

https://dspace.org/

# The role of Internal Audit Function (IAF) in integrated reporting in state owned entities and possible challenges to IAF's involvement, and potential future role of IAF in integrated reporting

**Makhathini, Hlengiwe Thandeka**

**2019**

https://hdl.handle.net/10539/29678

Makhathini, Hlengiwe Thandeka. (2019). The role of Internal Audit Function (IAF) in integrated reporting in state owned entities and possible challenges to IAF's involvement, and potential future role of IAF in integrated reporting. University of the Witwatersrand, https://hdl.handle.net/10539/29678

Downloaded from a DSpace repository. https://dspace.org/

# The role of the Internal Audit Function (IAF) in Integrated Reporting in State Owned Entities and possible challenges to IAF's involvement, and potential future role of IAF in Integrated Reporting

***Student submitting: Hlengiwe Thandeka Makhathini***

***Student Number: 775010***

**Date of submission: May 2019**

Principal Supervisor: Professor Yaeesh Yasseen

Co-Supervisor: Mr. Irfaan Omarjee

Partial fulfilment of the requirements: Master of Commerce (Accountancy)

Degree code: CCA01

Ethics Clearance Number: CACCN/1167




**University of the Witwatersrand**

*Student's contact details:*

*Mobile Number: 0820402754*

*Email Address: Makhathiniht@gmail.com*

## Acknowledgements

***"But You, Lord, are a shield around me, my glory, the One who lifts my head high" Psalm 3:3.***

I would like to thank God for the courage to start this journey which had been on the cards for years. Indeed, as promised in His word it has worked together for good! Thank you to my family and friends for their support, patience and encouragement. A special thank you to Agnes and Thuli for going an extra mile throughout and helping me to focus. To my mother, thank you Ndabezitha, for your prayers and always reminding me that my dreams are valid. To my children thank you for being my cheerleaders, I love you guys.

Thank you to my supervisors, Professor Yaeesh Yasseen and Mr. Irfaan Omarjee, working with you has been amazing. I have been challenged and stretched and I'm grateful for the hours you spent guiding me and reviewing my work. To Jumarah Musetha from the Resources Centre for quick turnaround times and great suggestions on articles, Ndolivhuwa!

Thank you to all the participants without whom this study would not have happened! Ningadinwa nangomuso. Thank you to Margarethe Booysen for the coaching, and the editing of this work, you are amazing.

To my boss, Mrs. Philisiwe Mthethwa, thank you for your mentorship, your guidance and your faith in me. Ume njalo Sokwalisa. To Nokuthula & Mpume for the love, encouragement, support and prayers, thank you, I'm truly grateful. To my colleagues, thank you for your understanding and support to get things done when I had "school" deadlines.

Last, but definitely not least, I would like to thank my husband for supporting my dreams and partnering with me to reach for the stars! Ngiyabonga Donda, your sacrifices and the understanding for the past 18 months are a testimony of your love and commitment to us. This is for us.

# DECLARATION OF OWN WORK

I hereby declare that this research report is my own unaided work. It is submitted in partial fulfillment of the degree of Master of Commerce by Coursework and Research Report at the University of Witwatersrand, Johannesburg. It has not been submitted elsewhere for being awarded another degree or for examination purposes at any other university.

SIGNATURE:  DATE: 01 June 2019

Hlengiwe Thandeka Makhathini

**CONTENTS**


| | |
|---|---|
| Table of Contents | v |
| Abstract | vii |
| Abbreviations | ix |
| Definitions | x |
| List of Tables | xii |
| List of Figures | xii |

# Table of Contents


**1. INTRODUCTION 1**

**1.1 Purpose of the study 1**

**1.2 Context of the study 3**

**1.3 Research question and objectives of the study 4**

**1.4 Contributions of the study 5**
1.4.1 Academic contribution 5
1.4.2 Practical contribution 5

**1.5 Assumptions of the study 6**

**1.6 Limitations of the Study 6**

**1.7 Delimitations of the Study 6**

**1.8 Structure of the Report 6**

**2 LITERATURE REVIEW 7**

**2.1 Introduction 7**

**2.2 Background to the integrated reporting framework 7**
2.2.1 What is integrated reporting and integrated thinking? 8
2.2.2 Why integrated reporting? 8

**2.3 Theoretical framework: Legitimacy Theory 9**

**2.4 Role of SOEs and structure of governance 10**
2.4.1 Defining an SOE and establishing its context within the economy 10
2.4.2 How are SOEs governed in South Africa 11
2.4.3 The role of SOEs 13
2.4.4 Evaluation of SOEs 15
2.4.5 Conclusion on the role and governance of SOEs 16

**2.5 Integrated reporting and relevance to SOEs 16**
2.5.1 Context of integrated reporting 16
2.5.2 Objectives of IR and how these objectives can assist SOEs 17
2.5.3 Trends in IR 19

**2.6 IR in SOEs and why they adopt it 21**

**2.7 Importance of assurance in integrated reporting 22**

**2.8 The Internal audit function and its role in IR 27**

**2.9 Chapter Summary 30**

**3 RESEARCH METHODOLOGY 32**

**3.1 Introduction 32**

**3.2 Research paradigm and approach 32**

**3.3 Research Design** **33**

**3.4 Sampling strategy** **34**
3.4.1 Sample size 35
3.4.2 Sampling criteria 36
3.4.3 Sampling risk 36

**3.5 Data collection** **37**

**3.6 Data analysis and interpretation** **38**

**3.7 Trustworthiness** **39**
3.7.1 Sensitivity to context 40
3.7.2 Commitment and rigour 40
3.7.3 Transparency and coherence 40

**3.8 Research Ethics** **41**

**3.9 Chapter Summary** **42**

**4 FINDINGS** **43**

**4.1 Introduction** **43**

**4.2 Findings** **43**
4.2.1 Does the Internal Audit Function play a role in IR Process? 43
4.2.2 What is the role of the IAF? 45
4.2.3 Challenges 52
4.2.4 Future role of the internal audit function in the integrated reporting process 53

**4.3 Comparison to findings from Engelbrecht et al's (2018) study** **54**

**4.4 Chapter Summary** **55**

**5 CONCLUSIONS, RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH** **56**

**5.1 Introduction** **56**

**5.2 Summary and conclusion** **56**

**5.3 Recommendations:** **58**

**5.4 Suggestions for further research** **58**

**References** **60**

**Annexures** **65**

**ABSTRACT**

**Orientation:** Integrated Reporting (IR) is a developing reporting approach that assists companies to efficiently report in a concise manner. IR provides financial and non-financial information, and for the report to be credible to stakeholders, it requires assurance. Currently, there are no assurance frameworks for IR, and there are various types of assurance providers.

**Research Aim:** The primary aim of the study is to understand the role that the Internal Audit Function (IAF) of State-Owned Entities (public entities) in South Africa plays in IR, to understand challenges associated with playing this role and to identify the future role of IAF in IR.

**Motivation for the study:** In South Africa, the top 18 SOEs have an asset base of over R1.1 trillion and generate turnovers of over R395 billion which is testimony that they play a critical role in the economy. To improve communication of key objectives and how the mandate of the entity is being achieved, several public entities have voluntarily adopted IR. In the provision of information, there is always a risk of accuracy, validity and completeness and as a result King Code recommends that independent assurance be provided on IR. The assurance will increase the legitimacy of IR to the various stakeholders. There are several potential assurance providers for IR. IAF already plays an assurance role in terms of internal controls and the control environment of an entity, and therefore, has the potential to play a significant role in IR. The motivation for the study is therefore, to understand if the IAF of public entities has embraced this potential role; to understand challenges associated with playing this role and to identify what the potential future role might be.

**Research approach and method:** A qualitative approach was followed, and data was collected through semi-structured interviews to explore the current environment and role played by the IAF. The data collection process involved interviewing Chief Audit Executives (CAEs) or Heads of Internal Audit of SOE's, and thematic analysis was used to analyse the findings.

**Findings:** The findings from this study are that corporate governance; the operating environment and the skills & capacity of the IAF are critical for the IAF to play a meaningful role in the IR process. Most CAEs highlighted the need for the IAF to be a proactive partner to the business in the IR process to add value and achieve a higher buy-in from stakeholders.

**Contributions:** This study contributes the to the existing body of knowledge on IR in the public sector; specifically, in terms of highlighting the role and challenges of the IAF in the preparation of IR as well as identifying the potential future role of the IAF in IR

**Keywords:** Assurance; Integrated Report; Internal Audit Function; Sustainability; State Owned Entities

**ABBREVIATIONS**

| | |
|---|---|
| ACCA | The Association of Chartered Certified Accountants |
| CAE | Chief Audit Executive |
| CA (SA) | Chartered Accountant South Africa |
| CSR | Corporate Social Reporting |
| GDP | Gross Domestic Product |
| IAF | Internal Audit Function |
| IIA | Institute of Internal Auditors |
| IIASA | Institute of Internal Auditors in South Africa |
| IIRC | International Integrated Reporting Council |
| IR | Integrated Reporting |
| IRF | Integrated Reporting Framework |
| IoD | Institute of Directors in Southern Africa |
| ISA | International Standards of Auditing |
| JSE | Johannesburg Stock Exchange |
| KING III | King Report on Governance for South Africa 2009 |
| PFMA | Public Finance Management ACT No 1 of 1999 |
| SAICA | South African Institute of Chartered Accountants |
| SOEs | State Owned Entities also referred to as Public Entities |

## DEFINITIONS

| | |
|---|---|
| Assurance | Opinion expressed by someone independent of the preparer of the information to provide the users of the information with comfort to the validity, completeness, integrity, and relevance of the information provided in the IR (Ackers & Eccles, 2015) |
| Chief Audit Executive (CAE)/ Head of Internal Audit | The individual who is responsible for the running of the IAF of the SOE being assessed. The report will use CAE and will refer to these people as participants in the methodology section. For entities with an outsourced IAF, the engagement partner will represent the CAE. |
| Conceptual Framework | The framework that is published by the International Accounting Standards Board to standardise regulations, accounting standards and procedures relating to the preparation and presentation of financial statements (IASB, 2018). |
| Corporate Governance | The Institute of Directors of South Africa defines corporate governance as “the exercise of ethical and effective leadership by the governing body towards the achievement of ethical culture; good performance; effective control and legitimacy” (IODSA, 2019, p. 11) |
| Integrated Report | A concise report that provides stakeholders with information on how the organisation creates value over time (IIRC, 2013). IR is an improved version of what was referred to as Corporate Social Responsibility (CSR) or Sustainability reporting. |
| Integrated Reporting Framework | The Integrated Reporting Framework that was issued in 2013 to guide entities on how to report beyond financial reporting (IIRC, 2013). |
| Internal Auditing | The Institute of Internal Auditors in South Africa (IIASA, 2018) on its website defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”. |

| | |
|---|---|
| Internal Audit Function | In the SOE context, this is an independent department that is responsible for assessment of effectiveness of internal controls on behalf of the board. |
| King Code | The King Code is a document that provides guidelines on governance. It was developed after retired judge Mervyn King was appointed by President Mandela to develop the Code of Good Governance to breach the trust deficit between business and society during transition to democracy. The latest code is King IV, published in 2016, in response to additional corporate governance and regulatory developments after the third iteration King III which was produced in 2009 post the financial crisis with increased emphasis on economic performance and sustainability (WBCSD Future Leaders, 2014). |
| National Treasury | National Treasury is a department of the South African government that is responsible for managing the national governments finances. |
| PFMA | Public Finance Management Act no 1 of 1999 an Act that governs the management of resources and financial reporting of the State and the SOEs (National Treasury, 2018). |
| State Owned Entity (SOE)/ Public Entities | These are business entities that are owned by the State to fulfil specific mandates. In the Public Finance Management ACT No. 1 of 1999 (PFMA) they are also referred to as public entities. Most of them are also subject to the Companies Act, however, this depends on whether they are listed as Schedule 2 or Schedule 3 on the PFMA. In this research study SOE is used to also refer to other public entities |

## LIST OF TABLES


| TABLE NUMBER | HEADING | PAGE |
|---|---|---|
| 1 | Governance challenges in State Owned Entities | 12 |
| 2 | Guiding principles for integrated reporting | 18 |
| 3 | The internal audit function's assurance and advisory roles | 30 |
| 4 | Profile of participants | 36 |
| 5 | Stage of maturity - analysis | 44 |
| 6 | Themes – role of the internal audit function in integrated reporting | 46 |


## LIST OF FIGURES


| FIGURE NUMBER | CAPTION | PAGE |
|---|---|---|
| 1 | Catalysts for sustainable societal value-creation | 14 |
| 2 | Strategic positioning of SOEs | 15 |
| 3 | Contents of integrated report | 19 |
| 4 | Stages of sustainability maturity | 29 |
| 5 | Model for the internal audit function's involvement in integrated reporting | 45 |

# 1. INTRODUCTION

## 1.1 Purpose of the study

Globally, there has been a greater demand from societies for governments and businesses to take responsibility for ensuring that economic development activities do not negatively affect future generations. (Ackers & Eccles, 2015) This is in response to a realisation that the economic activities that businesses and governments engage in to generate profits for shareholders and to provide public services can be detrimental on a societal level by negatively impacting on the environment and on the value creation for wider society (Abeysekera, 2013; Dumay, Bernardi, Guthrie, & Demartini, 2016). This requires the nature of reporting by businesses and Governments to go beyond traditional financial reporting, as this does not allow stakeholders an opportunity to hold entities accountable for past, current and future performance in a holistic manner (Dumay, et al., 2016; Miller, Fink, & Proctor, 2017). According to the Conceptual Framework, which is a framework that is published to standardise financial reporting, the objective of financial reporting is to provide useful information about potential future cash flows for decision making purposes (IASB, 2018). This emphasis on future cash flows has the potential to exclude key information, including non-financial information, which is important for societies to be able to hold businesses and governments accountable for the impact they have on the environment and on society (Abeysekera, 2013; Dumay, et al., 2016).

This divergent information requirements of different stakeholders and the information provided through traditional financial reports is the key driver of the growth of Integrated Reporting (IR) (Bernadi & Stark, 2018). IR provides an entity with the opportunity to report both financial information and non-financial information to address the divergent information requirements (Montecalvo, Farneti, & De Villiers, 2018). In South Africa, during the transition towards democracy, there was a challenge of distrust between businesses and society (WBCSD Future Leaders, 2014). This challenge resulted in the development of the King Code to bridge the gap by trying to improve corporate governance and accountability of entities (WBCSD Future Leaders, 2014; Kanyane & Sausi, 2015). The nature of IR has been evolving, and in South Africa listed entities are amongst the trendsetters as it is a listing requirement to adopt the King Code, which recommends IR (WBCSD Future Leaders, 2014; Maroun, 2017).

The adoption of the King Code has not been limited to listed entities, as some entities owned by the South African government have voluntarily adopted the King Code to demonstrate good governance and to strengthen legitimacy (Cho & Patten, 2007; NKONKI, 2016). These entities are referred to as state-owned entities (SOEs) or public entities, and their mandate is to help deliver public services and goods that the private sector is not able to provide (Maroun & Lodhia, 2018). The top 18 public entities have an asset base worth over R1.1 trillion, and generate turnovers of over R395bn per annum, and with these levels of resources, it is important that they report effectively to stakeholders in accordance to their key role in the economy (Kanyane & Sausi, 2015; NKONKI, 2016). The adoption of the King Code is of even greater importance for public entities in South Africa as they are faced with multiple governance challenges and adopting IR might help with the legitimacy of these entities (IODSA & PWC, 2011; Kanyane & Sausi, 2015; Maroun, 2018b; Cho & Patten, 2007).

There is however, a risk due to current poor governance in SOEs, that the information provided might be manipulated (Maroun & Lodhia, 2018; Kanyane & Sausi, 2015). To mitigate this risk and increase usefulness of the information to stakeholders it is important that there is a level of assurance provided (Maroun & Lodhia, 2018). Research studies conducted found that there is an increased demand for assurance of integrated reports (Maroun & Atkins, 2015; Richard, 2017). The benefits of assurance for integrated reports are (i) increased credibility of the report; (ii) the mitigation of the risk of impression management, which studies have found exist in chairman reports of JSE listed entities (Yasseen, Moola-Yasseen, & Padia, 2017); and (iii) the provision of comfort to those charged with governance that the information supplied is reliable (Maroun & Atkins, 2015).

There are several potential assurers for the integrated report, and the purpose of this research study is (i) to determine if the Internal Audit Function (IAF) of public entities plays a role in the IR process, (ii) to identify challenges in playing the role; (iii) and to ascertain the future role of the IAF in IR. The objective of this study is to determine if IAF can provide the assurance required to provide comfort to users of IR (Chambers & Odar, 2015).

(Engelbrecht, Yasseen, & Omarjee, 2018) explored “the roles of the IAF in IR for listed entities and recommended for further research expanding the sample of other types of entities”. This study draws on the research conducted by Engelbrecht et al; and therefore, is a replicate study with a focus on SOEs.

## 1.2 Context of the study

The study is a South African based study with a focus on public entities/ SOEs as listed in the Public Finance Management Act 1999 (PFMA), an Act that governs the management of resources and financial reporting of the State and the SOEs (National Treasury, 2018). Due to the size and nature of these businesses, adopting IR can help to provide citizens as the key stakeholders with a better understanding of these entities and whether they are meeting their objectives as per their founding legislation (PWC, 2012; NKONKI, 2016). The current high levels of protest action against the government for poor service delivery or the complete lack of service delivery is a clear indication that there is a need for higher accountability (Twala, 2014). On an annual basis the Auditor General reports on billions of Rands that the government loses due to poor corporate governance or inefficiencies from government departments and public entities in what is called irregular expenditure with over R45bn reported for the 2016/17 financial year alone (Auditor General of South Africa, 2017).

