### 2.4.3 Lack of assurance standards

One of the key technical issues that impact assurance on integrated reports is the lack of assurance standards. Currently assurance pronouncements provide little guidance for the qualitative nature of information contained in the integrated report (Simnett & Huggins, 2015). The two standards that are predominantly applied by assurance providers in the performance of assurance engagements on integrated reports are:

Assurance Standards 1000 (AA1000AS) and International Standard of Assurance Engagements 3000 (ISAE 3000). However, both these standards are limited in their application and guidance to provide assurance on the integrated report (Coram et al., 2008; Marx & van Dyk, 2011; Simnett & Huggins, 2015). Existing assurance standards cover a broad range of subject matters but do not specifically recognise that historical financial information, non-financial information and future-oriented information may be contained in a single integrated report (IIRC, 2014a).

The IAASB and other assurance standard setters are in the process of considering the need for assurance standards and the appropriate forms and structures of these standards (IIRC, 2014b). Current auditing and assurance standards have been developed for either financial or non-financial engagements and newly developed standards will have to address the integrative nature of information in the integrated report (Simnett & Huggins, 2015). De Villiers *et al.,* (2014) suggests that assurance providers may have to combine integrated reporting with existing regulatory requirements, however, regulatory bodies will have to amend auditing standards.

Despite the lack of guidance in the current International Standards of Professional Practice of Internal Auditing, the governance and risk components of the <IR> Framework do overlap and provide useful guidance for the assurance role of internal audit in integrated reporting (refer to Table II on the next page). In applying these standards, the role of the IAF in integrated reporting may also include assurance, on the basis that generally accepted standards can be used in fulfilling this function.

## Table II – Governance and risk components of integrated reporting

| GOVERNANCE AND RISK WITHIN THE <IR> FRAMEWORK | | | GOVERNANCE AND RISK WITHIN THE STANDARDS | |
|---|---|---|---|---|
| **4B GOVERNANCE** | | | *GOVERNANCE* | |
| 4.10 | Asks: How does the organisation's governance structure support its ability to create value in the short-, medium – and long term? | | 2110 | The internal audit activity must assess and make appropriate recommendations for improving governance processes |
| 4.11 | Addresses leadership structure and practices | | 2110.A1 | Addresses evaluating, implementation and effectiveness of the organisation's ethics-related activities |
| 4.12 | Addresses significant compensation policies and practices | | 2110.A2 | Addresses whether information technology governance support the organisation's strategies and objectives |
| **4C OPPORTUNITIES AND RISKS** | | | **RISK MANAGEMENT** | |
| 4.13 | Asks: What are the specific opportunities and risks that affect the organisation's ability to create value of the short-, medium – and long term, and how if the organisation dealing with them? | | 2120 | The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes |
| 4.14 | Addresses key opportunities and risks and the availability of relevant capitals | | 2120.A1 | Addresses evaluating risk exposures relating to the organisation's governance, operations, and information systems |
| 4.15 | Addresses specific sources of opportunities and risks, assessment of risk, and steps being taken to create value and manage risks | | 2120.A2 | Addressed evaluating potential for the occurrence of fraud and management of fraud risk |
| 4.16 | Addressed avoidance of 'boilerplate' disclosures, inclusion of practical information, and requirements for specific disclosures | | 2120.C1 | Addresses reviewing for consistency of risk with engagement's objectives and being alert to significant risks |
| 4.17 | Addresses the approach to risks fundamental to the ability of the organisation to create value | | 2120.C2 | Addresses incorporating knowledge of risks gained from consulting engagements into evaluation of the risk management processes |

*Source: Integrated reporting and the emerging role of internal auditing,(The Institute of Internal Auditors Audit Executive Centre, 2013).*

The concept of assurance on integrated reporting was introduced through King III in the 'combined assurance' model which integrates assurance provisions from management, internal and external assurance processes (Haji & Anifwose, 2016; [IoD], 2009). Although the role of the audit committee as part of the internal assurance providers is clear, there have been little or no consideration of the role of the IAF in its internal assurance role. This is attributed to a perceived lack of legitimacy of the internal auditor in providing assurance on integrated reporting.

### 2.4.4 Legitimacy internal audit

The role of the IAF in the past has been limited to that of watchdog forming part of the system of internal control but regarded as subservient to the achievement of corporate objectives (Spira & Page, 2003). However, to expand the jurisdiction of the IAF to providing assurance on the integrated report a process of legitimising will be necessary. Abbot (1998), as cited by O'Dwyer *et.al.,* (2011), suggests that the process of legitimising professional work 'connects professional diagnosis, treatment, and inference to central values in the larger culture, thereby establishing cultural authority'. The objective of the legitimising process is to justify the work professions undertake as well as the manner in which the work is undertaken. Professional work is legitimised by highlighting reliance on its technical and scientific expertise and promoting the efficiency of the service provided (O'Dwyer et al., 2011). Internal audit practice can only generate trust in financial statements, and by inference integrated reports, if the profession is able to generate trust in itself (Power, 2003).

Abbott (1988) further postulates that the legitimising process of professional work involves using various strategies to gather support from key audiences, even in the face of competition from other professions. Accountants' efforts to expand assurance services to new domains have been criticised by several researchers for the lack of providing actual benefits. However, sustainability assurance may be unique in the sense that the assurance is a voluntary undertaking and the profession remains

largely unregulated at present. The development and legitimising will be subject to market forces, auditing standards and the needs of the audiences using the integrated report (O'Dwyer et al., 2011). Financial audit practices have historically been influenced by attempts to secure legitimacy with assurance clients. These financial audit practices enabled the establishment of auditable environments securing legitimacy by showing the economic value of assurance (Curtis & Turley, 2007). Assurance statements play a key role in establishing legitimacy with the users of these statements. However, management will have to sensitize and manage the expectations of users to legitimize any new assurance practices (O'Dwyer et al., 2011).

The research conducted by O'Dwyer *et al.* (2011), formulated the basis as well as the strategies used by, financial statement auditors to seek legitimacy for assurance on sustainability reporting. Using the work of Suchman (1985), three broad strategies, summarised in Table III, for legitimisation were identified (O'Dwyer et al., 2011). The researchers confirmed that the audiences to be influenced and the extent of difficulties involved affected the various types of legitimacy. The initial strategy involved pragmatic legitimacy through persuading 'informed' clients of the value of improved information systems and reporting practices. This form of legitimacy is, however, short term in nature and can only be sustained if there is sufficient stakeholder demand and reporting entities can be convinced of its benefits (Kumar & Das, 2007).

Seeking legitimacy with non-clients proved to be largely ineffective and resistance to expand the assurance statement content to include non-financial information and increased levels of assurance remained high. The legitimising strategy in this instance required changing the perceptions of non-clients and convincing this group of the greater level of transparency, and subsequent reduced risk, in expanded assurance statements. In contrast to what Power (2003) believes, O'Dwyer *et al.*(2011) concluded that the expanded commentary included in sustainability assurance statements can provide greater transparency in reported information garnering support from clients and non-clients . Assurance providers have to 'construct users and create

and expand user demand by developing perceptions of increased attention to accountability within assurance practice' (O'Dwyer et al., 2011). The commitments of assurers to create expectations of assurance have a positive influence on the development of expansive and informative assurance statements (Power, 2003). As an extension to the research conducted by O'Dwyer *et al.,* (2011), it is postulated that the IAF needs to establish accountability to achieve cognitive legitimacy which is the most durable form of legitimacy.

## Table III - Summary of Suchman's (1995) typology of legitimation

| Type of legitimacy | Pragmatic | Moral | Cognitive |
|---|---|---|---|
| Sub-types of legitimacy | Exchange; influence; dispositional | Consequential; procedural; personal; structural | Comprehensibility; taken-for-grantedness |
| Values addressed | Audiences' specific or broader self-interest | Audiences' views on welfare and society | Subconscious attitudes if what is appropriate, proper and desirable |
| Durability | Low ←————————————→ | | High |
| Ease and speed of establishment | Easy fast ←————————————→ | | Difficult slow |
| *Broad strategies of legitimation for new practices* | | | |
| *Conform:* conform to requirements of existing audiences | Show how new practices meet instrumental demands of key audiences; offer influence over shape of new practices; trade on organisation's strong reputation in related fields | Show how new practices produce socially desirable outcomes; associate new practices with respected entities | Show that new practices conform to established models or standards |
| *Selection:* Pitch practices at new audiences which will support proposed practices | Identify and attract key audiences whose instrumental interests are addressed by the new practices | Identify new audiences whose moral values accord with new practices | Appropriate set of standards already accepted in a related area and apply to new practices |
| *Manipulation:* Create new audiences and new legitimating beliefs | Strategic communication to persuade key audiences to value, and to believe <u>thy</u> can influence, the new practices | Collective action by many organisations to socially construct an honourable image for the outputs of the new practices; establishing a record of technical success for new practices indicating how they embrace socially accepted techniques and procedures | Encouraging isomorphism through standardisation of practice; action to enhance comprehensibility of new practices (through lobbying, research, etc.) |

*Source: O'Dwyer et.al (2011)*

## 2.5    The potential role of the IAF in integrated reporting

Despite the concerns around the IAF providing assurance on the integrated report, practice indicates that the IAF is an ideal position to provide guidance and advice on the integrated reporting process. The IAF function has a broad view across the whole entities' systems and processes and understands risks and controls (ECIIA, 2015). By focusing on extended reporting areas required in integrated reporting, such as, sustainability and non-financial metrics, the internal audit can make a valuable contribution (ECIIA, 2015). In many entities, the IAF focuses their attention mainly on internal information flows and compliance with laws and regulations ensuring the auditability of internal processes and information. The internal auditor could verify that the control processes implemented meet the objectives of the entity and supply reliable information. The internal auditor could also determine if the objectives are appropriately formulated and can advise on the design and security of the information system (Royal NIRVA, 2008). Table IV sets out the potential roles of internal audit in integrated reporting. These potential roles described in Table IV can be as follows:

