

Factors Limiting Internal Audit Efficiency in Provincial Governance Systems of South Africa

A. Geqeza

a.geqeza@gmail.com

Cape Peninsula University of Technology, Internal Auditing & FIS - School of Accounting Sciences, Cape Town, 8000, Republic of South Africa

J. Dubihlela

profjobd@gmail.com

University of KwaZulu-Natal, Durban, 4041, Republic of South Africa

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Abstract – Internal audit function (IAF) has a favourable impact on the overall functioning of provincial governance systems. There is, However, operational challenges that impedes their effectiveness. The study aims to attain IAF efficacy and ensure it adds value to the provincial government operations and attains departmental objectives. The study is based on 260 purposively selected Western Cape Government IAF participants. The study employed mixed research methods. Questionnaires, telephones interviews and focused group discussion were use as data collection instruments. Thematical was used to analyse telephone interviews and focused group discussion, whereas descriptive statistics was used to analyse quantitative data. The study found that there are independence issues, limited resources hindering training and completion of audits, and a lack IAF's recognition and IAF receives a low status in the organisation. There is a lack of management support. The study provides factors that hinders IAF efficacy within South Africa's provincial governance systems.

Keywords – Internal Audit Efficacy, South Africa, Provincial Government, Public Service

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1 Introduction

Internal audit was established to play a fundamental role that supports institutional authority in executing their activities relating to governance, risk and internal control (Haddad et al., 2021). Uphold a system of internal audit that conforms with and operates in line with the regulations and instructions established in Sections 76 and 77 of the Public Finance Management Act 1 of 1999 (PFMA). The internal audit is required to execute the responsibilities afforded to them by the PFMA (Sections 76 & 77), and the corporate governance responsibilities given by the AO under its charter. A charter being a document that explains the scope, rights, goals and principles of an institution. PFMA, read along with National Treasury Regulations, 2005 issued in terms of the PFMA, further indicates that the audit committee must ensure that the internal audit independence, charter and operations are all understood and aligned with the department's goals and the law. Frequently evaluate the internal auditor's functional and administrative reporting lines to ensure that the organizational structure adheres to the ideologies of independence and accountability.

In the context of SA, where provincial governance systems form a crucial part of the administrative apparatus, the effectiveness of the AC is paramount (Geqeza & Dubihlela, 2019). Seeing that internal audit is regarded as an essential component of the risk management process, overseeing financial reporting risks, internal financial controls, fraud and IT risks related to financial reporting (Oussii, 2020). In this approach, it actively seeks to bring value to the organization (Fashami, Boolaky & Omoteso, 2020). However, one of the fundamental aspects that underpins the internal audit efficacy is their independence, sufficient resources for training needs, and necessary support from the governing body amongst others (Mensah, Ngwenya & Pelser, 2020). These have always been the cornerstone of audit philosophy and practice, but in recent years, these have grown in prominence (Eulerich & Eulerich, 2020). Presenting an opportunity to understand, assess, and enhance internal audit efficacy within SA's provincial governance systems (Mensah, Ngwenya & Pelser, 2020). The absence of the above fundamentals opens a gap which leaves provincial governance systems vulnerable to risks that compromise operational compliance, policy adherence, and statutory requirements, thereby exposing government departments to the spectre of maladministration (Geqeza, 2021).

Interestingly, despite the crucial role played by internal audit in safeguarding the integrity of governmental operations, there is a noticeable lack of research addressing these aspects in the context of South Africa's provincial governance systems. While previous scholars have explored the effectiveness of the internal audit, especially in local government contexts limited attention has been given to finding solutions for issues related to internal audit efficacy (Mamaile, 2018). This paper aims to fill this significant knowledge gap by conducting a thorough examination of internal audit efficacy within South Africa's provincial governance systems. It intends to illuminate the challenges faced by the internal audit in ensuring the fulfilment of objective and identify factors hindering its efficacy.

