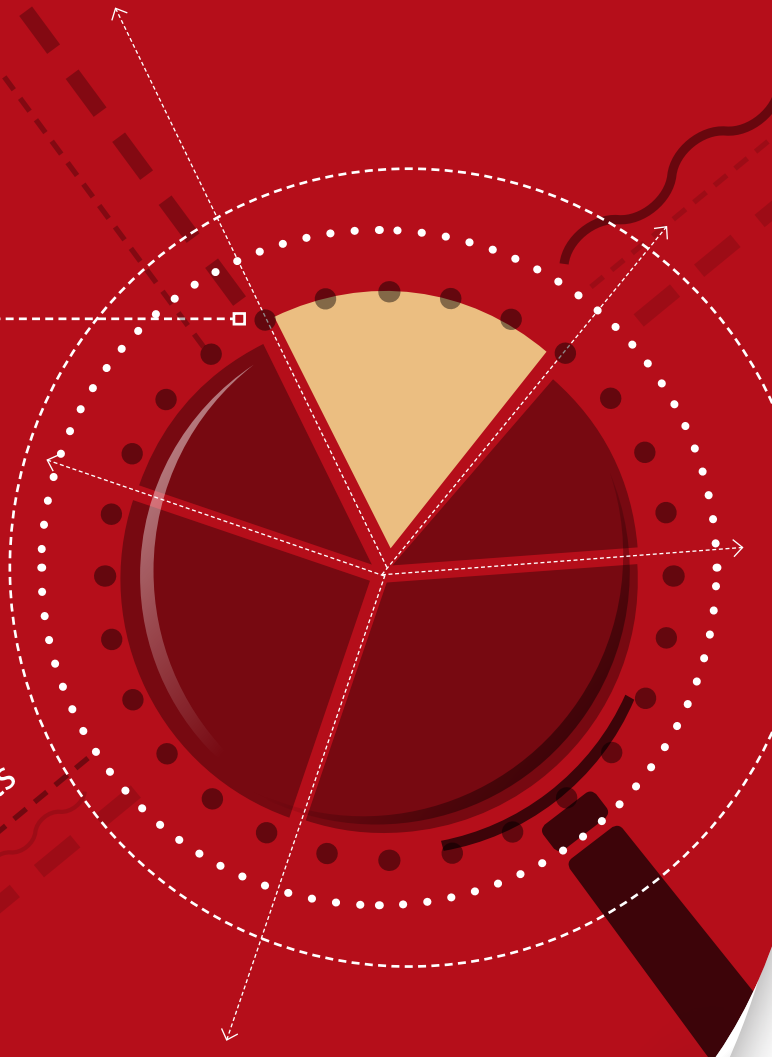2014

The Status of and Demand for Internal Auditing in South African National Government Departments

national treasury

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REPUBLIC OF SOUTH AFRICA

20 YEARS OF FREEDOM

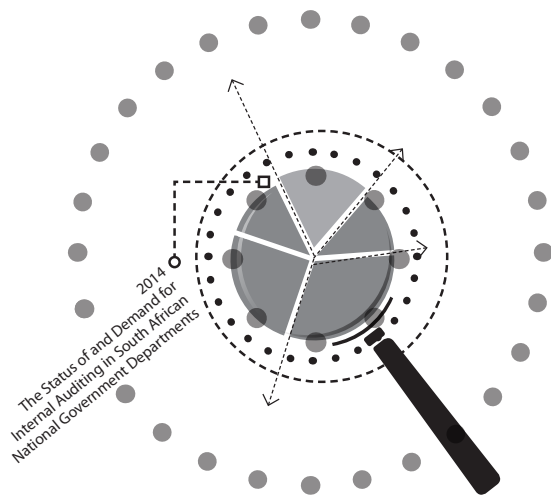south africa 1994 - 2014

2014

The Status of and Demand for
Internal Auditing in South African
National Government Departments

ikutu

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

THE IKUTU RESEARCH TEAM

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LIST OF ABBREVIATIONS:

AO ....ACCOUNTING OFFICER OR REPRESENTATIVE (CFO/COO)

AGSA ....AUDITOR GENERAL SOUTH AFRICA

CAC ....CHAIR OF THE AUDIT COMMITTEE

CAE..CHIEF AUDIT EXECUTIVE

CBOK..COMMON BODY OF KNOWLEDGE

CFO .... CHIEF FINANCIAL OFFICER

COO ....CHIEF OPERATING OFFICER

EXCO ....EXECUTIVE COMMITTEE

IAF..INTERNAL AUDIT FUNCTION

IIA ....INSTITUTE OF INTERNAL AUDITORS

IIARF........ INSTITUTE OF INTERNAL AUDITORS RESEARCH FOUNDATION

IIA-SA ....INSTITUTE OF INTERNAL AUDITORS SOUTH AFRICA

IT ....INFORMATION TECHNOLOGY

PFMA .... PUBLIC FINANCE MANAGEMENT ACT

SETA ....SECTOR EDUCATION AND TRAINING AUTHORITY

SAQA ....SOUTH AFRICAN QUALIFICATIONS AUTHORITY

LIST OF PARTICIPANTS INCLUDED IN THE RESEARCH:

AGRICULTURE

ARTS AND CULTURE

COMMUNICATIONS

CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

CORRECTIONAL SERVICES

DEFENCE AND MILITARY VETERANS

ENERGY

ENVIRONMENTAL AFFAIRS

HEALTH

HIGHER EDUCATION AND TRAINING & BASIC EDUCATION

HOME AFFAIRS

HOUSING

INDEPENDENT COMPLAINTS DIRECTORATE

LABOUR

MINERAL RESOURCES

NATIONAL REGULATOR FOR COMPULSORY SPECIFICATIONS

NATIONAL TREASURY

PARLIAMENT

PUBLIC ENTERPRISES

PUBLIC SERVICE AND ADMINISTRATION

PUBLIC WORKS

RURAL DEVELOPMENT AND LAND AFFAIRS

SCIENCE AND TECHNOLOGY

SOCIAL DEVELOPMENT

SOUTH AFRICAN POLICE SERVICE

SPORTS AND RECREATION

STATE SECURITY AGENCY

STATISTICS SOUTH AFRICA

THE PRESIDENCY

TOURISM

TRADE AND INDUSTRY

WATER AFFAIRS

Disclaimer:

The National Regulator for Compulsory Specifications was erroneously included in the list of targeted participants. The entity participated in the survey and its data was included in the analysis. The iKUTU research team considered the impact of excluding the data from the analysis and with expert consultation concluded that exclusion of the data would have no influence on the findings of the research. The findings of this research are true for National Departments in South Africa.

EXECUTIVE SUMMARY

The introduction of the Public Finance Management Act (PMFA) (Act 1 of 1999) in 2000, with its focus on good governance and accountability (and which made internal auditing compulsory in the public sector), meant that internal auditing became a formal part of the financial management process in the South African public sector. This coincided with increased recognition of the value of internal auditing internationally, as well as an expansion of internal auditing's role, from what had been essentially an accounting-orientated service, to a much broader, management-orientated service – a true governance partner.

Today, internal auditing is defined by the Institute of Internal Auditors, as "an independent and objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

Despite all of the above, internal auditors in the South African public sector may be falling short - failing to fully meet the expectations of their stakeholders. As a result of this expectation gap, the iKUTU research group, after consultation with the Institute of Internal Auditors South Africa (IIA-SA) and the National Treasury, undertook this survey.

The aim of the survey was to obtain the views of the Accounting Officer (AO), the Chairperson of the Audit Committee (CAC) and the Chief Audit Executive (CAE) from each of the participating national departments on aspects related to the status of and demand for internal auditing within the national departments of the South African government. The more significant findings of the survey are presented in the sections that follow:

The status of internal auditing within national departments

The budget allocation – Sixty five percent of the annual assurance (including both internal and external auditing) and risk management budget is allocated to internal auditing. Inadequate budget allocation was, however, indicated as a primary concern influencing the effectiveness of the IAFs.

Independence of internal auditing – The respondents reported that the reporting lines conform to the recommendations of governance codes and to Institute of Internal Auditors (IIA) guidance. Internal auditing in South African national departments can thus be regarded as sufficiently independent institutionally. However, the gaps in the perceptions of the AOs, CACs and CAEs on the reporting structure in some of the departments is a matter of concern, as it could be assumed that these parties should be aware of the reporting lines of their IAF.

Outsourcing of internal audit services – In-house IAFs are preferred above the services of outsourced IAFs due to a perceived higher level of commitment to governance on the part of in-house teams. One reason was highlighted as to why some internal audit services were outsourced and it relates to the capabilities of in-house internal audit staff. Outsourcing is being driven firstly by the need for specialised technical skills. Secondly, outsourcing is also preferred due to the general shortage of competent internal auditors as reflected by the number of internal auditors that is registered by the IIA-SA that hold the CIA designation, the global mark for competence.

EXECUTIVE SUMMARY

The changing demands on the internal auditing function

Value added by the IAF – It was indicated that outsourced IAFs add more value than in-house IAFs. This may be attributed to a lack of appropriate training and experience undermining the capabilities of in-house internal auditors.

Combined assurance – A relatively low level of satisfaction was expressed at the contribution made by in-house IAFs to combined assurance as the global trend indicates that internal auditing is mainly responsible for the coordination. Anecdotal evidence suggests that it could be attributed to a poor understanding of what "combined assurance" is.

Governance strategy of IAFs – The PFMA and Treasury Regulations contributed on average 85% to the formulation of governance strategy. The extent of the inclusion of South African governance codes, specifically the King reports, at an average of just below 50%, to the preparation of the governance strategy of IAFs, was at first glance very low. However, one must remember that the PFMA owes much of its effectiveness to its similarities to the first King report which predates it.

Risk management structure – Even though the establishment and maintenance of a risk management system is a legal responsibility of the accounting officer of all national departments, at least almost a quarter of AOs indicated that a formal risk management structure did not exist for their departments.

Prevention and detection of fraud – In-house IAFs are, to a large extent, still regarded as being required to fulfil a "watch dog" function in respect of fraud prevention and detection, whereas the internal audit profession in general regards it as a responsibility of management.

The competencies of internal auditors and staffing of IAFs

CAE profile – The skills and competencies profile of CAEs in the national departments was reported to be lower than the profile recommended by the IIA as documented in its formal career path guidance. The IIA recommends that CAEs should be qualified as Certified Internal Auditors (CIAs) as well as being in possession of an academic master's degree or MBA.

Staffing – The overview of the current situation regarding internal audit staffing seems to indicate that they are insufficient in number and quality to empower the IAFs to provide the level of service expected by their stakeholders. This research identified that this could be attributed to the fact that CAEs are not adequately qualified (academically and professionally); that too many vacancies exist; that staff turnover rates are too high; and that the level of internal audit experience (the number of years of first-hand experience) is too low for the demands of the job.

Arising from the research findings it is recommended that deliberate steps be taken to ensure open communication between AOs, CACs and CAEs. It is further recommended that national departments build capacity in in-house IAFs, improve their status within the national departments, and ensure that they will be able to meet the expanding expectations of their stakeholders.

1. BACKGROUND TO THE SURVEY

The introduction of the Public Finance Management Act (PFMA) (Act 1 of 1999) in 2000, with a focus on good governance and accountability, made the internal audit functions (IAFs) an integral part of financial management in the public sector. The PFMA requires accounting officers to ensure that their departments have an effective, efficient and transparent system of financial and risk management, and internal control, and furthermore, requires that the National Treasury make regulations and issue instructions to the accounting officers on how to maintain an IAF and to manage its activities. The fundamental purpose of IAFs in the public sector is to assist accounting officers to maintain efficient and effective control in public service institutions by evaluating the controls (specifically, determining their effectiveness and efficiency) and by making recommendations supporting the goal of enhancing and improving governance.

In the context of the above, it is important to know the extent to which internal auditors in the South African public sector are meeting the expectations of their stakeholders. As a result, the iKUTU research group, after consultation with the Institute of Internal Auditors South Africa (IIA-SA) and the National Treasury, undertook this survey.

The main purpose of this survey was to determine the status of and demand for internal audit services within the national departments of the South African government. This survey may therefore provide insights into the status of internal auditing in the public sector, and trigger initiatives for improvements where such status is found to be inadequate, and thus potentially detrimental to the effective operation of the IAF. In addition, stakeholders such as National Treasury could use the results of the study to benchmark the current strengths of its governance processes, including the role that internal auditing plays, and thereby more accurately evaluate their ongoing efforts to improve the status and competencies of its IAFs. It is envisaged that the findings of this survey could provide guidance in the following areas:

- To determine the size of the market and levels of demand for internal auditors (potentially assisting tertiary institutions in managing their student intake, the SETAs to determine numbers for learnership programmes they should be offering, employers (both private and public sectors) to benchmark their IAF against and the IIA-SA to enhance the professional status of internal auditors:

- To provide an understanding of the nature of the most significant challenges which the public sector may be experiencing regarding the recruitment, retention, and training of internal auditors;

- To highlight problem areas which can inform educational projects, in-service training programmes, and corrective actions to be taken by the direct stakeholders surveyed, as well as the IIA-SA, SETAs and other stakeholders;

- To provide guiding evidence to providers of audit learning programs and to provide statistics and information for use in Sector Education and Training Authority (SETA) Sector skills development plans; and

- To create greater awareness in the public domain, particularly in government, of the critical need for internal auditing, by publicising the value that it adds to operational efficiency and governance.