**Table IV - The roles of internal audit in integrated reporting**



**Core internal audit roles in regard to <IR>**
- Providing information regarding policies and performance for which internal audit is directly accountable
- Giving assurance on the <IR> processes
- Reviewing the organisational structure and key information systems underlying <IR>
- Giving assurance that the principles and content elements of the <IR> Framework are correctly taken into account
- Evaluating the adequacy of governance, risk management and controls processes related to financial and non-financial capitals
- Providing assurance on data integrity
- Monitoring progress against the targets set by those charged with governance
- Reviewing key risks and opportunities
- Facilitating the establishment, and evaluation of the <IR> assurance map

**Legitimate internal audit roles with safeguards**
- Championing the establishment of <IR>
- Facilitating the design of a systematic approach to <IR>
- Challenging the organisation's reporting strategy
- Challenging the reasonableness of future projections
- Fostering integrated thinking
- Advisory services during pre-implementation stages of <IR> to facilitate the design of adequate controls
- Insights on the organisation's value creation process

**Roles internal auditing should not undertake**
- Setting materiality levels
- Imposing reporting processes
- Taking decisions on <IR> strategy
- Implementing risk responses on management's behalf
- Accountability for <IR>

Source: The Role of Internal Audit in Non-financial and Integrated Reporting, (The Institute of Internal Auditors Audit Executive Centre, 2013).

In practice, however, two factors appear to affect the role of internal audit in integrated reporting, as identified through the literature review. The first is the maturity of the IAF and the second is the maturity of the integrated reporting process. The IIA Johannesburg discussion forum believes that internal audit has an opportunity to assist entities to improve the value derived from the integrated reporting process (Deloitte, 2011). The evolution of the IAF is described in Table V.

## Table V - The evolution process of internal audit

Value creation

Innovator / Leader / Mature / Follower

| | Follower | Mature | Leader | Innovator |
|---|---|---|---|---|
| | **Meets basic requirements** | **Meets requirements, reducing sustainability risk, preventing loss of value** | **Creates value, by way of inclusive stakeholder engagement to improve revenue** | **Sustainability integrated in strategy, innovation and value creation across economic, social and environmental domains** |
| **Business focus** | • Sustainability is seen as a cost<br>• Dialogue remains internal<br>• Focus is primarily on compliance and meeting the organisation's most basic expectations | • More proactive approach followed that focuses on reducing sustainability risks and limiting the adverse impact on stakeholders<br>• Business culture focuses in avoiding damage and preventing loss of value<br>• Social and environmental performance meets standards and regulatory requirements within the sector | • Business discusses with stakeholders how social, economic and environmental performance can be improved<br>• Leader works within its business culture to seek out win-win situations in which value creation takes place<br>• Limiting impact on environment is seen as a positive side effect of reducing operational costs and a way to improve revenue streams<br>• Business risks and opportunities relating to society and the environment are managed by means of a inclusive process | • Organisation does not merely adhere to requirements imposed by society but, rather, actively works to design them<br>• Sustainability initiatives are completely integrated into the strategy of the core business, working towards the simultaneous creation of value across economic, social and environmental domains<br>• Social and environmental concerns drive innovation for the business, and sustainability performance is a source of competitive advantage |
| **Internal audit focus** | • IA focuses on compliance and on meeting the organisation's most basic expectations<br>• Update the IA charter, mission statement, clarifying IA's greater scope and broader objectives relating to sustainability. IA should educate itself about sustainability issues to prepare for its extended responsibilities | • IA needs to recognise the growing importance of sustainability risks to the business and integrate these risks into its risk assessment and subsequent audit plans<br>• IA may also facilitate sustainability related communications with executive management and boards | • Sustainability become a more critical part of the internal audit plan<br>• Internal audit plan covers all material social, economic and governance matters | • IA provides guidance to management by identifying terms and opportunities to create and/or protect value and revenues |

*Source: The Role of Internal Audit in Integrated Reporting: a blend of the right ingredients (Deloitte, 2011).*

The second factor affecting internal audit's role is the maturity of the integrated reporting process. The role of the IAF is likely to evolve from an advisory role to an assurance role as the entities integrated reporting process matures. The advisory role of the IAF may include: training key participants in the process of integrated reporting; providing recommendations to the entity for the implementation of the integrated reporting process; promoting the coordination and benefits of integrated thinking and assessing the process design and controls (ECIIA, 2015). The assurance roles could include

reviewing the underlying processes for the compilation of the report; assessing the risk assessments included in the integrated report; reviewing the materiality of non-financial information; assessing the balance in the report and confirming the accuracy of the business model as described in the integrated report (ECIIA, 2015). Table VI sets out the changing internal audit focus based on the maturity of the integrated reporting and sustainability processes.

**Table VI – The maturity of the integrated reporting process**

| | Sustainability maturity | Internal audit focus |
|---|---|---|
| Leader | Sustainability is integrated in the strategy to create value | Contribution to integrated assurance on sustainability with independent assurance review |
| Mature | Sustainability risks are managed and regulatory requirements are met | Integration of sustainability in the risk assessment and in the audit plan |
| Follower | Regulatory requirements | Sustainability activities included in the internal audit charter |

*Source: Non-financial reporting: Building trust with internal audit (European Confederation of Institutes of Internal Auditing (ECIIA), 2015).*

The IAF's organisational independence and extensive knowledge of the business places it in an ideal position to take a strategic role in assessing risks and provide a road map for entities in integrated reporting ([ECIIA], 2015).

Despite the IAF being in an ideal position to play a significant role in the integrated reporting process there are some practical challenges. These challenges include the skills and capacity of the internal auditor (ECIIA, 2015).

## 2.6    Conclusion

The concept of integrated reporting is growing in importance, and the theoretical framework is becoming well established as identified in the preceding literature review. The theoretical framework for assurance establishes the need to hold an entity accountable through corporate reporting. On this basis, the need for assurance on integrated reporting is established and recognised, however the most appropriate sources of this assurance should be established. Regardless of the source of the assurance, there are significant obstacles that will impact the assurance: the nature of assurance; the competence of the assurance provider; the lack of standards; and the legitimacy of the assurance provider. Both the literature review and current practices indicate that the IAF will be able to overcome most of these obstacles, however the internal and external legitimacy of the IAF would need to be addressed. If it is assumed that the IAF is able to address the challenges of assurance, the question then begs: "what is the role of the IAF in integrated reporting?" This study aims to address this question, and identify the potential challenges and barriers to internal audit's involvement.

# CHAPTER III - RESEARCH METHOD

## 3.1    Introduction

The aim of this study was to explore the roles of the IAF in integrated reporting and identify the possible challenges and barriers to internal audit's involvement. This chapter outlines the research methodology employed for this study. It describes the research design, methods, instruments and processes undertaken to collect and analyse the data. It also provides an overview of the ethical considerations of the study.

## 3.2    Research paradigm

A qualitative exploratory enquiry was chosen for this study. The interpretive research method was deemed the most appropriate as it allows the researcher to capture and analyse people's perceptions and interpretation of experiences (Bryman & Bell, 2003). This research paradigm was specifically chosen due to the exploratory nature of the study, where the results and conclusions would be based mainly on perceptions and experiences.

The interpretive researcher's assumes that 'reality' is only seen through or set in 'social constructions' such as language, consciousness and shared meanings (Andrade, 2009; Babbie, 2007). Qualitative approaches to research focus on phenomena in their natural setting  and involve studying the complexity of phenomena  Trauth (2001), as cited by Rowlands (2005), states that the choice of qualitative method is influenced by the nature of the research problem, the researcher's theoretical lens and the degree of uncertainty surrounding this evolving topic.

Qualitative inquiry is particularly orientated towards exploration, discovery and inductive logic (Patton, 2014). Inductive analysis commences with the specific observations whereby categories or dimensions emerge from open-ended observations. This is done

in order to gain a deeper understanding of the patterns that exist in the phenomenon being investigated. It seeks to understand the multiple inter-relationships among the dimensions that emerge, without presupposing what those dimensions will be. It was regarded as the most appropriate for the current study as it aims to examine relevant stakeholders' understanding and subjective experiences of the role that the IAF should play in the preparation of the integrated report.

The ontological approach is social constructivism, as it assumes that 'truth' is a matter of "consensus among informed and sophisticated constructors" (Patton, 2015:122). In such 'social constructs', 'truth' does not exist in any absolute sense. 'Truth' is merely perceptions, of either more or less 'informed' or 'sophisticated constructors' (Andrade, 2009; Patton, 2015). This approach allowed the researcher to distil the divergent perceptions of the participants in this study in order to construct a potential framework for the involvement of the IAF in the integrated reporting process. It also assisted in identifying the potential challenges and barriers to internal audit's involvement.

## 3.3    Research approach

The research design, interpretation and analysis of the data was structured to understand the role of the IAF in integrated reporting and the challenges and barriers to internal audit's involvement. Taking into consideration the complexity of such an endeavour, the research approach required an understanding and contextualisation of current practices, and a qualitative approach within an interpretivist paradigm. It was deemed most appropriate as it attempted to describe, understand and interpret the perceptions and opinions of individuals in the internal auditing profession (Baker & Bettner, 1997).

