THE ROLE OF INTERNAL AUDITORS WITH SPECIFIC REFERENCE TO FRAUD INVESTIGATION

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DECLARATION
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I, Mario Labuschagne, 9850637 hereby declare that the dissertation, The role of Internal Auditors with specific reference to fraud investigation, for the Master of Commerce in Accounting, is my own work and that it is has not previously been submitted for assessment or completion of any postgraduate qualification to another university or for another qualification.

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ABSTRACT

The role of internal auditors is evolving to enable them to provide stakeholders with assurance and to assist organisations to achieve objectives and remain competitive to ensure the future existence of their organisations. The research for this study was guided by the question of whether the Institute of Internal Auditors guidance pronouncements provide sufficient guidance in the light of expectations of both the institute and management (stakeholders) relating to the role of internal auditors in respect of fraud investigation. Literature reviewed on the role of internal auditors showed that there is limited guidance provided with regards to fraud investigation, knowledge and skills required by an internal auditor to perform fraud investigations.

The research methodology used for this study consisted of a qualitative case study of the Nelson Mandela Metropolitan University committees, namely, Council, Senate and MANCO as well as a combination of deductive and inductive interpretative analysis methods. Semi-structured interviews were used to obtain data from participants who were randomly selected from Nelson Mandela Metropolitan University Council, Senate and MANCO committees. The interviews revolved around three themes, namely, the role of internal audit, the information expected from internal audits and the role that the internal audit plays with regard to fraud.
The interviews were recorded by means of a digital voice recorder which were transcribed by a qualified transcriber. The collected data was then manually coded by making use of standardised coding methods to assist with the analyses of the data.

After considering the participant responses in relation to the themes, it could be deduced that a greater awareness needed to be created regarding the role of the internal audit and the services which internal audits could provide to organisations and management structures.

The results of the analyses revealed that an expectation gap existed with regard to the Institute of Internal Auditors, guidance pronouncements and stakeholder expectations of internal auditor roles with specific reference to fraud investigations. This study showed that the IIA’s guidance pronouncements do not provide sufficient and adequate guidance in respect of the knowledge, skills and competency capabilities in relation to fraud investigations. The results of the study further showed that the expected role of internal auditors in an organisation should include fraud investigations.
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LIST OF ABBREVIATIONS:

ACFE: Association of Certified Fraud Examiners
CAE: Chief Audit Executive
CBOK: Common Body of Knowledge
CIA: Certified Internal Auditor
EA: External Audit/Auditor
PIA: Professional Internal Auditors
HEFCE: Higher Education Funding Council for England
IA: Internal Audit/Auditor
IAA: Internal Audit Activity
IACF: Internal Auditor Competency Framework
IAT: Internal Audit Technician
IIA: Institute of Internal Auditors
IIARF: Institute of Internal Auditors Research Foundation
IPPF: International Professional Practises Framework for Internal Auditing
MANCO: Management Committee
NMMU: Nelson Mandela Metropolitain University
UK: United Kingdom
USA: United States of America
1.1 INTRODUCTION AND BACKGROUND TO THE STUDY

The role of internal auditors has systematically evolved with the changes in commerce from 3500 B.C. to the 21 Century (Sawyer, Lawrence, Dittenhofer, Mortimer, Scheiner, Graham & Makosz, 2005). Internal auditors have progressed from performing pure compliance engagements to assurance and consulting services. In addition, auditors are currently providing more specialised services such as fraud investigation, information technology audits and the facilitation of risk management activities.

The Association of Certified Fraud Examiners (ACFE) defines fraud according to Black’s Law Dictionary as: “A knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment” (ACFE, 2013). Based on the increase in irregular activities such as fraud and corruption in South Africa (KPMG, 2012:2), the focus of this research was on the role of the internal auditor in respect of fraud identification, detection and investigation.

KPMG’s Africa Fraud Barometer Report (KPMG, 2012:2) indicates that in the first six months of 2011, 355 cases of fraud were reported and this increased in the second six months to 520, which represented an increase of 46,47%. The value of the reported fraud in the first six months of 2011 amounted to $7,170 billion and for the second six months of 2011, $3,702 billion. Mongie (2009) asserts that fraud is
South Africa’s number one economic crime and accounts for 7% of company revenue worldwide. Further increases in this figure could prove detrimental to organisations in these difficult economic times. Mongie (2009) estimates that fraud costs the South African economy in excess of R2 billion per year.

As a result of the value-adding governance role which the internal audit activity (IAA) fulfils, and its positioning within the organisation, internal auditors are ideally positioned to partner with boards of directors and senior management (hereafter referred to as management) in the attempt to prevent fraud. However, for internal auditors to be able to assist management with the execution of their responsibility in the prevention and deterrence of fraud, they should possess appropriate knowledge and skills.

According to the Institute of Internal Auditors (IIA) guidance pronouncements, including the International Professional Practises Framework, Internal Auditor Competency Framework (IIA, 2013a) and Code of Ethics of the IIA, internal auditors are merely required to “have sufficient knowledge of fraud to identify red flags indicating that fraud may have been committed” (IIA, 2006). These limited knowledge requirements for internal auditors include knowing the characteristics of fraud, the techniques used to commit fraud and the various fraud schemes as well as the scenarios associated with the activities reviewed. Internal auditors should thus be able to evaluate the indicators of fraud and decide whether any further action is needed or whether an investigation into the matter should be recommended. In addition, internal auditors should notify the appropriate authorities within the organisation if a determination is made that fraud has occurred and should
recommend an investigation (IIA, 2006). However, specific fraud investigative skills are not required for internal auditors.

Fraud investigation consists of the steps necessary to resolve allegations of fraud, namely, interviewing of witnesses, obtaining and preparing evidence, preparing reports and cooperating with prosecutors and the courts (ACFE, 2012). Price Waterhouse Cooper (PWC) (2012) indicates that stakeholders are aware of the important role that internal audits have to play in monitoring their organisations’ top risks, including fraud risks. Among the respondents who were selected for the study identified (1) fraud and ethics, (2) data privacy and security among their top risks, while 97% and 96% (respectively) regarded the internal auditing’s contribution as valuable (PWC, 2012).

1.2 LITERATURE OVERVIEW

In this section, a brief literature review is provided which includes:

- The definition of internal auditing
- The impact of fraud
- Factors contributing to fraud being committed
- Methods used to detect fraud
- Stakeholder expectations of IAA as they relate to fraud investigation knowledge and skills
• The IIA’s guidance to internal auditors as it relates to fraud investigation knowledge and skills

1.2.1 The definition of internal auditing

The definition of internal auditing dictates the fundamental purpose, nature and scope of internal auditing. The IIA (2013) defines internal auditing as follows:

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*

In terms of the definition, the IAA is strategically in the best position to assist the boards of directors and senior management with the execution of their responsibilities as it relates to ethics, risk management, effective control evaluation as well as fraud prevention and detection.

1.2.2 The impact of fraud

According to the ACFE Report to the Nations on Occupational Fraud and Abuse (ACFE, 2012), organisations lose an estimated 5% of their revenues to fraud each year. This results in an amount of $3.5 trillion that is lost as a result of fraud per

1.2.3 Factors contributing to fraud being committed

The ACFE fraud study of 2012, identified factors which increase the likelihood of a fraud to occur. The ACFE has identified the “lack of controls” as the frequent contributing factor to fraud occurring (ACFE, 2012:38). The ACFE indicated that internal auditing is the third most common method of detecting fraud after “anonymous tips” and “management review” (ACFE, 2012:14).

1.2.4 Responsibilities for fraud prevention and detection

The preceding information explains the importance and potential value of internal auditing’s role in fraud prevention and detection. How internal auditors should execute this role is outlined in IIA Standard 1220 – *Due professional care; internal auditors should be alert to the possibility of significant errors and fraud* (IIASA, 2011a).

Alleyne and Howard (2005:297-298) in their study of audit responsibility for fraud detection, emphasise that an organisation with strong audit committees, internal auditors and internal controls is better equipped to prevent and detect fraud of any form. Coetzee, Barac, Erasmus, Fourie, Motubatse, Plant, Steyn and Van Staden (2010:8) further explain that, in spite of the potential valued contribution by internal auditing in respect of fraud prevention, detection and investigation, the ultimate
responsibility for managing the risk of fraud remains with the board of directors and senior management (hereafter referred to as management) since management has the responsibility to implement appropriate internal controls and related systems to prevent fraud in their organizations.

1.2.5 Stakeholder expectations of Internal Audit Activities

Realising the potential value of internal auditing in respect of fraud prevention, detection and investigation, stakeholders of the IAA expect internal auditors to be capable of preventing, detecting and investigating instances of fraud in the organisation. These expectations place a burden on internal auditors in respect of the knowledge, skills and competencies they should possess in order to fulfill the expected role as capable fraud investigators in spite of the IIA’s defined role of internal auditors in respect of fraud. The desire for capable internal auditors is compounded by the need to consider both the knowledge and skills required in internal auditing as well as the ability to apply internal audit knowledge and skills in various industries (Ramamoorti, 2003).

According to Harrington (2004:66), contemporary internal auditors should have a comprehensive set of skills and competencies that enable them to cope with the extensive changes and complexities that characterise both private and public sector operations. Oxner and Oxner (2006:6-10) concur with this assertion by stating that internal auditors should demonstrate expertise in many areas, including control evaluations, operational reviews and system analyses.
According to Coetzee et al. (2010:68-69), the Chief Audit Executive’s (CAE) perception is that the largest future demand will be for internal auditors with expertise in the field of assurance and, secondly, in the field of fraud investigations. The stakeholder knowledge and skill expectations for internal auditors to assist management with managing fraud risk are consistently increasing.

1.2.6 The Institute of Internal Auditors guidance in respect of fraud

Knowledge and skills expectations of internal auditors need to be aligned to that of the users of internal audit services. IIA guidance pronouncements (the IPPF, IACF, Code of Ethics and CIA exam syllabus) are available to internal auditors for guidance on the knowledge and skills which can be reasonably expected to be possessed by them. The knowledge and skills required from internal auditors with regard to fraud is stated in Standard 1210.A2 (IIASA, 2011a:9) as:

Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

The Standards thus do not require an internal auditor to have specialised knowledge and skills to perform fraud investigations. This limitation on knowledge and skills required of internal auditors to possess insofar as fraud investigations is concerned, shows that the IIA’s guidance is possibly not aligned with the expectations of users of internal audit services. As a result, the role of the IIA in organisational fraud
detection, prevention and investigation could be jeopardised by the internal auditor’s lack of specialised fraud investigation knowledge and skills.

The section 1.2.7 provides explanations of key terms used in the study.

### 1.2.7 Definition of key terms

This research study includes several key concepts, which are defined as follows:

- **Auditor** – For the purposes of this study, this refers to both external and internal auditors.
- **Fraud** – This includes any intentional or deliberate act to deprive another of property or money by guile, deception or any other unfair means (ACFE, 2013).
- **Fraud risk identification** – This is the internal auditor’s ability to identify fraud indicators (Red Flags) which provides an indication of the possibility that a fraud may have been committed or is still being committed (IIA, 2006:7).
- **Fraud investigation knowledge and skills** – This is the internal auditor’s ability to analyse the fraud risk indicators and apply the steps necessary to resolve allegations of fraud, namely, interviewing witnesses, obtaining evidence, preparing reports, as well as cooperating with prosecutors and the courts (ACFE, 2012).
1.3 PRIMARY RESEARCH QUESTION

Owing to the possible conflict between the internal auditors’ guidance pronouncements and what is required in practise, research into the need for fraud investigation capabilities of internal auditors is required. The primary research question of this study is thus:

Do the Institute of Internal Auditors guidance pronouncements provide sufficient guidance in the light of expectations of both the institute and management relating to the role of internal auditors in respect of fraud?

1.4 RESEARCH OBJECTIVES

In the context of the research question in section 1.3, the research was aimed at achieving the the following primary and secondary research objectives.

1.4.1 Primary objective

The primary research objective of this study is to investigate management’s role expectations of internal auditors with specific reference to fraud investigation.
1.4.2 Secondary research objectives

To give effect to the primary objective of this study, the following secondary research objectives have been formulated:

- To conduct a literature study of the IIA’s guidance pronouncements in respect of knowledge, skills and competency requirements for internal auditors as it relates to the role of internal auditors in fraud prevention, detection and investigation (refer to Chapter 2).
- To conceptualise fraud, the history of fraud and the impact of fraud (refer to section 3.3).
- To conduct a literature review on the role of internal auditors and their role with regard to fraud investigation (refer to Chapter 3).
- To select an appropriate research methodology and research methods for the study (refer to Chapter 4).
- To make recommendations regarding improvements to the IIA guidance pronouncements with reference to the internal auditors fraud investigation knowledge and skills (refer to Chapter 6).

1.4.3 Research questions

The following research questions were developed to assist the researcher with achieving the primary and secondary research objectives of this study:
• What are the roles of internal auditors and the role of fraud investigators?
• Do the IIA’s guidance pronouncements provide adequate guidance in respect of knowledge, skills and competency requirements for internal auditors as it relates to the role of internal auditors in fraud prevention, detection and investigation?
• What is the definition and elements of fraud, the history of fraud, the impact of fraud and the characteristics of fraud perpetrators?
• Are the selected research methodology and research methods for the study appropriate to address the research question?
• Do the results of the study provide an understanding to enable the researcher to make recommendations regarding improvements to the IIA guidance pronouncements with reference to the internal auditors’ fraud investigation knowledge and skills?

1.5 RESEARCH DESIGN AND METHODOLOGY

The research design and methodology indicates the processes that will be followed to achieve the research objectives. The following aspects of research design and methodology that are discussed in this section include:

• Secondary and primary research
• Research design, methodology and methods
• Data collection and analyses
1.5.1 Secondary research

Secondard research included the conducting of a comprehensive literature search to identify factors in support of this study. Refer to Chapter 4 for the details of the literature sources utilised to identify factors in support of this study.

1.5.2 Primary research

The primary research data was collected according to the framework of the research design as described in Chapter 4. The primary and secondary data collected were analysed and interpreted to find a solution to the research question and to achieve the research objectives described in section 1.4.

1.5.3 Research design

The research design indicates the research methodology adopted for this study. Chapter 4 provides detail relating to the following areas of the research design:

- Data collection
- Sample
- Data gathering
- Data analysis

The following section describes the scope of the study.
1.6 SCOPE OF THE STUDY

This study only investigates one organisation, namely, NMMU. The scope of this study included only committee members, as recorded on NMMU’s committee member’s contact listing for the 2013 fiscal year. These NMMU committees included, Council, Senate, Management Committee (MANCO), Audit and Risk Committee (ARC), Executive Committee of Council (EXCO), Finance and Facilities Committee (FFC), Governance Committee (GC), Human Resources Committee (HRC) and Remuneration Committee (REMCO). The members of these committees determine the management strategy to be implemented by the NMMU and are part of higher level management.

1.7 STRUCTURE OF THE RESEARCH

This section provides a brief description of each chapter and how it relates to the study.

Figure 1.1 graphically illustrates the structure of the research.
Chapter 1 gives an introduction to the study and describes the background to and the purpose of the study. It defines the research question and the aim of the research. Key concepts are defined and a brief discussion of the literature review.
that leads to the research question is provided. The limitations and scope of the study are explained and the structure of the study is outlined.

**Chapter 2** defines the role of internal auditors and the development of the role over time.

**Chapter 3** defines the guidance pronouncements available to internal auditors with specific reference to the performance of fraud investigations. This chapter also addresses stakeholder expectations of internal auditors as they relate to fraud investigation knowledge and skills of internal auditors.

**Chapter 4** considers the meaning of fraud, the impact that fraud has on the world economy, local economy and society. The role of internal auditors as it relates to fraud detection and investigation is also addressed.

**Chapter 5** describes the research design and the research methodology. The research population and the selected sample are defined. The measurement instruments and the method of data collection are discussed as well as an overview of the statistical methods applied to analyse the data.

**Chapter 6** presents the empirical results from the analyses of the data. The findings considered the selected sample and the influence of the identified factors on the research results.
Chapter 7 summarises and evaluates the research results. Contributions and limitations are discussed and conclusions are drawn based on the results of the empirical study.

1.8 SUMMARY

This chapter provides the background and justification for the study. The literature review aided the researcher to obtain an understanding of the research question and to identify research methods to enable the analyses of the research question which was identified (refer to section 1.3).

In the context of the research question and objectives of the study, the following are evident from the literature review of this chapter:

- That an expectation gap exists with regard to the IIA guidance pronouncements and stakeholder expectations of the role of internal auditors with specific reference to the performance of fraud investigations.
- That the achievement of the research objectives, both primary and secondary, and the application of the research methodology as documented provides the information necessary to address the research question as identified.

The literature reviewed in this chapter provided the background information to justify the study. In addition, the research methodology according to which the study was
performed is identified. More detail regarding the research methodology is provided in Chapter 4.

Chapter 2 discusses the history of assurance services and how these services led to the formation of the IIA, the role of internal auditors and the expectations of internal auditors.
CHAPTER 2
THE ROLE OF THE INTERNAL AUDITOR

2.1 INTRODUCTION

Chapter 1 described the purpose of this research study and defined the research question. The objectives of this chapter are to, in the context of the research question and associated objectives; describe how the profession of internal auditing has developed over time and what the expected role of professional internal auditors is.

This chapter provides a review of published literature with regard to the history of internal auditing and the role of internal auditors. This provides an understanding of the development of the internal audit profession out of assurance services to where the internal audit profession finds itself in the 21st century. Lastly, it explores what the expected role of internal auditors is with specific reference to fraud investigation as it has developed over time.

In order to obtain a better understanding of the development of the internal audit profession and what the expected role of internal auditors is with specific reference to fraud investigation, the history of internal auditing is first described followed by the development and growth of the internal audit profession, the role of internal auditors and the evolving role (expectations) of internal auditors.
The design of the research items of the research instrument is guided by the findings of this chapter. Section 2.2 provides an analysis of the internal audit profession history as it has emerged over time.

### 2.2 THE HISTORY AND DEVELOPMENT OF INTERNAL AUDITING

According to Sawyer, *et al.* (2005), historically the profession of internal auditing has evolved systematically as a result of the changes in how organisations in commerce are managed and conducted. Sawyer, *et al.* (2005) further provides historical examples of the systematic development of assurance services which later resulted in the establishment of both the internal and external audit professions. According to Reding, Sobel, Anderson, Head, Ramamoorti, Salamasick and Riddle Reding (2007:12-4), “assurance services are an objective examination of evidence for the purpose of providing an independent assessment on risk management, control or governance processes for the organisation.” The historical examples provided by Sawyer, *et al.* (2005) are based on the following time lines: (I) ancient times; (II) the middle ages; (III) the industrial revolution; and (IV) modern times.

It is important to analyse the development of assurance services according to these timelines as it will provide a context and justification for the research question of this study. The following sections describe the evolvement and development of the internal audit profession during each of these time frames.
2.2.1 Assurance services in ancient times

Records of a Mesopotamian civilisation, dating back to 3500 BC., contain tick marks next to recorded financial transaction amounts. These tick marks prove that one person prepared the transaction summaries while another verified the assertions. The origin of internal controls, a verification system and a division of duties concept, can thus be dated as far back as this time period (Sawyer, et al., 2005: 3-5).

The usage of similar systems has been detected in early Chinese, Egyptian, Hebrew and Persian records. For example, in Egyptian times it was required that the actual delivery of grain to the granaries be witnessed and certified on receipt. Greek financial records indicate the requirement for transactions to be authorised and verified. They preferred peculiar direct methods of control, namely, not to use freemen as record keepers, but rather slaves since torture was considered a more trustworthy method of extracting information than questioning a freeman under oath (Sawyer, et al., 2005:3-5).

During Roman times, the “hearing of accounts” process was applied. This process involved the comparison of one official’s records to those of another. The design and use of the oral verification process was to prevent officials in charge of funds from committing fraudulent acts. This process of hearing accounts gave rise to the term in Latin auditus (“a hearing”) which, in turn, was adopted as “audit”. The accounts of provincial governors would be examined by Questers (“those who inquire”) to detect whether fraud or the misuse of funds occurred (Sawyer, et al., 2005:3-5). This literature survey showed that, from earliest times, auditors were
expected to play a large part in the prevention, detection and investigation of fraud as part of management’s control systems.

### 2.2.2 Assurance services in the middle ages

During the middle ages (5th to 15th century), the monetary systems and financial controls were developed and applied by the Roman Empire for the benefit of the Empire. Rulers during the Dark Ages (500 AD to 1000 AD) started demanding proof of revenues due and received by them. The first audits were performed by Barons and justices and, with the passing of time, these duties became the responsibility of appointed officials (Sawyer, *et al.*, 2005:3-5).

During the 13th century the expanding Italian commerce resulted in the demand for a more sophisticated record-keeping system. The demand gave rise to the creation of the double-entry system of bookkeeping; where transactions were entered as both a credit and a debit. The new system allowed merchants to monitor the work of employees and control transactions with suppliers and customers. Columbus on his journey to the United States of America (USA) was also accompanied by an auditor representing Queen Isabella (Sawyer, *et al.*, 2005:3-5).
2.2.3 Assurance services during the industrial revolution

In England, during the industrial revolution (mid-18th to early 20th century), the provision of assurance services began to develop as a profession. Organisations’ financial records were checked by appointed accountants. Audit verification became a matter of comparing entries in the books of account with documentary evidence and the scrutinising of written accounting records (Sawyer, et al., 2005:3-5). The purpose of these verifications and checks was to identify errors in the recording of transactions as well as acts of wrong-doing (fraudulent acts).

During the 19th century, the providers of assurance services along with British investors crossed the Atlantic Ocean to the United States of America. Wealthy Englishman invested substantial amounts of money in USA organisations and they desired independent checks conducted on their monetary investments.

The methods and procedures which the English assurance services providers brought with them were adapted by the Colonials according to their needs. The British Companies Act of 1844 required accountability to investors and since the USA did not have such requirements; assurance services providers served the needs of the entrepreneur rather than that of the investors. The British investors expected a more analytical approach to the recording and management of accounts and emphasised the balance sheet assurance (audit) approach (Sawyer, et al., 2005: 3-5). Although financial statements audits are known to be the work of external auditors in modern times, no distinction were made between internal and external audit at this point in time.
2.2.4 Assurance services during modern times

For the purposes of this study, recent times include the period 1914 to present. Considering the increased expectations for assurance services provided by internal auditors to keep-up with the growth and evolution of commerce, gave rise to the foundation of the IIA in the United States of America during 1941, with the IIA (SA) being established in 1964 (Flesher & McIntosh, 2002, ix). The objectives for founding the IIA were to have a professional association dedicated to the promotion and development of the practise of internal auditing and to become the recognised authority, chief educator, and acknowledged leader in standards, certification, research, and technological guidance for the profession worldwide (Flesher & McIntosh, 2002, ix). With the founding of the IIA, it established a trustworthy, global guidance-setting body which provides professional internal auditors with authoritative guidance for the professional practise of internal auditing.

The need to have some means of independent assurance to reduce record-keeping errors, asset misappropriation and fraud within business and non-business organisations has placed a burden on both internal and external auditors to provide these expected assurance services (Ramamoorti, 2003). Section 2.3 describes recent developments within the internal audit profession.
2.3 DEVELOPMENTS WITHIN THE INTERNAL AUDIT PROFESSION

According to Marx and Voogt (2010), the emergence of corporate governance as an imperative for listed companies, as a result of business failures, corporate collapses and fraudulent financial reporting during the late 1990s and early 2000s, resulted in the mushrooming of the internal audit profession in the 21st century owing to listed companies being necessitated to have an internal audit activity to evaluate compliance with corporate governance best practices.

Ernest and Young (2008:5) identify that there is more emphasis on imbedding internal controls throughout organisations. As there is also a greater understanding that internal audits can increase organisational efficiency and effectiveness, it is, therefore, clear that the internal audit is on the ascendency.

For Von Eck (2011), more and more South African organisations are encouraging their internal auditors to become certified internal auditors (CIAs) or at least become a member of the IIA. The IIA (SA) is also advocating as one of its most critical objectives, the delivery of competent, well-rounded internal audit professionals to the users of internal audit services (Von Eck, 2011).

To assist them with the delivery of competent, well-rounded internal audit professionals, the IIA (SA) introduced a professional training program (PTP) at the beginning of 2014. Under the jurisdiction of the department of higher education and training (DHET), two learnership programmes, namely, the internal audit technician (IAT) and professional internal auditor (PIA) have been registered related to the PTP of the IIA. The programmness are precursors to be being able to write the CIA
qualification and comprise of focused training modules, structured workplace training, regular evaluations and a final competency-based assessment (IIASA, 2014b). The CIA qualification in South Africa is recognised as the final test of competence by the IIA (SA) and is a career path requirement for internal auditors in South Africa to be able progress within the profession (Von Eck, 2011).

The IIA describes a learnership as a work-based learning program which is comparable to training contracts or articles of other professions. The registered learnerships consist of two elements, formal classroom training (educational element) and workplace instructions (structured workplace training element). The learnerships relate to a profession and with successful completion of the two elements, will lead to the awarding of the relevant qualification (IIASA, 2014b).

The introduction of a PTP for the IIA was necessitated as a result of the increase in pace and intensity of organisational changes as a result of organisations growing more global and more interdependent (Grocholski in Chambers & McDonald, 2013).

Table 2.1 shows a summary of the history of assurance servies in internal auditing.
Table 2.1: History of assurance services

<table>
<thead>
<tr>
<th>Time</th>
<th>Main development in assurance services</th>
</tr>
</thead>
</table>
| Ancient times         | - The authorisation of transactions became a requirement.  
                        - Development of verification systems, for example, the comparison of one official’s records to those of another.  
                        - The division of duties was implemented.                                                                                                                                                                                                                                                                   |
| Middle Ages           | - The appointment of officials to perform assurance services.  
                        - The development of more sophisticated record-keeping systems, for example, the double-entry system for bookkeeping (credits and debits).                                                                                                                                             |
| Industrial Revolution | - The provision of assurance services began to develop as a profession.  
                        - Assurance services providers’ verification was the comparison of entries in the books of account with documentary evidence.  
                        - The point in time when assurance services providers started to check for errors in the recording of transactions and fraudulent acts.                                                                                                               |
| Modern times          | - Investors desired independent checks to be performed on their monetary investments, they also expected a more analytical approach to the recording and management of accounts and emphasised the balance sheet assurance (audit) approach.  
                        - Brought about the establishment of the IIA and, more recently, the IIA PTP.                                                                                                                                                                                                                             |

(Source: Sawyer, et.al. (2005); IIA SA (2014))

Table 2.1 illustrates the developments in the provision of assurance services during different time lines. The developments which came about emphasised the need and the purpose for the establishment of a professional association, namely, the IIA, to standardise and provide professional guidance to internal auditors when performing internal audit engagements as required by various stakeholders of organisations. The following section describes the difference between internal auditing and external auditing.

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2.4 THE DIFFERENCE BETWEEN INTERNAL AUDITING AND EXTERNAL AUDITING

According to Sawyer, *et al.* (2005:6), in areas such as reviewing the adequacy of accounting controls the activities of internal and external auditing may overlap. Because of divergent objectives, the differences between the two professions are greater than the similarities (Sawyer, *et al.* 2005:6).

Table 2.2 summarises the differences between the two professions, namely, the internal and external audit, as it relates to their mandate, areas of focus, independence, risk and control and driving results.
Table 2.2: Difference between internal and internal auditors

<table>
<thead>
<tr>
<th>Area of comparison</th>
<th>Internal Auditors (IAs)</th>
<th>External Auditors (EAs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandate</td>
<td>IAs have a duty to report on the state of governance, risk management and control within the organisation to senior management and the board via the audit committee.</td>
<td>EAs have a statutory obligation to report to the public and shareholders on the accuracy of the organisation’s financial statements and the annual report.</td>
</tr>
<tr>
<td>Areas of focus</td>
<td>IAs focus on the entire organisation, all operations, functions and departments.</td>
<td>EAs focus on accounting transactions and finances of the organisation.</td>
</tr>
<tr>
<td>Independence</td>
<td>IAs provide internal audit assurance to the audit committee and they are part of the organisation but independent of management.</td>
<td>EAs have a statutory obligation and are independent external assurance providers to the organisation.</td>
</tr>
<tr>
<td>Risk and control</td>
<td>IAs evaluate the adequacy of the organisation’s control design to identify that risks are effectively managed and then test the operations of key controls to ensure that they are operating as designed and are effective in the management of the organisations risks. IAs thus provide an independent view on the organisation’s risk management, control and governance processes.</td>
<td>The emphasis of EAs is on gaining sufficient audit evidence, identifying risks and assessing controls over financial reporting to place reliance on controls to the extent practicable and to conclude that the financial statements viewed as presented are true and fair.</td>
</tr>
<tr>
<td>Driving results</td>
<td>IAs make recommendations to improve the operational performance of the organisation as a whole and the overall control environment.</td>
<td>EAs make recommendations to improve the control environment relating to the finances of the organisation.</td>
</tr>
</tbody>
</table>

(Source: IIASA (2014a))
From Table 2.2, it can be deduced that the internal auditor is an employee of an organisation and serves the needs of that specific organisation by focusing on future events and evaluating controls on a continues basis to provide assurance to the organisation that their goals and objectives will be achieved. The internal auditor is independent of the activities being audited and is also directly concerned with the prevention of fraud. From Table 2.2, it can also be deduced that the external auditor is an independent contractor, who serves the needs of independent third parties who require reliable financial information which is concerned with the accuracy of historical events as expressed in financial statements. External auditing is not directly concerned with the prevention and detection of fraud unless it has a material impact on the accuracy of financial statements. The external auditor is independent in fact and mental attitude from any organisation and performs engagements on periodically. The differences between internal and external auditing also relates to when fraudulent activities is of concern and would require further investigation.