This survey builds on a similar survey of the South African private sector concluded in 2009 and reported on in 2010 by the iKUTU research team. In addition, the Institute of Internal Auditors Research Foundation (IIARF) conducted studies in 2006 and 2010 that were instrumental in establishing the global common body of knowledge (CBOK) of the internal audit profession.

2. CONDUCTING THE SURVEY

This survey used three different questionnaires as its data collection instrument. The questionnaires were developed by the authors and finalised after discussions had been held with the IIA-SA and with National Treasury. The questionnaires were completed using a combination of personal interviews (conducted by members of the iKUTU research team), and individually completed questionnaires, distributed and collected by means of e-mails or faxes.

The intention was to gather responses from all national departments in the South African government. However, not all targeted national departments agreed to participate in the study. The survey was finally addressed to stakeholders within 33 national departments. In total 32 Chief Audit Executives (CAEs), 30 Chairpersons of the Audit Committee (CACs) and 31 Accounting Officers (AOs) or their representatives or equivalents (Chief Financial Officers (CFOs) or Chief Operating Officers (COOs)) of national departments participated in the iKUTU survey that was undertaken during the period 2010 to 2012. Data was collected to obtain stakeholders' views on the following areas of interest:

• The status and structure of and reliance placed on the work of the IAFs within national departments;
• The effectiveness of audit committees of national departments;
• Current and future internal audit services provided and to be provided, and value added by IAFs of national departments;
• The competence and staffing of IAFs.

These responses were collated and analysed using descriptive statistics and the findings are reported in the next section.
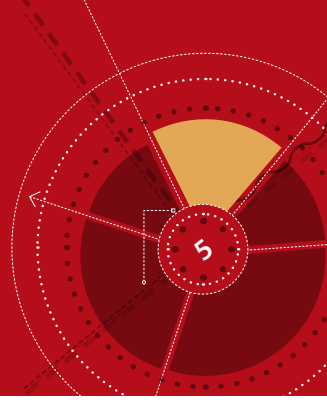
3. FINDINGS AND CONCLUSIONS

Internal auditing is an important governance partner and assurance provider. The level of importance is illustrated by the averaged profile indicators of the national departments that participated in this study. Although responses were received from 31 AO/CFO/COOs (hereafter referred to as AOs), not all provided information on their department's profile attributes. These are presented in Table 1.

Table 1: National departments: indicators 2010 financial year

Indicators	n	Average
Total number of employees	24	7 409
Total budget allocation	24	R280 849 843
Internal audit budget	24	R393 286
AGSA/External audit budget	23	R131 416
Risk management budget	24	R80 083

Figure 1 indicates that on average, national departments allocate more than half of their annual assurance and risk management budgets to internal auditing (65%), with 22% being allocated to external audit services and 13% to risk management.

■ Internal audit budget ■ AGSA/External audit budget
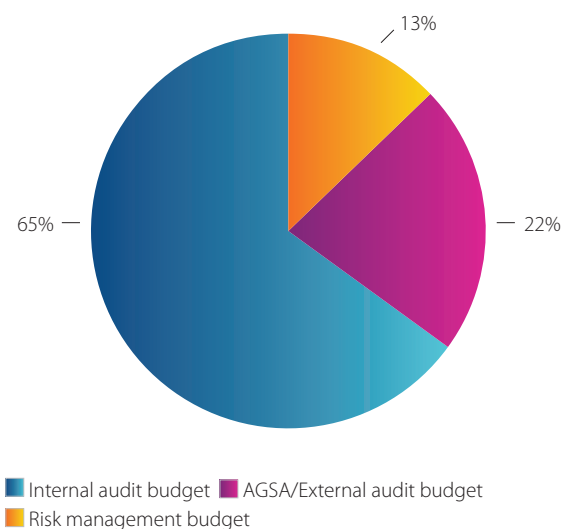■ Risk management budget

Figure 1: Average assurance and risk management budget allocation – 2010 financial year

Recent academic research in internal auditing has identified three critical characteristics an effective IAF must have: it must be competent; it must enjoy a high standing within its organisation,

and it must fulfil more than the traditional compliance role. This survey presents the views expressed by three categories of respondents (AOs, CACs and CAEs), and the findings are presented to address the following three related themes:

• The status of internal auditing within national departments;
• The changing role of internal auditing,
• The competencies of internal auditors and staffing of IAFs.

3.1 The status of internal auditing within national departments

The status of an IAF is a function of the structure of the IAF, the reliance placed on its work, the presence of an effective audit committee, and the IAF's interaction with the audit committee.

3.1.1 The structure of IAFs

This section presents an overview of the structure and reporting responsibilities of the participating departments' IAFs, as well as the reasons for the choice of the current structure and the level of satisfaction with this structure. The following information is presented:

• The reporting lines of IAFs;
• The allocation of in-house, outsourced and co-sourced IAFs;
• Reasons for the selection of in-house or outsourced IAFs;
• Parties to whom an entire IAF or selected IAF services are outsourced; and
• Satisfaction levels with in-house and outsourced IAFs.

The reporting lines of IAFs

Much of an IAF's independence can be inferred from its reporting lines, and this also serves as an indicator of its status. Figure 2 reflects the responses of all the respondents as to the effectiveness of their national department's IAF reporting lines. Although the respondents could have chosen from several alternatives and had to distinguish between the IAF's functional and administrative reporting lines, several options were provided in the questionnaires. In practice the reporting function is conducted by the CAE and from Figure 2 it is clear that most respondents indicated that their CAEs reported on behalf of their national departments' IAF

3. FINDINGS AND CONCLUSIONS

to the accounting officer on administrative matters, and to the chairperson of their audit committee for functional purposes. CAEs' responses were similar to those of CAC and AO respondents. It is however a concern that there are some departments where the AO, CAC and CAE disagree with the reporting structure of their IAF.
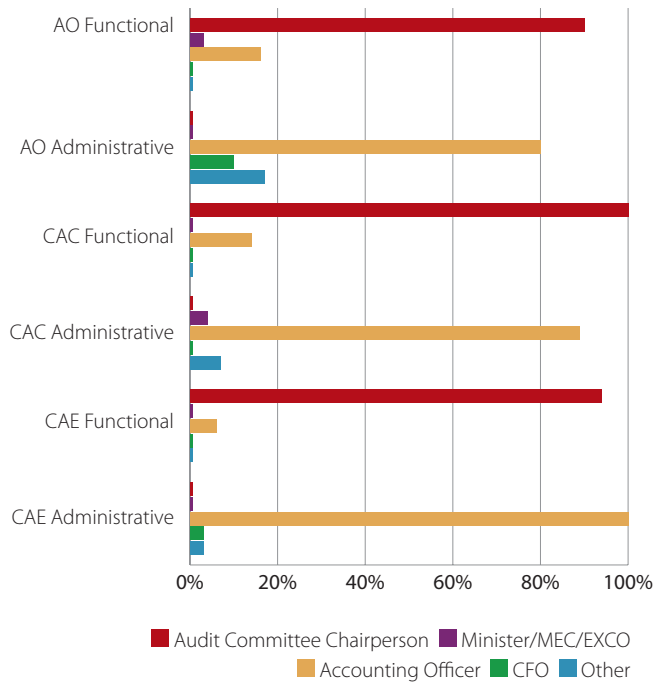
Figure 2: Perceptions of IAF reporting lines

Apart from the limited concern, the reporting lines of the IAFs are mostly in line with recommendations contained in IIA guidance pronouncements and governance codes. In this respect IAFs can thus be regarded as sufficiently independent institutionally.

The distribution of in-house, outsourced and co-sourced IAFs

Respondents' views on the structure of IAFs within national departments were obtained. Figure 3 illustrates that, according to CAC respondents, approximately a third of national departments obtained internal audit services exclusively from an in-house team of internal auditors (37%), while 63% of national departments

obtained internal audit services from a combination of an in-house IAF and an outsourced IAF. The views expressed by AO and CAE respondents as to the structure of national departments' IAFs showed a strong similarity to those expressed by CAC respondents. CAE respondents indicated that 3% of internal audit services in national departments were totally outsourced: this view was not shared by CAC and AO respondents.
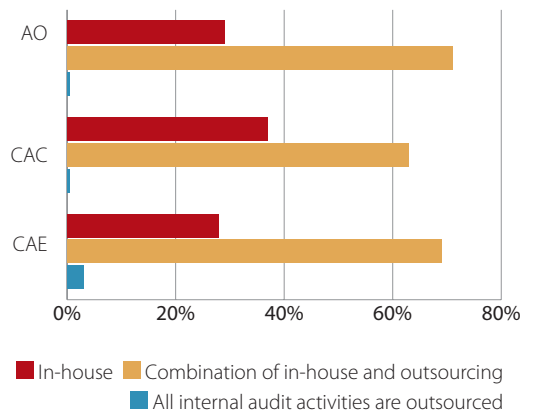
Figure 3: Structure of IAFs

Reasons for preferring an in-house or an outsourced IAF

Taking cognisance of the above distribution of co-sourced, outsourced and in-house IAF services, structural decision-making was investigated in order to better understand the situation. In Figure 4 the factors that contribute to deciding on outsourcing some or all internal audit services, are reflected. The most frequently selected factors favouring outsourcing were the need for specialised technical expertise (obtaining scores of 72.5%, 78.9% and 81.8% from AO, CAC and CAE respondents respectively) and a shortage of competent internal auditors (obtaining scores of 67.9%, 83.3% and 69.3% respectively). These responses confirm the widely acknowledged shortage of capable internal auditors in the public sector internal audit environment, and highlight just how significant that shortage has become. As indicated in Figure 4, the other factors respondents selected as motivating or justifying their maintaining a co-sourced IAF structure, were significantly less frequently chosen.

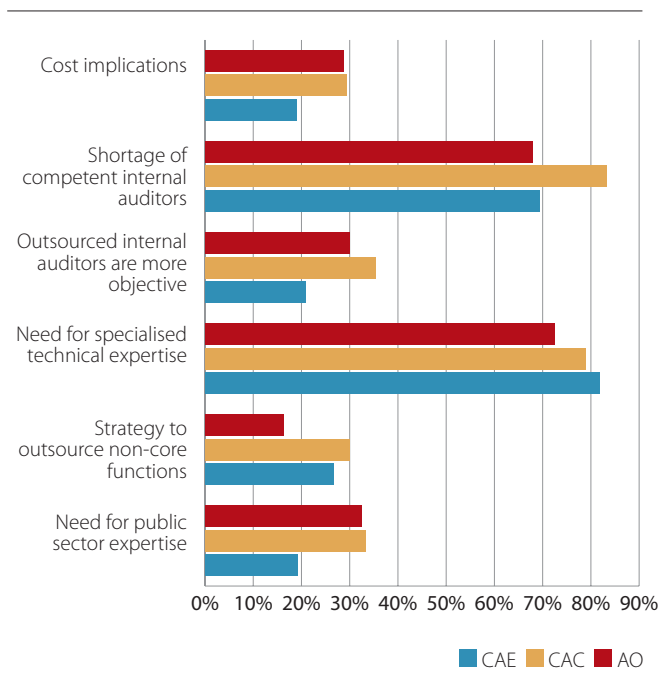# 3. FINDINGS AND CONCLUSIONS

Figure 4: Factors contributing to outsourcing IAFs

In an attempt to obtain a deeper understanding of national departments' IAF structures, the AO, CAC and CAE respondents were requested to rate the relative importance of the factors suggested as contributing to their use of (and preference for) in-house internal audit services. These are depicted in Figure 5. All three categories of respondents rated the in-house IAFs' commitment to governance as the most important reason (obtaining scores of 72.2%, 66.7% and 73.3% from AO, CAC and CAE respondents respectively). CAE respondents also perceived cost implications as a compelling reason for keeping the IAF in-house. The complex processes involved in public sector operating activities, and in-house IAFs' superior knowledge of and familiarity with them were also prominent in CAEs' responses. Interestingly, CAC respondents regarded these factors to be of lesser importance. Although AOs' views were not as pronounced as those expressed by CAEs, their scores for the other factors that contribute to the decision to use an in-house IAF were not as low as those of CAC respondents. CAE and AO respondents perceived the use of internal auditing as a training

ground for public sector management as their least important reason for using in-house IAFs, a finding which contradicts that of a similar study performed in the private sector in 2009.
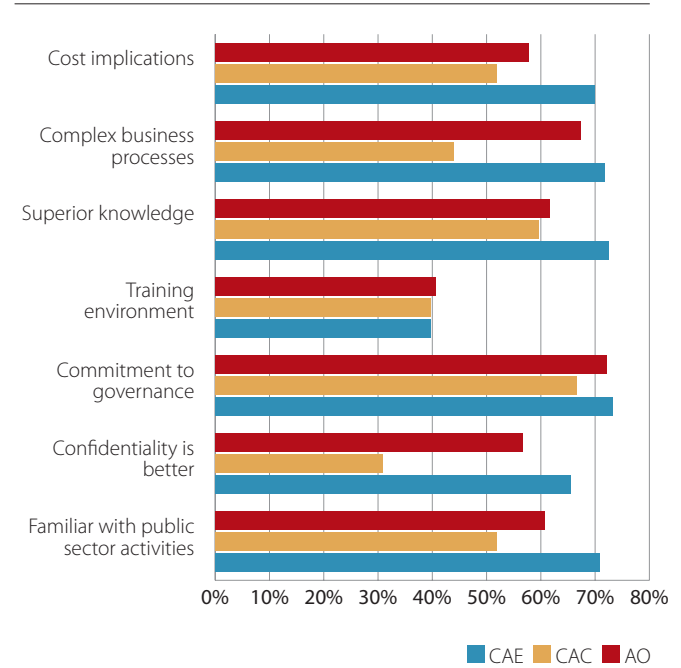

