Enhancing Internal Audit independency, objectivity and effectiveness in South Africa

Course Name: Applied Research Project

Course Code: BUSA 7417A

Supervisor: Dr Stanley Mpofu

By: Nkosinathi Eric Khumalo

Student Number: 1271744

ENHANCING INTERNAL AUDIT INDEPENDENCY, OBJECTIVITY AND EFFECTIVENESS IN SOUTH AFRICA

Nkosinathi Eric Khumalo

Wits Business School, RSA

ABSTRACT

The purpose of the study is to review the second addition of Internal Audit Framework published by National Treasury of South Africa; which stipulates minimum guidelines for the establishment and operation of internal audit function in the public sector. The focus of the study is on the establishment and functioning of the internal audit in State-owned Entities. The findings and recommendations identified during the study are the basis for amending the framework. The internal audit function has a vital role to play in the enforcement of good corporate governance within State-owned Entities. This role can only be fulfilled if an internal audit is independent and objective. The independence and objectivity of the internal audit is largely influenced by the reporting lines. The Internal audit should functionally report to the Audit Committee, which is a sub-committee of the accounting authority/board of directors. The audit committee should be independent from management of the State-owned Entities, to ensure they assist the accounting authority to exercise its oversight over the integrity of the annual financial statements and the effectiveness of assurance functions within the institution. The accounting authority should appoint members to the audit committee. One of the members of the audit committee should

be a finance expert. Management should not recommend nor be involve in the appointment of audit committee members. The Audit committee should be responsible for the appointment of the Chief Audit Executive and setting up of his/ her job description on which performance reviews will be conducted on a periodical basis. The Audit committee should approve the internal audit charter and annual internal audit plan. Audit committee should periodically review the feedback on internal audit activities and obtain a confirmation from the Chief Audit Executive that the internal audit activities are independent. The independency of an internal audit is the freedom from unwarranted influence, it enables internal auditors to be objective and apply impartial, unbiased attitudes and professionalism when performing internal audit activities, which leads to the effectiveness of the internal audit function that is measured by the value it is adding to the organisation.

I. INTRODUCTION

A. Purpose of study

The purpose of the research was to review the second edition of the Internal Audit Framework that was issued by the National Treasury of the Republic of South Africa. This framework stipulates minimum guidelines that should be implemented in the establishment and operation of the internal audit function within the South African Public Sector. The findings and recommendations of the research will be used as the basis to review and updating the current Internal Audit Framework.

B. Context of study

The establishment of the internal audit function and audit committee in a State-owned Entity is a statutory requirement in South Africa. It is enforced by section 51 (1) (a) (ii) of the Public Finance Management Act number 1 of 1999, which states that the accounting authority must establish a system of internal audit under the control and direction of an audit committee complying and operating in accordance with regulations and instructions prescribed in terms of section 76 and 77. Section 76 (4) (d) and (e) state that National Treasury may make regulations or issue instructions applicable to all institutions to which the Act applies concerning the audit committee, their appointment and their functions. Section 76(4) (e) states that the National Treasury may make regulations or issue instructions applicable to all institutions to which this Act applies concerning internal audit components and their functioning. Section 77 (a) states an audit committee should consist of at least three members, one of which should be from outside the public service. Most of the audit committee members may not be employees of the entity except on the approval of the National Treasury. Paragraph 27.1.1 and 27.2.1 of the National Treasury Regulation: PFMA further enforce the requirement of the establishment of internal audits under the supervision and direction of the audit committee.

The reporting lines of the internal audit function of the State-owned Entities in South Africa are stated in the Publish Finance Management Act. The Act states that a system of internal audit, should be under the control and direction of an audit committee.

Thus, it is a statutory requirement in the State-owned Entities that the internal audit function should report to the audit committee. The reporting lines of the internal audit function are critical in ensuring the independency, objectivity and effectiveness of the internal audit function and promoting good corporate governance. Reporting lines are the foundation for the effective internal audit function.

C. Problem statement

The 2nd edition of the Internal Audit Framework states the audit committee members must be appointed by the Accounting Officer (Chief Executive Officer) in consultation with the Executive Authority. This is in contradiction to section 51 of the Public Fund Management Act which states the appointment of the audit committee is the responsibility of the Accounting Authority (Board). Furthermore, this has a negative impact on the independence and objectivity of the audit committee members because ultimately the Chief Executive Officer is their boss or superior through his/ her power to appoint or remove members of the audit committee. The framework states the audit committee must assist the Chief Executive Officer in effective execution of their responsibilities which is not in line with King IV Report on Corporate Governance in South Africa, which states the audit committee must assist the board in exercising an oversight role over the integrity of the annual financial statements and the effectiveness of the assurance functions in the organisation.

Since the audit committee is statutory tasked to supervise and direct the internal audit function in the State-owned Entities, the independence and objectivity of the internal audit function is largely dependent on the independence of the audit committee members.

Though the framework derives its mandate from two legislations, namely Public Finance Management Act No.1 of 1999 and Municipal Finance Management Act No. 56 of 2003, it is not compulsory for State-owned Entities to comply with or adhere to its provisions and guidelines when establishing and operating the internal audit function. Thus the compliance to the guidelines of the framework are not enforceable.

D. Significance of study

KINGIV Report on Corporate Governance in South Africa defines corporate governance as an exercise of ethical and effective leadership by the governing body/ accounting authority toward achievement of an ethical culture with good performance and effective controls. The primary role and responsibility of the board of directors is the accountability of an organisation's performance by means, amongst others, of reporting and disclosure. The corruption and looting of public funds by some government officials is the root cause of government failure to meet the expectations of millions of South Africans. The Judicial Commission of Inquiry into State Capture revealed there was major political corruption that took place during President Zuma's era in South Africa. South Africa implemented different platforms that are dealing with fraud and corruption in government activities like Office of the Public Protector, Special Investigation Unit and Directorate for Priority Crime Investigation (HAWKS) just to mention a few. Furthermore, fraud and corruption activities has been criminalised through Prevention and Combating of Corruption Activities Act number 12 of 2004. Though there are different programmes dealing with fraud and corruption prevention, there is insufficient coordination of anticorruption programs in South Africa which mandate the government to review the adequacy and effectiveness of corporate governance in State-owned Entities.

The Institute of Internal Auditors defines internal audit as an independent, objective assurance and designed to add value and improve an organisation's operations. It helps an organisation to achieve its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes. An internal audit is required to be independent and objective. The customers of an internal audit are stakeholders inside and outside the organisation that place reliance on internal audit activities and reports, namely board of directors, external auditors, management, employees, suppliers and customers. These stakeholders have their own expectations from the work of an internal audit, some of their expectations are documented some are not documented. An internal audit charter is a formal document that defines internal audit purpose, authority, responsibilities and position within the organisation. It is important to document the role and responsibilities in the internal audit charter. The table below has each stakeholder's expectations from internal audit activities.

Table I. Stakeholder's expectations		
No	**Stakeholder**	**Expectations**
1	Board members	In order for the board to exercise adequate oversight over the performance of the organisation They want to know the effectiveness of the organisation's risk management, internal controls and governance. According to the CBOK study, two in three board members believe an internal audit should have a more active role in evaluating the organization 's strategic risk. Furthermore, they are interested in knowing whether the organization will accomplish its set objectives. They expect the internal audit will assist them to track both strategic and operational risks. They also expect that then internal audit will lead and steer combined assurance which is the coordination between different assurances providers within the organisation.
2	External Auditors	External auditors are seeking to place reliance on internal audit works. They are required to assess the effectiveness of the internal controls in the organisation. They want to review and assess internal audit activities in order to establish whether they can place reliance on the internal audit reports because it

Table I. Stakeholder's expectations		
No	**Stakeholder**	**Expectations**
		provides feedback on the adequacy and effectiveness of internal controls.
3	Management	Management expects an internal audit to assist them to prepare for the external audit. They measure the value of the internal audit by the amount the organisation is saving from the external audit fees. They want to use the internal audit as the trouble-shooter for their frustrations through consulting assignments and special management requests.
4	Employees	The employees expect specialist advice from an internal audit, they want internal audit recommendations that will resolve their problems. They are expecting business solutions from the internal audit recommendations. They want internal audit recommendations that are cost effective.
5	Suppliers and Customers	The service providers are expecting internal audit to report any issues that are related to noncompliance with Preferential Procurement Policy Framework Act and other relevant procurement regulations. They expect internal audit to be independent from management, they rely on the objectivity of

Table I. Stakeholder's expectations		
No	**Stakeholder**	**Expectations**
		internal audit to report to the audit committee and the board unjust issues without fear or favour. The customers are concern about the going concern of the organisation, they worry about whether the services that are receiving will still exit in future. They expect internal audit to included strategic review project in their activities and report to the board all risks that are threatening the achievement of strategic objective and the internal controls implemented by management to mitigate those identified strategic and operational risks.