The significance of this paper lies not only in its potential to inform policy and practice but also in its capacity to help provincial governments in SA achieve their objectives effectively and uphold the principles of good governance. By understanding and addressing the challenges surrounding internal audit, this study endeavors to pave a way for more transparent, efficient, and accountable governance within SA's provinces.

2 Theoretical Review

2.1 Challenges impeding efficacy of internal Audit in provincial government

Based upon the above discussions, the internal audit plays a pivotal role that adds value to the provincial governance systems and operations (Biswas, et al., 2019). It is a separate oversight body that reports to appropriate governing authority with responsibilities that vary according to the government's complexity, scope, and requirements (Castrillón & Alfonso, 2021). At times it is the complexity of government departments' structure that requires sufficient resources for training needs, to obtain the required skills.

2.2 Insufficient resources for training needs

The statutory requirements for internal auditors at the government institution as written in the Treasury Regulations (2000), indicate that they must have adequate knowledge, abilities, skills and experience in a variety of professions. This becomes a mandatory requirement for institution to avail sufficient resource for the training needs that may arise to obtain the necessary skill. Such skills can be attained through training, noting that the training is regarded as a vital and imperative tool utilized by the organization to increase its employees' performance for organizational growth and success (Geqeza & Dubihlela, 2019). In the same vein the lack of employee training, however, affects their job satisfaction and work performance, which, in turn, threatens the service to be rendered (Geqeza, 2021). Therefore, inference can be made that insufficient resources for training needs negatively affects effectiveness of internal audit, limiting the internal audit scope and the scope coverage for field verification. The provincial government should prioritize allocating sufficient resources for audit activities and ongoing trainings for auditors, ensuring they have the knowledge and tools needed to fulfil their responsibilities effectively.

2.3 Independence issues

The PFMA 1 of 1999 and National Treasury Regulations of 2005, issued in terms of the PFMA, provide details of the role played by the audit committee in respect to effective functioning of internal audit. However, in government departments, their accountability, role clarity and reporting lines are not always obvious in terms of the stakeholder, executives, and management as

they apply in the private sector. The King III Report (2009) specifies who oversees specific governance functions and its implementation is recommended. However, the structure of a specific government institution often presents a unique issue. For example, the accounting authority is regarded as the board in the case of government institutions, nonetheless, the Minister is involved in the employment of the audit committee alongside the board. This employment process cause confusion over direct reporting lines because reporting to both parties is required.

The independence of audit committee is a critical aspect of ensuring robust corporate governance (Geqeza, 2021). In the context of ministers who hold political status and wield significant influence, concerns arise regarding the presumption of impairment in the independence of audit committee members. This presumption is fuelled by both past and existing associations of audit committee members with political figures, as well as their political standing. Notably, the absence of established measures to assess the independence of audit committee members before their appointment raises additional apprehensions. Furthermore, there is a lack of continuous evaluation of their independence throughout their tenure. Additionally, the incomplete submission of required declarations of interest by audit committee members at every meeting adds to the challenges in ensuring transparency and maintaining the necessary level of independence within the committee. These identified issues underscore the importance of implementing rigorous processes to evaluate and safeguard the independence of audit committee members in the political sphere, promoting effective corporate oversight and accountability.

2.4 Lack of management support to the internal audit

There is a requirement in terms of the PFMA and the Division of Revenue Act, that requires the audit committee of departments to provide a monthly or quarterly report on the quality of management and the adequacy of the reports submitted. However, the audit committee is sometimes unable to analyse conditions because of the lack of quality information, that management should make available. As a result, the audit committee cannot fulfil all its tasks. The audit committee assessment and oversight are not organized in such a way that management is held accountable. These challenges have a negative impact on the overall audit performance. Without sufficient management support, the audit committee may struggle to preserve its independence and that of internal audit. Management support is critical for the audit committee operation without excessive influence or intervention. In addition, a lack of management support may result in insufficient funds or staffing, limiting the internal audit capacity to carry out its duties successfully. The audit committee need a buy in from the management support, to influence the development and implementation of effective risk management strategies, to safeguard the organization against unforeseen risks.