Sawyer, et al. (2005:7) states that the difference between internal and external audit assurance services, specifically in respect of fraud related aspects, is due to their focus. External auditors are not concerned with fraud that is not large enough to have a significant impact on the organisations financial statements and internal auditors, on the other hand, are concerned with all waste and fraud whatever the source and or the size.
2.5 THE ROLE OF INTERNAL AUDITORS ACCORDING TO THE INSTITUTE OF INTERNAL AUDITOR’S GUIDANCE

The IIA-SA (2014a) describes the role of an internal auditor as a key position within the organisation that has evolved to span across all sectors. The internal audit is a multidimensional discipline with the nature of the day-to-day work performed by the internal auditor creating opportunities to acquire a significant amount of in-depth knowledge and an understanding of the organisation's strategy and operations. The internal auditor, as an independent advisor, acts as a catalyst for improvement, champion's best practice and challenges current organisational practices to assist management in the achievement of its strategic objectives (IIA-SA, 2014a).

According to Deloitte (2014), the major roles and responsibilities of internal audit activities can be summarised as follows:

- To provide reasonable assurance, through evaluation, that risk management, control and governance processes are functioning as designed and will enable the organisation to achieve its objectives and goals
- To report directly to the audit committee on identified internal control deficiencies and risk management issues and provide recommendations for improving the organisation's operations, in terms of both efficient and effective performance
- To evaluate information security and associated risk exposures
- To evaluate, with consultation from legal counsel, the regulatory compliance programme
- To evaluate in case of business interruption, the organisation’s readiness
- To maintain open communication with the audit committee and organisational management
- To work with external and other internal resources as appropriate.
- To engage in staff development and continuous education
- To provide support to the organisations anti-fraud programmes

The IIA (2014a) further describes the role and responsibilities of internal auditors as:

- Evaluation of risks
- Confirmation of information and analyses of operations
- Performance of compliance reviews
- Advising managers at all levels and performing evaluations of controls

Section 2.6 describes the previous research performed on the role of internal auditors by the Institute of Internal Auditors Research Foundation (IIARF).

2.6 PREVIOUS RESEARCH ON THE ROLE OF INTERNAL AUDITORS

The 2010 common body of knowledge study by the IIARF (CBOK 2010) identified the five roles of the IAA as: (I) the review of financial processes; (II) risk management, (III) governance; (IV) regulatory compliance; and (V) operational auditing.
Table 2.3 (based on the results of the CBOK 2010 study) illustrates the expected increase in the five roles of the IAA per geographical region (percentage of CBOK 2010 respondents).

Table 2.3: Expected increase in the five roles of the IAA per region according to the CBOK 2010 study (percentage of respondents)

<table>
<thead>
<tr>
<th>Five roles of internal auditing</th>
<th>Africa</th>
<th>Asia Pacific</th>
<th>Eastern Europe – Central Asia</th>
<th>Latin America and Caribbean</th>
<th>Middle East</th>
<th>United States of America and Canada</th>
<th>Western Europe</th>
<th>Overall Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of financial processes</td>
<td>57%</td>
<td>43%</td>
<td>42%</td>
<td>59%</td>
<td>60%</td>
<td>33%</td>
<td>30%</td>
<td>41%</td>
</tr>
<tr>
<td>Risk management</td>
<td>87%</td>
<td>86%</td>
<td>84%</td>
<td>86%</td>
<td>87%</td>
<td>74%</td>
<td>74%</td>
<td>80%</td>
</tr>
<tr>
<td>Governance</td>
<td>83%</td>
<td>73%</td>
<td>61%</td>
<td>70%</td>
<td>79%</td>
<td>59%</td>
<td>62%</td>
<td>65%</td>
</tr>
<tr>
<td>Regulatory compliance</td>
<td>63%</td>
<td>50%</td>
<td>34%</td>
<td>58%</td>
<td>63%</td>
<td>52%</td>
<td>47%</td>
<td>50%</td>
</tr>
<tr>
<td>Operational auditing</td>
<td>57%</td>
<td>52%</td>
<td>55%</td>
<td>53%</td>
<td>59%</td>
<td>43%</td>
<td>38%</td>
<td>47%</td>
</tr>
</tbody>
</table>

(Source: Allegrini; D’Onza; Melville; Sarens and Selim (2010))

From Table 2.3, the IAA’s role in respect of ‘risk management’ is expected to increase the most (Allegrini, et al., 2010). Risk management is an organisational and management process for setting risk objectives and identifying, analysing, assessing and controlling of organisational risks (Schneider, Sheikh & Simione, 2012:27).

The role of the internal auditor in the risk management process is to evaluate the effectiveness of the risk-management process and recommend improvements where necessary. The International Standards for the Professional Practise of Internal Auditing (IIASA, 2011a) (hereafter referred to as the “Standards”) require
that the scope of the IAA include the evaluation of the reliability of reporting, the effectiveness and efficiency of operations and compliance with laws and regulations. By performing these activities, the internal auditor is assisting management and the board in ensuring the adequacy and effectiveness of the organisation’s risk management processes (Reding, et al. 2007:3-27).

The risk of fraud is one of the largest risks faced by organisations (Reding, et al., 2007:7-1). Deloitte (2010) asserts that management of organisations increasingly depends on internal auditors to, as a result of the ongoing evolvement of internal auditing, monitor, detect and investigate the incidence of fraud as and when it occurs.

Table 2.4 shows the responses of chief executive officers (CEO), chief financial officers (CFO), chief operating officers (COO) and chairpersons of audit committees (CAC) with regard to the contributions made by in-house IAAs to mitigate the risks as listed in the risk category.
Table 2.4: Contribution of in-house IAAs to top-risk categories

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Contribution to management of risk</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>None</td>
<td>Limited</td>
</tr>
<tr>
<td>CEO/CFO/COO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Fraud</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>IT-related</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Operations</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>People</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Strategic</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>

(Source: Coetzee, et al. (2010))

From Table 2.4, it can be seen that the CEO/CFO/COOs and CACs were of the opinion that the most valuable contribution to the management and mitigation of fraud related risks were made by internal auditing.

2.7 SUMMARY

Based on the objectives of this chapter, namely, to conduct a literature review on the history of internal auditing, to identify how the internal audit profession developed out of assurance services and to gain an understanding of what the role of internal auditors is currently. The chapter also explains what the expectations of other stakeholders, namely, the IIA and users of internal audit services are with
regard to fraud investigation knowledge and skills required by an internal auditors to perform fraud investigations.

This chapter explained that the expectation/needs of stakeholders for assurance services gave rise to the founding of the IIA and internal audit profession in the 20th century. It also explained the current role of internal auditors and indicated that investors rely on internal auditors to detect fraud rather than senior management.

From the literature reviewed, it was deduced that the only requirement of internal auditors as far as it related to fraud investigation knowledge and skills required to perform fraud investigations was that the internal audit should provide support for organisational anti-fraud programmes. It can thus be further deduced from the literature reviewed on the role of internal auditors that there is very limited guidance, if any, provided with regard to fraud investigation knowledge and skills required by an internal auditor to perform fraud investigations.

The literature reviewed thus substantiates the need for a worldwide professional association to provide guidance, education and training to professional internal auditors for the practise of internal auditing owing to the role of internal auditors continuously evolving in line with changes and developments in commerce. The role of internal auditors is thus evolving to enable them to provide stakeholders with assurance and to assist the organisation to achieve business objectives and remain competitive in current economies and ensure future existence of businesses. Chapter 3 describes the internal auditing guidance which is available to professional internal auditors for the practise of internal auditing.
CHAPTER 3
INSTITUTE OF INTERNAL AUDITORS GUIDANCE PRONOUNCEMENTS FOR INTERNAL AUDITORS

3.1 INTRODUCTION

Chapter 2 explained the role of internal auditors in respect of knowledge, skills and competency requirements for internal auditors as it relates to the role of internal auditors in fraud prevention, detection and investigation. The objective of this chapter is to, in the context of the research question and associated objectives, describe the internal auditing guidance which is available to professional internal auditors for the practise of internal auditing with specific reference to fraud investigation knowledge and skills. This chapter, therefore, reviews published literature from the IIA to assess the guidance which is provided by the IIA to professional internal auditors with regards to fraud investigation.

In order to obtain a better understanding of the fraud investigation knowledge and skills required by internal auditors to be able to perform fraud investigations successfully, the IIA guidance available to internal auditors is first described followed by the identification of fraud investigation knowledge and skills required according to the IIA guidance available. The design of the research items of the research instrument is guided by the findings of this chapter.
Section 3.2 provides a description of the IIA guidance available to professional internal auditors for the practise of internal auditing.

3.2 KNOWLEDGE AND SKILLS EXPECTATIONS OF INTERNAL AUDITORS

Professional bodies and societies also have expectations of internal auditors to go beyond the responsibilities required by the professional standards (Hassink, Bollen, Meuwissen & De Vries, 2009:85). However, internal auditing is largely influenced by the expectations that senior management of an organisation may have (Sarens & De Beelde, 2006:219). In addition, audit committees expect of internal auditors to stay abreast developments affecting the organisation such as industry, regulatory and technology matters (Bromilow & Brown, 2011). Rossiter (2007) concurs by asserting that internal auditors must respond to the evolving needs of stakeholders and the demands of their new environment by raising the bar and moving to the next level. To this end, Mallin (2011) states that internal auditors need to understand the expectations of its primary stakeholders; the audit committee and senior management, and align IAA accordingly. Investors do not trust management to detect fraud as management can be fraudulent, investors therefore, expect the internal auditors to detect fraud (Alleyne & Howard, 2005:288).

The role expectations of internal auditors in respect of fraud identification and investigation are an area where the possible existence of a gap, when compared to professional guidance, could be detrimental to the reputation and image of the internal audit profession. The reputational risk is increased when fraudulent
activities are found to exist in the organisation but were not uncovered by the internal auditors (Hassink, et al., 2009:85).

3.3 INSTITUTE IF INTERNAL AUDITORS GUIDANCE FOR THE PRACTISE OF INTERNAL AUDITING

The IIA and the internal auditing profession’s worldwide expansion, continuing relevance, increasing influence and recognition over the last 72 years constitute remarkable growth and progress. As a result of the continued dynamic growth of the internal auditing profession, the profession appears poised to become “a profession for the 21\textsuperscript{st} century” (Ramamoorti, 2003).

According to Chambers (2013), over the years, internal audit stakeholders have come to recognise the Standards as a critical means by which to gain assurance on how the quality of internal audits work and conform with the Standards. This also informs internal audit stakeholders that the internal audit activity adds true value to the organisation, is staffed with ethical and objective professionals, operates with a high degree of professionalism and is a reliable resource because it is independent.

The role of the 21\textsuperscript{st} century internal auditor according to the IIA’s definition of internal auditing as provided in section 1.2.1 is “to add value and improve an organisation’s operations and help an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” (IIA, 2013).
To enable internal audit professionals around the world to fulfil their roles as indicated by the definition of internal auditing, the IIA provides authoritative guidance contained in the International Professional Practises Framework (IPPF), including mandatory and strongly recommended guidance. The Standards define mandatory guidance as:

Conformance with the principles set forth in mandatory guidance is required and essential for the professional practise of internal auditing. Mandatory guidance is developed following an established due diligence process, which includes a period of public exposure for stakeholder input. The three mandatory elements of the IPPF are the definition of internal auditing, the code of ethics and the standards.

For the IIA (2011a), the Standards further provide a definition for strongly recommended guidance:

Strongly recommended guidance is endorsed by the IIA through a formal approval processes. It describes practises for effective implementation of the IIA’s definition of internal auditing, code of ethics and standards. The three strongly recommended elements of the IPPF are position papers, practise advisories and practise guidance.

The IIA Standards consist of attribute and performance standards. The attributes of internal auditors and organisations performing internal audit services is addressed by the attribute standards. The internal auditor’s knowledge and skill’s requirements are addressed in the performance standards section of the Standards (IIA, 2011a).
According to IIA guidance, the purpose of the *Standards* is to delineate basic principles, represent the practise of internal auditing as it should be, provide a framework to perform a range of value-added IAAs, establish a basis for the evaluation of IA performance and foster improved organisational processes and operations (IIA, 2013). Internal auditors fulfilling their roles through compliance with the *Standards*, in addition to the Internal Auditor Competency Framework (IACF), are able to provide the users of internal audit services with assurance that internal audit services are of good quality.

The IIA provides guidance in their International Professional Practises Framework (IPPF), which includes the definition of internal auditing, the International Standards for the Professional Practise of Internal Auditing (ISPPIA), the code of ethics and practise advisories (Here after refered to as the *Standards*).

To assess the internal auditor’s compliance with the Internal Auditor Competency Framework (IACF) the IIASA has introduced three certification programmes to test the internal auditor’s competence, namely, the (a) Internal Audit Technician (IAT), (b) Professional Internal Auditor (PIA), and (c) Certified Internal Auditor (CIA) programmes which is founded on the IACF (IIASA, 2014b).

The guidance available to internal auditors for the performance of IAAs includes:
(i) The definition of internal auditing

Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve an organisation’s operations that help an organisation accomplish its objectives by bringing a systemic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance processes.

The definition of internal auditing provides no reference or guidance for the knowledge and skills required by internal auditors with regard to the performance of fraud investigations.

(ii) International Professional Practices Framework – Attribute Standards

1000 – Purpose, Authority and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally-defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Audit Executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards in the Internal Audit Charter

The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the Standards must be recognised in the internal audit charter. The Chief Audit Executive should discuss the Definition of Internal Auditing, the Code of Ethics and the Standards with senior management and the board.

1100 – Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

1110 – Organisational Independence

The Chief Audit Executive must report to a level within the organisation that allows the internal audit activity to fulfill its responsibilities. The Chief Audit Executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

1111 – Direct Interaction with the Board

The Chief Audit Executive must communicate and interact directly with the board.

1120 – Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.
1130 – Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

1200 – Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 – Proficiency

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

1220 – Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. However, due professional care does not imply infallibility.

1230 – Continuing Professional Development

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.
1300 – Quality Assurance and Improvement Program

The Chief Audit Executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

1310 – Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

1311 – Internal Assessments

Internal assessments must include:

Ongoing monitoring of the performance of the internal audit activity; and

Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

1312 - External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Chief Audit Executive must discuss with the board:

The form and frequency of external assessment; and

The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.
1320 – Reporting on the Quality Assurance and Improvement Programme

The Chief Audit Executive must communicate the results of the quality assurance and improvement programme to senior management and the board.

1321 – Use of “Conforms to the International Standards for the Professional Practise of Internal Auditing”

The Chief Audit Executive may state that the internal audit activity conforms with the International Standards for the Professional Practise of Internal Auditing only if the results of the quality assurance and improvement programme support this statement.

1322 – Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts the overall scope or operation of the internal audit activity, the Chief Audit Executive must disclose the nonconformance and the impact to senior management and the board.

From IIASA (2011a/b), the following Attribute Standards are the only standards that relate to the knowledge and skills which an internal auditor is expected to possess:

- **Standard 1200 – Proficiency and due professional care**: Engagements must be performed with proficiency and due professional care (IIASA, 2011b).
- **Standard 1210 – Proficiency**: Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual
responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities (IIA, 2011b).

- **Standard 1220 – Due professional care**: Internal auditors must apply the care and skill expected of a reasonable prudent and competent internal auditor. *Due professional care does not imply infallibility* (IIASA, 2011a).

In respect of fraud, the *Standards* (Standard 1210.A2) states that "*Internal auditors must have sufficient knowledge to evaluate the risk of fraud* [own emphasis] and the manner in which it is managed by the organization, but are not expected to have the expertise [own emphasis] of a person whose primary responsibility is detecting and investigating fraud* [own emphasis]" (IIASA, 2011a).

In addition to the *Standards*, the IIA developed Practise Advisories to assist internal auditors with the practical application of the *Standards*, code of ethics and the definition of internal auditing and to promote good practise. The Practise Advisories include good practises relating to international, national, industry-specific issues, specific type of engagements and regulatory or legal issues. They also address the IAA methodology, considerations and approach, but not detailed procedures and processes (IIASA, 2011b). The only reference to fraud investigation knowledge and skills is found in the following practise advisories (IIASA, 2011b):
Practise Advisory 1210-1 – Proficiency: The knowledge, skills and other competencies referred to in the standard include: Knowledge to identify the indicators of fraud; and

Practise Advisory 1220-1 – Due Professional Care: Exercising due professional care involves internal auditors being alert to the possibility of fraud.

The nature of internal auditing and the quality criteria against which the performance of these services can be measured is provided and described in the performance standards (IIASA, 2011a:4).

According to the IIA, the review and development of the Standards is an ongoing process. The IIA also identifies the need for extensive consultation:

The internal audit standards board engages in extensive consultation and discussions prior to issuing the Standards. This includes worldwide solicitation for public comment through the exposure draft process. All exposure drafts are posted on the IIA’s internet web site as well as being distributed to all IIA Institutes (IIASA, 2011a:4).

(ii) International Professional Practises Framework – Performance Standards

2000 – Managing the Internal Audit Activity

The Chief Audit Executive must effectively manage the internal audit activity to ensure it adds value to the organisation.
2010 – Planning

The Chief Audit Executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation’s goals.

2020 – Communication and Approval

The Chief Audit Executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The Chief Audit Executive must also communicate the impact of resource limitations.

2030 – Resource Management

The Chief Audit Executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

2040 – Policies and Procedures

The Chief Audit Executive must establish policies and procedures to guide the internal audit activity.

2050 – Coordination

The Chief Audit Executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.
2060 – Reporting to Senior Management and the Board

The Chief Audit Executive must report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.

2070 – External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

2110 – Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information among the board, external and internal auditors and management.

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk-management processes.

2130 – Control

The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2200 – Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing and resource allocations.

2201 – Planning Considerations

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources and operations as well as the means by which the potential impact of risk is kept to an acceptable level;
• The adequacy and effectiveness of the activity’s governance, risk management, and control processes compared to a relevant framework or model; and

• The opportunities for making significant improvements to the activity’s governance, risk management and control processes.

2210 – Engagement Objectives

Objectives must be established for each engagement.

2230 – Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

2240 – Engagement Work Programme

Internal auditors must develop and document work programmes that achieve the engagement objectives.

2300 – Performing the Engagement

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement’s objectives.

2310 – Identifying Information

Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement’s objectives.
2320 – Analysis and Evaluation
Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 – Documenting Information
Internal auditors must document relevant information to support the conclusions and engagement results.

2340 – Engagement Supervision
Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff is developed.

2400 – Communicating Results
Internal auditors must communicate the results of engagements.

2410 – Criteria for Communicating
Communications must include the engagement’s objectives and scope as well as applicable conclusions, recommendations and action plans.

2420 – Quality of Communications
Communications must be accurate, objective, clear, concise, constructive, complete and timely.
2421 – Errors and Omissions
If a final communication contains a significant error or omission, the Chief Audit Executive must communicate corrected information to all parties who received the original communication.

2430 – Use of “Conducted in Conformance with the International Standards for the Professional Practise of Internal Auditing”
Internal auditors may report that their engagements are “conducted in conformance with the International Standards for the Professional Practise of Internal Auditing”, only if the results of the quality assurance and improvement programme support the statement.

2431 – Engagement Disclosure of Nonconformance
When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the:

- Principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved;
- Reason(s) for nonconformance; and
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 – Disseminating Results
The Chief Audit Executive must communicate results to the appropriate parties.
2450 – Overall Opinions
When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

2500 – Monitoring Progress
The Chief Audit Executive must establish and maintain a system to monitor the disposition of results communicated to management.

2600 – Communicating the Acceptance of Risks
When the Chief Audit Executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the Chief Audit Executive must discuss the matter with senior management. If the Chief Audit Executive determines that the matter has not been resolved, the Chief Audit Executive must communicate the matter to the board.

(iii) Internal Auditor Competency Framework
The internal auditor competency framework includes:

I. Professional ethics: Promotes and applies professional ethics
II. Internal audit management: Develops and manages the internal audit function
III. IPPF: Applies the International Professional Practises Framework (IPPF)
IV. Governance, risk and control: Applies a thorough understanding of governance, risk and control appropriate to the organisation
Only one of the nine core competencies outlined in the IACF has any reference to the knowledge and skills required by internal auditors with regard to the performance of fraud investigations. The core competency which contains the references is recorded in section (IV) Governance, risk and control of the IACF. The references for the internal auditor are as follows:

- Support at all levels within the organisation a culture of fraud-risk awareness
- Identify common types of fraud associated with the organisation, assess and account for the potential for fraud risk
- Identify common types of fraud associated with the internal audit engagement, assess and account for potential for fraud risk
- Understand the processes used to support fraud investigations

The internal auditor’s competency is tested by the IIA by means of the (a) IAT, (b) PIA and (c) CIA certification programmes to assess compliance with the IACF. The internal auditor’s competency tasks and outcomes include:
(a) Internal Audit Technician (IAT) workplace training logbook

Task 1. Understanding the business organisation
Outcome: Understand the overall business, key structures and processes and how the IA unit fits into the organisation

Task 2. The internal audit unit
Outcome: Have an understanding of the basics of Internal Auditing as it relates to this business in the identification of risks, the management of those risks, the introduction of controls, the benchmarking, planning and executing of the audit reporting and follow-up

Task 3. Internal audit in the working environment
Outcome: Be aware of the interface of internal audit with the various aspects of management, as well as the ethics and standards required of the internal audit profession

Task 4. Communication – verbal and written
Outcome: Develop competency in written skills and presentations and have a good grounding in interviewing and negotiating skills

Task 5. Financial aspects
Outcome: Display an awareness of business risk in financial areas, and where appropriate, have knowledge of the processes and ability to identify key risk areas and describe the controls in place
Task 6. Non-financial aspects
Outcome: Display an awareness of business risk in non-financial areas, and where appropriate, have knowledge of the processes and ability to identify key risk areas and describe the controls in place

Task 7. Information technology in internal auditing
Outcome: Display competent usage of information technology in internal audit applications

Task 8. Corporate governance
Outcome: Display an awareness of the key elements of King III Report

Task 9. Fraud in the workplace
Outcome: Display an awareness of the fraud and corruption areas in the business environment

In the IAT workplace training logbook only one of the nine tasks which need to be completed by an internal auditor to obtain the IAT qualification refers to the knowledge and skills required by internal auditors with regard to the performance of fraud investigations. The reference relates to the internal auditor being able to display an awareness of corruption and the fraud areas in the business environment.
Task 1. Internal audit and the business environment
Outcome: Demonstrate an understanding of the business environment in which the IA operates

Task 2. The internal audit activity and process
Outcome: Conduct an audit with the minimum level of supervision and be able to agree on findings and the content of the audit report. Be able to evaluate risk management and internal controls.

Task 3. Interpersonal skills
Outcome: Demonstrate competency in communication skills, relating to interviewing, facilitation, presentation and problem-solving management

Task 4. Corporate governance
Outcome: Be able to identify the corporate governance environment within the organisation and be able to audit it

The PIA workplace training logbook provides no reference or guidance for the knowledge and skills required by internal auditors for the performance of fraud investigations.
(c) Certified Internal Auditor (CIA) programme curriculum

CIA part one – Domain II – Internal Control / Risk (25 – 35%)

CIA part two – Domain I Managing the Internal Audit Function (40 – 50%)
  – Domain III Fraud Risk and Controls (5 – 15%)

CIA part three – Domain VII Financial Management (13-23%)
  – Domain II Risk Management (10-20%)
  – Domain I Governance / Business Ethics (5 – 15%)
  – Domain VIII Global Business Environment (0 – 10%)

(Source: IIA (2011); IIA (2013); IIASA (2014b))

The CIA programme curriculum only requires internal auditors to obtain the knowledge and skills relevant to the identification of fraud risks and related controls for mitigating the identified risks. Only 5 to 15% of the CIA part two question paper relates to fraud risk and controls.

The grey sections shaded include the IIA guidance pronouncements which are available to internal auditors for the performance of internal audit engagements, namely: (i) the definition of IA, (ii) IPPF or the Standards and (iii) the IACF. These IIA guidance pronouncements thus provide limited guidance to internal auditors with regard to the fraud knowledge and skills required by internal auditors in respect of fraud investigations.
Based on section 3.3, IIA guidance for the practise of internal auditing, it can be deduced that the role of internal auditors should include the following activities:

- Promote and apply professional ethics
- Manage assurance and consult IAA
- Evaluate the organisational effectiveness of risk management, control and governance processes
- Develop and document a plan for each internal audit engagement, the plan should include the objectives, scope, timing and resource allocation per internal audit engagement
- Perform the internal audit engagement to achieve the engagement objectives by evaluating, identifying, analysing and documenting sufficient information
- Communicate the engagement results to management
- Monitor the progress of management regarding the implementation of communicated engagement results which require corrective action
- Determine that management does not accept residual risk which is not acceptable according to the organisations prescribed guidelines for risk acceptance
- Provide cooperation and collaboration motivate and persuade management and others to comply with organisational risk management, control and governance processes
3.4 SUMMARY

Based on the objectives of this chapter, namely, to conduct a literature review on the role of internal auditors and the IIA’s guidance pronouncements in respect of knowledge, skills and competency requirements for internal auditors as it relates to the role of internal auditors in fraud prevention, detection and investigation is determined. This chapter also explains that an expectation gap could exist in respect of the IIA’s guidance pronouncements when compared to the expectations of stakeholders.

The literature reviewed substantiates that the role of internal auditors is continuously evolving in line with changes and developments in commerce. The role of internal auditors is thus evolving to enable them to provide stakeholders with assurance and to assist the organisation to achieve business objectives and remain competitive in current economies and ensure the future existence of businesses.

The literature further identified a deficiency in IIA guidance regarding the knowledge, skills and competency capabilities which is required of internal auditors. The deficiency specifically relates to the ability of internal auditors to perform fraud investigations with due professional care.

This chapter showed that the IIA’s guidance pronouncements do not provide sufficient and adequate guidance in respect of the knowledge, skills and competency capabilities in relation to fraud investigations. The literature reviewed
in this chapter also provided an outline of what the IIA prescribes to internal auditors (with regard to capabilities) for the performance of fraud investigations.

It can, therefore, be deduced from the guidance pronouncements available to internal auditors that they are only required to have or obtain knowledge on how to identify and evaluate the risk of fraud and the manner in which organisations manage these fraud risks. Limited reference or guidance is provided to internal auditors on how to perform fraud investigations.

Chapter 4 provides a literature overview of fraud where aspects such as the history of fraud, the impact of fraud and the concept fraud is discussed.
CHAPTER 4
INTERNAL AUDITORS AND FRAUD

4.1 INTRODUCTION

Chapter 4 outlined what the IIA prescribes to internal auditors (with regard to capabilities) for the performance of fraud investigations. The objective of this chapter is to, in the context of the research question and associated research objectives, explain the literature relating to the history of fraud, the impact of fraud and to conceptualise fraud.

In this context, the Chapter provides a literature review of the history of fraud, the impact of fraud and conceptualises fraud to obtain a better understanding of the expected role of internal auditors with specific reference to fraud prevention, detection and investigation.

Section 4.2 conceptualises fraud to provide an understanding of what fraud is and reasons why fraud is committed.

4.2 CONCEPTUALISING FRAUD

In order to conceptualise fraud, a definition is obtained from published literature and explained in the context of the research question and associated objectives.
4.2.1 A definition of Fraud

According to Coetzee, Du Bruyn, Fourie and Plant (2012:134) “fraud is any intentional act or omission designed to deceive others, resulting in the victim of the fraud suffering a loss and the perpetrator of the fraud achieving a gain”. Fraud is more likely to occur in situations in which the conditions are conducive for it to occur; it is not a random occurrence (Martin, 2012). Reding, et al. (2007) states that before a fraud is perpetrated, the perpetrators must be able to justify their actions to themselves as a psychological coping mechanism to, inevitably, deal with a lack of congruence between their own perception of being honest and the deceptive nature of their action or behaviour. However, fraud can be perpetrated by persons inside as well as outside the organisation to the detriment or for the benefit of an organisation (Sawyer, et al. 2005:1163).