As noted above, there is no requirement for SOEs to adopt the King Code or IR, however, with the challenges of poor governance and corruption, adopting IR has a potential to improve legitimacy of the entities with their key stakeholders (Duff, 2017; Maroun, 2018b). The price of corruption and poor governance in SOEs is lack of efficiency in resource allocation which frustrates growth and economic development (Lehman & Morton, 2017). Therefore, adopting IR might help improve governance and legitimacy of these entities, as voluntary reporting can be a tool for stakeholder management for an organisation (Maroun, 2018b; Maroun & Lodhia, 2018). Legitimacy can only be achieved if the information is credible, and therefore as stated in Section 1.1 above, there is a significant need for assurance for IR information in the SOE sector. Global trends show that there is an improvement in the assurance for IR as in a study by KPMG in 2015, the findings were that 59% of the global 250 companies have assurance on their sustainability reports, which is an improvement from the 30% in 2008. In both studies the bulk of the assurance was provided by external auditors (notably the Big 4[1]) and other external bodies (Cohen & Simnett, 2015; Mammatt, 2009). In South Africa the trend on assurance provider is similar to the international trend, which makes potential role of IAF more critical.

[1] KPMG, EY, Deloitte and PricewaterhouseCoopers (PWC).

The IAF is charged with the responsibility of assessing the control environment and reporting on the adequacy and effectiveness of the internal controls in an entity (IIASA, 2018). Because of this responsibility, the IAF should have a detailed understanding of the processes and systems of the business, and therefore could play a significant role in providing assurance for the IR process (IIA, 2013). Assurance is important to ensure that the information provided in the IR is reliable, complete, consistent and comparable for it to be useful (IIRC, 2013). For stakeholders of an entity to realise the benefits of assurance on the IR as listed above, the leadership of the organisation must support the objectives of IR (NKONKI, 2016).

According to research done by NKONKI (2016), “a third of global GDP is in public sector entities, whose primary objective is to deliver services to the public” (NKONKI, 2016). However, there is a lack of research on accountability in the public sector despite their essential position and role in the economy (Maroun & Lodhia, 2018; Surty, Yasseen, & Padia, 2018). IR can be adopted by entities to respond to regulatory requirements and although there is no explicit requirement for SOEs to adopt IR, the framework affords an entity the opportunity to succinctly communicate the benefits the entity is providing to the community (IIRC, 2013).

## 1.3 Research question and objectives of the study

The primary aim of the study is to understand the role that the IAF of SOEs in South Africa plays in IR. The study is a replicate of a study by Engelbrecht, et al, 2018 which focused on JSE listed entities. The subsequent objectives of the study are (i) to determine if the IAF is playing any role in SOEs that have adopted IR, (ii) to understand the challenges associated with that role; and (iii) identifying the potential future role of IAF in providing assurance on IR. To contextualise the research study, the existing body of knowledge was reviewed in terms of the following:

- The role of SOEs in the economy which is unpacked in section 2.4
- IR and its applicability to SOEs which is unpacked in section 2.5 & 2.6
- The need for assurance for information provided in integrated reports which is detailed in section 2.7
- The current role of the IAF in IR which is detailed in section 2.8
- Possible challenges in performing this role also unpacked in section 2.8

Against the background of the current literature, this research study will answer the following questions:

- Does the IAF of SOEs play a role in the IR process? If yes, what is the role?
- What are the challenges that the IAF face in playing a role in IR processes of SOEs?
- What is the potential future role that the IAF can play in IR processes of SOEs?

## 1.4 Contributions of the study

This study contributes firstly on an academic level by adding to the existing body of knowledge on IR in the public sector, with a focus on the role of that the IAF plays in IR in the public sector. Secondly, it contributes on a practical level as it provides useful knowledge that can be applied in the public sector industry and the accounting profession.

### 1.4.1 Academic contribution

The public sector has an important role in the economy evidenced by the fact that a third of global GDP is in public sector entities (NKONKI, 2016). However, despite this significant role of the public sector there has been limited research on IR in the public sector in South Africa (Surty, et al, 2018). This study makes a meaningful contribution to the existing body of knowledge by adding to the body of research work on IR in the public sector.

### 1.4.2 Practical contribution

As stated, the public sector is faced with challenges of poor governance, lack of credibility and lack of trust. On a practical level, this study has the potential to demonstrate to public entities the benefits that can accrue to them by adopting IR and to demonstrate best practice on role that is played by IAF in the process.

In terms of the accounting profession, it has been established that the role of assurance is important to give credibility to the information provided in IR (Maroun & Atkins, 2015). This study has the further potential to contribute to the accounting profession by highlighting the role the IAF is playing in SOEs and identifying areas of improvement by exposing the current challenges and sharing the potential future role as highlighted by the Chief Audit Executives (CAEs).

## 1.5 Assumptions of the study

The researcher had to adopt certain assumptions to conduct the study. The first assumption is that the SOEs that have voluntarily adopted IR have leadership that is committed to the objectives of IR and is likely to support a meaningful role of IAF in the IR process. The second assumption is that CAEs of the SOEs that have adopted IR are willing to be part of the study and that they will share authentic views with the researcher.

## 1.6 Limitations of the Study

This study is limited to SOEs that have adopted IR. This study is a qualitative study based on findings from data collected through semi-structured interviews. Since generalisation to a population is not a qualitative research objective, the findings may not be applicable to other SOEs (Alveson, 2003; Leedy & Ormrod, 2015; Ryan, Scapens, & Theobald, 2002). The study might also be limited by the biases of the researcher, as she might have been influenced by findings of the previous similar study, which could have a potential to influence the researcher's stance during the collection and analysis of data (Leedy & Ormrod, 2015).

## 1.7 Delimitations of the Study

The study will not assess the work that is done by other assurance providers in IR. The study will not assess the current level of assurance provided for IR.

## 1.8 Structure of the Report

The report consists of five chapters. In Chapter 1 the background to the research study was provided by outlining the purpose, objectives, contributions and limitations of the study. Chapter 2 is dedicated to a detailed literature review on the background of IR; the role of SOEs in the economy and current governance practices; IR and its relevance in SOEs; the need for assurance in IR; the general role of IAF; and the potential role of the IAF in IR processes. Following on the literature review, the research methodology that was adopted in carrying out this research is discussed in Chapter 3. The findings of the research are presented in Chapter 4 and an analysis of the interviews conducted is provided. The final chapter provides concluding remarks based on the findings of the study on the current role and potential future role of the IAF in the IR processes of SOEs and provides suggestions for further research in this area.

# 2 LITERATURE REVIEW

## 2.1 Introduction

The literature review is a critical part of a research study as it provides evidence to give credibility to the study. Before the study was conducted, the researcher thoroughly reviewed the work that has been done in this field. This is important to ensure that the researcher identifies any gaps in understanding the researcher might have had and to assist with new ideas and approaches that have been used on similar subjects (Leedy & Ormrod, 2015). This chapter will therefore review the existing literature focusing on the following:

- Background of the IR framework which will briefly look at the history of reporting and evolution from financial reporting to non-financial reporting including the definition of IR and integrated thinking (IIRC; CIPFA, 2016);
- The theoretical framework of IR: legitimacy theory
- Role of SOEs and structure of their governance. This section will focus on what SOEs are and their role within the economy.
- IR and its relevance to SOEs. This section will unpack in detail the context of IR, its objectives, trends in IR, and lastly unpack IR in SOEs and understand why they adopt it;
- Importance of assurance in IR. This section will review literature on the need to provide assurance on IR.
- The IAF and its role in IR. This section will look at the general role of the IAF and the specific role the IAF can play or is playing in terms of IR according to existing literature.

This chapter concludes with a summary of the researcher's observations on what is known about IR and the role of the IAF in public entities based on the reviewed literature.

## 2.2 Background to the integrated reporting framework

Reporting by entities is an old practice which was initially developed to address accountability and stewardship (Ravenscroft & Williams, 2009). As the nature and sizes of businesses evolved, the focus of accounting reporting shifted from the emphasis on stewardship to the provision of useful information (Ravenscroft & Williams, 2009). This shift in focus meant that it was not easy to hold managers accountable on how the business has performed including how it is impacting different stakeholders. These changes in reporting are generally blamed

for the collapse of large entities and as a result there was an increased demand for reporting that is holistic. The following section will provide the definition of IR and integrated thinking.

### 2.2.1 What is integrated reporting and integrated thinking?

IR is defined as “a new form of reporting that brings together financial and non-financial reporting, focusing on future value creation” (Montecalvo, et al, 2018, p.365). IR is based on integrated thinking which helps organisations to “think holistically about their strategy and plans, make informed decisions and manage key risks to build stakeholder confidence and improve future performance” (IIRC & CIPFA, 2016, p. 6). In 2013, the International Integrated Reporting Council International Integrated Reporting Council (IIRC) issued the Integrated Reporting Framework (IRF) whose purpose is to provide guidance to entities on holistic reporting that is more than financial reporting (IIRC, 2013). The framework is premised on reporting on the six capitals and aims to show how the organisation creates value using “natural capital, financial capital, human capital, intellectual capital, manufactured capital, and social & relationship capital” (IIRC & CIPFA, 2016; IIRC, 2013, p. 11). In the following section, the need for IR will be unpacked further.

### 2.2.2 Why integrated reporting?

In South Africa the demand for heightened accountability increased due to the trust deficit between society and business because of apartheid policies (WBCSD Future Leaders, 2014). The King Code which advocates for IR was developed and implemented to bridge this trust deficit. The JSE issued a listing requirement for all entities listed on the exchange to adopt the King Code to ensure commitment to the code (Maroun, 2017; WBCSD Future Leaders, 2014). As a result of these requirements SA entities are leaders in terms of IR (Miller, Fink, & Proctor, 2017). This is corroborated by findings that “companies from emerging markets had average to good strategy disclosures in their annual report or integrated reports whereas developed countries’ companies showed low strategic disclosure” (Phala, Yasseen, Padia, & Mohamed, 2018, p. 6). The compulsory adoption of IR by listed entities has not negatively affected the traditional financial reporting (Omarjee, Omarjee, & Yasseen, 2018), which shows that IR is value adding.

The need for IR has been argued in this report however, to truly understand the value of IR - especially from a voluntary reporting perspective as is the case for public entities - one should

view IR from the theoretical framework of legitimacy theory. This is explained further in the next section.

## 2.3 Theoretical framework: Legitimacy Theory

The value of IR can be understood from the perspective of legitimacy theory as IR's key function is to assist entities to communicate effectively and succinctly to stakeholders thus bridging the accountability gap (Duff, 2017). Legitimacy theory is based on the principle of a "social contract between the corporation and society" (Duff, 2017, p. 515). Legitimacy is defined as "a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions" (Hummel & Schlick, 2016, p. 458). Hummel and Schlick (2016, p. 458) further defines society based on Freeman's 1984 definition of stakeholders as "groups […] that can affect, or be affected by, the accomplishment of organizational purpose" (Hummel & Schlick, 2016, p. 458).

For entities to be sustainable they must deliver on their commitment to stakeholders as legitimacy theory is premised on the fact that "organisations continually seek to ensure that they operate within the bounds and norms of their respective societies" as failure to do so can result in the community to "revoke the contract to operate" (Brown & Deegan, 1998, p. 22). IR could therefore be a tool for entities to demonstrate or communicate how this is being achieved to maintain legitimacy as studies have confirmed that companies do report as a legitimising tool (Cho & Patten, 2007; Dumay, et al., 2016). In the UK accountancy firms have used corporate social responsibility reporting – which is an earlier form of IR - to improve and maintain their legitimacy with clients, potential clients, graduates, staff and partners to improve the business (Duff, 2016; Duff, 2017).

Improved legitimacy can play a significant role in the effectiveness of public entities given their size and role as mentioned earlier in this report (NKONKI, 2016). Poor governance in public entities have a potential reduce societal value because research studies found there could be a 1%-5% improvement in GDP with modest improvement in governance in SOEs (IODSA & PWC, 2011; Kanyane & Sausi, 2015). In a country like South Africa with high levels of unemployment, poverty and inequality this can make a significant difference. There is no legal or regulatory requirement for SOEs to adopt IR; however, most have adopted IR voluntarily (NKONKI, 2016, Surty, et al, 2018). The number of SOEs that adopt IR has been

on an upward trend, with a slight decrease in 2016 (NKONKI, 2017). Unfortunately, the increase in adopters did not have a corresponding increase in quality of reports, which is evidenced by an increase in proportion of companies scoring less than 50% from 21% in 2015 to 30% in 2016 (NKONKI, 2016; NKONKI, 2017). This deterioration of quality further supports the importance for assurance to be provided on IR. SOEs realised that there is an increasing demand for holistic reporting to meet information requirements of various stakeholders and this has resulted in the growth of adoption of IR (WBCSD Future Leaders, 2014). In the next section the role of SOEs and the structure of governance will be unpacked.

## 2.4 Role of SOEs and structure of governance

In this section, SOEs will firstly be defined and contextualised in terms of the economy within which they exist. Secondly, their governance structures are explained, and the associated challenges are highlighted. The role of SOEs is discussed next, and against this background, the importance of evaluating SOEs to determine if they are succeeding in implementing their mandate is attended to.

### 2.4.1 Defining an SOE and establishing its context within the economy

SOEs are businesses that are generally wholly owned by the government (IODSA & PWC, 2011; PWC, 2015; NKONKI, 2016). These entities exist through enabling legislation which defines their mandates, and in most instances are faced with a challenge of sometimes conflicting requirements from the different legislative frameworks (PWC, 2012; Kanyane & Sausi, 2015). The need for state entities arises because markets in the real world are not always perfect and will only provide goods or services required by society if there are profits to be derived (Maroun & Lodhia, 2018). This contrasts with the neoliberal outlook of the economy which advocates for perfect markets that are efficient (Zhang & Andrew, 2014). SOEs are therefore in place to respond to those market failures in provision of public interest goods and services, like water, electricity, affordable housing, etc. (Maroun & Lodhia, 2018).

As such, SOEs can be described as a “toolbox for government to deliver value but they should not displace efficient private sector investment (PWC, 2015, p. 4)”. SOEs have an important role in the economy; and their size and significance necessitate that they are adequately governed for sustainability. Adopting IR could assist these entities in improving their governance. In the next section the governance of SOEs are discussed and the challenges

they face are highlighted. Attention is also given to how IR can assist in addressing these challenges.

### 2.4.2 How are SOEs governed in South Africa

In the South African context, the primary legislation for financial governance of SOEs is the PFMA (PWC, 2012). (National Treasury, 2019) explains the function of this act as follows:

> The PFMA is a key element in a set of reforms to the management of government finances. Implementing the Act represents a major challenge for the public sector. If the objectives of the Act are to be achieved successfully, all stakeholders will need to change their way of working. The Act emphasises the importance of good management and accountability and clarifies the accountability chain by defining the division of responsibilities between accounting officers and their Ministers or MECs. The Act recognises the importance of sound information for good management practices and for enabling the various stakeholders to fulfil their responsibilities.

The secondary legislation is the Companies Act, as these entities are business enterprises. However, if the requirements of the Companies Act conflicts with the requirements of the PFMA, SOEs must abide by the PFMA (PWC, 2012).

As noted earlier, South Africa developed the King Code to address the need for good corporate governance and build a trust relationship between entities and different stakeholders (WBCSD Future Leaders, 2014). Since the top 18 SOEs in South Africa command an asset base of R1.1 trillion, there is a need for these entities to be transparent and accountable to stakeholders and SOEs have adopted the King Code (NKONKI, 2016; Surty, et al, 2018). Table 1 below details the governance challenges that face SOEs (IODSA & PWC, 2011).

Table 1

Governance Challenges in State-owned Enterprises

| CHALLENGE | IMPACT ON GOVERNANCE |
|---|---|
| Conflicting role of government: as a shareholder; regulator & policy owner | Lack of clarity on priorities for SOE |
| Lack of independent oversight and political influence | Impair ability to guide SOE to deliver on its mandate |
| Economic failures: insulated from failure | Complacency and inefficiency by Board and Management |
| Setting and measuring performance: lack of capacity to set key performance indicators | Lack of effective monitoring and ultimately poor delivery of the mandate |
| Appointment of board and CEO | Lack of accountability to Board if CEO is appointed by the government |
| Powers of the board: often usurped by government | Lack of accountability and confusion in decision-making |
| Roles and responsibility of stakeholders: not clearly defined | Accountability deficiency |

Source: Based on information provided in IODSA & PWC (IODSA & PWC, 2011)

The challenges of blurred governance lines and corruption have resulted in a serious lack of service delivery (Kanyane & Sausi, 2015; Surty, et al, 2018). The main and critical role of SOEs is to create value for society, and poor governance in the public sector has potential minimise this value creation (PWC, 2015). The economy is negatively impacted by poor corporate governance as it results in reduced effectiveness and efficiency of service delivery to the public (Makiwane & Padia, 2013; Kanyane & Sausi, 2015). As mentioned earlier, "a slight improvement in governance of SOEs can free resources equivalent to approximately 5% of GDP", which is a significant value especially in the context of low economic growth in South Africa (IODSA & PWC, 2011). The recent downgrade[2] of Eskom, the biggest SOE producing 90% of the country's electricity, is an example of the negative consequences of poor governance as the cost of borrowing for Eskom is likely to increase and this will be

[2] Eskom was recently downgraded by all 3 large rating agencies due to poor governance. This resulted in the total overhaul of the board of Eskom and the appointment of a new acting CEO (Eskom, 2018) – Accessed 08 April 2018

passed to the consumers leading to general price increases in all industries (IIRC & CIPFA, 2016).

The evaluation of SOEs must go beyond financial performance as a result of their dual mandates which require of commercial sustainability and development of societies (IODSA & PWC, 2011; PWC, 2015). The PFMA through its regulations issued by National Treasury requires SOEs to have shareholder compacts, which outlines the mandate of the SOEs and performance objectives (IODSA & PWC, 2011). The shareholder compacts "assists SOEs to deal with challenges of unclear roles and responsibilities" (IODSA & PWC, 2011, p. 10). The shareholder compact is therefore an important tool that can be used by those charged with governance to evaluate performance of the entities and hold management accountable. IODSA and PWC (2011) therefore recommended that "governance in SOEs be reviewed for effective delivery" (IODSA & PWC, 2011, p. 14). It was also consequently recommended that SOEs adopt the King Code, and most large SOEs have heeded this call (NKONKI, 2016; Surty, et al, 2018). This has a positive impact on IR as evidenced by the continuous improvement in adoption of IR by SOEs (NKONKI, 2016).