The absence of management assistance results to delays in reporting key information to the audit committee. This limits the audit committee capacity to deliver timely insights and suggestions to the board, potentially influencing decision-making. Management assistance is critical for implementing and

maintaining effective internal control systems. Without active participation, the audit committee may struggle to verify that proper controls are in place to secure the provincial government assets and financial integrity. There may be reluctance to execute necessary variations or enhancements. This impedes the internal audit efforts to improve the provincial government internal controls and governance processes. As the lack of management undermines the audit committee ability to impose accountability and establish a responsible culture within the business.

3 Methods and Data

This article used a mixed research approach, as Lichtman (2012) believes it is complementary rather than antagonistic. This approach enhances the rigor, validity, and depth of the research findings, leading to a richer understanding of the complexity internal audit efficacy phenomena.

3.1 Population, Sampling Technique, and Sample Size

This study's target population was the Western Cape Government (WCG). A purposive sampling method was used to select the prospective respondents. It was used because the researcher wanted only to select the IAF and understands its efficacy within provincial governance (Surbhi,2016). The selection criteria were that all respondents must have worked for the WCG IAF and should have at least two years of working experience in the IAF. This subjective selection can introduce bias when the researcher's criteria for selection are not well-defined or if some population characteristics are overlooked. Furthermore, since purposive sampling involves selecting participants based on specific criteria, the sample might not represent the broader population. Therefore, findings on purposive sampling studies might have limited generalizability beyond the selected sample. Nonetheless, two hundred sixty (260) WCG IAF employees constituted the sampled unit. Assertion can be made that this sample size represented the target population, as it far exceeds the proposed minimum of 30 for a quantitative study (Eichler et al., 2018).

3.2 Data Analysis

The researcher ensured that the respondents met the established selection criteria to avoid data collection bias. After that, 260 interviewer-administered questionnaires were circulated to the identified sample, and 260 fully completed questionnaires were returned and received for analysis. The data acquired via the questionnaire instrument was analysed using SPSS software, and the outcomes were provided as descriptive statistics. These outcomes were triangulated with personal interviews with a CAE and three deputy directors and two focus group discussions of four and six participants, which lasted 20 minutes each. Thematical analysis was conducted using personal interviews and focus group discussions for qualitative data. Even though personal interviews were conducted, however the survey questionnaire serves as a

core source of main data in this study. As a result, interviewer-administered questionnaire outcomes are addressed first, followed by direct quotes from personal interview as needed to supplement and corroborate the survey questionnaire outcomes.

4 Results

4.1 Descriptive Results

Three data central measures, median, mean and the standard deviation were used to represent the results of this study. According to Gravetter and Wallnau (2013) mean values are normally used to rank or prioritise items amongst other things, whereas the median values are used to provide an insight into the absolute middle value (average). The early mentioned central measures were used as the basis for a five-point Likert scale measure was used to determine the point of “I don’t know” or “moderate” where the mean value is 3. In the same manner, a mean value greater than 3 (thus 4 and above) represents the agreement whereas a mean value less than 3 represents the disagreement. The mean score ratings of the Five variables are presented in Tables below.

Table 1: Factors limiting Internal audit efficacy.

	1	2	3	4	5	Total agreement
Sectional heads are not cooperating with the IAF	2,3%	3,8%	7,3%	44,2%	42,3%	86,5%
IAF is given low status in the management structure	3,1%	5%	7,7%	38,5%	45,8%	84,3%
Management has a bad perception about IA as adding value to the organisation	3,8%	5%	5%	51,9%	34,2%	86,1%
Management is not taking timely corrective action based on audit findings and recommendation	1,9%	6,2%	4,6%	5,8%	81,5%	87,3%

Table 1 above, of the respondents, 86% of indicates that sectional heads are not cooperating with the IAF, 84% indicates that IAF is given low status in the management structure, 86% agrees that the management has a bad perception about IAF as fault finder than adding value to the organisation, lastly 87% alluded to the notion that the management is not taking timely corrective action based on audit findings and recommendation .

