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Mokwatlo, Dina Dau

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The Emerging Effects of Audit Profession Providing Assurance and Consultancy Roles: South African Context

Dina Mokwatlo

1787836

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DECLARATION

I, **Dina Mokwatlo**, declare that this research article is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.



(Dina Mokwatlo)

Signed at CENTURION

On the 23 day of MARCH 2017

DEDICATION

I dedicate this project to my parents who, as educators, have instilled in me the importance of continuous learning. My mother whose unwavering support and encouragement helped me to propel forward.

To my two brothers for listening to every detail of this experience and sharing this journey with me and to my nephew for always being interested in my studies. I hope to have instilled in them some valuable lessons about perseverance and commitment.

Lastly, it is dedicated to the memories of my father and brother who both passed on during the progress of this project. Their inspiration when I started this journey, and sense of pride whenever I achieved milestones despite adversities, has motivated me to continue during an extremely challenging period of their passing.

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SUPPLEMENTARY INFORMATION

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ABSTRACT

A credible audit function is essential for information users to place reliance on financials and internal control environment of an organisation. Therefore, an audit function should provide a role that enables independence. The traditional role of audit is to provide assurance as an independent validator of organisation information. The role has since evolved by adding performing consultancy. While there have been numerous studies relating to the credibility of the audit profession; previous studies have not addressed challenges encountered by the profession when balancing assurance and consultancy roles in South Africa.

The primary objective of this research is to analyse the emerging challenges that the audit profession encounters while attempting to provide dual roles, considering current organisational and professional dynamics.

This research reviewed primary and secondary data. A sample of 54 auditors and non-auditors were interviewed through an online self-administered questionnaire consisting of open-ended and nominal questions to collect primary data. The topic is currently widespread in South Africa therefore; academic journals, books and media articles formed basis for secondary data.

The secondary data showed conflicting perspectives about redefining audit. However, empirical findings revealed that there is the need to redefine the audit profession by providing consultancy role to add value and be sustainable. A further revelation was that there are emerging unintended consequences when providing dual roles, due to current professional and organisational needs and changes. The empirical findings revealed:

- Conflict of interest increases when audit provides dual roles, therefore, the risk of unethical and criminal misconduct heightens;
- The ethical conduct of the profession could be a further reflection of the ethical status of the overall South African organisations;
- Challenges faced by the regulator when enforcing regulation; and
- Continual challenges for the profession to balance the narrow line of pursuing business and maintain its mandate of independent validator.

There is, therefore, the need for the profession to implement a methodology to analyse the benefits of providing consultancy role to explore the extent of the requirement for dual roles. There is also, urgency for government, regulator and audit profession to enforce effective regulatory environment to address the unintended consequences in the quest to remain relevant, sustainable while pursuing intended mandate. Regulation should include guidelines on segregation of duties at auditor, partner/director, team and service provider levels, which could address conflict of interest.

Given the gap in discussion of challenges when performing dual roles, the collective theory in this research should be helpful to contribution of further studies relating to the role of the audit profession.

Keywords: Audit, assurance, consultancy, independence, credibility, ethical conduct, regulation, conflict of interest, audit failures

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1. INTRODUCTION

1.1 Background

Stakeholders (management, shareholders and investors) require the organisation to have some form of independent validation to minimise “record-keeping errors, asset misappropriation, and fraud within organisations”, has led to the demand of Internal and External Audits (Ramamoorti, 2003, p. 2). Organisations place reliance on auditors to provide independent opinions about the affairs of an organisation. However, the independent validation is meaningless if the opinion of the auditors is not credible. As a result, the credibility of the auditors is a crucial element when placing reliance on the audit profession and audit work.

1.1.1 Credibility of auditors

The profession has consequently, defined the role of the auditors to provide guidance the auditors in achieving and maintaining credibility. The respective professional bodies detail the definitions of both Internal and External Audit. The

Institute of the Internal Auditors (IIA) defines Internal Audit as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations” (The Institute of Internal Auditors South Africa, n.d., para. 1). External Auditors provide an independent review of financial statements for a ‘true and fair’ account of past and current financial position (ACCA Global, 2009). The definitions are the cornerstone of the roles and responsibilities of both Internal and External Audit. Furthermore, the definitions outline the requirement for auditors to be independent. Therefore, auditors could provide assurance and/or consultancy roles. The dual roles present a quandary about the ability to maintain independence (Kelley, 1973, as cited in Gold, Klynsmit, Wallage & Wright, 2018). Lack of independence could result in perceived or real lack of credibility (Kelley, 1973, as cited in Gold, Klynsmit, Wallage & Wright, 2018).

While the credibility of the profession continues to be subject of discussion, continents such as North America and Europe seem to have made progress in attempts to balance the assurance and consultancy roles to maintain credibility (International Finance Corporation World Bank Group, 2015; Ernst & Young, 2017). These countries have implemented mechanisms similar to South Africa’s King IV principles. The principles aim to promote good corporate governance through establishing governance, ethical culture, effective control, legitimacy and good performance (BarnOwl, 2016). For example, the United States of America (USA) introduced the Sarbanes Oxley (SOX) Act to strengthen Audit Committees and corporate governance, enhance transparency, executive accountability and investor protection, and enhance auditor independence (Ernst & Young, 2017).

Recent audit failures within South Africa intensifies questions of auditor credibility (Parliamentary Monitoring Group [PMG], 2018). Audit failures refer to significant deficiency when auditors fail to obtain sufficient relevant evidence to support the reported audit opinion on the financial statements and/or effectiveness of internal controls (Franzel, 2013). Furthermore, audit failures raise concerns about attempts to balance the assurance and consultancy roles (Mironiuc, Chersan, & Robu, 2013).

1.1.2 Providing dual roles

These result in possible challenges between attempts to balance the roles and the credibility of auditors. Prior studies caution that the profession becomes accountable to multiple stakeholders by providing dual roles, therefore, conflict of interest arises (Lenz & Sarens, 2011). Independence and consequently, objectivity, are therefore likely to be impaired and result in possible unethical conduct. Unethical conduct results in perceived lack of credibility of the audit opinion (Kelley, 1979, as cited in Gold, et al., 2018).

1.1.3 Evolving needs of the organisations

However, the PWC (2015) study has conversely argued that the quest to balance the dual roles is necessary for the profession to keep up with evolving needs of the organisations. In support of this view, other researchers view the evolution as a cornerstone for the profession to add value to organisations (Bou-Raad, 2000). Further research suggest it would be impossible for audit service providers to be financially sustainable without the evolution (Bou-Raad, 2000; Soh & Martinov-Bennie, 2015).

This research references the KPMG/Eskom case to convey a coherent analysis in support of the theoretical analysis. Bhorat et al. (2017) quote the State of Capture report (2016, pg. 54) which indicates that Eskom was “in severe violation of the Public Finance Management Act (PFMA)”. The state capture report implicates the then Eskom auditors, KPMG, with being involved in questionable business dealings at Eskom (State Capture report, 2016, as cited in Bhorat et al., 2017). This implies that KPMG assumed a position that may influence an audit opinion. Lack of independence may influence the audit opinion and result in audit failures (Firth, 2002).

KPMG denied the allegations, however, terminated its relationship with implicated parties (Bhorat, et al., 2017). The conduct of KPMG and other accounting/audit service providers have refocused attention on the credibility of auditors (IRBA, 2018; Niselo, 2018; Ratsela, Munter, Qhena, de Beer, & Manuel, 2018; Whitfield, 2018). The KPMG/Eskom case represents a prime example to

support the theoretical background analysis as it relates to providing both the assurance and consultancy roles.

This research focuses on analysing the effects of the audit when providing the dual roles. In addition, the research examines ethical and conflict of interest issues, and the regulatory environment in relation to credibility of the audit profession.

1.2 Audit environment

1.2.1 Changing from assurance role only

Prior to introduction of the consultancy role, the role of audit profession was assurance only (Byrnes, et al., 2018). Traditionally, audit focused on historic events and key activities identified after occurrence (Byrnes, et al., 2018). This has become challenging as organisations demand better efficiency and return on investment from the audit profession. Byrnes et al. (2018) caution that rapid information technology and agile business conduct present challenges to the audit profession.

Earlier Bou-Raad (2000) research highlights that the audit function is changing to a more proactive value add role where auditors are collaborating with management. An audit function achieves a proactive role by being forward-looking through provision of the consultancy role (Sheedy, 2018). The consultancy role provides organisations with future events and risks rather than focusing on past events, which is a norm with assurance role (Msiza, 2011, as cited in Radasi & Barac, 2015). Spira and Page (2003) support the notion of the need for audit to provide consultancy. The challenge is for the audit profession to change stakeholder perception due to escalated pressure to demonstrate value-add with providing this role (Spira & Page, 2003).

1.2.2 Adding value through consultancy

The argument is that the value add role would enable the audit function to keep up with organisational continual changing landscape and critical risks (PWC, 2015). Rapid technology and innovation changes, and impact of these factors on organisations, necessitate profession evolution (PWC, 2015). During review of

existing literature, there was no evidence that the profession has a methodology to measure the overall contribution of auditors while providing consultancy role. The AGSA mentioned that optimisation of the benefits can be achieved if consultancy and adherence to regulations and policies are properly monitored and enforced (AGSA, 2013).

Implementing the methodology to review the benefits of providing consultancy could identify the extent of audit contribution to organisations through this role and identify gaps for corrective action.