While positivism emphasises statistically rigorous research, interpretivists reject the possibility of an objective account of existing internal audit practices and seeks a relative understanding of the phenomena (Rowlands, 2005). In contrast, positivism holds a deterministic approach towards the nature of social beings, while interpretivists acknowledges that people actively engage in creating their own environments (Bryman &

Bell, 2003). In positivist research, hypotheses are derived from scientific theories to be tested empirically, and only data which are observable and can be measured is to be regarded as useful (Alvesson, 2003). Positivism does not fit very well with the research approach as the aim was to provide insight and understanding of the current and potential roles the IAF can fulfil in the integrated reporting process. Each situation was unique and relative to the environment within which the internal function operated. In addition, an empirically based research methodology with pre-defined variables overlooked more subtle findings which for the evaluation investigation of the differing roles and environments were of great importance. Therefore, and interpretive research approach allowed for the researcher to explore a potential and meaningful change in internal audit practices in the context of the highly dynamic setting of current internal audit practices (Parker, 2008).

The major emphasis of interpretive studies is the discovery of ideas and insights. The study therefore undertook an exploratory approach. The interpretation and conclusions reached in this research lead to the enhancement and understanding of internal audit practices in the context of integrated reporting. Lukka and Modell (2010) define exploratory research as research conducted to gain new insights, discover new ideas and/or increase knowledge of a phenomenon of internal audit's involvement in integrated reporting. This was particularly useful as the exploratory nature of the research allowed respondents to reflect on their individual situations and contribute in an open and unstructured manner. Thus, this qualitative study undertook an exploratory  approach within an interpretivist paradigm to understand the role of the IAF in integrated reporting and the challenges and barriers to internal audit's involvement.

In summary, the orientation of the study was based on the philosophical assumptions of the interpretivist approach. It was evident that the research approach was exploratory and interpretive as its purpose was gathering explanations, gaining insight and collecting information, in order to gain a clear understanding of the issue at hand (Rowlands, 2005).

## 3.4    Research design

Semi-structured interviews are characterised by a flexibility of approach to questioning. It follows a system of pre-determined questions and allows the researcher greater flexibility to ask, in case of need, supplementary questions or 'probing questions'. While it is acknowledged that this level of flexibility may influence the level of comparability between results, it was deemed most appropriate as this technique enabled the researcher to gain insights into the opinions and experience of interviewees (Alvesson, 2003).

Therefore, the study used semi-structured interviews with CAEs to gain insights into their experiences in participating in integrated reporting. The flexibility of this approach, particularly compared to structured interviews, also allowed for the discovery or elaboration of information where detailed insights were required from individual participants. The semi-structured interviews were also particularly appropriate for exploring  sensitive topics, where participants did not necessarily want to talk about such issues in a public forum (Alvesson, 2003).

The interview agenda was  initially  conceptualised,  developed  and  adapted  from research questions used in the international Internal Audit Research Foundation study, that focused on the consulting and advisory role of internal audit in integrated reporting ([IIARF], 2014). This particular study was used due to the alignment of the topics explored and to gain an understanding of the South African context and the role of the IAF in integrated reporting as well as the challenges and barriers to internal audit's involvement.

A pilot study was undertaken with three participants before the full study commenced. This ensured that the interview contained questions that were sufficiently clear and adequately addressed the research question (Rowley, 2012). The data from this pilot study was used to refine and improve the interview agenda and to increase the validity of the research. As a result of the literature reviewed and the results of the pilot interviews, further questions were added to the interview agenda (refer to Annexure B).

## 3.5    Purposive sampling

Research is often conducted in situations that do not permit the kinds of probability samples used in large-scale social surveys (Babbie, 2007). The current study was directed at entities that have prepared reports. According to specific criteria CAE's were sampled using the purposive sampling method. The target population of CAEs included those ranked in the 'Top 10' and 'Excellent' categories of the EY Excellence in Integrated Reporting Awards 2014[1]. This specific population was targeted to ensure that the research focused on entities that issue quality integrated reports and the process of producing an integrated report is more mature than entities that have recently embarked on similar processes.

The purposive sample elements were chosen based on the following four criteria:

- CAEs serving in listed entities, across varying industries, that have been producing integrated reports for more than 5 years;
- Entities that have an existing IAF;
- CAEs have some history or evidence of training and knowledge in the field of governance, risk and corporate reporting; and
- CAEs or equivalent designations that have a strategic role in the IAF of the entity.

The aim was to conduct eight to fifteen semi-structured interviews.  Several CAEs that adhered to the above criteria were invited to participate in the study. As a result of the criteria and the relatively limited number of entities included in the targeted population, ten CAEs were interviewed. In all of the entities included in the sample the IAF was mostly in-sourced, by occasion co-sourcing certain aspects of the internal audit plan. The participants can further be categorised as follows:

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[1] This awards programme was introduced 15 years ago, with the last 4 years focusing on integrated reports after the release of King III. Companies are considered from the top 100 JSE Limited and the top 10 State Owned Companies. 94% of the JSE's market capitalisation is included in the programme. The mark plan is compiled and administered by independent adjudicators from the College of Accounting at the university of Cape Town (EY, 2014).

- three CAEs in multinational entities of significant size (i.e. secondary listings on international stock exchanges);
- two CAEs from the banking and finance industry; and
- 5 CAEs from South Africa companies (i.e. listing on the JSE only).

Purposive sampling may have created a risk that a bias may be introduced to the study, but it ensured that only participants that possessed the required knowledge and experience were to share insights into the research question (Rowley, 2012). Interviews ranged from 60 to 120 minutes, and the majority of the interviews lasted between 75 to 100 minutes. The length of these interviews was considered to be appropriate as it resulted in sufficient data to support the findings and the conclusions (Rowley, 2012). In addition, the lengthy interviews ensured sufficient saturation in the concepts being investigated (O'Dwyer et al., 2011).

The selected CAEs were contacted via e-mail and an appropriate time scheduled for the interview. Interviews in Johannesburg were conducted in person, whilst interviews with participants in Cape Town and Durban were conducted telephonically. By using the criteria, a very stable and well-represented population and sample were identified. Although limited, the sample chosen was still representative of entities that have or will prepare an integrated report. The ten semi-structured interviews took place between October and December 2016.

## 3.6    Data collection

The intended participants were contacted via e-mail or telephonically to request their involvement in the study. The nature and purpose of the study was explained to them and it was emphasised that the interview would be conducted  and reported on an anonymous basis (Rowley, 2012). The interview agenda was made available to participants before the interview in order to ensure that they were placed in a position to provide sufficient detail in their responses.

Before the commencement of an interview, permission was requested to record the interviews. The researcher explained that the purpose of the recording was to ensure the accuracy of the interview. Participants were given the opportunity to cease the recording at any point during the interview. Verbal consent was obtained from each participant that the content of the interview would be used in the research report, but that direct quotes would not be attributed to any company and/or individual. This verbal consent was recorded as part of the interview recording. Recording the interview enabled the interviewer to explore issues arising fully without the potential constraint of taking notes.

The semi-structured interviews were guided by an interview agenda, which was used as a guiding framework to address key themes in the interviews rather than specific questions (refer to Annexure A). The first four questions aimed to provide the context within which the participant operates. The next seven questions identified the possible roles of the IAF in integrated reporting. The third section identified and probed the barriers and challenges faced by internal audit in integrated reporting. The last two sections probed possible recommendations and areas for future research respectively. The questions were asked in a sequential order, from objective facts to subjective attitudes and opinions through justification and then to sensitive, personalised data (Rowlands, 2005). Probing questions were used in order to gain more in-depth data.

Participants were informed that a transcript of the interview would be furnished within a reasonable timeframe of the interview to ensure the accuracy of the information to be included in the data set. Participants would be able to affect any changes to the transcript if deemed necessary (Creswell & Miller, 2000). The contents of the interview were secured to ensure confidentiality.

## 3.7    Data analysis and interpretation

Data was analysed using a 'data analysis spiral' (Leedy & Omrod, 2010; Rowley, 2012). Electronic recordings were transcribed to obtain a general sense and understanding of the content (Maroun & Atkins, 2014). A thematic analysis of the data was conducted, linking key themes emerging from the research into a coherent narrative. Such a thematic analysis included organising the data set; becoming familiar with the data, classifying, coding and interpreting the data (Rowley, 2012). The transcripts were captured into a Microsoft Word document appropriately structured to organise the data related to each question of the interview agenda.

Participant codes were used to keep track of the information provided by each participant. The researcher conducted structured readings of the data, annotating the information for key themes and important observations as well as opinions. The data set was structured per key theme emerging from the analysis of the data, identifying primary themes and secondary themes within the data set. An open coding process was applied and researcher- developed codes were assigned to each primary theme (Rowlands, 2005). Axial coding was used to organise the concepts to common secondary themes, linking the associated concepts (Rowlands, 2005).

The data from the interviews were re- examined and re-coded using the primary and secondary themes. This iterative process yielded a set of broad themes (selective codes) and associated concepts that best described the salient experiences and opinions of the participants of the research (Rowlands, 2005). Relevant quotes were identified to support the primary and secondary themes. The identification of themes took place in conjunction with the literature reviewed in order to place these themes in an appropriate context (O'Dwyer et al., 2011). Attention was also given to contradictions or disagreements amongst different interviewees in order to obtain a holistic view of the data collected.

The categorisation and identification of these themes involved three phases:

Phase 1:  The data was considered to be thematic (what does it relate to) and contextual (what was said and in what way). It was through the use of inductive coding procedures that various themes were first identified by the researcher which were seen to tell the story of how participants viewed their role in the integrated reporting process.

Phase 2:  This phase involved examining the data in a more specific and focused manner by identifying sub-themes within the broader categories that were considered of importance in the first phase.

Phase 3:  The last phase involved generating data categories and themes through the re-examination of the data and analysis the results.