The participants in the telephone interviews and focus group discussion concurred with these results, but further noted the following:

- a) *Management not providing actual plans timely.*
- b) *Another challenge that affect internal audit independence is the use of internal audit function as a management training ground and the sector of the organization.*
- c) *IAF is being undermined and auditors are seen as police not adding value activity.*
- d) *People do not want a change, lack of buy in from management, capacity issues in our organisations, limited budget for improve and train the IAs.*
- e) *IA needs more budget/resources as these affects scope coverage such as field verification”*

(Participant 1, Male, Deputy Director IA, Cape Town), (Participant 4, Female, Assistant Director, Cape Town) & (Participant 6, Female, Director ICT: IA, Cape Town)

4.2 Reliability and validity of the results

The reliability of the survey result was tested using the Cronbach's Alpha. According to Morgan & Waring (2004) reliability of data involves adequate, comprehensive, and correct data collection, which aimed at measuring the relevant concept under investigation. As such, Cronbach's Alpha test was used to determining the extent to which various variable in a questionnaire measures the same concept. The survey instrument for this study have attained 0.90 internal consistency reliability, thus 90% of reliability. The results for the reliability test are shown in table 3.

Table 2: Cronbach's Alpha values for the reliability test

Constructs	Cronbach's Alpha	Cronbach's alpha based on standardized items
IAOC	.818	.820
NOTE: FIAEPGS= Factors that hinder Internal audit efficacy within south African provincial governance systems		

According to Kerlinger and Lee (2000) the reliability test results at 0.60 and above indicate the level of reliability thereby accepted as reliable. Accordingly, the lowest Cronbach's Alpha test value documented was on construct IAOC as .820. Based on this level of alpha values, a conclusion was made that the data deem reliable.

4.3 Correlation Analysis

The correlation analysis was conducted to test the validity of the survey result. The statistical tool Pearson correlation “*r*” was employed to study and ascertain the leaner relationship in the data, as well as testing the statistical

significance of the relationship between each of the variable. The first construct tested was the IAAI see table 3.

Table 3: Inter-item Correlation for Factors limiting Internal audit efficacy

Correlations							
	Means	SDV	PSC	RAC	SHC	ILS	MW
PCS	4,14	1,079	1				
RAC	4,15	.888	.530**	1			
SHC	4,20	.905	.512**	.520**	1		
ILS	4,19	.990	.448**	.456**	.457**	1	
MW	4,08	.968	.459**	.467**	.485**	.432**	1

**** Correlation is significant at the 0.01 level (2-tailed).**
NOTE: PCS In my organisation IA are not pressurised into changing the substance of an audit observation by superiors/peers/management; RAC = In my organisation IA are not intimidated/threatened by and audit client over the reporting of an adverse condition: SHC= Sectional heads of my organisation are cooperating with the IA departments: ILS = IAF of my department is given low status in the management structure: MW = Management of my organisation have a bad perception about IA as adding value to the organisation.

The correlation analysis of internal audit operational challenges has demonstrated a moderate to a strong correlation at the significant level ($p=0.01$). On overall the Inter-item correlation analysis have shown a positive relationship, therefore the survey results were valid.

5 Discussion

This study sought to examine the factors that hinders internal audit efficacy within south African provincial governance systems. The results revealed that there are independence issues, limited resources hindering training and completion of audits, a lack of IAF recognition. The IAF receives a low status in the organisation. There is a lack of management support. The findings broadly align with prior studies, emphasizing the relevance of independence, resource allocation, recognition, and support for IAF effectiveness.

5.1 Independence Issues:

Independence is critical for the efficacy of internal audits. Auditor independence and objectivity are frequently mentioned as key characteristics for successful auditing.