Considering Coetzee, et al.’s (2012) definition, fraud can thus be summarised as:

- an intentional act or omission of facts to deceive others
- the victim suffers a loss and the perpetrator achieves a gain
- occurs in conditions that are conducive to fraud
- can be committed by people inside and outside the organisation

From this summary, it can thus be deduced that the first two listed conditions must be present for a fraudulent act to be committed.
4.2.2 Conditions that are conducive to fraud

According to the ACFE (2012), turbulent economic times can lead to an increase of fraud as a result of one or more of the following conditions being present:

- Growing financial pressure on employees as a result of their houses (properties) declining in value and their retirement funds shrinking
- Threat of workers being laid off due to organisations wanting to reduce expenses
- Decline of stock prices
- Low employee morale
- Increased job security fears

As a result, an environment conducive to fraud is created through a combination of these conditions.

Figure 4.1 illustrates the fraud triangle graphically showing the three factors, namely, pressure, opportunity and rationalisation that encourage perpetrators to commit fraud. It also explains how these factors together could lead to fraudulent behaviour.
According to the ACFE (2012:40), the losses resulting from a fraud strongly correlates to the perpetrators level of authority within an organisation. The higher the authority level of the perpetrator, the better the perpetrator is positioned to override controls and has greater access to organisational assets (ACFE, 2012:40).

Table 4.1 indicates the authority levels of fraud perpetrators within organisations, the percentage of frauds committed per year by the given authority levels and the average US dollar losses which organisations suffered as a result of fraudulent activities within organisation according to the ACFE’s (2012) global fraud survey.
Table 4.1: Proportion of fraud cases and losses in relation to the authority level of fraud perpetrators in organisations (2008-2012)

<table>
<thead>
<tr>
<th>Level of authority</th>
<th>Years</th>
<th>Percentage of fraud cases reported</th>
<th>Median loss (US dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>2012</td>
<td>41.6 %</td>
<td>$ 60,000</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>42.1 %</td>
<td>$ 80,000</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>39.7 %</td>
<td>$ 70,000</td>
</tr>
<tr>
<td>Manager</td>
<td>2012</td>
<td>37.5 %</td>
<td>$ 182,000</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>41.0 %</td>
<td>$ 200,000</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>37.1 %</td>
<td>$ 150,000</td>
</tr>
<tr>
<td>Owner / Executive</td>
<td>2012</td>
<td>17.6 %</td>
<td>$ 573,000</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>16.9 %</td>
<td>$ 723,000</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>23.3 %</td>
<td>$ 834,000</td>
</tr>
<tr>
<td>Other</td>
<td>2012</td>
<td>3.2 %</td>
<td>$ 100,000</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>Not recorded</td>
<td>Not recorded</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>Not recorded</td>
<td>Not recorded</td>
</tr>
</tbody>
</table>

(Source: ACFE (2012:39-40))

Table 4.1 categorises the authority levels of fraud perpetrators as (I) employee, (II) manager, (III) owner and / or executive and (IV) others. For 2008, 2010 and 2012 Table 4.1 indicates (as a percentage) the number of frauds committed by perpetrators according to their authority level within the organisation. Table 4.1 further shows that the frauds committed for 2012 within organisations, according to the perpetrators authority level within the organisation, were 42% by employees, 38% by managers and 18% by executives and / or owners. Table 4.1 also indicates that the overriding of anti-fraud controls and misconduct are easier to conceal by owners / executives and management due to their high authority levels within an organisation and thus resulting in larger US dollar losses (ACFE, 2012:40). The
approximate value of the losses caused by owner / executives is three times higher than that of organisational managers and managers caused losses three times that of organisational employees (ACFE, 2012:40). Table 4.1 shows that the losses resulting from frauds and the perpetrators level of authority within organisations strongly correlates to one and other.

In respect of frauds committed in the organisation, two broad categories (levels of authority) exist, namely, employee fraud and management fraud (Coetzee et al., 2012:135). These categories are briefly explained in Sections 4.2.3, 4.2.4 and 4.2.5.

4.2.3 Employee fraud

Albrecht and Albrecht (2004:9) describe employee fraud as the taking of employer assets by an employee or employees as a result of perpetrating deceitful actions. Employee fraud is also referred to as blue collar crime owing to the fraud being perpetrated by individuals (employees) from a lower social status (Henrickson, 2012). Coetzee et al. (2012:135) refer to employee fraud cases where the employer is defrauded by their employee as a result of individual actions or in collusion with others. Examples of employee frauds perpetrated according to Coetzee et al. (2012:135) are as follows:

- Stealing of inventory or scrap materials
- Stealing of daily deposits and or cash on hand
- Issuing unauthorised shipment of goods
- Diverting goods to the wrong address
• Passing false credits, discounts and/or write-offs
• Cancelling / voiding of sales and or sales returns

The examples provided of employee fraud are not a complete list of all frauds perpetrated by employees. The following section describes management frauds and the perpetrators of such frauds.

4.2.4 Management fraud

Albrecht and Albrecht (2004:9) describe management fraud as the deceptive manipulation of financial information and statements by top management. Management fraud is also referred to as white collar crime owing to the fraud being perpetrated by individuals of high social status (Henrickson, 2012). Coetzee et al. (2012:135) refer to management fraud cases where the public is willfully misled by members of management through the use of fraudulent means for the benefit of the organisation and/or themselves. Coetzee et al. (2012:135) provide examples of management frauds perpetrated, namely:

• Failure to disclose or record significant information to improve the financial image of the organisation to outside parties
• Improper representation or valuation of transactions, assets, liabilities or income
• Sale of fictitious or misrepresented assets
• Improper payments such as illegal political contributions and bribes
The examples provided of management frauds are not a complete list of all frauds perpetrated by management. Section 4.2.5 describes university fraud and the components that lead to university frauds being perpetrated.

4.2.5 University fraud

Schwartz, Larson and Kranacher (2008) state that any organisation, including universities, is vulnerable to fraud owing to a culture of lax controls and scarce resources. Schwartz et al. (2008) also state the perpetrators of university frauds come from many authority levels within the university. According to Knelman (2012), despite the natural inclination by universities to trust employees, universities still need to develop and implement counter-fraud measures to defend themselves against fraud by employees and or management.

The Higher Education Funding Council of England (HEFCE) in partnership with the National Anti-Fraud Network (NAFN), the British Universities Finance Directors Group (BUFDG), Council of Higher Education Internal Auditors (CHEIA), universities and colleges launched a fraud alert system initiative for higher education institutions in England. The intention of the alert system was to raise fraud awareness and focus on the development of counter-fraud activities to ensure that public money for higher education was used to obtain the maximum benefit for students and the wider public (Higher Education Funding Council of England, 2012). As a result of the development and implementation of the fraud alert system initiative, it was intended that fraud losses would be reduced and fraud awareness increased in the higher education sector through the sharing and
coordination of counter-fraud intelligence (Higher Education Funding Council of England, 2012)

Table 4.2 depicts, as per the fraud triangle, the factors that typically lead to fraud being perpetrated at universities.

**Table 4.2: Factors that lead to university fraud being perpetrated**

<table>
<thead>
<tr>
<th>Pressures</th>
<th>Opportunities</th>
<th>Rationalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of moderate salary levels.</td>
<td>Ample opportunities as a result of the lack of segregation of duties owing to ongoing budget cuts.</td>
<td>Perception that everyone is doing it, especially those at the highest levels of the institution. This makes it easy to rationalise and perpetrate fraud in an environment with little oversight.</td>
</tr>
<tr>
<td>Universities being reluctant to prosecute perpetrators as a result of fear of negative publicity that will impact on their fundraising.</td>
<td>Lack of written policies and procedures.</td>
<td>Nepotism.</td>
</tr>
<tr>
<td></td>
<td>Lack of financial acumen by university staff.</td>
<td>Long tenures contributing to abuse of trust.</td>
</tr>
<tr>
<td></td>
<td>Liberal control environment and resistance to controls.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Silo reporting structures with multiple schools, departments and programmes running independently.</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Schwartz, et al. (2008))

Table 4.2 identifies factors that can contribute to fraud being perpetrated at universities. In addition, the factor categories according to the three factors of the
fraud triangle, namely, pressure, opportunity and rationalisation are illustrated. One of the key factors, responsibility, identified in Table 4.2 relates to universities shying away from their responsibility to prosecute perpetrators of fraud and in not doing so, universities could be sending a message to employees that it is acceptable to steal from them. Section 4.3 describes the history and development of fraud.

4.3 THE HISTORY OF FRAUD

According to Beattie (2009), it is safe to assume that since the establishment of commerce, fraud has been around and that the first recorded incident of fraud dates back to 300 BC. However, fraudulent exploitation opportunities by governments and businesses expanded with the birth of business corporations (Jensen, 2012). Jensen (2012) further states that the major fraud scandals which were exposed in the 21st century, like the scandals of the past two hundred years are just superficial manifestations of systems which, at their core, are based on fraud, dishonesty and greed.

Table 4.3 provides examples of some of the first recorded incidents of fraud, indicating when and by whom they were committed. In addition, a description of the *modus operandi* (method) used to commit the fraud is provided.
### Table 4.3: The pioneers of fraud

<table>
<thead>
<tr>
<th>Year</th>
<th>Person who committed the fraud</th>
<th>Description of the fraud</th>
</tr>
</thead>
<tbody>
<tr>
<td>300 BC</td>
<td>Hegestratos (Greek Merchant)</td>
<td>A large insurance policy known as a bottomry was taken out by the merchant. A bottomry is when money is borrowed by a merchant, who agrees to pay the money back with interest, against cargo which still has to be delivered. The lender can acquire the boat and its cargo, if the loan is not re-paid. In this case, Hegestratos planned to keep the loan, sell the cargo and sink the empty boat.</td>
</tr>
<tr>
<td>1496</td>
<td>Michelangelo (Painter and Sculpture)</td>
<td>A sleeping cupid sculpture was faked by Michelangelo and sold to Cardinal Riaro of San Giorgio. The sculpture was treated with sour earth to make seem ancient. The Cardinal demanded his money back once he learned of the fraud.</td>
</tr>
<tr>
<td>1792</td>
<td>William Duer (Assistant Secretary of the Treasury)</td>
<td>Duer was ideally placed to profit from insider information since he was privy to all Treasury actions. Duer traded in his own portfolio and tipped of his friends before leaking select information to the public that he knew would drive up the prices. This was the first insider trading scandal in the USA.</td>
</tr>
<tr>
<td>1920</td>
<td>Charles Ponzi</td>
<td>Ponzi planned to buy postal coupons from Spain and sell them to the US Postal Service at a profit. Ponzi raised capital by promising investors a 50% return on investment after only 90 days. Ponzi paid the first investors with the money received from later investors.</td>
</tr>
<tr>
<td>1961</td>
<td>Executives of General Electric, Westinghouse and other big name companies.</td>
<td>The companies conspired to serially win bids of federal projects.</td>
</tr>
<tr>
<td>1998</td>
<td>Al Dunlap (Sunbeam)</td>
<td>Dunlap overstated revenues by booking sales for grills neither paid for nor shipped.</td>
</tr>
<tr>
<td>2000</td>
<td>Sotheby’s and Al Taubman (Chairman of Sotheby’s)</td>
<td>Price-fixing by auction houses Sotheby’s and Christies who were alleged bitter competitors.</td>
</tr>
<tr>
<td>2001</td>
<td>Kenneth Lay (Enron chairman and CEO)</td>
<td>Enron inflated the firm’s bottom line by creating off-the-book partnerships and hid the massive debt through the use of aggressive accounting methods. Shareholders lost $74 billion.</td>
</tr>
<tr>
<td>Year</td>
<td>Name and Company</td>
<td>Description</td>
</tr>
<tr>
<td>------</td>
<td>------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>2002</td>
<td>Bernard J. Ebbers (WorldCom chairman and CEO)</td>
<td>WorldCom showed continued profits by falsifying earning reports. WorldCom inflated their assets by $11 billion.</td>
</tr>
<tr>
<td>2002</td>
<td>L. Dennis Kozlowski (Tyco international CEO)</td>
<td>Kozlowski in collusion with the finance chief used questionable accounting practises to hide $600 million in illicit stock sales and unauthorised compensation from Tyco.</td>
</tr>
<tr>
<td>2004</td>
<td>Parmalat: Italy</td>
<td>Parmalat concealed its losses by using a network of offshore mailbox companies to make the losses appear as assets or liquidity. The claimed liquidity of 4 billion euro did not exist and even the 8 million euro in investor bonds also disappeared. Parmalat issued bonds against liquidity which did not exist to unknowing investors.</td>
</tr>
<tr>
<td>2008</td>
<td>Lehman Brothers (Executives and their external auditors Ernest and Young)</td>
<td>Lehman Brothers with the assistance of their external auditor, Ernest and Young, disguised loans to the value of $50 billion as sales.</td>
</tr>
<tr>
<td>2009</td>
<td>Bernie Madoff Investment Securities LLC</td>
<td>Bernie Madoff and his associates through the use of a Ponzi scheme tricked investors out of $64.8 billion.</td>
</tr>
</tbody>
</table>

(Sources: Ritholtz, (2013); The Guardian, (2013); Jensen, (2012); Beattie, (2009); Celani, (2004))
Table 4.3 reveals that fraud has been in existence since 300 BC and is still continuing in the 21st century. The frauds being committed in the 21st century show an increase in the monetary values of these frauds. Table 4.3 further shows that the frauds were committed by persons who had a high level of authority within the organisations, namely, the owner, the chief executive officer (CEO) or chief financial officer (CFO).

The primary method employed for committing these frauds was the misrepresentation of financial information. The apparent motive for these individuals commit fraud was to gain access to funds (cash) which they could use for self-enrichment and to the detriment of the organisation.

4.3.1 History of university fraud

Universities, as other organisation types, are rife with fraudulent acts and in need of adopting strong anti-fraud policies and procedures (Schwartz, et al., 2008). According to Reid (2013), almost one hundred degrees and postgraduate papers were failed owing to cheating in exams and plagiarism respectively during 2011 and 2012 at the universities of South Africa (UNISA), the University of Pretoria (UP), the University of the Free State (UFS), the University of Kwa-zulu Natal (UKZN), the University of Cape Town (UCT) and the University of Stellenbosch (US).

Over the past three years (2011 to 2013), UNISA investigated 94 cases of qualification fraud consisting mainly of falsified matric certificates from which the students each received R100 000 in Government grants for their future study fees (IOL News, 2013).
In addition, the University of Venda enrolled 50 students who submitted falsified matric certificates (IOL News, 2013).

In response to these qualification fraud occurrences in the tertiary education arena, Reid (2013) identifies the impact of unqualified personnel as “the national economy, company growth and personal career opportunities are all in danger of being crippled by unqualified people unable to simply do their jobs.” This, however, does not include a complete list of frauds committed at universities in South Africa.

Examples of other frauds that, according to the Higher Education Funding Council for England (2012), can occur at universities include:

- Stolen credit cards used for the payment of student fees
- Fraudulent student finance support claims
- Supplier banking and address details being changed without verification
- Staff members diverting supplier payments into their personal bank accounts
- Tendering and overcharging for building work through collusion
- Payment for goods and services not delivered
- Fraudulent consultancy payments
- Misappropriation of cash payments for car parking
- Overcharging for printing and reprographics services
- Over-statement of conference fees to be paid
- Misuse of funds for overseas travel and expenses
- Misrepresentation of travel expenses with the aid of collusive practises
- University equipment being used for private work
• Personal expenses being paid from institution funds
• Research funds being misdirected
• Cash theft
• Altering and cloning of cheques
• Awarding of fake certificates
• Plagiarism

Section 4.4 describes the impact of fraud on organisations.

4.4 THE IMPACT OF FRAUD ON ORGANISATIONS

Examples of widely-publicised scandals are listed in Table 4.3. Resulting from these substantial, high-impact scandals, the detection of such fraudulent events were given a much higher priority in respect of detection of fraud (Alon & Dwyer, 2010:240). However, according to the ACFE (2012:25), all organisations are affected by fraud. These organisations include private companies, public companies, governments and not-for-profit organisations. Publicly-traded and privately-owned organisations often suffer the highest losses.

Organisations suffer more damage as a result of fraud than what they suffer as a result of a financial loss (Charted Management Institute, 2008). Already struggling organisations can end up in a financial crisis by losing assets to fraud (ACFE, 2013). Goldberg (2011) also identifies that most organisations have experienced an increase in fraud occurrences by employees and customers. According to Reding et al. (2007:7-
26), fraud is a major concern for all types of organisations conducting business in the private and public sectors in today’s global economy. By adopting innovative technologies, organisations need to remain globally and nationally competitive, grow the business in emerging markets and respond to changing regulatory environments. These needs illustrate some of the risks that organisations face (PWC, 2011a).

For commerce to flow and businesses to operate, resources and responsibilities must be entrusted to employees. The impact of fraud on organisations is more severe when employees, for personal gain, abuse the authority entrusted to them (ACFE, 2012:6). ACFE (2012:4-5) estimates that organisations lose approximately 5% of their revenues to fraud annually. In addition, 49% of the organisations affected by fraud are unable to recover their losses.

Figure 4.2 illustrates the global distribution of US dollar losses for 1388 individual fraud cases from 96 countries reported to the ACFE (2012) during the 2012 global fraud study on occupational fraud and abuse.
Figure 4.2: Global distribution of US dollar losses as a result of fraud (2008-2012)

(Source: ACFE, (2012:9))
From Figure 4.2, it is evident that more than 20% of the individual fraud cases for 2012 involved losses amounting to at least $1 million and that the average loss for these cases were $140 000. The figure further indicates that from 2008, in respect of fraud cases of a $1 million and more, an increase of 4.7% in the number of fraud cases were reported globally.

According to PWC (2011b), 60% of the South African respondents to the PWC 6th global economic crime survey indicated that they, in the past 12 months, had experienced some form of economic crime. In comparison, the global average was 34% (PWC, 2011b). During 2011, South African companies reported considerably higher proportions of financial statement fraud, market fraud, bribery and corruption than their global counterparts (PWC, 2011b). The Business Day (2012) reports that in South Africa, white collar frauds increased substantially in 2012 in comparison to that of the previous year. It is estimated that South Africans are losing between R86 billion and R120 billion annually to white collar fraud (Business Day, 2012).

According to the Chartered Management Institute (CMI) (2008), fraud further impacts on organisations in a number of different ways, namely, financial, reputational and employee morale. These impacts are briefly explained as:

- **Financial** - the main impact from fraud is the loss of equipment or funds. Fraud can also result in a share price drop.
- **Reputational** - an organisation’s ability to deliver on future contracts may be affected by the impact of the fraud, and future clients and customers may be deterred by the negative perception of the organisation’s long-term reliability.
• Employee morale – if past concerns have not been sufficiently followed-up, the internal trust of existing employees may be damaged. Also if no action is taken when fraud is covered, the recruitment and retention of staff may become an issue depending on the fraud’s size.

As a result of economic uncertainty, the role of internal auditing in preventing, detecting and investigating fraud has increased for most organisations (Deloitte, 2010). Auditors are expected by shareholders, clients, judges and other parties to take steps to detect fraud during audits (Zikmund, 2008). Alon and Dwyer (2010:242) also state that auditors are expected to detect fraudulent financial reporting and fraud by users of the financial statements. Although not a complete list, users of financial statements typically include directors (for example, University Councils), owners, management, investors, suppliers, vendors, insurance companies and relevant government departments (Sinnett & Graziano, 2006:33).

4.4.1 The effect of fraud on the role of internal auditing

Historically, one of the key objectives of the auditing profession (internal and external auditing) was to detect fraud (Alon & Dwyer, 2010). According to Goldberg (2011:8), the internal audit is spending increasingly more effort and time on fraud and fraud investigations owing to fraud investigations being difficult to predict. As a result, internal audit activities have had to increase fraud education and training for internal auditors. In addition, normal audit procedures had to be re-designed to allow for the integration of fraud-related procedures, which included fraud detection and investigation procedures (Goldberg, 2011:8). These changes in the internal audit
approach has led to changes in internal audit focus and planning encompassing fraud-risk assessments (Goldberg, 2011).

According to Allegrini (in Jackson, 2007), the setting of priorities for the internal audit plan, evaluating the adequacy and effectiveness of controls, and understanding the business, is essential for identifying indicators of fraud. As a result of the increasing expectation of internal auditors to detect fraud during internal audit engagements, the internal auditor must obtain sufficient knowledge of governmental and organisational rules and regulations and develop the requisite skills to detect fraud in order to better understand what is required of internal auditors during an audit engagement or investigation of potential fraudulent acts (Zikmund, 2008).

Alleyne and Howard (2005:297) state that the users of (external) audit services had a strong view that (external) auditor’s should be responsible for uncovering fraud while the auditors were strongly disagreeing that they should be responsible. According to Rezaee (2004:136), an expectation gap existed during the 1980s as a result of what (external) auditors were willing to assume as their responsibility in accordance with their professional standards and what the public viewed the (external) auditors’ responsibilities to be. This expectation gap was then widened in the late 1980s as a result of insufficient (external audit) professional standards being available for addressing this expectation gap. The expectation gap eventually turned into a trust gap as a result of an increase in the number of audit failures and financial statement frauds (Rezaee, 2004:136). In substantiating (external) audit functions as value-added services, which lend credibility to published financial statements, is dependent on the
public’s trust of the (external) auditor’s reputation and judgements (Rezaee, 2004:135).

Similar to the these challenges faced by the external audit profession, the internal audit profession could face reputational risk challenges if professional guidance pronouncements do not adequately address fraud and related services expected of them. According to the IIA Standards, internal auditors are required to be adequately qualified and must exercise due professional care when performing internal audit engagements (IIA, 2011a:8-9). In addition, they should also be prepared for more challenges and adapt to enable themselves as proficient internal auditors in the rapidly changing internal audit environment. Adapting to these changes and challenges, specifically in respect of fraud related user expectations, could increase stakeholder’s confidence in internal auditors and could increase the users of internal audit services’ trust in the internal audit reports (Jayalakshmy, Seetharaman & Wei Khong, 2005:269).

Section 4.5 describes the process of fraud prevention.

4.5 FRAUD PREVENTION IN ORGANISATIONS

The National Treasury Department of the Republic of South Africa (2014) defines fraud prevention as:
Fraud prevention / fraud risk management is a process that is adopted by the Institution, in putting mechanisms in place, to manage Institution’s vulnerability to fraud. Such mechanisms are designed to prevent, deter and detect fraud.

Bishop (2004:122) states that the management of fraud risks is the responsibility of every manager. Employees are the eyes and ears of the organisation and have a role to play in the prevention, deterring and detection of fraud and thus should be empowered by management to maintain the integrity of the workplace (Bishop, 2004:122). The National Treasury Department of the Republic of South Africa (2014) concurs with Bishop (2004) by stating that “everyone in the institution is responsible for the prevention of fraud and other risks”. Ownership of fraud risk management can be delegated by the accounting officer / authority to division, line and or business unit managers in specific areas of the institution. The ultimate accountability still remains with the accounting officer / authority (National Treasury Department of the Republic of South Africa, 2014).

According to Bunch (2012), management can use the following approaches to prevent fraud:

- Setting of a strong tone at the top
- Implementing policies and procedures to prevent the occurrence of fraud
- Developing fraud awareness and training
- Establishing strong internal controls
4.6 SUMMARY

Based on the objectives of this chapter, namely, to conceptualise fraud, conduct a literature review on the history of fraud and the impact of fraud, this chapter explains the factors that contribute to the occurrence of fraudulent acts, where fraud originated from and the impact of fraud on organisations. Factors that are typically present for perpetrators to be able to commit fraud are explained. In addition, the chapter shows that instances of fraud are increasing and that the impact on organisations can lead to an organisation’s collapse.

Section 4.2.2 indicated that there is a direct relationship between the fraud perpetrators level of authority and the value of the fraud which is perpetrated. The history of fraud shows that since the start of commerce, fraudulent acts have been perpetrated and with the passing of time, the frequency and value of the frauds perpetrated have been on the increase. Section 4.3.1 also provided possible examples of frauds which might be perpetrated at universities.

Section 4.4 identified how fraud impacts on organisations and the role of internal auditors. Expectations of internal auditors to be able to detect fraud by various stakeholders were also highlighted. Internal auditors were required to adjust their approach when performing normal audit engagements to include into their audit plan, methods for the detection of frauds. Owing to the expectation of internal auditors to be able to detect fraud, the need for additional training was identified to enable them to detect, investigate and prevent fraudulent acts which support the research question of this study.
Section 4.5 indicated that every employee within an institution was responsible for fraud prevention in his or her business area and that the accounting officer / authority ultimately remained accountable for the prevention of fraud in institutions.

Chapter 5 discusses the research methodology that was applied in this research study.
CHAPTER 5
RESEARCH METHODOLOGY

5.1 INTRODUCTION

In Chapter 4, the history of fraud and the impact of fraud on South African organisations, including universities, were discussed. In addition, the role of internal auditors regarding fraud investigation, detection and prevention and the concept of fraud was explained in the context of the IIA guidance pronouncements. The objective of this chapter is to, in the context of the research question and associated research objectives, describe an appropriate research methodology and methods for the study.

This chapter provides an overview of applicable research methods in order to obtain a better understanding of the research design that was required to achieve the research objectives. The following aspects of research design and methodology are discussed in this chapter:

- Secondary and primary research;
- Research design, methodology and methods; and
- Data collection and analyses.

Section 5.2 provides an explanation of the research methods and design to be used for the data collection of this study.
5.2 RESEARCH METHODS

The general approach taken by the researcher to carry out the research project is referred to as the research method. This approach dictates the particular research tools to be selected and used to achieve the research objectives. The research tools used may vary considerably depending on the discipline and research objectives to be achieved (Leedy & Ormrod, 2013:7). Researchers usually collect secondary and primary data.

5.2.1 Secondary research

Secondary data is data originally collected for some other purpose but is also used for a new research project (Saunders, Lewis & Thornhill, 2007:611). A comprehensive literature search is conducted to identify factors in support of the research question and associated objectives. Electronic research tools such as Sabinet databases, ISAP (National Library of South Africa), SAe Publications, EBSCO (MasterFile premier, Business Source premier, Academic Source premier), FS Articles First, Kovsidex, SA Cat and FS Worldcat, ScienceDirect, UPECAT, Google Scholar searches, Dialog, Dissertation Abstracts database, as well as IIA Global and the ACFE were used. Thus far, limited publications in respect of this study’s topic could be found.

The secondary research is used to obtain a comprehensive theoretical understanding of what internal audit stakeholders expect of internal auditors. In addition, a theoretical understanding of what the Institute of Internal Auditor’s (IIA) guidance pronouncements recommend in respect of fraud identification and investigative
knowledge and skills was obtained. The information obtained by means of secondary research informed the design of the research instrument described in section 5.3.2.

5.2.2 Primary research

Primary data is data collected specifically for the research project being undertaken (Saunders et al., 2007:607). The collection of primary data calls for decisions to be made on the population, sample frame and sample size. Primary data consists of new data collected by the researcher, whereas secondary data relates to data previously collected. Primary research can be done according to two research approaches, namely, quantitative and qualitative approaches.

5.2.2.1. Quantitative research approach

According to Leedy and Ormrod (2013:184), descriptive research refers to the examination of a situation as it is and involves the exploring of the possible associations among two or more phenomena and/or the identification of characteristics relating to the observed phenomena. Descriptive research also attempts to provide an accurate and complete situation description (Struwig & Stead, 2001:8). Descriptive research does not intend to determine cause-and-effect relationships nor does it involve the modification or changing of the situation under investigation and is, therefore, better suited when utilising a quantitative research approach (Leedy & Ormrod, 2013:184). On the other hand, the quantitative research approach is a conclusive form of research which involves structured data collection.
procedures, large representative samples and a primary role of testing hypotheses (Struwig & Stead, 2001:4).

In the context of the research question and associated objectives, a quantitative research approach is thus not suitable to provide relevant and more recent data to the research question raised in this study.

### 5.2.2.2 Qualitative research approach

Exploratory research refers to the investigation of a problem about which little is known (Struwig & Stead, 2013:7). Bless, Higson-Smith and Kagee (2011:47) state that the purpose of exploratory research is the gathering of information in order to develop a broad understanding of a phenomena, community, situation or person. A great deal of information is gathered from a small sample to obtain the research information or understanding as required (Struwig & Stead, 2001:7). The exploratory research method is best utilised with a qualitative research approach owing to the focus of the qualitative research approach being on phenomena that occur in their natural settings in the real world and which also involves the study and capturing of the phenomena’s complexity (Leedy & Ormrod, 2010:139). A qualitative research approach attempts to go beyond historical facts and surface comments to get to the real underlying causes of behaviour (Pellissier, 2007).