All the above expectations are controlled and governed in the internal audit by means of the Internal audit charter which should be reviewed on an annual basis.

E. Limitations of study

The geographical scope of the study was all provinces in South Africa. The research questionnaire was distributed to all members of the Institute of Internal auditors South Africa (IIASA) through its January 2019 Newsletter. The demographics questionnaire was included in the survey questionnaire to establish the experience and qualifications of the participants with regards to the internal audit profession.

Some of the questions in the survey included an option for the participant to add comments to inputs obtained from professional internal auditors that are practising internal audits and their practical experience on the issues that affect their independence, objectivity and effectiveness. This is supplemented by the literature review. Furthermore, the study reviews the impact the reporting lines of the internal audit function have on the independency and objectivity which later affect the effectiveness.

F. Definitions of terms

The Public Finance Management Act Number 1 of 1999 defined the following terms as follows

- Accounting Authority (AA) means the board or controlling body of the institution as per section 49(2)(a) of the Act.
- Accounting Officer (AO) means the Chief Executive Officer of the institution as per section 36 (2) (b) of the Act.
- Executive Authority (AE) means the Cabinet member who is accountable to Parliament for that public entity as per the definitions of the Act.

The Chief Audit Executive is a person that is leading the internal audit function.

G. Assumptions

The follow are the assumptions of the study:

- All participants will answer survey questionnaire truthfully and to the best of their knowledge.
- The number of responses is the true representative sample of the opinion for the population.
- All participants have sufficient knowledge to respond to the survey questionnaire.

II. LITERATURE REVIEW

A. Introduction

The literature review focused on the independency and objectivity of an internal auditor; the review explores what constitutes objectivity and linked it to independence. The internal audit reporting lines in an organisation were also reviewed and their impact on the independence and objectivity. The scope of the internal audit in the organisation including their participation in risk management, fraud prevention and investigations and impact on the effectiveness of internal audit was reviewed. The review was closed by inspecting the possibilities of proactive assurance after considering a National Treasury instruction note that said all tenders above R10 million should be audited by internal or external auditors before the contract is awarded to the successful bidder. The internal audit plays a vital role in assisting the board of directors to discharge their governance responsibilities, it is the eyes and ears of the board on the ground. The independency and objectivity of internal audit is there critical in corporate governance process.

B. Audit Committee

The Audit committee is a sub-committee of the board of directors and is responsible for exercising oversight on the integrity of the annual financial statements and effectiveness of assurance services within the institution. It is the corporate governance mechanism that constrains the behaviour of corporate managers (D. Chambers, 2014). Auditee committee review the annual financial statement, supporting documents, processes and internal controls implemented by management to ensure accuracy, completeness and validity of the financial information. Furthermore, audit committee assess the adequacy the combine assurance process within the organisation. In South Africa the audit committee is statutory responsible to direct and supervise internal audit function in the public entities. The close relationship between the internal audit and audit committee is the fundamental principle for sound corporate governance (Munro, Stewart, & Finance, 2010).

The Audit committee is charged with the responsibility of oversight over finance and operational information of the organisation. The internal audit is responsible for evaluation and monitoring the effectiveness of risk management, internal control and governance processes. It is expected that the audit committee will be associated with the extent of investment in internal auditing (Barua, Rama, Sharma, & Policy, 2010). The tone from the audit committee regarding seriousness of internal audit function will improve the effectiveness of internal audit function.

The independency of the audit committee members is crucial in providing protection to auditors (Bronson, Carcello, Hollingsworth, Neal, & Policy, 2009). The independence is defined as not having a relationship which would interfere with exercising independent judgement in carrying out the functions of the committee (Goodwin & Yeo, 2001). The success of the audit committee is also related to the personality of the audit committee members (Kalbers & Fogarty, 1993). The chairperson of the audit committee should create a working relationship with the Chief Audit Executive. They should meet on a regular basis and discuss governance and operational issues. This may also include informal interaction between audit committee and internal audit function (Zaman & Sarens, 2013). Another role of the audit committee is to review management responses toward internal audit findings and recommendations (Alzeban, Sawan, & Taxation, 2015). In excessing this function, the audit committee will ensure issues that are raised by internal audit are taken seriously by management and are addressed. The audit committee relies on internal audit for information concerning corporate activities (Rahim, Johari, Takril, & Finance, 2015). It is the responsibility of the internal audit to state the areas in which audit committee procedures can be strengthened (McMullen & Raghunandan, 1996). The Internal audit should also include follow up reviews in their annual audit plan; the follow up report should be tabled at the audit committee meeting so the audit committee can assess whether the reported findings were resolved to avoid repeating findings.

There is significant relationship between the quality of financial reporting and the quality of the audit committee (Rainsbury, Bradbury, Cahan, & Economics, 2009). Since the main responsibility of audit is the approval of annual financial statement. One member of the audit committee must have recent and relevant financial expertise (Ghafran & O'Sullivan, 2017).

Furthermore, to ascertain independence of the audit committee, the chairperson should be appointed by the Board of directors. The chairperson of the audit committee should be an independent nonexecutive member. The chairperson of the Board should not be appointed as the chairperson of the audit committee in order to strengthen independence, objectivity and transparency. The audit committee is required to disclosed the annual financial statements their views on the weaknesses and effectiveness of the design and implementation of financial internal controls to identify and prevent financial losses, fraud and errors. Effective Internal audit function should assist audit committee to accurate assess the financial internal controls to said disclosure requirement.

C. Structuring internal audit

There are three different forms in which the internal audit service can structured in the organisation; namely, in-house, outsourced or co-sourced. The in-house internal audit service is when all internal audit personnel are employed by the organisation and the Chief Audit Executive is part of Executive Management. The advantage of an in-house internal audit function is that it creates a hub of business knowledge within internal audit function. The internal audit is unusually informed and knows the burning issues within the organisation. The shortcoming is the independency of the function that sometime appears to have been compromised. The Chief Audit Executive in the in-house function is required to continuously check their roles when responding whether of management or independent assurance provider.

An outsourced internal audit service is when the external service provider, usually an audit firm, is performing internal audit reviews in the organisation. This firm normally has their own independent office and they visit the organisation to perform internal audit reviews on a continuous basis throughout the year. The advantage of outsourcing the internal audit service is that the external auditors tend to place reliance on the work of the internal audit which results in less external audit fees. When the internal out is outsource to the audit firm the financial statement review can be performed by the firm using the expect in financial statement (Abbott, Parker, & Peters, 2012) which will immediate add value to the business because the external auditor will place reliance to the expects 's work and reduce their budget by the amount of money that was allocated to financial statement review. The independence of the internal audit is less at threat when compared to the in-house audit function. The shortcomings of this set up are the lack of business knowledge, outsource internal auditors are not aware of burning issues in an organisation, and they rely on tip-offs from employees and management. These audit firms are operating in the private sector and have their own methodologies and ethical standards, which prevent a political chain whereby the internal audit reports to a senior level bureaucrat who report to cabinet ministers who may use their political influence against the independence of internal auditors (Neu, Everett, & Rahaman, 2013).

The last structure of an internal audit function can be co-sourced, both in-house and outsourced internal audit services work together to complete an annual internal audit plan. The Chief Audit Executive should be an employee of the organisation. The advantage of this system is that the Chief Audit Executive forms part of executive management, thus he or she has in-house business knowledge and is aware of burning issues at the same time he or she has the advantage to outsource the review that might compromise his or her independency and objectivity. Another advantage of co-sourcing is the availability of a pool of resources with different recent and relevant expertise. This form of structure ensures that the skills within internal audit function is dynamic and agile to appropriately respond to the changing environment.