Figure 5: Factors influencing decisions to use in-house IAFs

Parties to whom the full IAF or selected IAF services are outsourced

Respondents were asked to identify which external service providers they used for their national department's outsourced internal audit services. The results depicted in Figure 6 disclose that only the CAE respondents were aware of the many external service providers available to them, while CAC and AO respondents were significantly less well-informed, being under the impression that the accounting firms (Big 4 and others) were almost their only options. This disparity should be investigated as it raises questions about the coherence of reporting by IAFs in national departments.
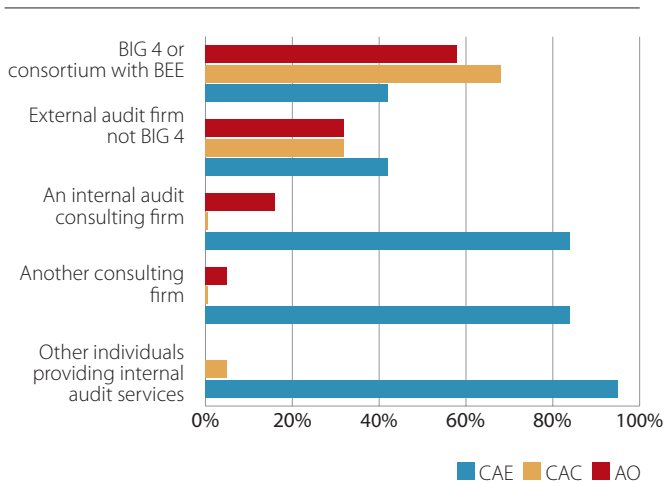
3. FINDINGS AND CONCLUSIONS

Figure 6: Awareness of outsourced internal audit service providers

Satisfaction with IAFs, both in-house and outsourced

Even though CAE respondents were the only group to indicate an awareness of many different outsourced internal audit providers, all the respondents were nevertheless requested to indicate their levels of satisfaction with internal auditing service providers in national departments, be they in-house or outsourced.
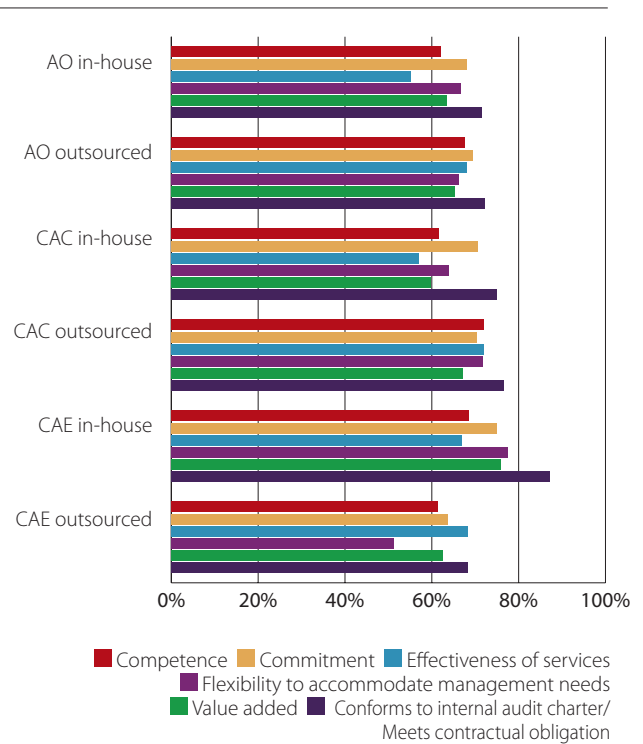

Figure 7: Level of satisfaction with IAFs: in-house and outsourced

The researchers identified six attributes and the respondents were requested to choose. As depicted in Figure 7, it appears as if CAC and AO respondents regarded outsourced providers of internal audit services to provide more effective service than their in-house IAFs ((in-house) 55.2% and 57.1%, in relation to 68.1% and 71.9% (outsourced)). AO and CAE respondents perceived outsourced internal audit service providers to offer higher levels of competence ((outsourced) 67.6% and 71.9% in relation to (in-house) 62.1% and 61.6%) and a greater ability to add value ((outsourced) 65.3% and 67.2% in relation to (in-house) 63.4% and 59.8%) than their in-house IAFs, which could explain this more negative view of their in-house IAFs. For the remaining three attributes, much less variation was found.

3. FINDINGS AND CONCLUSIONS

3.1.2   Reliance placed on the work of IAFs

This section presents an overview of the degree of reliance placed on the participating departments' IAF services by internal audit stakeholders, as well as the co-ordination of audit-related effort between the IAFs and other parties. The following information is presented:

• The extent to which IAF recommendations are implemented;
• The reasons for not implementing IAF recommendations;
• The reliance placed on IAF work by external auditing;
• The co-ordination of audit-related effort between IAFs and other parties; and
• IAF concerns and perceptions regarding available support.

The extent to which IAF recommendations are implemented

Academic literature supports the notion that an IAF has a high status if the organisation's executive management takes cognizance of its findings. Figure 8 reflects the extent to which the responding national departments are perceived to have implemented the recommendations that were made by their in-house and/or outsourced IAFs. It shows much variation. AO respondents were under the impression that internal audit recommendations generally had a much higher importance than did CAC respondents. Furthermore, AO respondents perceived recommendations made by outsourced service providers to have greater importance that those made by in-house IAFs, while CAC and CAE respondents indicated opposite views. Such varied perceptions could raise questions about the coherence of reporting within and by IAFs in national departments.
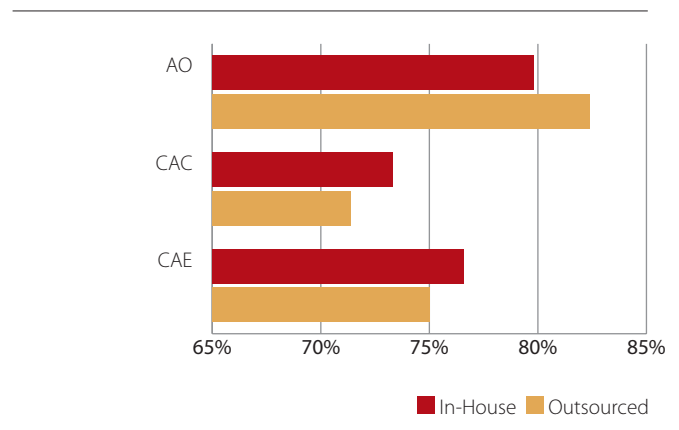

Figure 8: Extent of implementation of IAF recommendations

Reasons for not implementing IAF recommendations

Some light could be shed on the above concern, if the reasons presented by the survey for non-implementation of IAF recommendations are considered. As CAE respondents did not have to respond to this question, views of CAC and AO respondents on the six identified reasons are illustrated in Figure 9.
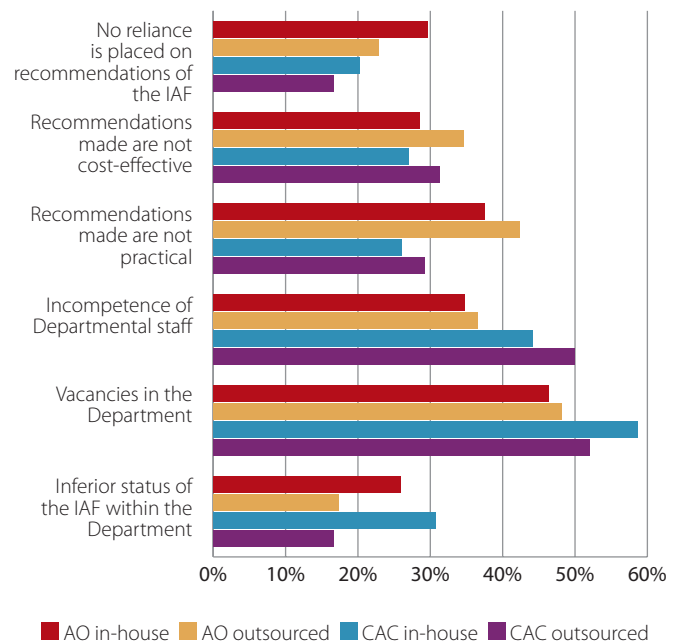

Figure 9: Factors contributing to the non-implementation of IAF recommendations

3. FINDINGS AND CONCLUSIONS

None of the listed reasons were perceived to significantly contribute towards non-implementation of IAF recommendations (no single response generated more than 60% support). Vacancies within national departments, other than in the IAFs, were reported as the main factor that prevents implementation of internal audit's recommendations, regardless of whether the IAF was in-house or had been outsourced. In addition, CAC respondents also indicated that the competencies of staff in their departments, other than that of internal auditors, were limited, and this contributed to non-implementation of recommendations made by both outsourced and in-house IAFs.

The reliance placed on IAF's work by external auditing

Figure 10 reflects the respondents' perceived degree of reliance that the surveyed national departments' external auditors (the AGSA) placed on the work done by their in-house and/or outsourced IAFs.
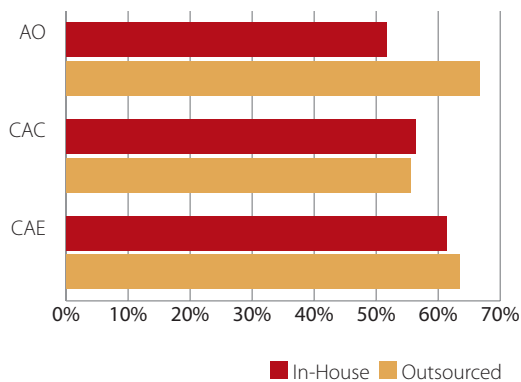
Figure 10: Level of reliance placed by external auditors on the work of the IAF

CAE and AO respondents indicated that they believed that the Auditor General South Africa (AGSA) placed a higher level of reliance on the work produced by outsourced internal audit service providers than they did on that of their own in-house IAFs. CAC respondents' views suggested there was little to choose between the two functions, placing in-house marginally ahead of outsourced work. The relatively low scores for reliance (ranging from 51.6% to 61.3% for in-house IAFs and 55.6% to 66.7% for outsourced IAFs) suggest that this is an area for staff competencies

development, in order to improve the contribution of the in-house IAFs to combined assurance.

The co-ordination of auditing efforts between IAFs and other parties

Figure 11 reflects the perceived levels of co-operation that exist between national departments' external auditors and risk management functions, and their in-house and/or their outsourced IAFs, as reported by respondents.
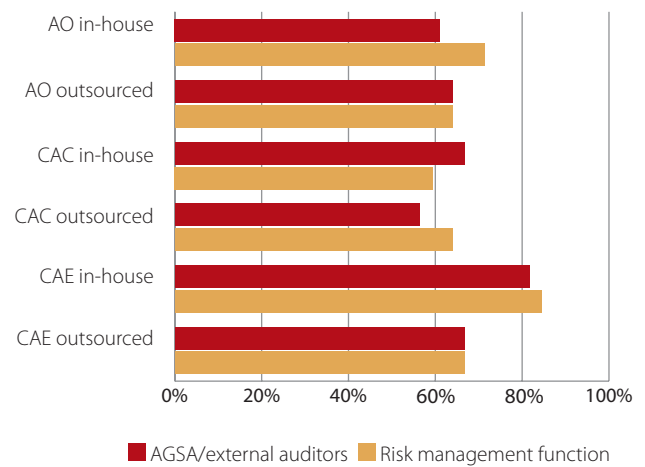
Figure 11: Co-operation between IAF and the AGSA and risk management function

The majority of CAE respondents perceived that there was extensive co-operation between the other oversight parties (AGSA and the risk management function) and their in-house IAFs, with positive scores of 81.7% (risk management) and 84.4% (AGSA/external auditors), while fewer of them reported such co-operation for outsourced IAFs (positive scores of 66.7% and 66.7% respectively). CAC and AO respondents were more sceptical about the effectiveness of co-operation between in-house IAFs and the AGSA (positive scores of 61.1% and 66.7% respectively) and the risk management function (positive scores of 71.3% and 59.5% respectively). It therefore appears that conformity to professional standards and governance guidance have not been achieved in the coordination of auditing efforts between the IAF and these parties.
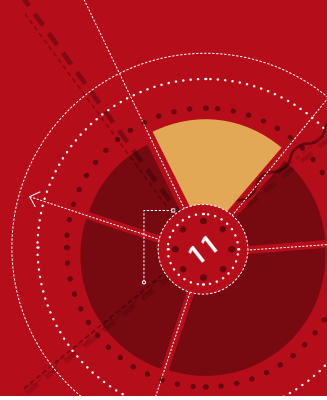
3. FINDINGS AND CONCLUSIONS