## 3.8    Limitations of the study

The results of this study may be limited due to methodological choices. Qualitative research cannot be generalised and the information obtained from the interviews may not be representative of all entities, the relevant IAFs or CAEs in South Africa. The results of this study may further be limited by the use of semi-structured interviews as a research instrument. An unavoidable risk of interviews is that participants provide commentary that may be biased by the views of their current employer entity (Alvesson, 2003).

Structuring the questions in such a manner to obtain the participants' personal opinions, and excluding the name of their current employer entity, attempted to mitigate this potential bias. Despite these potential limitations, it is envisaged that the finding of this study will be applicable to entities not included in the research. The results of this study will assist IAFs to understand and define their role in the integrated reporting process, to avoid potential pitfalls and follow best practice in preparing integrated reports. The study provides a basis for further research on this topic including extending samplers to international companies and conducting quantitative  research (Holland, 2005; Leedy & Omrod, 2010).

## 3.9 Validity

Creswell and Miller (2000) suggest that the validity of qualitative research should be governed by the epistemology chosen to validate the research and the researcher's paradigm assumption. Validation is usually integral for the results of the research to be considered as legitimate by the intended audience, however the concepts of internal, external and construct validity are not meaningful in qualitative research (Lukka & Modell, 2010). A qualitative study, such as this, will use the views of the individuals who participate in the study (Creswell & Miller, 2000). This research incorporated contextual validity into the methodology by collecting sufficient data through the interview process, enabling readers to form their own opinions contributing to the validity of the research (Leedy & Omrod, 2010).

This qualitative research assumed that the reality of participants is what the participants' perceived it to be. The researcher actively involved participants in assessing whether the interpretations accurately represented them by requesting all participants to review interview transcript for accuracy. Yin (2003) states that for any research to be valid, it conforms to and passes certain design tests. Construct validity establishes correct operational measures for the concepts being studied. Internal validity establishes a causal relationship whereby certain conditions are shown to lead to other conditions. External validity establishes the domain to which the study's findings could be generalised  and reliability  that demonstrates the data collection can be repeated with a similar result (Yin, 2010). It is important that a measure is reliable, but reliability does not ensure that it is valid. Various concerns exist regarding the extent of reliability and validity of qualitative research (Schurink, 2009).

Babbie (2007) suggests that the concept of triangulation to overcome such problems. Triangulation involves using several measurement alternatives and seeing if they produce the same findings i.e. comparing qualitative interpretations of the data with qualitative findings (Babbie, 2007. P )The research study maintained reliability by adopting a comprehensive research design and fully documenting and interpreting data from all

interviews.

Interpretive validity refers to "the ability of the researcher to understand the meaning, interpretations, terms [and] intentions" of the respondents (Cohen, Manion, & Morrison, 2002). This was executed by using the following three approaches:

1. Member checking: In this approach each participant was provided with a transcript in order to confirm its accuracy and to ensure stability in the study (Bryman & Bell, 2003). All the participants agreed that the interview transcripts were accurate and approved the content.

2. A reflective journal: A reflective journal was kept in order to ensure that the findings were trustworthy and credible. The focus was placed on "reflexivity" (Shurink, 2009; Bryman & Bell, 2003) to reflect on biases, as well as any pre-conceived ideas. These were jotted down sporadically, mostly before and after interviews. The purpose was to reflect on the researcher's own expectations, and compare them to what was found. The circumstances in which each interview took place were considered to ensure stability throughout the research and to replicate similar scenarios for each interview.

3. Triangulation: this was achieved through the use of multiple sources, it further enhanced the credibility and trustworthiness of the study (Cohen, Manion, & Morrison, 2002; Patton, 2015). According to Patton (2015), borrowing and combining distinct elements from traditional methodological strategies can generate creative and mixed inquiry strategies that are also considered a variation of triangulation. Triangulation was done through attempting to interview stakeholders who represented different types of entities and industries; and also through triangulation of sources and methods, using document analysis and interviews (Cohen et al., 2002; Patton, 2015).

## 3.10 Research ethics

The appropriate ethics clearance was obtained from the University of the Witwatersrand. Rossouw (2009) states that professional ethics involve the principles and standards that guide members of the profession in their interactions with internal and external stakeholders. The researcher ensured that participation was completely voluntary. Participants were given the right to refuse participation the research and to withdraw their participation at any stage. All information obtained during the course of the research that might have revealed the identity of the participant and company was treated as confidential. Informed consent was obtained by informing participants about the potential risks and procedures involved. Participants were not placed in any position that could result in physical, psychological or reputational harm. The participant's confidentiality was ensured and information obtained from the individual was not made available to anyone who was not directly involved in the study.

As Schurink (2009) points out, ethics in practice means being true to your character and responsible for your actions and the consequences thereof for others, by continuously reflecting on the relationship between the researcher and the researched. In achieving this, the researcher adhered to the principles of transparency, responsibility, accountability and ownership (Schurink, 2009).

## 3.11 Summary and conclusion

The research approach required an understanding and contextualisation of current practices by interviewing CAEs, following a qualitative approach within an interpretivist paradigm. The results were analysed using a data analysis spiral. Inductive analysis was mainly used throughout the study (Patton, 2015). This methodology assisted in producing valuable data in addressing the research question. The researcher considered the extent to which the IAF can participate in the integrated reporting process. Views on the barriers and challenges regarding the role of internal audit in integrated reporting was also identified as part of the study.
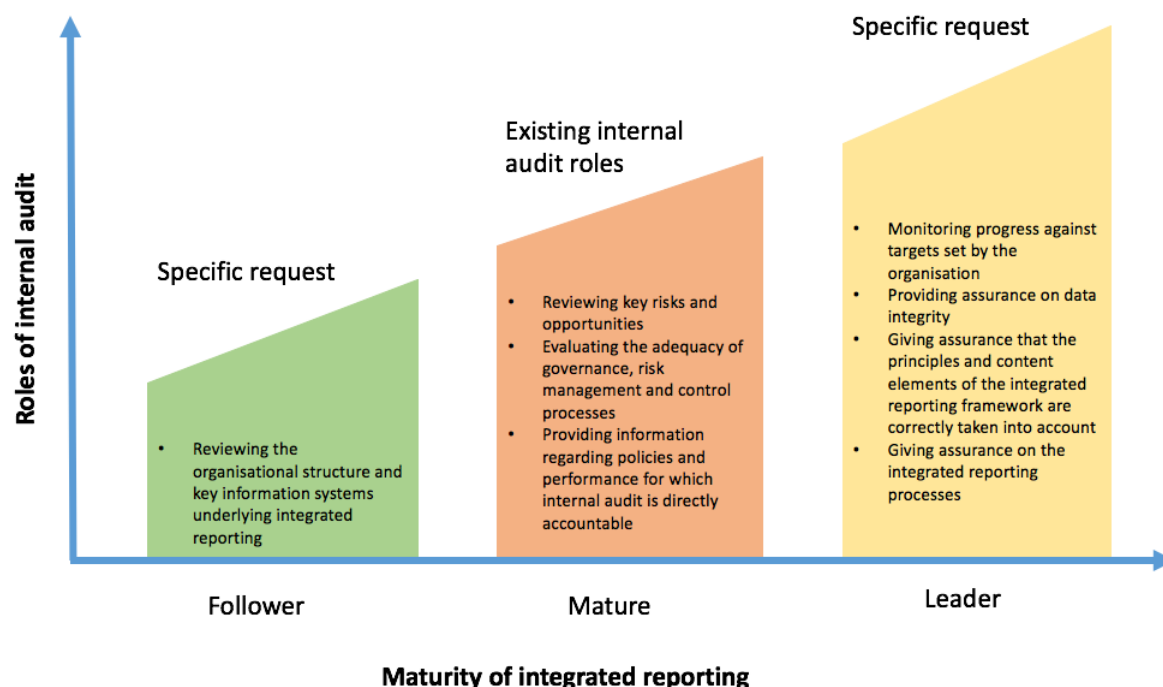
**CHAPTER IV – FINDINGS**

**4.1 Introduction**

This chapter contains an analysis of the interviews conducted highlighting the potential roles of the IAF in the integrated reporting process and identifying possible challenges and barriers for internal audit's involvement in integrated reporting. The analysis also contains recommendations on how the IAF can be better utilised in the integrated reporting process.

**4.2 Data categories and themes**

The data was considered to be thematic (what does it relate to) and contextual (what was said and in what way). Through the use of inductive coding procedures, various themes were first identified by the researcher and then an analysis of the data was conducted, linking key themes emerging from the research into a coherent narrative. The data set was structured per key theme emerging from the analysis of the data, identifying primary themes and secondary themes within the data set.