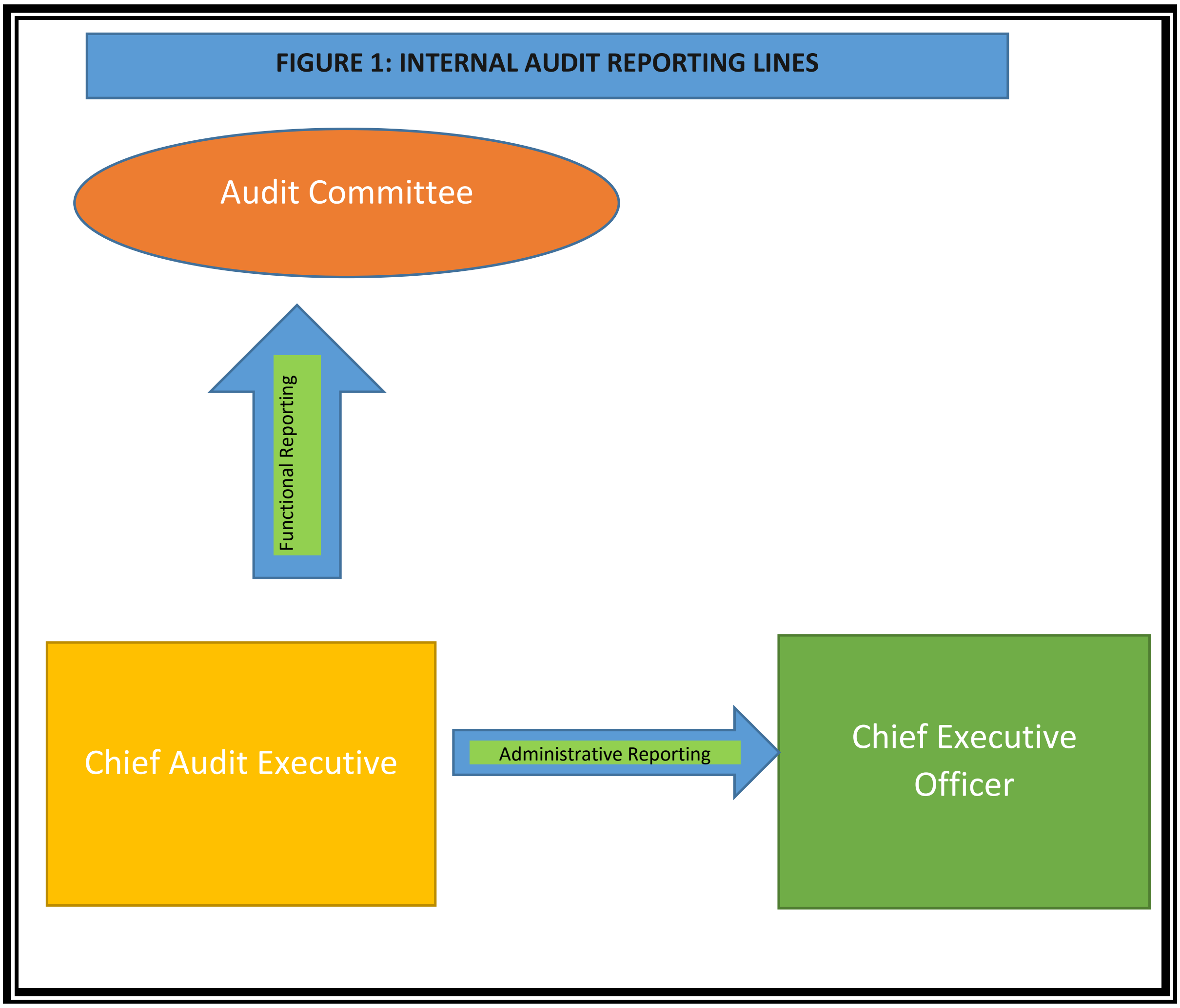
D. Internal audit independency

The Internal Auditing Attribute Standard 1100 states the internal audit activities must be independent and internal auditors must be objective in performing their work. Independency is defined as freedom from the environment that threatens the ability to perform internal audit activities in an unbiased manner. To achieve independence of the internal audit, the Chief Audit Executive should have unrestricted access to senior management and the board. Internal audit independence is to act with integrity and exercise objectivity and professional scepticism (Kurniawati & Karunia, 2018).

There are three components of professionalism; namely integrity which refers to high standards of achievement and conduct, competence which refers to having training and education to be able to add value through performance and lastly due care which refers to the use of skills and expertise to ensure a high standard of quality is produced in each assignment (Mutchler, 2003). Internal Auditing Standard 1110 states that the Chief Audit Executives must confirm at least annually to the board about the independence of internal audit activities; he must communicate and interact directly with the board. The Chief Audit Executive should have dual reporting; he should report functionally to the audit committee and administratively to the Chief Executive Officer (Mulugeta & Gebrehiwot, 2008). The organisation will obtain the maximum return on internal audit investment if the Chief Audit Executive is reporting to the highest possible level (Paape, Scheffe, & Snoep, 2003).

Many investors want the Chief Audit Executive to report directly to the Audit committee and not to the Chief Finance Officer or Chief Executive Officer (Norman, Rose, Rose, & Society, 2010). Functional reporting refers to the approval of the internal audit charter and internal audit plan; feedback on internal audit activities performed; appointment and removal of the Chief Audit Executive and review of any inappropriate scope or resources limitations. Administrative reporting includes amongst other personnel administration, internal communication, budgeting and management accounting.

The figure below shows the Chief Audit Executive dual reporting lines:



E. Internal Audit objectivity

Objectivity is a mental attitude, which together with upholding high ethical values that allows internal auditors to perform their work with professional due care. While independence of internal audit focus on the environment on which internal auditors operate, objectivity focus on the independence of the minds of internal auditors. Objectivity is the heart of an auditor's value to society to provide an unbiased opinion on the process being audited. The objectivity of an internal audit is displayed by the highest level of professionalism when gathering, evaluating and communicating information about activities and processes reviewed (Stewart & Subramaniam, 2010). Internal auditors must avoid any form of conflict of interest. Where there is a conflict of interest, they must report immediately to their superior and excuse themselves from performing the audit. The will ensure that the internal audit is independent and also it appears to be independent. It is the responsibility of the Chief Audit Executive to disclose the conflict of interest to all relevant parties. A conflict is when the internal auditor has a personal interest in the activity or process. Conflicts of interest are a threat to the objectivity and unbiased attitude of the internal auditors. Therefore, internal auditors should avoid participating on any activities that might result in the conflict of interest.

F. Internal audit Effectiveness

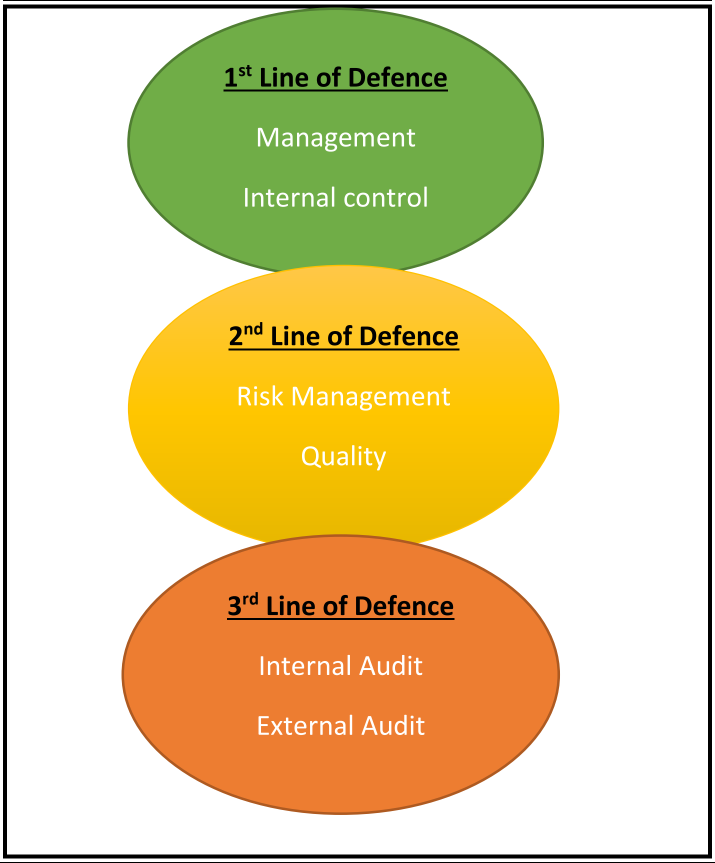
The internal audit effectiveness is measured by the value it is adding in the organisation (Mihret & Woldeyohannis, 2008). Though in most case it is not easy to account the value in terms of money; the decrease in external audit fees is one area where internal audit value can be seen in the budget of the organisation. The South African National Treasury issued an instruction note on enhancing compliance monitoring and improving transparency and accountability in supply chain management. Paragraph 3.5 of this instruction note states that all tenders above R 10 million should be audited by either internal or external audit and the certificate of compliance to all relevant regulations must be issued by internal audit/ external audit before awarding a contract to the successful bidder. The advantage of this process is that all non-compliances are identified before awarding a contract; thus public institutions are saved from litigation claims. This instruction is a calling for proactive assurance by investors and this is the area that still needs further research because it seems like the Fourth Industrial Revolution era requires information to be upfront to make informed decisions, which might lead to both internal and external auditing becoming irrelevant.