- **Similarities:** The issue of compromised independence is consistent with significant studies emphasizing the essential importance of IAF independence in resolving agency conflicts. Cohen et al. (2004) and Goodwin (2003) demonstrate how a lack of independence can impede the IAF's capacity to conduct unbiased monitoring and reporting.
- **Contradictions:** Some research indicates that independence is not a major concern, due to variances in organizational structure, regulatory frameworks, or cultural contexts.
- **Complementary Insights:** the finding confirms the importance of independence in audit effectiveness, complementing earlier studies that emphasize the necessity for strong governance systems to protect auditor independence.

5.2 Limited Resources Hindering Training and Completion of Audits:

Many studies show that resource restrictions, such as inadequate training and limited people, are significant hurdles to efficient internal auditing.

- **Similarities:** Pfeffer and Salancik's (1978) research explores how resource restrictions affect organizational functions, which is consistent with the findings of this paper that low resources impair training and audit completion.
- **Contradictions:** The efficiency IAF might vary greatly depending on the situation. The result that resource constraints universally impair IAF effectiveness may contradict research indicating that organizational environments can adapt more effectively despite low resources. This discrepancy might be explained by differences in organizational adaptability and the presence of compensation mechanisms, such as external consultants or advanced audit technologies, in some firms.
- **Complementary Insights:** Highlighting resource limitations underscores the necessity for organizations to allocate sufficient resources to their IAF to ensure thorough and effective auditing.

5.3 Lack of IAF's Recognition and Low Status in the Organization:

The low status and recognition of the IAF within organizations are frequently cited in the literature as hindrances to its effectiveness.

- **Similarities:** Meyer and Rowan (1977) and DiMaggio and Powell (1983) explore the significance of institutional legitimacy and the difficulties disadvantaged functions encounter in achieving acceptance. The IAF's low status and lack of recognition reflect these problems.
- **Contradictions:** other studies indicate that the IAF has high status and recognition, this could be because internal auditing is well-integrated into the company culture and strategic planning processes.
- **Complementary Insights:** findings highlight the importance of boosting the IAF's position through improved integration into the organizational hierarchy and showing its value to stakeholders.

5.4 Lack of Management Support:

The absence of management support is a well-documented issue, as management's commitment is critical to the IAF's success.

- **Similarities:** According to Freeman (1984), organizations must address the requirements of their stakeholders. The erosion of stakeholder trusts owing to insufficient IAF support reflects findings that good governance functions are critical for retaining stakeholder confidence.
- **Contradictions:** Contradictory findings may occur in firms when management values and supports internal auditing due to regulatory requirements or a heavy emphasis on risk management. This discrepancy might be traced to individual differences among auditors and the development of informal networks or support systems that compensate for formal shortcomings.
- **Complementary Insights:** Reinforcing the requirement for management support is consistent with previous research, which demands top-down approval and enough resources for internal audit efforts.

5.5 Contributions to Existing Research:

- **Emphasizing Persistent Challenges:** The findings highlight chronic difficulties that require continual attention and development.
- **Highlighting Areas for Improvement:** By focusing on specific issues like independence and resource restrictions, this may equip practitioners and policymakers with concrete insights.
- **Context-Specific Insights:** this research may provide useful context-specific insights that differ from more generalized studies, resulting in a more nuanced understanding of the IAF's difficulties.

6 Conclusion

The paper concludes by discussing limitations, theoretical and practical implications of the study.

6.1 Limitations

The paper employed purposive sampling. The selection criteria were that all respondents must have worked for the WCG IAF and should have at least two years of working experience in the IAF. This subjective selection can introduce bias when the researcher's criteria for selection are not well-defined or if some population characteristics are overlooked. Furthermore, since purposive sampling involves selecting participants based on specific criteria, the sample might not represent the broader population. Therefore, findings on purposive sampling studies might have limited generalizability beyond the selected sample. This paper also examined factors that hinder internal audit efficacy within South African provincial governance systems. Future studies may explore these factors in other government spheres in general. Furthermore, this paper's findings are based on a sample of 260 IAF employees.

