EFFECTIVENESS OF INTERNAL AUDIT IN PUBLIC SECTOR ORGANIZATIONS: A CASE OF CHIRUMHANZU RURAL DISTRICT COUNCIL

BY

INGWANI ISABEL T

R11739B

DISSERTATION SUBMITTED TO THE MIDLANDS STATE UNIVERSITY DEPARTMENT OF ACCOUNTING IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF A BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

GWERU

2014
DECLARATION

I, Ingwani Isabel T. do here by declare that this work is my own original work, that it has not been plagiarized nor submitted for similar degree in any other University.

Signed .................................

Date .................................
Investigation on effectiveness of internal audit in public sector organisations:  
The case of Chirumhanzu Rural District Council

RELEASE FORM

NAME OF AUTHOR : INGWANI ISABEL T.

TITLE OF PROJECT : EFFECTIVENESS OF INTERNAL AUDIT IN
PUBLIC SECTOR ORGANIZATIONS: A CASE
OF CHIRUMHANZU RURAL DISTRICT COUNCIL

DEGREE PROGRAMME : BACHELOR OF COMMERCE HONOURS
DEGREE IN ACCOUNTING

YEAR THIS DEGREE WAS GRANTED : 2014

Permission is hereby granted to the Midlands State University to produce single copies of this dissertation and to lend or sell such copies for private, scholarly or scientific research purpose only. The author does not reserve other publication rights and the dissertation nor may extensive extracts from it be published or otherwise reproduced without the author’s written permission.

SIGNED…………………………………………………………………………

PERMANENT ADDRESS : MQ 46 THORNHILL AIRBASE GWERU

EMAIL : isabelingwani285@gmail.com

DATE : NOVEMBER 2014
The undersigned certify that they have read and recommend to Midlands State University for acceptance, a research project entitled: “Effectiveness of internal audit in public sector organizations: A case of Chirumhanzu Rural District Council,” submitted by Ingwani Isabel T. in partial fulfilment of the requirements of the Bachelor of Commerce Honours Degree in Accounting.
DEDICATIONS
This research is dedicated to my father and mother who have loved and provided for me, took care of me, believed in me and supported me through this tough journey from beginning to end.
ABSTRACT

It is imperative that any internal audit department be effective especially in public sector organisations in order to improve service delivery to local citizens. This research focused on investigating the effectiveness of internal audit particularly Chirumhanzu Rural District Council. The research objectives are to investigate the effectiveness and independence of internal audit reporting structures, to determine audit types which can be utilised in promoting effectiveness, to assess the challenges faced by internal audit in promoting effectiveness, to examine the benefits of internal audit effectiveness and to recommend possible solutions or suggestions which can be adopted to promote internal audit effectiveness at Chirumhanzu Rural District Council. One of the key issues hindering internal audit effectiveness that have been looked at are the different reporting structures for internal audit and their impact on effectiveness and independence of internal audit. This key issue and other impeding factors have been investigated on and information sought in a bid to suggest possible solutions and recommendations in order to enhance internal audit effectiveness.
ACKNOWLEDGEMENTS

This project would not have been successful if God had not intervened and provided guidance. Special thanks goes to my supervisor Miss Takachicha who steered me on and provided guidance for the whole duration of the project. I would also like to express appreciation and gratitude to the Chairperson of the Accounting Department, Mr Mvura who advised and urged me on till the end of the research. My family is thanked for their faith in me and their unwavering support. My appreciation and gratitude goes to Blessing and Tapiwa. I would never have made it without them.
# Contents

DECLARATION ......................................................................................................................................................... i

RELEASE FORM ...................................................................................................................................................... ii

APPROVAL FORM .................................................................................................................................................. iii

DEDICATIONS ........................................................................................................................................................ iv

ABSTRACT ............................................................................................................................................................... v

ACKNOWLEDGEMENTS .......................................................................................................................................... Error! Bookmark not defined.

Contents ................................................................................................................................................................. vii

CHAPTER ONE ......................................................................................................................................................... 1

INTRODUCTION ......................................................................................................................................................... 1

1.0 Introduction ...................................................................................................................................................... 1

1.1 Background to the study .................................................................................................................................. 1

1.2 STATEMENT OF THE PROBLEM .................................................................................................................. 3

1.3 OBJECTIVES OF THE RESEARCH ................................................................................................................ 3

1.4 Research questions .......................................................................................................................................... 4

1.5 Significance of the research ............................................................................................................................ 4

1.5.1 To the organization .................................................................................................................................. 4

1.5.2 To the university ...................................................................................................................................... 4

1.6 Delimitation of the research ............................................................................................................................ 4

1.7 Limitations of the study .................................................................................................................................. 5

1.8 Definition of terms .......................................................................................................................................... 5

1.10 Summary ......................................................................................................................................................... 7
# CHAPTER TWO