G. Combine assurance and three lines of defence

An organisation uses a number of assurance providers for example income tax consultants, external auditors, quality assurance, internal audit, fraud specialists, risk assessment specialists just to mention a few. They all provide different opinions to assist the board in exercising oversight on operations and finances of the organisation. Both board and management can suffer from an assurance fatigue and assurance gap that leads to inefficient reporting to the governing body (Decaux & Sarens, 2015). Combine assurance is a concept that promotes the coordination of different assurance service providers in the organisation to ensure there is minimal duplication and there is an alignment of overlapping services. The Internal audit as the trusted internal assurance providers is tasked by the audit committee to steer the combine assurance process. Management also play an important role in ensuring this concept of combine assurance is a success in the organisation.

The concept of three lines of defence is critical in corporate governance, it assists the board to perform its mandate of oversight and to perform cross checks on the reports from different lines of defence. The Institute of Internal Auditors issued a Position Paper on the three lines of defence that discussed its impact on effective risk management and internal control. Management is the first line of defence, they are the owners of the process and activities in the organisation. The board consider reports from this line as the true reflection of what is happening from operations of the organisation. The second line of defence provides the board additional information regarding operations and the progress of the organisation's strategy. It further provides the possible risks that might hinder the organisation from achieving its objectives and the process implemented by the first line of defence to mitigate identified risks. Risk management, security and quality assurance form part of the second line of defence. The third line of defence provides the board with the assurance of the validity, accuracy and completeness of information provided by both first line and second lines of defence. It is critical for all these three lines of defence work independently so that none become a referee and player at the same time and for the board to be able to perform cross-checks to achieve a high level of oversight. The graph below depicts the relationship of these lines of defence

FIGURE 2. THREE LINES OF DEFENCE



H. Internal Audit and Corporate governance

Since investors are not involved in the day to day operations of an organisation, they place their reliance on the information disclosed in the annual report. Corporate governance is the key element in enhancing investor's confidence (Florea & Florea, 2013). There is a strong increase in the disclosure requirement for matters related to corporate governance; the demand for internal assurance has since also risen. the internal audit is in the best place to provide such assurance, it is an integral component of the corporate governance mosaic (Soh & Martinov-Bennie, 2011). Effective corporate governance protects the interests of stakeholders of the organisation (Barac

& Van Staden, 2009). An internal audit should monitor issues related to ethics and corporate governance. The scope of internal audit activities should include reviews related to strategy and an organisation's predetermined objectives (Bariff, 2003). The term risks, risk identification and risk management are central to corporate governance and are linked to the idea of internal control (Spira, Page, & Journal, 2003). Shareholders of an organisation need protection from the management of the organisation because there is a risk, management may not act in the best interests of the shareholders (DeZoort, Hermanson, Archambeault, & Reed, 2002). The internal audit provides an independent assurance to the audit committee and board whether the decision and internal controls implemented by were adequate and effective to mitigate identified risk, this assist the board to establish whether management acted in the best interest of the shareholders.

I. Internal Audit and Risk management

Risk means, what could go wrong? It is important for the board of directors to identify risks threatening the strategy of an organisation. The strategic risk register has a list of high-level risks that might impact the achievement of strategic goals and in the operational risk register, risks are recorded that will affect negatively the operation when they materialise. The Institute of Internal Auditors recommends that internal auditors should apply risk based internal audit methodology. In this methodology the focus of internal audit activities is on the high-risk areas in the organisation. When compiling the annual and three year rolling internal audit plan, the Chief Audit

Executive should consider both Strategic and Operational risks. The annual audit plan should include reviews of internal controls implemented by management to mitigate identified operational and strategic risks (Fernández-Laviada & Compliance, 2007). One of the recommendations of the Ludwing report was a thorough review of the risk management architecture and the working of both internal audit and risk management functions (Dunne & Helliar, 2002). In most cases the internal audit resources are allocated in areas which are considered to have material risks (Allegrini & D'Onza, 2003).

J. Internal Audit and fraud/ corruption investigations

Internal auditors should not be fraud specialists, but they are expected to perform their audit in the form that would detect fraudulent activities in the process. Fraud is defined as wrongful or criminal deception intended to result in financial personal gain. It is an intentional act that results in the misstatements of financial reporting or misappropriation of assets. Internal auditors can be the main line of defence against fraud in an organisation (Hillison, Pacini, & Sinason, 1999). The increase in corruption and fraudulent activities in an organisation has resulted in investors referring to internal auditors as goalkeepers that failed (Chambers & Odar, 2015).

K. Conclusion of literature review

The research propositions below are based on the literature that was used to formulate the survey questionnaire, which was distributed electronically to members of the Institute of Internal Audits South Africa, to complete and provide professional and practical comments on the issues that affect independence, objectivity and effectiveness of the internal audit in the South Africa Public Sector.

Research proposition 1

The independency of an internal audit means operating in an environment that is free from undue influence. The reporting lines of the internal audit function has a major impact on the internal audit operation conditions. It is recommended the Chief Audit Executive should report functionally to the audit committee and administratively to the Chief Executive Officer (Accounting Officer). Furthermore, the audit committee should report to the board and the majority of audit committee members should be people independent of the management of the organisation to ensure the internal audit operates under conditions that are free from undue influence.

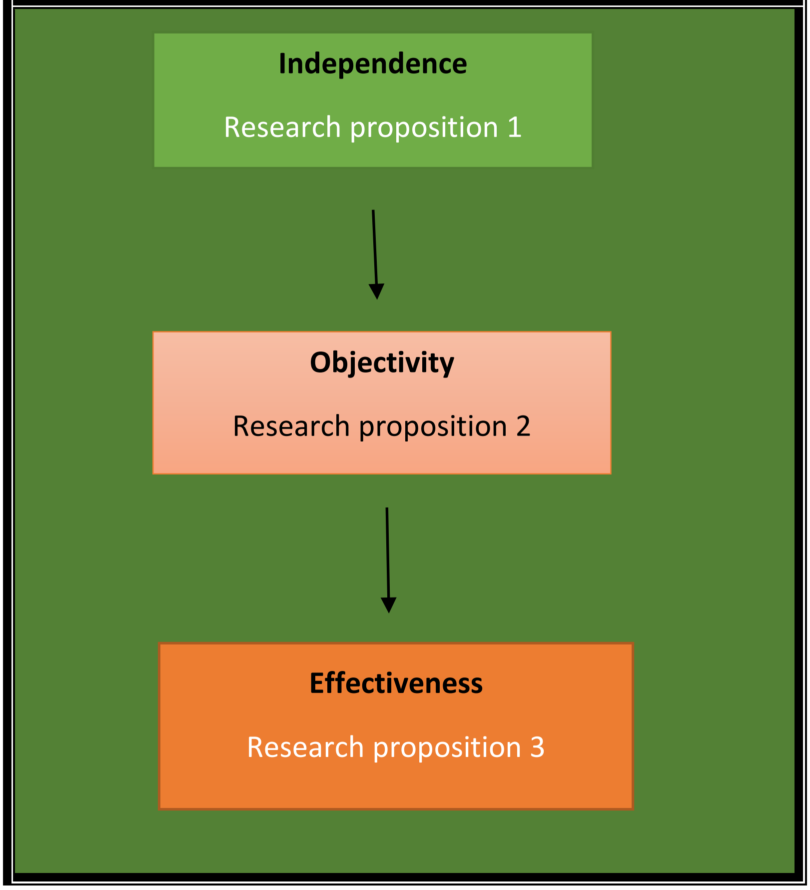
Research proposition 2

Internal auditors must have impartial, unbiased attitudes and always apply professional scepticism in order to remain objective when performing internal audit activities. This attitude and mind of internal auditors will improve objectivity of an internal audit. The internal audit function must be independent which means it must operate in an environment that does not threaten its freedom to perform internal audit activities in an unbiased manner. Therefore, we must first achieve research proposition 1 (independency) to achieve research proposition 2 (objectivity).