1.2.3 Implementing dual roles

PWC (2015) discovered that only 45% of CAEs, senior management and board members tasked with governance, expect the audit function to extend its traditional assurance role to encompass a more proactive consultancy role within the coming five years, as at 2015. The other 55% did not envisage implementing the proactive role in the next 5 years (PWC, 2015). Conversely, Chan and Vasarhely (2018) caution that real time economy renders traditional auditing approach to be outdated. Therefore, the evolution of the profession is necessary to provide real time support (Chan & Vasarhely, 2018). The profession has encountered a significant shift towards the addition of a consultancy role, to keep up with internal and external organisational changes.

The IIA (2013) reflects that historically, organisations have regarded the audit function as the “third line of defence” (p.6). In this position, audit provided independent and objective assurance on the effectiveness of governance, risk management and controls for the accomplishment of organisational goals.

The IIA (2013) advices that to provide assurance, audit should report to a high-level governing body within an organisation. Organisations should have a governance structure that allows independence and objectivity of auditors (IIA, 2013).

1.2.4 Challenges when changing roles

However, due to questions around independence and objectivity, and thus credibility of the profession, there are other views on providing dual roles. Lenz and Sarens (2011) suggest the audit function should be positioned as an

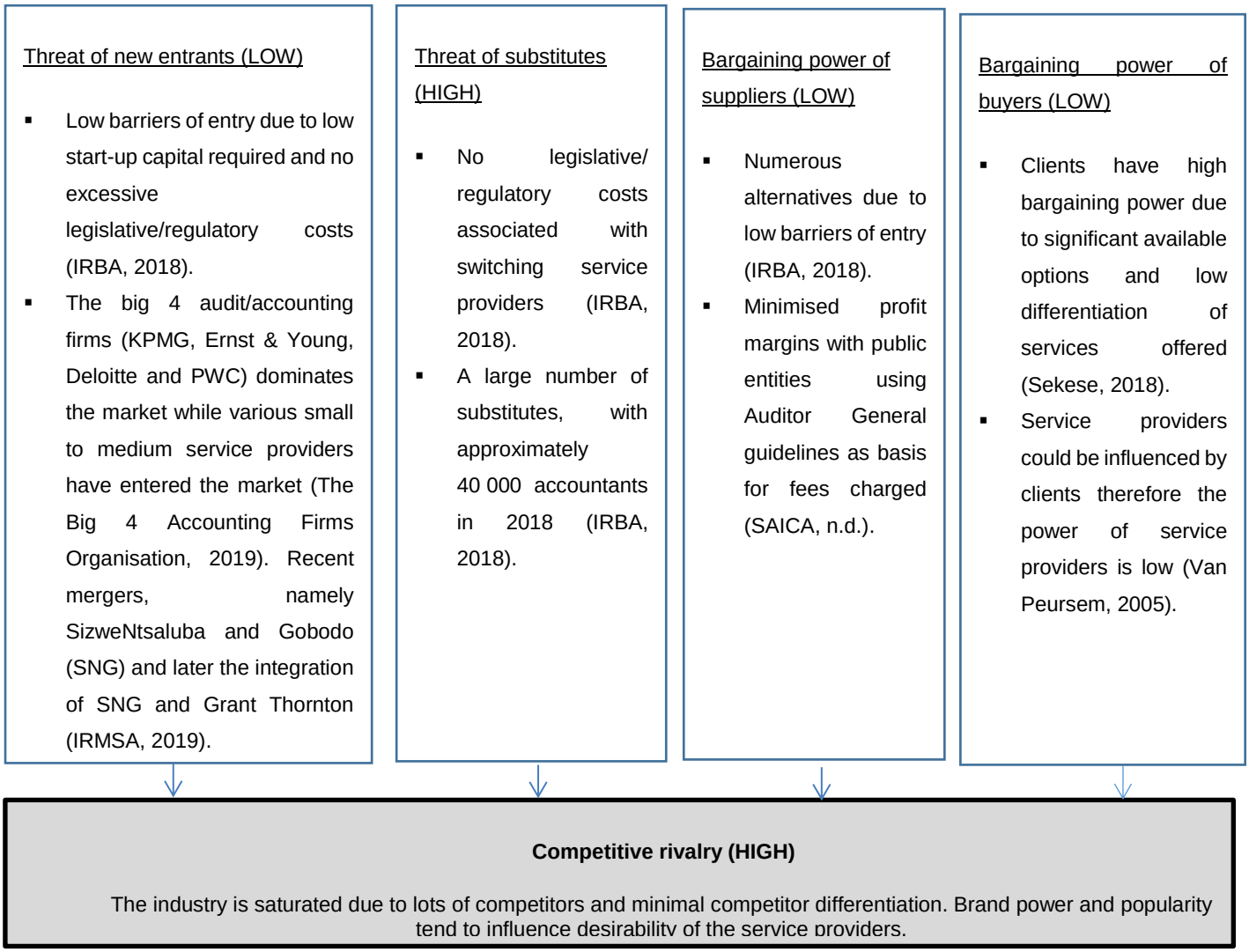
assurance provider rather than “forcing” the function into consultancy (p.544). The analysis cautions that the audit function has multiple stakeholders aspiring to provide assurance and consulting role simultaneously (Lenz & Sarens, 2011). This presents a dilemma of possible objectivity impairment that could negatively affect auditor independence (Lenz & Sarens, 2011).

1.2.5 Factors influencing the need for change

The audit profession has become highly competitive due to organisational evolution, requirements, and an increasing number of emerging auditing/accounting firms (Soh & Martinov-Bennie, 2015). Based on Lenz and Sarens (2011), competition increases the need to balance both assurance and consultancy roles. Consequently, there is the need to assess the forces affecting the competitive landscape of the industry.

This research applied Porter’s 5 Forces model to understand the industry forces (Chartered Global Management Accountant [CGMA], 2013):

Figure 1: Porter’s 5 Forces model



Source: (CGMA, 2013)

The model reveals high entrants within the industry due to low barriers of entry. There are standardised rates resulting in possible lower profit margins. Therefore, there is the need for traction, maintaining clients and expansion of income streams. The implication is the need for audit service providers to provide both the assurance and consultancy roles to sustain businesses. It is against this background that this research puts forward an argument that despite the mandate of audit, the need for profit could affect the independence, objectivity and therefore, credibility of the audit opinion. The primary challenge revealed is the ability to balance profit-making and purpose-driven objectives, namely the audit profession mandate.

The author conducts this research with the biased focus on the audit profession and recent audit failures in South Africa. The implication being emphasis on the urgency for remedial action to address the effects of the audit profession providing dual roles.

2. PURPOSE AND SIGNIFICANCE OF THE RESEARCH

The purpose of this study is to discuss the effects of providing dual roles while considering organisational and professional requirements. The review highlights challenges and unintended consequences of providing dual roles. This research examines how to address the paradigm shift presented by organisations and profession requirements for auditors to provide proactive value-add contribution and remain sustainable. The aim is to assess whether there is interrelatedness between continuous audit failures and the evolution of audit. The research could contribute to the knowledge base of audit professionals and interested parties by adding to the existing theoretical discourse towards the role of audit and the unintended consequences of audit assuming dual roles.

Based on literature review of this study, a paradox stance appears when auditors provide the dual roles (Lenz & Sarens, 2011). This is due to the perceived and/or real impairment of independence that arises (Kelley, 1979, as cited in Gold, et al., 2018). This research identifies areas of non-adherence to the code of ethics

of auditors, which affect credibility. Therefore, this research highlights possible reasons for non-adherence.

Recent audit failures, for example, the KPMG/Eskom case described in the introduction section, have led to negative publicity about the profession. Furthermore, questions around the credibility of audit work have intensified. This research seeks to provide views about these factors and interrelatedness, if any, to audit providing dual roles. This is necessary to reveal unknown factors arising from changes of organisational and profession requirements, enhance existing knowledge and identify possible remedial actions to enhance the credibility and reputation of auditors.

Since the Arthur Andersen/Enron audit failure, there have been requirement shifts on the audit profession around corporate governance, risk management and ethical conduct (Campbell & Houghton, 2005). There have been studies around the changes necessary for the audit profession to add value to organisations (PWC, 2015; Soh & Martinov-Bennie, 2015).

However, there are few studies on the implications of balancing the dual roles while preserving audit mandate in current business environment. Furthermore, literature review identified a gap relating to whether the quest for audit to add value and remain competitive affects ethical conduct and conflict of interest of the auditors. Additionally, there is limited research relating to the regulation for auditors in South Africa.

High level of integrity is required from auditors for stakeholder to rely on audit work (The Global IIA Organisation, 2009). While there have been discussions regarding audit independence, the profession continues to face questions on how to achieve its mandate while also achieving organisational and professional interests. The key existing empirical gap is lack of knowledge of emerging effects the audit profession faces while attempting to balance the assurance and consultancy roles within South Africa. This study provides insights and recommendations to address this key problem.

This study is also interested in related sub-problems. Firstly, whether the role of the audit profession needs redefining. Haas et al. (2006) cited that organisational

needs form the basis of transformation from a traditional assurance role to a proactive value-add role of consultancy (as cited in Mihret & Woldeyohannis, 2008). In addition, audit service providers seek sustainability by widening revenue streams to be sustainable in a competitive business environment (Soh & Martinov-Bennie, 2015). However, Lenz and Sarens (2011) advices, adding a consultancy role to the assurance role may affect the objectivity and independence of the profession. These postulations lead to the second sub-problem of whether there are any unintended consequences when providing dual roles.

Thirdly, an analysis is required to determine whether providing the assurance and consultancy roles affect conflict of interest and ethical conduct of the auditors. The implication being possible impairment of integrity of the audit profession and unintended consequences. This sub-problem reviews whether providing the dual roles can affect objectivity and ethical conduct of the auditors. Spira and Page (2003) state that discussions to encourage transformation of the audit profession are not a new phenomenon. Discussions relating to the role of the profession have been ongoing as far back as the 1970s (Morgan, 1979, as cited in Spira & Page, 2003).