Figure 12 presents the views of CAEs on the levels of effective coordination of auditing efforts between in-house and outsourced IAFs, and other parties. Most CAE respondents perceived that their in-house IAFs did effectively coordinate their audit efforts with those of the other parties mentioned, while CAEs with outsourced IAFs reported lower levels of successful coordination of effort. A very low level of effective coordination of efforts between IAFs and environmental auditors was reported.
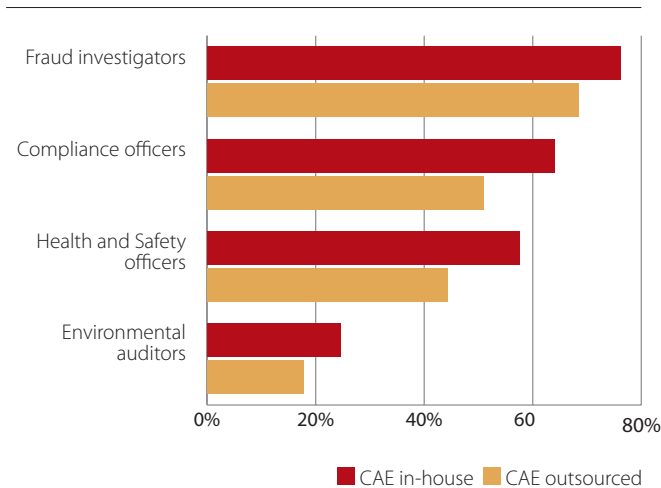

Figure 12: Coordination of audit efforts between IAFs and other parties

IAF concerns and support

In an attempt to gauge the status of IAFs in national departments, CAE respondents' concerns; and CAC and AO respondents' views on such concerns were investigated. The views of all categories of respondents are presented in Figure 13.
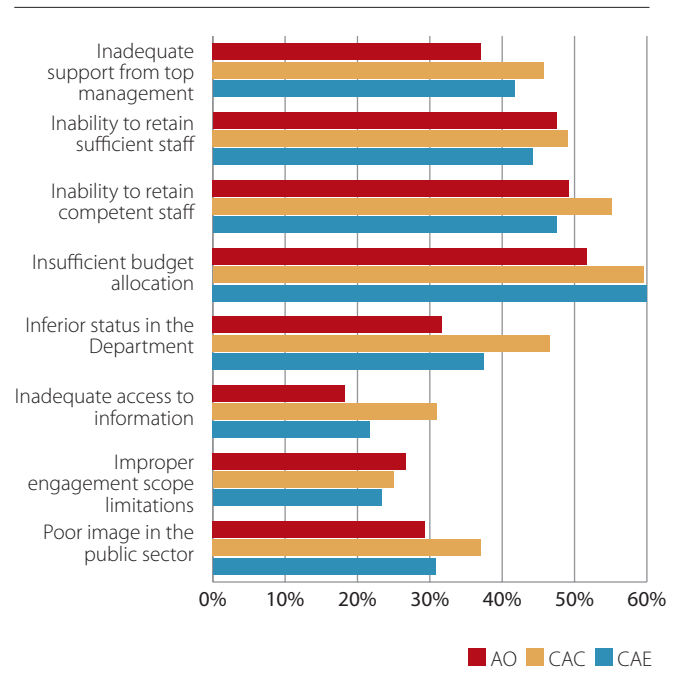

Figure 13: IAF concerns and support

A majority of respondents identified the inadequacies of their internal audit budget allocations as their main concern, followed by their inability to retain competent staff. These findings echo a recurring theme in this report: there is a shortage of funding for attracting, training and retaining capable internal auditors.

In line with concerns over funding for internal auditing, more CAC and CAE respondents than AO respondents highlighted "inadequate support from management" as a concern. This supports the view that the IAF has a poor public image and inferior status within the department, accounting being the better-known function that is also less encumbered by the "watchdog" label. An interesting finding is that more CAC than CAE and AO respondents identified "inadequate access to information" as a concern, suggesting another divide, this time between operational and oversight functions. These findings should raise questions about the coherence of reporting efforts by the IAFs of national departments.

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3.1.3   Audit committee effectiveness

This section presents an overview of the perceived levels of effectiveness of the audit committee as the oversight body tasked with ensuring the independence of the IAF. The following information is presented:

- The composition of the audit committee;
- The number of audit committee meetings; and
- The level of audit committee effectiveness.

The composition of the audit committee

CAC respondents were requested to provide information on the composition of their audit committees. Responses in Figure 14 show that audit committee members of national departments are mainly drawn from individuals working outside the public service, which is in line with legislative requirements on audit committee composition.

Figure 14: Composition of audit committees

The number of audit committee meetings

CAC respondents were requested to indicate the number of audit committee meetings held per year. Figure 15 shows that all audit committees in national departments met at least four times a year, while half of them met more than four times. This is in line with legislative requirements.
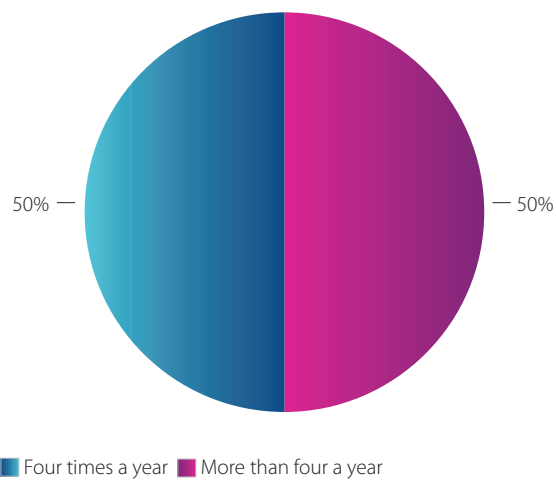

Four times a year   More than four a year

Figure 15: Number of audit committee meetings per year

The level of audit committee effectiveness

All categories of respondents were requested to rate the effectiveness of their audit committees. This was done by providing respondents with 15 statements and requesting them to rate their levels of agreement with each statement using a 5-point scale.

The scores in Table 2 indicate favourable views on audit committee effectiveness, shared by all categories of respondents. As expected, CAC respondents were generally more optimistic than the other categories of respondents. However, CAC respondents reported lower levels of attendance of audit committee meetings by AOs than the other respondents. During interviews, some CAC respondents specifically expressed their concern about this matter, claiming that the functioning of the audit committee was affected by the frequent absences of their AOs. This aside, the results in Table 2 indicate a high level of perceived effectiveness of audit committees in national departments expressed by all three categories of respondents.

Table 2. The numbers represent the average levels of audit committee effectiveness as rated by each category of respondent in response to each statement.

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Table 2: Audit committee effectiveness

Statement	AO	CAC	CAE
The membership composition of the audit committee as a whole ensures that it functions with appropriate specialised non-financial expertise that specifically relate to the nature of the department	58.1	72.5	68.8
Members on average possess adequate knowledge of public sector legislation	72.6	79.2	80.5
The audit committee is provided with sufficient non-financial information to effectively perform its responsibilities	71	72.5	79.7
Certain members serve on the audit committee for too long	37.5	24.1	43.1
Members on average are objective	75.8	85.8	82.8
Members on average are independent.	83.9	90.8	87.5
Members on average attend audit all committee meetings	84.7	85.8	86.7
Members on average are sufficiently prepared for audit committee meetings	76.6	79.2	78.1
Members on average render valuable contributions at every audit committee meeting	74.2	81.7	79.7
The annual self-evaluations of the members are fair	66.7	71.3	62.5
Members appropriately monitor the department's financial improvement plan	71.8	69.8	70.3
Members properly discuss the reported findings of the IAF	75.8	81	79.7
Members appropriately monitor the implementation of the recommendations made by the IAF	71.6	82.8	78.1
The AO attends all the meetings to provide explanations when required	71.8	67.2	75

3.2 The changing demands on internal auditing

The role of internal auditing has evolved significantly over the last two decades. Defining this evolution is the introduction of the concept of value added in the revised definition (2000) of internal auditing. The role of internal auditing has expanded to include services that add value not only to internal control processes, but now also embrace governance and risk management, in ongoing efforts to meet the needs of various stakeholders.

3.2.1 Value added by IAFs

This section presents an overview of the perceived value already being added by the participating departments' IAFs, the current services they provide, and the additional services expected to be rendered within the next three years, to enhance the value-adding role of internal auditing. The IAFs' participation levels in combined assurance were also assessed. The following information is presented:

- Current value added by in-house and by outsourced IAFs;
- Expected value added by in-house and by outsourced IAFs;
- Services rendered by IAFs; and
- Combined assurance.

Current value added by in-house and outsourced IAFs

Respondents were requested to indicate the level of current value added by their IAFs, for the ten identified services shown in Figure 16.

Figure 16 reflects the average level of current value added by their IAFs to each of ten governance activities, from the perspective of the AO, CAC and CAE respondents, for both in-house and outsourced IAFs. The following is apparent:

- CAC and AO respondents perceived the value added by the IAFs to each of the ten governance activities at a low level of approximately 60% each. For certain activities the perceptions of CAEs differ significantly from those of CACs and AOs. This raises further questions regarding the accuracy of reporting and effectiveness of management of IAFs.
- The perceptions of CAC and AO respondents regarding the value added by in-house IAFs in comparison to outsourced IAFs also differed substantially from those of CAE respondents for certain activities listed. It is evident that AO and CAC respondents perceived that outsourced IAFs added more value than in-house IAFs did for certain activities listed, while CAEs held the opposite view.
- On average, CAC respondents perceived that their outsourced IAFs added the most value in the area of operating effectiveness, while they perceived that their in-house IAFs added the most value to the control environment.

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- On average, AO respondents perceived that their outsourced and in-house IAFs added the greater value in the area of governance.
- On average, CAE respondents agreed with CAC respondents that their in-house IAFs added the most value in the area of control environment, while AO respondents perceived that outsourced IAFs added the most value to the control environment.
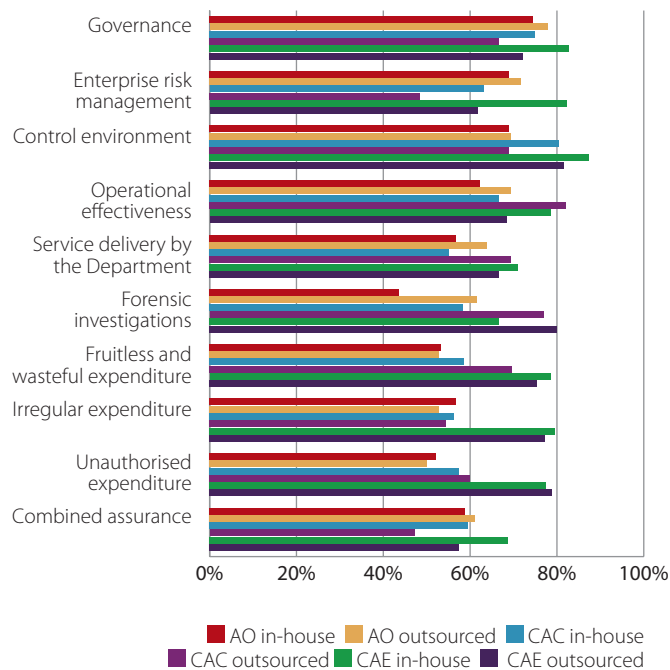

Figure 16: Current value added by IAFs

Expected future value added by in-house and outsourced IAFs

Respondents' views on the value they expected would have to be added by their IAFs within the next three years were requested and are presented in Figure 17.