Research proposition 3

The effectiveness of an internal audit is measured through the value it is adding to an organisation. Thus the effectiveness of an internal audit is the organisation's return on investment from the internal audit. This means an internal audit should try to meet the expectations of its stakeholders (investors, board, management, employees, suppliers and customers), to be seen to be effective. There are a couple of activities that come with these stakeholder's expectations over and above the traditional internal audit activities; namely fraud-busting, risk management, compliance with relevant regulations, steering combine assurance and the promotion of good corporate governance. The internal audit will be effective if it has objective internal auditors that are operating under conditions that are free from unjustified influence. In summary, an independent internal audit function (environment free from unwarranted influence) will promote objective internal auditors who exercise impartial and unbiased attitudes which will lead to an effective internal audit. Below is the graphical depiction of the links of the research propositions.

FIGURE 3. RESEARCH PROPOSITIONS LINKAGES



III. DATA AND RESEARCH METHODOLOGY

A. Methodology

The research strategy used in this study was a mixed approach - both quantitative and qualitative. The survey questionnaire was distributed electronically as a form of quantitative approach. Some of the questions in the survey were open-ended questions, they allowed the participant to add his/her comments like an interview in the qualitative approach. It is believe the study will answer the how and why of a given research phenomenon, thus providing a comprehensive and explanatory tool to achieve a certain process (Ramsay & Silverman, 2007).

The selection of both quantitative and qualitative methods was appropriate for the study because the researcher has knowledge of internal audits through the literature review and personal work experience. The participants are people that are practicing internal auditing, hence they are registered as members of the Institute of Internal Auditors South Africa. Thus participants' views were also important factors for consideration in the study.

B. Design

This was an explanatory research study because first it reviewed the definition of internal audit and the value or input in corporate governance. It reviewed the effectiveness of the internal audit and issues that impact the independence and objectivity. Independence and objectivity were identified as the cornerstone of internal audit effectiveness; thus matters that affect both were also researched through the literature review. Research questionnaires were sent to professional internal auditors in practise, to answer and comment on the issues.

The experimental design approach was followed when seeking a relationship between the independency and objectivity of the audit committee to the independency and objectivity of the internal audit, which later impacts the effectiveness of the internal audit function.

C. Population and sample

The population selection was based on the study objectives, which were to enhance the independence, objectivity and effectiveness of internal audit in South Africa, specifically in the public sector. Thus the relevant people are the internal audit professionals in South Africa. The sample was internal audit professionals that are registered as members of the Institute of Internal Auditors South Africa. The link with the research questionnaire was distributed by the Institute of Internal Auditors South Africa in their January 2019 Newsletter. This newsletter was distributed to all members electronically. Demographic questions were included in the research survey to establish gender, qualification, sector and working experience of the participant.

D. Research Instrument

Research questionnaires were populated in Qualtrics Survey Software and they were distributed to the internal audit professionals for comments. All comments were done electronically.

The semi structure interview approach was applied in the twenty-five question that allowed participants to add their comments as answers to questions.

E. Data collection procedures

The information that was collected was primary source information from the participants; data was electronically collected through Qualtrics Survey Software. All reports and comments from participants were downloaded from the software.

F. Data analysis and interpretation

The responses were interpreted and linked to the literature review. Additional comments from the participants were reviewed and aligned to the literature review.

A detailed discussion of the participant's differences in answers was also included in the analysis and interpretation of the survey responses based on the results of the mean and standard deviation.

G. Limitation of the study

The following were the limitations of the study:

- The study only focused on the 2nd Edition of Internal Audit framework that was published by the South African National Treasury.
- The impact of the private sector on the effectiveness of internal auditors was not considered.
- The survey software did not prevent the participants from continuing with the research if they didn't have internal audit experience.

H. Validity and reliability

The validity is concerned about the integrity of the findings of the research, while the reliability is concern with the reputability of the findings of the research (Bryman, 2016). The answers were scrutinised and aligned to the literature review to establish the accuracy and integrity of the responses. The analysis and interpretation of responses was detailed in each question to clarify the difference of opinions. The quality of the findings was backed up by reference to the literature review.

IV. PRESENTATION OF THE RESULTS

The research questionnaire was divided into four categories - namely demographic, audit committee, internal audit function and other services provided by the internal audit function.

A. Demographics

The first seven questions were demographic questions that established the internal audit experience of the participant. The tables below have the questions, suggested answers, mean, standard (std) deviation and number of participants that answered the question.

Table 2. Results of Question 1	Mean = 1	Std Deviation = 0
Do you consent to participating in the survey?	YES	No
Number of participants that responded	146	0

All participants willingly participated in the survey after reading the introduction which stated that the survey was for the purpose of the current course of Masters in Business Administration, and all information collected during the survey would be destroyed after completion of study. Also giving them the assurance that confidentiality of information would be maintained, and information collected would be destroyed after the completion of study.

The second question was on the gender; South Africa is coming from the past where women were oppressed. Hence it is always relevant to establish the number of females that participated on the survey.

Table 3. Results of Question 2	Mean =1.47	Std Deviation = 0.25
Please indicate your gender.	Male	Female
Number of participants that responded	78	68

The percentage of females that participated in the survey was 47%. This indicates the response has a good balance in gender.

The third question focused on the participant's interest in internal audit as a profession, the main focus of this question was to establish accuracy and significance of the responses if the participant was an internal auditor. It was seeking to establish the reliability and relevance of the response.

Table 4. Results of Question 3	Mean = 1.2	Std Deviation = 0.4
Are you currently practicing internal audit?	Yes	No
Number of participants that responded	117	29

More than 80% of the participants were internal audit professionals, thus the results of this study can be deemed as a practical view from internal auditors that are currently doing internal audits in South Africa. It is the views of professional internal auditors on how the independency, objectivity and effectiveness can be enhanced to improve internal audit effectiveness.

The forth question seeks to establish the educational level of the participant to establish the relevancy and reliability of the responses.

Table 5. Results of Question 4	Mean = 1.05	Std Deviation = 0.23
Do you have auditing/ accounting/ business/ commerce/ law qualification?	Yes	No
Number of participants that responded	138	8

95 % of the participants have a qualification that is somehow linked to the internal audit profession. These are positive results because it confirmed the conclusions came from educated people that know and somehow learned about internal auditing. Thus they have relevant knowledge and the response is reliable.

In a journey to know the participant, it became valuable for this study to establish the experience of the participant regarding the internal auditing profession.

Table 6. Results of Question 5	Mean = 3.1		Std Deviation =.97	
Please indicate the number of years practising internal audit.	None	1 - 4 years	5 - 9 years	Over 10 years
Number of participants that responded	13	24	45	65

91% of the participants have internal audit experience. Thus the results of the study carry the views of internal audit professionals, which means responses are relevant and reliable.

Since the research is based on internal audits in the public sector it was critical to establish the sector where the participant was working.

Table 7. Results of Question 6	Mean = 1.27	Std Deviation = .44
Which sector you are working in?	Public Sector	Private Sector
Number of participants that responded	104	38

The majority of participants were auditors in the public sector.

The last question on the route to knowing the participants, was to establish whether they are members of the Institution of Internal Auditors. The importance of this question was to establish whether they are applying the International Standard for the Professional Practice of Internal Auditing and they adhere to the Institute of Internal Auditors' Code of Ethics.

Table 8. Results of Question 7	Mean= 1.1	Std Deviation =0 .3
Are you a member of the Institute of Internal Auditor South Africa?	Yes	No
Number of participants that responded	131	15

B. Auditee Committee

The audit committee is a subcommittee of the board, as stated in the literature review. The Chief Audit Executive should report functionally to the audit committee. It is important to review the adequacy of the composition and expertise of the audit committee members. This committee plays a key role in the independency, objectivity and effectiveness of the internal audit function within an organisation. The following are five questions that were in the survey questionnaire related to audit committee:

Table 9. Results of Question 8	Mean = 2.23		Std Deviation = 0.84	
Who should appoint audit committee members?	Minister	Board	CEO	Other
Number of participants that responded	19	100	11	21

The majority of the participants (66 %) suggested the board of director should be tasked with the responsibility of appointing audit committee members. This is consistent with the literature review which recommends that, since the audit committee is responsible to assist the board of directors with the oversight function over financial and operational issues of the organisation, then the board itself must appoint the people that have enough expertise to perform this function.