Campbell and Houghton (2005) indicate that discussions intensified in the mid-2000s after the Arthur Andersen/Enron audit failure. Arthur Andersen audit firm supposedly failed to report critical financial misconduct uncovered at Enron (Campbell & Houghton, 2005). According to Campbell and Houghton (2005), Arthur Andersen compromised its objectivity and independence due to the long standing working relationship the audit firm had with Enron. Based on details provided in the background section, it is evident that intensifying discussions in the mid-2000 resulted in recommendations that prompted progression of the audit profession (Campbell & Houghton, 2005). Recommendations were relevant to that era and environment. Therefore, review of current dynamics is necessary for insights into recent audit failures in South Africa and emerging challenges for the profession considering the current era.

The fourth sub-problem is whether the audit profession regulation is adequate to support current professional dynamics. The Independent Regulatory Board for

Auditors (IRBA) developed the code of ethics as a guideline for good conduct in line with the interest of the profession (IFAC, 2009). It is necessary for auditors to adhere the code of ethics to maintain the reputation of the profession. Ramamoorti (2003) declares that shareholders/investors entrust auditors with the responsibility to provide independent validation over the affairs of the organisation. Therefore, auditors carry out responsibilities as per the expectation of the organisation and in line with the code of ethics to adhere to the mandate of the profession.

As assurance providers, auditors are accountable to Audit Committees (SAICA, 2017). While being accountable to management as consultants providing advisory role (Lenz & Sarens, 2011). A perception of auditor independence increases when reporting to Audit Committee (Alleyne, Devonish, & Alleyne, 2006). Khasharmeh and Desoky (2018) add that accountability enhances auditor independence and credibility perceptions. Kelley (1973) states that shareholders/investors perceive an audit opinion to be less credible if independence appears to be impaired (as cited in Gold, et al., 2018). The implication is that auditors should report to a suitable authority for adequate accountability.

Following recent audit failures in South Africa, the Standing Committee on Finance (SCoF) recognised the need to amend the Act, to strengthen the power of IRBA as the profession regulator (Accounting Weekly, 2018). However, according to Accounting Weekly (2018), the Auditing Profession Act, 26 of 2005 does not empower the IRBA to take action against the transgressors. In addition, to comply with the amendments to the Act, IRBA published the Mandatory Audit Firm Rotation (MAFR) document applicable to auditors of all public interest entities (IRBA, 2017). The IRBA expected the public interest entities to apply the rotation requirement by financial years starting on or after 1 April 2023 (IRBA, 2017). However, the challenge is for the IRBA to enforce adherence.

The key problem and sub-problems for this research make this study necessary. This study addresses research questions outlined in the next section.

3. RESEARCH QUESTIONS

- Is it necessary for the audit profession to redefine its role to keep up with emerging professional and organisational dynamics?
- What are the unintended consequences of providing assurance and consultancy roles?
- Does providing assurance and consultancy roles affect conflict of interest and ethical conduct of auditors?
- What are the factors affecting adequate implementation of audit profession regulation?

4. RESEARCH OBJECTIVES

The primary objective of this research is to analyse the emerging challenges that the audit profession encounters while attempting to provide dual roles in South Africa. This research does not seek to discourage providing dual roles, but intends to provide a hypothesis basis that there could be interrelatedness to providing dual roles and credibility of the audit profession.

The objectives of this research are:

- To determine whether the need exists to redefine the audit profession to keep up with current organisational and audit profession requirements.
- To identify and assess unintended consequences, if any, encountered when providing dual roles.
- To determine the extent to which providing both the assurance and consultancy roles affect conflict of interest and ethical conduct of the auditors.
- To review whether regulation for the audit profession is adequate to address current professional dynamics.

5. LITERATURE REVIEW

5.1 Introduction

As public perception and organisational expectations intensify, measures to ensure the audit profession maintains its mandated role while adding value and being sustainable remain the subject of discussion. According to the IIA's International Standards for the Professional Practice of Internal Auditing (2017) framework, Standard 1100, auditors should manage any risks that may result in impairment of independence and objectivity to avoid biased audit opinions (IPPF, 2017). Potential impairment risks should be "managed at individual auditor, engagement, functional and organisational levels" (IPPF, 2017, p. 4).

Standard 1130.A1 continues that an auditor should refrain from performing audit work where conflict arises (The Global IIA Organisation, 2017). Additionally, organisations expect auditors to uphold high ethical standards and have integrity in order to provide unbiased opinion in either assurance or consultancy role (The Global IIA Organisation, 2009). Campbell and Houghton (2005) attest that organisations expect auditors to have integrity and independence in carrying out their duties. As a result, the question "where were the auditors?" is raised when things do not go as planned within organisations (Campbell & Houghton, 2005, p. 172).

The risk of providing biased audit opinion arises when objectivity and independence of auditors is impaired (IIA, 2013). Additionally, Van Peursem (2005) advices that it is probable for an organisation to influence audit opinion if the auditors depend on the audited organisation for revenue. Lenz and Sarens (2011) substantiate this by emphasising that being accountable to multiple stakeholders by providing both the assurance and consultancy role could result in conflict of interest for auditors. Thus, some contributing factors could result in heightened risk. Furthermore, IIA study revealed that auditor independence and objectivity continue to be under threat (Miller & Rittenberg, 2015). Ultimately, Campbell and Houghton (2005) emphasise, the best policy to dealing with conflict of interest is to avoid it to minimise the risk of potential influence to corruption.

However, Ramamoorti (2003) and PWC (2015) caution that to remain relevant and keep up with rapid organisational landscape transformations and stakeholder requirements, the audit profession should evolve by performing both assurance and consultancy roles. PWC (2015) further states that audit can remain valuable and relevant while still fulfilling its mandate. An evidence that the role of audit remains a focus of discussion, based on prevailing organisational and professional dynamics.

This study evaluates the underpinning management theories:

- **Source Credibility Theory** – The source of information influences the perceived credibility thereof (Credibility Institute, 2015). The main reason of appointing auditors, as an assurer, is to ensure independence and objectivity (IFAC, 2009). However, providing dual roles could result in impairment of objectivity (Lenz & Sarens, 2011). This would inevitably affect the credibility of audit work (Lenz & Sarens, 2011).
- **Power Theory** – This concept relates to the ensuing power when one party promises another a reward for providing certain services based on an agreement (Elias, 2008, as cited in Gold et al., 2018). The Audit Committee has the authority to appoint and reward auditors when auditors are providing an assurance role (Gold, et al., 2018). However, Gold et al. (2018) caution that when auditors provide a consultancy role, management appoints and rewards auditors. Therefore, auditors tend to pursue the interests of management intentionally or unintentionally (Gold, et al., 2018). This indicates the importance of accountability of the auditor in either role.
- **Agency Theory** – The party appointed by the organisation should act in the primary interest of the appointing organisation (Seven Pillars Institute, 2018). For this research, the concern is whether the appointed auditor, performs in the interest of the organisation. This assertion highlights the ethical responsibility of the auditor when providing either role.

Considering the abovementioned postulations, this literature review:

- Analyses the assurance provider role of the profession;
- Reviews the changing role of the profession towards being proactive;

- Assesses accountability dynamics for the profession in its role as an assurance and consultancy provider; and
- Unpacks the ethical practices relating to the audit profession.

5.2 Audit function as an assurance provider

The purpose of an assurance provider is to validate the credibility of information management presents to relevant stakeholders (Hayes, Dassen, Schilder, & Wallage, 2005). Hayes et al. (2005) mention that this relates to financial statements, statistical information, non-financial performance indicators and organisational capacity. Furthermore, it relates to systems and processes (internal controls, environment and IT systems) and organisational behaviour (corporate governance, regulatory compliance, human resource practices) (Hayes et al., 2005). Hayes et al. (2005) continue that the information provides users with unbiased holistic view of the organisation. Therefore, integrity of information is crucial for users to make informed decisions. An affirmation of the view that the audit profession has "historically been viewed as a monitoring function" as an assurance provider (Spira & Page, 2003, p.653).

While providing assurance is the historical role, there have been continuous discussions for the audit profession to change to a more proactive role (Bou-Raad, 2000). However, Bou-Raad (2000) adds, there might be potential conflict arising from the proactive role, which supports the audit profession to be a consultancy provider. PWC (2015) indicates that evolving agile organisational and professional requirements encourage the need for change, as stakeholders demand value-add from the profession. Additionally, Bou-Raad (2000) explains that competition within the audit profession creates challenges for audit service providers to remain sustainable when providing assurance role only. Furthermore, organisations require audit to be more proactive to add more value (Bou-Raad, 2000). These perceptive support the need for audit to add consultancy role. However, existing research does not appear to analyse the potential challenges that could emanate from the role shift.

5.3 The changing role of audit

The IIA recommends the change and audit adaption of the proactive role (Bou-Raad, 2000). Additionally, Ramamoorti (2003) IIA Research Foundation study describes the new definition of the audit profession as an outcome of the expanding and changing role of audit. Consequently, Bou-Raad (2000) highlights that partnership with management would allow audit to evolve into a more proactive role.

Soh and Martinov-Bennie (2015) affirm that the change is necessary. Technology is one of the main drivers of change, and organisations need to keep abreast of the competitors to maintain competitive advantage (Soh & Martinov-Bennie, 2015). Soh and Martinov-Bennie (2015) further state that there is undeniable emergent requirement for audit to be involved in providing both assurance and consultancy roles around social and governance issues. While Spira and Page (2003) add that, the need for the role change is crucial for the profession to keep up with progressive profession changes.