### 2.4.3 The role of SOEs

SOEs are set up to create a conducive environment for societies to create wealth, for the economy to grow and create jobs (PWC, 2015). This is a more demanding responsibility and is different to that of private companies whose primary objective is primarily wealth creation and preservation for shareholders (PWC, 2015). Financial sustainability is a key requirement for SOEs to deliver on their short, medium and long-term objectives although their primary objective is not profitability (PWC, 2015). The responsibilities of public entities are; to "(i) provide public goods; (ii) manage labour relations; (iii) limit private and foreign control of the economy; (iv) increase access to public services; and (v) support economic development (PWC, 2015, p. 14)". The importance of these objectives intensifies the requirement for SOEs to embrace good governance and transparent reporting to be effective. If SOEs embrace good governance, "they can be catalysts for sustainable value creation in the economy" (PWC, 2015, p. 40). Figure 1 illustrates how SOEs can play the catalyst role, and each of the pillars is unpacked further below.

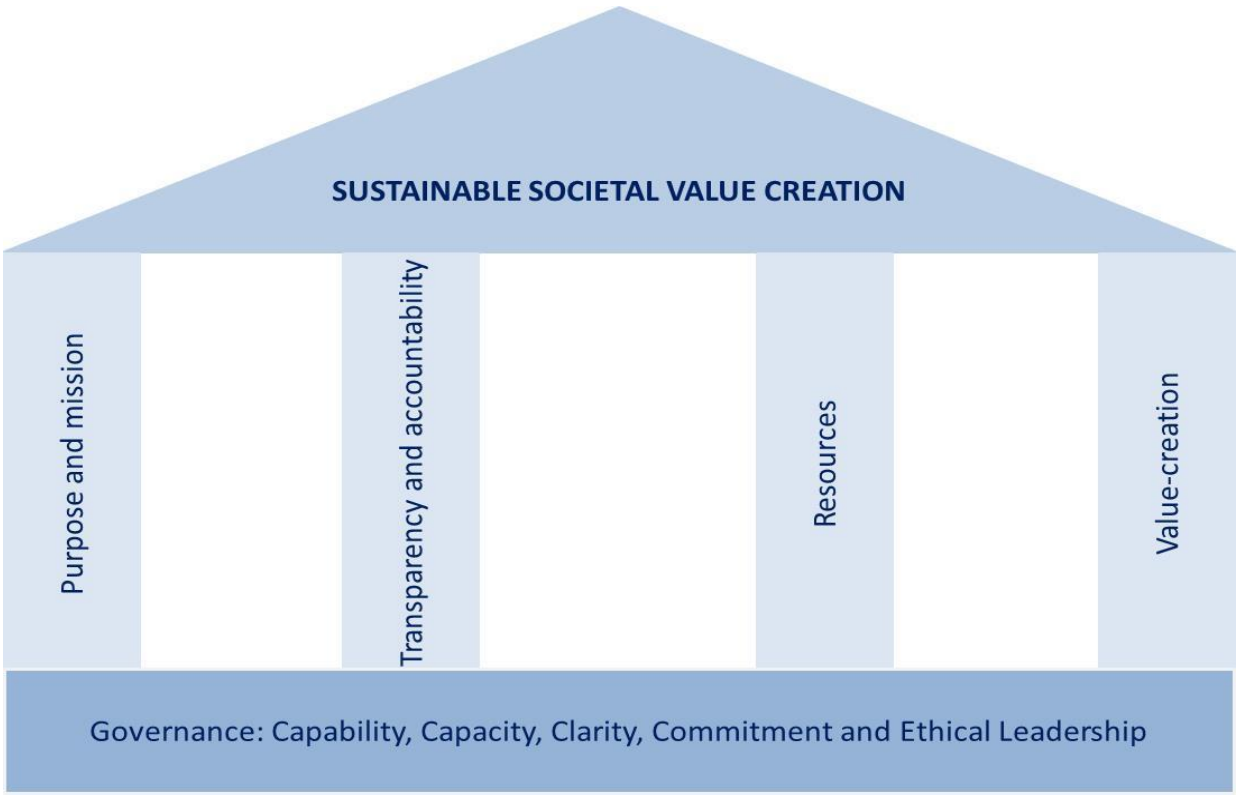


*Figure 1*. Catalysts for sustainable societal value-creation
Source: (PWC, 2015, pp. 31-41)

- **"Governance:** The leadership of the SOE must be capable of delivering on the objectives; must have the capacity to deliver; must have clarity on the mandate; must be committed to the mandate; and must have integrity which is a cornerstone of good governance" (p34).
- **"Purpose and Mission**: The purpose and mission of the SOE must be evident; i.e. why does the SOE exist, what is the market failure it is addressing?" (p31)
- **"Transparency & Accountability:** The SOE must be transparent and accountable providing timely reports on performance". (p36)
- **"Resources:** The SOE must be able to balance internal resources with external demands". (p41)
- **"Value-creation:** The SOE must be able to create societal value through external partnership". (p31)

SOEs can only be catalysts for value creation if they are financially sustainable. The government generally provides guarantees to SOEs, which has a potential to reduce the effectiveness of SOEs in playing a catalytic role in the economy (PWC, 2015; Surty, et al, 2018). This is because the knowledge that there is government backing can make SOEs

complacent in how they execute their responsibilities (Surty, et al, 2018). The risk of complacency and ineffectiveness can be mitigated by the adoption of the King Code which advocates for IR, which will improve value-creation by SOEs.

### 2.4.4 Evaluation of SOEs

Taxpayer activism including increasing instability due to service delivery protests results in demands for higher accountability in the public sector and emphasizes the value of appropriate evaluation of SOEs performance against objectives (Surty, et al, 2018). As mentioned earlier in this chapter, SOEs are not established for profit motive, and therefore their assessment and evaluation must include non-financial performance (PWC, 2015). Figure 2 shows that, SOEs should be assessed their abilities to generate profits and societal value -creation (PWC, 2015). “Role model entities are those SOEs that generate profit and create societal value, whilst the worst performing SOEs are those that do not generate profits and destroy societal value; governments need to review options and consider exiting such SOEs (PWC, 2015, p. 6)”. Government will be in a better position to identify poor performing SOEs if IR is adopted, as the reports from SOEs will demonstrate integrated thinking better decisions making (IIRC, 2013).

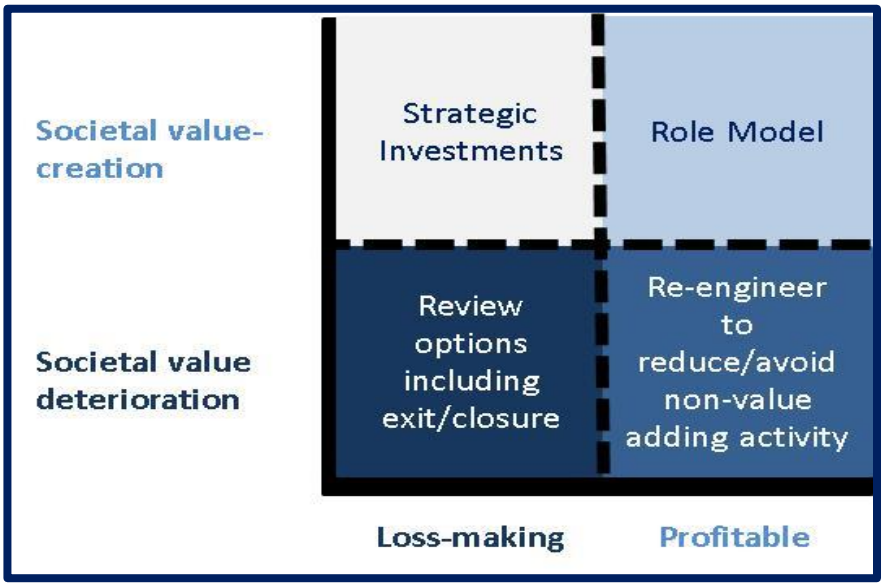


Figure 2. *Strategic positioning of SOEs*

Source: PWC (2015)

### 2.4.5 Conclusion on the role and governance of SOEs

As this section has clearly demonstrated, the role of SOEs in the economy is important, as SOEs have a potential to make the economic environment conducive to wealth and value creation for society (PWC, 2015). As a result of the diverse stakeholder base that SOEs have report to, there is a need for a system that can assist them to communicate efficiently and concisely on value creation over time (IIRC, 2013). The governance challenges facing SOEs make them a good candidate for the adoption of IR. The next section will unpack the relevance of IR to SOEs by unpacking context of IR, the objectives of IR and the current trends of IR.

## 2.5 Integrated reporting and relevance to SOEs

### 2.5.1 Context of integrated reporting

Economic activity has increased drastically through the ages and the activities that are engaged in in the pursuit of sustained profitability have been the biggest contributor to the high increase in changing climate patterns which has a negative impact on the sustainability of the planet (Ackers & Eccles, 2015; Mammatt, 2009). This impact on the planet has contributed to the increasing demand globally for all stakeholders to be responsible and to ensure that the planet will have resources to meet the needs of future generations by committing to sustainability (Mammatt, 2009; Ackers & Eccles, 2015). Different stakeholders require organisations to provide information on the impact of its activities on the environment, employees, suppliers, customers and communities (Mammatt, 2009). Organisations need to be accountable to a broader stakeholder group which is beyond what is expected from traditional financial reporting “to ensure that economic activity does not compromise the future of generations to come” (Ackers & Eccles, 2015, p. 515; IASB, 2018). To be able to meet the needs of stakeholders for increased accountability and communication, IR has been developed to guide entities to report effectively on sustainability (IIRC, 2013).

IR is an organisational journey (which is not a once off event but a long term commitment) that is underpinned by integrated thinking and is defined by the IIA as “concise information on value-creation over time” (IIA, 2013; IIRC, 2013; WBCSD Future Leaders, 2014). The

journey of IR assists organisations with integrated thinking to break silos and consider how all aspects of the business are connected to each other and to stakeholders in order to achieve sustainable value-creation (IIA, 2013; Chen & Perrin, 2018). IR is an excellent tool for entities to communicate strategy and vision to stakeholders in a consistent manner that can potentially transform an organisation's way of conducting business and not just in order to meet compliance requirements (WBCSD Future Leaders, 2014; Chen & Perrin, 2018). "Sustainability reporting has been around since the 1930's, and the framework has been evolving over time to address the need to evaluate companies on the impact on the planet, people and profits" (Ackers & Eccles, 2015, p. 517). These historic reporting standards are in line with the IR framework as it focuses on the impact of companies on the six capitals being; "financial, intellectual, manufactured, human, natural and social & relationship" (IIRC, 2013, p. 11; IIA, 2013; Surty, et al, 2018).

In South Africa, the journey of IR dates to the dawn of democracy through the development of the King Code of Good Governance to respond to the "significant trust deficit between society and business" (WBCSD Future Leaders, 2014, p. 6) as stated previously. Sustainability reporting or corporate social responsibility (CSR) reporting which are the early forms of reporting that goes beyond financial reporting are voluntary, and one of the main reasons entities chose to adopt these is to improve legitimacy (Maroun, 2018b). In South Africa, all entities listed on the JSE are required to adopt the King Code, which has made South African entities leaders in IR (Ackers & Eccles, 2015; NKONKI, 2016; Miller, Fink, & Proctor, 2017). This leadership role of JSE listed entities can be a good benchmark for SOEs to aspire to in a quest to improve their status. In the following sub-section, the objectives of IR will be unpacked with specific reference to how IR can improve governance in SOEs.

### 2.5.2 Objectives of IR and how these objectives can assist SOEs

There are inherent inefficiencies in traditional financial reporting as evidenced by collapse of big corporates in the early 2000's such as Enron, and these inefficiencies have contributed to the increased need for holistic reporting which is sustainability reporting (Gavious, 2007; Makiwane & Padia, 2013). Global leaders work with limited resources, and therefore for adequate accountability they require tools to assist in effective communication of how value is created over time and to demonstrate that resources are allocated effectively (Makiwane & Padia, 2013). The IRF was developed by IIRC, to meet the following objectives (IIRC, 2013, p. 2):

- “Improve the quality of information for more efficient capital allocation”;
- “Communicate all factors that affect value-creation”;
- “Enhance accountability and stewardship for the different types of capital”; and
- “Entrench integrated thinking and decision making for value-creation”.

IR allows entities to be flexible and innovative in applying the guiding principles, which is an advantage of principles-based approach (Black, 2008). The guiding principles of IR are listed on Table 2 below. When applied individually and collectively, underpin the success of IR (IIRC, 2013). As IR is principles based, there could be conflicting outcomes when different principles are applied which requires preparers to apply judgement on how to report (IIRC, 2013).

Table 2

*Guiding Principles of Integrated Reporting*

| PRINCIPLE | INTERPRETATION |
|---|---|
| **Strategic focus & future orientation** | Insight into strategy and ability of value-creation over time, with effects on and use of six capitals |
| **Connectivity of information** | Provide a holistic picture of how everything fits together |
| **Stakeholder relationships** | Who are the key stakeholders and how is the nature and quality of the relationship |
| **Materiality** | Provide information that has a substantive impact on value-creation over time |
| **Conciseness** | Should be straight to the point |
| **Reliability and completeness** | Include all material matters (positive and negative) |
| **Consistency and comparability** | Must be consistent over time and be comparable with other entities |

Source: IIRC 2013 (p.16)

The IRF provides the key topics that should be covered by IR with contents that are linked to each other, however, as IR is principles-based, there is no standard structure, and this allows for innovation in preparation of the report (IIRC, 2013). Figure 3 below shows a diagram of the pillars of IR (IIRC, 2013, pp. 24-30). Integrated thinking, which underlies IR will be entrenched by entities adopting the principles of IR and embracing the spirit of integrated reporting and addressing all critical questions on sustainability. (Bernadi & Stark, 2018; IIRC, 2013). This will provide long term benefits to the stakeholders by providing them with useful information (IIRC, 2013; Bernadi & Stark, 2018).

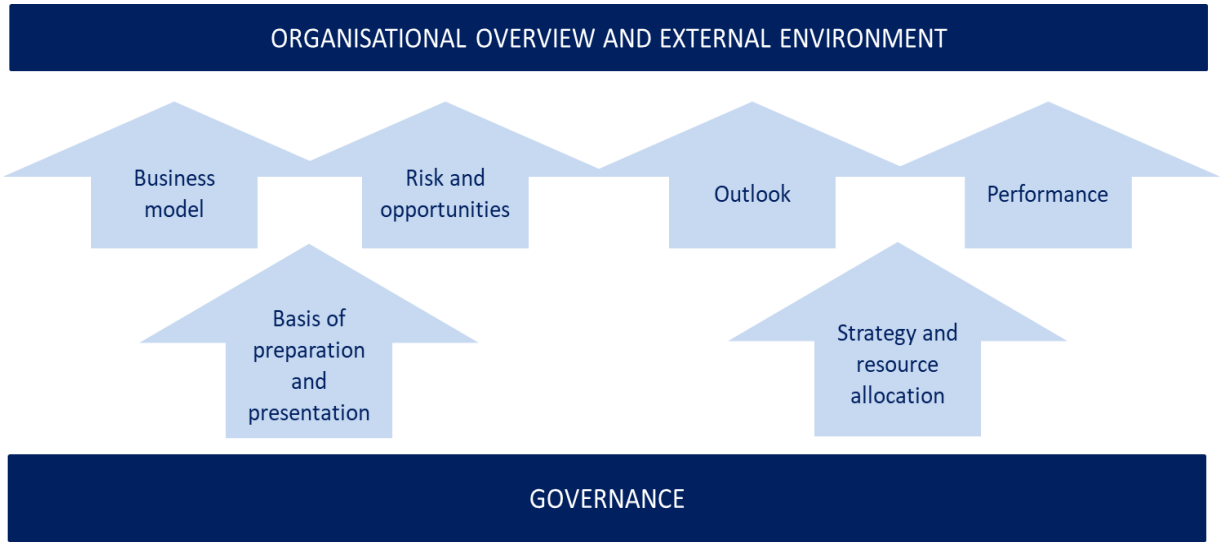


*Figure 3*. Contents of integrated report

Source: IIRC (2013)

In a study of SA companies on Environmental, Social and Governance (ESG), it was found that "the ESG disclosure levels, and in particular, environmental disclosure levels are associated with forecast accuracy after the introduction of the IR regime" (Bernadi & Stark, 2018). This is evidence of IR's positive impact on business supports the potential to contribute to long term sustainability. In Section 2.4.3 IR trends will be discussed and the benefits of adopting IR will be unpacked further.

### 2.5.3 Trends in IR

As stated previously, in 2010 the JSE made the adopting of King Code compulsory for listed entities by issuing listing requirement for adoption of King III (WBCSD Future Leaders, 2014; NKONKI, 2016; Maniora, 2017; Surty, et al, 2018). There generally has been an upward trend in the adoption of IR with 76% of reports reviewed by ACCA being referred to as IR in 2017 versus 59% in 2016 (Cheng, Green, Conradie, Konishi, & Romi, 2014; Chen & Perrin, 2018; NKONKI, 2017). The study by NKONKI noted a reduction in the quality of the information provided, which is contradicted by the ACCA study which concluded that there are significant improvements in the quality of the data (NKONKI, 2017; Chen & Perrin, 2018). The quality reduction identified by NKONKI might indicate that companies are not maturing in the adoption of IR (NKONKI, 2017). The reason for the slow maturity might be the fact that King III was adopted after the 2008 financial crisis which would have encouraged more voluntary disclosures to improve legitimacy (Maroun, 2018a).

This challenge of slow maturity is not limited to JSE listed entities according the report by Nkonki which reported similar findings for SOEs (NKONKI, 2016; NKONKI, 2017). Despite these challenges, South African entities are trendsetters in IR (WBCSD Future Leaders, 2014) as stated previously. This is supported by a study that compared "50 entities listed on the New York Stock Exchange and the Australian Stock Exchange with 50 entities listed on the JSE and the Bombay Stock Market which found that the emerging market companies had average to good strategy disclosures in their annual reports, whereas the annual reports of companies in the developed market showed low strategy disclosure" (Phala, et al, 2018, p. 2).