The lowest number of respondents (only 11% of the population), said the appointment must be done by the Chief Executive Officer. The results of the survey therefore, confirmed that paragraph 2.5.1 of the 2nd Edition of Internal Audit Framework with states that the Accounting Officer (CEO) should appoint members of the audit committee is not adequate.

The second, third and fourth question on this subsection was related to the expertise of the audit committee members. The Literature review indicated that one of the audit committee members should have recent and relevant financial expertise.

Table 10. Results of Question 9	Mean = 2.23		Std Deviation =0.56	
Audit committee should have a member with business/ operational expertise	Yes	No	Neutral	Other
Number of participants that responded	139	3	5	3

There is a strong suggesting that the audit committee should have an expert in the operation of the organisation. This suggesting is informed by the fact that the audit committee does not deal with finance issues only. They oversee operations as well because finances are linked to operations. Therefore, it is recommended that one of the members of the audit committee should be an expert in the operation of the organisation. This will further assist oversight of the implementation and achievement of the organisation's strategy.

Table 11. Results of Question 10	Mean =1.05		Std Deviation = 0.33	
The Audit committee should have a member with finance expertise	Yes	No	Neutral	Other
Number of participants that responded	148	0	2	1

Almost all the participants agreed the audit committee should have a member that has relevant and recent financial expertise.

Table 12. Results of Question 11	Mean = 1.05		Std Deviation = 0.33	
Audit committee should have a member with legal expertise.	Yes	No	Neutral	Other

Number of participants that responded	126	0	17	1

84 % of the participants supported that the audit committee should have a legal expert, but 11% of the participants did not agree or disagree.

The last question was on the approval of the audit committee charter, which is the document that provides the mandate and authority to the audit committee.

Table 13. Results of Question 12	Mean = 2.05		Std deviation =0.61	
Who should approve the audit committee charter?	Company Secretary	CEO	Board	Other
Number of participants that responded	2	12	121	16

Most participants believe the board should be charged with the responsibility of approving the audit committee charter. This is in line with the literature review that stated the audit committee is performing oversight of the financial and operational issues on behalf of the board. Therefore, it is the board that must approve the audit committee charter.

C. Internal Audit function

Establishing internal audit functions in State-owned Entities is a statutory requirement in South Africa. Internal audits should not be established for compliance reasons only, but must be utilised by organisations to add value (effectiveness of internal audit). The survey had eight question related to the establishment, leading and operations of the internal audit function.

The independence of the internal audit is directly related to the reporting line as indicated in the literature review. It is therefore important to establish who should appoint the Chief Audit Executive, because as an employee the Chief Audit Executive will execute the instructions of their superiors.

Table 14. Results of Question 13	Mean = 1.32		Std Deviation = 0.82	
Who should appoint the Chief Audit Executive?	Audit committee	CEO	Company Secretary	Other
Number of respondents	121	14	0	11

Most participants agreed with the recommendation the leader of the internal audit function should be appointed by the audit committee. There are still a small number of participants who believe the CEO should perform this function, but this can be attributed to their limited knowledge of corporate governance studies.

The reporting line of the internal audit function is the cornerstone of the independence and objectivity from the literature review. This directly impacts on the effectiveness of the internal audit.

Table 15. Results of Question 14	Mean = 1.32		Std Deviation = 0.66	
To which level should the Chief Audit executive report?	CEO	Audit Committee	CFO	Other
Number of participants that responded	23	114	1	10

Most participants recommend the Chief Audit Executive should report to the audit committee, which is in line with the literature review.

The performance review of the Chief Audit Executive is critical in evaluating the benefit the organisation is obtaining from the internal audit (Effectiveness).

Table 16. Results of Question 15	Mean = 1.99		Std Deviation = 0.66	
Who should perform the performance review of the Chief Audit Executive?	CEO	Audit Committee	CFO	Other
Number of participants that responded	14	123	1	10

The decrease in number of participants that recommend the performance review should be done by the CEO, from the number of participants that suggest that Chief Audit Executive should report to the CEO is a clear indication, participants believe the audit committee should be in-charge of reviewing the performance and receiving reports directly from the Chief Audit Executive.

The structure of the internal audit is critical to the effectiveness thereof.

Table 17. Results of Question 16	Mean = 1.95		Std Deviation =0.62	
Who should approve the organogram of the internal audit function?	CEO	Audit Committee	CFO	Other
Number of participants that responded	24	115	1	8

Majority of participants believe that the audit committee should be responsible for approving the structure.

The qualifications of the person leading the internal audit function is vital to ensure the efficiency of the function. Below is the response to whether it is necessary to have qualifications to support being a Chief Audit Executive.

Table 18. Results of Question 17	Mean = 1.34		Std Deviation = 0.85	
The Chief Audit Executive should have a Certified Internal Auditor designation or working toward it.	Yes	No	Neutral	Oher
Number of participants that responded	125	4	10	9

85 % of the participants agree the Chief Audit Executive should be a Certified Internal Auditor.

Almost all the participants confirmed a risked-based methodology must be applied to the internal audit. The two participants that chose "other" can be attributed to the demographic question that they do not know internal auditing.

Table 19. Results of Question 18	Mean =1.04		Std Deviation = 0.35	
Internal Audit should apply risk-based methodology to prioritised risk areas.	Yes	No	Neutral	Other
Number of participants that responded	144	0	0	2

The deviation can solely be attribute to a knowledge of internal auditing.

Table 20. Results of Question 19	Mean = 1.1		Std Deviation = 0.46	
Internal audit should recommend internal controls that will mitigate identified risk and internal control environment.	Yes	No	Neutral	Other
Number of participants that responded	138	3	3	2

There are different opinions with regards to outsourcing and insourcing internal auditing. This also emerged from the literature review as there were advantages and disadvantages in both systems. The mixed system (co-sourcing) is the best because it taps into the advantages of both systems. The participants were also divided almost into half.

Table 21. Results of Question 20	Mean = 1.86		Std Deviation = 0.85	
Do you think outsourcing internal audit will increase independence and/ or objectivity?	Yes	No	Neutral	Other
Number of participants that responded	60	52	30	5

The quality assessment of the internal audit after five years is a requirement of the Internal Auditing Standard 1300. Since this is a compliance issue, most of the participants recommend this should be the function of the Institute of Internal Auditors South Africa as the governing board. It is a call for the institution to play a significant role in promoting good practice in the internal audit profession.

Table 22. Results of Question 21	Mean = 1.26		Std Deviation = 0.72	
The Institute of Internal Auditors South Africa must be mandated to perform the five years' quality assessment review of the internal audit function in the public sector.	Yes	No	Neutral	Other
Number of participants that responded	127	8	6	6

D. Other services provided by internal audit

It has been noted from the literature review, investors think the internal audit is a goalkeeper that failed. This means that investors (stakeholders) think internal audit is ineffective because it does not meet their expectations. There are a couple of services outside the normal internal audit scope that stakeholders are expecting to be performed by the internal audit function. Some say internal audit should be a fraud-buster of the organisation. Ninety-three percent of the respondent believe internal audit should play a role in combating corruption. The questions in this section seek to obtain the views of the professional internal auditors on the additional services that are being requested by stakeholders.

Table 23. Results of Questions 22	Mean = 1.12		Std Deviation = 0.44	
Do you think internal audit has a role to play in combating corruption?	Yes	No	Neutral	Other

Number of participants that responded	137	3	7	0

The Internal audit definition states it helps organisations to achieve their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls and governance process. By this definition internal audit has a significant role to play in strengthening the accountability through evaluation and most participants agreed.

Table 24. Results of Question 23	Mean = 1.03		Std Deviation = 0.25	
Do you think internal audit has a role to play in strengthening accountability?	Yes	No	Neutral	Other
Number of participants that responded	143	1	2	0

Internal audit by definition is responsible for good corporate governance and all participants agreed.