Figure 17 reflects the high expectations (mostly above 80%) of the value to be added by both their in-house and outsourced IAFs held by all respondents. This is in contrast with the (distinctly lower)

perceptions they hold regarding the current value added by IAFs. Especially the CAC and AO respondents were of the opinion that internal auditing should add more value in all mentioned areas in future. CAE respondents were of the opinion that their in-house IAFs should add more value than their outsourced IAFs in all service areas in future, a view not shared by the CAC and AO respondents.
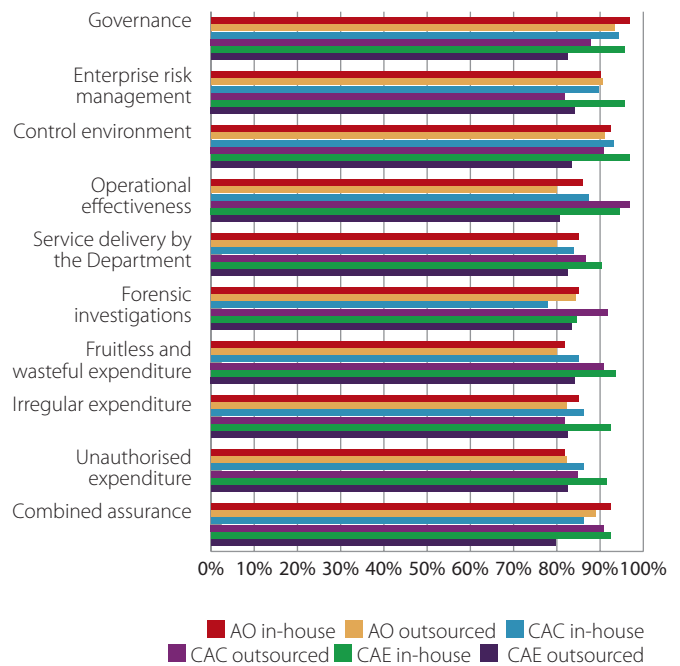

Figure 17: Expected future value added by IAFs

Services rendered by IAFs

Figure 18 reflects the views of CAE respondents regarding the current services that their IAFs render; and the services that they anticipate their IAFs will be required to render in future. CAE respondents reported that all areas listed in Figure 18 were currently being performed by their IAFs and that they anticipated that they would continue to be performed in future. Furthermore, CAE respondents were of the opinion that the number of services provided by in-house IAFs would increase, while services provided by outsourced IAFs would decrease in future. This should, however, be evaluated in the context of the shortage of competent internal

3. FINDINGS AND CONCLUSIONS

auditors discussed in Section 3.3 on internal audit competencies. Areas that are most frequently outsourced currently are information technology (IT) auditing, and forensic investigations, and successfully moving these services to in-house IAFs will require an improvement in internal auditors' competencies.
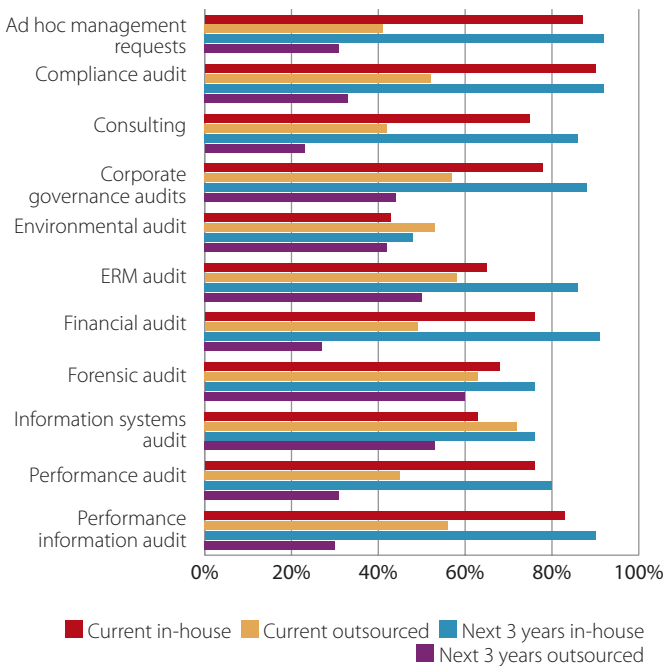

Figure 18: Current and future internal audit services

Combined assurance

This concept is relatively new. Combined assurance provides a framework designed to achieve the provision of effective and efficient assurance to an organisation. Internal auditing and the audit committee are the key role players who should contribute towards the success of combined assurance.
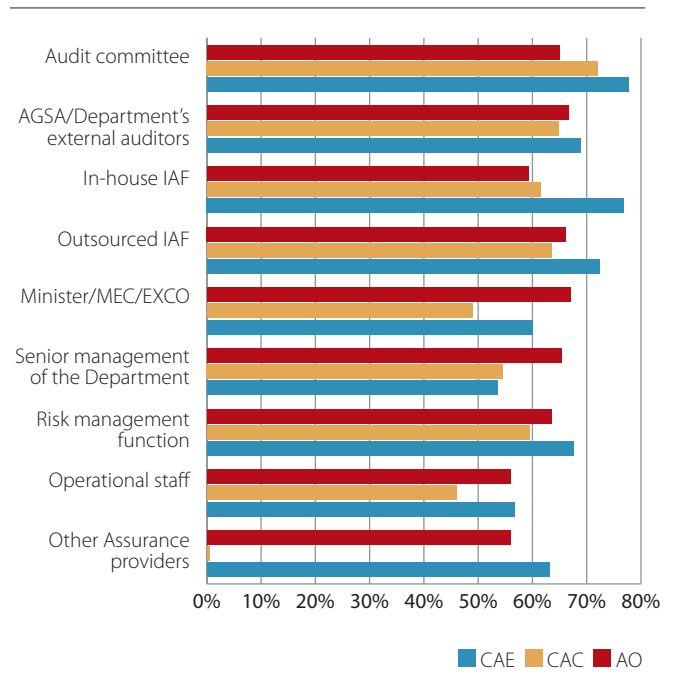

Figure 19: Contribution to combined assurance

Figure 19 reflects the average level of satisfaction expressed by CAE, CAC and AO respondents with the contributions to combined assurance made by the parties listed. It appears that the perceptions of CAC respondents were almost always lower than those of the other respondents. This could be as a result of unfamiliarity with this relatively new concept. Alternatively, audit committee members might not be aware of the status of combined assurance within the department, illustrated by CAC respondents being completely unaware of the use of other assurance providers, as indicated in Figure 19 above. AO respondents were less satisfied with the contributions to combined assurance made by their in-house IAFs and their audit committees when compared to satisfaction levels expressed by CAC and CAE respondents. This is in contrast to the status promoted by best practice and guidance, which highlights the importance of auditing and audit committees as significant contributors to the combined assurance process.
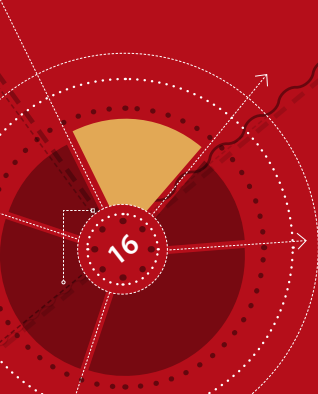
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3.2.2   Internal Audit Services

This section presents an overview of the services performed by the participating departments' IAFs, with specific focus on governance, risk management, fraud, and fruitless and wasteful expenditure. Where applicable, these services provided by IAFs are presented in the context of other parties' contributions. The following information is presented:

- Governance strategy of the department;
- Contributions to governance;
- Risk management structure of the department;
- Contributions to the risk management framework;
- IAF contributions to risk management activities, and
- Detection and prevention of irregular conduct.

Governance strategy of the department

Respondents were requested to indicate the sources used to develop their department's governance strategy. Results are reflected in Figure 20.
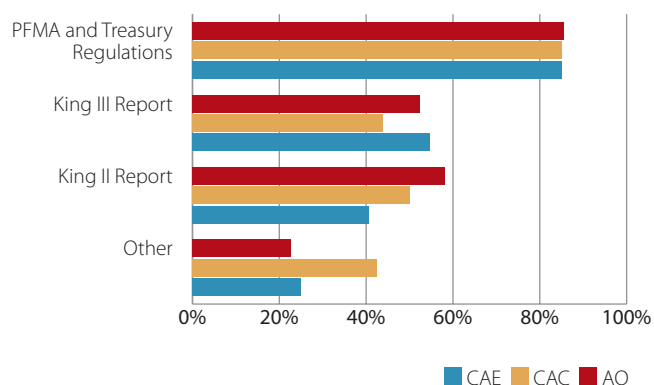

Figure 20: Regulation and legislation influencing governance strategy

As the public sector's form and operational procedures are prescribed by legislation it was expected that the PFMA and Treasury Regulations would be the main drivers of the development of governance strategies in national departments. This is reflected in the results presented in Figure 20. The relatively low reported influence of the King reports on developing governance strategies

for the departments appears at first to be odd, as these are widely respected as the leading guidance on governance. However, it also needs to be stated that those entrusted with the drafting of the PFMA and Treasury Regulations absorbed and then reflected the key requirement of the first King report in these documents. Unfortunately respondents were not required to specify which "other" sources had been used, so it is not immediately clear why the gap between what is essentially the number of "other" reference documents consulted by AO respondents and those of CAC respondents was so large. Both of these parties are key players in the development of the governance strategies of their departments, so one would be forced to look at their individual academic and professional training experiences for answers.

Contributions to governance

Various parties contribute to the governance of national departments and respondents were requested to rate their level of satisfaction with the contributions of listed parties to the governance of their departments.

Figure 21 illustrates the average levels of satisfaction reported by respondents with the contributions that the listed parties made to the governance of their departments. The contributions made by the listed parties, as perceived by CAE respondents, were much higher than those of CAC and AO respondents. AO respondents expressed a relatively low level of satisfaction with the contributions made by internal auditing, especially the in-house IAF. This last result is in line with AOs' perceptions that their in-house IAFs make a relatively low contribution to combined assurance.
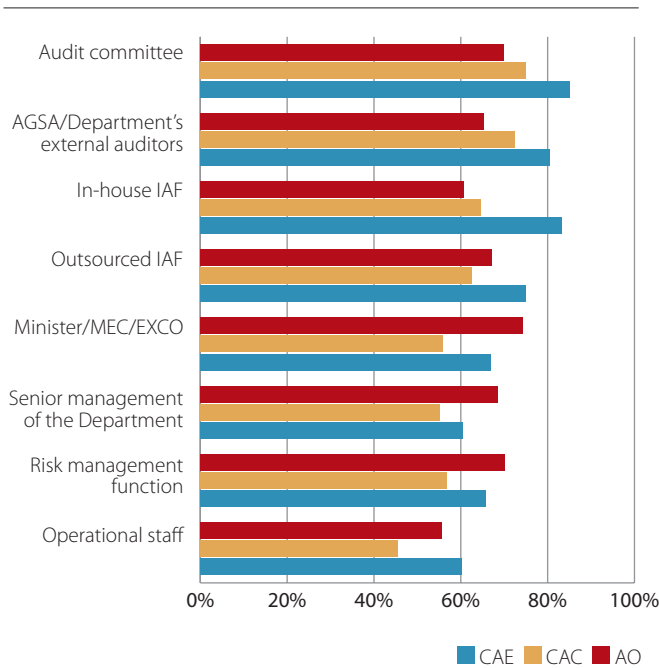
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Figure 21: Satisfaction with contributions of parties to governance

Risk management structure of the department

Table 3 reflects respondents' responses to three "yes" versus "no" questions on the existence of a formal in-house structure to manage the department's risks; whether the risk structure operates independently from the IAF, and whether the existence of the risk management structure influences the role that internal auditing plays with regard to risk management in the department. Although risk management is a fairly new concept, especially in the public sector, it seems that it was widely embraced, as most CAC and AO respondents indicated that their national departments did already have a formal structure in place. An unexplained discrepancy is evident between the perceptions of AO respondents and those of CAC and CAE respondents, as either a structure exists or it does not. The fact that a number of respondents indicated that they were unsure of the independence of their risk structures from their IAFs, as well as whether the existence of such structures decreased the importance of their IAFs in the management of risk, appears odd. It is expected that the audit committee and its chairperson should

have a thorough understanding of the roles of internal auditing and of risk management, and of their relationship.

Table 3: Existence of a formal structure to manage risk

Formal risk management structure in the department	AO			CAC			CAE		
	Yes	No	Unsure	Yes	No	Unsure	Yes	No	Unsure
Existence of structure	77%	23%	0%	83%	10%	7%	84%	16%	0%
Operates independently from IAF	71%	25%	4%	77%	12%	12%	81%	19%	0%
Existence decreased importance of IAF w.r.t. risk management	13%	79%	8%	15%	77%	8%	19%	78%	4%

Contributions to the risk management framework

From Figure 22 it seems that respondents on average were satisfied with the contributions of the listed parties to their departments' risk management frameworks. However, the views of the AO, CAC and CAE respondents were contradictory with regard to the role of specialist risk consultants (CAC respondents were less satisfied than CAE and AO respondents with their contributions). CAE respondents expressed much greater satisfaction with the contributions of their in-house IAFs to the risk management framework than did CAC and AO respondents.
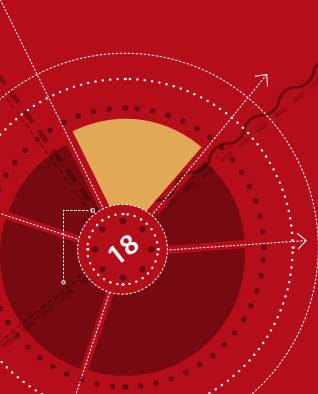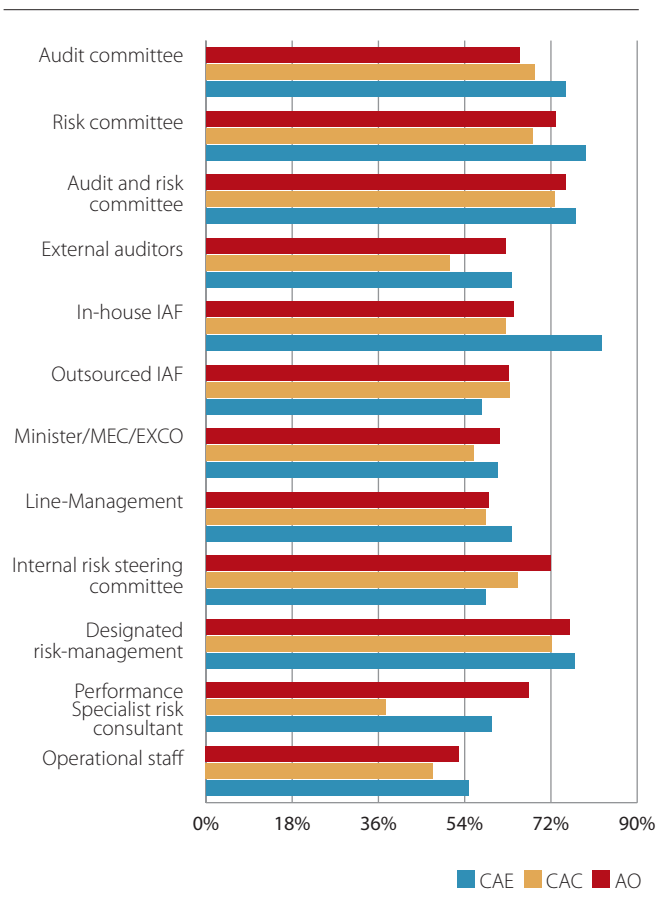
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Figure 22: Contributions to risk management framework