The advantage of using the qualitative research method is that a topic is researched in greater detail through probing and understanding of the respondents’ behaviour, attitudes and motivations (Pellissier, 2007:20). A qualitative research approach can
help define what is important when little information exists on a topic, a relevant theory base is inadequate or missing and variables are unknown (Leedy & Ormrod, 2013:139).

Qualitative research also has disadvantages since the research is not necessarily exact, might only be viable in small organisations, and is highly-dependent on the researcher's skills and the possibility of introducing bias (Pellissier, 2007:26). In the context of the research question and associated objectives, a qualitative research approach is thus more suitable to provide relevant and more recent data to the research question raised. As a result, a qualitative research approach was adopted for this study.

The primary and secondary data collected were applied to the research question and to achieve the research objectives described in section 1.4. The primary research data was collected according to the framework of the research design as stated in section 5.3. The research tools that were used to achieve the research objectives of this study are also explained in section 5.3.

**5.3 RESEARCH DESIGN**

A research design is a blueprint or plan of how a researcher intends conducting the research (Mouton, 2001:55). The research design relates directly to finding an answer to research questions (Bless et al., 2011:71). The research design, therefore, dictates the research methodology to be adopted in a study and the research methodology
adopted determines the research methods. Research methods can either be descriptive or exploratory in nature each following a specific research approach.

5.3.1 Case studies as a research method

The purpose and aim of a study will determine the way that the data will be collected (Struwig & Stead, 2001:98). Yin (2014:4) states that a case study retains a holistic and real-world perspective which allows investigators to focus on a case such as studying maturation of industries, international relationships, school performance, neighborhood change, organisational and managerial processes, small group behavior and individual life cycles. Yin (2009:18) also states that a case study is an in-depth empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries are unclear between the context and phenomenon. Leedy and Ormrod (2013:100) define a case study as a qualitative research method which gathers in-depth data relative to a single individual, programme or event by means of interviews with the purpose of learning more about an unknown or a poorly-understood situation.

The features and scope of a case study indicate that a case study is an all-encompassing method which covers data collection techniques, the logic of design and specific approaches to data analysis (Yin, 2014:17). An example of a situation or case where the single case study method have been utilised include the 1962 Cuban missile crisis. This crisis could have led to a nuclear holocaust as a result of a confrontation between the United States of America and the Soviet Union (Yin, 2014:7). By performing this single case study, the researchers Allison and Zelikow (in
Yin, 2014:7) demonstrated how a single case study can be the basis for significant generalisations.

According to Polancic (2007), the single case study method allows for the in-depth investigation of a phenomenon and also gets close to the phenomenon to provide a rich description and reveal its deep structure. A single case study does not only show the descriptive or exploratory functions of a single case study but also the explanatory functions (Yin, 2014:7). Polancic (2007) also highlights/identifies the following factors regarding case study methods:

- Variables are not manipulated or explicitly controlled
- Phenomenon is studied in its natural context
- Data collection and analysis are performed through the use of qualitative tools and techniques
- Case study research can be used in a number of different ways such as description, discovery and theory testing

A standardised interview consists of a set or group of formally-structured questions, the wording of which may not be altered from one participant to the next, based on the interviewer’s experiences, relative theory and research of the study’s topic (Struwig & Stead, 2001:98).

For the purpose of this study, the embedded single case study method was used to collect data and the research tool was a semi-structured interview schedule. The
researcher arranged meetings with the selected NMMU committee members to obtain answers to the predetermined interview questions.

Prior to commencing with the data-gathering process, ethics clearance for the study needed to be obtained from the Nelson Mandela Metropolitan University’s Research and Ethics Committee.

5.3.2 Interview guide

An interview guide is prepared which contain three research questions or themes which were developed from the literature reviews conducted in Chapters 2, 3 and 4 to obtain the data required to achieve the research objectives of the study as stated in section 1.4. The questions were formulated based on the secondary information obtained through the literature review (refer to Chapters 2, 3 and 4). The three research themes identified are:

- Theme 1: The role of internal audit
- Theme 2: The information expected from internal audit
- Theme 3: The role internal audit plays with regards to fraud, if any

Semi-structured interviews were used to collect the primary data of the study. According to Saunders et al. (2007:312) semi-structured interviews are non-standarised which allows the interviewer to omit certain questions, add additional questions and or change the order of the questions in particular interviews based on
the context of the responses received relevant to the research topic and or the flow of the conversation.

A pilot interview was also performed to test the appropriateness and adequacy of the three research themes as recorded in the prepared interview guide (refer to Annexure A), prior to the commencement of the interviews with the research participants.

5.3.3 The pilot interview

A pilot study or interview refers to using a small sample of respondents before the main study is conducted to identify possible problems with the proposed research (Terre Blanche, Durrheim & Painter, 2006:490). This is supported Walliman (2006:90), who recommends that the research questions are pre-tested on a small number of participants prior to being used. This view is shared by Terre Blanche, et al. (2006:94) who state that it is always a good idea before implementing the final research design to conduct a pilot study.

The data obtained from administering the actual questionnaire and or interview schedule was analysed to identify potential problems with the data collection instrument which might include inconsistencies, gaps, repetitions or flaws (Terre Blanche, et. al. 2006:490). The benefits associated with the performance of a pilot study is that it allows for the saving of time and money when performing the main study as well as allowing the opportunity for reworking, revision, complete overhaul or potential abandonment of the study if deemed necessary (Terre Blanche, et.al. 2006:491).
To ensure the credibility (validity) of the data, the pilot interview was performed as follows (refer to Annexure A):

- A meeting was scheduled with the participant (member of management)
- A neutral venue at the NMMU was used to conduct the interview
- Prior to the start of the interview, the participant was requested to sign a consent form to indicate his/her willingness to participate in the research
- Participant also agreed to the researcher’s request to have the interview recorded
- Participant was also informed by the researcher of the following:
  - That the participant had the right to stop the interview at any point during the interview process
  - Information collected from the participant would be treated as confidential
  - No personal identification information would be collected or distributed

The results obtained from the participant during the pilot interview included:

**Theme 1: The role of internal audit**

The participant’s expectations of the role of internal audit:

- Assisting management with the identification and evaluation of risks and opportunities
• Providing information on the appropriateness of processes and to assist with the identification of additional processes or improvements of existing processes
• Adding value to the institutions operations

Theme 2: The information expected from internal audit

The participant’s expectations regarding the information being provided by internal audit included:

• Identifying opportunities
• Providing timely inputs regarding committee processes
• Providing information for the establishment of controls and to assist with solutions

Theme 3: The role internal audit plays with regards to fraud, if any.

The participant’s expectations of the role of internal audit with regard to fraud included:

• Monitoring fraud governance
• Forming part of the fraud investigation at the initial auditing stage

The results obtained from the pilot interview confirmed the appropriateness and adequacy of the research questions / themes to provide the required research information. The pilot interview also identified the need to develop two sub-themes to be added to the interview guide (refer to Annexure B). The two sub-themes that were developed and added to interview guide relate to Themes 1 and 3, namely:
- Sub-theme 1.1: The most important role expectation of internal audit
- Sub-theme 3.1: The information required from a fraud investigation

Table 5.1 provides a summary of the research themes and sub-themes as identified from the literature review and pilot interview.

**Table 5.1: Summary of research themes and sub-themes**

<table>
<thead>
<tr>
<th>Themes</th>
<th>Sub-themes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Theme 1:</strong> The role of internal audit.</td>
<td>• The most important role expectation of internal audit.</td>
</tr>
<tr>
<td><strong>Theme 2:</strong> The information expected from the internal audit.</td>
<td>• None</td>
</tr>
<tr>
<td><strong>Theme 3:</strong> The role internal audit plays with regard to fraud, if any.</td>
<td>• The information required from a fraud investigation.</td>
</tr>
</tbody>
</table>

The pilot interview also confirmed that the semi-structured interview guide was adequate to obtain the required information from the remaining participants.

**5.3.4 Participants**

The sample framework (population) from which the participants for the qualitative component of this study were selected from the Nelson Mandela Metropolitan University (NMMU) committees of Council, joint committees of Council and Senate. A sample of 20 participants in total were selected from the following NMMU committees:
(a) Council, (b) Senate and (c) Management Committee (MANCO). These three committees were selected based on their responsibilities and accountability for the management of strategic and operational activities performed at NMMU. According to the NMMU’s intranet website, Council, Senate and MANCO are the three main authoritative bodies at NMMU and are collectively accountable and responsible for the management of all strategic and operational activities performed at the NMMU. The findings from a study performed by Guest, Bunce and Johnson (2006) on data saturation revealed that data saturation can be reached between 6 and 12 interviews if the data is collected properly.

The NMMU’s (2014) intranet website described the selected committee responsibilities as follows:

(a) Council: The Council, established in terms of Section 27(4) of the Higher Education Act, 1997 (Act 101 of 1997) as amended, is the highest decision-making body of the University and is responsible for the good order and governance of the University. From this follows that the Council is ultimately accountable for the performance and affairs of the University.

(b) Senate: Functions and powers - 21. (1) Subject to the Act, the senate is accountable to the council for all the teaching, learning, research and other academic functions of the University and all other functions delegated or assigned to it by the council.
(c) MANCO:

5.1 MANCO assists the Vice-Chancellor in the management and administration of the University.

5.2 MANCO, in exercising the powers delegated to it by the Council, acts in accordance with and subject to the directives and requirements as determined from time to time by the Council.

5.3 MANCO –

5.3.1 makes recommendations to the respective committees of the Council regarding all matters which are subject to the approval of the Council, unless determined otherwise in the delegation document of the University;

5.3.2 ensures that the University complies with all relevant laws and regulations in respect of all matters dealt with by MANCO;

5.3.3 may assign or delegate any of its functions to one or more members of MANCO, or to a committee or task team appointed by MANCO, provided that any actions resulting from such assignment or delegation are ratified by MANCO at its next meeting;

5.3.4 may establish committees as contemplated in paragraph 13 and 14; and

5.3.5 performs such other functions as may be determined by the Council.

Members from these committees would be in the best position to provide information regarding their expectations of the role of internal auditors since these members are the main users of internal audit assurance and consulting services within the NMMU.
The details of the members from the committees relevant to the study were obtained from the NMMU's 2014 General Prospectus and the NMMU's website. The participants were randomly contacted via email to request their participation in the study. Interviews were scheduled with the participants according to their availability and willingness to take part in the interviews. The preferred number of participants from the committees as identified would be as follows:

- 15 senior management or executive members employed by the NMMU, and
- 5 non-executive members not employed by the NMMU.

5.3.5 Data collection

The research data was collected from participants by means of a semi-structured interview (refer to section 5.3.5). The majority of the interviews were conducted during working hours and at the participant's place of work. Face-to-face interviews were conducted except for one that was conducted telephonically. The duration of the interviews ranged from 15 to 35 minutes with an average of 20 minutes. The interview process that was followed for each of the interviews was:

- Appointment for the interview was scheduled by the researcher with the participant
- Participant’s office at the NMMU was used as the venue to conduct the interview
Prior to the start of the interview, the participant was requested to sign a consent form to indicate his or her willingness to participate in the interview.

Participant also agreed that the interview may be recorded.

Participant was also informed of the following:

- Participant had the right to stop the interview at any point during the interview process.
- Information collected from the participant would be treated as confidential.
- No personal identification information would be collected or distributed.

After completion of the interview processes described, the following questions were posed to the participants (refer to Annexure B):

- What do you see as the role of the internal audit?
- What information do you expect from the internal audit?
- What is your top expectation of the internal audit?
- What role should the internal audit play with regard to fraud, if any?
- What information do you require from a fraud investigation?

A digital voice recorder was used to record all interviews, and the researcher also took additional notes. The digital voice recordings were then transcribed by a qualified transcriber.
5.3.6 Data analysis

Following the collection of the primary data, the data were analysed using a combination of deductive and inductive qualitative interpretative analysis methods. The transcriptions of the semi-structured interviews conducted and the additional notes taken by the researcher were analysed after the collected data were manually coded using standardised coding methods. The researcher used a Microsoft Excel spreadsheet for the coding and analysis of data obtained.

5.4 RESEARCH RIGOUR IN THIS STUDY

Leedy and Ormrod (2013:162) describe rigour as the steps taken by the researcher to remain as objective as possible throughout the study while utilising rigorous, precise and thorough methods to collect, record and analyse the data. Terre Blanche, et al. (2006:154) indicate that internal consistency can be estimated by determining the degree to which each item in a scale correlates with another item.

To conform to the consistency / reliability requirement, a record of all the researcher’s notes and documentation used during the study was stored in both hardcopy or electronic format and, therefore, an adequate audit trail of all documentation was available. All of the ratings used during this study were checked by an independent moderator to ensure inter-rater reliability. Relevancy for this study was also established through the performance of a pilot interview by having an expert present during the pilot interview to observe and provide guidance where necessary.
5.5 SUMMARY

This chapter discussed the research design and methods used for this study. The research design section described the benefits and disadvantages of a quantitative and a qualitative research approach. Based on the description of the advantages and disadvantages and consideration of the research question and associated research objectives, a qualitative research approach was adopted.

The research methods section described the case study research method, secondary research, primary research, the sample framework (study population), the development and use of an interview guide, data collection and data analysis methods. Based on the discussion in section 5.3.1, an embedded single case study method was followed. As a result of selecting an embedded single case study method, the participants (sample) for the study were selected from NMMU's three main management committees, namely, Council, Senate and MANCO who are collectively accountable and responsible for all the strategic and operational activities performed at NMMU. Primary data were obtained from participants by making use of a semi-structured interview process and an interview guide. The data collected from participants was analysed using a combination of deductive and inductive qualitative content analysis methods.

Chapter 6 presents the findings from this study in the form of a subsequent analysis.
CHAPTER 6
RESEARCH FINDINGS

6.1 INTRODUCTION

Chapter 5 described and justified the research methodology, design and method for this study in the context of the research question and associated research objectives. The objective of this chapter is to discuss the results obtained from the semi-structured interviews performed as part of the qualitative research approach adopted for this study.

The results obtained are also related to the literature reviews conducted in Chapters 2, 3 and 4. The theme, sub-theme and specific narratives from participants evolving from the interviews are summarised and discussed. Key responses from participants in relation to the theme and sub-themes are also highlighted and discussed in this chapter.

6.2 ANALYSIS OF RESULTS

The study is divided into three themes, which are closely linked to the research objectives identified in Chapter 1. For the findings, the data was analysed as follows:
• Transcripts were prepared for each of the interview sessions held per participant
• Key words were identified from the participant’s responses relevant to each of the themes and sub-themes
• Key words as contained in the transcripts were manually identified by the researcher and selected
• Each of the key words were then recorded onto an excel spread sheet and matched to a specific theme or sub-theme and counted
• Findings from the excel spread sheet were then summarised in a table format for each of the themes and sub-themes and recorded in sections 6.5, 6.6 and 6.7.

The findings related to each theme and sub-theme are discussed in sections 6.5, 6.6 and 6.7

6.3 PARTICIPANT CHARATERISTICS

Although no personal information was collected from participants during the interviews and the assurance was given by the researcher that the participants’ personal details would be kept confidential, the following distinctions could be made with regard to the research participant characteristics as indicated by Table 6.1.
Table 6.1: Research participant characteristics

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>(A)</th>
<th>(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of male (A) and female (B) participants</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Number of internal (A) and external (B) participants</td>
<td>12</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 6.1 indicates that male and female participants were equally represented and that more internal than external participants took part in the study.

6.4 DATA SATURATION

Data saturation for this study was reached when no new information was provided by the participants after having performed 13 interviews. It was decided not to interview more people as further responses did not produce any new information.

6.5 FINDINGS IN RESPECT OF INTERNAL AUDIT’S ROLE (Theme 1)

The IIASA (2014a) provides the following description of the role of internal auditors, namely, (i) Internal auditors should evaluate risks, (ii) confirm information and analyse operations, (iii) perform compliance reviews, and (iv) advise managers at all levels and perform evaluations of controls. This theme sought to identify the participants expectations of the internal auditor’s role regarding the activities associated with the internal audit’s role. Theme 1 also comprises of all sub-themes relating to the expectations of the internal audit’s role and, as such, is closely-linked to and
addresses the first part of the research question, namely, what are the internal auditor’s role and the role of fraud investigators.

Table 6.2 summarises the activities which the participants identified as forming part of the internal audit’s role and also indicates the number of participants identifying the same activity.

**Table 6.2: Results: Role of internal auditors**

<table>
<thead>
<tr>
<th>Activities</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>The evaluation of controls</td>
<td>12</td>
</tr>
<tr>
<td>Reviewing compliance with legislation, institutional policies and procedures</td>
<td>11</td>
</tr>
<tr>
<td>Providing risk management as it relates to the identification, detection, monitoring and mitigation of risks</td>
<td>11</td>
</tr>
<tr>
<td>Adding value through providing recommendations that contain a possible solution to addressing the problem which was identified</td>
<td>7</td>
</tr>
<tr>
<td>Maintaining independence</td>
<td>6</td>
</tr>
<tr>
<td>Performing internal audit procedures with integrity</td>
<td>4</td>
</tr>
<tr>
<td>Providing assurance services</td>
<td>3</td>
</tr>
<tr>
<td>Being a protector / watchdog / deterrent</td>
<td>3</td>
</tr>
<tr>
<td>Providing financial audit engagements</td>
<td>1</td>
</tr>
<tr>
<td>Providing skills audit engagements</td>
<td>1</td>
</tr>
</tbody>
</table>

The majority of the activities identified by the participants in Table 6.2 were aligned with the IIA guidance pronouncements, namely, (i) the definition of internal auditing, (ii) the *Standards*, and (iii) the IACF, which are available to internal auditors for the practise of internal auditing (refer to section 3.3).
Table 6.3 provides a comparison of the IIA’s (2014a) description of the role and responsibilities of internal auditors with the activities of internal audit’s role as identified by the participants in Table 6.2.

**Table 6.3: Comparison of the IAA’s description of internal auditor roles with the activities identified by the research participants as being part of their role**

<table>
<thead>
<tr>
<th>IIA Description</th>
<th>Activities identified by participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation of risks</td>
<td>• Providing risk management as it relates to the identification, detection, monitoring and mitigation of risks</td>
</tr>
<tr>
<td>Confirmation of information and analyses of operations</td>
<td>• Providing assurance services</td>
</tr>
<tr>
<td></td>
<td>• Providing financial audit</td>
</tr>
<tr>
<td></td>
<td>• Providing / having? skills audit</td>
</tr>
<tr>
<td>Performance of compliance reviews</td>
<td>• Reviewing compliance with legislation, institutional policies and procedures</td>
</tr>
<tr>
<td></td>
<td>• Being a protector / watchdog / deterrent</td>
</tr>
<tr>
<td>Advising managers at all levels and performing evaluations of controls</td>
<td>• Providing evaluation of controls</td>
</tr>
<tr>
<td></td>
<td>• Adding value through providing recommendations that contain a possible solution to addressing the problem which was identified</td>
</tr>
<tr>
<td></td>
<td>• Maintaining independence</td>
</tr>
<tr>
<td></td>
<td>• Performing internal audit procedures with integrity</td>
</tr>
</tbody>
</table>

Table 6.3 indicates that all of the activities identified by the participants in Table 6.2 as forming part of the role of internal auditing could be mapped to one of the four activities as described by the IIA as forming part of the role and responsibilities of internal auditors. Examples of responses obtained from participants who emphasised certain key activities of the role of internal audit were as follows:
Participant 2 emphasised the scope of the internal audit activity within an organisation: “For me, the word internal audit means that we have a function employed by the NMMU internally that ensures the integrity of our information, that includes HR information, student information but also processed that would include governance processes but probably with a stronger financial focus. That can be from procurement to firewalls that allow people into certain levels of transactions to ensure that the delegation of authority is enacted in the actual processes.”

Participant 2 also further stated the importance for organisations to have an established internal audit activity: “The internal audit function for me is a technical, very important operational function in the university to ensure the integrity of our information and processes.”

Participant 4 emphasised the level at which internal audit should provide assurance regarding controls within the organisation: “Prime responsibility is to give assurance to the board of directors in terms of operational controls and financial controls. Second responsibility is to add value to the business. So it shouldn’t just look at issues from a control perspective, it should be more than that.”

Participant 11 emphasised the need for internal audit to remain independent in performing their duties: “I think that Internal Audit needs to be completely objective and independent of management in such a sense that whatever its findings are, can be taken up by the risk management (whether it’s a person or unit) that that risk manager would then say (judging from the findings of the audit reports), these are the
risks that have been identified, what mitigations and controls needs to be put in place to manage the risks and assess what impact those controls have had.”

These three responses together with nine others (refer to Annexure A), therefore, indicated that the majority of the participants had a good understanding of what the role of internal audit entailed except for participant 12.

Participant 12 provided the following response based on theme 1: “Usually when I think of the word internal audit, I associate audit with a financial audit as such and to ensure that budgets were used for what they were intended for.” Participant 12 also stated: “I would also think that from a slightly different perspective depending on the type of audit that one does, you could also do a skills audit.”

Based on the response the participant identified the role of internal audit as performing financial audits and skills audits. This response could indicate that participant 12 was not aware of the difference between the roles of internal auditing and external auditing. This response also indicates the need to create greater awareness about what the roles and responsibilities of internal audit are versus that of the external auditors (refer to section 2.3).

Participants 1, 6 and 8 indicated that they perceived the role of internal audit to be that of a deterrent to employees for doing something wrong, protector of the institution and being a watchdog of the institutional management. These responses received from participants were a further indication that certain participants did not have a comprehensive understanding of what the roles and responsibilities of internal
auditing entailed. However, the expected role to be fulfilled by internal auditing within organisations is that of a business partner who assists management with the discharge of their duties rather than just pointing out weaknesses within organisations (refer to section 2.5).

6.5.1 Findings for the most important role expectation of the internal audit
(Sub-theme 1.1)

This sub-theme sought to identify the most important role expectation (activity) of the internal audit as determined by the participants. Table 6.4 indicates which activity the participants perceived as their most important role expectations of the internal audit.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining the integrity of internal audit</td>
<td>4</td>
</tr>
<tr>
<td>Providing recommendations and guidance for improvements</td>
<td>4</td>
</tr>
<tr>
<td>Evaluating compliance with institutional policies and procedures</td>
<td>2</td>
</tr>
<tr>
<td>Providing support for Audit and Risk Committees to discharge their duties</td>
<td>1</td>
</tr>
<tr>
<td>Protecting internal audits independence</td>
<td>1</td>
</tr>
<tr>
<td>Providing financial governance</td>
<td>1</td>
</tr>
<tr>
<td>Identifying problems</td>
<td>1</td>
</tr>
<tr>
<td>Providing audit findings as early as possible</td>
<td>1</td>
</tr>
</tbody>
</table>

The information in Table 6.4 indicates a number of varying responses received from participants with regard to their most important role expectation of the internal audit. The activities identified by more than two participants with regard to their most important role expectation of internal audit were:
• Maintaining the integrity of internal audit

• Providing recommendations and guidance for improvements

The two best responses supporting the sub-theme were received from participants 8 and 11, namely:

• Participant 8: “Guidance. I actually see internal audit as a support service for sure. It might be through ignorance on my side where I’m not necessarily au fait with standards as an example and if there’s an inherent risk that’s been identified; I would rely heavily on internal auditing to assist me in mitigating that risk and making recommendations. My understanding is that it is a unit that provides a necessary service in the case where controls are lacking and inherent risks had been identified and so on, that will assist and guide me to reduce that and maintain the smooth running of the institution as opposed to crisis management. An advisory role is also essential.”

• Participant 11: “I would say that it is to ensure good governance and management. To promote integrity in all our processes and systems and to ensure that the management is tight in the sense that there are preventive measures in place to ensure that temptation for misconduct is nullified because it’s just not possible to beat the system. Also to be completely objective, impartial and transparent in bringing its findings to management and the governing body.”
These responses received from participants 8 and 11 were the most aligned with the IIA’s description of the role and responsibilities of internal auditors as seen in Table 6.3.

There were also responses from participants 10 and 12 which were far removed from the IIA’s description of the roles and responsibilities of internal auditors. The responses were as follows:

- Participant 10: “To provide me with information regarding saving money and to let my money work for me, the best way possible”
- Participant 12’s top expectation of the internal audit was: “Financial governance.”

The perception that internal audits role and responsibilities were solely based or aligned with financial audits and financial governance was skewed when considering the IIA’s description of the roles and responsibilities of internal auditors as stated in Chapter 2 (refer to section 2.5).

The different responses received from the thirteen participants could be a result of the participants not having a comprehensive understanding of what the role of the internal audit entailed and also reinforced the need to create awareness about the services which the internal audit could offer. In respect of this sub-theme, Table 6.4 clearly shows that there was no agreement between the participants’ perceived role expectations of the internal audit.
6.6 FINDINGS FOR THE INFORMATION EXPECTED FROM INTERNAL AUDIT

(Theme 2)

This theme sought to identify the information which participants expected to receive from internal audit. Table 6.5 indicates what the participants identified with the information which they expected to receive from internal audit.

Table 6.5: Results: Information expected from internal audit

<table>
<thead>
<tr>
<th>Activities</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-compliance with institutional policies and procedures and or legislation</td>
<td>11</td>
</tr>
<tr>
<td>Recommendations from internal audit which provide a solution to the identified problem with consideration of best practise and cost-saving measures</td>
<td>8</td>
</tr>
<tr>
<td>Assistance with the identification of control weaknesses and risks</td>
<td>6</td>
</tr>
<tr>
<td>Information provided should be objective, impartial and transparent</td>
<td>5</td>
</tr>
<tr>
<td>Information should also be timely, accurate and relevant</td>
<td>4</td>
</tr>
</tbody>
</table>

Table 6.5 indicates that the majority, or eleven out of thirteen participants, expected information from internal audit to highlight non-compliance with institutional policies and procedures and legislation. Eight participants required information in the form of an internal audit recommendation on how to rectify problems which was identified during an audit. The recommendation provided by internal audit should also give consideration to potential cost-saving measures and industry best practises.

Examples of responses indicating some of the key information expectations of the participants included:
• Participant 6: “I also expect the internal audit to alert us to any silences and gaps in our policies and procedures. I also expect them to, where there are discrepancies between practise and policy, to give full detail.”

• Participant 7: “I think since for me it’s mostly about compliance, so the information that one would need is whether there is compliance” and “I see compliance really broadly, there is financial compliance, there is compliance in terms of governance, compliance in terms of procedures that are being implemented and then Governance is of course the role of supervisor, whether the supervisor or line manager is doing the oversight role that they’re supposed to do.”

Participant 8 provided the most detail with regard to his/her expectation of the information required from internal audit: “I guess, information regarding non-compliance and also around risk to some extent, because if there’s quality standards that are not being maintained, that is a reputational risk, and around accreditation in some instances and so on. Also safety in terms of the OHS Act, threats and challenges associated with it, also in terms of not having sufficient controls in place for accountability purposes. Really around enhancing systems, quality systems, controls systems and mitigation of that, whether that is risk management or internal auditing, that is when the lines become blurred. I mean for me, it is around reducing reputational risk and non-compliance and identification of best practise that is part of the recommendation that would come forward from your report, so if there are any gaps then internal audit will identify those gaps and then make recommendations.”
However not all of the responses received with regard to the theme were positive. Participant 2 responded as follows to the theme: “I expect nothing from them because if I need information on Student Records, I ask it from the Registrar’s office, if I need financial information I ask it from the EDFs and if I need information on staff employed in the university I get it from HR. So I don’t see internal audit as a line function that provides information.”

This response indicated that there is no expectation from the participant with regard to information being provided by internal audit. This reinforces the need to create a better understanding and awareness regarding the services which could be provided by internal audit.

However, the majority of the responses received regarding the information expected from internal audit supported the participants’ expectation of the role of internal audit as discussed in section 6.5.

6.7 FINDINGS FOR THE ROLE THAT INTERNAL AUDITING PLAYS WITH REGARD TO FRAUD, IF ANY (Theme 3)

Theme 2, like Theme 1, is closely-linked to and addresses the second part of the first research question, namely, what are the roles of internal auditors and the role of fraud investigators. This theme sought to identify the participant expectations of internal audit’s role with regard to fraud investigations.
Table 6.6 summarises the participant responses of internal audit’s role with regard to fraud.