Four key themes emerged from the data (see table VII below):

**Table VII – Themes emerging from the study**



*Source: Developed by the researcher*

| Category of analysis | Explanation of category |
|---|---|
| **THEME 1:**<br><br>***The roles of the IAF in integrated reporting is linked to the maturity of the integrated reporting process***<br><br>*Not all the suggested roles, as introduced through the literature review, are supported by the participants* | Three stages of maturity in integrated reporting exist:<br><br>• Follower;<br>• Mature; and<br>• Leader.<br><br>*IAF roles at the 'follower' stage:*<br><br>• Reviewing the organisational structure and key information systems |

| | underlying integrated reporting |
|---|---|
| | *IAF roles at the 'mature' stage:* |
| | • Reviewing key risks and opportunities;<br>• Evaluating the adequacy of governance, risk management and control processes; and<br>• Providing information regarding policies and performance for which internal audit is directly accountable |
| | *IAF roles at the 'leader' stage:* |
| | • Monitoring progress against targets set by the organisation;<br>• Providing assurance on data integrity;<br>• Giving assurance that the principles and content elements of the integrated reporting framework of the organisation are correctly considered; and<br>• Giving assurance on the integrated reporting process. |
| **THEME 2:**<br>***The participants' views on the potential benefits of the IAF's involvement in integrated reporting*** | Two distinct benefits of involving the IAF in the integrated reporting process emerged:<br>• Internal audit's knowledge of the |

| | business, its systems, processes and controls; and<br>• Potential cost benefits of involving the IAF in the integrated reporting process. |
|---|---|
| **THEME 3:**<br>*The participants' views on the potential barriers of the IAF's involvement in integrated reporting* | Three barriers to involving the IAF in the integrated reporting process emerged:<br>• The competence of the IAF linked to skills shortages;<br>• The lack of guidance to internal audit on its involvement in integrated reporting; and<br>• The legitimacy of the IAF as perceived by parties external to the entity. |
| **THEME 4:**<br>*The participants' views on the potential better utilisation of the IAF in integrated reporting* | Three suggestions emerged:<br>• The IAF should be involved as early as possible in the process;<br>• There should be a clearly defined scope of the IAF's involvement in the integrated reporting process;<br>• There should be adequate change management within the entity to facilitate the IAF's in the integrated reporting process. |

The quotes selected in the analysis are verbatim because they represented either a generally held feeling, an outlier opinion or a reaction that should be considered.

## 4.3    The roles of the IAF in integrated reporting

Both the literature review and findings of this research indicate that the role of the IAF in is changing and entities are harnessing the skills of the internal audit within integrated reporting. Regardless of the extent of involvement of the internal audit currently in the integrated reporting process, which varied, respondents agreed that the IAF has a significant role to play in integrated reporting:

> *"The role of internal audit is three-fold. To provide assurance on some of the non-financial KPI's. To provide assurance on the internal controls and thirdly a strategic role where we advise the business on the efficiency and effectiveness of the integrated reporting process".*
>
> *(P010)*

Since the introduction of King III, the role of the IAF has become much more strategic in nature, with the IAF forming an important party to combined assurance. Greater alignment between management, the IAF and external assurance providers leads to a more holistic perspective on the risk paradigm of an entity. An effective combined assurance model allows those charged with governance to receive the most cost-effective and comprehensive assurance over business risks.

The literature review identified various roles that the IAF can fulfill in integrated reporting (refer Table IV), specifically as part of a combined assurance. Most of the participants indicated that the entity has a well-defined, comprehensive combined assurance plan in place. The roles of the IAF, however, was often still limited to operational audits, and not necessarily the more strategic audits required as part of integrated reporting. It is clear from the findings that the roles of the IAF in integrated reporting are very divergent.

The research found that the main factor affecting the role of internal audit in the integrated reporting process is, in fact, the maturity of the integrated reporting process. However, the maturity of the IAF itself, identified as a potential factor to determine the role of the IAF, does not appear to have an impact. This may be attributed to the fact that the entities included in the sample are listed companies with mature in-sourced IAFs.

Participants identified the extent of involvement of internal audit in the integrated reporting process, consistent with the literature review that identified that the involvement of internal audit in integrated reporting correlates directly to the maturity of the integrated reporting process. Not all the roles as identified in the literature review were identified during this study. As was identified through the literature review (Table VI), the evolution of an integrated reporting process can be defined through three stages: follower; mature; leader. The roles of internal audit in the integrated reporting process are closely linked to these stages.

### *Follower*

Although some IAFs reported to have little or no involvement at present in the integrated reporting process, most were initially involved in the planning and design phase of the integrated reporting process i.e. during the follower stage. The predominant view was that the initial involvement of internal audit was a review of the organisational structure and key information systems underlying the integrated report:

> *"We gave input into setting up the integrated reporting processes. We have been part and parcel of designing the application or database that is used for collating the SD reports".*

> *(P010)*

All participants agreed that internal audit has a crucial role to play as it has a broad view across the entity, knowledge of the systems and processes that generate information and an understanding of the entities risks and controls. It was also interesting to note that the extent of the involvement of internal audit at the 'follower' level was limited to specific

requests for the involvement of internal audit, and did not form part of the internal audit plan. Only 2 of the participants in the sample indicated that they were still in the follower phase, even though their integrated report would be considered as 'excellent' or 'good'. This is a contradiction that could further be explored in further future research as indicated in 5.4 of this report. At this level of maturity of the integrated reporting process none of the participants indicated that assurance was obtained over the integrated report, either from external or internal sources.

### *Mature*

During the data analysis process, perceptions of the participants indicated that the majority believed that the integrated reporting process within their entities were at a mature stage. At this level of maturity of the integrated reporting process participants reported that their main roles in integrated reporting were closely linked to their existing roles and internal audit plan. One of the key activities performed by internal audit is that of risk assessments, which forms a substantial part of integrated reporting:

> *"I think internal audit mind-set is about the identification of risk, risk management again which ultimately leads to sustainability. We bring a risk management perspective into everything we do."*
>
> *(P008)*

In most instances, the work performed by the IAF provides information regarding polices and performance forms the basis of the input into the integrated report. Most of the participants agreed that internal audit is uniquely placed within the entity to be able to evaluate the adequacy of governance, risk management and control processes. This evaluation is performed on all financial and operational  processes, including processes designed to capture, evaluate and report on non-financial KPI's included in the integrated report.

> *"But then we may start looking at the non-financial metrics and assertions that are being stated  around the control environment, risks and risk polices and the*

*effectiveness of risk management processes and try and link that back to the coverage we would be providing during the year on those aspects, and seeing how we are able to optimise that and the coverage that we are looking for during the audit during the year. We have to ensure that the controls that what is being said has been tested in some way in the year and can be shown to be effective".*

*(P008)*

As the literature showed, during this stage of maturity of the integrated reporting process entities ordinarily do not obtain external assurance on the full integrated report. The combined assurance plan, specifically relating to the integrated report, aligns the efforts of the IAF to the requirements of external assurance providers in preparation of external assurance on the integrated report. The IAF is used to provide information regarding policies and performance for the IAF is directly accountable. Although, assurance is not provided on the full report, some comfort can be derived from the internal audit processes and plans:

*"We do not provide assurance on the integrated report, but we do provide assurance on the things that build into the report. When they have sustainability or health and safety audits, they take our reports into account. They use our outputs to give them comfort that the information is correct, but we do not provide assurance on the report itself. There is an overlap with the verification role in the process because they look at the health and safety and get statements from the business to feed into the report. But when they look at that, they look at the results from internal audit as well and match them".*

*(P004)*

### Leader

Entities that have reached the 'leader' stage in the integrated reporting process, not only obtain assurance from internal audit on all or selected non-financial KPI's, but also external assurance. As with the mature stage of integrated reporting, the combined assurance plan for these entities is robust and comprehensive to avoid duplication of efforts but at the same time providing comprehensive assurance.

At this stage of maturity in the integrated reporting process, the involvement of the IAF is not always included in the internal audit plan and participants indicated that their involvement was upon specific requests from management or those charged with governance. The IAF is used to monitor progress of non-financial indicators to set targets. An interesting observation is despite all the integrated reports of these entities being independently assessed as 'excellent' or 'good', only three respondents reported that their IAFs currently provide assurance over selected non-financial KPI's.

> *"We include financial and non-financial KPI's in our audit plan. After King III the plan caters for combined assurance validation on the top business risks of the group. We provide assurance in that, but we also provide assurance in the responsibilities of the audit committee as set out in King. And then wherever there is a need, for instance, on specific non-financial KPI's that will be incorporated in the audit plan."*

*(P005)*

Participants articulated the need for internal audit to provide assurance on the integrity of the data included in the integrated report. This assurance is provided as part of the combined assurance model. In cases where the external assurance was provided over the integrated report, such assurance providers could place reliance on the work of internal audit:

> *"[It is] no different when it comes to the integrated report than any other process. We are the third level of assurance within the organisation, but absolutely no difference in terms of the combined assurance approach that we follow. The governance and risk work that we do is very much aligned to what the integrated report is looking for. The way we do our work on the integrated report is no way different from the other assurance services that we provide".*

*(P001)*

Some of the participants believed that the role of internal audit is to prepare the integrated reporting process for external assurance by giving assurance on the integrated reporting process. The more  mature the integrated reporting process, the

more likely the entity would be to obtain external assurance on the integrated report:

> *"For the key indicators, we initially drew up a rotation plan, a three-year plan, to confirm  sustainability commitments. Some of it was substantive work and some of it was pulled from other  assurance providers internally. That is how it worked for three or four years. We then decided that  we were at an appropriate stage of maturity to get external assurance. It was part of the journey to  get to the point where we could bring in external assurance".*
>
> *(P007)*

Participants of entities that have reached the 'leader' stage in the integrated reporting process agree that even if the IAF does not provide assurance on the integrated report itself, they do provide assurance that the principles and content elements of the integrated reporting framework are considered:

> *"We also focus on our assessment that the correct information goes into the integrated report, my written assessment on the control environment and then the combined assurance which we give assurance over."*
>
> *(P010)*

The final role reported by participants in the 'leader' stage of the integrated reporting process reported that their IAFs provide assurance over the integrated reporting process:

> *"We audit the disclosures process and ensure that the disclosure process is working. Auditing the SOX process to ensure that the process is working."*
>
> *(P005)*

An interesting observation is that only one of the entities included in the study obtains external assurance over the integrated report. However, most of the respondents posited that assurance would be possible based on internal audit's in-depth knowledge of the business:

*"We can provide assurance on the non-financial KPI's but we would have to have those skills. Right  now, that assurance is provided externally and we can do it. I don't see why not. We may have to  build up on certain skills and some of it may be new areas. There is nothing that says we can't do it.  We can do it".*

<div align="right">

*(P004)*

</div>

In conclusion, the roles of the IAF in the integrated reporting process is closely linked to the level of maturity of the integrated reporting process. The involvement of the IAF is, however, essential and beneficial in preparing the entity to obtain external assurance over the integrated report throughout the maturing of the integrated reporting process.