IAF's contribution to risk management activities

Figure 23 illustrates the views of respondents on the extent of the contribution made by their IAFs to the management of risk. It appears that IAFs were successfully incorporating significant analysis/assessment of risks in their annual audit plans. However, in all the areas, the CAE respondents were of the opinion that their IAFs contributed more to risk management than what CAC and AO respondents reported. The views of CAC and AO respondents on the contribution made by their IAFs in respect of assurance on enterprise risk management, appears especially low. IIA guidance stipulates that internal auditing should be the assurance provider to the audit committee and executive management on risk

management. It is evident that CAC respondents regarded their IAFs to have made a much less prominent contribution to consulting activities than what AO respondents reported. This may indicate that audit committees were not aware of IAFs' consulting activities, which such activities have potentially negative implications for IAF independence.
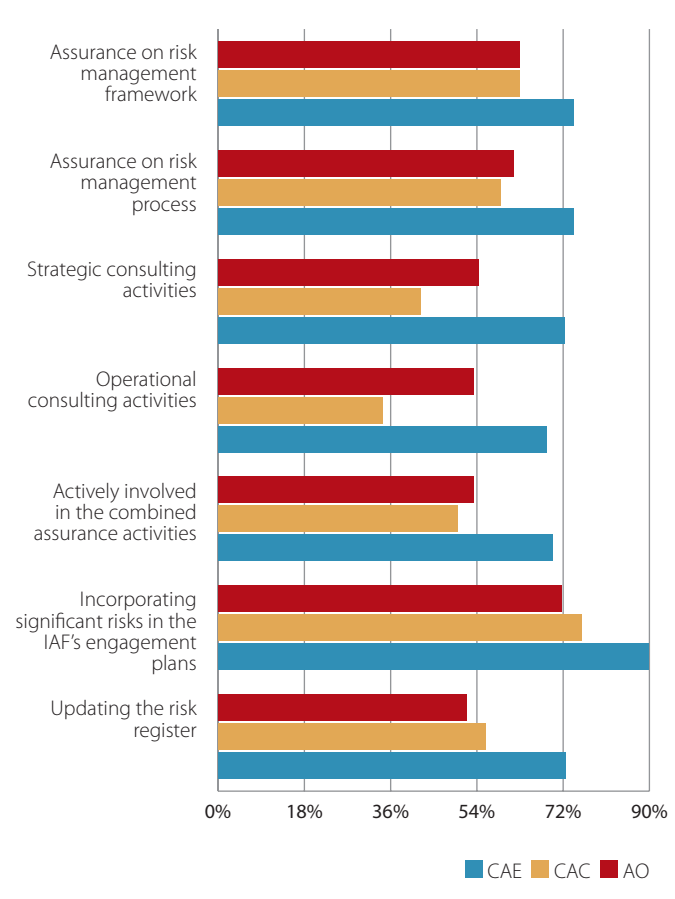

Figure 23: IAF contribution to risk management

Detection and prevention of irregular conduct

Respondents' awareness of irregular conduct was tested. They were requested to indicate, with reference to the past five years, their awareness of fraud in the department, and whether fruitless and wasteful, irregular or unauthorised expenditure had been made by

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the department, and whether the department had been reported on the Presidential Hotline. Figure 24 illustrates this awareness.

Figure 24 reveals that a high percentage of respondents reported that their national departments had been confronted by irregular conduct over the past five years. The awareness level of CAC respondents of whether the department had been reported to the Presidential Hotline, was much lower than their awareness level about whether the department had been a fraud victim, or whether reportable fruitless and wasteful, irregular or unauthorised expenditure had occurred.
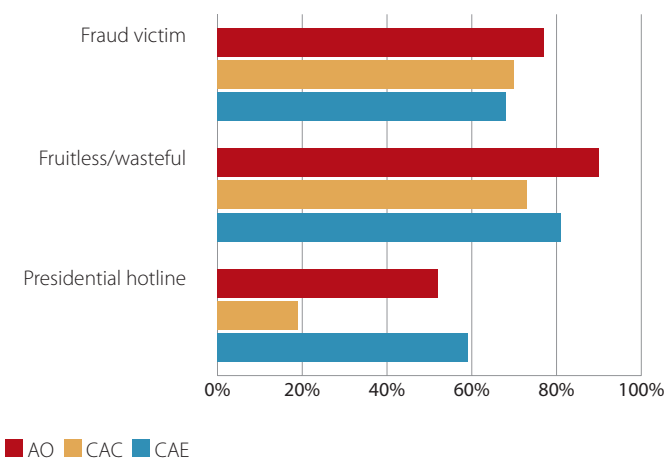

Figure 24: Irregular conduct awareness

Respondents were further asked whether their IAFs were responsible for the prevention and detection of fraud, and reportable fruitless and wasteful, irregular or unauthorised expenditure. Their responses are depicted in Figure 25.
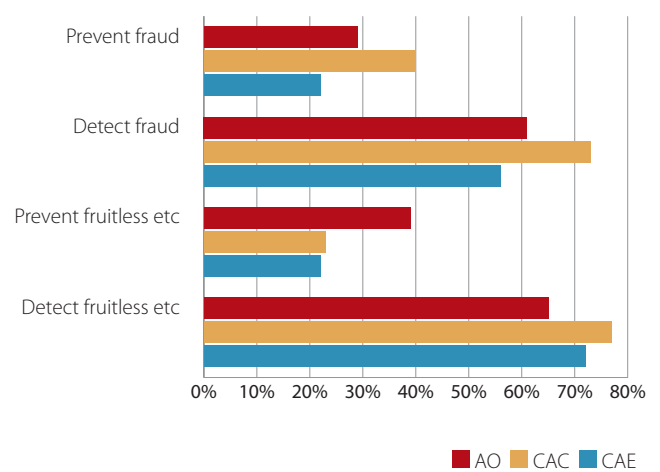

Figure 25: IAF responsibility to prevent and detect irregular conduct

Respondents perceived their IAFs to be fully responsible for the detection of irregular conduct, rather than merely the prevention thereof. This notion could indicate that an IAF was still regarded as a "watch dog" in national departments, rather than as a valuable governance role player. According to published guidance and regulations, implementation of internal controls is management's responsibility, and by providing assurance thereon, the IAF indirectly contributes to efforts to prevent irregular conduct.

Respondents were further requested to give their views on the degree of comfort that the parties listed in Figure 26 provide to their departments arising from their efforts to prevent and detect fraud. From Figure 26 it is clear that all identified parties provided some degree of comfort, but the optimistic views of the CAE respondents on the comfort provided by their in-house IAFs stand out. The other categories of respondents were somewhat more circumspect about the levels of comfort provided by their in-house IAFs. Views relating to the degree of comfort provided by outsourced IAFs showed less variance. The importance that respondents attached to the comfort that external auditors (the AGSA) provided

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regarding the successful detection of fraud is apparent, while they perceived external auditors' role in the prevention of fraud to be less extensive. Both CAC and CAE respondents indicated that their audit committees provided a relatively high degree of comfort regarding the successful prevention and detection of fraud, while AO respondents rated the degree of such comfort provided by their audit committees to be somewhat lower. Respondents in general perceived the roles played by senior management of a department as part of the risk management function to be of importance in efforts to prevent and detect fraud in national departments.

Figure 26: Parties providing reassurance on the prevention and detection of fraud efforts

3.3 Internal audit competence and staffing

The status of the IAF will always be brought into question when it has to perform without a full complement of appropriately trained, competent internal auditors. High demands on and expectations of internal auditors from a variety of stakeholders, in a rapidly changing environment, emphasise the need for skilled internal auditors.

3.3.1 CAE profile

This section presents an overview of the profiles of the CAEs of the IAFs of participating departments. The following information is presented:

- Academic qualifications;
- Professional qualifications;
- Remuneration; and
- Internal audit experience.

Academic qualifications

The qualifications of CAE respondents were used as benchmark of the competence of departments' IAFs. CAE respondents were requested to indicate their highest academic qualification.
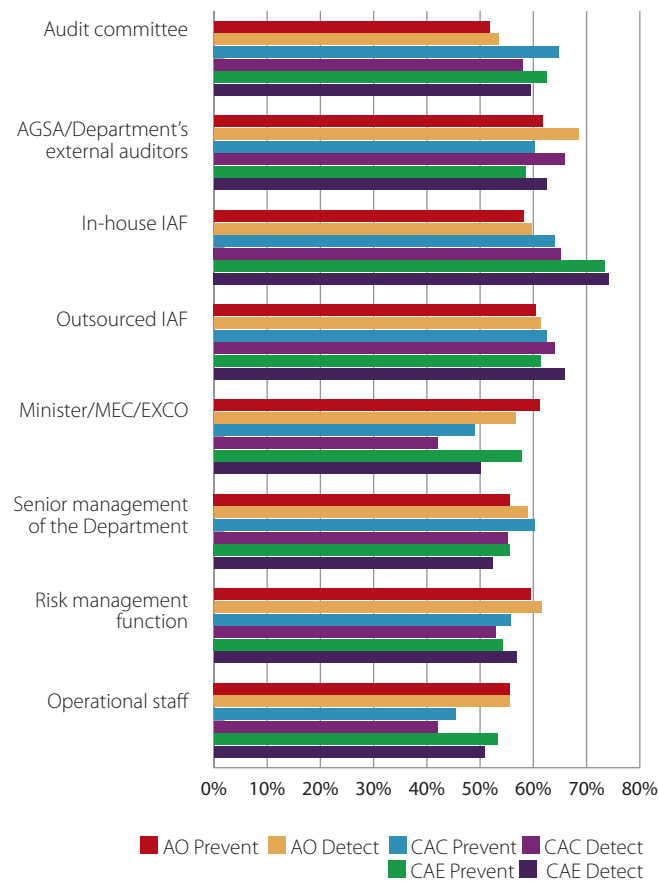
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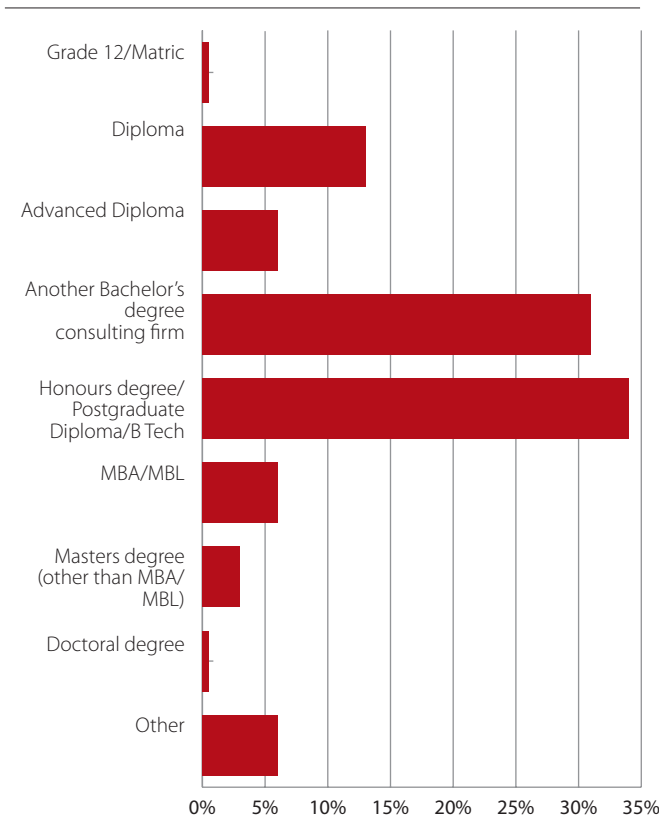

Figure 27: Academic qualifications of the CAE

Figure 28: Professional qualifications of the CAE

A third of the respondents hold a bachelor's degree and a further 34% hold either an honours degree, postgraduate diploma or a BTech degree. However, in contrast with the IIA-SA career path, which stipulates that CAEs of larger organisations (such as national departments) should hold a master's degree, only 9% of respondents hold either a master's or MBA degree.