There are several benefits for entities to adopt IR, and below are some of the key benefits (Makiwane & Padia, 2013, p. 6; Chen & Perrin, 2018, p. 8):

- "Efficient capital allocation – 50 % of companies surveyed in the ACCA study experienced a positive impact on engagements with providers of capital due to IR";
- "Streamlined reporting processes";
- "Reduced reporting costs";
- "Enhanced organisational clarity in terms of business strategy and mode - 95% of surveyed respondents reported a better understanding of value-creation in the business";
- "Aligned company and stakeholder interest - 65% of participants in the ACCA study experienced a positive impact on engagements with stakeholders because of IR";
- "Improved relationships with employees which will help with attraction and retention of talent; and"
- "The use of scarce resources for the benefit of the environment, to save costs and improve profits".

These findings are supported by the views of executive and non-executive directors in a study conducted by SAICA, where over 70% of respondents "viewed IR as a catalyst for integrated thinking in organisations" which is important sustainability (IIRC & CIPFA, 2016). Despite these major benefits there are some challenges that entities are faced with in the implementation of IR, and in the ACCA study some of the identified challenges are the following (Chen & Perrin, 2018, p. 10):

- "Governance responsibility for the integrated report – a statement from those charged with governance acknowledging their responsibility for the integrity of the integrated report."
- "Governance – explaining how the organisation's governance structure supports its ability to create value in the short, medium and long term".

- “Strategic focus and future orientation – linking strategy to the way organisations use and manage their resources (called ‘capitals’ in the IR Framework); and linking strategy to how they create value over time”.
- “Outlook – looking at what challenges and uncertainties could affect the execution of the organisation’s strategy and future performance”.
- “Basis of preparation – describing the materiality determination process that organisations have applied”.
- “Materiality – focusing on matters that substantively affect the organisation’s ability to create value in the short, medium and long term”.
- “Risks and opportunities – specifically, describing the opportunities that affect the organisation’s ability to create value over time, and explaining how the organisation is dealing with them”.
- “Performance – specifically, the organisation’s effects (both positive and negative) on the capitals”. (Chen & Perrin, 2018, p. 10)

The benefits of IR as discussed previously have the potential to harness resources and deliver better value for the entity and assist in dealing with the above challenges. This will also most likely improve the quality of IR in the entity. Section 2.5 is dedicated to a discussion of IR in SOEs in order to understand the potential benefits for SOEs that adopt IR.

## 2.6 IR in SOEs and why they adopt it

Organisations operate based on a social contract which means in pursuing their objectives; they must consider the impact of their operations on various stakeholders (Maroun, 2018c). Corporate reporting is important for companies to inform their stakeholders they are delivering on their mandates and whether they will be able to achieve it in the future (IIRC, 2013). The communication with stakeholders must be transparent and clear for the SOE to establish and maintain legitimacy (Maroun, 2018b). In South Africa, SOEs are faced with a number of corporate governance challenges, which have resulted in depletion of value instead of creation of value (PWC, 2015; IODSA; PWC, 2011). Adopting IR can therefore assist SOEs to demonstrate their relevance to stakeholders, as the primary objective of IR is explaining how the organization manages the six capitals for sustainable value creation (IIRC; CIPFA, 2016). Some of the potential benefits for adopting IR for SOEs are the following:

- “Assist SOE to make sustainable decisions (Du Toit, van Zyl, & Schutte, 2017, p. 7)”,

- “Provide the shareholder (Government) with information which will help effect leadership changes where SOE is not making sustainable decisions (IIRC & CIPFA 2016, p. 12; Surty, et al 2018)”;
- “Improve understanding of the performance of the SOE and how it contributes to value-creation (IIRC & CIPFA, 2016, p. 12; NKONKI, 2016)”;
- “Create a better understanding of the strategy and objectives of the SOE amongst capital providers (IIRC & CIPFA, 2016, p. 15)”;
- “Assist SOE to respond to the inherent public sector challenges by; (a) enforcing accountability to a broader stakeholder base; (b) encouraging reporting of outcomes, which will stimulate sustainable delivery; (c) maintaining a long-term perspective whilst delivering on short-term goals, thus becoming sustainability champions; and (d) demonstrating value over time which is beyond financial performance (IIRC & CIPFA, 2016, p. 13; Maroun & Lodhia, 2018)”;
- “Assist SOE to demonstrate that it is delivering on outputs and outcomes which could lead to higher capital allocations (Du Toit, et al, 2017; Maroun & Lodhia, 2018)”.

The evolution of business resulted in owners of businesses (principals) not having control of the operations and managers (agents) having the power to direct the affairs of the business (Makiwane & Padia, 2013). This is referred to as agency theory which is the key driver of corporate governance and reporting to bridge the gap between owners and managers (Makiwane & Padia, 2013; De Villiers & Hsio, 2018). The agency problems can result in information asymmetry which will undermine the values of corporate governance which are accountability, responsibility, transparency and fairness (Abeysekera, 2013; De Villiers & Hsio, 2018; Makiwane & Padia, 2013). The need for assurance on information provided in the IR is therefore underpinned by this risk of information asymmetry. In section 2.7 the report focuses on the importance of assurance for IR, with a specific focus on how assurance is provided, what the benefits of assurance are and who the providers of assurance are.

## 2.7 Importance of assurance in integrated reporting

The change and growth of businesses caused a separation between owners and managers of business entities (De Villiers & Hsio, 2018). This separation of owners and managers created the agency problem which is as a result of divergent interests between the two stakeholders (De Villiers & Hsio, 2018). The agency problem generally results in information asymmetry as the nature of individuals is to make decisions that will give them the best economic value (De Villiers & Hsio, 2018). Therefore, managers are likely to provide to the

owners/shareholders information that is focused on the best interest of the manager and not the business (De Villiers & Hsio, 2018).

Independent assurance was developed to respond to this challenge as shareholders and other stakeholders must have a level confidence in the information provided to them to be able to hold management accountable (Engelbrecht, et al, 2018). The International Framework for Assurance Engagement (IFAE) defines assurance as:

> "an engagement in which a practitioner expresses an opinion designed to enhance the degree of confidence of intended users other than the responsible party about outcome of evaluation or measurement of subject matter against a set criteria (Ackers & Eccles, 2015 p 518)".

The oldest form of assurance, an audit dates to 1200, was developed as a self-imposed process (Watts & Zimmerman, 1983). In the origins of the audit, the auditor had to monitor that each party complies with the contractual arrangements between the parties and to detect fraud and errors (Watts & Zimmerman, 1983; Lee & Das, 2008). In the beginning of the 20th century, independent auditing of financial information became compulsory to respond to the need of investors to get comfort on financial performance to make decision on provision of capital (Watts & Zimmerman, 1983; Lee & Das, 2008). This means financial information has been subject to assurance for over a century (Watts & Zimmerman, 1983)

According to the IAASB, "the purpose of the audit report is to give users of the financial statements a level of comfort as to the reliability of the financial information (IAASB, 2009a)". IR on the other hand is holistic as the reports provides financial and non-financial performance information (Maniora, 2017). The emphasis of IR is however on non-financial information with an emphasis on non-financial reporting as there is already high regulation of financial reporting (IIRC, 2013; Maniora, 2017). Non-financial performance information is not easy to assure as it is highly subjective mostly qualitative (Maroun & Atkins, 2015). There has been a steady improvement on the level of external assurance for non-financial information increasing from 25% in 2014 to 34% in 2016 (NKONKI, 2017; NKONKI, 2015). This trend is supported by different studies as in a 2017 study by (Miller, Fink, & Proctor, 2017) they found that assurance on IR increased from 33.8% to 38.3% between 2013 and 2014 and another study by ACCA, found that 60% of reviewed reports had some form of assurance in 2017 versus 46% in 2016 (Chen & Perrin, 2018).

IR is a new reporting approach, and in studies conducted so far a growing trend for the need for assurance on IR information has been identified (Bepari, 2016; Maniora, 2017; Maroun, 2018c; Richard, 2017). Unlike financial statements which have to be audited by law there is no regulatory requirement for assurance on IR, although in South Africa the King Code does recommend that the integrated report be assured to reduce the risk of lack of credibility (Marx & van Dyk, 2011). The risk of stakeholders not relying on the information provided by the integrated report will negate the purpose of embarking on the journey and waste resources.

There are three critical objectives of assurance on IR (Maroun & Atkins, 2015). These objectives are:

1. "Satisfying stakeholder demand for managerial accountability";
2. "Enabling or underpinning financial markets' stability";
3. "Assisting reporting entity to improve its operational performance"

The significant benefits for organisations to provide assurance on IR are the following:

- "Ensure reliability and enhance the credibility of the IR (Ackers & Eccles, 2015; Maroun & Atkins, 2015; Richard, 2017)".
- "Mitigate the risk of impression management as without assurance IR becomes a list of unverified management assertions (Ackers & Eccles, 2015; Maroun & Atkins, 2015)";
- "Provide those charged with governance with the comfort that the information has integrity (IIRC, 2013; Maroun & Atkins, 2015); and"
- "Promote balanced reporting and improves confidence on inclusivity, validity, relevance, completeness and integrity of information (Ackers & Eccles, 2015)".

King III required organisations that adopted IR to provide independent assurance on the information provided in their IR (IODSA, 2009; Ackers & Eccles, 2015). King III was a voluntary code, and therefore companies that adopted it could apply this rule or explain why assurance is not provided (WBCSD Future Leaders, 2014; Surty, et al, 2018). This flexibility allowed for low assurance levels of integrated reports in South African and globally only 30% of entities had assurance on their integrated reports (Mammatt, 2009; NKONKI, 2017). With the new requirement of King IV which replaced King III and was effective from 1 April 2017, there should be an increase in the assurance provided as the King IV requires entities to apply the principles and explain how they have applied them (TeBrugge, 2017).

Research has highlighted the need to urgently develop a generally accepted framework on assurance IR to provide guidance to assurance providers on how to provide assurance on the unquantifiable non-financial information (Maroun & Atkins, 2015; Richard, 2017). The nature of some of the contents of the integrated report is almost impossible to assure due to the highly subjective nature of the information and therefore not being verifiable (Maroun & Atkins, 2015). Some of the reasons for low levels of assurance on IR are the cost of assurance; quality of controls & control environment of auditee; risk of auditor liability and current skills of audit teams (Maroun & Atkins, 2015).

The international standards require that an auditor should provide assurance on financial information, however, "there is currently are no prescriptions as to who can assure non-financial information provided in IR and how they should do it" (Ackers & Eccles, 2015, p. 519). As a result, assurance is provided by various types assurors subject to different standards including "auditors (external and internal), certification bodies and CSR consultants" (Ackers & Eccles, 2015, p. 519). Despite this flexibility on who can provide assurance, the majority of assurance reports issued on IR are prepared by external auditors, especially the big 4 (Mammatt, 2009; Maroun & Atkins, 2015; NKONKI, 2016). There is therefore an opportunity for organisations to improve assurance on IR by increasing the engagement of the IAF as it is complementary to external audit and can also be a substitute to external audit (Yasin & Nelson, 2012).

As the function of auditors evolved over the years, a gap between what the auditors prepared and reported and what the users expected them to perform was developed (Sikka, Puxty, H, & Cooper, 1998). This gap which is referred to as an expectation gap was exacerbated by the corporate scandals of the 1990s and corporate failures of the early 2000's which called into question the effectiveness of the audit function (Gavious, 2007; Sikka, et al, 1998). The risk of an increased expectation gap in the assurance of IR is high because of the flexibility on who can provide assurance on IR (Maroun & Atkins, 2015). This risk can be mitigated by the assurance report "(i) having clear objectives and scope of engagement; (ii) being concise and unambiguous; (iii) clarifying the role of the assurance provider and that of management; (iv) providing a transparent stakeholder engagement process; (v) clearly articulating the assurance methodology used[3]; (vi) clearly identifying systems, processes and underlying

[3] CSR assurers standard, AA1000AS; ISAE 3000 – auditors standard and GRI are the three methodologies that can be applied.

data that is being assured (vii) highlighting limitations of the engagement; and (viii) providing results and conclusion on the engagement (Ackers & Eccles, 2015, p. 520)".

It is not possible for assurors to provide absolute assurance on information especially because inherently there is a limitation on measuring and verifying non-financial data, and therefore stakeholders must appreciate this reality (Ackers & Eccles, 2015; Maroun & Atkins, 2015). The objective of an assurance report is to provide reasonable assurance; limited assurance or a combination of assurance levels. Auditors will typically provide negative assurance, which highlights that "nothing that came to the attention of the assuror to doubt the information provided", this is referred to as limited assurance (Ackers & Eccles, 2015, p. 521). The auditors provide limited assurance "to limit audit liability; to respond to the systematic and formal nature of assurance work and due to their conservative nature" (Ackers & Eccles, 2015, p. 521). Non-audit assurers are generally experts and specialists of a certain topic and therefore are more likely to provide positive assurance as they rely more on experience and expertise (Ackers & Eccles, 2015).

Auditors are regulated by robust standards and must comply to established systems, and therefore most users place more reliance on assurance provided by auditors (Ackers & Eccles, 2015). This is supported by a study by Miller, et al, 2017 that found that "According to the integrated reporters from the GRI database that receive external assurance, this assurance was provided by an accounting firm 73% (146/200) and 75.6% (139/184) of the time 2013 and 2014 respectively. In addition, these accounting firms consisted of Big Four firms 63% and 68.5% of the time over the same period" Miller, et al, 2017 (9). Other studies have also confirmed this notion as findings confirmed that majority of IR reports are issued by external auditors despite the limited assurance they provide (Ackers & Eccles, 2015; NKONKI, 2017). Most of the non-audit assurors also play a role in the implementation of the IR strategy and are therefore considered less independent by stakeholders, hence more reliance on auditors. This further points to an increased opportunity for the IAF to have a significant role in the IR process as IAF is also an auditor.

The vast benefits of IR are reduced if the report has no assurance because assurance increases the credibility of IR (IIA, 2013; Ackers & Eccles, 2015). It is important for the benefits of assurance to exceed the costs for entities to invest its limited resources in assurance of IR (Simnet, Vanstraelen, & Chua, 2009; Ackers & Eccles, 2015). In South Africa the largest entities are the ones largely providing assurance for IR (Ackers & Eccles, 2015).

This is in line with the slack theory, which maintains that larger entities with “buffer” resources have better CSR which is a predecessor to IR (Ackers & Eccles, 2015). The cost implications of independent assurance could also be resolved if the IAF plays an active role in the IR process (Cho, Michalon, & Patten, 2014). In the next section, the general role of the IAF will be explained as well as how the IAF can be part of the IR process to increase the credibility of the IR process.

## 2.8 The Internal audit function and its role in IR

The Institute of Internal Auditors in South Africa, on its website defines internal auditing as:

> an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IIASA, 2018).

Based on the above definition, the nature of the role of the IAF is to provide value add and assurance to the organisation. An active role in governance of the organisation is part of the value add that IAF can play in addition to risk management and control environment. It is the responsibility of those charged with governance to provide comfort on IR information and therefore there is a legitimate role for the IAF which the King Code recommends to be established by companies to provide assurance for the IR process (IIRC, 2013; Papageorgiou, Padia, & Yasseen, 2012).

Legitimacy is essential as it gives the profession a license to operate, and when the IAF demonstrates the value of their role in IR cognitive legitimacy will be achieved (Engelbrecht, et al, 2018; Maroun, 2018b). This will mean that the provision of assurance by the IAF becomes an integral role of what the IAF does (Engelbrecht, et al, 2018; Maroun, 2018b). Traditionally IAF has played a role of a watchdog as they have focused on assessment of controls to determine if they are adequate and effective to mitigate inherent risks of organisations (Engelbrecht, et al, 2018; Spira & Page, 2003). The traditional role therefore supports the ability of the IAF to assess the adequacy and completeness of the information provided in the integrated report (IIA, 2013; WBCSD Future Leaders, 2014).

As mentioned in the definition of ‘internal auditing’ above, it is an independent function, and therefore can be instrumental in providing independent assurance for IR. However, at times, the independence can be seen to be compromised unless the function is outsourced (Yasin

& Nelson, 2012).The IAF is viewed as a complementary function to external audit, and therefore, to reduce the cost of assurance, the IAF could review components of IR to complement work to be done by external auditors (Cho, et al, 2014; Yasin & Nelson, 2012, Maroun & Atkins, 2015; Maroun, 2018c). The IIA has provided the following reasons for the IAF's suitability to provide support to the IR process (IIA, 2013, p. 5):

- “The IAF knows and understands the processes of the organisation, which will make it easy for the IAF to assure data coming from these processes”;
- “The IAF interacts with the entire organisation, and therefore can provide guidance which will ensure consistency in the implementation of IR across the organisation”;
- “The IAF already provides assurance on internal controls and therefore can provide assurance on IR to increase credibility”;
- “The IAF does the audit using a risk-based approach, and therefore can offer insights into potential IR risks; and”
- “The IAF has a seat in decision-making structures of organisations and can influence the adoption of IR”.

In the initial stage of IR, IAF can play an assurance role, however, as the organisation evolves and the IR maturity levels improves, the IAF role could grow into an advisory role on the relevance of information and ultimately to that of guidance on value-creation according to an opinion in a Deloitte (2011) paper which said “*over time, the role of internal audit will likely change to expand from primarily an assurance role to an advisory role, providing recommendations in terms of enhancing the relevance and reliability of the related reports*” (IIA, 2013, p. 11). Figure 4 below shows the potential role that IAF can play at different maturity levels of the organisation (IIA, 2013).