Table 6.6: Results: Role of the internal audit with regard to fraud

<table>
<thead>
<tr>
<th>Activity</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Having a fraud detection role</td>
<td>13</td>
</tr>
<tr>
<td>Performing fraud investigations</td>
<td>12</td>
</tr>
<tr>
<td>Assisting management with fraud risk identification and detection</td>
<td>10</td>
</tr>
<tr>
<td>Maintaining its integrity and independence through the use of an independent reporting line</td>
<td>6</td>
</tr>
<tr>
<td>Providing advisory services to management on how to detect and mitigate fraud</td>
<td>4</td>
</tr>
<tr>
<td>Creating awareness of fraud and provide measures for tips-offs</td>
<td>3</td>
</tr>
<tr>
<td>Maintaining confidentiality with regard to allegations of fraud and the performance of investigations</td>
<td>2</td>
</tr>
</tbody>
</table>

Table 6.6 shows that 12 of the 13 participants expected internal audits to perform fraud investigations. The two responses received with regard to this theme that best justified the expectation for internal audit to play a part in fraud investigations were from participants 2 and 3, namely:

- Participant 2: “It should play two roles. Firstly, internal audit should on a constant basis as its name say, audit internal processes to ensure that any deviation or possibility of fraudulent activity is detected quite early and then one can investigate that and report on it. Secondly, which I think is very important for me, internal audit should have the status of an independent, objective function within the university to which people who suspect fraud can report that for proper investigation.”
• Participant 3: ”I’ve never thought about that, I thought it’s automatic. I would assume that it is a natural function of internal audit because in a way fraud is non-compliance. So if you have a strong focus on compliance, compliance may have different causes, the one is in competence and the other one is intentional. Part of that intention may be kind of self-enrichment, now you’re into fraud (my understanding you now doing things at the expense of the institution to the benefit of oneself). I think internal auditing, who else will then be able to do that…”

This expectation from the participants (senior management) directly contradicted the IIA’s guidance pronouncements available to internal auditors for the practise of internal auditing as far as it related to the role that the internal audit played with regard to fraud. Section 3.3 indicates that the Standards only require internal auditors to have sufficient knowledge to evaluate the risk of fraud and it is not expected of internal auditors to possess the expertise to detect and investigate fraud. The management expectation of internal auditors to perform fraud investigations confirms the existence of an expectation gap between the professional guidance available to internal auditors and the institutions and or senior management expectations of the role of internal auditors as it relates to the performance of fraud investigations.

The other important expectations as identified by the participants with regard to the role that internal audit plays with regards to fraud, are that internal audit should be at the forefront for creating awareness about fraud, advising management on how to identify the risk of fraud, assisting management to prevent and detect potential fraud, providing an anonymous communication environment (Hotline) for tip-offs and, most
importantly, maintaining independence and integrity when part of the fraud investigation process.

6.7.1 Findings for information required from a fraud investigation (Sub-theme 3.1)

This sub-theme sought to identify the participant’s’ information requirements from a fraud investigation. Table 6.7 summarises the information which the participants required from a fraud investigation.

Table 6.7: Results: Information required from a fraud investigation

<table>
<thead>
<tr>
<th>Activity</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>A summary of the actions and evidence making up the alleged transgression and details of who, how, why, value and the time period concerned</td>
<td>11</td>
</tr>
<tr>
<td>A conclusion based on the evidence obtained</td>
<td>10</td>
</tr>
<tr>
<td>Recommendations from internal audit for improvement of controls and preventative measures to be implemented</td>
<td>12</td>
</tr>
<tr>
<td>An indication of possible punitive measures and or penalties to be imposed</td>
<td>11</td>
</tr>
<tr>
<td>The evidence must meet legal requirements</td>
<td>2</td>
</tr>
</tbody>
</table>

Table 6.7 indicates that the majority, 10 or more participants, were in agreement with their information expectations from a fraud investigation as can be seen from the first four activities as listed in Table 6.7. Participant 5 provided a detailed description of the information which was expected from a fraud investigation, namely: “The facts must be very clear and detailed with dates and whoever was involved. If there were any transactions details of how they were conducted, by whom and what course of period. I want documentary evidence, and everything must be substantiated to support the
worst case scenario, which would be the disciplinary action and possible criminal case against the person. In that sense, it must fulfill all the normal evidential requirements so that there is no tampering with evidence, that the evidence is the best evidence that can be held. Of course it must also be tested in terms of an opportunity for management review.

In addition to the response from participant 5, participant 4 also raised the concern that all evidence collected as part of a fraud investigation must meet established legal requirements for the collection of evidence, namely: "Obviously the normal legal requirements in terms of the evidence of the fraud, assuming it’s going to be taken up in court. So there’s a normal format that’s got to be followed in terms of the facts and evidence, but in addition to the legal way of writing the reports, you’d also want to know what the root cause of the fraud was, not just how it happened, but what led to it. Was it collusion, was it a single person, was it greed, was it somebody that was unhappy because of a particular reason, because you’re also trying to see, if you’ve caught person A, and if you’re looking at the root cause, you might find that there is another five people that could be in the same category if you like, or have similar gripes, so you could look and see if it can happen elsewhere."

This concern raised by the participants 4 and 5 supports the need for internal auditors to obtain the knowledge and skills required to perform fraud investigations with due diligence and according to the requirements of established legal procedures to support and ensure a positive outcome in the event of a civil and or criminal legal proceedings.
The information which is required from a fraud investigation provides an indication of the extent to which the internal auditor must be involved in the fraud investigation process to be able to provide the required information for the successful prosecution of fraud perpetrators.

6.8 SUMMARY

Based on the objectives of this chapter, namely, to discuss the results obtained from the semi-structured interviews, the following results were obtained from the participants in response to the themes and sub-themes.

Theme 1: The results indicated that the majority of the participants had a good understanding of what the role of internal audit entailed. The results also identified the need to create greater awareness about what the roles and responsibilities of internal audit were versus that of the external auditors.

Theme 1.1: The information obtained indicated a number of varying responses received from participants with regard to their most important role expectation of internal audit. The different responses from participants could be as a result of the participants not having a comprehensive understanding of what the role of internal audit entailed and also reinforced the need to create awareness about the services which internal audit could offer.
**Theme 2:** Firstly, the information obtained indicated that the majority of the participants expected information from internal audit highlighting non-compliance with institutional policies and procedures and legislation. Secondly, the participants required information in the form of an internal audit recommendation on how to rectify problems which were identified during an audit. The recommendation provided by internal audit should also give consideration to potential cost-saving measures and industry best practises.

**Theme 3:** The information showed that almost all of the participants expected internal audit to perform fraud investigations. This expectation from the participants (senior management) directly contradicted the IIA’s guidance pronouncements available to internal auditors for the practise of internal auditing as far as it related to the role that the internal audit played with regard to fraud.

**Theme 3.1:** The information indicated that the majority of the participants were in agreement with their information expectations from a fraud investigation. Their expectations included:
• Summary of the actions and evidence making up the alleged transgression and details of who, how, why, value and the time period concerned

• Conclusion based on the evidence obtained

• Recommendations from internal audit for improvement of controls and preventative measures to be implemented

• Indication of possible punitive measures and or penalties to be imposed

• Evidence must meet legal requirements

Considering all of the responses received from the participants in relation to the themes and sub-themes, it could be deduced that greater awareness needed to be created regarding the role of internal audit and the services which internal audit could provide to organisations and management. In addition the expectation of management for internal audit to perform fraud investigations was clearly identified.

Chapter 7 provides the summary, conclusion and recommendations for this study
CHAPTER 7
RESEARCH SUMMARY, CONCLUSION AND RECOMMENDATIONS

7.1 INTRODUCTION

Chapter 1 provided the background and justification for the study. The literature review performed in Chapter 1 aided the researcher in obtaining an understanding of the research question and to identify research methods to enable the analyses of the research question which was identified (refer to section 1.3). Chapter 2’s objectives were to conduct a literature review on the history of internal auditing, to identify how the internal audit profession developed out of assurance services and to gain an understanding of what the role of internal auditors currently was. In addition, the chapter also identified what the expectations of other stakeholders were, namely, the IIA and users of internal audit services with regard to fraud investigation knowledge and skills required by internal auditors to perform fraud investigations.

The objectives of Chapter 3 were to conduct a literature review on the role of internal auditors and the IIA’s guidance pronouncements in respect of knowledge, skills and competency requirements for internal auditors as they related to the role of internal auditors in fraud prevention, detection and investigation. This chapter also explained that an expectation gap could exist in respect of the IIA’s guidance pronouncements when compared to the expectations of stakeholders. Chapter 4 conceptualised fraud, provided information on the history and the impact of fraud. This chapter also identified the factors that contributed to the occurrence of fraudulent acts, from where fraud originated and the impact of fraud on organisations.
Chapter 5 discussed the research design and methods used for this study. The research design described the benefits and disadvantages of quantitative and qualitative research approaches and provided justification for the adoption of a qualitative research approach for this study. Chapter 6 discussed the results obtained from the semi-structured interviews as obtained from the participants in response to the themes and sub-themes.

Chapter 7 provided a summary of how the problem statement, research objectives, research design and methodology of this study were addressed. The results obtained from the literature were provided in in the context of the research question and associated objectives of this research. The objective of Chapter 7 is to define the expectation gap between the IIA guidance pronouncements for internal auditors and the role expectations of the users of internal audit services with regard to fraud investigations and to provide recommendations to address the expectation gap. The limitations of the study and possible future research opportunities are also outlined. This chapter and the study are then concluded with a summary and conclusion.

7.2 SUMMARY OF THE RESEARCH

The main research question (research question) was identified owing to the conflict between the internal auditor’s guidance pronouncements and what is required in practise. The main research question was thus: Do the institute of internal auditor’s guidance pronouncements provide sufficient guidance in the light of expectations of
both the institute and management relating to the role of internal auditors in respect of fraud?

To assist the research with providing an answer to the research question, primary and secondary research objectives were developed to support the attainment of an answer to the main research question.

7.2.1 Achieving the research objectives in the study

The primary research objective of this study was to investigate the role of internal auditors with specific reference to fraud investigations. Several secondary research objectives supported the attainment of the primary research objective.

Table 7.1 summarises the attainment of the secondary research objectives to achieve the primary research objective as presented in Chapter 1 (refer to section 1.4).
Table 7.1: Achieving the secondary research objectives

<table>
<thead>
<tr>
<th>Secondary objective</th>
<th>Chapter addressing the objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>To conduct a literature study of the IIA’s guidance pronouncements in respect of knowledge, skills and competency requirements for internal auditors as it relates to the role of internal auditors in fraud prevention, detection and investigation</td>
<td>Chapter 3</td>
</tr>
<tr>
<td>To conceptualise fraud, the history of fraud and the impact of fraud</td>
<td>Chapter 4</td>
</tr>
<tr>
<td>To conduct a literature review on the role of internal auditors and their role with regard to fraud investigation</td>
<td>Chapter 2</td>
</tr>
<tr>
<td>To select an appropriate research methodology and research methods for the study</td>
<td>Chapter 5</td>
</tr>
<tr>
<td>To make recommendations regarding improvements to the IIA guidance pronouncements with reference to the internal auditors fraud investigation knowledge and skills</td>
<td>Chapter 7</td>
</tr>
</tbody>
</table>

Table 7.1 indicates that the secondary research objectives as presented in Chapter 1 were all achieved in support of the primary research objective.

7.2.2 The answer to the research question of the study

It can be concluded that the IIA guidance pronouncements currently available does not provide sufficient guidance to internal auditors as it relates to the role which the internal auditor should fulfil in relation to fraud investigations. This conclusion is based on:

- attainment of the primary and secondary research objectives (refer to sections 1.4.1 and 1.4.2) as summarised by Table 7.1
- results of the literature review (Chapters 2, 3 and 4) which identified the lack of IIA guidance pronouncements available to internal auditors with regard to
the knowledge and skills required by internal auditors to perform fraud investigations

- Chapter 6 which highlighted the expectations of participants for internal auditors to perform fraud investigations.

### 7.2.3 Summary of Chapter 1

In the context of the research question and objectives of the study, the following are evident from the literature review of Chapter 1:

- That an expectation gap could existed with regard to the IIA guidance pronouncements and stakeholder expectations of the internal auditor’s role with specific reference to the performance of fraud investigations.
- That the achievement of the research objectives, both primary and secondary, and the application of the research methodology as documented would provide the information necessary to address the research question of the research.

The literature reviewed in Chapter 1 provided the background information to justify this study. In addition, the research methodology according to which the study was conducted was motivated and explained.

### 7.2.4 Summary of Chapter 2

In the context of the research question and objectives of the study, the following are evident from the literature review of Chapter 2:
• That the expectations (needs) of stakeholders for assurance services gave rise to the founding of the IIA and internal audit profession in the 20th century. It explained what the role of internal auditors was currently and also indicated that investors relied on internal auditors to detect fraud rather than senior management.

• That the only requirement of internal auditors as far as it related to fraud investigation knowledge and skills were that the internal auditor should provide support for organisational anti-fraud programmes. It could further be deduced from the literature reviewed on the role of internal auditors that there was limited guidance provided with regard to fraud investigation knowledge and skills required by an internal auditor to perform fraud investigations. Internal auditors were thus not encouraged by their professional body, the IIA, to conduct fraud investigations.

The literature review showed that there was a need for a worldwide professional association to provide guidance, education and training to professional internal auditors for the practise of internal auditing owing to the role of internal auditors continuously evolving in line with changes and developments in commerce (refer to sections 2.4 and 2.5). The role of internal auditors was thus evolving to enable them to provide stakeholders with assurance and to assist organisations to achieve business objectives and remain competitive in current economies and so ensure future existence of businesses.
**7.2.5 Summary of Chapter 3**

In the context of the research question and objectives of the study, the following are evident from the literature review of Chapter 3:

- That the role of internal auditors is continuously evolving in line with changes and developments in commerce. The role of internal auditors is thus evolving to enable them to provide stakeholders with assurance and to assist the organisation to achieve business objectives and remain competitive in current economies and ensure future existence of businesses.

- The literature further identified a deficiency in IIA guidance regarding the knowledge, skills and competency capabilities which is required of internal auditors. The deficiency specifically relates to the ability of internal auditors to perform fraud investigations with due professional care.

Chapter 3 also showed that the IIA’s guidance pronouncements do not provide sufficient adequate guidance in respect of the knowledge, skills and competency capabilities in relation to fraud investigations. The literature reviewed in this chapter provided an outline of what the IIA prescribes to internal auditors (with regard to capabilities) for the performance of fraud investigations.

**7.2.6 Summary of Chapter 4**

In the context of the research question and objectives of the study, the following are evident from the literature review of Chapter 4:
• That there were factors typically present for perpetrators to be able to commit fraud. In addition, the chapter also showed that instances of fraud were increasing and that the impact on organisations could lead to an organisation’s collapse.

• That there was a direct relationship between the fraud perpetrators level of authority and the value of the fraud which was perpetrated (refer to section 4.2.2). The history of fraud showed that since the start of time commercial fraudulent acts have been perpetrated, and, with the passing of time, the frequency and value of the frauds perpetrated were on the increase. Section 4.3.1 also provided possible examples of frauds which might be perpetrated at universities.

• That fraud impacted on organisations and the role of internal auditors (refer to section 4.4). Expectations of internal auditors to be able to detect fraud by various stakeholders were also highlighted. Internal auditors also had to adjust their approach to performing normal audit engagements and to include into the audit plan, methods for the detection of fraud. Owing to the expectation of the internal auditors to be able to detect fraud, the need for additional training was identified to enable them to detect, investigate and prevent fraudulent acts which supported the research question of this study.

• That every employee within an institution was responsible for fraud prevention in his or her business area and that the accounting officer / authority ultimately remained accountable for the prevention of fraud in institutions (refer to section 4.5).
Chapter 4 conceptualised fraud, provided information on the history of fraud and the impact of fraud. This chapter also explained the factors that contributed to the occurrence of fraudulent acts, where fraud originated from and the impact of fraud on organisations.

7.2.7 Summary of Chapter 5

In the context of the research question and objectives of the study, the following are evident from the literature review of Chapter 5:

- That the description of the advantages and disadvantages and consideration of the research question and associated research objectives, the adoption of a qualitative research approach was justified.
- That the research methods section described the case study research method, secondary research, primary research, the sample framework (population), the development and use of an interview guide, data collection and data analysis methods. Based on the discussion in section 5.3.1, an embedded single case study method was followed. As a result of selecting an embedded single case study method, the participants (sample) for the study were selected from NMMU’s three main committees, namely, Council, Senate and MANCO who are collectively accountable and responsible for all the strategic and operational activities performed at NMMU.
- That the primary data was obtained from participants by making use of a semi-structured interview process and an interview guide. The data collected from
participants was analysed using a combination of deductive and inductive qualitative content analysis methods.

Chapter 5 discussed the research design and methods used for this study. The research design section in Chapter 5 described the benefits and disadvantages of quantitative and qualitative research approaches and provided justification for the adoption of a qualitative research approach for this study.

7.2.8 Summary of Chapter 6

Chapter 6 discussed the results obtained from the semi-structured interviews as obtained from the participants in response to the themes and sub-themes.

Table 7.2 summarises the results obtained from the participants in response to the themes and sub-themes.
Table 7.2: Summary of participant responses to research themes and sub-themes

<table>
<thead>
<tr>
<th>Number</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Theme 1</strong></td>
<td>The findings indicated that the majority of the participants had a good understanding of what the role of internal audit entails. The results also identified the need to create greater awareness about what the roles and responsibilities of internal audit were versus that of the external auditors.</td>
</tr>
<tr>
<td><strong>Sub-Theme 1.1</strong></td>
<td>The findings indicated a number of varying responses received from participants with regard to their most important role expectation of internal audit. The different responses from participants could be a result of the participants not having a comprehensive understanding of what the role of internal audit entails and also reinforced the need to create awareness about the services which internal audit could offer.</td>
</tr>
<tr>
<td><strong>Theme 2</strong></td>
<td>The findings indicated that the majority of the participants expected information from internal audit to highlight non-compliance with institutional policies and procedures and legislation and, secondly, required information in the form of internal auditor recommendation on how to rectify problems which were identified during an audit. The recommendation provided by internal audit should also give consideration to potential cost-saving measures and industry best practises.</td>
</tr>
<tr>
<td><strong>Theme 3</strong></td>
<td>The findings showed that almost all the participants expected internal audit to perform fraud investigations. This expectation from the participants (senior management) directly contradicted the IIA’s guidance pronouncements available to internal auditors for the practise of internal auditing as far as it related to the role that the internal audit played with regard to fraud.</td>
</tr>
<tr>
<td><strong>Sub-Theme 3.1</strong></td>
<td>The findings indicated that the majority of the participants were in agreement with regard to their information expectations from a fraud investigation. Their expectations were as follows:</td>
</tr>
<tr>
<td></td>
<td>• Summary of the actions and evidence making up the alleged transgression and details of who, how, why, value and the time period concerned</td>
</tr>
<tr>
<td></td>
<td>• Conclusion based on the evidence obtained</td>
</tr>
<tr>
<td></td>
<td>• Recommendations from internal audit for improvement of controls and preventative measures to be implemented</td>
</tr>
<tr>
<td></td>
<td>• Possible punitive measures and or penalties to be imposed</td>
</tr>
<tr>
<td></td>
<td>• Evidence must meet legal requirements</td>
</tr>
</tbody>
</table>
Table 7.2 shows a summary of all the responses obtained from participants in relation to the themes and sub-themes when the semi-structured interviews were conducted. The responses received from participants in relation to the themes and sub-themes clearly indicated that the users of internal audit services expected internal auditors to perform fraud investigations.

7.3 RECOMMENDATIONS

The expectation gap between the IIA guidance pronouncements available to internal auditors for the practise of internal auditing with specific reference to the performance of fraud investigations and management’s expectation that internal auditors should perform fraud investigations have been adequately identified by this study. Recommendations stemming from the research performed can be divided into the recommendations for organisations and recommendations for universities.

7.3.1 Recommendations for organisations

Chief Audit Executives (CAE) and IIA members themselves should create greater awareness within their organisations regarding the roles and responsibilities of internal auditors as far as they related to the performance of the following activities: risk management, control evaluations, assessments of governance, information technology reviews, consulting engagements and fraud investigations. The IIA, in support of the CAE’s and IIA members, needs to develop and distribute/communicate guidance pronouncements which clearly identify who should be responsible for
performing the role of fraud investigations and what fraud investigation knowledge and skills are required to adequately perform fraud investigations within organisations. The need for fraud investigation activities to be managed separately from the assurance and consulting activities provided by internal audit departments should also be incorporated into the IIA guidance pronouncements dealing with fraud investigations. Once the relevant guidance pronouncements have been developed, it should be widely distributed and communicated to all users of internal audit services and internal audit practitioners.

7.3.2 Recommendations for universities

Universities which offer Internal Auditing qualifications have already started to respond to internal audit user service needs for internal auditors to perform fraud investigations. Some universities have already incorporated fraud identification, detection and prevention techniques into their teaching material, syllabus and course outlines for internal auditing students. The quick response to incorporate fraud into the Internal Auditing qualifications is a result of academic advisory boards having been established at universities which have member representation from both the university and industry. The need to have internal auditors who can perform fraud investigations were identified which lead to a timely response by universities to provide this industry requirement. All universities should establish academic advisory boards which have representation from both the university and industry present to allow for the needs of the various industries regarding their expectations of internal auditors to be heard and to allow for action to be taken by universities to address these needs and industry
expectations. This process would assist internal auditing to remain abreast of new developments and industry expectations of internal auditors for the future.

7.4 LIMITATIONS OF THE STUDY AND FURTHER RESEARCH

Utilising the case study method for the study, which focused specifically on the NMMU and the selection of participants from the NMMU’s management structures could have introduced the following limitations to the study:

- A lack of participant knowledge regarding the services provided by internal auditors as a result of not being involved in the NMMU processes where internal auditors were involved or reported to thereby not being able to provide an informed opinion.
- Participants providing subjective instead of objective responses to the themes as a result of their personal interaction and previous experiences with the NMMU’s Audit and Risk Management Department.

The following areas have been identified for possible further research:

- Assessment of the impact on the working relationship between internal auditors and other organisational employees when fraud investigations are performed by internal auditors.
• Determination of whether fraud investigations should be incorporated / adopted by the IIA as part of the roles and responsibilities of internal auditors.

• Establishing the extent of the legal knowledge and skills required by internal auditors in the 21st century as determined by the needs of the organisation.

The following section provides a summary and conclusion based on the research question of this study.

7.5 SUMMARY AND CONCLUSION

In the context of the research question and objectives of the study, Chapter 7 defines the expectation gap between the IIA Guidance Pronouncements for Internal Auditors and the role expectations of the users of internal audit services with regard to fraud investigations. After consideration of the responses received from participants in relation to the themes and sub-themes, it can be deduced that greater awareness needs to be created regarding the role of internal audit and the services which internal audit could provide to organisations and to management. Also the expectation of management for internal audit to perform fraud investigations has been clearly identified even though no clear IIA guidance pronouncements are available to internal auditors for the performance of fraud investigations.

This study showed the role expectation of internal auditors in an organisation and that the role should include the role of fraud investigation. This chapter further provides
recommendations to address the expectation gap, identifies limitations of the study and possible future research opportunities are also outlined.


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IIA. (guidance@theiia.org) 2013. CIA exam % split between the roles IA. [Email to:] Labuschagne, M. (Mario.labuschagne@nmmu.ac.za) 13 August 2013.

IIA. (guidance@theiia.org) 2013. Help. [Email to:] Labuschagne, M. (Mario.labuschagne@nmmu.ac.za) 14 June 2013.


**INTERVIEW GUIDE**

<table>
<thead>
<tr>
<th>INTERVIEWER:</th>
<th>Mario Labuschagne</th>
</tr>
</thead>
<tbody>
<tr>
<td>PARTICIPANT:</td>
<td></td>
</tr>
<tr>
<td>DATE:</td>
<td></td>
</tr>
<tr>
<td>VENUE:</td>
<td></td>
</tr>
<tr>
<td>DO YOU CONSENT TO PARTICIPATING IN THE INTERVIEW?</td>
<td>YES</td>
</tr>
<tr>
<td>PERMISSION TO RECORD INTERVIEW</td>
<td>Granted</td>
</tr>
<tr>
<td>WOULD YOU LIKE TO RECEIVE A COPY OF THE FINAL RESULTS?</td>
<td>YES</td>
</tr>
</tbody>
</table>

**PURPOSE:**
The purpose of the interview is to gather primary data on the topic of the role of the internal auditors with specific reference to fraud investigation.

**INTERVIEW STRUCTURE:**
A semi-structured interview will be used to gather the required primary data from participants. The interview will be guided by questions that allow open-ended responses. The data obtained with these questions will be recorded and analysed.

**INTRODUCTION:**
The topic of the research is:
The role of internal auditors with specific reference to fraud investigation.

The aim of the interviews is to gather data with regard to:

- participants perceptions and view in respect of the role of internal auditors; and
- participants expectations of internal auditors with regard to fraud prevention, detection and fraud investigations.

<table>
<thead>
<tr>
<th>Question 1: What do you see as the role of internal audit?</th>
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</table>

<table>
<thead>
<tr>
<th>Question 2: What information do you expect from internal audit?</th>
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<td></td>
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</table>

<table>
<thead>
<tr>
<th>Question 3: What role should internal audit play with regards to fraud, if any?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>
INTERVIEW GUIDELINES

STEP 1 - PRE-INTERVIEW PREPARATION

• What are the research objectives for the study? Are they aligned with our questions in the interview guide?

Primary objective

The primary objective of this study is to investigate the role of internal auditors with specific reference to fraud investigation.

Secondary research objectives

➢ To give effect to the primary objective of this study, the following secondary research objectives have been formulated:

➢ To conduct a literature review on the role of internal auditors and the role of fraud investigators.

➢ To conduct a literature study of the IIA’s guidance pronouncements in respect of knowledge, skills and competency requirements for internal auditors as it relates to the role of internal auditors in fraud prevention, detection and investigation.

➢ To conceptualise fraud, the history of fraud, the impact of fraud.

➢ To select an appropriate research methodology and research methods for the study.

➢ To make recommendations regarding improvements to the IIA guidance pronouncements with reference to the internal auditors fraud investigation knowledge and skills.
• Knowledge on the type of interview to be conducted and how to implement such an interview.

• Location and scheduling of the interviews

**STEP 2 - IDENTIFYING INFORMATION**

• Ask permission to record the interview – if permission not granted, transcribe the interview manually.

• Name of interviewer and interviewee.

• Interview date

• Purpose statement of interview – to gather primary data on the topic of the role of internal auditors with specific reference to fraud investigation.

**STEP 3 – OPENING**

• Introduction to the topic: The role of internal auditors with specific reference to fraud investigation. Thereafter, explain to the interviewee that the focus is on his/her understanding of the role of internal auditors and the expectations which the interviewee might have regarding the performance of fraud investigations is to be discussed in this interview.

• Establishing – the researchers will state to the interviewee what information needs to be established. For this interviewee information on his/her understanding of the role of internal auditors together with the interviewee’s expectations of internal auditors as it relates to fraud investigations will be established.
• **Orientation** – these are guidelines that shall be set out for the interview. For this interview, open ended questions will be asked to the interviewee and a response will be recorded. This shall help to ensure information on the role of internal auditors with specific reference to fraud investigations is investigated.

**STEP 4 – CLOSING**

• **Transition** – indicate with indirect verbal communication or with the appropriate body language the interview is almost finished.

• **Summarization** – check the information you obtained and if not clear, clarify those areas. Check the purpose of the interview was achieved and check for accuracy.

• **Closure** – thank the interviewee for his time and assure him you will send him a copy of the final results.
<table>
<thead>
<tr>
<th>INTERVIEWER:</th>
<th>Mario Labuschagne</th>
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<tr>
<td>WOULD YOU LIKE TO RECEIVE A COPY OF THE FINAL RESULTS?</td>
<td>YES</td>
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</tbody>
</table>

**PURPOSE:**

The purpose of the interview is to gather primary data on the topic of the role of the internal auditors with specific reference to fraud investigation.

**INTERVIEW STRUCTURE:**

A semi-structured interview will be used to gather the required primary data from participants. The interview will be guided by questions that allow open-ended responses. The data obtained with these questions will be recorded and analysed.

**INTRODUCTION:**

The topic of the research is:

The role of internal auditors with specific reference to fraud investigation.
The aim of the interviews is to gather data with regard to:

- participants perceptions and view in respect of the role of internal auditors; and
- participants expectations of internal auditors with regard to fraud prevention, detection and fraud investigations.

**Question 1: What do you see as the role of internal audit?**

**Notes:**

- What is your expectation of internal audit?
- Should opportunity identification be part of the role of internal audit or risk management?

**Question 2: What information do you expect from internal audit?**

**Notes:**

- What is your expectation of internal audit?
  - What is your top expectation of internal audit?

**Question 3: What role should internal audit play with regards to fraud, if any?**

**Notes:**

- What is your expectation of internal audit?
- What information do you require from a fraud investigation?
INTERVIEW GUIDELINES

STEP 1 - PRE-INTERVIEW PREPARATION

• What are the research objectives for the study? Are they aligned with our questions in the interview guide?