Professional qualifications

CAE respondents were requested to indicate all their professional qualifications. Only 26% of the respondents were CIAs, which the IIA regards as the minimum indication of a competent internal auditor. Nearly 50% of CAE respondents do not have any professional qualification in the field of auditing.
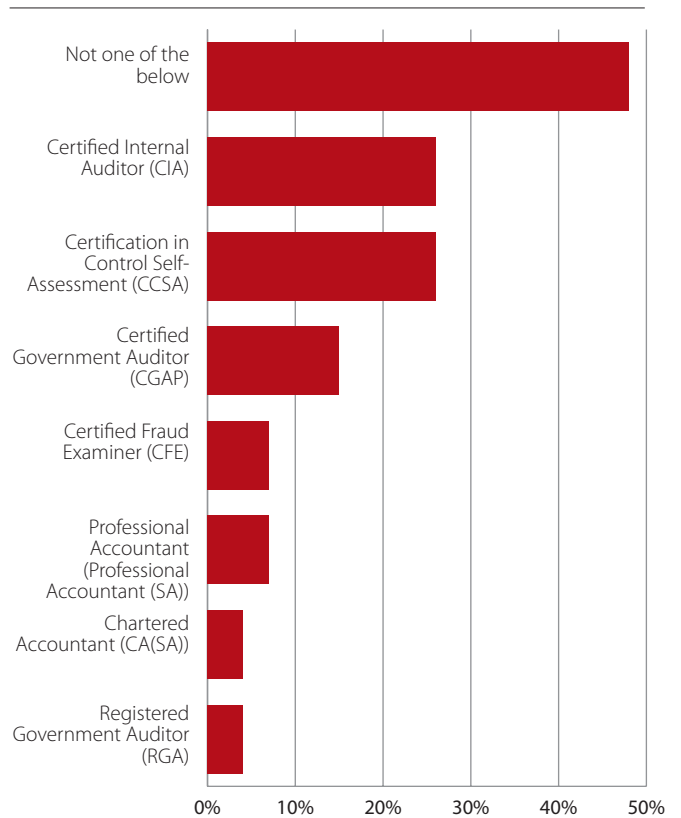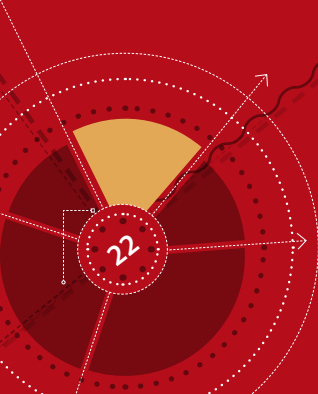
Remuneration

CAE respondents were requested to indicate the band within which their remuneration packages fell. Approximately half of the CAE respondents who answered this question earned between R500 000 and R800 000 per annum, which is significantly less than their counterparts in the private sector, as indicated by a similar study conducted in the private sector in 2009. A possible explanation for this could be that public sector CAEs are not as well qualified (in terms of their professional and academic qualifications) than their private sector counterparts.
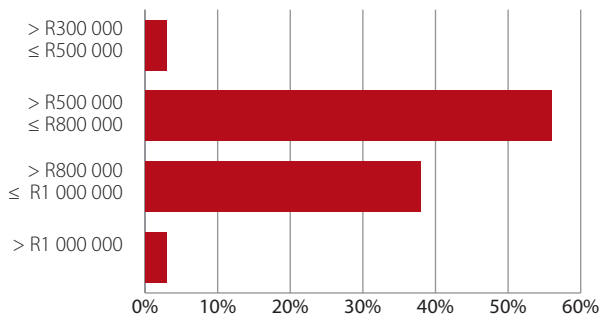
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Figure 29: Remuneration of the CAE

Internal audit experience

CAE respondents were requested to indicate the number of years of experience they had in internal auditing and/or public sector administration (Figure 30). Nearly 50% of the respondents indicated that they had more than 10 years of experience in internal auditing and/or in the public sector, while 48% of respondents indicated that they had more than 5 years of experience as a CAE in the public sector. Most respondents (70%) had less than two years' experience in the private sector.
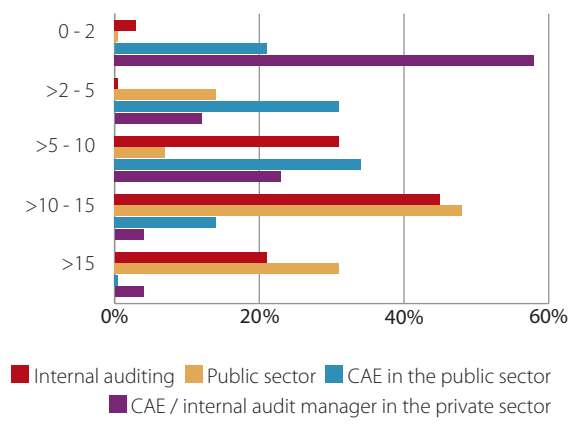

Figure 30: Work experience of the CAE

3.3.2 IIA awareness

This section presents an overview of stakeholders' awareness of the IIA and its guidance publications. The following information is presented:

•   Awareness of the IIA; and
•   Compliance with the IIA Standards.

Awareness of the IIA

As the pre-eminent and globally representative professional body for internal auditors, the IIA plays an important role in establishing professional standards and monitoring adherence thereto. It is expected of internal auditors that they adhere to these standards, and those tasked with governance should, at a minimum, be aware of the existence of the IIA.
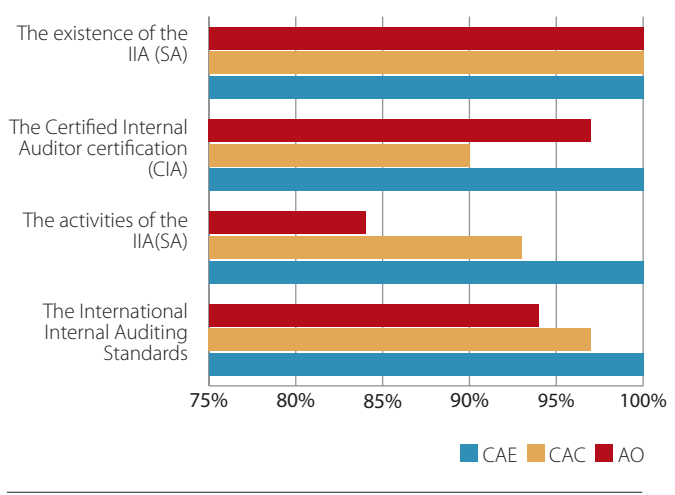

Figure 31: Awareness of the IIA and its services

Figure 31 illustrates that all CAE respondents were aware of the IIA and its services. Although only 26% of CAE respondents held the CIA qualification (refer to Figure 28), all were members of the IIA-SA (indicated in the survey).

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Compliance with the IIA Standards

Figure 32 records that the majority of the CAC (83%) and AO (73%) respondents indicated that their IAFs "complied" with the IIA Standards. CAE respondents (94%) indicated that their IAFs "complied" with the IIA Standards. It is however concerning to note that nearly 10% of CAC respondents were unsure about their IAF's degree of compliance with the IIA Standards. It must also be noted that "compliance" is used loosely here (particularly as so few respondents hold the CIA qualification) and does not imply the "full compliance" as the IIA Standards require.
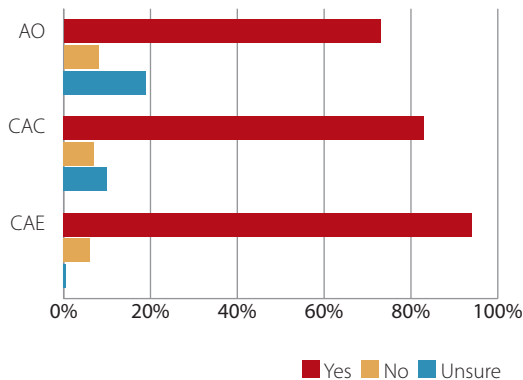

Figure 32: Compliance to the IIA Standards

3.3.3   Staffing of IAFs

This section presents an overview of the current and ideal staff compositions, including staff turnover and the shortage of competent staff, in the IAFs of participating national departments. The following information is presented:

- Current staff composition;
- Ideal staff composition;
- Gap between the current and ideal staff composition;
- Staff turnover; and
- Shortage of competent staff.

Current staff composition

From Figure 33 it seems that if national departments could fill all vacancies, they will be in a position to almost achieve the ideal

staff complement. It also seems that at the lower levels of auditor positions, more vacancies existed in relation to current staff complement than at the higher levels, highlighting the greater need for the appointment of competent internal auditors. The average IAF of a national department comprised approximately 16 permanent employees (excluding current vacancies), while CAEs reported that 23 permanent employees (including current vacancies) would be the ideal staff complement of their IAFs. This difference between actual and ideal reflects a vacancy rate of 43%. Given that the current average staff complement for a department (all functions) is 7 409, the ratio of internal auditors to other staff is 1:463. Information published in the official journal of the IIA, 'The Internal Auditor' of August 2006 revealed internal auditor to civil servant ratios of 1:979, 1:752, 1:563 and 1:247 for Canada, the Netherlands, United Kingdom and the United States respectively. Although this information was published almost six years back, the current South African ratio of one internal auditor for every 463 civil servants shows a slightly more favourable ratio than the average ratio of 1:635 in respect of the international counterparts.
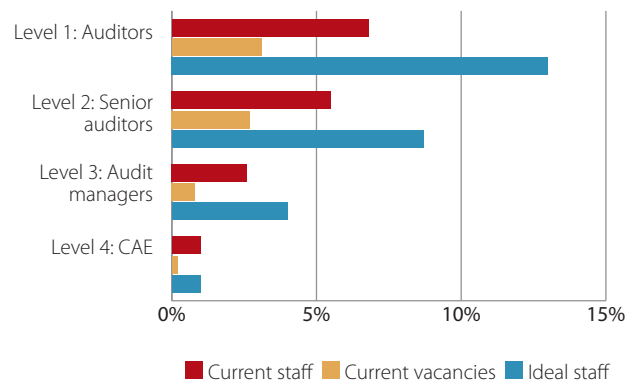

Figure 33: Current staff, vacancies and ideal staff complement

Ideal staff composition

According to the information presented in Figure 34 it appears that CAE respondents supported the career path concept recommended by the IIA-SA, as 31% of these respondents indicated that a CAE should have a master's degree, while 53% of them

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regarded an honours degree to be sufficient. CAE respondents also indicated that internal audit managers and senior internal auditors should preferably also hold at least a postgraduate qualification, namely an honours degree. At the internal auditor level, 87% of CAE respondents indicated that a bachelor's degree should be a minimum requirement. From the above, it seems that CAE respondents were of the opinion that internal auditors' academic qualifications are becoming increasingly important, which is in line with their perceptions that IAF is not used as a dumping ground for otherwise ineffective departmental staff.
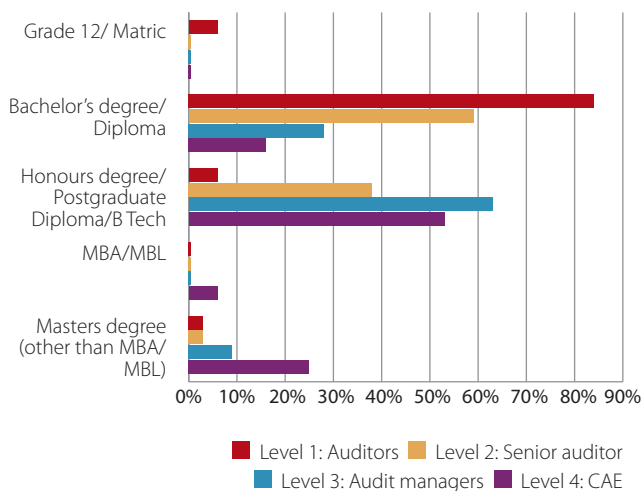
Figure 34: Ideal staff complement – academic qualifications

Figure 35 indicates that the majority of CAE respondents were of the opinion that the CIA designation was the most important professional qualification for all levels of internal auditors. However, it is still a concern that some CAE respondents were of the opinion that internal auditors, especially at the senior auditor levels, still did not need any professional qualification.
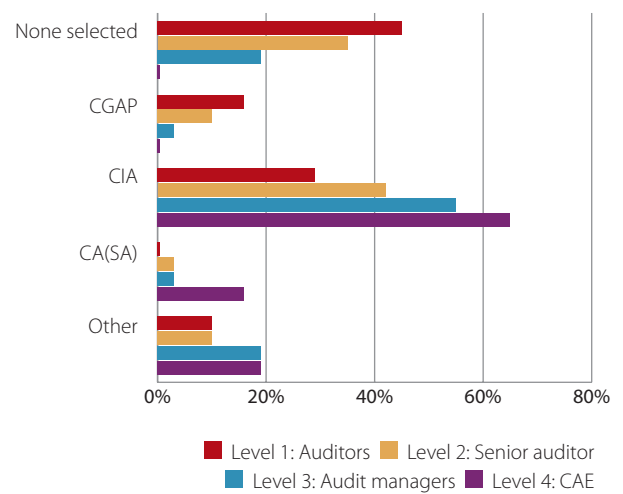
Figure 35: Ideal staff complement – professional qualifications