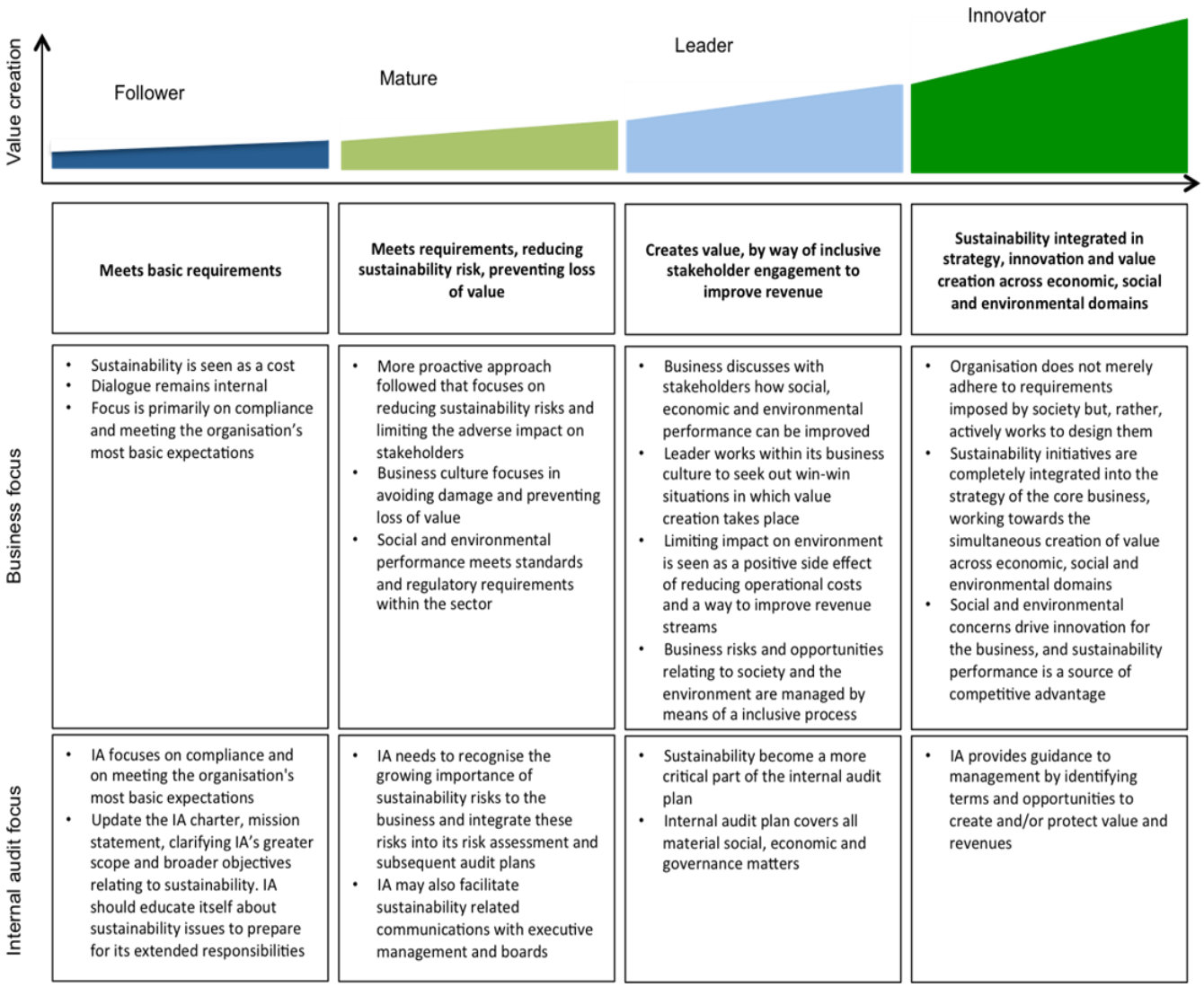


*Figure 4*. Stages of sustainability maturity

Source: The Role of Internal Audit in Integrated Reporting: a blend of the right ingredients, summarizing a discussion forum out of IIA–South Africa, published by Deloitte (IIA, 2013).

The requirements of standard 2110 and 2120 of the International Standards for Professional Practice of Internal Auditing (ISPPIA) on Governance and Risk Management are in line with section 4B and 4C of IRF (IIA, 2013). This similarity on what IAF should perform creates a synergy which makes the role of IAF in IR a natural one (IIA, 2013). As mentioned above, the IAF's role can evolve and grow as the company moves through different stages of maturity (IIA, 2013). Some of the work that will contribute towards IAF role in IR will be done as a result of the IAF doing its regular job which is likely to reduce cost of IR assurance (IIA, 2013).

Due to its unique positioning in businesses as an assurance provider and a business partner, IAF is in a good position in relation to IR as it can provide both assurance and play an advisory role. Table 3 below shows how the IAF can play these two roles (IIA, 2013, p. 13):

**Table 3**

The Independent Audit Function's Assurance and Advisory roles

| INTERNAL AUDIT IN ASSURANCE ROLE | INTERNAL AUDIT IN ADVISORY ROLE |
|---|---|
| Reviews risks related to IR identified in management's and the board's risk assessments concerning: brand reputation, compliance, liability, operational, stock market, employment market, sales market, and external business relationships. | Consults on management's process design with recommendations for improvements during the roll-out phase of IR |
| Meets stakeholder demands for accountability through verification and assurance processes for reports related to corporate social responsibility (CSR). | Communicates to senior management and the board the value of IR to short- , medium- and long-term business sustainability and the benefits of using a maturity model approach to determine the organisation's current maturity with opportunities to improve in the future as processes mature. |
| Addresses compliance with laws, regulations, and contractual obligations for CSR reporting with a focus on governance; ethics; environment; transparency; health, safety, and security; human rights and work conditions; and community investment. | Once IR is in place, acts as the 3rd line of defence in their role of providing assurance to senior management and the board on effectiveness and efficiency of the IR process. |

Source: IIA (2013)

IR is increasingly becoming a primary source of information for various stakeholders in organisations and therefore it is important that there is assurance on the information, so it is credible (Maniora, 2017). The IAF can play a meaningful role in the implementation of IR, and the private sector has not fully utilized this opportunity (Mammatt, 2009; IIA, 2013; Engelbrecht, et al, 2018; NKONKI, 2017). Through this research study it will be determined whether the SOE environment has different results and to establish what additional future roles the IAF can play in responding to the needs of the SOE environment.

## 2.9 Chapter Summary

The literature review was structured to define IR and to identify why IR is necessary. The review of the literature explored the theoretical framework for IR which is legitimacy theory in order to provide reasons why entities would voluntarily adopt IR. The literature review demonstrated the value that IR adds and highlighted the importance of credible and reliable information to be presented which necessitates a level of assurance to be provided for IR.

The literature showed that there is an improvement to the level of assurance provided on IR, however, the bulk of the assurance is still being conducted by external auditors (Ackers & Eccles, 2015). The review unpacked the role of the IAF to determine if this function can play a role in the IR process. This revealed that the IAF can play a role given its current role in organisations and playing a role in IR can help to reduce the cost of assurance. It further demonstrated how the continued active role of the IAF could contribute to the legitimacy of the IAF in providing assurance for IR (Maroun, 2018b). The review highlighted that SOEs are important role players in the economy as they have the potential to be a catalyst for the creation of sustainable societal value (PWC, 2015). This important role of SOEs in the economy necessitates that they adopt IR which can help improve governance and effectiveness of SOEs. From the literature review it is clear that IR is an important tool to communicate value addition and relevance of organisations which will contribute to the sustainability of the entity as its "social contract will not be revoked" (Brown & Deegan, 1998, p. 22).

The next chapter is focused on the research methodology that guided this research study.

# 3 RESEARCH METHODOLOGY

## 3.1 Introduction

The objectives of this study are (i) to explore the roles of the IAF in IR in the SOE environment; (ii) identify the possible challenges to internal audit's involvement in IR; and (iii) determine the future role of the IAF in IR in SOEs. In this chapter the research paradigm and approach underpinning this study are outlined. This is followed by a description of the research design, the population & sampling strategy; the method selected for data collection and the method of data analysis that was employed. The trustworthiness of the study is argued before the chapter is concluded stating the ethical considerations that guided this study. Engelbrecht, et al, 2018 did a similar study focusing on JSE listed entities, and therefore this study replicates the methodology and design she had adopted.

## 3.2 Research paradigm and approach

Ontology can be described as the study of being. (Grix, 2004, p. 77) states that ontology is "the starting point of all research" and is concerned with what the nature of reality is. From an ontological perspective this study was conducted within an interpretivist research paradigm as opposed to a positivistic paradigm. As stated by (Booysen, 2017):

> The positivistic ontology claims that reality is an objective given and is empirically knowable. By contrast the interpretivist ontology holds that reality is subjective, divergent, multiple and holistic and can only be approximated (rather than fully known) by exploring human subjectivity. (p. 34)

Epistemology is focused on the question: what constitutes knowledge? In terms of epistemology there are clear differences between the positivistic paradigm and the interpretivist paradigm as stated by (Booysen, 2017):

> The positivistic paradigm is based on the assumption that good knowledge or good science requires explanation, prediction from empirically known factors, identifying real causes and establishing quantifiable law-like regularities in the form of theories. By contrast, the interpretivist epistemology claims that good knowledge (good science) requires acts of understanding people's subjective experiences in natural settings searching for rich meanings that would reveal complex, emerging meaningful patterns rather than singular causes (Booysen, 2017, p. 35).

Since selection of an appropriate research approach is guided by the nature of the research question, the primary objectives of this study are again stated here, namely:

(i) to explore the role of the IAF of South African SOEs in the IR process;

(ii) to uncover the challenges associated with this role; and

(iii) to identify the future role of the IAF in IR,

This study is of an exploratory nature and a qualitative research approach within an interpretivist paradigm was chosen as the research question and objectives require access to the real-world lived experience of members of the IAF in the role they play in the process of preparing IR in SOEs (Mohamed, Yasseen, & Omarjee, 2019) and (Leedy & Ormrod, 2015; Ryan, et al, 2002). Secondly, the study is also a problem identification study as the researcher set out to identify the challenges that the IAF faces in trying to carry out this role (Leedy & Ormrod, 2015) and in order to uncover these challenges a qualitative approach was deemed best suited. Thirdly, the researcher wanted to explore what the potential future role of the IAF in the IR process is. Since the question that guides qualitative research is: “what is the best way for the researcher to investigate and present the subjective experiences of the research participants?” - a qualitative approach was chosen in order to ensure that the research strategy “would provide meaningful answers to the research question” (Booysen, 2017, p. 35).

As stated, the qualitative approach is interpretive and allows flexibility for the researcher to study things in the real world and therefore it is deemed to be the most appropriate approach for the study considering the nature of the research question and research objectives (Leedy & Ormrod, 2015; Ryan, et al, 2002).

In summary it can be stated that this study employs interpretive reasoning which assumes that reality is based on a set of social constructs which is not based on any pre-existing truth, and the study uses the observations from the lived experiences of CAEs to draw conclusions (Andrade, 2009; Babbie, 2007; Leedy & Ormrod, 2015).

## 3.3 Research Design

As stated in the previous section, this study was conducted within an interpretivist research paradigm because it is focused on uncovering the participants’ experience of their reality (Leedy & Ormrod, 2015).The ontological and epistemological differences between the

positivistic and interpretivist research paradigms require different methodologies and close conceptual and practical links exist between ontology, epistemology and methodology (Booysen, 2017). Based on the nature of the research question a qualitative research design was chosen to gain access to the lived experience of CAEs of the IAF in the role they play in the process of preparing IR in SOEs.

In terms of chosen data collection strategy, semi-structured interviews were deemed most appropriate as this research is looking at a complex matter in the real world and therefore require flexibility to get more information through probing and asking additional questions that are relevant to the specific interviewee (Alveson, 2003; Leedy & Ormrod, 2015; Ryan, et al, 2002). The interviews ranged between 45 and 60 minutes, as CAEs generally have busy schedules and requesting longer interviews might have reduced the level of participation in the study (Leedy & Ormrod, 2015). However, for the interview to be meaningful and provide rich data it required depth of engagement which a shorter interview would not allow (Leedy & Ormrod, 2015).

The researcher endeavoured to conduct face to face interviews as these yield higher value results as the researcher was able to build rapport with the participants (Leedy & Ormrod, 2015). Where it was not practical to conduct a face to face interview, the researcher conducted a telephonic interview, which is also an acceptable method of conducting interviews for research purposes (Leedy & Ormrod, 2015). Before the interviews were conducted, the CAEs of the selected SOEs were contacted telephonically to arrange a suitable time and schedule the interviews. This was followed by an email with a formal letter (Annexure A) requesting for the interview.

## 3.4 Sampling strategy

The March 2018 list of public entities indicates that Government currently has 267 public entities, with 195 being national entities (National Treasury, 2018). It was not possible for the researcher to engage all 267 public entities, due to the number of entities and the fact that not all SOEs have adopted IR. The current study was directed at South African SOEs that have prepared integrated reports.

Purposive sampling was selected as sampling strategy which is an appropriate sampling strategy in qualitative research that doesn't rely on large samples as used in surveys (Babbie, 2007). Purposive sampling is "specifically used when the researcher wants to focus on in-depth and information-rich data gained from participants that meet certain selection criteria" (Booysen, 2017, p. 37). According to Denzin and Lincoln (2000) this requires participants who have in-depth lived experience and the ability to provide information-rich data of their experience in natural settings where the processes under study occur (Denzin & Lincoln, 2000).

The researcher targeted SOEs that were listed as providing Integrated Reports in the *Nkonki Integrated Reporting Awards* in 2016 and checking on the entities' websites to confirm that it produces an IR (NKONKI, 2016). These are generally in the category of major public entities i.e. Schedule 2 of the PFMA (National Treasury, 2018). The researcher being exposed to other national public entities and to provincial entities also approached Schedule 3 entities that have adopted IR to diversify the sample.

### 3.4.1 Sample size

Samples in qualitative research tend to be relatively small as qualitative research is not aimed at generalisation to a 'population' or 'universum' (Booysen, 2017). The aim of the research was to conduct twelve to fifteen semi-structured interviews, which is within acceptable ranges for a qualitative study that seeks to gain in-depth understanding of the experience from the participants' view point (Leedy & Ormrod, 2015). A total of 14 interviews were conducted between September October 2018 and the profile of CAEs that were interviewed are provided in Table 4:

Table 4

Profile of Participants

| Participant number | Race | Gender | Age | Qualifications |
|---|---|---|---|---|
| 1 | Black | Male | 58 | B Com Hons; CIA; CISA |
| 2 | White | Female | 39 | CA (SA) |
| 3 | Black | Male | 35 | CA (SA); Executive Leadership Stellenbosch |
| 4 | Black | Male | 44 | CA (SA); GIBS Executive Leadership; Post Grad Dip Auditing |
| 5 | Black | Male | 55 | CA (SA); M Com |
| 6 | Black | Female | 35 | CA (SA); Post Grad Dip IR |
| 7 | Black | Female | 34 | CA (SA); MBA |
| 8 | White | Male | 39 | CA (SA) |
| 9 | Black | Female | 44 | B Tech Internal Audit |
| 10 | Black | Male | 40 | B Com Hons; CIA |
| 11 | Black | Male | 43 | CA (SA); MBA; CIA |
| 12 | Black | Male | 44 | CA (SA); Registered Auditor, MAP |
| 13 | Black | Female | 49 | CA (SA); MBA; CIA |
| 14 | Black | Male | 53 | B Com Acc |

10 of the 14 participants are qualified chartered accountants South Africa CA (SA), with 2 holding only a junior degree. 86% of the participants are Black which is a fair representation of the demographics of the country. The average age of the CAEs is 43, with the youngest being 34 and eldest being 58 which allows for a good spectrum of experience and knowledge. The chosen participants are therefore representative of the SOEs that have adopted IR and the findings can assist those SOEs that are about to or have recently embarked on the IR journey to improve their reporting.

### 3.4.2 Sampling criteria

The researcher used the list of SOEs as per the PFMA schedules and went through the websites of entities to ascertain if the reports are classified as IR or not. The researcher augmented this process with identifying SOEs who have IR on the NKONKI reports which focused on public entities (NKONKI, 2016).

### 3.4.3 Sampling risk

The use of purposive sampling may create a risk that a bias may be introduced to the study, however, this risk is mitigated by the fact that the study focused on entities that have a certain level of IR maturity and therefore the findings of the study are likely to be more meaningful (Leedy & Ormrod, 2015).

## 3.5 Data collection

As stated, data was collected through conducting semi-structured interviews which included both scripted and unscripted questions to guide the discussion. According to studies, “the semi-structured interview enjoys its popularity because it is flexible, accessible, and intelligible and more important capable of disclosing important and often hidden facets of human and organizational behaviour” (Qu & Dumay, 2011, p. 246).

The researcher used her networks to get contact details of CAEs in selected public entities and called the entities directly and requested to be introduced to CAEs. A total of 18 entities were contacted and 14 CAEs agreed to participate in the research. The researcher contacted all CAEs participating in the study telephonically and explained the purpose of the study. This was followed by an email with a formal letter requesting participation of the CAE in the study and providing the clearance number of the researcher. The letter also informed the CAE that their participation is voluntary, and the information provided will be kept confidential and anonymous. The email also requested a convenient time to conduct the interview, after which an email invitation was sent. The researcher endeavoured to conduct face to face interviews for better quality results (Leedy & Ormrod, 2015). On the date of the interview, the researcher explained to the interviewees the nature and purpose of the study and provided the participants with a letter that they signed to agree to participate in the research (Leedy & Ormrod, 2015).

The interviews were conducted using an agenda that was adapted from the one used in the Engelbrecht et al (2018) study The interviews were recorded on a voice recorder with the permission of the interviewee (Leedy & Ormrod, 2015). The recordings were transferred to a memory stick and were password protected. The recording assisted the researcher with subsequent analysis to ensure that the observations are in line with the views of the participants (Leedy & Ormrod, 2015; Ryan, et al, 2002). The researcher used services of a professional transcription firm to transcribe all the interviews. The transcription firm signed a non-disclosure agreement to ensure that the information is kept confidential and anonymous. The information was transferred to the transcription firm through an encrypted file for confidentiality. The researcher also took notes during the interview process (Leedy & Ormrod, 2015).

The transcribed information was compared to the written notes for consistency. The researcher sent the data transcripts to some of the interviewees to confirm content which also assisted with the trustworthiness of the data (Leedy & Ormrod, 2015). The data was treated with confidentiality and this was communicated to the interviewees to make sure the research meet ethical requirements (Leedy & Ormrod, 2015). The researcher read all the data transcripts to again familiarise herself with the data.

## 3.6 Data analysis and interpretation

This section will unpack in detail how the data collected through the interview process was analysed. As the study is a qualitative study focusing on understanding what is happening in the real world, the researcher employed thematic analysis to analyse the data. Thematic analysis helps to identify themes from collected data (Braun & Clark, 2006). The researcher adopted this method because it allows for easy interpretation and description of themes that are concise (Wigdorowitz, 2016). Thematic analysis is a foundational method for qualitative studies as it is not limited by the need to develop a theory from the data and can be applied across epistemological approaches (Braun & Clark, 2006). The researcher adopted the six step guidelines as set out below, which allowed for flexibility in application to ensure consistency with the available data (Braun & Clark, 2006; Wigdorowitz, 2016).