Future researchers might wish to engage with a larger sample size to gather more extensive data and improve the generalizability of their research findings using a triangulation of various South African spheres to eliminate this study's provincial imbalance. Thus, a comparative study of South African government spheres could be valuable for future research. A larger and more diverse sample size will likely get more detailed data on factors that hinder internal audit efficacy within South African provincial governance systems.

6.2 Theoretical Implications

The theoretical implications of independence issues, limited resources hindering training and completion of audits, lack of IAF's recognition and low status within the organization, and lack of management support are significant and multifaceted. These issues intersect with various theoretical frameworks and offer numerous avenues for future research.

Agency Theory

- **Conflict of Interest:** Independence concerns and management influence over the IAF might aggravate conflicts of interest between principals (government) and agents (management). This imbalance may result in poor decision-making and diminished organizational effectiveness.
- **Monitoring Effectiveness:** Limited resources and a lack of assistance hinder the IAF's ability to properly monitor and address agency problems, potentially promoting opportunistic behavior by management.

Resource Dependence Theory

- **Power Dynamics:** The allocation of resources to the IAF reflects internal organizational power dynamics. Limited resources can show the IAF's lack of authority and influence, limiting its capacity to successfully carry out its mission.
- **Dependency Risks:** The IAF's reliance on management for resources may jeopardize its independence and effectiveness, limiting its role in governance and oversight.

Institutional Theory

- **Legitimacy:** The IAF's lack of recognition and low status may have an impact on its validity within the organization. This marginalization may impede the institutionalization of effective internal control practices and auditing standards.
- **Norms and Practices:** Undervaluation of the IAF can lead to inadequate internal auditing norms and procedures, compromising overall company governance and risk management.

Stakeholder Theory

- **Stakeholder Trust:** A poorly supported and under-resourced IAF can diminish trust among stakeholders, including taxpayers, workers, and regulators, because they consider the organization's commitment to governance and accountability inadequate.

- **Ethical Climate:** The perceived low standing and support of the IAF might have a negative impact on the organization's ethical atmosphere, leading to greater unethical behavior and decreased accountability.

Contingency Theory

- **Organizational Fit:** The IAF's efficacy is determined by how well it aligns with organizational needs and resources. Poor fit owing to lack of resources and support can diminish the efficacy of the IAF in addressing specific organizational risks and challenges.
- **Adaptability:** An under-resourced and unsupported IAF may fail to adapt to changing organizational settings and developing threats, reducing its potential to contribute to organizational resilience and sustainability.

Future Research Directions

Future research avenues may include the following:

- **Impact of IAF Independence on Organizational Performance:** How does the independence of the IAF influence overall organizational performance and stakeholder trust.
- **Resource Allocation and IAF Effectiveness:** What is the relationship between resource allocation to the IAF and its effectiveness in risk management and internal control.
- **Institutionalization of Internal Audit Practices:** How does the institutionalization of internal audit practices within organizations affect the legitimacy and influence of the IAF.
- **Management Support and IAF Role Perception:** How does management support influence the perception and effectiveness of the IAF within organizations.

6.3 Practical Implications

The practical consequences of concerns such as independence problems, inadequate resources impeding training and audit completion, lack of recognition of the Internal Audit Function (IAF), poor position within the organization, and lack of management support can be severe and diverse. Here are the practical implications:

- **Enhance Independence:** To enhance independence, IAF must report directly to the minister or audit committee, not management.
- **Increase Resources:** Priorities allocating sufficient budget and resources for training, tools, and staffing of the IAF.
- **Elevate Status:** Raise the IAF's profile within the organization by acknowledging its contributions and incorporating it into strategic planning and decision-making processes.
- **Strengthen Management Support:** Ensure that management actively supports and implements audit recommendations, demonstrating a commitment to effective internal controls and governance.
- **Continuous Improvement:** Review and update audit processes on a regular basis, taking advantage of new technologies and best practices to increase effectiveness and efficiency.

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