## 4.4  The benefits of internal audit's involvement in integrated reporting

All participants agreed that there was significant benefit to an entity in having IAF involvement in the integrated reporting process. This was an anticipated finding from the literature review and existing internal audit practices. The IAF function is ideally placed to play a significant role in the integrated reporting process. It is the only function within an entity that is familiar with the entire spectrum of the business, both financial and operational. Many of participants attributed the success of the integrated reporting process to the specific involvement of the IAF. It is evident from the results that the evolution of the maturity of the integrated reporting process could be linked to the maturity of the IAF. The extent of this linkage was not identified in this study and could be supported through further research as indicated in section 5.4 of this report.

Two key benefits to the IAFs involvement in integrated reporting emerged:

- Internal audit's knowledge of the business, its systems, processes and controls; and
- Potential cost benefits of involving the IAF in the integrated reporting process.

According to the majority of participants, the most significant of  these  benefits  is  the

IAFs's extensive knowledge of the business:

> *"If the value proposition of internal audit says that we have a deep understanding of the organisation and we understand fundamentally where things could have gone wrong, these insights should be brought into the integrated report. We [internal audit] think deeply and passionately about how the organisation can improve. That is the big plus, we understand the organisation".*

<div align="right">

*(P006)*

</div>

This benefit was anticipated based on the sample that included only in-sourced IAFs. By having a comprehensive knowledge of the business, the IAF is able to inform the content of the integrated report and design the most appropriate processes and controls to ensure the accuracy and validity of data included in the integrated report. Interestingly, some of the participants implemented practices whereby staff from within the entity are seconded to the IAF for a short period of time. This practice not only benefits the IAF through additional resources, but knowledge from within the business is transferred to permanent staff in the IAF. It then allows the individual to have a better understanding of what the objectives of internal audit are, and have a better appreciation of risks and controls. The respondents believed that this practice would add substantially to the integrated reporting process.

Eighty percent of the respondents commented that it would be beneficial from a cost perspective for internal audit to be involved in the integrated reporting process. Instead of outsourcing the role to contractors, at an additional cost, increasing the internal audit plan to include integrated reporting tasks would be included in the existing cost of the IAF. This is a simplistic perspective as the opportunity cost of the internal plan excluding a significant risk is not calculated.

The cost benefit of the IAF's involvement was, however, not shared by all the participants. Two participants expressed the view that the benefit will only be the case for a fully in-

sourced IAF, where the cost of remuneration is a sunk cost. Where additional skills need to be co-sourced or the IAF is outsourced, these additional activities will add to the cost of internal audit's involvement in integrated reporting. On the basis that many of the participants believed that additional, specialist resources would have to  be  contracted to  provide  assurance  on  non-financial  KPI's,  the  cost  benefit  may  be  negligible  as stated by the following participant:

> *"The true cost difference is marginally different. If you are hiring suitably qualified professionals,  they are earning similar salaries internally and externally. The only thing you are paying extra is the  profit margin. The opportunity cost of seven people directed only to the integrated report is big. I  think this is a moot point".*
>
> *(P006)*

## 4.5    The barriers to internal audit's involvement in integrated reporting

Not all the barriers, identified through the literature review, to the IAF's assurance role in integrated reporting were supported, in fact the only barrier identified that is not consistent with the literature review is the nature of assurance. The nature of the assurance was not identified as a barrier and participants believed that any assurance provider would only be able to express limited assurance. On the basis that reasonable assurance is unlikely in  the  early  stages  of  the  integrated  reporting  process,  the  IAF  would  then  not  be prevented  to  express  limited  assurance.  This  may  change  over  time,  where  external assurance  providers  express  reasonable  assurance  based  on  accepted  assurance standards. If accepted internal audit standards are not developed, and the IAF can still only express limited assurance, entities may naturally select external assurance providers for the higher level of credibility.

The competence of internal audit as a barrier was raised by many of the  participants. Many participants responded that the competence of the IAF to play an assurance role in integrated reporting was a universal problem. Many participants believed that the lack of accredited and formalised training programmes contribute to the deficit in competence of internal auditors. Some participants expressed concerns that this lack of competence was

not only relevant to the integrated reporting process, but even the existing roles of the IAF. One participant expressed the view that internal auditors are still regarded as "failed external auditors". Eighty percent of the participants attributed the issue of competence in relation to the role of the IAF in integrated reporting to a lack of clarity on what the possibilities are and the best practices in this area.

> *"The problem is the skill set for the more technical KPI's such as environment, we do not have people".*
>
> *(P010)*

> *"As you know, in terms of the internal audit profession to begin with, you struggle to find staff at that level. It is an issue."*
>
> *(P002)*

This barrier was specifically linked to the lack of capacity within each of the participants' IAFs, and some of the participants agreed that these specialist skills would have to be obtained through co-sourcing and outsourcing for internal audit to be extensively involved in the integrated reporting process. The participants who preferred a co-sourcing option did, however, prefer to bring specialist skills in from within the business to ensure the transfer of skills and knowledge to the permanent internal audit team.

> *"We have an insourced function. But we do use specialists when required, for example I just did an energy audit and contacted specialists. We have a co-sourcing agreement with the Big 4 to assist. It is not uncommon for us to get internal in experts for the more technical work."*
>
> *(P010)*

On the contrary, however, not all of the participants agreed with the view that specialist skills would be required. The roles of internal audit in integrated reporting was, in a few cases, perceived to be similar to work already included in the internal audit plan:

*"I must say that I don't see the need for specialists, because those metrics that they use are pretty basic. Nothing has come across my desk that leads me to believe that it is complex."*

*(P001)*

Many participants expressed the view that a significant barrier to internal audit's involvement in integrated reporting were deficiencies and a lack of guidance in the International Internal Auditing Standards (IIAS). Although all participants use the IIAS in planning and performing existing internal audit work, the IIAS do not address integrated reporting specifically:

*"The standards are very generic and principle driven. They can be interpreted in different ways, which is where you compare that to the external audit standards they are more defined and more difficult to get around."*

*(P003)*

*"The auditing standards are not deficient on non-financial information. It is the non-standardisation of non-financial information. For the financial information you have IFRS telling you exactly what to do. You don't have that same rigour in non-financial information, so the interpretations in non- financial information is much wider than the financial information. It makes it much more difficult to audit. It is not impossible but it is more difficult."*

*(P005)*

Many participants believed that the perceived deficiencies in the IIAS could be addressed by adding additional guidance rather than drafting specific standards for integrated reporting. The question remains if there is appetite by standard-setters and regulatory bodies to address the potential deficiencies in IIAS pertaining to integrated reporting. In the absence of new standards, however, the internal audit industry should develop its own guidance for role of the IAF in integrated reporting and best practices.

*"We do need more guidance on the standards when it comes to integrated reporting and training for internal auditors on how to do it. It's one thing to use the standards,*

*but it is more about the guiding principles on how to apply it. There is still a lot of grey areas."*

*(P010)*

The main barrier to internal audit's involvement in the integrated reporting process was identified as the "legitimacy of internal audit". Consistent with the literature review, the research indicated that the legitimacy of the IAF was linked to both external and internal perceptions. All of the participants agreed that internal legitimacy was not an issue, although they may not be as involved in the integrated reporting process as others. This is linked to the maturity of the integrated reporting process, rather than the legitimacy of the internal audit. Most of the participants reported to be strategically placed within the entity. This could be attributed to the sample selection criteria, which included CAEs of entities where good governance practices are implemented. It was, however, mentioned that internal legitimacy is built up over time and largely based on a trust relationship. Three participants indicated that where the IAF evolves from "watch-dog to strategic business partner", this trust relationship is enhanced. One participant, however, believed that internal legitimacy may always be questionable based on perceived lack of independence of the IAF.

Although the CAE may report directly to the audit committee, or alternative governance structure, but remains on the payroll of the entity, true independence cannot be achieved. This perspective does, in fact, contribute to the external legitimacy issue. External legitimacy is the most significant barrier. Many participants expressed the view that the market may not value assurance expressed by the internal auditor and that investors and other stakeholders prefer having independent third party or external assurance, which carries more weight in terms of the market's perception:

*"I am always surprised when there is a public scandal why internal audit is not questioned. Which to me indicates that internal audit is perceived to be an internal function and not independent. We proudly proclaim that we are independent but I think the public perception is not that. And I think it is right. We are paid by the*

*organisation. We can never get away from that. I don't think the market would value a company with internal attestation on the integrated report more than another. That is perhaps an indictment of our profession."*

It could be that the external market does not understand internal audit, but more likely it is also the expectations for users, internal and external, to receive external assurance. This perception will change as the role of the IAF in integrated reporting is better defined. The IAF function matures within its own function, duties and as an entities integrated reporting process matures, so ultimately the limitations are currently based only on perceptions founded on previous practices.

## 4.6  Better utilisation of the IAF in the integrated reporting process

In addition to identifying the potential barriers to the IAF's involvement in integrated reporting, participants were requested to share their insights and experiences on how the IAF should best be utilised in the integrated reporting process.  These insights were unanimous, regardless of the level of involvement of the IAF in the integrated reporting process. Three specific suggestions were identified by the participants: 'early involvement; a clearly defined scope; and change management.'

The most important  factor respondents agreed upon was that internal audit should be involved in the process  as early on as  possible. By not being involved early in the process, inefficiencies may lead to additional costs incurred by the entity. This will defeat one of the main benefits of the involvement of the IAF in integrated reporting, and be counter-productive.