Step 1 – Familiarising herself with data: The researcher read the consolidated data (all the transcripts and notes) twice to really understand the data and be familiar with it. The researcher compared the key points from the written notes to the transcribed notes (Braun & Clark, 2006). If there were differences, the researcher listened to the recorded data to be comfortable that it is transcribed correctly to increase her comfort with the data before embarking on the coding step (Braun & Clark, 2006).

Step 2 – Generating initial codes: Once the researcher had engaged with the transcribed data and understood the data, the researcher coded the data based on the essence of what each data item is saying (Braun & Clark, 2006). The researcher used an Excel table for coding to help group the data into themes later (Braun & Clark, 2006). As this is an exploratory study, the themes were driven by the data and not by pre-existing theory (Braun & Clark, 2006).

Step 3 – Searching for themes: This step entailed the actual identification of themes from the coded data. The researcher categorised the different codes into different themes (Braun & Clark, 2006). The researcher used mind maps to map the codes into themes and identifying codes that can be grouped and those that must be split (Braun & Clark, 2006; Wigdorowitz, 2016).

Step 4 – Reviewing themes: the researcher reviewed the themes to confirm if the identified themes are indeed themes, to ensure that the data in each theme is coherent and responds to a critical aspect of the research question (Braun & Clark, 2006; Wigdorowitz, 2016).

Step 5 – Defining and naming themes: The second last step was to understand the essence of each theme and to name each theme based on the essence (Braun & Clark, 2006; Wigdorowitz, 2016). In this step the researcher was able to identify a story that the collected data is telling through the themes, and from this the researcher was able to clearly articulate what the themes are saying (Braun & Clark, 2006; Wigdorowitz, 2016).

Step 6 – Producing the report: The last step of the analysis was to tell the story of the findings from the research in a manner that will convince the reader of the merits of the analysis (Braun & Clark, 2006; Wigdorowitz, 2016). The report is supported by empirical evidence and where necessary the researcher used data extracts to emphasise a point being made by the report (Braun & Clark, 2006; Wigdorowitz, 2016). The findings from this report is provided in Chapter 4 of the research report.

## 3.7 Trustworthiness

For a study to be useful it must provide valid answers to the question that is asked and in order to do so, the researcher has to ensure that the data is of a high quality. Various strategies and criteria exist to “ensure trustworthy, reliable qualitative research data” (Booysen, 2017, p. 47). According to Creswell 2013 as quoted by (Leedy & Ormrod, 2015), validity is not a common term for qualitative studies, but it is important for the studies to be credible and trustworthy. In order to ensure the trustworthiness of this study, (Yardely, 2000, pp. 215-218) four criteria were applied, namely:

- “sensitivity to context; commitment and rigour; transparency and coherence; and impact and importance”.

### 3.7.1 Sensitivity to context

This criterion refers to the researcher's understanding of what the relevant literature is, what empirical data would provide answers to the research question and what the nature of the research setting is. Evidence of the researcher's sensitivity to the research context is firstly reflected in the selection of appropriate literature as reflected in the literature review which has direct bearing on the research context and is closely linked to all aspects of the research question. The selection of research participants further indicates that the researcher has a solid understanding of the level of experience and knowledge that would be required to provide quality data. In addition, the researcher's choice of semi-structured interviews as data collection method bears testament to her understanding that in-depth, qualitative data would be required to provide rich and meaningful data.

### 3.7.2 Commitment and rigour

(Yardely, 2000) regards commitment and rigour as the researcher's ability to engage deeply with the topic, his/her methodological competence, thorough data collection and depth and breadth of analysis. The researcher's commitment and rigour are firstly displayed through the breadth and depth of the literature review focusing on each of the key components of the topic under investigation. Secondly, the six-step data analysis process was further enhanced by re-reading the transcripts, comparing the transcripts with field notes and reviewing the collected data several times to ensure depth and breadth of analysis. Thirdly, the researcher clearly argued her choice of following a qualitative approach within an interpretivist paradigm and her methodological competence is evidenced by the close links between the ontological and epistemological assumptions of the study and her methodological approach. Lastly, as this study is a replication of a previous study by Engelbrecht et al (2018), and the researcher applied a similar design in a different context, the findings were compared to existing findings whilst bearing the different contexts in mind. This further adds to the commitment and rigour applied throughout the research process.

### 3.7.3 Transparency and coherence

Transparency and coherence refer to the clarity of the arguments presented, applying transparent methods and data presentation, the fit between theory and method as well as reflexivity (Yardely, 2000). This was firstly achieved by clearly formulating the research

question and objectives and subsequently choosing the most appropriate research design to ensure a coherent research design and methodical research process. Whilst significant depth and breadth were achieved through topics addressed in the literature review, the selected literature was carefully considered in order to ensure a focused and systematic literature review that is both relevant and coherent and in line with the research question. A clear argument could therefore be built regarding the motivation for the study. Secondly, the researcher was transparent in providing participants with the background to and context of the study and direct quotes from the interviews are presented to substantiate the findings. Thirdly, the researcher applied a theoretical framework that was well suited to the research context, namely legitimacy theory. Lastly, the researcher demonstrated her awareness of possible biases and subjective interpretations. To ensure transparency and coherence, the researcher also shared the conclusions with some of the participants and requested their feedback (Leedy & Ormrod, 2015). The researcher also requested the views and feedback of others, to mitigate the risk of potential personal biases (Leedy & Ormrod, 2015).

### 3.7.4 Impact and importance

(Yardely, 2000) relates impact and importance to the ability of research to enrich understanding. Through providing a thorough background to the research in addition to the quality of the literature review, a persuasive argument was presented on the necessity and importance of the research and linked to the potential impact the research could have on a practical level. It was argued that, despite the significant role of the public sector, there has been limited research on IR in the public sector in South Africa (Surty, et al, 2018). This research study makes a meaningful contribution in addressing this gap in the existing body of knowledge. On a practical level, this study has the potential to demonstrate to public entities the benefits that can accrue to them by adopting IR and to demonstrate best practice on role that is played by IAF in the process. Furthermore, this study could have an impact on the accounting profession by highlighting the role that the IAF is playing in SOEs and identifying areas of improvements by exposing the current challenges and sharing the potential future role as highlighted by the Chief Audit Executives (CAEs).

## 3.8 Research Ethics

The researcher obtained the appropriate ethics clearance from the University of the Witwatersrand (clearance number: CACCN/1167). The researcher informed the participants

that their participation was voluntary, and they were under no obligation to participate. The participants were given an option to withdraw from the interview at any time. The information which might give away the name or organisation of the participant was treated confidentially. Participants signed a letter of consent to participate in the study, and processes to be followed were explained to them. The researcher ensured that the participants were not placed in a risk position in terms of physical, psychological or reputational damage. The information was treated with confidentiality and third-party transcription entity signed a non-disclosure agreement to protect the identity of the participants and their organisations.

## 3.9 Chapter Summary

In this chapter, the qualitative research design was explained and ontologically and epistemologically justified based on the nature of the research question and research objectives. The research design was presented in terms of the sampling technique and criteria as well as the data collection strategy, followed by a discussion of the step by step thematic analysis process that was followed. The trustworthiness of the study was evaluated based on Yardley's (2000) criteria for qualitative research. The chapter concludes with an overview of the ethical considerations that were applied.

# 4 Findings

## 4.1 Introduction

As stated in Chapter 1, the objectives of the research are to find answers to the following questions:

- Does the IAF of SOEs play a role in the IR process? If yes, what is the role?
- What are the challenges that IAF face in playing any role in IR processes of SOEs?
- What is the potential future role that IAF can play in IR processes of SOEs?

This chapter contains the findings from the interviews conducted in response to the above questions. The findings are an analysis of the data collected during the interviews about the current roles that the IAF plays in the IR of SOEs and the challenges they currently face in playing the role and what the potential future role might be.

## 4.2 Findings

The findings are presented in 4 sections. The first section (Section 4.2.1) is dedicated to a report on whether the IAF plays a role in the IR process of SOEs. This discussion is based on the maturity stages as per Figure 4 in Section 2.7. Secondly, Section 4.2.2 is focused on what role the IAF plays. This is presented according to the themes identified during the data analysis process. The themes are each defined in terms of what emerged from the data. This is presented in table format. Section 4.2.3 deals with the challenges faced by the IAF in playing a role in the IR process. Lastly, the potential future role of the IAF is highlighted in Section 4.2.4.

### 4.2.1 Does the Internal Audit Function play a role in IR Process?

A total of 14 interviews were conducted with CAEs of different SOEs. Of the 14 only one CAE indicated that the IAF does not participate in the IR process because in their view this is the role of management. In the other 13 entities the IAF does play a role, and Table 5 demonstrates the level of maturity of those entities where the IAF is involved in IR. Also noteworthy is that the one entity where the IAF is not involved, the function is fully outsourced. This will be unpacked in more detail in Section 4.2.2.

Table 5

Stage of Maturity – Analysis

| Follower | Mature | Leader |
|---|---|---|
| **Internal Audit only contributes reports related to governance in the IR process**<br>**- 5 of the 14 entities have a minimal role of IAF in the process mainly due to capacity and early stages of adoption of IR. In 1 of the 14 entities IAF plays no role and will not play any role for the foreseeable future as noted by their CAE:**<br>"I have given it some thought, and I cannot see how? Maybe they can? But I have not seen the practical application. I am still thinking about it and cannot see exactly what aspect they would provide assurance on because the financial bits that is included there is an extract from the annual report the external auditors signed off on. The rest of the stuff is kind of vision of where we want to move towards" … | **Internal Audit realises the importance of risks related to IR and plays an active role in the IR process:**<br>**- 5 of the 14 entities have attained maturity in role of IAF in IR process, and are striving to move to the next level**<br>"And I think maybe that's also part of the reason why we from our organisation's perspective we haven't formally developed a strategy around what internal audit's involvement in IR would be but just merely being an assurance provider, it just seems to make sense that this is where we should be going" | **IR is a critical part of the Internal Audit Plan covering all matters related to social, economic and governance matters:**<br>**- 3 of the 14 entities are leaders in IR process in terms of role of IAF, as can be noted on the quote below:**<br>"It is part of our internal audit plan, so we plan for it annually… when we do our annual planning process we follow a risk-based approach…we are starting to say okay, so we might look at an area but maybe only the high risks of that area so in that risk-based approach the integrated report is still on there" |

It is clear from the results above that there is a big opportunity for the IAF to play a more significant role as only 21% of the participants are at Leader Stage, 36% at Mature stage and the majority of 36% are at Follower stage and only 7% had no participation. None of the interviewed participants were at the Innovator stage, although some of the participants have previously been in the *Top Ten Integrated Reporting Awards by Nkonki* (NKONKI, 2016). Although there is significant room for improvement, the researcher identified three themes

with sub-themes from the interviews which are drivers of involvement of the IAF. In the following sub-section these drivers will be unpacked.

### 4.2.2 What is the role of the IAF?

Through the analysis of the data, the researcher identified 3 key themes which could be viewed as a model for effective participation of the IAF in the IR process. The 3 key themes are presented in Figure 5 and definitions of these key themes as noted through the analysis are provided. Each of the key themes has sub-themes which are presented in table format, with definitions and data extracts to support the themes.

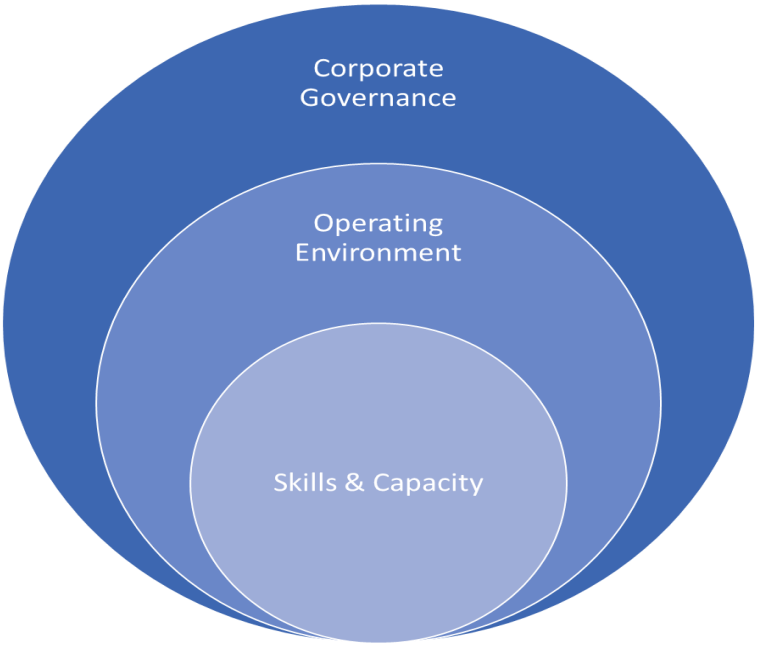


*Figure 5*. Model for the internal audit function's involvement in integrated reporting

- Corporate Governance - this refers to the way the business is led and structured. It encompasses attitudes and commitment of those charged with leading the entity towards good governance. This determines the role of IAF and the effectiveness of IR and assurance thereof. The sub-themes are:
    - Tone from the Top
    - Combined Assurance
    - Independence
- Operating Environment - this refers to how business is conducted in the entity and sets the tone of how the IAF participates in IR. It also demonstrates the seriousness with which those charged with oversight takes the IR process. The sub-themes are:

- Dedicated Teams
- In house vs Outsourced internal audit function
- Seat at the table

- Skills & Capacity - this refers to the availability of skills and capacity in the IAF to play an effective role in the IR process. This is also influenced by the understanding of key risks and controls within the entity and having resources to provide continuous assurance. The sub-themes are the following:
  - Skills of the IAF
  - Continuous Assurance

To unpack the sub-themes a table with the definition of each sub-theme and examples from data extracts is provided below:

Table 6

Themes – Role of the Internal Audit Function in Integrated Reporting

| Theme | Explanation of Theme & Extracts |
|---|---|
| Tone from the top | This refers to the attitude of those charged with governance of the entity towards IAF. In entities where the attitude is negative, the role of the IAF in IR is limited, however, where the attitude is positive the role is quite significant at times risking over reliance. The IAF has a responsibility to educate business and management about their role to improve their effectiveness in the IR process. Below are examples of views of CAE's on this:<br><br>Participant 5: "There has always been a recognition that whatever the Director's Report says Internal Audit must verify it because it is going out to the business. So, when we did the integrated report, for the first time, it just was on that basis that we said; no, Internal Audit must always be part of it"<br><br>Participant 7: "I think the fact that the Board is so into this combined assurance field we realise this integrated reporting is important at the different stages"<br><br>Participant 12: "The minister was very specific, even the board was very specific to say whenever you give us anything in the form of a report, we want to see that internal auditors looked at that. If it didn't go via internal audit, please don't even bother bringing it to us. That is what the board said".<br><br>Participant 12: "PARTICIPANT 12 has been plagued by a number of governance failures, I will call it greed, and internal control override. So, you see, once we have those things in place you start moving from being an assurance provider from the eyes of the external auditors at least, to being part of management because they're saying you in the PARTICIPANT 12. So now there was that break in a sense that the AG didn't even engage internal auditors" |
| Combined Assurance<br>11 of the 14 participants emphasised the importance | This refers to the assurance model which looks at different levels of assurance provided. King IV defines it as a model that "*incorporates and optimises all assurance services so that taken as a whole these enable an effective control* |

| | |
|---|---|
| of combined assurance. 10 out of 11 have IAF leading combined assurance. | *environment; support the integrity of information used for internal decision-making by management; the governing body and its committees and supports the integrity of the organisation's external reports*" (IODSA, 2019, p. 10) The theme is that in entities where IAF leads the combined assurance, IR is part of the internal audit plan and it leads to more effective assurance levels on the IR. Examples of what CAEs said are below:<br><br>Participant 1: "let me just step back and say we are custodians of the combine assurance. So our view is helicopter view, we view the whole, we got a sight of everything that's happening within PARTICIPANT 1: "the other assurance providers line two, we call them line two, which might be the inspectors the quality what, what people, naturally whatever issues they raise we also consolidate into the one database whereby at any point and time you can be able to have a view to say this is the control environment it's either deteriorating or it is improving, so we are able to provide that using other assurance providers as well as our own internal audit plan"<br><br>Participant 7: "So although there is integrated reporting and there are a lot of assurance providers, but the board is requesting us to get a consolidated view, like a holistic view coming from Internal Audit on all the assurances that they; because you know there are different levels of assurance and management is your first level of assurance. And you have your legal and your risks and all of those who are the second line of assurance. Internal Audit is your third line of assurance. So, what the Board is requiring that Internal Audit; yes, you are a third line of assurance, but you need to be able to audit these other departments and see what methodologies are they using? Do they have the right resources? Where are they? And what is the level? Because the level of assurance that we can place relies from those different assurance providers. So, they want Internal Audit to really play a greater role in ensuring integrated reports".<br><br>Participant 13: "I think the starting point for me would be, how good is your combined assurance model working? At Participant 13 it's non-existent. It falls under Risk, so Risk is the driver for combined assurance. In the past 5 years, it's been theory all the time and no implementation." |
| Independence | Internal Audit by design should be independent of management and therefore can provide more reliable assurance to stakeholders. Internal Audit therefore is seen as complimentary to External Auditors as they are able to rely on work done by Internal Audit (Yasin & Nelson, 2012). The ability of External Auditors to rely on work of Internal Audit can reduce the cost of assurance on IR which is one of the reasons for low assurance on IR (Maroun & Atkins, 2015). The researcher found |