Primary objective
The primary objective of this study is to investigate the role of internal auditors with specific reference to fraud investigation.

Secondary research objectives
- To give effect to the primary objective of this study, the following secondary research objectives have been formulated:
- To conduct a literature review on the role of internal auditors and the role of fraud investigators.
- To conduct a literature study of the IIA’s guidance pronouncements in respect of knowledge, skills and competency requirements for internal auditors as it relates to the role of internal auditors in fraud prevention, detection and investigation.
- To conceptualise fraud, the history of fraud, the impact of fraud.
- To select an appropriate research methodology and research methods for the study.
➢ To make recommendations regarding improvements to the IIA guidance pronouncements with reference to the internal auditors fraud investigation knowledge and skills.

- Knowledge on the type of interview to be conducted and how to implement such an interview.
- Location and scheduling of the interviews

STEP 2 - IDENTIFYING INFORMATION

- Ask permission to record the interview – if permission not granted, transcribe the interview manually.
- Name of interviewer and interviewee.
- Interview date
- Purpose statement of interview – to gather primary data on the topic of the role of internal auditors with specific reference to fraud investigation.

STEP 3 – OPENING

- Introduction to the topic: The role of internal auditors with specific reference to fraud investigation. Thereafter, explain to the interviewee that the focus is on his/her understanding of the role of internal auditors and the expectations which the interviewee might have regarding the performance of fraud investigations is to be discussed in this interview.
- Establishing – the researchers will state to the interviewee what information needs to be established. For this interviewee information on his/her understanding of the
role of internal auditors together with the interviewee’s expectations of internal auditors as it relates to fraud investigations will be established.

- Orientation – these are guidelines that shall be set out for the interview. For this interview, open ended questions will be asked to the interviewee and a response will be recorded. This shall help to ensure information on the role of internal auditors with specific reference to fraud investigations is investigated.

**STEP 4 – CLOSING**

- Transition – indicate with indirect verbal communication or with the appropriate body language the interview is almost finished.
- Summarization – check the information you obtained and if not clear, clarify those areas. Check the purpose of the interview was achieved and check for accuracy.
- Closure – thank the interviewee for his time and assure him you will send him a copy of the final results.
Interview with participant number 1

Statement to participant: All information will be treated as confidential. Any personal information obtained during the interview will not be shared with any third party.

Questions:

1. **Hoe sien jy die rol van interne oudit?**

   **Antwoord:** Ek was self hoof gewees van interne oudit by Mineraal Tegnologie, so ek ken die funksies van interne oudit. Ek was lank by Telkom die ou Poskantoor in interne oudit betrokke gewees, so ek ken die funksies. Ek is nie meer so “updated” soos julle manne met die nuwe tegnologie en goed wat julle gebruik nie, want dinge verander oor die jare en ek dink risiko het al hoe meer begin ‘n rol speel, as wat in die ou was risiko nie ‘n groot “issue” nie, nou is risiko ‘n groot “issue”. Maar as jy van my die grond beginsels van interne oudit van die ou dae van my af wil weet tot vandag toe is die doel van interne oudit beslis nie dieselfde as die doel van eksterne oudit nie. En die doel van eksterne oudit is om evaluering te doen op jaar einde van wat in die verlede gebeur het en raportering daar te doen en dan miskien ‘n evaluasie net, en dus desesdae dat eksterne oudit so beskermd dat jy kan nie baie meer dit doen nie, want as jy na die oudit brief gaan kyk, aanvaar hulle omtrent verantwoordelijkheid vir niks nie. Hulle skryf hulle uit vir verantwoordelijkheid vir alles en ek dink die hele beroep of hulle hele kliente basis daar buite het ‘n groot problem met eksterne oudit in dié sin vandat eksterne oudit eintlik maar net ‘n rapportering oor die verlede is waaroor hulle geen verantwoordelijkheid aanvaar nie en dan ook maar ook dit so beperk en te sê as jy gaan kyk na hulle “management letter” om te sê, “we only accept responsibility for what we’ve seen and what we’ve heard”, etc, en dan vra hulle nog om die brief te teken om te sê jy bevestig dat jy alles vir hulle gesê het in nie vir hulle gesê het nie, en so voorts.
Interne oudit het ‘n verskidlike belangrike taak en ek sê eksterne oudit is diebloedhond en interne oudit is die waghond. Interne oudit, dit ek al voorheenvir jou gesê, met ‘n gesprek met jou en jou hoof, is dat interne oudit en eksterneoudit van ‘n EDF perspektiew, is ‘n beskermer vir my, want ek sien wat eksterneoudit betref sien ek net in “detail” wat in my afdeling kan gebeur deur dit wat hulle rapporteer, en dan kry ek dan nou’n prentjie van hulle op ‘n proef basisdat hulle sekere goed gedoen, en ten munste kan ek dan weet alles is “fair”,maar interne oudit se rol is baie meer as dit, en dit is hoekom ek voorheenMario en ek gaan dit nou maar sê maar ons verwys nou nie na persone nie,ons verwys aan beginsels, is dat die kritiek wat ek huidiglik teen ons interneoudit is dat, dat dit altyd die stelling gemaak word dat, ons kan nie deel weesvan dit nie, of ons kan nie “recommendations” doen nie, of ons kan nie dat doennie, want ons moet “impartial” wees. Wat is die word wat julle gebruik? Jullemoet altyd “independent” bly. Ek sê interne oudit moet altyd “independent” bly,Julle verbeur nie, of julle veraai nie julle “independence” deur my te help en mytee “support”, om my sisteme en prosesse te verbeter nie. So as ekbyvoorbeeld, destyds toe ek die gesprek, ek dink my en jou gesprek is van dierbelangrikste omdat ek en jy basies amper in dieselfde veld is, maar wat vir mybelangrik is op die einde van die dag besien ek interne om my te help veral indie finansiële funksie om my te help en vir my prosesse, en my polisies en allymy prosedure en my sisteme te verbeter en die kontrole beter te maak omdatjulle in “detail”, ver meer “detail” ingaan in sisteme en prosesse en finansies aswat eksterne oudit doen. So as julle op die goed afkom en ons het gesprekke daaroor dan kan julle my eintlik baie meer help as eksterne oudit, want ek kan dan sien daar is ‘n swak kontrole wat verbeter moet word en julle kan dalk metjulle ervaring en goed wat julle op ander plekke gekry het vir my nog adviseerdalk daaroor. En ek glo vas dat dit glad nie julle “independence” behoort te verhoednie. Want deur ‘n proses te verbeter, sê nie julle..., die besluit lé nog steeds bymy as hoof om die proses en die kontrole intestel of nie intes nie en dalk kanjulle weer kritiek later daaroor lewer en dan kan jy vir my sê, “ek het vir jou gesédit gaan nie werk nie en jy’ t nie vir my geluister nie”, dan behoort ek pak te kry,want julle het my geadviseer, en dit is hoekom ek sê ek sien in interne oudit as‘n waghond wat die verantwoordelikheid het om nie net vir my in finansies nie,
maar alle sisteme en prosseise wat julle ondersoek daardie spesifieke hoofde
te ondersteun en te help om sy kontroles en sy stelsels en goed te verbeter.
En ons moet vir die voordeel van die onorganisasie werk eerder as julle ouens
as daardie ou en daardie soort van, wat baie mense sê, “ooh ons gaan nou
interne oudit is nou hier by ons.”, ons moet daardie houding weg kry, die ouens
moet eerder vir julle sien as mense wat ons help. En ek dink as julle daardie
beeld kan weg kry van interne oudit dat..., en dit is nie net hier nie, dit is by alle
organisasies. As jy ‘n “partnership” kan genereer, onthou ‘n “independent
partnership” wat baie belangrik is, daardie “partnership” beteken nie dat die
“partnership” moet so goed wees nie as ek goed nie doen nie of goed nie in
plek is nie dan moet jy eintlik soort van baie “nice” met my wees nie. Jy moet
sê of jy ervaar het, jy moet dink wat verkeerd is, die besluit lê nog steeds by
my maar ek neem die risiko uiteindelik dat, as ek nie na julle luister nie, en
dinge sou verkeerd loop het ek nie probleme nie, julle het die probleem.

2. Wat is die verwagting? (Ons het alreeds geraak aan die aspek van wat is die
verwagting van interne oudit. Nou uit die verwagtinge wat ons na gesluister
her so ver, wat sal jy sê is die top een?)

Antwoord: Ek sou sê, en kom ons gaan nou eerstens na die naam, dit is nou
hoekom ek nou ‘n verskilletjie gehad het en ‘n debat op bestuursvlak toe die
“Internal Audit Charter” gesplit is in twee, jy onthou? Dit was mos gesê, “dit is
Interne Oudit en risk management”, en ek sê, ek het ‘n probleem gehad en my
opinie is nog steeds jy kan die twee nie eintlik skei nie want deur die risikos te
identifiseer dit is tog julle prosses. So jy vra wat is die “core” business, dit is
julle prossese saam met die klient, maar meer julle het baie beter toegang en
baie beter ervaring en ondervinding om vir my te sê oor..., ek sal vir jou sê wat
ek dink my risikos is, as ek nie ‘n konservatief ou is nie, ggan ek my altyd
beskerm en maak ek of ek ‘n klomp risikos wegsteek en as jy nie met my saam
stem nie en dit nie verder ontbloot nie dan gaan daar probleme wees. So ek
sê julle moet eers saam met my die risikos identifiseer, “maar hoor hier, wat
nog hiervan, wat dink jy van hiervan, wat dink jy van daaivan?”; as gevolg van
julle weie ervaring. En as ons die risikos geidentifiseer het, moet ons
gesamentlik moet julle gaan doen wat julle moet doen julle oudit. Julle moet julle voorstelle maak en hopelijk sal daardie voorstelle wees om te sê “dit is die mitigation, dit is hoe ons die goed kan moet gee”. As julle dit nie self kan doen nie, moet ons dit as ‘n “partnership” moet ons die “mitigation”, so ek sê interne oudit se hoofdoel is identifisering van risikos, doen die interne oudit, kom met goeie aanbevelings vir kontrole en saam met die toetse en saam met die HOD, ‘n plan van aksie te hê, maar daardeur nie julle integrietyd op die tafel te sit nie, maar wel julle self te beskerm om te sê, “dit was ons aanbevelings, dit was die finale besluit”, en opvolg oudit en dank kan jy mos vir my sê, “I told you so”. Maar sodra julle die aanbevelings gemaak het en ons het gesamentlik besluit daarlof, dan kan die klient nie weg hardloop van sy verantwoordelikheid nie, want hy was gewaarsku daaroor, dit was jou besluit, so jy kan nie nou sê dis interne oudit nie sodra dit getekent is. So risiko geidentifisering, dan gaan doen die oudit, kom met goeie aanbevelings en dan het jy eintlik ‘n gesamentlike gesprek tussen klient en die interne oudit met “mitigating” oplossings en kontroles vir verbetering van sisteme te kom tot voordeel van die instelling. Dit is hoe ek interne oudit sien. En daardeur vat dit niks van julle in, dat julle moet “integrity” hê en op julle eie bly, en dat dit ‘n afdeling is wat ‘n goei verhouding met die klient sal behou sonder om julle opregtheid te ooreenkom. “Always have to protect the integrity of the Internal Audit department”. Dan kan ek net sê, “n goei voorbeeld vir my was altyd, en ek verskil nog steeds met die opinie van interne oudit deur te sê julle kan nie op die Tender Komitee.wees nie, julle is net adviseerend daar. Ek dink julle kan ‘n baie belangrike doel daar., ons het al goed gehad soos waar julle gesê het, “julle moet gaan kyk na die ouens se finansiele state en goed”, onthou jy dit? Dit is interesant dat daarding ding nou dood geloop het toe dit julle werk geword het. Daar is geen manier waar julle, julle integriteit kan prysgee nie deur dit te doen. Jy kan net jou integriteit prysgee as jy ‘n voorstel maak en die besluit ook kan neem. En in so ‘n geval kan julle net ‘n groter bydrae lewer tot die sukses van die Tender Komitee eerder as ons sonder julle daar sit. Julle moet net nie ‘n “vote” hê nie, maar julle kan deelneem in die besluitneming.

3. Speel interne oudit ‘n rol tot verband met bedrog?
Antwoord: Wel jy het ‘“off-the-cuff” vraag gevra en ek gaan jou ‘n “off-the-cuff” antwoord gee. My opinie is natuurlik moet hulle. As julle die risiko’s geïdentifiseer het; onthou daar is twee gevalle. Dis waar die risiko’s geëdentifiseer het, julle gaan oudit die risiko en julle vind uit dat goed verkeerd gelyke het. Dit kan gebeur dat julle geen risiko’s geïdentifiseer het nie, nogsteeds die oudit doen, en op bedrog afkom. Natuurlik speel julle dan a
lydende rol want julle is eintlik basies die hoofgigur wat die ding op die tafel moet sit. Maar julle skiet julleself eintlik in die voet deur te sê julle mag nie betrokke word nie want julle moet independent staan. M.a.w wat sê julle nou self vir julleself is dat sodra ons die bedrog ge-expose het dan staan ons terug en ons gee dit vir iemand anders om aan te gaan daarmee en julle kan dan basies net as getuies ingeroep word. So die interne oudit per se en die onderneming per se sal n besluit moet neem, jy weet, is die doel van interne oudit om die risiko te identifiseer, die oudit te doen, en dan as hulle op bedrog afkom dit oor te gee en terug te staan of dink jy julle behoort,ek persoonlik dink hulle behoort ‘n leidendgewende rol in die hele proses te speel maar dit is my opinie.

Jy moet ‘n keuse maak tussen watter pad jy loop. Tussen risiko identifiseer, die oudit te doen, op bedrog af te kom en net te rapportteer en terug te staan. Dit behoort eintlik ‘n institutionele besluit ook te wees. Stem jy saam? Dit behoort ‘n instisionele besluit te wees: Of jy vat daai pad of daai pad. Julle taak eindig daar. Ek se julle taak kan eintlik nie daar eindig nie want wat doen jy as jy ‘n senior ou soos myself of enige ander senior ou, as so ‘n persoon ontbloeit word in so ‘n bedrogstorie. Dan moet jy eintlik, en die sisteem behoort so te wees dat jy eintlik direk aan die ouditkomitee die bedrog moet rapporteer en nie deur die sisteem moet gaan nie want dit is die hele bedoeling dat jy vir administratiewe doeleinde rapporteer aan die CEO maar vir ouditdoeleindes behoort jy direk aan die raad te rapporteer via ‘n komitee van die raad. So as die proses so is dan sal die ARC eintlik die besluit moet neem of julle julle verantwoordelikheid stop by die ontbloting van die bedrog en of julle die proses verder dryf want die beleid van die instelling behoort te se hier stop interne Oudit se verantwoordelikheid en nou neem die sisteem dit verder of julle dryf die ding tot op die einde. En dis my opinie. Maar daar moes al ‘n keuse
gemaak moet word: julle kan nie onkonsekwent wees nie; die een keer besluit julle julle wil ‘n proses dryf soos ons huidiglik in die organisasie, en dan dryf julle ‘n proses as julle dink dit is so en ander kere staan julle terug as julle dink julle wil nie die proses dryf nie. En ons het sulke praktiese voorbeelde in die Universiteit. So, ek hoop dit antwoord jou vraag. Wat ek eintlik probeer sê is dit is ‘n beleidsbesluit of julle betrokke wil wees of nie betrokke wil wees nie. Want dit is ook belangrik vir julle om te weet. Want julle moet weet waar stop julle verantwoordelijkheid en natuurlik wat sê wetgewing? Wetgewing sê julle verantwoordelijkheid stop nadat julle die ding tot op sy einde gedryf het.

4. **Wanneer ‘n bedrogondersoek gedoen word, wat is die informasie wat u wil hê uit die ondersoek? Wat wil u sien in ‘n verslag.**

Dit hang af van watter posisie sê wat wil jy, wat wil ek sien. Is ek nou die arbiter of is ek die voorsitter in watter rol?

**In die rol as ED: Finance. Bestuursrol. Meer as ‘n voorsitter van ‘n komitee; uit ‘n bestuursoogpunt.**

Wat jy vir my sê, as ek op Bestuur sit – is dit aan die einde van die oudit of aan die einde van die ondersoek.

**Die ondersoek is afgehandel.**

Dit is ‘n baie goeie vraag en ‘n baie interessante vraag. Hoekom dit ‘n baie interessante vraag is is want dit is juis ‘n aspek wat vir meer as ‘n uur omtrent debater is op die Oudit en Riskkomitee. Dit sal goed wees as jy ook toegang tot daai spesifieke Oudit en Riskkomitee komitee-vergadering waar hierdie hele aspek gedebatteer is. Ek dink jy kan dit sommer lekker invoer in jou research. Daar was interessante opinies van lede, myself, eksterne oudit en daar was interessante opinies van sekere raadslede wat regsadviseurs is. En my opsomming – maar ek wil hê jy moet asb daardie spesifieke minutes gaan lees … dit sal vir jou baie goeie inligting gee. Maar die uiteinde van daardie saak was gewees dat – en my gevoel is tog baie naby aan wat die ARC wou gehad het – ek sê, terwyl die ondersoek en die hele ding aan die gang is, stele k nie rérig belang in die detail nie. Ek wil nie weet wie is betrokke nie; ek dink
die regsproses moet sy pad volg. Of die dissiplinêre proses moet sy pad volg. Daar sal natuurlik 'n aanbeveling van julle wees of julle dink dit is 'n dissiplinêre saak of is dit 'n ernstige saak of wat ookal. En dan moet die besluitnemers weet of dit dissiplinêr of wat ookal gaan volg. Want as daardie besluit geneem is moet die hele proses sy pad volg. Die dissiplinêr of die. En uiteindelik as julle sit, want daar moet natuurlik op elke ARC vergader. Ek dink heel eerste. Die eerste proses wat ek as 'n senior bestuurder dit moet so gou as moontlik onder die aandag van die Bestuur gebring word. Dan sal die Bestuur of die bevoegde amptenaar, wat nie noodwendig die Bestuur is nie, dit kan die VC wees – ek ken nie die beleid so goed nie – dit moet onder die aandag van die Bestuur onmiddellik gebring word. Dit moet onder die aandag van ARC gebring word; wat wel gedoen word as ons daarvan weet. Dan moet die ondersoek sy pad loop. Die normale prosesse en prosedures en beginsels wat gedoen moet word. En as dit teruggerapporteer word moet die finale resultate, dink ek, moet dit weer eens aan die Bestuur en die Oudit en Riskkomitee teruggerapporteer word. En natuurlik dan behoort die Bestuur, jy vra my opinie, of die Oudit en Riskkomitee nogsteeds die reg of die voorreg hê om te sê maar hulle, afhangende van hulle beoordeling van die saak, of hulle dink die saak moet terugverwys word en of hulle die saak afgesluit wil hê. En ek dink as die saak finaal (soos laas op die ARC besluit is) hulle stel nie belang in die begin oor daar 600 mense wat skuldig is nie of as geinsinueer word dit is – hulle stel net belang in die eindresultaat. M.a.w op die einde van die saak as dit net Marius en Mario is wat skuldig bevind word dan wil die Bestuur en die Oudit en Riskkomitee eers Mario het geld gesteel en hy het R500,00 gesteel en dit was die bevindinge en hy is gefire of hy is skuldig of hy is dissiplinêr aangekla, of wat ookal. Dis my proses. Ek dink nie die Bestuur moet by die detail betrokke raak nie; ek dink die Bestuur en die Oudit en Riskkomitee moet onmiddellik in kennis gestel word; die ding moet sy normale proses en prosedure verloop en die finale resultate moet bekend gemaak word. Wanneer die finale resultate bekendgemaak word dink ek moet die hoofuitvoerende beampte en die Oudit en Riskkomitee die voorreg of die reg hê om 'n saak te kan terugverwys as hulle dink, of wat ookal, want jy kan in die proses kan jy beskerming van mense en prosesse kry. Ek dink hulle moet die finale besluit hê. Hulle moet sê: hay,
ek is nie happy dat Mario het R500,00 gesteel, hy kan dit terugbetaal, en Marius het 'n R1 000,00 gesteel en hy word gefire nie. En wat baie belangrik is in die hele proses, Mario, is daar moet een of ander riglyn wees dat ons konsekwent is met ons finale bevindinge. As jy verstaan wat ek vir jou wil probeer sê. Jy kan nie 'n ou en dit is 'n klagte van die Vakbonde. Daar is 'n tegniese ou wat 'n tuinslang gesteel het en hy word gefire. 'n Ander ou het'n meer ernstige oortreding gehad en hy kry 'n finale waarskuwing. Ons moet konsekwent wees in ons uiteindelike bevinding. Ek dink dit is maar basies – ek probeer net opsom. Sorry, ek praat te veel.

**Nee, nee, dit is 100%. Baie dankie.**

Maar Mario, doen jouself 'n guns en gaan lees 'n bietjie op op daardie ARC. Want toe die NSFAS case op die tafel gekom het

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**Interview with participant number 2**

**Statement to participant:** All information will be treated as confidential. Any personal information obtained during the interview will not be shared with any third party.

**Questions:**

1. **What do you see as the role of Internal Audit?**

   **Answer:** For me, remember I'm not an expert in this so I may not give you the kind of textbook definitions. For me, the word internal audit means that we have a function employed by the NMMU internally that ensures the integrity of our information, that includes HR information, student information but also processed that would include governance processes but probably with a stronger financial focus. That can be from procurement to firewalls that allow people into certain levels of transactions to ensure that the delegation of authority is enacted in the actual processes. Whereas an external auditor comes in and does a different job, you present your annual report and finances
to them and they sign it off to be a correct reflection of the business, which is something different. So it precedes that is the work that on the daily basis your internal auditors do.

1.1 **With regards to the analysis of controls, should that be part of the role of internal audit?**

**Answer:** Analysis of controls would be crucial. Controls in a broad sense now, but also then specifically applied to different line function of the university and I understand the word control to mean both the accuracy of information that is captured, the process in which that captured information is put together into a data base. The access to manipulate the database, I would use the word manipulate in a positive sense to work with the date and obviously also the controls of letting that database information be made available to external or other internal parties. So controls are crucial because it functions as a kind of gatekeeper to ensure integrity of the processes.

1.2 **With regards to risk management, would you say that risk management features in the role of internal audit, or should someone else be performing the risk management function?**

**Answer:** I do not believe that you should collapse the internal audit function with the risk function and I’ll tell you why. The internal audit function for me is a technical, very important operational function in the university to ensure the integrity of our information and processes. Risk Management is a strategic issue and it exceeds I think the kind of field of focus that internal audit should function. What can happen is that in the implementation of your strategies you take account of your risks, you may then task internal audit to do for you a risk assessment of A, B or C, but it would be a complete I think confusion of roles
if the persons who should overlook the integrity of the system is also involved in the broader risk management. It is for me dangerous, you should not do that because what then happens is you create without knowing it, the possibility of an internal conflict of interest.

2. **What information do you expect from internal audit?** *(The details of the information you would like to see)*

   **Answer:** I expect nothing from them because if I need information on Student Records, I ask it from the Registrar’s office, if I need financial information I ask it from the ED:F’s and if I need information on staff employed in the university I get it from HR. So I don’t see internal audit as a line function that provides information. It’s a line function that overlook the processes in which that information is put together but according to me there’s no information in my daily operations, the only information if I can call it “information” in inverted commas is if internal audit alerts me to possible breaches of protocol and information sharing but they themselves are not the source of information. So they can tell me of a risk procedure and non-compliance with certain rules, overstepping of delegation of authorities, which they can alert me to, but I don’t think internal audit should be the custodian of independent operational information.

3. **Based on questions 1 and 2, what would you say is your top expectation of Internal Audit?**

   **Answer:** Ensuring the integrity of processes and information.

4. **What role should internal audit play with regards to fraud, if any?**

   **Answer:** It should play two roles. Firstly, internal audit should on a constant basis as its name say, audit internal processes to ensure that any deviation or
possibility of fraudulent activity is detected quite early and then one can investigate that and report on it. Secondly, which I think is very important for me, internal audit should have the status of an independent, objective function within the university to which people who suspect fraud can report that for proper investigation. I would feel very strongly an anonymous tip-off lying or in confidence going there and say I suspect but I don’t have proof will you look into that, the outcome of that might be that nothing is wrong or the outcome of that might be that our investigation found that your fear or feeling that there might be fraudulent activity is in fact true. Some companies outsource this, exactly because they say if internal audit is themselves part of the system, who then checks internal audit? Who then watches the watchdog? I think that one could look at that but I will only do that in the second phase, for me a first phase is to be both the originator of finding fraud through its normal systems of auditing, but secondly being the port of call for staff who might want to report fraud. It is simple there should be an email address where I can send something where I know that although everyone can see that it’s my email that the moment it is received by that email in internal audit it’s turned around that only the information is dealt with and the validity and quality of that information can be checked because people can also misuse that.

5. **What information would you like to see come out of a fraud investigation?**

   **Answer:** Well it would depend from case to case because it is difficult to generalise. I would say one would like to know why the fraud happens in spite of the protocols then clearly there is an issue with the protocols, you need to strengthen your protocols. Secondly you want to know obviously who was involved because you need to address persons who act in a fraudulent manner.
in the organisation, by either putting them through a disciplinary or dismissal process whatever the law would allow to do that. I would like to see recommendations on how can fraud of this nature if it has been proven be avoided in future.

Session concluded.

Interview with participant number 3

Statement to participant: All information will be treated as confidential. Any personal information obtained during the interview will not be shared with any third party.

Questions:

1. What do you see as the role of Internal Audit?

   Answer: I would think that a first focus would be to see that there is compliance with institutional policies, procedures and guidelines and the process of doing that would be to interrogate what actually happened in order to allow you to even beyond simply the surface to see if there is compliance. For me that would be a first focus. Policy says a student must have been registered in this particular year in order to be allowed to register for a recess programme, so what you now would have to see, this is a list of students did they in fact do so and as part of the process, if there is a student that’s not complied, just look into that a little bit further and a little bit more in-depth, to see are then not particular circumstances that would justify, even though on the surface it seems as its not complied that there is a good reason for it. So, it’s not simply to say this is what the policy says and it doesn’t comply, therefore off you go. I think it has to go beyond that, otherwise you’re going to find yourself in situations
where you’re writing all kinds of reports, generating heat without necessarily adding value. The second point, I would imagine is to say that in the process of looking at what is happening relative to policies and procedures, you’re in a good position to also assess the policy and procedure in itself, the quality of the policy and procedure. So if we’re saying that the policy says the line manager must approve an expense then you may later on come to the conclusion but whilst the policy is doing that and even though we’re doing what the policy is suggesting, or we’re not, it seems that that policy in itself is not a very good policy, there are cases that are so simple that the person making the expense or effecting the expense can approve it him or herself, you don’t need the line manager, the owner of that account can do it himself. What I’m suggesting is that there is a second role and that is to also reflect on the quality and the effectiveness and efficiency of policies and procedures and guidelines and not simply to use that to assess the reality regardless of whether the policy is not perhaps flawed in itself. Sadly, I would imagine internal auditing as it looks into what is happening may come to a conclusion that there is a lack of policy when things are happening, you can’t criticize it, but clearly it’s not constructive in the way it’s currently happening and you can’t criticize people because where is the policy that it says that you can’t do A, B and C and only D, E and F. I think in the process it will also have the responsibility to identify gaps where there is a rule required, but there is no rule currently. I don’t know whether internal auditing will be good at this, I would imagine that organisations specifically bureaucratic institutions and we’re part of that, have a way of over time developing elaborate policies and procedures, to the extent that you come to the point where you can say now we’re over governed. Over governed may
mean in certain cases that the red tape is simply not adding value beyond the cost of the red tape. You’re spending too much energy and resources on the policies and procedures following that and in a way should you not have followed that it may not have made a huge difference, but also in terms of an excess of policies and procedures in the sense that it suppresses creativity.