Table 25. Results of Question 24	Mean = 1.05		Std Deviation = 0.29	
Do you think internal audit has a role to play in strengthening good corporate governance?	Yes	No	Neutral	Other
Number of participants that responded	143	1	3	0

Combine assurance is the process of internal and external assurance service providers working together to provide information to management to avoid duplication and synchronise overlapping activities. The internal audit is the internal assurance service provider in the organisation as it is expected to lead the discussion and platforms for combine assurance with the other external assurance service providers like external auditors.

Table 26. Results of Question 25	Mean = 1.9		Std Deviation = 1.91	
Internal audit should drive combine assurance in the organisation.	Yes	No	Neutral	Other
Number of participants that responded	119	10	11	6

Additional comments from participants

- *Together with management to have buy in from other assurance.*
- *Not alone.*
- *Management.*

Most participants agreed the internal audit should drive this process. The additional comments suggest that, though internal audit should drive this process, it is largely dependent on management. Therefore, internal audit needs support from management of the organisation to ensure the success of this process.

Table 27. Results of Question 26	Mean = 1.07		Std Deviation = 0.42	
Do you think internal audit should evaluate the risk exposure related to governance matters?	Yes	No	Neutral	Other
Number of participants that responded	142	0	2	2

All participants agreed the internal audit should indeed evaluate the risks related to governance issues. In the literature review it was confirmed investors expect internal audit to assist organisations in governance matters.

This question is related to risk management, for the internal audit to identify high risk areas; it must perform risk assessment workshops. Risk Management is the second line of defence which is supposed to support management with the identification of risks that could hinder an organisation from achieving its objectives.

Table 28. Results of Question 27	Mean = 1.08		Std Deviation = 0.43	
Business process that have high-risk exposure must be prioritised.	Yes	No	Neutral	Other
Number of participants that responded	140	2	2	2

Additional comments from participants

- *Should be looked at and considered in line with the likelihood of occurrence and impact thereof.*
- *Less focus on procedural review.*

Most participants agreed the focus of internal audit activities should be in areas with high risk exposure. Internal audit is the extra hand that can assist management in addressing problems within their processes by recommending internal controls that should be implemented to address weaknesses in the internal control environment. Thus when the focus is on high-risk areas the implementation of internal audit recommendations will reduce the risk to an acceptable level. Furthermore, the concentration of internal audit activities to high-risk areas will ensure the audit committee obtain continuous feedback in processes implemented by management to address risk exposure. The additional comments from participants suggest internal audit activities should place less focus on the ordinary procedural audit reviews and concentrate on the strategic issues. This will ensure the internal audit is adding value to the organisation. The effectiveness of internal audit is measured by the value it is adding to the organisation hence assisting in mitigating the identified risks is an immediate benefit the organisation can realise from investing in an internal audit function.

Table 29. Results of Question 28	Mean = 1.81		Std Deviation = 0.85	
Fraud and forensic investigations should form part of internal audit activities.	Yes	No	Neutral	Other
Number of participants that responded	62	53	23	6

Additional comments from participants

- *Only if there is a need or there are red flags that need to be further investigated.*
- *Forensic investigation requires specialised knowledge and techniques. Internal audit can assist but not lead.*
- *It depends on the activities.*
- *Yes, under the leadership of Chief Audit Executive but distinctly different from internal audit.*

There is a strong expectation from different stakeholders of the organisation that internal audit should play a key role in fraud prevention. Though the response from participants is divided into half. Fifty percent of the participants agrees with the stakeholder that a fraud investigation should be part of internal audit activities. While the other fifty percent don't agree. Providing fraud investigation activities may negatively impact on the working relationship between internal audit and management because they would not know which review is being performed when there is an internal audit visit. It is recommended in cases where fraud investigation is performed by the internal audit; a separate team is used, and the titles and designation are clearly defined to minimise confusion. This was supported by one participants through additional comments. Other additional comments from participants suggest the investigations should be done on an ad-hoc basis as and when there is a need, and that internal audit should assist, but not lead the investigation because they don't have the required expertise and knowledge.

Table 30. Results of Question 29	Mean = 1.49		Std Deviations = 0.85	
Enterprise Risk Management Should be separated from internal audit.	Yes	No	Neutral	Other
Number of participants that responded	96	35	10	4

Additional comments from participants

- *Enterprise risk management is the second line of defence and internal audit is the third line of defence, thus they must be separated.*

The comment from one participant strongly suggest that because of their service in the three lines of defence, it should be separated from internal audit. This comment is supported in the literature review on the three lines of defence. Internal audit is place in a compromised position when it is tasked to perform risk management activities because that means it will not be able to evaluate the effectiveness of the Risk Management function. When risk management is combined with the internal audit, that would mean the audit committee will not know the effectiveness of the risk management function.

Table 31. Results of Question 30	Mean = 1.17		Std Deviation = 0.59	
Audit of Predetermined Objectives should be included in the annual internal audit plan.	Yes	No	Neutral	Other
Number of participants that responded	132	4	6	3

Additional comments from participants

- *It depends on the risk and combine assurance.*

The predetermined objectives form part of the strategic direction of the State-owned Entity, thus it is one of the critical areas in the organisation. The Auditor General of South Africa has escalated the significance of not meeting predetermined objectivity as reason to qualify findings in their audit opinion. Most of the participants agreed the review of this process should form part of the internal audit activities where there is a combine assurance; a decision should be made as to who will perform the review between internal auditors and external auditors.

Table 32. Results of Question 31	Mean = 1.3		Std Deviation = 0.75	
Annual internal audit plan should include annual financial statement review.	Yes	No	Neutral	Other
Number of participants that responded	111	18	12	4

Additional comments from participants

- *Chief Finance Officer should be qualified and competent to produce accurate financial statements. Internal audit should focus on other matters.*
- *Yes, it is a control around financial statement compilation.*
- *Depending on the risk and combine assurance.*

There is a growing need for internal audit to perform annual financial statement reviews. This requirement comes from audit committee members and board of directors who see internal audit as their assurance service that must test the accuracy of the financial statements before they are approved by the board of directors. This forms part of the proactive assurance that is being demanded by stakeholders. They want to use internal audit as the check point whether all is well before adding their signature. Most participants agreed this review must be done by internal audit. Other participants feel this will be a duplication of efforts because external auditors are statutorily tasked to perform this review and recommend it should be addressed through combine assurance.

Table 33. Results of Question 32	Mean = 1.69		Std Deviation = 0.99	
Internal audit should review tender processes and issue certificate or a report prior to awarding a tender/ contract.	Yes	No	Neutral	Other
Number of participants that responded	87	27	17	13

Additional comments from participants

- *If there is a capacity to do so.*
- *As a consulting service. If internal audit signs off on the process it is a management function.*
- *People have ways to circumvent the process, collusion and fraud outside the documented process.*
- *It should depend on the set and threshold.*
- *We can't issue certificates; we can issue reports on tenders.*

Another call for proactive assurance, this one comes from the South African National Treasury, the instruction is that all tenders above R10 million should undergo internal or external audit reviews for compliance before they are submitted to the board for approval. This request has been legislated in the South Africa public sector and non-compliance to it results in immediate disciplinary action. The internal audit is now being commanded to perform proactive assurance and provide an opinion before the board approves the awarding of a contract to the successful bidder/s. 42 % of the participant have a different view on stakeholders' requests which suggest further research on this matter.

V. CONCLUSION

The purpose of the research study was to the review the 2nd edition of Internal Audit Framework used as guidelines for establishment and operation of the internal audit function. The conclusion is based on the shortcomings of the framework when compared to the literature review and research results. Recommendations to improve the adequacy of the framework are also added on each shortcoming.

A. Shortcomings of Internal Audit Framework

The second sentence of paragraph 1.3.2.1 of the framework states the audit committee assists the Accounting Officer (Chief Executive Officer) in the effective execution of his/her responsibilities with the aim of the achievement of the organisation's objectives. The literature review and the results of the study stated the function of the audit committee is to assist the board to exercise oversight responsibility on the integrity of the annual financial statements and effectiveness of assurance functions in the institution. The audit committee report to the board not the Chief Executive Officer.