| | |
|---|---|
| | that CAE's emphasised the need for IAF to be independent and to guard their independence and perceptions of independence by not allowing over reliance by business and drawing clear lines of responsibilities. This is what CAEs said about independence:<br><br>Participant 10: "So by we are, and the, you know, the independence and objectivity, it actually provides us with that opportunity to actually provide objective assurance services. You look at our… you know, you look at the, at our assurance partners, they are not completely independent. Their role and responsibilities are twofold. It is for example to, I'm talking about the compliance, their role is to, is that of advisory which is they advise, they perform assurance, they, also there's implementation, they're also responsible for implementing certain policies"<br><br>Participant 4: "We are independent in terms of actually our reporting structure of the governance within the PARTICIPANT 4"<br><br>Participant 14: "we are viewed as being independent, risk is not as independent as internal auditors you know, they are part of management you know so the people who would rather depend more on the person who has that level of independence you know" |
| Dedicated Teams | In entities where there are dedicated teams who oversee the process of putting together the Integrated Report there is a better involvement of IAF in the IR process. These teams are diverse and represent most units of the business including Internal Audit as part of the team. This removes the silo approach and promotes coherent reporting, which is one of the key objectives of IR. The dedicated teams make it easier for IAF to assure information provided as they have a deeper understanding of what is being reported. This also demonstrates the commitment of those charged with governance to the IR process as can be seen from the following quotes:<br><br>Participant 4: "there is an Integrated Committee which is actually sponsored or run by the Chief Risk Officer. He is the Chairperson of the Committee and normally on yearly basis, they will have a sitting in terms of deciding on a theme, whatever they report on what is material, matters which have got to be reported for the financial year. That team is made up of different people from different sections within the PARTICIPANT 4"<br><br>Participant 6: "Okay so for the PARTICIPANT 6 we started the integrated reporting journey probably three reports, four reports ago, that's when we decided to transition from doing an annual report into an integrated report so generally for |

| | |
|---|---|
| | us we have a small team of people that we gather within the organisation, we don't have any one specifically or a unit that specifically works on the integrated report so we had to select individuals from the different departments who will be part of that project team".<br><br>Participant 5: "In the past years what we have done, what we have changed is we now have a team in Internal Audit who is dedicated to doing this sustainability auditing" |
| In-house vs Outsourced IAF | This refers to the structure of internal audit as other entities have in house internal audit functions, others have fully outsourced internal audit functions and others have a combination of in house and outsourced internal audit functions. Of the 14 participants only one had a fully outsourced IAF which is in line with findings in previous studies which indicated that majority of public sector entities do not outsource IAF (Papageorgiou, Yasseen, & Padia, 2012). The findings indicate that CAEs feel that an in-house internal audit function increases efficiencies which address the challenge of cost of assurance which, as indicated in the literature review, is one of the reasons that IR is not properly assured. Some of the views expressed are listed below:<br><br>Participant 3: "So what the key benefit of an insourced division is to, is cost and it's greater knowledge of your business so the people are in your business 365 days, five days a week the whole year so the amount of knowledge that the in-house internal auditor can gain is far greater than when outsourced"<br><br>Participant 8: has a fully outsourced IAF, had the following to say about involvement in the process: "I have given it some thought, and I cannot see how? Maybe they can? But I have not seen the practical application. I am still thinking about it and I cannot see on exactly what aspect they would provide assurance on. Because the financial bits that it is included there is an extract from the annual report. That external auditors signed off on. Then the rest of the stuff is kind of the vision of where we want to move towards. So, it is more about management decisions on where they want to take the organisation. So, I do not see how Internal Audit would be able to give assurance on the vision of management for taking the organisation forward"<br><br>Participant 13: the statement will demonstrate the negative impact of a fully outsourced IAF – "That's the disappointing part because we haven't done much work in integrated reporting. And really, it's mainly due to capacity issues and again we rely mainly on what external audit is doing because they do a lot of work there every year so, however there is, we are planning to start this year with |

| | |
|---|---|
| | quarterly reviews. We will review the first 3 quarters of the reports that are submitted to the Department of Public Enterprises because those are the reports that feed into the annual integrated report. So, our responsibility up to now has been very, very limited. I joined Participant 13 5 years ago the function of internal audit was fully outsourced including my role was outsourced" |
| Seat at the Table | Most CAEs of entities with in-house internal audit functions highlighted that the advantage that IAF has over other assurance providers is that IAF is part of the business and key decision-making structures and therefore knows what is happening. This helps to identify inconsistencies between IR and realities of the business and to be able to provide effective assurance and provide value adding advisory services to management. Some interesting quotes are below:<br><br>Participant 11: "internal auditors, they engage with everyone within the organisation from board until the lowest level employee. They engage with all processes within the organisation, we engage with other assurance providers internal, because we have lots of internal assurance providers, we also where applicable also engage with lots of external assurance providers. Like here I get a chance to sit with PARTICIPANT 11 and just hear what their concerns are and what they would like internal audit to do and I also get a sense of what has happened. We get audited by other xxxx, when they come here we do get a chance to engage with them. So, I will say that is the advantage of internal, making internal audit a key player. So, when you've got the assurance as a board member that everything that is sitting there is factually correct, you are getting it from a reliable person because this is the person who have not only just read, but actually even engaged with these people"<br><br>Participant 13: "The understanding of the business especially you know, some people when they look at numbers, they think numbers are just numbers. Numbers tell a story. You have to be able to link the numbers to the non-financial information as well because of your understanding of the business so I think our understanding of the business with Participant 13 being such a diverse, we have so many businesses here and they are all complex… So external service providers, they have a tendency to rotate their consultants as well. If you find an external service provider that have consultants that work only on Participant 13, you know provide service to Participant 13 and they understand Participant 13, great they can do the job as well. However, that is highly unlikely whereas with internal audit, we are here every day. We understand the politics within the organisation. Then you are able when you read the Integrated Report, you can link it to something that you know about, you understand?" |

| | |
|---|---|
| | Participant 7: “it is a strength currently, the fact that Internal Audit participate observes all the meetings. We sit in Exco, you sit in Board sub-committee meetings, you sit in the Board. So, I am very much aware of what is happening within the business and what the key areas are. So that by being present and participating in all these forums helps internal audit to achieve its role” |
| Skills of the IAF | The skills and resources that IAF has are critical for IAF to play a role in the IR process. CAEs indicated that the IAF has to understand the objectives of IR and understand that assurance provision is about identifying risks and the controls in place to mitigate the risks. If these are properly understood IAF can easily use existing standards to provide assurance on the IR and provide guidance to management to provide reliable information. Examples of these are:<br><br>Participant 7: “If Internal Audit, due to the lack of skills, is not doing proper risk assessments then they will not be able to cover … Internal Audit needs to understand the business. I think the bottom line is that Internal Audit needs to understand the business so if it understands the business they will know what creates value for the business because it integrated reporting is all about the sustainability of the business. Long-term sustainability of the business so you would be able to understand, if you understand the business you will understand what the key issues are and to show that we are really communicating the right when we are focusing on the right things”<br><br>Participant 1: “identify the possible risk that can arise as part of the process and understand the process understand what the risks that you are looking at, that you are providing assurance on, identify the controls and then design appropriate tests that will make sure that those particular controls are adequately predicted so that is the process that we follow which is basically in line with the standards”<br><br>Participant 5: “The fact that there is no standard for auditing integrated reporting, I buy it, but I do not also buy it because audit is an audit is an audit is an audit. The risks, as long as you can identify the risk, then you can identify what controls to ensure that the risk does not materialise then that I understand it is perfect” |
| Continuous Assurance | CAEs interviewed felt that IAF has to provide continuous assurance on information that is eventually reported in the IR. This is generally done through the review of quarterly reports and auditing of processes during the year to improve turnarounds at year end. Examples of these views are the following: |

| | |
|---|---|
| | Participant 1: "I think that the thing with the integrated reporting it is not an event, it happens throughout the year, as I say you need to anticipate that some of these things might land up in integrated reporting so we evaluate the controls that are going produce the integrated reporting throughout the year, because we do have a look continuously audit all these key activities of the business we are in, we are actually looking at the integrated reporting processes"<br>Participant 5: "To make sure that as they collate the information in the collation their information is valid, accurate and complete and there is no risk of that information being damaged or compromised in the process. So, we do that continuously during the year"<br><br>Participant 3: "internal audit is generally involved in the organisation throughout the year, so they could split the audit throughout the year in a manner that will least likely hinder operations"<br><br>Participant 6: "how we provide the assurance of the information that's in there, we just ensure that whatever we are reporting within that report, specifically the financial reporting and the performance information reporting, is in line with what we would have audited across or during the financial year" |

### 4.2.3 Challenges

The key challenges highlighted by the CAEs that affect the level of involvement of the IAF in the IR process are the following:

- Time constraints – the deadlines for submission of annual or integrated reports for SOEs are very tight and are legislated. This results in the IAF not having enough time to review the reports. To respond to this challenge, CAEs recommend that the IAF should engage in a continuous assurance process.
- Resources – where IAF does not have enough resources its role in the IR process is also limited. This can be demonstrated by one CAE who said "*So we took a decision that based on the resources we have and the risk exposure to the entity to limit our auditing to the audit of performance information"*
- Over-reliance – IAF should primarily give comfort on the reliability of the information. The challenge is that due to governance challenges in SOEs there is an increased reliance on IAF during the process which at times leads to compromised independence as business tries to transfer responsibility to the IAF. Participant 7

highlighted this challenge in this statement "*So a challenge would be also in providing that assurance. If you are consulting and given being actively involved in showing management what the matrixes and everything that needs to be there and then you come, and you say you get to assure so there might a self-review threat to some extent. So, the reason that Internal Audit is best suited for that independent issue that you know you are an independent eye. So, one would have to balance the consulting versus assurance service provider."* Participant 5 also states "*management becomes over-reliant on us and some people can abuse that because they say no just give it away to the auditors they will fix it"*

- Poor Governance – in entities with poor corporate governance, the IAF is not able to play an effective role as it is difficult for stakeholders to accept what is put forward by the IAF as expressed by the CAE who said *"PARTICIPANT 12 has been plagued by a number of governance failures, I will call it greed, and internal control override. So, you see, once we have those things in place you start moving from being an assurance provider from the eyes of the external auditors at least, to being part of management because they're saying you in the PARTICIPANT 12.So now there was that break in a sense that the AG didn't even engage internal auditors"*

### 4.2.4 Future role of the internal audit function in the integrated reporting process

The IAF of different entities play different roles in the IR process, with most playing the role of providing assurance. The inherent advantage of the IAF being part of the business was highlighted to be the reason the IAF can provide assurance in a cost-effective way. CAEs highlighted the following in terms of the role the IAF should play in future:

- An advisory and consultative role to the business whilst also assisting by highlighting issues as they happen instead of issuing a report with findings at the end of the process. This advisory role will improve the partnership between the IAF and business as the service will be value-adding. This will improve legitimacy of the IAF as highlighted in Section 2.7.
- A strategic partnership with business would assist with the level of assurance that is effective. This was emphasised by a participant who stated the importance of not auditing blind-sighted. The strategic partnership will also safeguard the IAF's independence. One participant stated: "*So understanding the business invest and understanding your business participate in the various forums and position yourself. Position yourself to the business as a strategic partner and that will entail you getting*

*to know the business, giving proper recommendations because the only way really where you elevate your functions is when you are helping business resolve pertinent issues and that will come through your reports. If you are focusing your energies on the key issues and you are giving proper recommendations, impactful reporting then you are elevating your function, so you will be involved in everything. You will become the rock star*"

- Focus on underlying processes and systems to ensure that the information produced is reliable. One participant said, *"Okay so a key advantage would be internal audit is involved throughout the year so in generating the information related to the capitals for your integrated reporting you could get assurance throughout the year whether your processes underlying that information collection and collation are appropriate, right?"*

## 4.3 Comparison to findings from Engelbrecht et al's (2018) study

The study by Engelbrecht et al (2018) focused on JSE listed entities and this study focused on SOEs/Public Entities. The researcher's observations of the findings of the two studies are the following:

- In both studies when involvement of the IAF was assessed against the stages of sustainability maturity, none of the participating entities were at Innovator level. In both studies the highest level of maturity was Leader. This is very encouraging as SOEs are not required to adopt IR but from the findings it is clear that their level of commitment is similar to that of JSE listed entities.
- In the JSE study one of the key themes was that the role of the IAF was linked to the maturity level of the business whereas in the SOE study the role is influenced by the governance of the entity.
- In both studies the IAF was viewed as an appropriate partner in the IR process due to their knowledge of the business and the potential of cost savings.
- In the JSE study there was an emphasis that the IAF should be involved early in the process, whereas in the SOEs study there was an emphasis on the IAF being proactive and taking a consulting role whilst ensuring that their independence is not compromised.
- The JSE study highlighted the skills of the IAF in relation to IR assurance as a key challenge. SOEs felt that the existing standards are sufficient to provide assurance, and therefore the skills of the IAF are not a challenge in the role that is played. This is

also mostly due to the continuous assurance provided on the non-financial performance information reported on a quarterly basis.

- Both studies highlighted the need for independence, with the JSE study indicating that one of the challenges is the legitimacy of the IAF based on stakeholder perspectives whereas the SOEs felt that it is critical for the IAF to maintain independence to provide comfort to stakeholders.

From this summary there is not a major lag in the involvement of the IAF in IR between JSE listed entities and SOEs. This is in line with the fact that public entities were instrumental in the development of the IR Framework, with some SOEs from South Africa participating in the pilot programme for the reporting model (IIRC & CIPFA, 2016, p. 21).

## 4.4 Chapter Summary

The findings clearly indicate that corporate governance, operating environment and skills and capacity are the key requirements for a meaningful participation of the IAF in the IR process. Of the 14 participants, only one did not have any role in the IR process. The other 13 are at different stages of participation with most focusing on providing a level of assurance. In-house audit functions have an advantage in providing assurance on non-financial information because of their involvement in the business daily. The time pressures, overreliance by management and lack of resources are some of the challenges that limit the extent of participation by the IAF, and where governance is poor the involvement becomes a moot point. Going forward, the IAF must move beyond reporting at the end of the process but must become a trusted strategic partner who understands the business and can add value to the IR process through continuous engagement and appreciating that what they audit during the year will contribute to the IR at the end of the year.

The final chapter of the report will focus on conclusions, recommendations and suggestions for future research.

# 5 Conclusions, recommendations and suggestions for further research

## 5.1 Introduction

The objective of the study was to determine if the IAF of SOEs do play a role in the IR process. This is to respond to the problem of credibility of information provided in the IR. The study's goal was to understand what the role is, to identify the challenges faced by the IAF in playing the role and to identify the future role in the process. The understanding of whether the IAF plays a role in the IR process is important as the literature review clearly indicated the importance of assurance for information reported in the IR to give it credibility. In Section 5.2 the conclusions to the research questions detailed in section 1.3 are provided through the findings in chapter 4. In Section 5.3 the researcher will make recommendations and in Section 5.4 will identify areas for future research.

## 5.2 Summary and conclusion

IR is responding to a need from stakeholders to get holistic information from entities and not merely financial information. IR encourages businesses to be more responsible as they have to report on how their decisions are affecting the sustainability of the business and the environment into the future. It also requires entities to demonstrate if they are responsible corporate citizens who are abiding to the social contract of not destroying the environment which will negatively affect future generations.

In South Africa, after a long period of apartheid which resulted in high levels of inequality, high unemployment and poverty levels, reporting that goes beyond financial reporting is mandatory as business and society must try and bridge the trust gap. However, IR reporting is only mandatory for those entities that are listed on the JSE. This therefore excludes public entities which are government owned and have a role of providing public goods and services that the private sector does not provide. Although this is the case, several SOEs have voluntarily adopted the King Code and by extension IR. This is done to improve legitimacy of these entities and enhance stakeholder perceptions.

Most SOEs are generally faced with governance challenges and societies often question their relevance in society. Adopting IR has the potential to assist these entities to better

communicate and demonstrate their value to society. SOEs that adopt IR have the potential to improve their governance as IR promotes transparency and accountability and allows entities to be more effective in communicating value add to society. As IR is mostly concerned with non-financial information, it is important that an independent party provides a level of comfort on the reliability, accuracy and completeness of the information. This role is being played by the IAF at the different SOEs that were interviewed.

This research has demonstrated that the IAF of 13 out of 14 public entities interviewed play mostly an assurance role in the IR process. The findings show that there are greater opportunities for IAF as only 21% of the entities had a maturity level of leader and none of the 14 was at innovator role. The research further showed that corporate governance, operating environment and skills of the IAF are key to the effective participation of the IAF in IR. CAEs interviewed believe that the role of the IAF should be a permanent role, but that it should be an evolving role, which is in line with the opportunity for improving maturity levels.

CAEs indicated that the IAF has a duty to educate business about their role and to also learn about the business to be able to provide valuable and strategic input. The IAF has to be a leader of the combined assurance process in order to provide effective assurance for IR due to their independence, holistic view and unfettered access to every part of the business. The assurance provided needs to be continuous and focus on processes and systems that produce information that is reported. The continuous assurance improves turnarounds and makes the IAF a strategic partner as they highlight things early for management to fix rather than coming at the end and producing a report of findings. All the CAEs of entities where the IAF is involved in the IR process felt that assurance on IR will give comfort to stakeholders on the integrity of information provided and will mitigate the reputation risk of reporting information with no integrity.

The conclusion from the research is that the IAF does play a role in SOEs, and the effectiveness of the role is determined by corporate governance, operating environment and skills of the IAF. The research further indicated that the key challenges are time pressures, over reliance on the IAF which could compromise independence and poor governance. The research indicated that the future role of the IAF needs to evolve and not just focus on featuring at the end of the process but should be continuous and strategic and add value to the business. This higher level of involvement will likely improve the maturity level of the IAF in IR processes of their entities. In the next section of this report (Section 5.3)

recommendations are made based on the findings followed by Section 5.4 in which recommendation for potential future research are provided.

## 5.3 Recommendations:

IR is a growing reporting trend to respond to societal demands of improved communication from entities on how they are meeting their responsibilities. The researcher has the following recommendations:

SOEs: The researcher recommends that government makes IR reporting mandatory for all SOEs regardless of scheduling on PFMA and size as these are critical role players in service delivery. Having to adopt IR, SOEs will have to improve their governance and their decision-making processes which will add value to the societies as indicated in the literature review that a slight change in governance of public entities can contribute up to 5% more to the GDP (IODSA & PWC, 2011). The SOEs can learn from each other by benchmarking to the best IR producers; providing training to the staff and ensuring that IAF is an integral part of the process.