1.1 **Should Risk Management be part of the role of Internal Audit?**

**Answer:** It is a difficult one for me. I think one has to do a better study of it before you allow a layman like me to say, it should or should not be. My view is that it should not be there and it’s a biased view. When you look at risk management, it is really about managing risks down, identifying risks and managing them down to an acceptable level. Normally what would happen if you think about traditional strategic management processes, then in strategic planning you use to have the kind of SWOT analysis approach (strengths weaknesses, opportunities and threats). Now in a way a risk is related to threats and weaknesses and now you’ve identified these weaknesses and strengths in your office and you start to respond to them in a particular context, whereas you should be responding to them in the bigger framework of strategic planning. Let me just give you an example, many years when I was just a student of strategic management, there was a movement around SWOT analysis, a technique for SWOT analysis, where line managers in terms of this approach would be limited in terms of the numbers of weaknesses and threats that they can allow to identify in their strategic plan. What they would say, is listen you are not allowed to have more threats than opportunities, or you can’t identify more weaknesses that you have strengths because then you get a very negative orientation in the business in the way that it responds to itself and its
environment and they had an explanation of why you had to do it that way because people have a way of finding reasons why they will underperform. How do they do that, by identifying threats and weaknesses more than opportunities and strengths, they had a name for it, it’s called “alibi artistry”. So what we doing now, we have an unbalanced view on the risks, it’s not balanced with the opportunities and strengths; and if you go by it that way, what companies tell us where they’ve done this, they say you get an imbalance in the allocation of resources that you become so risk sensitive, danger sensitive that you use your resources to get yourself to a safer place rather than to use the resources to get you into a new place. So my view is that I think the risk management processes should be incorporated into strategic management. What’s happening now, just in our faculty, now we go through the risk register, why must I do this? What we’ve done is to say well, we will identify those risks that came out as very high and we will feed those into our strategic management breakaway sessions and say, what are we going to with this, but not in a way that the whole exercise is now a risk reduction exercise. Sometimes you have to, in fact embrace risk, because that is where the opportunity lies. By doing nothing, you can avoid the risks.

2. **What information do you expect from internal audit?**

**Answer:** It is difficult for me to answer that. For me internal audit can be seen as a kind of opponent, an enemy that will expose your weaknesses or things that you’ve done wrong. I would like internal auditing to provide me with information on their findings as early as possible in a manner that will support corrective action unless the mistakes are clearly not *bon fide* mistakes. If internal auditing is checking our behaviour against a norm and where there are
variances or discrepancies, often those are things we simply do because of either incompetence or lack of knowledge, or understanding of policies and regulations and so on. I need to be involved and say listen you’re not doing this, how do we make this right and carry on, but if what’s happening is clearly intentionally wrong with the intention to deceive, then I understand that there is not only the responsibility to engage with me in a constructive manner but then there is also the responsibility in exposing that. For me there are two parts to it, the exposing part comes in where there is repetition because sometimes you make a mistake, but you must now learn, even though it’s not intentional, but you make a mistake, you can’t keep repeating the mistake. So when it’s intentional or when there is an unnecessary repetition of not doing what the policy is suggesting what you should be doing, then expose, but for me often by the time we learn that we’ve done something wrong and its now already served as a report at the highest level exposing me, then for me it’s not very constructive and I think there is an important call then that internal auditing should be allowed to make, is to say, what is the best way to deal with this going forward?

2.1 Would you agree or say that internal audit can add more value through providing information in the form of their recommendations which are more relevant to the day-to-day practise or more aligned to the policies and procedures? (Which means we’re providing more relevant recommendations and also perhaps looking at how quickly we can get the information to the relevant line manager as well as the levels at which it is being reported, like you said, to start moving away from exposure so that we first
engage at the level where it is happening operationally and then gradually it filters through to a strategic level.)

Answer: Absolutely. So it’s a kind of constructive engagement with me in order to allow improvement, it’s a two way communication. I would also expect from internal auditing to make sure that by the time that they present something in a report, that the report is based on the right information, there has to be some kind of verification that happens in the internal audit office before something gets reported. I would expect that you come to me as soon as possible with the information and say, this is our findings and suggest A, B and C; and how do you respond to this, and so on. I agree with that, but what I’ve experienced is that sometimes the report serves somewhere and the information was not verified. Let me tell you a simple thing and if you have good communication between my office and that of the internal audit office, we can circumvent a lot of issues, an example to demonstrate this, now there’s a report that says, for this recess programme you had these four students, they’ve never registered for this module but they’ve been allowed into the recess programme, the policy says you have to be registered in that particular year. It would be easy to tell you but they have been registered but there is a different module, the same module also runs at a particular place under a different code, now if you just check that before the time you can prevent a lot of unnecessary damage being done, so I sometimes get the impression (perhaps that is good for the internal auditors), that the focus is more on finding fault than fixing.

Response from interviewer: That is why I made the earlier statement with regards to more relevant recommendations coming from internal audit, which gives you an indication that they actually understand the process because the
example you’ve put out there currently is that, for myself, I know there is
different codes because of my involvement with the academic side as well. I
know you can have one module, it can have two different codes depending on
which course it is registered in. So yes, I hear what you are saying.

Response from interviewee: My understanding is also, if I’m the CEO of the
business, I would also want some distance between internal auditing and
everybody else. Because people are people you know and before you know,
you lose objectivity and you’re not reporting objectively on people, issues and
processes, i.e. objective reporting. So there has to be some kind of
professional relationship.

Response from interviewer: So we can say internal audit should guard their
independence.

Response from interviewee: Absolutely, it has to do that, but it doesn’t mean
that because you’re independent you only have to have a criticizing mentality;
you can also have a constructive approach to the same job.

3. **Based on questions 1 and 2, what would you say is your top expectation
   of Internal Audit?** *(We’ve touched on insuring compliance with relevant
   policies and procedures, assessing the quality of policies and procedures, also
   to assist with the reducing of over governance, red tape and to support the
   whole creativity of the institution)*

   **Answer:** For me, the primary focus has to be on compliance. The compliance
   issue you can enrich that process by also having a kind of constructive
   approach towards that. If the internal audit is not going to see that people are
   going to follow the rules, who else is going to do that if they don’t do that?

4. **What role should internal audit play with regards to fraud, if any?**
Answer: I’ve never thought about that, I thought it’s automatic. I would assume that it is a natural function of internal audit because in a way fraud is non-compliance. So if you have a strong focus on compliance, compliance may have different causes, the one is in competence and the other one is intentional. Part of that intention may be kind of self-enrichment, now you’re into fraud (my understanding you now doing things at the expense of the institution to the benefit of oneself). I think internal auditing, who else will then be able to do that, I mean, you will recall when we previously had cases where there was a colleague of mine that was making payments to family members and the like, against policy. I think internal auditing has a responsibility in detecting that, the question is, how far should they be involved in that. I think there is a point where they would have to hand over to somebody else to a legal department I think they would have to provide, gather and interrogate up to a certain point. You may take it too far within internal auditing. I don’t know how it works in the profession, but I just have the feeling that you’ve come to a point where internal auditing would be involved in. These are our findings and now you have to hand it over to the legal office or specialist. But if the internal audit office is not going to play that initial role in detecting an initial investigation, then it’s not going to happen them. I think unless you have the skills associated with internal audit you not going to get it right if you simply say, no HR must do that because there are people involved, HR must do that. Unless you have the kind of competencies associated with internal audit, you’re not going to get it right.
4.1 What information would you require from a fraud investigation? What is the information that you want at the end of the process or during the process from internal audit?

**Answer:** I would imagine that it would have to be a summary of the actions making the alleged fraudulent activity. You’ve appointed so-and-so and you’ve made this payment to that person on that date and this is the evidence. So it is a summary with evidence of the fraudulent activities. I would also imagine that I would expect of them to come to some kind of conclusion even if it is preliminary, but some kind of conclusion to say that if you take into consideration, this happened and that happened and the person had the information, then I come to the conclusion that this could have been an oversight or because of reason A, B or C or that this was clearly intentional given this and that and the other. I think I would also expect some kind of conclusion and then based on that I would imagine some kind of suggestion about the way beyond. Because of the conclusion the recommendations go there or to the legal department or wherever the next stop is, or the recommendation regarding the way forward. Then secondly some conclusion based on that, and I would imagine that conclusion will have to be argued, you can’t just say the person is guilty or whatever.

**Session concluded.**

**Interview with participant number 4**

**Statement to participant:** All information will be treated as confidential. Any personal information obtained during the interview will not be shared with any third party.
Questions:

1. **What do you see as the role of Internal Audit?**

   **Answer:** I think that internal audit should be there to assist the board in carrying out its duties and responsibilities in terms of King III and then in addition to that to be able to add value to management in trying to give some advice and indicate any prosperity in the business and to be able to be part of the business and to add further value and growth in the business. Prime responsibility is to give assurance to the board of directors in terms of operational controls and financial controls. Second responsibility is to add value to the business. So it shouldn’t just look at issues from a control perspective, it should be more than that.

2. **What information do you expect from Internal Audit?**

   **Answer:** Well there are various types obviously from an administrative side, would .e in terms of what internal audit plan is, what the coverage of the plan is, or a three period then in terms of your strategic plan, then in terms of looking at you plan on an annual basis and then to see how the audit department is performing against the annual audit plan. You would obviously also be expected to look at productivity in terms of the number of audits performed versus what was planned, so that’s on the administrative side, then obviously on the reporting side you would want to get a summary of the areas that has been audited and the concerns that might have been noted during the audit of those areas in terms of significant issues, if that’s what you wanted to look at and not really housekeeping, unless all of the housekeeping in combination ends up being a problem. But effectively you want to focus on core issues within the business and not worry about little things here and there.
3. **Should Risk Management be part of the role of Internal Audit?**

   **Answer:** It depends on how you look at it. Risk management can be formalised in terms of another department or business that can formerly do risk reviews and risk workshops and recording of risks in terms of a formalised manner, but I think internal audit obviously when they’re doing audits that there audits are risk-based. So they should have a good view of what the risks are in the business, so they can participate in terms of this other department or these workshops, but I don’t think they should be running the risk section so they should be independent of that. And obviously when they’re doing audits they must also as part of the audits is to identify risks within the business and also identify what controls are in place to cover those risks from happening, but I think the primary responsibility for risk management can’t be with internal audit because they’re not at operational level. The risk management has still got to rest with management.

4. **Should the role of Internal Audit include the analysis and evaluation of controls and compliance?**

   **Answer:** I look at it differently. If you’re looking at compliance and auditing, I think it’s kind of gone out of fashion because that was the more “kick and bash” story. You can look at things more from a risk perspective, what are the key risks in a business and audit those key risks. One of the things you would look at is the culture of compliance in the organisation and the processes in place to ensure that if, for instance legal compliance processes in an organisation for example how would you ensure that the company creates an environment where people are in tune with the changes within legislation, for example you might find in an HR department that there is training courses in the budget for
that and that they can get trained on the changes in the legislation. In bigger companies they take legal compliance seriously and they actually have a legal compliance department where they’ve got people specifically responsible to make sure that they comply with all the key aspects of the Acts and Statutes and their attorneys together with their management have a check list to ensure that they’re legally compliant in terms of the Acts and Statutes. In terms of operational compliance, they’re not too fussed on whether a person is following something to the book, but obviously they can’t do something illegal or above their level, however they also want to be able to give the person the opportunity and the chance to do things a bit differently and in a more efficient way. You don’t want to stop people from thinking out of the box. So, we do encourage people to look at SLPs, and I’m talking about operational compliance here and to try and improve things, and obviously then to amend their SLP at a later stage to reflect the improvement on it. But, if you try and check for compliance for everything I think internal audit is going to lose its focus and you’re going to need a very big thing to basically “kick and bash” and not add much value.

4.1 With regards to the evaluation of controls, should that be part of the role of internal audit?

Answer: I think again from a control’s point it would certainly support the Board in terms of its responsibility, as you know in terms of King III, they’ve got to make two statements. The one statement in terms of financial controls and the other statement in terms of their business controls, whether the business has been carried out in a responsible manner and that the controls are basically in place. Obviously the time responsibility for controls would be with management and secondly the responsibility in terms of checking controls at various points
in time will be with internal audit. So in a nutshell, yes I think internal audit will give that formal independent review of controls.

5. **What would be your top expectation of Internal Audit?**

   **Answer:** Normally the internal audit function would report into the Audit and Risk Committee, so to me, the top expectation would be for internal audit to support the requirements of the Audit and Risk Committee.

6. **What role should Internal Audit play with regards to fraud, if any?**

   **Answer:** I think internal audit would fool themselves if they think that they’re going to uncover fraud in every audit. Generally if something is significant you would help, and financial management would pick it up through their reviews of management accounts and analytical reviews. Obviously internal audit would pick up if they’re also doing the reviews and analytics, but I think their prime responsibility would be more in creating an environment where people are able to give the proxy. To me the main thing would be where perhaps internal audit needs to be able to put together a whistle blower programme to have a tip-off anonymous line that someone can call and where people can make calls knowing it’s confidential. If you look at the statistics, most of the statistics show that most fraud is picked up through tip-offs, that is for the medium stuff, but the big stuff, financial fraud, you pick up through your financial statements, when someone has taken a couple of hundred million Rand out. But the petty frauds, like five thousand a month loss of expenses is usually more through tip-offs than anything else. So, I don’t think the internal auditors’ primary role is to go and find fraud. If you look at any other organisations where there are millions of transactions going through in a year where your sample of items of
between 40 and 50 items per year, which is like a “shot in the dark” to pick up something.

7. **What information do you require from a fraud investigation? What information would you like to see in the report?**

   **Answer:** Obviously the normal legal requirements in terms of the evidence of the fraud, assuming it’s going to be taken up in court. So there’s a normal format that’s got to be followed in terms of the facts and evidence, but in addition to the legal way of writing the reports, you’d also want to know what the root cause of the fraud was, not just how it happened, but what led to it. Was it collusion, was it a single person, was it greed, was it somebody that was unhappy because of a particular reason, because you’re also trying to see, if you’ve caught person A, and if you’re looking at the root cause, you might find that there is another five people that could be in the same category if you like, or have similar gripes, so you could look and see if it can happen elsewhere.

8. **Would you look at the value, the individual?**

   **Answer:** Look normally, a fraud is a fraud, so to me there should be a zero tolerance. You can’t say well if it’s a hundred Rand it’s okay, but if it’s five thousand Rand, it’s not okay. You might make a differentiation in terms of what you want to do around it. If it’s a fraud and it’s proven, guilty, to me I would move for the dismissal of the person (termination of services), and then you’d decide is it worth my while to take the person to court bearing in mind the situation in South Africa, where you can spend months in court and nothing happens. To me that is where the number would make a difference, If it’s a couple of million, it’s worth the angst in court, because a lot of people’s time would be taken up in court and with the investigation, etc. If it’s not big money
I would obviously just terminate the services of the person and most probably wouldn’t pursue it in court because the costs would not be worthwhile. Obviously I would also leave it up to the insurer because in most cases you’d have insurance in place, then it’s up to the insurer whether he wants to take the matter to court or not. You’d have to look at everything realistically at the end of the day, because to take someone to court for a thousand Rand, is going to cost you as a company, a couple of hundred thousand Rand anyway, so it doesn’t make sense. So it’s better to fire a person and you’ve got it on file what happened, obviously you’ll go through the normal disciplinary processes and if someone phones you for a reference afterwards, then that is when you can say that the person left on bad terms to try and stop the person from getting a job elsewhere.

Session concluded.

Interview with participant number 5

Statement to participant: All information will be treated as confidential. Any personal information obtained during the interview will not be shared with any third party.

Questions:

1. **What do you see as the role of Internal Audit?**

   **Answer:** The role and function of internal audit would be to make sure that there is compliance by all the different role players and different divisions and faculties and units. In order of importance, for example the statute, any procedures and policies where internal audit would be more important, I think. Policies and procedures that that have been adopted by the university must be followed by employees of the university. There is a perspective in the sense
that traditionally internal audit will be checking compliance and verifying using the audit cycles and so on. But I think there is an additional role these days, with risk management also becoming a part of internal audit and that would be to advise on risks as well as to advise on how risks could be mitigated and controlled.

1.2 **Should the role of Internal Audit include the analysis and evaluation of controls?**

**Answer:** Yes, of course because I think periodically if one takes policies and procedures and see how people are applying those within the organisation and what controls have been put in place then it goes without saying that the evaluation and the controls that have been put in place, that would also be an internal audit function. I think I would also check for such things as transparency and accountability.

2. **What information do you expect from Internal Audit?**

**Answer:** I would actually like to know, sometimes internal audit would pick up something where there is a mismatch, say between peoples’ action and whatever controls are in place and you pick that up, I would expect internal audit to give me the red flags, if any. Even if there are minor deviations, to be made aware of such, and to examine them in order to rectify the deviations. Sometimes things are seen or could be seen potentially and then they cascade until it’s a big problem. Early detection is therefore crucial. Internal auditing is not about policing it’s about an advisory function.

3. **Based on questions 1 and 2, what would you say is your top expectation of Internal Audit?**

**Answer:** The early detection as stated previously.
4. What role should Internal Audit play with regards to fraud, if any?

Answer: I think internal audit does play an important role because you’re going to be part of the investigation. So if there is early detection and proper investigation is done, that helps us as management to have all the facts on the table before you even embarking, whether you decide to go for a disciplinary or whether you decide to go corrective discipline or any other measure, which our code of conduct allows. I think that’s quite crucial the early detection. I would also think there is an advisory role that internal audit can play when it comes to the management, how does one detect and manage or mitigate against fraud and corruption. So if you see any loopholes, for instance some short learning programmes and how they are run. I would like to know up-front before there is a possibility of fraud, it does not necessarily mean that there is fraud. It’s just that if there are loopholes that one can plug those loopholes so that one can know what to do to prevent and if you can’t prevent to at least mitigate against the possible reputational risk.

5. What information do you require from a fraud investigation? What would you like to see within a report?

Answer: The facts must be very clear and detailed with dates and whoever was involved. If there were any transactions details of how they were conducted, by whom and what course of period. I want documentary evidence, and everything must be substantiated to support the worst case scenario, which would be the disciplinary action and possible criminal case against the person. In that sense, it must fulfill all the normal evidential requirements so that there is no tampering with evidence, that the evidence is the best evidence that can
be held. Of course it must also be tested in terms of an opportunity for management review.

**Session concluded.**

**Interview with participant number 6**

**Statement to participant:** All information will be treated as confidential. Any personal information obtained during the interview will not be shared with any third party.

**Questions:**

1. **What do you see as the role of Internal Audit?**

   **Answer:** I think before anything, the concept of an internal audit is a healthy deterrent and when I say that, I mean that by having an internal audit function in place, either through a specific department or an external service provider, you essentially create an environment where people are reminded of the controls that are in place to ensure that nothing on-toward happens in the work environment. So that is not necessary the role of an internal audit though, it is a very good mechanism to have in place. In terms of the role of internal audit, of course it offers an opportunity for you to validate that processes are conducted in accordance with policies and procedures adopted by the university. When you do that, you can actually determine the extent to which practise is aligned and more importantly not aligned to policy and procedure. So that then results in what you would describe an internal audit function as the first stabilising mechanism to ensure good business practise and by extension, good governance.

1.1 **Would you say that the role of Internal Audit would involve the assessment, evaluation of risk?**
Answer: Yes.

1.2 The reviewing of compliance?

Answer: Yes. It sort of is implicit in an extent for practise aligning with policy and procedure.

2. What information do you expect from Internal Audit?

Answer: Clearly if you look at the preceding discussion that we had, if there’s an internal audit on one of the components within the university, let’s suppose it is on the way we are administering short learning programmes, I expect for internal audit to firstly examine the extent to which our policies and procedures are being adhered to. I also expect the internal audit to alert us to any silences and gaps in our policies and procedures. I also expect them to, where there are discrepancies between practise and policy, to give full detail. Now to give full detail does not necessarily mean that the practise is always one that is frowned upon, because it may be that the policy is outdated. Of course the internal audit may also point to best practise where there is an oversight, which is similar to or resonates with the idea of identifying silences and gaps.

3. Based on questions 1 and 2, what would you say is your top expectation of Internal Audit?

Answer: My top expectation in terms of internal audit is not related to process but is related to values. You can have numerous audits, but audits must always be informed by full integrity. If integrity is frowned upon, irrespective of the depth of an audit, it can compromise not only the audit findings, but the institution itself.

4. What role should Internal Audit play with regards to fraud, if any?
Answer: I find this very interesting because I think if we were to respond to this question in a process way, we could possibly give you an answer which is step-wise or recipe based, but I'm more interested in the principles before we begin to engage with process when you have a fraud investigation. Firstly, I would request full recusal in terms of principles, full recusal from any parties who may be involved in some way or who have relations that are conflict of interest. If you feel compromised in any way you should recuse yourself, very important. That it’s not for the internal auditing team to impose on others only but also to impose on themselves. So it’s not about if an internal auditor is conducting an audit on someone and then he must determine whether that person has a conflict of interest and that person must recuse themselves, but if the internal auditor feels that he has some kind of declaration to make, they must make it, and if it is determined that it’s not really a conflict through consensus by an entire group then I can understand if we proceed further. But if you have any doubt it must be res. So the principle of integrity must prevail from the outset. In terms of a fraud investigation in terms of process I would expect it to be properly informed by a forensic. When you do the forensic, it should in some way help you to revise your methodology because of course you would have a methodology before you start. You can’t simply go in there and arbitrarily pick on what to do, but your forensic, as an auditor you would understand that logic, because sometimes in a forensic you are going to pick up details that lead you into another direction entirely and I think that in terms of the role of internal audit with regard to fraud investigations, they’re very sensitive matters so an element of confidentiality must prevail not only when you do the forensic, but also when you interact with people. Now that confidentiality is sometimes
compromised where people discuss one participant with another, so I’m not saying that’s what transpires I’m new to the institution I don’t know anything about how fraud investigations have been conducted, but I’m saying generally what I would propose, is that there shouldn’t be a breach of confidentiality; and that if one wants to check things, then you can always triangulate, you know given that you’re dealing with qualitative research now and the means of triangulation would be helpful, I mean if you have a finding through your forensic, you confirm it through one person, you have another party that can confirm the same thing. That is a good method of validating a finding, although it is not absolute, it is a very good validating tool to a large extent. I think the role of internal audit must be to generate unambiguous findings and must be clear and explicit so it cannot be interpreted in different ways. Either a person is guilty or not guilty, firstly and sometimes people skip that part and say, he should issue a cautionary warning and now implicit in that, is that the person is guilty. Be clear, firstly say the person is guilty.

4.1 **For clarity, should internal audit perform the investigation?**

   **Answer:** Yes, in the first instance, yes.

5. **What is your expectation of a fraud investigation, what information do you require from a fraud investigation? Is there anything additional to what you’ve already stated previously.**

   **Answer:** That may help us identify control mechanisms to avoid such an outcome or circumstance in the future. So an improved control environment.

   **Session concluded.**
Interview with participant number 7

Statement to participant: All information will be treated as confidential. Any personal information obtained during the interview will not be shared with any third party.

Questions:

1. What do you see as the role of Internal Audit?
   
   Answer: For me I think, the main function of internal audit is to make sure that we comply with legislation with the policies that the institution has adopted and to identify gaps if there are any policy gaps that exist, that would be brought to our attention.

1.1 Would you say that the role of Internal Audit should include risk management? What is it about risk management that should be part of the role of internal audit?
   
   Answer: Yes. Internal audit should assist first of all to identify the top risks. In many organisations one would say list the top 10 or top 5 and I think that internal audit should be involved in that. Then looking at both the mitigation of the risk as well as the opposite of that you know, risk versus opportunities because sometimes if one focuses on risk only then you overlook the opportunities but I think internal audit should be involved in risk assessment, risk analysis and the rating and prioritization, top five, top ten risks of the organisation and should be involved in the monitoring of those risk, whether it’s getting less, or increasing.

1.2 Should the role of Internal Audit include the analysis and evaluation of controls?
Answer: Yes, because that is part of compliance. I would see that as a process to ensure that there is compliance.

2. What information do you expect from Internal Audit? (With regards to an internal audit report, what are the topics or the details that you want to see coming out of an internal report?)

Answer: I think since for me it’s mostly about compliance, so the information that one would need is whether there is compliance. Let’s say for instance if I make an example with our recent interaction around the short learning programmes. So it’s to look at the policy on short learning programmes and then identify if there’s compliance and areas where one needs to improve and what strategies one could implement in order to improve compliance. I see compliance really broadly, there is financial compliance, there is compliance in terms of governance, compliance in terms of procedures that are being implemented and then Governance is of course the role of supervisor, whether the supervisor or line manager is doing the oversight role that they’re supposed to do.

3. Based on questions 1 and 2, what would you say is your top expectation of Internal Audit?

Answer: My top expectation is still about compliance and advice. I'll differentiate between internal and external, because external will just be looking at your compliance but then internal you’ll expect that the internal people will also be doing that but also their role is different because here their role is not for people to be caught, their role here is to, this is not going the way it's supposed to go, so you identify sort of more diagnostic, here is a problem and this is how you should deal with the problem. Of course you don’t prescribe
you ask the line manager or management how are you going to address the problem and then based on their responses then one has to then make sure that they actually do what they’ve committed to do.

4. **What role should Internal Audit play with regards to fraud, if any?**
   
   **Answer:** Well, I think they should play a role in relation to fraud. They should advise the top management if there is an allegation of fraud and depending on the nature of that case then a decision could be taken whether that should be investigated by internal audit or it should be investigated by another stakeholder.

5. **What information do you require from a fraud investigation? (With regards to an internal audit report, what are the topics or the details that you want to see coming out of an internal report?)**
   
   **Answer:** Well it would be the nature of the transgression. What it is all about and who is involved in that fraud. Who were the enablers for the fraud to take place and what steps were taken when the fraud surfaced and what could have been done to prevent the fraud taking place and the assessment of the magnitude of the fraudulent case.

   **Session concluded.**

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**Interview with participant number 8**

**Statement to participant:** All information will be treated as confidential. Any personal information obtained during the interview will not be shared with any third party.

**Questions:**

1. **What do you see as the role of Internal Audit?**
**Answer:** I guess for me it would be insuring that proper procedures and policies are consistently applied and that standards are maintained, whether it be legislative standards, regulations or whatever, that those are complied with to some extent. If there are any risks identified that the relevant stakeholders be made aware of such risks. So really about compliance on one side and safeguarding the institution against any misappropriation or criminal activity to some extent, but that could only be done with the help of staff because you can’t be everywhere all the time. So, it’s also a partnership that your function needs to be made known to the staff and that the staff will report any wrongdoing should they be aware of it, so that there are investigations into areas where they might feel there is risk of wrongdoing, or suspicion of wrongdoing. You put mechanisms and controls in place to safeguard the institution. To some extent, I would equate it to your internal security that really safeguards the institution. So the integrity of the people working within needs to be unquestionable. In terms of standards, there is quality that needs to be maintained and where there is a challenge in terms of quality and working with other units such as the Quality Advancement Unit to ensure that our reputation is not at risk, that we’re legally compliant, etcetera. Alerting management to any potential risks, so that management could put safeguard mechanisms in place.

1.2 **The evaluation of controls, would you see it as part of the role of internal audit?**

**Answer:** In terms of evaluation is, these standards are sort of set in literature or set in terms of whatever the sector might be, like in this case we’re higher education sector. So, there are certain standards that need to be complied
with. If there is suspicion that we’re not complying then internal audit together with quality would then go in and check whether the standards have been achieved or are being maintained and if not, then internal audit makes recommendations and quality drives that process for implementation and I think again collectively go back and check whether after the mitigation or action plan has been put in place whether that has reduced the risk. So, I guess you do play a role in evaluation and you have to be aware of the trends out there so that when you do make your recommendations, that you basically recommend best practise or good practises. I think there is room for you to make recommendations that can go over and beyond that, where you might feel in the institution’s situation this will work better, then that is up to you to make that recommendation. To some extent evaluation forms part of that but it does not prevent you from improving on that as well.

2. **What information do you expect from Internal Audit?** *(With regards to an internal audit report, what are the topics or the details that you want to see coming out of an internal report?)*

**Answer:** I guess, information regarding non-compliance and also around risk to some extent, because if there’s quality standards that are not being maintained, that is a reputational risk, and around accreditation in some instances and so on. Also safety in terms of the OHS Act, threats and challenges associated with it, also in terms of not having sufficient controls in place for accountability purposes. Really around enhancing systems, quality systems, controls systems and mitigation of that, whether that is risk management or internal auditing, that is when the lines become blurred. I mean for me, it is around reducing reputational risk and non-compliance and
identification of best practice that is part of the recommendation that would come forward from your report, so if there are any gaps then internal audit will identify those gaps and then make recommendations. Where I currently feel there might be a gap, follow-up, and I guess, not just follow-up, but the imperative to actually implement and you’ll find that HODs don’t necessarily take ownership of that process as they should, because of the importance of it it’s more like an add-on as opposed to an integral to their function. The buy in is not necessarily there and I guess the challenge for higher education institution, whereas in private sector this would definitely be seen as a priority, whereas I don’t necessarily see that as being strictly a priority.

3. Based on questions 1 and 2, what would you say is your top expectation of Internal Audit?

Answer: Guidance. I actually see internal audit as a support service for sure. It might be through ignorance on my side where I’m not necessarily au fait with standards as an example and if there’s an inherent risk that’s been identified; I would rely heavily on internal auditing to assist me in mitigating that risk and making recommendations. My understanding is that it is a unit that provides a necessary service in the case where controls are lacking and inherent risks had been identified and so on, that will assist and guide me to reduce that and maintain the smooth running of the institution as opposed to crisis management. An advisory role is also essential.