*"Define early on exactly what is required in an integrated report, where the information comes from  and is the content correct. All parties need to bring their experience and their perspectives to the  process upfront rather at the tail end. It*

*may actually be that internal audit is involved a lot more upfront and the company may be a little bit more reliant on internal audit and external audit in terms of defining what the report should look like, what infrastructure underpins getting the information for the report, what is going to be acceptable."*

<div align="right">

*(P008)*

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The majority of participants were in agreement that the definition of the scope of the IAF's involvement was critical and that the CAE should manage the expectations regarding the defined scope and communicate clearly with the business and the audit committee regarding internal audit's involvement. Due to the fact that the IAF only operates within a defined scope set out in an approved audit plan and budget, additional activities will have a significant impact on both. Part of the defined scope is to manage expectations, both from management and those charged with governance. Historically the IAF has been regarded as "all things to all people" and an extension of management in the fulfillment of their duties. IAFs should take care that this situation is not perpetuated through its involvement in the integrated reporting process. The integrated reporting process should be considered in the context of the combined assurance model implemented by the entity, of which the IAF should only fulfill a partial role:

*"Don't take ownership of the process and you cannot audit everything. Make sure that the assurance providers that provide assurance understand the information and understand auditing and reasonable and robust assurance."*

<div align="right">

*(P005)*

</div>

One of the participants also suggested that part of the change management process required to define and communicate the IAF's involvement in the integrated reporting process was for internal audit to consider its own capabilities. Aligning the need for the IAF's involvement with the potential barrier of lack of capacity and capability may inherently limit the scope of involvement

*"You have to be honest with yourself in term of what are your capabilities. You have*

*to accept that  and be strong with the audit committee (as they are always trying to save costs) and say that yes  you want me to do the [non-financial] KPI's but I am not prepared to do it. You need to be strong in  saying that this where I believe I can add value and this where I am comfortable to do things. But  those  other  things  are  out  of  my  league.  It  is  more  efficient  to  outsource  when  dealing  with  specialist issues."*

*(P002)*

# CHAPTER V – CONCLUSIONS, RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

## 5.1    Conclusions

The purpose of this research is to explore the roles of the IAF in integrated reporting. It was assumed and anticipated that information obtained from the literature reviewed would identify barriers and challenges with regards to internal audit's involvement. It would further provide recommendations on how the IAF could be better utilised in the integrated reporting process. It was also assumed and anticipated, based on information obtained from the literature reviewed, that the study would identify the potential roles internal audit could fulfill in integrated reporting and identify barriers and challenges with regard to internal audit's involvement, with specific reference to assurance. Sources identified in the literature review identified the potential roles the IAF could fulfill in the integrated reporting process, however, these were closely linked to the maturity of the integrated reporting process (Adams, 1994; Chambers & Odar, 2015; Deloitte, 2011; The Institute of Internal Auditors Audit Executive Centre, 2013; The Institute of Internal Auditors Research Foundation, 2014).

In the research conducted three stages of maturity in the integrated reporting process were identified and confirmed in the findings: follower, mature and leader. During the follower stage the IAF is involved in the planning and design phase of the integrated reporting process. This benefits the entity, as internal audit has an in-depth understanding of the entities processes, risks and controls. At the mature stage, the IAF is most involved. Their roles are incorporated into the internal audit plan and includes: reviewing the key risks and opportunities within the entity; evaluating the adequacy of governance, risk management and control processes; and providing information regarding policies and performance for which internal audit is directly accountable. In reaching the integrated reporting phase of maturity in the integrated reporting process, the involvement of the IAF is not always included in the internal audit plan and internal audit may provide some assurance over specific non-financial KPIs, however no external assurance.

The literature review identified the barriers to internal audit's involvement in the integrated

reporting process as specifically: the nature of assurance that internal audit could express; the competence of internal audit; the lack of clear standards on integrated reporting assurance and the legitimacy of internal audit (Ackers, 2009; de Villiers et al., 2014; European Confederation of Institutes of Internal Auditing (ECIIA), 2015; O'Dwyer & Owen, 2005a; O'Dwyer et al., 2011; Simnett & Huggins, 2015). While some of these findings were confirmed, it was evident that it is much more complex, and that there were more aspects that needed to be explored. The findings indicated that the role of the IAF in integrated reporting is currently fairly limited. The roles are linked to the maturity of the integrated reporting process of the entity. For entities embarking upon the process of preparing an integrated report it is important for the internal auditor to review the organisational structure and key information systems underlying integrated reporting to ensure that these processes are optimised and all the key role players are involved. In situations where entities are more mature in preparing integrated reports, the IAF's contribution to the process is indirect and provided as part of the IAF's existing or core functions.

These roles include: providing information regarding policies and performance for which internal auditor is directly accountable; providing assurance on data integrity; reviewing key risks and opportunities; and evaluating the adequacy of governance and risk management controls related to financial and non-financial KPI's. In some instances the IAF is requested to specifically perform certain roles in integrated reporting including giving assurance on the integrated reporting processes, monitoring progress against the non- financial KPI's set by the entity and giving assurance on the integrated reporting process. The research did, however, conclude that only a limited number of IAFs are currently providing any form of assurance on integrated reporting. Participants agreed that the most significant benefit to the IAFs involvement in the integrated report process relates to their extensive knowledge of the business. The alignment of the internal audit process and the integrated reporting process ensures that appropriate risks are identified, processes are aligned and the data included in the report is verified and accurate. The extensive knowledge of the IAF of the business may also result in some cost benefits to the entity. However, in situations where

additional skills need to be in-sourced or co-sourced from external parties this cost benefit may be negligible.

The literature review posits that the legitimacy of the IAF may impact upon their involvement in the integrated reporting process. It can be concluded from this research that this conjecture is, in fact, correct. However, this research shows that the legitimacy of the IAF should be considered from an internal as well as an external perspective. Internal legitimacy relates to the position and standing of the IAF within the entity. All participants believed that they were uniquely and appropriately placed in the entity to add value to the integrated reporting process. The lack of involvement in integrated reporting was attributed to specific external and organisational factors such as external legitimacy or the specific process of integrated reporting.

External legitimacy related to the market perception of internal audit, specifically a perceived lack of independence. In many instances the lack of internal audit involvement was driven by the need of the entity to add credibility to the integrated report. It was evident that internal audit assurance would not be considered credible by the market, and entities preferred to obtain external assurance. As was the case in one of the entities included in the research, the IAF may be used to prepare the entity for external assurance as the integrated reporting process matures.

The research also showed mixed opinions on the lack of skills of internal audit forming a barrier for the involvement of the IAF in integrated reporting. Although the specific skills required for integrated reporting may not be available within the IAF, these skills could be obtained from ad-hoc or permanent in-sourcing or co-sourcing arrangements. In most cases the preference was to in-source the required skills from within the business, however co-sourcing arrangements with some of the professional auditing firms could be used. These types of co-sourcing arrangements may be beneficial as it serves as a conduit for the transfer of skills to the internal audit departments. The overall lack of skills in the internal audit profession is an area of

concern as there is an overall shortage of capacity and specialist skills. Internal audit's continued and increased involvement in the integrated reporting process is also dependent on the improvement of the International Standards of Professional Practice of Internal Auditing. Although there is an overlap between the governance and risk elements between these standards and the <IR> Framework, detailed guidance on the roles of internal audit in integrated reporting should be developed.

## 5.2 Recommendations

The recommendations of this study will be separated into two components: firstly for entities starting the integrated reporting process, and secondly recommendations for CAEs.

### 5.2.1 Recommendations for entities

Entities embarking upon an integrated reporting process should involve the IAF as early as possible in the process to fulfill a strategic advisory role. The IAF is ideally positioned as it has an in-depth understanding of the entitie's processes, risks and controls. Early involvement will assist the IAF in defining the appropriate scope of internal audit work on non-financial KPIs and include these in the internal audit plan. A critical success factor in integrated reporting is change management. The IAF could ideally assist in promoting and enabling this change management due to their unique position in an entity.

As the integrated reporting process matures, the IAF can assist in expressing internal assurance on key non-financial indicators and provide the necessary comfort to management and those charged with governance on the reliability and validity of information reporting in the integrated report. This role of the IAF is more cost effective than obtaining external assurance when the integrated reporting process is immature. Ultimately the IAF can assist an entity to develop the integrated reporting process to the

point where external assurance is appropriate. If the IAF's efforts are aligned to those of external assurance providers, reliance may be placed on the work of internal audit, resulting in cost savings for the entity.

*5.2.2   Recommendations for CAEs*

CAEs should get involved in the integrated reporting process as soon as possible. It is also critical that these additional activities be incorporated in the approved internal audit plan. IAFs should ensure that the scope of their involvement is clearly defined and managed throughout the process and to consider the need for additional skills to be included in the internal audit team. In some cases, additional expertise will be required from within or outside the entity. Pulling resources in from within the entity results not only in cost savings, but also facilitates skills transfer that can be utilised in the rest of the business. Where co-sourcing arrangements exist, it is important that the CAE remains closely involved in the process and significantly allow for the transfer of skills to permanent internal audit staff.

The IAF needs to establish accountability to achieve cognitive legitimacy which is the most durable form of legitimacy. Three strategies can be applied to do this: 1) show that the new role of the IAF in integrated reporting conform to established models or standards; 2) pitch the new practices to internal sources within the entity, including management, the audit committee and those charged with governance; and 3) encourage comparability through the standardisation of practices and standards. This can be achieved through lobbying standard setters and regulators. The internal audit industry should develop its own guidance on its involvement in the integrated reporting process, including evolving to providing assurance in terms of the IIAS.