CAE's: Most of the entities interviewed are still at the lower levels of maturity in IR. CAEs must learn more about IR process and educate their businesses about the importance of reporting at a higher level. CAEs must ensure that the role played by the IAF evolves from policing to that of strategic partner who can assist the entity to be innovative in its reporting.

Profession: Most CAE's felt that they can use the current standards to provide assurance on IR. However, most felt that guidance would be useful to optimise the IR process of their entities. The researcher therefore recommends that the profession develops guidelines of how to effectively provide assurance on non-financial information and how to add value to enable innovation in reporting.

## 5.4 Suggestions for further research

The following potential topics for further study have been identified:

- Cost versus benefit of assurance on IR by IAF versus other assurance providers
- Role of Combined Assurance on the integrity of IR

- Insourced vs outsourced audit functions in the public sector, which one is more value-adding in the IR context?
- Has IR improved governance in SOEs?
- Can IAF be a business partner and maintain independence? This could be a quantitative study looking at the relationship between active involvement of the IAF in IR and the nature of external audit opinions.
- Level of adoption of IR by SOEs and reasons for adoption.

These topics have a potential to increase the body of knowledge on the role of the IAF in public entities and how this can enhance IR.

REFERENCES


Abeysekera, I. (2013). A template for integrated reporting. *Journal of Intellectual Capital 14 (2)*, 227-245.

Ackers, B., & Eccles, N. (2015). Mandatory corporate social responsibility assurance practices The case of King III in South Africa. *Accounting, Auditing & Accountability Journal 28 (10)*, 515-550.

Alveson, M. (2003). Beyond neopositivists, romantics and localists: a reflexive approach to interviews in organizational research. *Academy of Management Review, 28 (1)*, 13-33.

Andrade, A. (2009). Interpretive research aiming at theory building: adopting and adapting the case study design. *The Qualitative Report, 14 (1)*, 42-60.

Auditor General of South Africa. (2017). *Irregular expenditure caused by weaknesses in supply chain management.* Retrieved from http://www.agsa.co.za/Portals/0/Reports/PFMA/201617/GR/09.1%20irregular%20expenditure.pdf

Babbie, E. (2007). *The Practice of Social Research (11th ed.).* Belmoth: Thomson Wadsworth.

Bepari, K. M. (2016). Stakeholders' interest in sustainability assurance process: An examination of assurance statements reported by Australian companies. *Managerial Auditing Journal 13 (67)*, 666-687.

Bernadi, C., & Stark, A. (2018). Environmental, social and governance disclosure, integrated reporting, and the accuracy of analyst forecasts. *The British Accounting Review 50*, 16-31.

Black, J. (2008). Forms and paradoxes of principles based regulation. *Capital Markets Law Journal 3(4)*, 425-457.

Booysen, M. (2017). *Journes of Becoming and Being a Coach: Metaphorical Perpectives.* Johannesburg: University of Johannesburg: Unpublished MPhil Dissertation.

Braun, V., & Clark, V. (2006). *Using Thematic Analysis in Psychology.* Retrieved from http://dx.doi.org/10.1191/1478088706qp063oa

Brown, N., & Deegan, C. (1998). The public disclosure of environmental performance information - a dual test of media agenda setting theory and legitimacy theory. *Accounting and Business Research 29 (1)*, 21-41.

Chambers, A., & Odar, M. (2015). A new vision for internal audit. *Managerial Auditing Journal 30 (1)*, 34-55.

Chen, Y., & Perrin, S. (2018, March). *IRCSA.* Retrieved from IntegratedReportingSA.org : http://integratedreportingsa.org/ircsa/wp-content/uploads/2017/03/pi-insights-IR-2.0.pdf

Cheng, M., Green, W., Conradie, P., Konishi, N., & Romi, A. (2014). The international integrated reporting framework key isues and future research opportunities. *Journal of Internatioanl Financial Management and Accounting 25 (1)*, 90-119.

Cho, C., & Patten, D. (2007). The role of environmental disclosures as tools of legitimacy: A research note. *Accounting, Organizations and Society 32*, 639-647.

Cho, C., Michalon, G., & Patten, D. &. (2014). CSR report assurance in the USA: An empirical investigation of determinants and effects",. *Sustainability Accounting, Management and Policy Journal 5(2)*, 130-148.

Cohen, J., & Simnett, R. (2015). CSR and assurance Services: A research agenda. *Auditing: A Journal of Practice & Theory 34 (1)*, 59-74.

De Villiers, C., & Hsio, P. (2018). Why organizations voluntarily report - agency theory. In C. De Villiers, & M. W, *Sustainability Accounting and Integrated Reporting* (pp. 49-56). Abingdon, Oxon: Routledge.

Denzin, N., & Lincoln, Y. (2000). *Strategies of Inquiry, Sage Handbook of Qualitative Research.* London: Sage.

Du Toit, E., van Zyl, R., & Schutte, G. (2017). Integrated reporting by South African companies: a case study. *Meditari Accountancy Research 25 (4)*, 654-674.

Duff, A. (2016). Corporate social responsibility reporting in professional accounting firms. *The British Review 48*, 74-86.

Duff, A. (2017). Corporate Social responsibility as a legitimacy maintenance strategy in the professional accountancy firm. *The British Accounting Review 49*, 513-531.

Dumay, J., Bernardi, C., Guthrie, J., & Demartini, P. (2016). Integrated reporting: A structured literature review. *Accounting Forum 40*, 166-185.

Engelbrecht, L., Yasseen, Y., & Omarjee, L. (2018). Role of the internal audit function in integrated reporting. *Meditari Accountancy Report 26 (4)*, 657-674.

Eskom. (2018, January). *Eskom/News*. Retrieved from Eskom: http://www.eskom.co.za/news/Pages/2018Jan26.aspx

Gavious, I. (2007). Alternative perspectives to deal with auditors' agency problem. *Critical Perspectives on Accounting 18 (4)*, 451-467.

Grix, J. (2004). *The Foundations of Research.* Basingstoke: Palgrave.

Hummel, K., & Schlick, C. (2016). The relationship between sustainability performance and sustainability disclosure- Reconciling voluntary disclosure theory and legitimacy theory. *Journal of Accounting and Public Policy 35(5)*, 455-476.

IAASB. (2009a). *ISA 200.* Pietermaritzburg: LexisNexis.

IASB. (2018, April 16). *Conceptual Framework for Financial Reporting. A Guide Through IFRS*. Retrieved from http://eifrs.ifrs.org/eifrs/PDFArchieve?viewFile=19699&categoryId=71sidebarCategoryId=71

IIA. (2013). *Integrated Reporting and the Emerging Role of Internal Auditing.* Altamonte Springs, Fla: IIA.

IIASA. (2018). *IIISA.org.za/Technical_IADef*. Retrieved from http://www.iiasa.org.za/?page=Technical_IADef

IIRC & CIPFA. (2016). *Integrated thinking and reporting Focusing on value creation in the public sector.* World Bank Group.

IIRC. (2013). *theiirc*. Retrieved from http://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf

IIRC. (2013). *theiirc*. Retrieved from integratedreporting.org: http://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf

IIRC; CIPFA. (2016). *Integrated thinking and reporting Focusing on value creation in the public sector.* World Bank Group.

IODSA & PWC. (2011). *IODSA Website*. Retrieved from https://c.ymcdn.com/sites/www.iodsa.co.za/resource/collection/879CAE6C-7B90-49F5-A983-28AECBCE196F/PSWG_Position_Paper_3_Governance_in_SOEs.pdf

IODSA. (2009). *IODSA/RESOURCE*. Retrieved from http://c.ymcdn.com/sites/www.iodsa.co.za/resource/resmgr/king_iii/King_Report_on_Governance_fo.pdf

IODSA. (2019, April). *DownloadKingIVapp.* Retrieved from https://c.ymcdn.com/sites/iodsa.site-ym.com/resource/collection/684B68A7-B768-465C-8214-E3A007F15A5A/IoDSA_King_IV_Report_-_WebVersion.pdf

IODSA; PWC. (2011). *IODSA Website*. Retrieved from www.iodsa.co.za/resource: https://c.ymcdn.com/sites/www.iodsa.co.za/resource/collection/879CAE6C-7B90-49F5-A983-28AECBCE196F/PSWG_Position_Paper_3_Governance_in_SOEs.pdf

Kanyane, M., & Sausi, K. (2015). Reviewing state-owned entities' governance landscape in South Africa. *African Journal of Business Ethics 9 (1)*, 28-41.

Lee, T., & Das, T. (2008). The evolution of auditing: An analysis of the historical development. *Journal of Modern Accounting and Auditing 4(12)*, 1-8.

Leedy, P. D., & Ormrod, J. E. (2015). *Practical Research Planning and Design (11th ed.).* Malaysia: Pearson.

Lehman, G., & Morton, E. (2017). Accountability, corruption and social and environment accounting: Micro-political processes of change. *Accounting Forum 41*, 281-288.

Makiwane, T., & Padia, N. (2013). Evaluation of corporate integrated reporting in South Africa post King III release - An exploratory enquiry. *Journal of Economics and Financial Sciences 6 (2)*, 421-438.

Mammatt, J. (2009). Integrated sustainability reporting and assurance. *CIS Corporate Governance conference*, (pp. 1-11).

Maniora, J. (2017). Is integrated reporting really the superior mechanism for the integration of ethics into core business model? An empirical analysis. *Journal of Business Ethics 140(4)*, 755-786.

Maroun, W. (2017). Assuring the integrated report: Insights and recommendations from auditors and preparers. *The British Accounting Review (49)*, 329-346.

Maroun, W. (2018a). Sustainability reporting after a crisis. In C. De Villiers, & W. Maroun, *Sustainability Accounting and Integrated Reporting* (pp. 64-75). Abingdon, Oxon: Routledge.

Maroun, W. (2018b). Why organizations voluntarily report - legitimacy. In C. De Villiers, & W. Maroun, *Sustainability Accounting and Integrated Reporting* (pp. 25-35). Abingdon, Oxon: Routledge.

Maroun, W. (2018c). Modifying assurance practices to meet the needs of integrated reporting: The case for "interpretive assurance". *Accounting, Auditing & Accountability Journal 31(2)*, 400-427.

Maroun, W., & Atkins, J. (2015). *The Challenges of Assuring Integrated Reports: Views from the South African Auditing Community.* Retrieved from https://www.accaglobal.com/content/dam/ACCA_Global/Technical/integrate/ea-south-africa-IR-assurance.pdf

Maroun, W., & Lodhia, S. (2018). Sustainability and integrated reporting by the public sector and not-for-profit organizations. In C. De Villiers, & M. W, *Sustainability Accounting and Integrated Reporting* (pp. 101-120). Abingdon, Oxon: Routledge.

Marx, B., & van Dyk, V. (2011). Sustainability reporting and assurance: an analysis of assurance practices in South Africa. *Mediator Accountancy Journal 19 (1/2)*, 39-55.

Miller, K., Fink, L., & Proctor, T. (2017). Current trends and future expectations in external assurance for integrated corporate sustainability reporting. *Journal of Legal, Ethical and Regulatory Issues 20 (1)*, 1-17.

Mohamed, W., Yasseen, Y., & Omarjee, F. (2019). The perceptions of South African accounting practitioners on the post-implementation of IFRS for SMEs in an institutionalised environment. *Journal of Economic and Financial Sciences 12(1)*, 11.

Montecalvo, M., Farneti, F., & De Villiers, C. (2018). The potential of integrated reporting to enhance sustainability reporting in the public sector. *Public Money & Management 38 (5)*, 365-374.

National Treasury. (2018, March 29). *National Treasury*. Retrieved from http://www.treasury.gov.za/legislation/pfma/public%20entities/2018-03-29%20Schedules%201%20to%203D.pdf

National Treasury. (2019, May 22). *Legislation*. Retrieved from Natinal Treasury: www.treasury.gov.za/legislation/PFMA/default.aspx

NKONKI. (2015). *Insights into the Top 100* JSE Listed Companies Integrated Reporting Trends.* Johannesburg: NKONKI.

NKONKI. (2016). *Integrated Reporting: A continued journey for Public Sector Entities in South Africa.* Johannesburg: NKONKI.

NKONKI. (2017). *Nkonki 2017 Integrated Reporting Trends in SA Top 100 JSE Listed Companies and SOCs.* Johannesburg: NKONKI.

Omarjee, I., Omarjee, F., & Yasseen, Y. (2018). *The quality of financial reporting by JSE listed companies.* SunCity Rustenburg: Meditari Accountancy Research Conference .

Papageorgiou, E., Padia, N., & Yasseen, Y. (2012). The impact of decisions to outsource the internal audit function in South Africa. *Journal of Economic and Financial Sciences 6 (3)*, 593-610.

Papageorgiou, E., Yasseen, Y., & Padia, N. (2012). Internal audit function: Current status and perception of outsourcing. *African Journal of Business Management 6 (49)*, 11829-11838.

Phala, L., Yasseen, Y., Padia, N., & Mohamed, W. (2018). A comparative study on strategy disclosure between emerging markets and developed market. *Journal of Indian Business Research 11(1)*, 2-22.

PWC. (2012, August). *pwc South Africa*. Retrieved from www.pwc.co.za: https://www.pwc.co.za/en/assets/pdf/companies-act-steering-point-4.pdf

PWC. (2015). *pwc.com*. Retrieved from https://www.pwc.com/gx/en/psrc/publications/assets/pwc-state-owned-enterprise-psrc.pdf

PWC. (2015). *pwc.com*. Retrieved from pwc : https://www.pwc.com/gx/en/psrc/publications/assets/pwc-state-owned-enterprise-psrc.pdf

Qu, S., & Dumay, J. (2011). The qualitative research interview. *Qualitative Research in Accounting & Management 8 (3)*, 238-264.

Ravenscroft, S., & Williams, P. (2009). Making imaginary worlds real: The case of expensing employee stock options. *Accounting, Organizations and Society 34*, 770-786.

Richard, G. (2017). Integrating reporting practices and King III vs King IV: Combined Assurance. *Southern African Accounting Association Biennial International Conference* (pp. 171-191). Drankensberg: Southern African Accounting Association.

Ryan, B., Scapens, R., & Theobald, M. (2002). *Research Method & Methodology.* London: Thomson.

Sikka, P., Puxty, A., H, W., & Cooper, C. (1998). The Impossibility of eliminating the expectations gap: some theory and evidence. *Critical Perspectives on Accounting 9*, 299-330.

Simnet, R., Vanstraelen, A., & Chua, W. (2009). Assurance on Sustainability Reports: An International Comparison. *The Accounting Review 84(3)*, 937-967.

Spira, L., & Page, M. (2003). Risk Management: the reinvention of internal control and the changing role of internal audit. *Accounting, Auditing and Accountability Journal 6 (1)*, 640-661.

Surty, N., Yasseen, Y., & Padia, N. (2018). Trends in Integrated Reporting: A State Owned Company Analysis. *Southern African Business Review 22 (3841)*, 1-22.

TeBrugge, M. (2017, June 21). *The Difference Between King III and King IV*. Retrieved from KILGETTY: www.kilgetty.co.za/difference-king-iii-king-iv/

The IIA . (2013). *Integrated Reporting and the emerging role of Internal Auditing.* Altamonte Springs, Fla: IIA.

Twala, C. (2014). The causes and socio-political impact of the service delivery protests to the South African citizenry: A real public discourse. *Journal of Social Sciences 39(2)*, 159-167.

Watts, R., & Zimmerman, J. (1983). Agency Problems, Auditing, and the Theory of the Firm. *Journal of Law and Economics 26 (3)*, 613-633.

WBCSD Future Leaders. (2014). *Integrated Reporting in South Africa: From Concept to Practice.* Switzerland: wbcsd future leaders.

Wigdorowitz, M. (2016, Nov 18). *Articles.* Retrieved from https://jvrafricagroup.co.za/six-simple-steps-to-conduct-a-thematic-analysis/

Yardely, L. (2000). Dilemmas in qualitative research. *Psychology & Health 15 (2)*, 215-228.

Yasin, F., & Nelson, S. (2012). Audit Committee and Internal Audit: Implications on Audit Quality. *International Journal of Economics, Management and Accounting 20(2)*, 187-218.

Yasseen, Y., Moola-Yasseen, M., & Padia, N. (2017). A preliminary study into impression management practices in chairman's statements in South African annual reports: an attribution theory perspective. *Communicare: Journal for Communication Sciences in Southern Africa 36 (1)*, 47-66.

Zhang, Y., & Andrew, J. (2014). Financialisation and the Conceptual Framework. *Critical Perspectives on Accounting 25 (1)*, 17-26.

ANNEXURE A



UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

**SUBJECT: REQUEST FOR AN INTERVIEW**

Dear Participant

Thank you for agreeing to participate in an interview as part of a study that aims to ascertain if the Internal Audit Function (IAF) of your organisation does play a role in Integrated Reporting, to understand challenges and barriers for IAF playing a role and to ascertain the future role that can be played by IAF in Integrated Reporting. The study is in partial fulfilment of the requirements for the degree of Master of Commerce (Accountancy). I have received Ethics Clearance for the topic from the University and my EC Number is CACCN/1167.

The interview will be conducted to explore your opinion and experiences on the roles that internal audit can play in the integrated reporting process, to discuss the possible challenges and barriers and to hear your views on the possible future involvement of Internal Audit in Integrated Reporting. Your participation is considered valuable as your company is highly regarded for having voluntarily adopted Integrated Reporting, however participation in the study is on a voluntary basis.

The interview will last between 45 and 60 minutes and I will send you the interview agenda before the interview. With your permission, the interview will be recorded as it will allow me to capture our discussion in full. I will also take notes during the interview. 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. As a participant I could also share with you the findings from the research if you would like to receive these.

For more information kindly contact my supervisor Yaeesh Yasseen at

yaeesh.yasseen@wits.ac.za or on (011) 717- 8000

Yours sincerely,

Hlengiwe Makhathini

**Consent**

Your signature below indicates that you have decided to volunteer as a research participant for this study and that you have read and understood that information provided above.

Name:_____

Signature:_____

Date:_____

Annexure B

**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.

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 3 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 assurers 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 fulfil 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 be 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?** |