4. What role should Internal Audit play with regards to fraud, if any?

Answer: It plays a significant role, I believe. Remember, right up front I said that internal auditing should safeguard the institution from various challenges, whether it be on quality, controls, asset management and financial
management and if there is any wrongdoing as far as managing your financial assets or abuse or misuse of institutional funds, that is where internal auditing has to come in and make management aware that this is happening. If there is any suspicion even of mismanagement of funds then internal auditing is supposed to go in there and if they find anything that will have to be reported to the Vice-chancellor’s office but not only there, the Legal Office would have to be made aware of it so that they can initiate (if there is a *prima facie* case) then either the hawks or the police or whatever have to be brought in to do a proper investigation. I know that there is also the Ombudsman, the whistleblowing policy, so there is that other option, but I think that the internal audit is supposed to be doing that internally. It’s only when people are not confident in internal mechanisms that there’s an alternate option where they can then report any cases of misappropriation of funds or whatever to the Ombudsman.

5. **What information do you require from a fraud investigation?** *(With regards to an internal audit report, what are the topics or the details that you want to see coming out of an internal report?)*

**Answer:** The allegation. Well firstly, how the allegation came to the attention of the internal auditing. Whether it was just standard checks or whether it was actually reported by a staff member. The actual way in which you became aware of it, then what steps were taken once you became aware of it in terms of investigation, what were the findings of that investigation; and that it was then reported to the Vice-chancellor and the recommendations that were made from there. Also time frames associated with each process followed and it doesn’t have to depend on the extent of the fraud, to me fraud is fraud. The
time frame associated with and from the time when internal auditing became aware of it to the time that the recommendations were made to the Vice-chancellor. How quick was the response time, I think is essential also as part of the information we provided. Also what will you be putting in place because you found that this was executed in the parameters of the institution, right, I think as part of your recommendation, what controls would be put in place to prevent such further instances from happening again. So I think the recommendations would be two-fold, in terms of further actions to be taken if there was a *prima facie* case and then also what controls needs to be put in place to prevent such instances from happening again.

**Session concluded.**

**Interview with participant number 9**

**Statement to participant:** All information will be treated as confidential. Any personal information obtained during the interview will not be shared with any third party.

**Questions:**

1. **What do you see as the role of Internal Audit?**

   **Answer:** Well, internal audit is a way in which the organisation attempts to assure itself that its procedures are being complied with and that the processes are run according to what they were designed to do. One of the benefits of having an internal audit is that it picks up non-compliance with the aim of developing and improving the system to be able to do what the system was designed to do. So, for instance, if let’s say we have a system that looks at approving procurement in a procurement sense, you know one would always
want to segregate duties where you split responsibility and authority from approving sequential steps and the internal audit can identify if those types of mitigating mechanisms are being implemented appropriately, if not then the necessary steps can be made to rectify those deficiencies. Also, I think internal audit is able to take a bigger snapshot, a bigger sample of cases which it then provides as a basis for external audit to be able to build off and it’s a more thorough thing. That’s my sense of internal audit function and what it sets out to achieve.

1.1 Where do you see the role of Internal Audit in relation to risk management?

Answer: I’m trying to think of how they are connected, because they are connected. What risk management attempts to do is to identify the potential risks in an organisation and those risks can be external or internal risks. If we just for a moment focus on the internal risks because we’re talking about internal audit, so, in terms of the internal risks, you may be able to identify what some of the potential risks are and they could certainly lie within the scope of the internal audit function and using that as a sort of framework, the short answer is, yes I think risk management could be approached in collaboration with internal audit, because ultimately risk management is about identifying the risk and quantifying the risk, both in terms of its impact and probability and then developing mitigating strategies. That is in essence what internal audit really does. Internal audit in a less formalised way will say we’re going to concentrate on the following policies, processes and procedures and we’re going to determine to what extent there is compliance with that. So, I think internal audit
could be viewed as part of a continuum of risk management it’s one of mechanisms that we use in risk management.

2. **What information do you expect from Internal Audit?** *(With regards to an internal audit report, what are the topics or the details that you want to see coming out of an internal report?)*

   **Answer:** What internal audit will do is it will give you a good sense of the extent to which your policies, procedures are being compliant with. It will identify potential areas of weakness which will need to be addressed. It won’t necessarily tell you what you must do in terms of addressing those weaknesses, but that is a management responsibility, so it will assist you in identifying the weaknesses. It also then gives you the information upon which you can construct a management response or a management plan in order to address those weaknesses, because ultimately the management is responsible for designing the systems and the processes within which employees within the organisation functions and as such the management is responsible for assuring itself that the systems are being adhered to, that potential weaknesses and deficiencies in systems are identified and that they are improved in terms of tightening up on the processes in a way that gives them a greater degree of assurance that the system works as it was designed to do. Also just to say that the work of internal auditing is iterative, it’s ongoing and one may find that as technology improves, you are able to put in place more sophisticated systems of managing processes, people and resources.

3. **Based on questions 1 and 2, what would you say is your top expectation of Internal Audit?**
Answer: Well, I think I would want to know in a broad sense the extent of compliance, because if you're saying to me that we've got “X” percent compliance, then it gives you some kind of feel for whether we've got serious problems or whether we've got problems but we need to refine our systems as such. So it is the extent of compliance in the first instance and we can then start to address the specifics in terms of that non-compliance.

4. **What role should Internal Audit play with regards to fraud, if any?**

   Answer: There are different types of fraud and I think that the organisation needs to have some kind of a fraud reporting that is external of the organisation. Now that does not come with at no price or at no cost, because all modern companies today should have some kind of external fraud reporting hotline, where the allegations are evaluated and they followed up on and the decision is made about whether there is merit to proceed with further investigation or whether this is dismissed as malicious or disgruntled employees etcetera, because you get a lot of that also and that is always the danger with external fraud hotline, but it’s something that society is familiar with because of the incidence of corruption of various natures. I think a company will be well advised to ensure that it has an external fraud reporting hotline. By its very nature the internal audit function could potentially uncover fraudulent activities. So whether you like it or not, internal audit is involved in the identification of fraudulent activity. I suppose the big challenge is once the fraudulent activity is identified, what then happens in terms of the internal audit function? If I just think of that for a moment, look the internal audit people, depending on how you run the internal audit function, they could either be permanent employees of the organisation or they could be outsourced from a consulting companies,
like Deloitte or PWC, one of those companies. I can talk a little later on about
the pros and the cons of each of the options, but in terms of internal audit’s
responsibility with regards to fraud, you know, it’s one of those where you don’t
have to choose one or the other, you could have internal audit function, then
working with the organisation in terms of the structure that it sets up to monitor
the fraud and to bring a case for where somebody has to be disciplined either
internally or externally of the organisation, or you can have a situation where
once a potential fraud is identified that that case then be handed over to again
either to an internal or external agency to do the more detailed and further
investigation. Whatever one of the options a company adopts is contingent
upon a number of factors, it’s the size of the company; it’s whether the internal
audit function is in permanent or if it’s outsourced. One doesn’t want to
compromise your internal audit function or functionaries, the relationship
between them and the colleagues they work with from whom they source the
information and you don’t want to compromise that relationship. On the other
hand you also want to be able to assure the company that any potential
fraudulent activity that is picked up is dealt with in an appropriate manner. So
there are options in terms of how you can deal with it and how you will deal with
a specific case is dependent on a number of factors, so it’s almost like
‘situational management’ where you decide your response based on the
situation that you find yourself in and there can be guidelines developed around
how matters are referred and when matters are referred, so you set up a whole
bunch of criteria that will assist your managers in determining how to deal with
fraud.

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Answer: Depending on the organisation, but my preference would be for internal audit to supply any information to a dedicated agency. Now if it's a small company, you're not going to have a dedicated agency, so in that case you may well have internal audit putting the whole case together with all the supporting evidence. Your problem is that when internal audit manages that whole process and is intricately involved in that process, it’s going to impact the relationship of internal audit with the employees in one or another way. So, if the company is able to afford the cost of referring the matter to another agency (and you get companies that do that), then internal audit has then been involved in the uncovering of the potential fraud. It has the supporting information which it provides to the third party to review, to ask questions on and then to take the necessary action in terms of a disciplinary process, etc. Because you know, when fraud is uncovered that is one part of the equation but then you know if people have been implicated in the fraudulent activities they also have a right to be heard and so that hearing is going to have to be heard and you might as well start to refer the matter to another agency whose going to then bring the company's case when the matter is heard ultimately.

6. What information do you require from a fraud investigation or a fraud report?

Answer: In a fraud investigation, is what the allegation is and then what information there is to support the allegation; and or what information there is that may refute the allegation. Then I think the internal audit people may then also want to suggest what can be done to prevent this fraud from occurring in the future, as preventative measures, as well as internal audit should make a recommendation with regards to how the matter should be handled further. All
of this is obviously based on a rational decision as opposed to irrational where people make decisions based on people they know, etc.

Session concluded.

Interview with participant number 10

Statement to participant: All information will be treated as confidential. Any personal information obtained during the interview will not be shared with any third party.

Questions:

1. What do you see as the role of Internal Audit?
   
   Answer: With internal audit I feel that you need to firstly have a good relationship with your internal auditor because the information you will give to him or her will be confidential and also very sensitive information. So, first of all what is important to me, the characteristics of internal audit would firstly be the internal relationship that you build with your internal auditor and secondly the qualification of the internal auditor would be very important (the relationship is more important to me actually than the qualification), and then thirdly I would like feedback, which is very important to me. Not just to give a person the information and then him or her would disappear. So, I would like communication, which is very important to me with regard to internal auditing.

1.2 Where do you see the role of Internal Audit in relation to risk management?

   Answer: I would assume that risk management would be part of the role of the internal auditor.
1.2 **The evaluation of controls, would you see it as part of the role of internal audit?**

*Answer:* Yes, that would also be important.

1.3 **Compliance to policy and procedure?**

*Answer:* Yes, of course that is also important. Compliance to policy and procedure is very important.

2. **What information do you expect from Internal Audit?** *(With regards to an internal audit report, what are the topics or the details that you want to see coming out of an internal report?)*

*Answer:* I would expect the internal auditor to tell me where I can save money and what would be the best way for my money to work for me and if I’m not doing something the way it should be done to show it to me. Of course I would also like frequent discussions, as communication is a very important part to me, this relationship that you build with your internal auditor. Frequent feedback is very important. The internal auditor must also be on top of his or her field to tell you about new developments which you don’t know of in internal auditing. He or she should be very knowledgeable with regard to the laws regarding internal auditing.

3. **Based on questions 1 and 2, what would you say is your top expectation of Internal Audit?**

*Answer:* To provide me with information regarding saving money and to let my money work for me, the best way possible. What is very important this person must be reliable and trustworthy.

4. **What role should Internal Audit play with regards to fraud, if any?**
Answer: A very important role. They should be on top of their field and should know the different laws ruling internal auditing and should play a major role in the identification of fraudulent activities.

5 Should Internal Auditors perform the fraud investigations?
Answer: I think that they should be part of it, yes.

6. What information do you require from a fraud investigation or a fraud report?
Answer: First of all, how did this happen? Maybe there was some safety measures that I could have taken and which was not communicated to me or which I did not know about, so I would like to know how it happened and if it could have been prevented maybe and also I would also like the people to be caught and also what measure can you take to prevent this in future.

6.1 Is there anything additional that you would like to see in the fraud report?
Answer: I think it is very important with internal auditing, maybe the idea that you have in mind of an internal auditor is a very specific, a very committed, dedicated, and a no nonsense person and maybe we’d also see this person as having a lot of hard skills, and I would like to also to see in future including the softer skills like communication and relationship building is a very important part I would say as an internal auditor’s make-up.

Session concluded.

Interview with participant number 11

Statement to participant: All information will be treated as confidential. Any personal information obtained during the interview will not be shared with any third party.
Questions:

1. **What do you see as the role of Internal Audit?**

   **Answer:** I think the role that Internal Audit plays is to ensure that staff live into the value of integrity and that if there are allegations of any form of maladministration, corruption or dishonesty especially as finances go that the unit would be commissioned to investigate and to conduct a thorough study of that allegation to assess whether it is evidence based and if so, to follow up and ensure that the necessary corrective actions are taken and also to put preventative measures in place to ensure that those kinds of misconduct don’t occur in the future. That would include various control mechanisms that that particular unit would need to put into place as part of their planning to ensure that the behaviour and the procedures and all the systems are above board and ensure that kind of incident can’t happen again.

1.1 **Where do you see the role of Internal Audit in relation to risk management?**

   **Answer:** I would imagine that flowing from the reports of the internal audits that are conducted there would be an indication of potential risks that need to be addressed through the various risk management processes. I think that Internal Audit needs to be completely objective and independent of management in such a sense that whatever its findings are, can be taken up by the risk management (whether it’s a person or unit) that that risk manager would then say (judging from the findings of the audit reports), these are the risks that have been identified, what mitigations and controls needs to be put in place to manage the risks and assess what impact those controls have had.
2. **What information do you expect from Internal Audit?** *(With regards to an internal audit report, what are the topics or the details that you want to see coming out of an internal report?)*

   **Answer:** It’s hard to say because I’ve never actually received an internal audit report so to speak as a line manager. I would imagine that I would need to get a sense if there are any gaps in the controls that are in place within my particular line management responsibilities and if you have identified gaps, advice as to the controls that could be put into place to address those. I suppose recommendations as well, if there has been any form of misconduct as to how that can be potentially be addressed. But as I say, I’m operating from a bit of a vacuum. I suppose you would also do a full analysis of the processes and workflows and controls that are in place and the extent to which those are functioning effectively, so that would probably be useful.

3. **Based on questions 1 and 2, what would you say is your top expectation of Internal Audit?**

   **Answer:** I would say that it is to ensure good governance and management. To promote integrity in all our processes and systems and to ensure that the management is tight in the sense that there are preventive measures in place to ensure that temptation for misconduct is nullified because it’s just not possible to beat the system. Also to be completely objective, impartial and transparent in bringing its findings to management and the governing body.

4. **What role should Internal Audit play with regards to fraud, if any?**

   **Answer:** I think firstly it would be responsible for doing a thorough investigation and that would include looking at all the paperwork, whether it is a hard copy or an electronic or the requisitions, whoever signed off on various decisions;
and who did the approvals. So, full investigation and full analysis, then based on that to arrive at findings that are evidence based that can’t be questioned and to make recommendations based on the findings as to how the fraud can be addressed and prevented in the future. I’m not sure if internal audit has a role to play in recommending discipline, as I’ve not had any of these thankfully and I hope I never do.

5. You’ve basically touched on the next question. What information do you require from a fraud investigation? Is there anything you would like to add to that?

Answer: I think what’s important is, just linking to all the questions, is structurally internal audit to promote its objectivity and impartiality and that it’s not subject to management interference. It’s important that it fulfills its role fairly and without favour because it’s important that such a unit would be able to identify shortcomings and ensure that through its recommendations those shortcoming are addressed without any line management interference. So structurally, its place in the organisation is important and its reporting line as well. If necessary, it can report directly to the governing body on particular issues that need attention.

Session concluded.

Interview with participant number 12

Statement to participant: All information will be treated as confidential. Any personal information obtained during the interview will not be shared with any third party.

Questions:
1. **What do you see as the role of Internal Audit?**

   **Answer:** So you’re talking about an Internal Audit from the Institutional perspective, I take it?

   **Institution, even if you have dealt with internal audit in other situations outside of the organisation. So, it’s basically what is your expectation drawing on your experiences internally and externally?**

   **Answer:** I’ve been involved in multiple audits not only in this institution but elsewhere as well with audits ranging from organisational audits, to funding, to donor audits of research projects. So my expectation of that would be to see that firstly people have met the criteria of what they set out to achieve and then also from there to map to the achievements the expenditure that was undertaken; and I say specifically from the perspective of i.e. funding received from specific items and projects. Usually when I think of the word internal audit, I associate audit with a financial audit as such and to ensure that budgets were used for what they were intended for. I also expect a non-biased perspective on the actual audit process. So to me, the expectation of an audit is usually quite a positive experience, I don’t view it as a negative thing. It helps us to keep the checks and balances in place and to ensure that there is adherence to policies as set out and that financial usage is in line with the policies. I would also think that from a slightly different perspective depending on the type of audit that one does, you could also do a skills audit. I’ve also been involved in that before, whereby my expectation of that was to see what is currently the status quo, where’s the organisation going to and then mapping what skills are available to what skills are needed, a kind of a gap analysis type of approach. In broad terms I would say that those are my kind of expectations of an audit
and that it will also enhance good governance and highlight risks and failures. I think also an audit can be useful to mitigate risk factors.

2. **What information do you expect from Internal Audit?** *(This is the information that you would like to see come out of an internal audit process)*

   **Answer:** Obviously a comprehensive report. What I would like to see in such a comprehensive report would be the processes that were followed, the benchmarks that were used, and risks and failures that were identified. Then also with respect to the financials within an audit, whether the expenditure met the budget, and where there are deviations, why the deviations, because typically you would find that an auditor would then ask the question as to why there were deviations. Again from a financial perspective and to me there were probably a lot of linkages to finance in the whole auditing perspective, I would also like to see in the report, maybe statistics depending on if it’s over a period of time, whether there was an upward curve (depending of the organisation) towards profit or loss and trends (trends in terms of expenditure and income, and trends in specific risks and failures, which should be interrogated), this kind of information would be useful from the audit. Also recommendations as to how some of those issues flagged that are problematic can be addressed. This would not necessarily be the normal role of an auditor, but sometimes there were skills within and organisation where that could be included.

3. **From your answers provided on questions 1 and 2, which one would you rate as your top expectation of Internal Audit?**

   **Answer:** Financial governance.

4. **What role should Internal Audit play with regards to fraud, if any?**
Answer: It should definitely play a role. I cannot imagine that an organisation would function without internal audits. I think it would be extremely shortsighted and not applying adequate risk management and regulations in the whole organisation. So, if I for a moment take our situation here where we have, let’s take someone like myself for an example, I run multiple projects where I get external funding. If I do not have external audits that ensure that the funding is used for the correct purposes, it would be very easy for people to put their hands into the coffers and help themselves, so you would definitely have fraudulent activities and so forth. So, therefore, I’m a very strong supporter of internal audits. I think it should help to again, as I said my top thing would be financial governance, so internal audits would help to align institutional policies with the actual activities. I also think that when people know that there are internal audits undertaken, that they are more mindful of good record-keeping and accountability. I also think that, well it’s definitely necessary to curb any potential fraud within the organisation with internal audits, so it can be used to trace fraud and I have no doubt about it that it should be used to do that and that will also provide the scientific evidence for the fraud, if it is detected. I also think that it should also be a regular thing at least twice a year, whereby accounts are audited and it should be random auditing, which makes it less predictable in that case. I’m not saying that people are necessarily cheating, but I always think of SARS as you never know when you’re going to be picked to be audited when SARS does auditing and I think that’s a very good way of doing it because you make sure that your house is in order when you submit your documents because you may just be one of the randomly picked ones and I’ve been audited by SARS twice already and it made be realize how important
it is to have good records in place, so you’re accountable for every single cent that you spend and claim. I think that’s the role of it internally in an organisation as well, is to ensure good accountability.

5 Should Internal Audit be performing the fraud investigations?

Answer: I think that would be a fair assumption, yes. Also just from that perspective, they would be seen as independent parties to the institution and again in mitigates the bias of some sorts.

6. What information do you require from a fraud investigation report?

Answer: I would want to see if there are any irregularities that stand out. Let me give an example of what I mean by that and again let’s use a research account. If you have invoices and things for people over weekends, you may ask questions about that. So that could be seen as an irregularity and then you need to interrogate as to why. So I would want to see if there are any irregularities, why there are these irregularities, and are they justified, or does it require further investigation. The other thing that would be quite useful, is to have, let’s say a benchmark or a scale of rating the organisation in terms of where does it lie on a scale of whatever, indicating how good is the corporate governance, or the financial governance from and auditing perspective adherence. Do we actually adhere to basic auditing principles, so that one can also take precautionary measures and add additional policies or regulations to ensure that the organisation adheres to auditing principles, because I don’t think that everyone’s always aware of what are good auditing principles and I’m certainly not one to claim that I know, but that is something that I would like to see in such a report, yes. I don’t think it is necessary in a fraud report to look at, you know the other things that I said in the previous report and maybe even
just to say the previous question that you ask me, that would also, what I just said now would also be useful in that actually to give an overall perspective of the organisation.

6.1 **Is there anything additional that you would like to see in the fraud report?**

**Answer:** Well probably recommended actions steps if irregularities are identified. I can’t think of anything other than that.

6.2 **What would you say if the report contains details of who did it, when it was done, the money involved, would that all be relevant?**

**Answer:** Yes, I would imagine, I mean and yes that would be an explicit expectation, who, what and where.

**Session concluded.**
Interview with participant number 13

Statement to participant: All information will be treated as confidential. Any personal information obtained during the interview will not be shared with any third party.

Questions:

1. **What do you see as the role of Internal Audit?**

   **Answer:** The role of Internal Audit is obviously an official role to ensure that our systems and control environment in the different functional units are as strong as they should be. The whole system should be able to demonstrate that it is integrative and that people are doing what they’re supposed to be doing in line with their own portfolios and that they understand the delegation framework and their discretionary levels. I also see Internal Audit as providing an early warning capacity within the Institution so that we continuously work to systematically and progressively improve our compliance and the methods we employ are within a controlled environment. We should be alerted before the auditors come and be pointed in the right direction with regard to where to improve and tighten where needed. So for me, it’s important to see Internal Audit as a support system, that it’s there giving objective review and assessment of how we seem to be doing; and whether we are running our entities as we are expected to and in a manner that demonstrates integrity.

1.1 **With regards to the role of Internal Audit, where would you see risk management, is Risk Management part of Internal Audit?**

   **Answer:** I would say ‘yes’ and I would say ‘no’. I suppose it’s because of the size. ‘Risk’ and ‘internal audit’ are very inter-related functions. In some organisations they’ve been separate functions. I mean, because we’re a
smaller organisation, I think it could work well if risk and internal audit are
together even though I also see risk as a more generic function than internal
audit because risk looks at the full spectrum of the governance systems and
processes and where the organisation is and what it needs to be aware of in
terms of its strength and weaknesses to actually manage and mitigate those.
I also see risk as a function that is supposed to enroll the leadership of the
organisation to be ‘Risk Champions’ in their own right and own the Institutional
risks at different levels. So, I do not see that function as purely residing within
Internal Audit and Risk only, but as opposed to what I see in Internal Audit, as
internal audit can only be done by the Audit and Risk Management unit (ARM)
in our case here, whereas ‘risk management’ is actually everybody’s business,
with risk services performing the roles of coordinate, lead, direct, facilitate, and
give us technical support in terms of how we identify risks and manage,
mitigate and minimize them as an Institution. I see myself in my own right as
the Deputy Vice-Chancellor: Institutional Support (DVC: IS) as a ‘risk
manager’. I think it is important that we actually see those functions separated,
whereas internal audit is a much more of a technical, specialist function which
can only be done by Internal Audit.

1.2 **If I summarise as follows with regard to the role of Internal Audit
concerning Risk Management, would the Internal Audit’s role be that of
the evaluation and the identification of risk?**

**Answer:** Yes

2. **What information do you expect from Internal Audit?**

**Answer:** I would expect from Internal Audit, this depends on each assignment,
but generically, I would want to be satisfied that the sample that Internal Audit
used to determine their findings is credible in its size and diversity to actually make me understand if the problem is widespread, or because sometimes it can be sort of a chance finding and when you actually test that against, in a different environment, you find that it is actually not a pervasive problem. I suppose I would expect some credibility on the sample size. I would also expect the expectations to be defined up front in terms of why the exercise is being done and how does it fit into the audit plan of the Institution and how are we prioritizing that assignment as opposed to other assignments. It is not uncommon that I actually feel that this is really the issue that is bothering me as a manager in my branch, but you'll find that Internal Audit have identified something else for internal auditing. I find that sometimes there is a disjuncture in what I expect you to priorities to support my strategy and my management role to what you actually chose, and I have found (you've been in one of the conversations where I've mentioned this) that sometimes I have to ask you guys why have you prioritized this thing, because I mean, I would have thought you would have prioritized 1, 2 and 3. So I think, one would expect that the size of your sample, the expectations are determined upfront and they seem to be in support of the business, if you like as far as the entities and the Institution are concerned. It is not always the case though, because I mean some of the areas that Internal Audit has peaked are issues that are happening for us as well, so I have to be balanced in my assessment of that. I never understand at what level of management response is considered appropriate and I suppose that is an area also, because Internal Audit is such a technical field, because sometimes you'd find that the functional unit within Institutional Support has responded and then I don't agree with this response, but actually,
I mean the fact that I don’t work in that section myself my response doesn’t count for anything even though I’m supposed to be in charge of the function. What has been concerning for me, and I don’t know if it’s a generic problem in other institutions, I’m certain that I have not observed it in my thirty years as a manager, what I’ve noticed is that sometimes we’re not given enough time to engage with the report. The reports go ahead and then we do not necessarily agree with the findings not that we have to agree with all the findings because that compromises the independence of Internal Audit, but that there’s a rushed kind of feeling. I don’t know if other managers feel the same, but I certainly have felt that coming to consult with us is sometimes compliance and rushed. It does not always happen like that, I mean there have been instances where we’ve been given enough time but there were instances where we’ve actually not been given enough time and as a result then you see it just as an academic exercise, if you like. That has concerned me a lot.

3. **From your answers provided on questions 1 and 2, which one would you rate as your top expectation of Internal Audit?**

   **Answer:** My top expectation of Internal Audit is to make my job easier by honing in on areas that in my assessment of the business, the business for me is Information Systems (IS). The targeted areas for Internal Audit as priorities are the areas that we’ve identified as actually needing attention because they are prone to fraud and corruption because we have identified weaknesses, or preliminary identified weaknesses. So I would expect my top priority is that your priorities are in line with the risks I identified as high risks in my strategy. I think that is my top priority. Can I just add something? I find that also, I don’t know how old is risk in internal audit at NMMU, but it is still seen as something
new, that, I mean people are not comfortable with risk and internal audit and I think that, I mean, you guys have not done a good job of actually enrolling the organisation, that is actually part of the business. I mean for the business to run well, Internal Audit and Risk has to support you by telling you the truth, however unpalatable about how your business is doing. So I would still expect that you guys do more marketing and engagement without actually begging people, with the “oh well, if you don’t like us, we won’t audit your section”. But actually this is part of the business, what is your value proposition as risk and internal audit. That value proposition has not been done and then it makes the system anxious around risk and defensive around risk and internal audit. I would find that my team I have to calm them down all the time when Internal Audit and Risk has to do work and say, “I take responsibility for all the findings, you don’t have to worry”. I mean, I don’t need to do that because if, and of course “it’s not all your problem, you guys, but I think it’s partly because it’s a new thing in its robustness”.

4. **What role should Internal Audit play with regards to fraud, if any?**

**Answer:** Internal Audit should in my view, on unveiling fraud and corruption; I feel strongly this is a no brainer. They should bring it to the attention of the authorities, authorities I mean the leadership person charged with that. You need to do it timely, sensitively and professionally and recommend further investigation if it’s needed. I certainly think that risk and internal audit should be seen as those that are geared to participate in fraud as actually an entity of the university that has integrated to assist us to mitigate that. So I would seriously, I think it’s a very important entity to help us fight fraud.

5. **Should Internal Audit be performing the fraud investigations?**
Answer: Yes, I think they should be conducting the fraud investigations. I think they should not be doing the forensic work, obviously because I don’t think we have the capacity to do that, but I think we’re a small organisation and I don’t see any other department that is well placed to do this work.

6. **What information do you require from a fraud investigation report?**

   **Answer:** For a start, I would like the report to be highly confidential because it would require further investigation beyond Internal Audit and Risk. I would expect the report to if possible to say this is a once off thing as far as they’re concerned, or if it’s the feeling of the auditors that it might be and endemic problem because of the system issues, to actually point that out as well. I think that’s all I expect and the rest is up to management because you cannot expect Internal Audit and Risk to do more than that.

6.1 **What would you say if the report contains details of who did it, when it was done, the money involved?**

   **Answer:** Those details should be in; otherwise you can’t do anything with the report. Also details of whether the fraud was committed internally in the organisation or externally and details of collusion issues.

6.2 **Recommendation for preventing it from happening again in the future?**

   **Answer:** Yes, I’d expect that to be in the report.

6.3 **Any further questions you would like to respond to or provide details to?**

   **Answer:** I just feel that Internal Audit and Risk carries a very important mandate for our institution, and for any institution for that matter, and I think we must find a way collectively from our side for audit and risk to look independent but less threatening and from the side of the organisation to
understand that healthy organisations have got strong internal audit and risk
departments.

Session concluded.