PWC (2015) supports the idea of audit role change for organisations to achieve goals and objectives. The role change is imminent and unavoidable (PWC, 2015). However, PWC (2015) advices exercising precaution to avoid negative impact to achieve the primary role of the profession. The study cautions that failure to accomplish the main mandate of audit results in loss of direction and focus for the profession (PWC, 2015). However, PWC (2015) provided no recommendations on how to avoid or handle these negatives impacts. In addition, an earlier Morgan (1979) study stated that the change would inevitably have other repercussions for the profession. However, Spira and Page (2003) cautions that, while it is necessary for the profession to evolve, it is even more imperative to understand the implications that could emanate from the change.

As indicated earlier, Lenz and Sarens (2011) have a different view. The researchers emphasise that the role of the audit profession should be maintained as an assurance provider rather than attempting to shift to consultancy role (Lenz & Sarens, 2011). Based on Lenz and Sarens (2011), the consultancy role requires audit professionals to be accountable to multiple sources, thereby

posing possible negative impact on independence and objectivity. Morgan (1979) quoted “surrendering certain elements of the controllership role and some of the claims to formal authority which go along with it” as unintended consequences of the role change (p. 168, as cited in Spira & Page, 2003, p. 653). Lenz and Sarens (2011), however, do not take into account the organisational and professional evolution that is required for the profession to remain relevant and sustainable. Therefore, further review is necessary to unpack the implications of providing the dual roles, while maintaining the need to achieve audit mandate.

5.4 Accountability of audit as an assurance provider and consultancy function

As indicated, the IIA Standards emphasise that the independence and objectivity of the audit function and auditors is the cornerstone of the profession (The Global IIA Organisation, 2017). Additionally, the ability to exercise objectivity and independence while conducting audit work is indicative of the good corporate governance of an organisation (Alleyne et al., 2006). Furthermore, the effectiveness of the audit function is comprehensively dependent on an effective organisational governance structure (IIA, 2013). King IV Report on Corporate Governance for South Africa (King IV) encourages the incorporation of good corporate governance requirements within organisations of Directors in South Africa (IoDSA, 2016). The board is responsible for ensuring the organisation “is and is seen to be a responsible corporate citizen” (IoDSA, 2016, p. 40).

The USA Congress formulated Sarbanes-Oxley (SOX) Act of 2002 to embed the good corporate governance requirements (Ernst & Young, 2017). The purpose includes “combating fraud, improving the reliability of financial reporting, and restoring investor confidence” (Wagner & Dittmar, 2006, para. 1). The IoDSA (2016) recommends implementation of King IV and SOX even though the guidelines are not statutory requirements in South Africa. The guidelines encourage promoting integrity and credibility of the organisational information through demonstration of good corporate governance (IoDSA, 2016).

The reporting lines of the audit function, which represent accountability, are an indication of the strength of the governance structure of an organisation (Alleyne et al., 2006). Ramamoorti (2003) states that while providing dual roles, the audit function is accountable to both the independent Audit Committee and Executive Management. This raises questions about the independence and objectivity of the audit function (Ramamoorti, 2003). Consequently, Van Peursem (2005) cautions that being accountable to multiple stakeholders may improperly influence auditors to change audit opinions.

Bou-Raad (2000) and Van Peursem (2005) further acknowledge increased competition within the audit profession as a factor that heightens the quest to remain sustainable. Therefore, management has the power of improperly influence the auditors due to increased vulnerability (Van Peursem, 2005). Furthermore, Lenz and Sarens (2011) have raised concerns around the accountability of auditors when providing consultancy role. Lenz and Sarens (2011) reiterate the view that dual roles require audit to report and be accountable to multiple stakeholders. These varied perspectives are an indication of persisting questions about appropriate accountability of the audit function while providing either role.

According to Kelley (1973), perceived auditor independence impacts perceived level of audit opinion credibility (as cited in Gold et al., 2018). Considering this and other highlighted perspectives, there is a gap not addressed. The gap reveals the need to consider unintended consequences, including accountability of the auditors, when providing dual roles. According to Gold et al. (2018) the independence of auditors and perception of independence, is higher when the Audit Committee is involved in appointing audit service providers. Based on these views, accountability of the auditors should be to the Audit Committee rather than to management.

The Source Credibility Theory, Power Theory, and Agency Theory emphasise the importance of accountability to the appropriate authority (Gold et al., 2018). While the issue of accountability within an organisation is in contestation, there is a further expectation of responsibility to the public (Van Peursem, 2005). Van Peursem (2005) mentions that the responsibility of the profession is not

exclusively towards the client or employer but also to the public. Wagner and Dittmar (2006) stress it is imperative to address accountability issues presented by the dual roles, as good corporate governance is crucial for the effectiveness of the audit function. The implication is the challenge for auditors to exercise the mandated roles and serve the relevant authority without compromising integrity of the profession.

5.5 Ethical behaviour in relation to auditors and organisations

This research has analysed potential conflict of interest for auditors while providing both assurance and consultancy roles (Van Peursem, 2005; Lenz & Sarens, 2011; Elias, 2008, as cited in Gold et al., 2018). Wagner and Dittmar (2006) add that good corporate governance is the foundation of good ethical behaviour within organisations. Moreover, according to the IoDSA (2016), there is “consistency between moral and ethical standards”, and actual conduct (p. 14). The actual conduct displays the real integrity (IoDSA, 2016). Auditors should demonstrate both moral and ethical behaviour as the providers of independent validation of organisation information (IFAC, 2009).

As highlighted, clients, investors and the public expect the auditors to demonstrate ethical responsibility by uncovering and reporting any misconduct (Campbell & Houghton, 2005). Van Peursem (2005) notes differences between these expectations and industry expectations. Management and the board expect auditors to add value by considering future events and risks (Msiza, 2011 as cited in Radasi & Barac, 2015). However, the economics of maintaining the audit service provider reveal different pattern expectations from the industry (Van Peursem, 2005). Additionally, stakeholders expect auditors to compete for audit work while serving the public interest (Van Peursem, 2005). Therefore, Van Peursem (2005) cautions that organisations could persuade auditors against moral and legal ethical responsibilities when providing a consultancy role. This is due to organisations having power over appointment of auditors (Van Peursem, 2005). These expectations raise questions around the ethical conduct of auditors when serving the expectations of different stakeholders.

After the Arthur Andersen/Enron case, Campbell and Houghton (2005) reviewed how to repair ethical behaviour within the profession. The aim was to attempt restoring public perception and trust (Campbell & Houghton, 2005). The review highlighted the importance of ethics and encouraged discussions on merging ethical behaviour between the “personal and professional culture” (Campbell & Houghton, 2005, p. xiii). Similarly, ethical behaviour of auditors has come into question, with the KPMG/Eskom case within South Africa (Maputi, 2017). KPMG terminated employment of senior leadership implicated in this case (Maputi, 2017). Additionally, new leadership appeared before the Standing Committee on Public Accounts (SCOPA) to account for the ethical misconduct (Brock, et al., 2017). The implication is that personal and professional conduct and accountability are interrelated.

The mentioned circumstances highlight the significance of the profession exercising good ethical conduct. The IRBA developed the code of ethics to promote good ethical culture amongst auditors/accountants (IFAC, 2009). However, the IRBA does not have the authority to enforce code of ethics adherence (IRBA, 2018).

5.6 Literature review conclusion

This literature review builds on the initial views that there is the need to redefine the role of audit. However, there are factors that pose challenges to the core characteristics of the audit profession. The dilemmas include possible impairment of independence and objectivity, accountability, ethical conduct and credibility of audit work, amongst others.

This research is therefore, necessary to continue discussions relating to the role of the profession in the current environment. The discussions would provide insights and suggestions to address factors shaping organisational and profession paradigm shifts. As indicated earlier, the further aim is to address dual roles, conduct of auditors and possible unintended consequences, including audit failures, creating public loss of trust in the profession. To achieve these research

objectives and attempt to resolve presented research questions, the following research methodology was utilised.

6. RESEARCH METHODOLOGY

6.1 Introduction

This section describes the research design, paradigm, methodology, population, sampling and sampling methods, research instruments, process for data collection, data analysis and interpretation, and limitations of the research. The purpose of this section is to demonstrate the method of collecting and analysing data.

Qualitative research is the preferred methodology for this study as it is exploratory in line with the objectives of this analysis. This methodology is preferred over the quantitative research methodology. Quantitative methodology quantifies a problem by providing conclusive answers to the problem (BCPS , n.d.). Qualitative research is the most common and oldest technique used to study human behaviour, opinions, themes and motivations (Shuttleworth & Wilson, 2008). However, there is no evidence of many historical analysis of qualitative studies conducted in South Africa since 2008 (Schurink, 2008).

This research used primary data and secondary data. The study collected primary data through online questionnaire comprising of open-ended questions. Qualtrics tool enabled effective and efficient collection of primary data. Academic journals, books and media articles (including podcasts, audio or videos) were a source of secondary data collection. Secondary data formed the basis of the theoretical background of this research.

6.2 Research design

This research adopted the exploratory research design. Barker et al. (2002) propose researchers use exploratory questions where existing research is confusing, contradictory or not progressive, or where the topic is complex (as

cited in Elliott & Timulak, 2005). The theoretical background of Interpretative Phenomenal Analysis (IPA) form foundation of the methodology and design employed in this research. IPA is a qualitative research approach that aims to reflect on encounters based on personal perspective (Smith & Osborn, 2015).