## 5.3    Impact of the study

This study provides valuable research on the roles of the IAF in integrated reporting. Workable suggestions and recommendations have been provided. If implemented, this could provide entities and CAEs with practical guidance on the role of integrated reporting. It also provides insight into the barriers and challenges faced by the IAF and how these can be avoided. Ultimately, both the entity and CAE will understand how the IAF can be better utilised in the integrated reporting process.  Although the study focused on local entities, internal audit and integrated reporting are globally consistent, and these findings, conclusion and recommendations will be beneficial for international entities as well.

## 5.4    Opportunities for further research

This study has illuminated the potential for further qualitative and quantitative research in the field of the IAF in integrated reporting. It distilled several aspects regarding the evolution of the integrated reporting process and the changing role of the IAF that calls for more research on the following topics:

i.    The research question of this study lends itself to identifying more research in this field. This study focused on a small sample, using qualitative data, so further in-depth research using a mixed method approach could enhance the findings.

ii.   A quantitative analysis of the impact of the IAFs involvement in integrated reporting to the value of the entity.

iii.  The measures to be taken by entities and CAEs to establish external legitimacy of the IAF.

iv.   The most appropriate structure for the IAF for successful integrated reporting, i.e. in-sourced, co-sourced or outsourced.

v.    Further research on this topic including extending samplers to international entities.

vi.    Determine if an outsourced or co-sourced IAF, with different levels of maturity affects the quality of the integrated report. This may be qualitative or quantitative study.

vii.    Emerging best practices for internal audit. These include continuous auditing, combined assurance, data analytics and the use of technology in internal auditing.

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**ANNEXURE A**

**Interview agenda**

UNIVERSITY OF THE WITWATERSRAND,
JOHANNESBURG

**SUBJECT: REQUEST FOR AN INTERVIEW**

Dear participant

This interview forms part of a study conducted in fulfilment of a Masters of Commerce (Accountancy) at the University of Witwatersrand. The purpose of this research is to explore the roles of the IAF in integrated reporting and to identify possible challenges and barriers to internal audit's involvement.

The interview will be conducted to explore your opinion and experiences on the roles that internal can play in the integrated reporting process and to discuss the possible challenges and barriers. Your participation is considered valuable as your company is highly regarded for producing an excellent integrated report, however participation in the study is on a voluntary basis.

The interview will last no longer than 45 minutes and I will send you the interview agenda before the interview to consider your responses. With your permission, the interview will be recorded as it allows me to capture our discussion in full. The names of individuals and companies that participate will remain strictly confidential and will not appear in the data set or the final research report. I will send the transcript of the interview to you to ensure accuracy before including the results in

the research report. Access to the recording and the transcript will be secured via file encryption and I will be the only individual that will have access to the information.

For more information kindly contact my supervisor Yaeesh Yasseen at yaeesh.yasseen@wits.ac.za or on (011) 717- 8000

Upon agreement, a formal letter of invitation will be sent.

Yours  sincerely,

Lindie Engelbrecht

| Background and purpose |
| --- |
| Soon, integrated reporting is expected to become the preferred framework for the discharge of corporate stakeholder responsibilities. The need for the involvement by the internal audit activity in this relatively new International Integrated Reporting Framework is still evolving and not clearly understood.<br><br>The purpose of this research is to explore the roles of the internal audit function in integrated reporting and to identify possible challenges and barriers to internal audit's involvement. |

| Exploring the roles of internal audit in integrated reporting | |
| --- | --- |
| *Contextual questions* | |
| **1** | **How is the integrated report in your company compiled or prepared?** |
| 1.1 | Who are the major contributors to the process? |
| 1.2 | What was internal audit's role initially in the process and how has the role evolved over the last 5 years? |
| 1.3 | How is your internal audit team structured in terms of audit professionals and other experts or specialists? |
| *Identifying the possible roles* | |
| **2** | **In your opinion, what are the roles of internal audit in integrated reporting?** |
| 2.1 | What level of assurance can internal audit provide? How does this compare to other assurors and what are the implications? |
| 2.2 | Why is internal audit suited to this role and why not other internal or external assurance providers? |
| 2.3 | What verification role, if any, did internal audit fulfill in setting up the processes and information flows for integrated reporting? |
| 2.4 | Is the role of internal audit permanent or temporary? |
| 2.5 | How is internal audit's role in integrated reporting addressed in the internal audit plan, if applicable? |

| | |
|---|---|
| 2.6 | How does internal audit's role relate to the International Standards of Professional Practice of Internal Auditing? |

| | |
|---|---|
| **The barriers and challenges** | |

*Internal audit's role in integrated reporting is still evolving and as a result there may some barriers and challenges to consider*

| | |
|---|---|
| **3** | **If you had to allocate a ranking between 1-5 of your involvement in the integrated reporting process, what would it be? (5 indicating the highest level of involvement)** |
| *Probing questions* | |
| 3.1 | Does the attitude of the business towards internal audit affect internal audit's involvement in the integrated reporting process? |
| 3.2 | How do the perceptions of internal audit affect their involvement in the integrated reporting process? |
| 3.3 | In your opinion, what are the advantages and shortcomings of internal audit's involvement or lack thereof, and its implications for integrated reporting? |
| 3.4 | If you had to rate major barriers/challenges from 1-5, 5 being most significant, how would you rate the following: |
| | Lack of skills and knowledge<br>Capacity constraints<br>Deficiencies in Internal Auditing standards |
| **Recommendations** | |
| **4** | **Does internal audit have the required capacity and competence to fulfil its integrated reporting role?** |
| *Probing questions* | |
| 4.1 | What are the common pitfalls for internal audit's involvement in the integrated reporting process? |

| 4.2 | In your opinion, how can these pitfalls be addressed? |
|-----|------------------------------------------------------|
| **5** | **What would you advise other CAEs starting with the integrated reporting process?** |

| Future research | |
|-----------------|---|
| **6** | **What are the emerging best practices of internal auditing?** |

**ANNEXURE B**

**Initial research agenda used for pilot interviews**

The initial interview agenda was based on the request for research commissioned by the international Institute of Internal Auditors Research Foundation. This research, undertaken amongst internal auditors at member firms included in the International Integrated Reporting Council's pilot program, is aimed at establishing the assurance and consulting role of the internal audit activity and identify the potential hurdles and provide quick wins (The Institute of Internal Auditors Research Foundation, 2014). This interview agenda was amended based on the results of the literature review and the responses to the pilot interviews. Minor wording changes were made to specific questions to clarify the perspective of the question. The final interview agenda is shown in Annexure A.

| Initial interview questions | Final interview agenda question number | Reason for change in final interview agenda |
|---|---|---|
| What are the assurance and consulting role of the internal audit activity in integrated reporting? | **2** | |
| Why is internal audit suited to this role and why not any other internal or external assurance providers? | **2.2** | |
| How does this role align with the combined assurance model espoused in the "three | | Based on the responses from the pilot interview this question was replaced with question **2.5**: How is internal |

| lines of defence"? | | audit's role in integrated reporting addressed in the internal audit plan, if applicable? The researcher believes it will narrow the focus to the specific role of internal audit in combined assurance |
|---|---|---|
| Who are the primary beneficiaries of internal audit's involvement in integrated reporting? | | Based on the responses from the pilot interviews the information is adequately addressed in question **2.1** |
| What level of assurance does the internal audit activity provide? How does that compare to other assurors and what are the implications? | **2.1** | |
| Is the role of internal audit permanent or temporary? | **2.4** | |
| How does internal audit's role relate to the International Standards of Professional Practice of Internal Auditing? | **2.6** | |
| What are the advantages and shortcomings of internal audit's involvement or lack thereof? | **3.3** | |
| What are the emerging best practices of internal auditing? | **6** | |
| What are the pitfalls and how can these be avoided? | **4.1 & 4.2** | Combined question separated |
| Does internal audit have the required capacity and competence to fulfill its integrated reporting role? | **4** | |

| Additional interview questions | Interview question number | Relevant section from literature review or responses from pilot interviews |
|---|---|---|
| How is the integrated report in your company compiled and prepared? | **1** | **1.3**<br>Background and contribution of the research |
| Who are the major contributors to the process? | **1.1** | **2.4**<br>Competence of assurance providers |
| What was internal audit's role initially in the process and how has the role evolved over the last 5 years? | **1.2** | **2.4**<br>Competence of assurance providers |
| How is your internal audit team structured in terms of audit professionals and other experts or specialists? | **1.3** | **2.4**<br>Competence of assurance providers |
| What verification role, if any, did internal audit fulfill in setting up the processes and information flows for integrated reporting? | **2.3** | **2.6**<br>Legitimising the role of internal audit |
| If you had to allocate a ranking between 1-5 of your involvement in the integrated reporting process, what would it be? | **3** | Key themes identified from responses to pilot interviews. Likert scale used to obtain ordinal data on personal beliefs |
| Does the attitude of the business towards internal audit affect internal audit's involvement in the integrated reporting process? | **3.1** | **2.6**<br>Legitimising the role of internal audit |

| | | |
|---|---|---|
| How do the perceptions of internal audit affect their involvement in the integrated reporting process? | **3.2** | **2.6**<br>Legitimising the role of internal audit |
| If you had to rate major barriers/challenges from 1-5, 5 being most significant, how would you rate the following:<br><br>• Lack of skills and knowledge<br>• Capacity constraints<br>• Deficiencies in Internal Auditing standards<br>• Time constraints | **3.4** | Key themes identified from responses to pilot interviews. Likert scale used to obtain ordinal data on personal beliefs |
| What would you advise other CAEs starting with the integrated reporting process? | **5** | Key theme that emerged from responses to the pilot interviews and follow-on question from 3.4 |