Figure 36 reflects that CAE respondents were of the opinion that the more senior an internal auditor was, the more experienced the person should be. It appears from the difference between this ideal and reality, that internal auditors in national departments were opting to progress through the general employment ranks within their departments (achieve seniority in any area or discipline depending on where they could find a higher position) rather than to remain in an internal auditing position within the IAF, where they could build their auditing experience and practical knowledge. Internal auditors in national government did not appear to act as "career" internal auditors, and as an aside, the question also arises regarding the career paths of any individual initially employed in a highly sought after profession in the public sector. Possibly recognition and promotion are awarded on a "too little too late" basis.
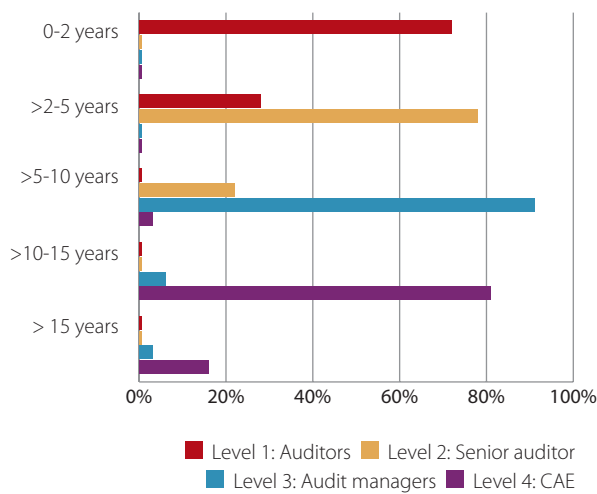
3. FINDINGS AND CONCLUSIONS

Figure 36: Ideal staff complement - experience

Gap between the current and ideal staff composition

According to Figure 37, CAE respondents were of the opinion that the current staff complement was between 60% and 80% of the ideal staff complement. However, when referring to the current qualifications of CAEs (both academic and professional) as reflected in Figure 27 and Figure 28, when compared to the ideal qualifications as reflected in Figure 34 and Figure 35, the above gap seems understated
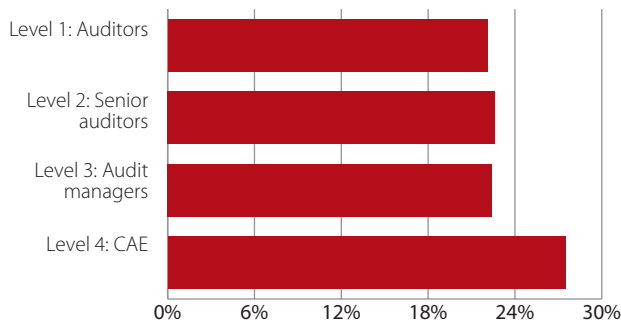

Figure 37: Gap between ideal and current staff complement

Staff turnover

CAE respondents were requested to indicate their IAFs' average staff turnover percentages for the different levels of internal auditors over the past three years. These are presented in Table 4.

Table 4: Staff turnover experienced in the last three years

|	0 – 10%	11 – 20%	21 – 30%	31 - 50%	51- 99%	100%
Auditors	52%	8%	16%	16%	4%	4%
Senior auditors	55%	7%	14%	17%	0%	7%
Audit managers	67%	7%	7%	4%	7%	8%
CAE	76%	0%	7%	0%	0%	17%

Most CAE respondents reported a low staff turnover (between 0 and 10%) for all the levels of internal auditors over the past three years. These findings should be seen in the light of the small size of the current IAF staff complement that most CAEs reported. In other words, where an IAF currently average 16 staff members, the low staff turnover percentages reported does not accurately reflect the actual level of disruption achieved by the occurrence of even a single staff vacancy. The negative impact should also be read in the light of CAE respondents having reported an overall vacancy rate of 43%.

Shortage of competent staff

The views of CAC respondents were sought on the importance of various listed factors believed to be contributing to the shortage of competent internal auditors that has resulted in the outsourcing of internal audit services by their departments. These are presented in Figure 38.

3. FINDINGS AND CONCLUSIONS
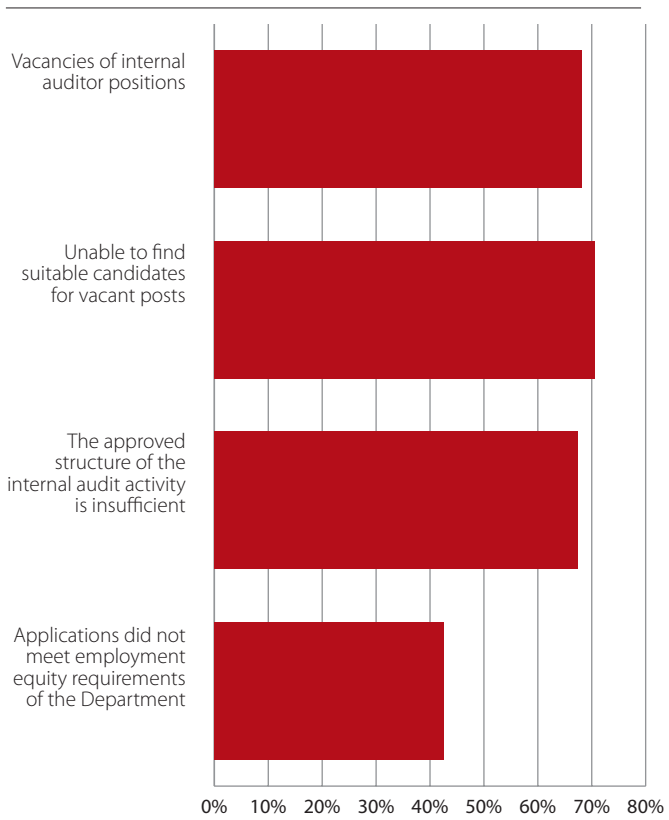
by the public sector compared to the private sector, or the fact that suitably qualified internal auditors who could apply for these positions simply do not exist. Another important factor selected by CAC respondents was that their IAFs were not well-structured, making it difficult to define the parameters of the vacancies.

Figure 38: Contributing factors to the shortage of competent internal auditors

CAC respondents indicated that it was extremely difficult to find suitable candidates for vacant internal audit positions, thus resulting in understaffing. It is speculated that this could be as a result of either the less attractive remuneration packages offered

4 THE WAY FORWARD

Internal auditing in national departments has the potential to add substantial value and to make a meaningful contribution in respect of governance, should IAFs be empowered with the status required to enable them to meet the demands of today's changing environment. This survey identified three significant factors that are preventing the national departments' IAFs from taking their rightful places as governance partners. These are the status of internal auditing within the departments; the changing role of internal auditing, and the competencies of internal auditors and staffing policy requirements of the departments. The suggested way forward for internal auditing in national departments is presented next.

4.1 The status of internal auditing within national departments

a) Although the IAFs' reporting lines have been well established in national departments, some communication gaps were identified – audit committees should play a leading role in reviewing robustness, critiquing and disseminating of internal audit plans and strategies, facilitating productive and transparent discussions and managing perceptions as well as expectations, of and for, IAFs.

b) National departments' IAFs are still very much reliant on outsourcing – internal capacity should be built through formal learnership programmes incorporating elements such as support, monitoring and rewarding effective progress.

c) Lessons should be learnt from outsourced IAFs – practices of external providers on areas such as effectiveness of audit services (which are held in higher esteem if performed by outsourced instead of in-house IAFs), should be investigated. A possibility would be to create training opportunities for in-house staff in terms of which they would work together with outsourced staff under the management of the external service providers.

d) Perceptions of the value of the audit recommendations made by IAFs and whether the implementation thereof is mandatory or voluntary differ – an in-depth study should be undertaken to track IAFs' recommendations and to identify root causes for them not being implemented. At the same time IAFs should be assisted to improve their status by developing and instituting a feasible plan for quality improvement and innovation.

e) The success of the introduction of audit committees as an overseer of internal auditing is unconvincing – the negative perceptions about IAFs expressed by respondents to this survey should be addressed. This could be done through regular meetings between CACs and CAEs, where open discussion and agreement on the IAF's feasibility plan for quality improvement and innovation should be encouraged and the latter authorised, implemented and monitored by the audit committee.

f) The combined assurance concept must be better understood, and embraced – this will require a clear understanding of the contributions required from the different role players, which could be attained through training. The combined assurance process must be managed and the audit committee, together with the IAF of each department, should accept responsibility for this. However, a prerequisite is that the IAF in each national department is held in high regard, which will only be achievable if all of the recommendations given above are implemented.

4.2 The changing role of internal auditing

a) IAFs, especially in-house functions, should add more value – given the fact that departments' IAFs currently function with sub-optimal staff numbers, especially of competent internal auditors, service delivery may be compromised to a greater
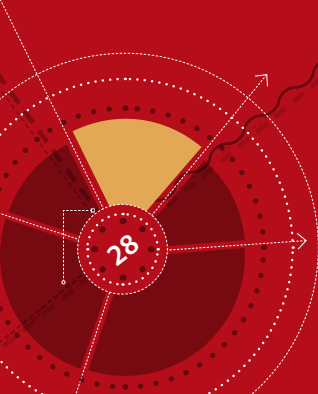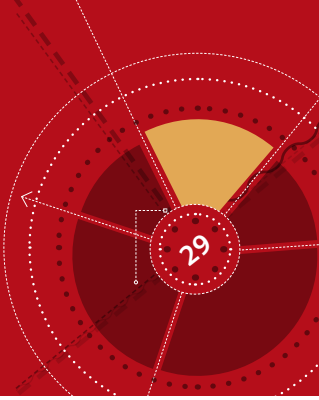
4 THE WAY FORWARD

or lesser extent, and the expectations of stakeholders not being met. CAEs should regard this as a significant opportunity to use their strategic vision to strengthen their IAFs through programmes of improved capacity. Furthermore, audit committees and AOs should ensure that Treasury Regulation 3.2.7 is complied with in respect of maintaining the three year rolling strategic internal audit plan, the annual internal audit plan and the quarterly performance reports.

b) Growth is expected in the size and number of services provided by in-house IAFs of national departments – care should be taken that in-house IAFs are positioned well to attain and sustain such growth targets. Future expectations should be incorporated in the IAF plan mentioned under (a) above, covering current, medium and long term needs and activities.

c) The expanded role of public sector internal auditing – although the mandatory role of IAFs in national departments as assurance providers is unlikely to change, it requires that IAFs embrace opportunities to add value beyond audit observations, for example, by contributing to governance and risk management efforts of departments. By internal auditing extending its role in the public sector environment in this way will bring about greater responsibilities together with greater rewards for IAFs and their departments. This expanded involvement requires planned progression that identifies the most relevant, specific actions, in the proper sequence, and the laying out of clear step-by-step guidance to be followed. This process should be guided by a quality internal audit plan, well supported by AOs and audit committees.

d) Management of national departments did not capitalise sufficiently on the value that the CAE and the CAC could contribute towards governing departments – the prominence of CAEs and CACs in governance should be increased. This could be facilitated through the inclusion of CAEs and CACs in EXCO meetings and strategy sessions, and the promotion of open communication channels between the CACs, CAEs and AOs.

4.3 The competencies and staffing of internal auditors

a) The shortage of competent internal auditors can be attributed to factors such as low remuneration in the public sector in comparison to the private sector, as well as the current rapid rate of progression from junior to senior auditor levels in the public sector's IAFs, resulting in senior IAFs with inadequate fundamental internal audit experience. Deliberate steps should be taken to address these issues. Steps should include:

- Introducing the SAQA accredited IIA-learnerships for internal audit trainees entering national departments' IAFs, to solve the staffing problems at the lowest level;
- Using co-sourcing as a training ground for in-house internal audit staff;
- Introducing mentorship programmes using experienced internal auditors from other well-functioning national department IAFs to mentor less experienced internal auditors;
- Introducing personal development plans based on the criteria of the National Treasury Competency Building Model for Financial Management in cooperation with the IIA-SA education and training department;

4 THE WAY FORWARD

- Improving the remuneration of internal audit staff in order to attract appropriately qualified individuals, perhaps by means of a professional allowance as a subvention to current public service salary scales. Such an improvement may motivate the CAEs of national departments to attain academic and professional qualifications that would put them in harmony with IIA recommendations (e.g. having a CIA professional qualification and a master's degree).

The combination of the questionable status of internal auditing within national departments, demands for the changing role of internal auditing and the shortage of competent internal auditors are affecting IAFs' ability to take their rightful places as governance partners in national departments. There are no straight-forward or easy solutions because these factors are mutually interdependent and many relate to the fact that the mandatory internal audit function for all public sector entities is relatively young and still has to overcome the traditional perceptions of the role of the internal auditor as a "watch dog" function, embedded especially on national department level.

NOTES

2014

The Status of and Demand for
Internal Auditing in South African
National Government Departments

national treasury

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