Paragraph 2.3 of the framework states the audit committee charter should be accepted by the audit committee and approved by the Accounting Officer (Chief Executive Officer). The audit committee does not report to the Chief Audit Executive therefore;

they cannot approve the audit committee charter. It is the responsibility of the board (Accounting Authority) to approve the audit committee charter

Paragraph 2.4.1 of the framework states the roles and responsibilities of the audit committee should be determined by the Account Officer in consultation with the Executive Authority. This is also inadequate, it is the board of the institution that must determine the roles and responsibilities of the audit committee

The third sentence of paragraph 2.5.1 of the framework states the appointment of the audit committee members must be done by the Accounting Officer in consultation with the Executive Authority. This is also not adequate because the audit committee is the subcommittee of the board; the appointment of the audit committee members must be done by the board. This was confirmed in the literature review and results of the survey which recommended that the Board (Accounting Authority) should appoint the members of the audit committee in order to promote good corporate governance.

The second sentence of paragraph 2.5.5 of the framework states the Accounting Officer in consultation with the Executive Authority should appoint the chairperson of the audit committee. This is also linked to the shortcomings noted above. The chairperson of the audit committee should be appointed by the Board.

The second sentence in paragraph 2.5.7 of the framework states the new audit committee members should meet and be briefed by the Accounting Authority. Audit committee members should be briefed by the board and introduced to the Accounting Officer, Chief Audit Executive and senior management.

In conclusion these paragraphs of 2nd Edition of Internal Audit Framework will result in an audit committee that is not independent because the Accounting Officer is their boss. This is compromising the effectiveness of corporate governance in public institutions. Furthermore, this will also have a negative impact on the independency and objectivity of the internal audit function, which will be reporting to the audit committee that in turn reports to the Accounting Officer, is threatening their ability to perform internal audit activities in an unbiased manner.

B. Recommendations

The shortcomings of the Internal Audit Framework are seriously collapsing corporate governance in the public sector. It is recommended the framework be amended as recommended above and a new addition (3rd Edition) be issued after amendments.

It is also recommended that the 3rd Edition of internal Audit Framework should include the following:

- Guidelines on the auditing of tenders that are above R10 million before awarding the contract to successful bidders and the type of assurance that is being provided by this review.
- Include the section that will mandate the Auditor General of South Africa or The Institute of Internal Auditor South Africa to perform a five-year quality assessment review of the internal audit function.

- The section on the audit committee composition should also state that one of the audit committee member should have business/ operational expertise relevant to the operations of the organisation in order to assist the audit committee with alignment of finances with the operations of the organisations.

C. Future research

Auditing and reporting on the historical information is losing value in this Fourth Industrial Revolution era. There is a growing need for proactive assurance; the South African National Treasury has spearheaded the proactive assurance of all procurement transactions above R10 million before the board award the contract as the compliance requirement in all public entities. The stakeholders want to know the problems before they happen so they can avoid losses and litigation claims. The research will establish whether proactive assurance is a consulting or assurance assignment. It will research the type of assurance that is required by these stakeholders whether reasonable or absolute assurance. Furthermore, it will establish whether it is possible for internal audit to provide absolute assurance.

REFERENCES

Abbott, L. J., Parker, S., & Peters, G. F. J. C. A. R. (2012). Audit fee reductions from internal audit-provided assistance: The incremental impact of internal audit characteristics. *29*(1), 94-118.

Allegrini, M., & D'Onza, G. J. I. J. o. A. (2003). Internal auditing and risk assessment in large Italian companies: an empirical survey. *7*(3), 191-208.

Alzeban, A., Sawan, N. J. J. o. I. A., Auditing, & Taxation. (2015). The impact of audit committee characteristics on the implementation of internal audit recommendations. *24*, 61-71.

Barac, K., & Van Staden, M. J. A. J. o. B. M. (2009). The correlation between perceived internal audit quality and defined corporate governance soundness. *3*(13), 946-958.

Bariff, M. (2003). Internal Audit Independence and Corporate Governance.

Barua, A., Rama, D. V., Sharma, V. J. J. o. A., & Policy, P. (2010). Audit committee characteristics and investment in internal auditing. *29*(5), 503-513.

Bronson, S. N., Carcello, J. V., Hollingsworth, C. W., Neal, T. L. J. J. o. A., & Policy, P. (2009). Are fully independent audit committees really necessary? , *28*(4), 265-280.

Bryman, A. (2016). *Social research methods*: Oxford university press.

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

D. Chambers, A. J. M. A. J. (2014). New guidance on internal audit–an analysis and appraisal of recent developments. *29*(2), 196-218.

Decaux, L., & Sarens, G. J. M. A. J. (2015). Implementing combined assurance: insights from multiple case studies. *30*(1), 56-79.

DeZoort, F. T., Hermanson, D. R., Archambeault, D. S., & Reed, S. A. J. A. C. E. A. S. o. t. E. A. C. L. (2002). Audit committee effectiveness: A synthesis of the empirical audit committee literature. *21*, 38.

Dunne, T. M., & Helliar, C. V. J. C. G. T. i. j. o. b. i. s. (2002). The Ludwig report: implications for corporate governance. *2*(3), 26-31.

Fernández-Laviada, A. J. J. o. F. R., & Compliance. (2007). Internal audit function role in operational risk management. *15*(2), 143-155.

Florea, R., & Florea, R. J. E. T. C. (2013). Internal audit and corporate governance. *16*(1), 79.

Ghafran, C., & O'Sullivan, N. J. T. B. A. R. (2017). The impact of audit committee expertise on audit quality: Evidence from UK audit fees. *49*(6), 578-593.

Goodwin, J., & Yeo, T. Y. J. I. J. o. A. (2001). Two factors affecting internal audit independence and objectivity: evidence from Singapore. *5*(2), 107-125.

Hillison, W., Pacini, C., & Sinason, D. J. M. A. J. (1999). The internal auditor as fraud-buster. *14*(7), 351-363.

Kalbers, L. P., & Fogarty, T. J. J. A. (1993). Audit committee effectiveness: An empirical investigation of the contribution of power. *12*(1), 24.

Kurniawati, F., & Karunia, A. P. J. K. S. S. (2018). Determinant Independence and Objectivity of Internal Auditors in Indonesian Government Organizations. *3*(8), 411-432.

McMullen, D. A., & Raghunandan, K. J. J. o. A. (1996). Enhancing audit committee effectiveness. *182*(2), 79.

Mihret, D. G., & Woldeyohannis, G. Z. J. M. A. J. (2008). Value-added role of internal audit: an Ethiopian case study. *23*(6), 567-595.

Mulugeta, S., & Gebrehiwot, G. J. A. A. U. (2008). Internal audit: reporting relationship in Ethiopian public enterprises.

Munro, L., Stewart, J. J. A., & Finance. (2010). External auditors' reliance on internal audit: the impact of sourcing arrangements and consulting activities. *50*(2), 371-387.

Mutchler, J. F. J. R. O. i. I. A. (2003). Independence and objectivity: a framework for research opportunities in internal auditing. 231-268.

Neu, D., Everett, J., & Rahaman, A. S. J. C. A. R. (2013). Internal auditing and corruption within government: The case of the Canadian Sponsorship Program. *30*(3), 1223-1250.

Norman, C. S., Rose, A. M., Rose, J. M. J. A., Organizations, & Society. (2010). Internal audit reporting lines, fraud risk decomposition, and assessments of fraud risk. *35*(5), 546-557.

Paape, L., Scheffe, J., & Snoep, P. J. I. J. o. A. (2003). The relationship between the internal audit function and corporate governance in the EU–a survey. *7*(3), 247-262.

Rahim, M. F. A., Johari, R. J., Takril, N. F. J. P. E., & Finance. (2015). Revisited note on corporate governance and quality of audit committee: Malaysian perspective. *28*, 213-221.

Rainsbury, E. A., Bradbury, M., Cahan, S. F. J. J. o. C. A., & Economics. (2009). The impact of audit committee quality on financial reporting quality and audit fees. *5*(1), 20-33.

Ramsay, J. O., & Silverman, B. W. (2007). *Applied functional data analysis: methods and case studies*: Springer.

Soh, D. S., & Martinov-Bennie, N. J. M. A. J. (2011). The internal audit function: Perceptions of internal audit roles, effectiveness and evaluation. *26*(7), 605-622.

Spira, L. F., Page, M. J. A., Auditing, & Journal, A. (2003). Risk management: The reinvention of internal control and the changing role of internal audit. *16*(4), 640-661.

Stewart, J., & Subramaniam, N. J. M. a. j. (2010). Internal audit independence and objectivity: emerging research opportunities. *25*(4), 328-360.

Zaman, M., & Sarens, G. J. M. A. J. (2013). Informal interactions between audit committees and internal audit functions: Exploratory evidence and directions for future research. *28*(6), 495-515.