Reid, Flowers and Larkin (2005) described IPA as the research design that focuses on probing experiences, perception and insights of respondents (as cited in Brocki & Wearden, 2014). Moreover, Flowers, Hart and Marriot (1999) added that IPA does not provide an objective account of events as it is concerned with the subjective point of view of respondents (as cited in Brocki & Wearden, 2014). IPA focuses on personal experiences of individual respondents (Smith, 2004). This study offers perspectives of respondents based on the capabilities of the researcher to interpret versions provided.

6.3 Research paradigm

This research followed the interpretative/constructivist paradigm associated with qualitative research in line with the selected data collection technique (Dash, 2005). A prevalent risk with qualitative approach is subjectivity due to human interactions nature of collecting data (Creswell, 2007). According to Creswell (2007), the researcher should be aware of potential bias during data collection and analysis when using qualitative approach. To address this risk, Walsh and Downe (2005) advised that meta-synthesis of qualitative data could be utilised to provide in-depth elaborative analysis. Meta-synthesis aims to integrate results from various but inter-related qualitative studies (Walsh & Downe, 2005). This research achieved the aim through analysis of primary and secondary data.

6.4 Population

The targeted population comprised of auditors and non-auditors who interact with auditors when carrying out responsibilities. These are professional and/or registered practicing auditors and non-auditors process owners operating in conjunction with auditors. Non-auditors are relevant to the study as audit forms an integral part of an organisation when auditors provide a consulting role.

Auditors and non-auditors formed multiple sets of samples for collecting primary data. The approach enabled attainment and analysis of a wide range of perspectives. The targeted population was relevant for this research as existing studies exploring focus primarily on the viewpoint of industry experts only. Obtaining responses from a multifaceted population allowed validation of findings, thereby enhancing credibility.

6.5 Sampling and sampling method

This research used the convenience sampling method due to its convenience, efficiency and timely data collection nature. Convenience sampling promotes confidentiality, maximises credibility and offers a wider range of respondents. The sample comprised of at least 50% of auditors while the remainder was non-auditors. Auditors have first-hand experience of practical and theoretical experiences however, might be subjective. Non-auditors could provide better objective perspective as the research does not have direct consequences on them. Obtaining responses from these different groups allows a form of triangulation to validate findings, therefore enhances credibility. Triangulation through data uses wide range of respondents (Shenton, 2004).

This research used an online questionnaire as a form of interview to increase scalability and confidentiality. The target was to receive a minimum of 30 responses of the circulated questionnaires. Fridlund and Hildingh (2000) described that it is common practice to select a sample of 1 to 30 respondents when conducting a qualitative research, provided the sample size provides sufficient information to answer the research questions (Krippendorff, 2004; Patton, 2002, as cited in Bengtsson, 2016). This sample selection guideline was utilised for this research.

The researcher received 54 responses of the total 60 circulated questionnaires. The respondents included 33 individuals identified as registered auditors (Figure 3). The term “registered auditor” could imply registered with the audit/accounting professional body, and not registered with the IRBA. However, interpretation of the term did not have adverse implications to this research.

6.6 Research instrument

Sekeran (2003) stated that questionnaires are one of the instruments for conducting interviews. Online questionnaires are a tool credited with enabling high anonymity (Sekeran, 2003). This approach allows accurate analysis of responses due to the direct nature of answers (McLeod, 2018). McLeod (2018) added that the answers do not require detailed interpretation, thereby minimising the possibility of misinterpretation. Questionnaires are also an effective instrument to collect rich qualitative data as respondents have the ability to elaborate on their responses (McLeod, 2018). Online questionnaires achieved wider sample coverage, rapid and efficient data collection (Sekeran, 2003; McLeod, 2018). This research used Qualtrics statistical tool for data collection and analysis.

This study used the 5-point Likert scale to collect some responses and ease of analysis:

Figure 2: 5 point Likert scale



Source: (Bhat, 2018)

6.7 Process for data collection

This research collected primary data through an online structured questionnaire. The online questionnaire used both nominal questions (yes or no) and ordinal questions (strongly agree, agree, neutral, disagree and strongly disagree). The approach provided order and allowed for ease of collation and categorisation (Goff, 2018). Respondents had an opportunity to express detailed opinions through numerous open-ended questions. The researcher emailed an e-link explaining the purpose of the study and notifying respondents of voluntary and confidential participation. Additionally, the researcher used academic journals,

books and media articles as sources of secondary data. Online questionnaire maximised credibility, as all respondents share perspectives on the same questions asked in the same manner. Prioritising objectivity of responses enhanced confirmability, as respondents were not privy to the perspectives of the researcher (Shenton, 2004).

This research conducted a pilot study by circulating the questionnaire link to 5 respondents. Respondents provided feedback about the ease of completing the questionnaire. The feedback improved the quality of the questionnaire to achieve the envisaged outcome. The researcher circulated the e-link to respondents between 13th August 2018 and 04th September 2018. Thereafter, uploaded responses onto Microsoft Excel spreadsheet for ease of decoding and analysing responses as questions were structured.

6.8 Data analysis and interpretation

The online questionnaire approach employed the manifest analysis as data collected and analysed represented what the respondents said as compared to what the respondents implied (BCPS , n.d.). Manifest data analysis reduces bias and misinterpretation of data, and maximises credibility and transferability of findings (BCPS , n.d.).

It was evident from responses that the research reached saturation during data collection and analysis process. Saturation is a data collection and analysis process that indicates data collection completeness (DiCicco-Bloom & Crabtree, 2006). A study reaches saturation when new themes do not emerge from continued data collection (DiCicco-Bloom & Crabtree, 2006). Findings of this research centred on similar themes after receipt of numerous responses, thereby indicating saturation.

6.9 Limitations

To encourage objectivity during qualitative research, it is important to indicate potential limitations that could result in bias and impairment of validity (Ritchie & Lewis, 2003). It is therefore, acknowledged that the researcher is an audit

professional. Furthermore, qualitative research is generally not perceived as objective as the researcher is positioned to understand and interpret the responses from the views of respondents (ESHRE Psychology and Counselling Guideline Development Group, 2015, as cited in Hammarberg, Kirkman & de Lacey, 2016). Using an online structured questionnaire assisted with overcoming the risks these limitations posed. The questionnaire encouraged respondents to respond based on personal perspectives and experiences.

Shenton (2004) explained that qualitative research has the inherent limitation of inability to apply findings to a wider population. The ability to access wider respondents through the online questionnaire addressed the limitation and maximised the trustworthiness construct of transferability (Lincoln & Guba 1985, as cited in Elo, et al., 2014; Shenton, 2004).

The findings of this research are limited to the perspectives of the 54 auditors and non-auditors and are not a conclusive representation of the entire population. Of the 21 respondents, 17 were process owners with experience and exposure in working with auditors. This research applied findings from relevant latest secondary data to address the limitation.

The researcher collected data independently due to time constraints and the lengthy process it took to have the IRBA involved during data collection. Nonetheless, this approach did not present limitations in reaching the intended target respondents.

6.10 Reliability and validity

Credibility, transferability, dependability and confirmability are the trustworthiness constructs researchers use to ensure trustworthiness of findings is achieved (Lincoln & Guba 1985, as cited in Elo, et al., 2014; Shenton, 2004). To demonstrate trustworthiness, this research employed the trustworthiness constructs highlighted throughout the research methodology section.

Sekeran and Bougie (2013) describe validity as the extent to which an exploration sufficiently determines what to measure. Welman, Kruger and Mitchell (2005)

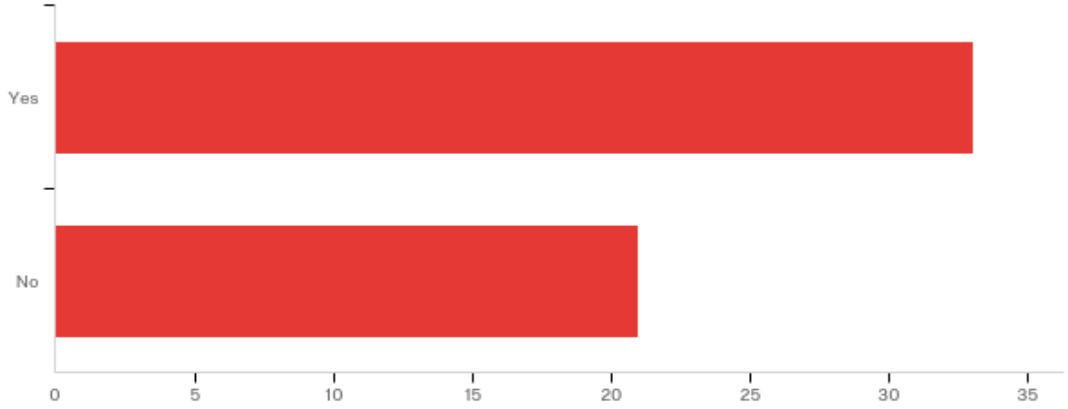
explain reliability as the integrity of the results and the extent of reliance on the results. By applying the trustworthiness constructs, this research demonstrated the validity and reliability of the results.

7. FINDINGS AND DISCUSSION

7.1 Background

The section presents findings of the analysed data as obtained through primary and secondary data. The following demonstrates patterns of respondents and provides sample representation:

Figure 3: Registered auditors vs non-registered auditors respondents



Bem (2004) cautions against presenting all findings received from respondents. This approach could results in less interesting unmanageable presentation of the findings (Drotar, 2009). Therefore, the research should have a focused approach to avoid difficulties with presenting all the findings (Bem, 2004). The researcher coded responses of open-ended questions according to recurring themes. The intentional use of this approach assists with maximising trustworthiness, dependability and credibility of findings. Coding and Qualtrics reports assisted with data analysis. The findings displayed quotations of the responses to illustrate the tone and direct opinions of respondents.

Findings and discussions in the coming section follow the pattern of prominent themes from literature review. The themes underpin the research objectives and research questions, and are not in importance sequence.

7.2 Audit function as an assurance provider

As indicated in the literature review, the audit profession has traditionally assumed the role of providing assurance only (IIA, 2013). However, literature review analysis revealed there is a view that audit profession should provide dual roles (Bou-Raad, 2000; Ramamoorti, 2003; Haas et al., 2006, as cited in Mihret & Woldeyohannis, 2008; PWC, 2015; Soh & Martinov-Bennie, 2015). Furthermore, Msiza (2011) affirms this by stating that management and the board expect auditors to be proactive and give a futuristic view of business by identifying risks which may arise in the future (as cited in Radasi & Barac, 2015). The analysis of literature shows that this expectation is possible through providing the consultancy role (PWC, 2015).

This study requested respondents to share perceptions on whether it is practical for the audit professionals to provide assurance and consultancy roles. The intention was to obtain perceptions on whether there is the need for auditors to provide dual roles. Respondents were of the view the need exists. The views further indicated that auditors have the capability to perform both roles. However, respondents expressed that providing dual roles increases exposure to conflict of interest. Respondents expressed behaviour and conduct of auditors as the primary reason for challenges experienced when providing these roles. Therefore, the suggestions are that it is necessary for auditors to have behavioural change. The result would be audit profession culture change, which is necessary for aligning to dual roles.

Respondents shared perceptions on how audit service providers could remain sustainable if audit provides assurance role only. The aim of the question was for respondents to elaborate on views of initial responses. The following demonstrates the responses:

“[Audit service providers] do not have to provide assurance services only but there is [a] need not to audit themselves when they provide consulting services.”

“[It is] high time that the auditor shift from traditional way of auditing, the auditor should be forward looking and agile in the way of doing things.”

“I don't think assurance [should] be only [role], there should be room for Consulting as well.”

“It is not easy; technology is moving fast. It remains incumbent upon audits to widen revenue streams in a manner that complies with statutes, standard and guidelines.”

From the quoted responses, it is evident that respondents are cognisant of the changing organisational environment and the need for evolution of the audit profession. Furthermore, the general view is that audit professionals do not need to provide assurance role only. However, there should be measures in place to identify and address potential challenges arising from the evolution.

The following responses support the notion that a culture change is necessary for the audit profession:

“[Audit service providers] should be audited regularly unlike [conducting] Quality Assurance being done after 5 years [only].”

“Audit [service provider] rotation.”

“[A]udit [service providers] [should] conduct the ethics and conflict of interest check[s] within themselves and the [auditors] to be involved in the project. [T]he chief audit executive should also consider repo[r]ting the results to the board.”

“[Audit service providers] should have lean structures or should be broken down, resulting is smaller stand-alone assurance and consulting firms.”

7.2.1 Audit failures

As indicated in the literature review, there are unintended consequences when providing dual roles. This research further reviewed the current state of affairs of the audit profession focusing on audit failures. The purpose of the question was

to determine view on any interrelatedness between providing dual roles and recent audit failures.

Majority of respondents agreed that auditors providing dual roles could be the reason for increased audit failures in South Africa. This view may appear to be a contradiction of the initial responses that audit professionals can provide dual roles. However, it supports the shared perception that the conduct of audit professionals is presents the challenge, and not necessarily providing dual roles in itself.

Respondents shared views on recent audit failures in South Africa and perceptions on other possible causes of recent audit failures. Respondents expressed:

"Business has become the [motivation] rather than [the] role of adding value as auditors."

"Failure by assurance providers and audit firms to [adhere] to best practices and code of ethics. Failure to resist the power of politics."

"Ethics no longer taken serious [ly] and the tone at the top play a huge role [in the conduct of auditors]. [Auditors] at lower levels are being led by seniors that are corrupt who are only after profit and money."

"Lack of ethical conduct and lack of disclosure from individuals that saw the discrepancies and cover-ups."

"[Profitability] of the audit firms affects audit reporting. The audit firms are paid by the same companies that they have to report."

From the above quotations, it is evident that respondents associated recent audit failures with factors other than solely providing dual roles. The prevalent response was the need for revenue, profit and therefore sustainability of the audit service providers. The business aspect of the audit profession appears to be a dominant factor of how the audit profession functions. The responses highlighted "*greed and corruption"* as a one of the possible reasons of audit failures. This view

supports the mentioned perception about conduct of the auditors, and not necessarily providing dual roles, being the reason for audit failures.

7.2.2 Strengthening the audit profession

This research reviewed secondary data to gather further insights into the findings of the empirical data. The review revealed the following details about the dynamics and challenges within the profession.

The findings of this research discovered that the IRBA faces external strategic challenges when implementing regulation. The main challenge is that the Auditing Profession Act, 26 of 2005 does not empower the IRBA to take action against misconduct (Accounting Weekly, 2018). An evidence of this, for example, is attempt by the regulator to implement the MAFR. The main purpose of the MAFR is to strengthen independence of the auditors, and improve auditor-client relationship (IRBA, 2017). The IRBA introduced the MAFR in December 2015 for organisations to disclose tenure of the auditors (Welch, Harber, & Minter, 2017). The MAFR affects all public interest entities (IRBA, 2016; IRBA, 2017). However, by 2017, 85% of companies of the 100 top largest companies listed on the JSE had not complied with the requirement (Welch, et al., 2017). It is, therefore, reasonable to suggest that lack of power for the IRBA to enforce regulation could be the reason for non-adherence to the MAFR.

Furthermore, this findings show views of some industry experts that the regulator has not considered the financial impact of the MAFR on the audit service providers (Accounting Weekly, 2018). The CEO of BDO mentioned that the MAFR does not consider the complexities of the audit profession environment (Accounting Weekly, 2018). The views indicate further possible reasons for non-adherence to regulation, namely lack of support from the industry. Studies show that the style implemented by the regulator to enforce oversight, influences compliance to regulation (Dowling, Knechel, & Moroney, 2018). The disadvantage of non-adherence to regulatory requirements is lack of credibility of audit quality (Welch et al., 2017). Therefore, it is crucial for the regulator and industry to cooperate to achieve effective and efficient regulatory environment. Based on this analysis, it is comprehensible to suggest that lack of cooperation

between the regulator and the audit profession could be contributing towards non-adherence to regulation.

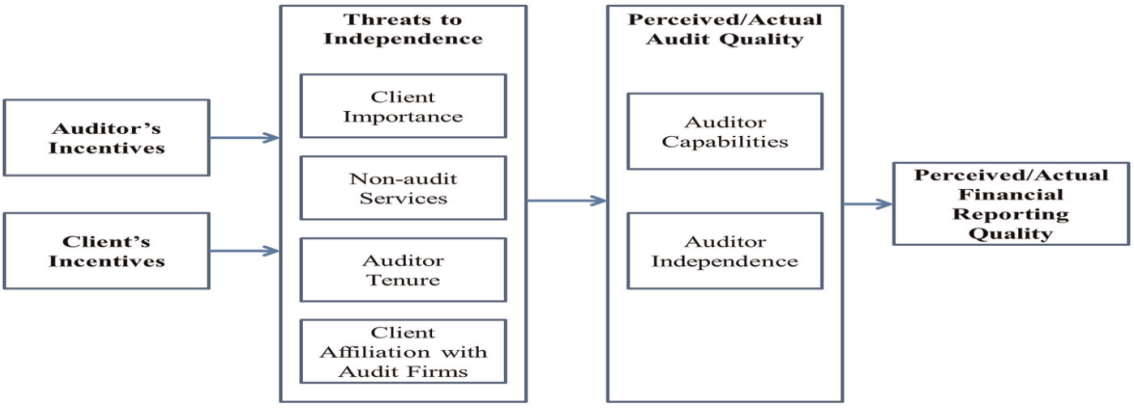
Based on the findings, regulation would be crucial to strengthen the profession. From the quoted responses above, respondents expressed lack of corrective action and punitive measures for misconduct as reasons for difficulties to provide dual roles effectively. Additionally, this research highlighted that the ethical conduct of the auditors is the cornerstone of the profession (The Global IIA Organisation, 2017). It is therefore, reasonable to suggest that, until recent audit failures, government and the regulator did not facilitate implementation of rigour regulation. The implication being an immature regulatory environment to address recent unethical conducts.

7.2.3 Independence

Tepalagul and Lin (2015) developed a framework to assess audit quality as a factor of auditor independence. Tepalagul and Lin (2015) reviewed previously published journals specific to the audit profession. The journals focused on views of the experts within the audit profession (Tepalagul & Lin, 2015). However, further studies indicated that organisations no longer perceive auditor independence as the only threat to audit quality (Dey, Robin, & Tessoni, 2012).

This research includes perspectives of respondents who are non-auditors. The empirical findings of this research presented similar views to the threats of independence framework. The framework below shows the threats of independence for comparison with findings of this empirical study:

Figure 4: Threats of independence framework



Source: Tepalagul and Lin (2015)

The findings of this study and the framework show threats to independence are crucial for audit quality. Furthermore, the findings show that there are unintended consequences resulting from non-audit services. Non-audit services occur when providing consultancy, and therefore relates to performing dual roles. The implication is affirmation that there are possible unintended consequences resulting from providing dual roles.

7.3 The changing role of audit and accountability thereof

Respondents expressed views on the changing role of the audit profession. As indicated on section 7.1, majority of respondents were of the view that audit professionals are capable of providing dual roles. Furthermore, respondents expressed that challenges experienced by providing dual roles relate mostly to the conduct of the audit professionals. The empirical findings demonstrate that conflict of interest underpins challenges experienced when providing dual roles.

7.3.1 Conflict of interest

Respondents shared views on possible resolutions for conflict of interest when audit performs dual roles. Respondents expressed that auditors could provide dual roles however, there should be measures in place to avoid and/or manage conflict of interest. The view was that segregation of duties could be amongst possible resolutions. This would be at individual auditor level, partner/director level, team level or audit service provider level. The following quotations state:

“The consulting services should only be on services that will not influence the financial reporting or information like projects. Tax, Annual Reporting, Performance information, etc. should be conducted by other audit service [providers].”

“Not providing assurance in areas where one has consulted. Furthermore, have an independent organisation assess possible conflict is being mitigated effectively where such arrangement exists.”

“The two roles should be performed by different teams; have peer review of work packages and sign-off by directors/partners.”

“[T]eams need to be changed on an ongoing basis.”

Some respondents stated different views, reiterating responses similar to previously asked questions. The following quotations illustrate the responses:

“Adherence to the timelines or gap between offering assurance and consultancy services.”

“Rotation of staff members. The Internal Auditor team that was responsible for assurance should not be responsible for consultation to eliminate conflict of interest.”

“Regulations should not allow the same audit firm to perform both assurance and consultancy (i.e. segregation of duties).”

“Strengthening the oversight governance bodies to ensure lines are not crossed.”

7.3.2 Accountability

As indicated in the literature review, the shift to dual roles raises the question of accountability for the auditors due to multiple reporting lines (Van Peursem, 2005; Lenz & Sarens, 2011). It is essential for auditors to be accountable to the authority that does not pose conflict of interest (Alleyne et al., 2006). Alleyne et al. (2006) emphasise that failure to have adequate accountability could result in impaired integrity and credibility of the audit opinion.

Based on the findings of this research, there is connection between conflict of interest, independence, accountability and credibility (Tepalagul & Lin, 2015). Conflict of interest results in concerns around auditor independence (Lenz & Sarens, 2011; PWC, 2015). Therefore, impairment of either element could affect the credibility of audit work. However, findings further indicate that auditors are not as concerned about maintaining independence as compared to non-auditors (Beaulieu & Reinstein, 2010, as cited in Tepalagul & Lin, 2015). A further indication that the behaviour of auditors and therefore, profession culture requires a change. However, the regulatory environment is currently not conducive to

adapt to the culture change. The findings of this research reveal challenges encountered when implementing regulation. The extent of the challenges, which affect the ability to hold auditors accountable for misconduct are as follows:

Based on the findings, registration with the regulator is currently not mandatory for practicing audit professionals and/or audit service providers (IRBA, 2018). As at quarter 1 of 2018, there were approximately 40 000 accountants in South Africa, however only approximately 4 500 were registered with the IRBA (IRBA, 2018). Furthermore, there are internal auditors, IT auditors and forensic auditors not registered with the IRBA. The findings suggest that having a high number of unregistered professional affects effective regulation enforcement. The implication is that the regulator would be unable to hold the unregistered auditors accountable for misconduct where necessary.

7.4 Ethical behaviour in relation to auditors and organisations

7.4.1 Ethical awareness

From responses presented in this analysis, respondents are of the view that there are ethical concerns arising from providing dual roles. Respondents expressed this view by indicating the conduct of auditors as the primary reason for challenges experienced when performing both roles. Additionally, respondents are of the view that those responsible for promoting ethical conduct are providing sufficient awareness. Respondents agreed that audit professionals are aware of good ethical conduct requirements. However, responses mentioned that auditors are not adhering to the requirements. Respondents shared perceptions on what measures the profession could implement to enhance ethical conduct:

“The professional bodies should engage in an intensive and effective drive to promote ethics and its importance thereof. Intervention such as consequence management should be consistently implemented (this could be in a form of the auditors involved in unethical behaviour, being charged with misconduct and their designations being forfeited).”

“The challenge is that audit [service providers] are paid by clients that [auditors] are auditing and that compromises independence. More awareness is therefore,

needed on how to remain ethical even though [auditors are] dependent on an income stream from the client."

"There should strong mandatory push from all the relevant audit bodies that ethics training should be compulsory at minimum of 2-4 hours CPD points per year. Auditors found in violation of ethical values should be held accountable and punished."

"The undertaking to comply with ethics should be taken annually with the relevant professional association. In addition, before undertaking an engagement, such undertak[ing] should be signed by auditors. It is also important to ensure registration with requisite professional bodies."

"Make ethics awareness compulsory (free) in organisations and not [facilitated] internally. A lot can be improved if there is a certain fee that organizations pay which contribute to allowing auditors [to] attend training unlike [training being optional]. [T]raining is very expensive to some of [auditors]."

"Stricter [punishment to] professionals that have crossed ethics line."

From the above quotations, it is evident that respondents are of the view that improvement is necessary to enhance ethical awareness and conduct. Furthermore, respondents reaffirmed the view that accountability of auditors is crucial to address misconduct. As indicated, the Global IIA Organisation (2009) emphasised that organisations expect auditors to uphold high ethical conduct as independent validators. The highlighted empirical findings indicate the impact of providing dual roles on ethical conduct of the auditors.

The 2017/2018 Global Competitiveness Report disclosed that ethical behaviour of South African organisations was ranked 72/137 (World Economic Forum [WEF], 2017). A ranking decline compared to 2016/2017 figures which indicated 36/138 rating (WEF, 2016). This finding indicates a significant decline in ethical conduct of South African organisations. It is therefore, probable that the ethical conduct of audit service providers is a reflection of the ethical condition of the organisations in the country.

7.4.2 Audit reputation

Respondents shared views on the reputation of the audit profession in South Africa. The aim of the question was to obtain perceptions about the extent of the effects of implementing dual roles and mentioned consequences on the profession. Respondents agreed that the audit profession in South Africa is tarnished. A comprehensible view considering recent audit failures. To obtain more insights, respondents shared views about possible corrective actions to restore the reputation of the audit profession. Responses varied and emphasised views shared in previous responses relating to ethical conduct, independence, conflict of interest and regulation:

"Integrity, honesty, good faith, biasness. Declaration of conflicts of interest, treating clients [fairly], not using information for personal gain."

"Auditors should walk the talk and set the right tone in executing audit, they should be able to stand firm and raise issues that are of significance. The professional bodies should work with corporates to restore the reputation of auditors."

"If auditors can conduct their work with integrity and professionalism. Not take bribes and be able to stand for their findings."

"Reporting issues as is. Problem is that tenders are not received the legit way thus resulting in a threat to independence."

"[F]requent rotation of auditors within a short period of time. I.e. the 5 year span be reduced to two years to avoid [issues] such as the impairment of objectivity or auditors losing their independence."

"Auditors should declare and rotate as much as possible. The role of a trusted adviser should be reviewed."

"Regulation, punishing, the visibility and influence of professional bodies. Self-obedience and compliance remains as the major source to motivate change."

“Openness, fairness in handling violations and restoring confidence in the market through offering the expected services as aligned to the regulations that we adhere to.”

“All [audit] firms be [reviewed] and audited regularly.”

“Punitive action taken against professionals found to be on the wrong side of the law and code of ethics.”

“[Strict] laws around declaration of interest, publication of any potential conflict of interest, and strong punitive measures for failure to adhere to laws governing conflict of interest.”

“If IRBA and SAICA take their regulatory roles seriously and take decisive action against unethical members. Stakeholder interactions and more clear rules for members.”

“Professional bodies should start to proactively investigate and hold unethical members accountable.”

From the above quotations, one can conclude that the threats to independence, as highlighted in this research, contribute to the reputation of the profession. Respondents further agreed that regulatory environment is crucial to restore the reputation of the profession. However, a further review of the secondary data relating to regulation revealed the following additional challenges the regulator encountered.

The findings showed that currently, focus is mainly on the audit profession when addressing issues relating to the auditing/accounting profession (Ratsela et al., 2018). However, industry experts advised it is crucial to widen the focus to all stakeholders (Ratsela et al., 2018). Further views are that the current state of the audit profession requires all stakeholders to be involved in strengthening regulation and oversight to eradicate corruption and misconduct (IRBA, 2018). The implication is that addressing challenges within the audit profession in isolation from other stakeholders when audit performs dual roles does not encourage collaboration. As the findings indicated the approach to implement

regulation impacts level of adherence (Dowling et. al, 2018). Therefore, cooperation between stakeholders is essential to implement changes relating to the profession as necessary.

Based on these findings, all stakeholders should be involved in implementing a reputable regulatory environment and changes relating to the profession. The findings suggest that organisations isolated audit due to its traditional role. However, evolution to dual roles necessitate a change is how organisations view the audit profession. Consequently, the respondents expressed the need for continuous ethics awareness to maintain and avoid impairment of the mandate of the profession when conducting dual roles, as quoted:

"Ethics awareness should be an on-going process and should not be promoted when it is ethics awareness month. On a monthly/quarterly basis, awareness could be done via an email or website of the professional body. Members should sign a form on an annual basis that they do comply with the code of ethics of their profession."

A further review of secondary data analysis around audit reputation showed that the IRBA acknowledged lack of sufficient resources to handle recent increasing audit failures (CFO South Africa, 2018). The challenges adds to the external difficulties based on the highlighted findings of this research. However, secondary data analysis indicated that government expects the IRBA to regulate the audit profession as per the mandate and urged the regulator to revamp the profession (CFO South Africa, 2018). Conversely, the IRBA requires resources from government to reinforce adequate capacity to carry out the mandate effectively (CFO South Africa, 2018). It is inarguable that government should provide necessary resources for the IRBA to deliver on its responsibilities. The implication emphasise the paradox expectations between government and the IRBA resulting in lack of collaboration, which could possibly impede restoring the reputation of the audit profession.

7.4.3 Enforcing regulation

This research has highlighted challenges the regulator encountered to enforce the regulation. Challenges include lack of power to administer punitive measure

against auditors/accountants accused and/or found guilty of misconduct (Ratsela et al., 2018). The findings revealed that aspiring auditing/accounting students pursue the profession due to the “nobility” associated with the profession (Ratsela et al., 2018). This research indicated that ethical conduct is crucial for stakeholders to trust the profession. Therefore, inability to enforce regulation could affect perceived credibility of audit work. Secondary data analysis indicated the following in an effort to enforce regulation:

Audit professionals and professional bodies should take accountability for the current state of the profession to address current wrongdoings (Ratsela et al., 2018; IRBA, 2018). This research show that the profession need to implement unprecedented actions as the profession is experiencing extraordinary crisis (Niselow, 2018). Industry experts attest that state of affairs of the audit profession has changed (IRBA, 2018). Furthermore, industry experts emphasise that, auditors should be prepared to ask difficult questions to address the challenges (Ratsela et al., 2018). Based on the findings, one can suggest that until recent audit failures, the regulator and government did not prioritise enforcing regulation. However, the findings of this study suggest there is the need for adequate implementation as emerging organisation and profession changes reveal undesirable unintended consequences. The findings reveal that some industry experts have referred to the consequences as “unethical and possibly criminal” activities (Whitfield, 2018, para. 3).

7.5 Conclusion

Based on the findings of this research, one can conclude that there is the need for the audit profession to provide both the assurance and consultancy roles. This reaffirms attestations that dual roles are necessary to provide proactive value-add role to organisations and remain sustainable (Bou-Raad, 2000; Ramamoorti, 2003; Haas et al., 2006, as cited in Mihret & Woldeyohannis, 2008; PWC, 2015; Soh & Martinov-Bennie, 2015). The findings further affirms attestation that there are unintended consequences when providing dual roles (Van Peursem, 2005; Lenz & Sarens, 2011; Elias, 2008, as cited in Gold et al., 2018). The practicality of providing these dual roles depends on how the stakeholders address unintended consequences and challenges highlighted.

Inadequate regulatory environment and consequently, lack of punitive measures for misconduct, affect the conduct of the audit professionals. The industry experts echoed this view when discussing recent audit failures and challenges within the profession (Ratsela et al., 2018; CFO South Africa, 2018; IRBA, 2018). The view is that there is lack of collaboration between relevant stakeholders (Ratsela et al., 2018; CFO South Africa, 2018; IRBA, 2018). Lack of collaboration affects the stability of the regulatory environment, which affects the reputation of the profession.

Furthermore, findings show that conflict of interest increases when audit provides dual roles. The findings suggest criminal and ethical elements pose a threat to the credibility of the profession. Respondents mentioned greed and corruption amongst reasons for audit failures. The WEF (2017) findings suggest that a decline in ethical conduct of South African organisations could be possible reflection of the ethical conduct of the profession.

8. CONCLUSIONS AND RECOMMENDATIONS

8.1 Introduction

This section presents conclusions and recommendations of this research divided into conclusions of the study, recommendations research limitations and suggestions for further research.

8.2 Conclusions of the study

The findings of this study emphasise familiar postulations and presents informative suggestions for stakeholders, including policy-makers. The known factors relate to conflict of interest, independence and audit tenure/rotation. The study reveals how these factors affect the industry in the current changing organisational and professional environment.

Based on the findings, there is the need for the audit profession to redefine the role of audit. There are, however, emerging unintended consequences of performing these roles. The findings further suggest that auditors are capable of

performing these roles. However, the profession does not measure the benefits of providing consultancy role. An assessment of Porter's 5 model, reveal that there is intense competition within the industry. Audit profession becomes compelled to expand income streams to remain sustainable while also pursuing its mandate.

The findings show behaviour of the auditors as the primary reason for emerging unethical behaviour. Additionally, providing dual roles increases exposure to conflict of interest. The findings suggest that despite dual roles consequences, the conduct of auditors is the reason for unethical behaviour. The conduct of the auditors is possibly a reflection of the culture of the profession. A culture change is consequently, recommended to adapt to the profession changes.

According to the findings, providing dual roles heightens conflict of interest, and therefore, undesirable unintended consequences. With independence being the cornerstone of the profession, avoiding and/or managing conflict of interest is crucial for the profession.

The findings suggest that government and the regulator overlooked implementation of regulation. As a result, the regulatory environment is unable to manage professional changes presented by consequences of providing dual roles adequately. The unintended consequences are a result of evolution of the profession, continued organisational changes due to innovation and technology agility, and ethical and criminal elements. The findings suggest that corruption and greed could be aggravating the mentioned elements. The evidence of this view is suggestions that ethical and criminal elements of South African organisations could be possible contributors to the same elements within the profession. Based on the findings of this research, it is reasonable to conclude that the audit profession faces a challenge of balancing profit making and pursuing its mandate.

8.3 Recommendations

The Porter's 5 model indicates the need for the audit profession to provide assurance and consultancy roles to keep up with organisational requirements

and remain sustainable in a competitive business environment. The audit profession should consider implementing a methodology to assess providing consultancy role. The methodology should examine the extent of the need to provide consultancy, the benefits of this role and identify gaps for corrective action. Assessment should be regularly to keep up with rapid organisational and professional changes.

The audit profession should adapt a culture change to address behaviour of the auditors. Government, regulator, oversight bodies and auditors should be part of the process to ensure effective culture change. To address challenges from all perspectives, it is crucial to involve all stakeholders when addressing the current issues affecting the audit profession. Furthermore, to address conflict of interest, there should be monitored segregation of duties at auditor, partner/director, team and service provider levels.

Proven by the existence of regulation but no power to implement, government needs to empower the regulator to provide oversight and take corrective action against misconduct. To avoid highlighted internal and external challenges when implementing regulatory changes, the regulator should implement regulatory changes in cooperation with policy-makers and the audit profession. Government should empower the regulator with authority to enforce punitive measures and provide resources capacity for the regulator to deliver on its mandate. This recommendation would likely address the possible ethical and criminal elements concerns highlighted by the findings.

8.4 Research limitations

Exploratory research uses modest samples therefore, findings cannot be generalised (Research Methodology Net, 2018). The empirical findings represent views from limited auditors and non-auditors.

The researcher sought the aid of the IRBA to collect data, however, time limitations and extended response delays resulted in collecting data independently.

Limitations do not negate the importance of this research, but provide basis for further research. This research addressed the intended purpose of providing emerging insights and furthering discussion on the topic.

8.5 Suggestion for further research

To understand the current socio-economic factors affecting organisations and the audit profession better, there is a need to review the correlation between unethical and/or criminal acts of auditors and those of South Africans at large. This can provide insights into the extent to which unethical and/or criminal acts contribute to audit failures as compared to the consequences of the organisational and professional changes.

The significance of having a stringent regulatory environment for the audit profession cannot be minimised. There is a need to review the ability of the regulators and professional bodies to enforce regulation, to identifying gaps.

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APPENDIX A: QUESTIONNAIRE

Q1 What is your current job position or job role?

_____

Q2 How many years have you been employed?

- ○ 1-4
- ○ 5-10 years
- ○ 11-15 years
- ○ 16-20 years
- ○ Over 20 years

Q3 Are you a registered Auditor/Accountant?

- ○ Yes
- ○ No

Q4 If you are **not** currently working as an Auditor/Accountant, do you interact with Internal and/or External Auditors in your job position or role?

- ○ Very likely
- ○ Likely
- ○ Neutral
- ○ Unlikely
- ○ Very unlikely
- ○ Not applicable

Q5 If you are **not** a registered Auditor/Accountant, have you ever interacted with Auditors in your previous job positions and/or roles?

- ○ Yes
- ○ No
- ○ Not applicable

Q6 How strongly do you think Auditors in South Africa consider good ethical conduct in carrying out their mandate of providing independent opinion?

- ○ Extremely strong
- ○ Very strong
- ○ Moderately strong
- ○ Slightly strong
- ○ Not at all strong

Q7 Do you think knowledge and awareness of good ethical conduct could result in good conduct by auditors?

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree
- ○ Strongly disagree

Q8 Professional bodies and other parties responsible for ethics awareness are doing enough to promote awareness.

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree
- ○ Strongly disagree

Q9 What measures do you think should be implemented to promote ethics awareness and implementation within the profession?

_____

Q10 The shift from only assurance provider to dual assurance and consultancy roles has resulted in ethical misconduct, including audit failures, for the Audit professionals in South Africa.

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree
- ○ Strongly disagree

Q11 Audit professionals can provide dual roles of assurance and consultancy, without compromising their integrity.

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree
- ○ Strongly disagree

Q12 Providing dual roles of assurance and consultancy increases audit failures.

- ○ Strongly agree
- ○ Agree
- ○ Neither agree nor disagree
- ○ Disagree
- ○ Strongly disagree

Q13 What do you think could be reasons for recent audit failures in South Africa?

_____

Q14 What do you think could be a way to resolve possible conflict of interest when the two roles i.e. assurance and consultancy, are offered by the same Audit service provider?

_____

Q15 How else do you think Audit firms can be sustainable if they provide assurance services **only**?

_____

Q16 Do you think the reputation of the Auditors and/or audit profession in South Africa is tarnished?

- ○ Yes
- ○ No

Q17 In your opinion, what would restore the reputation of Auditors and/or Audit profession in South Africa?

_____