LITERATURE REVIEW

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.0 Literature review Defined</td>
<td>8</td>
</tr>
<tr>
<td>2.1 Internal auditing and Internal Audit Department</td>
<td>8</td>
</tr>
<tr>
<td>2.2 Audit Committee</td>
<td>9</td>
</tr>
<tr>
<td>2.3 Internal Audit Reporting Structures</td>
<td>11</td>
</tr>
<tr>
<td>2.4 Internal Audit Independence and effectiveness</td>
<td>16</td>
</tr>
<tr>
<td>2.5 Key elements for effectiveness of internal audit in both the public and private sector</td>
<td>18</td>
</tr>
<tr>
<td>2.5.1 Resources and competencies of an internal audit team</td>
<td>18</td>
</tr>
<tr>
<td>2.5.2 Activities and processes performed</td>
<td>18</td>
</tr>
<tr>
<td>2.5.3 Competent Leadership</td>
<td>19</td>
</tr>
<tr>
<td>2.5.4 Open or Unrestricted Access</td>
<td>19</td>
</tr>
<tr>
<td>2.5.5 A Formal mandate</td>
<td>20</td>
</tr>
<tr>
<td>2.5.6 Stakeholder support</td>
<td>20</td>
</tr>
<tr>
<td>2.5.7 Organizational Independence</td>
<td>20</td>
</tr>
<tr>
<td>2.5.8 Professional Audit Standards</td>
<td>21</td>
</tr>
<tr>
<td>2.6 Types of Audits performed in both the public and private sector</td>
<td>21</td>
</tr>
<tr>
<td>2.6.1 Operational Audit</td>
<td>21</td>
</tr>
<tr>
<td>2.6.2 Information Technology/Information Systems Audit</td>
<td>22</td>
</tr>
<tr>
<td>2.6.3 Performance and Program Audit</td>
<td>22</td>
</tr>
<tr>
<td>2.6.4 Compliance Audit</td>
<td>23</td>
</tr>
</tbody>
</table>
2.7 Challenges faced by Public Sector Internal Audit in promoting effectiveness ..........23

2.8 Internal audit legislative and institutional framework in Zimbabwe .........................24

2.9 Benefits of Internal Audit Effectiveness in the Public Sector ..................................25

CHAPTER THREE ...........................................................................................................28

RESEARCH METHODOLOGY .........................................................................................28

3.0 Introduction ...............................................................................................................28

3.1 Research Design .......................................................................................................28

3.1.2 Qualitative Research Design .................................................................................29

3.1.3 Quantitative Research Design ...............................................................................29

3.2 Target Population .....................................................................................................30

Table 1: Target Population .............................................................................................30

3.2.1 Sampling ...............................................................................................................30

3.2.1.1 Sampling Methods Utilised ................................................................................31

3.2.1.2 Probability and Non probability Sampling ..............................................................31

3.2.3 Sampling Techniques ............................................................................................31

3.2.3.1 Proportional Stratified Sampling .........................................................................31

3.2.3.2 Purposive Sampling .............................................................................................31

3.2.3.3 Simple Random Sampling ...................................................................................32

Table 2: Sample population ............................................................................................32

3.3.1 Primary Data Sources ............................................................................................33

3.3.2 Secondary Sources .................................................................................................33
Investigation on effectiveness of internal audit in public sector organisations:
The case of Chirumhanzu Rural District Council

3.3 Research Instruments ............................................................................................................. 33

3.3.1 Questionnaires .................................................................................................................. 33

3.3.2 Interviews .......................................................................................................................... 34

3.4 Data Collection Procedures .................................................................................................. 34

3.5 Validity and Reliability .......................................................................................................... 34

3.6 Data Analysis and Presentation ............................................................................................. 35

3.7 Summary ................................................................................................................................ 35

CHAPTER FOUR ............................................................................................................................. 36

DATA PRESENTATION, ANALYSIS AND INTERPRETATION ...................................................... 37

4.0 Introduction ............................................................................................................................. 37

4.1 Response rate for questionnaires .......................................................................................... 38

Table 4.1: Questionnaire Response Rate ..................................................................................... 38

4.2 Background information for respondents .............................................................................. 39

Table 4.2.1: Academic qualifications ......................................................................................... 39

4.3 Working experience ............................................................................................................... 40

Table 4.3.1: Working experience of the respondents ................................................................. 40

4.4 Functions of Internal Audit .................................................................................................... 41

Table 4.4.1: Knowledge of Internal Audit Functions ................................................................. 41

4.5 Influence of Internal Audit on Management ......................................................................... 42

Table 4.5.1: Internal audit influence on management ................................................................. 42

4.6 Size of Internal Audit Team ................................................................................................... 42
Investigation on effectiveness of internal audit in public sector organisations: The case of Chirumhanzu Rural District Council

4.7 Effect of Internal Audit Reporting Structures on internal audit effectiveness .................. 44

4.9 Effectiveness of internal audit .................................................................................. 45

The objective of this question was to obtain the views of the respondents on whether or not the internal audit department is effective ......................................................... 45

4.10 Types of Audits Performed .................................................................................... 46

Fig 4.10.1: Types of Audits ......................................................................................... 47

4.11 Benefits of Effective Internal Audit ...................................................................... 48

4.12 Challenges faced by internal audit ......................................................................... 49

4.13 Response rate from interviews .............................................................................. 50

Table 4.13: Interview Response Rate ............................................................................. 50

4.14 Internal audit effectiveness ...................................................................................... 50

4.15 Effect of Internal audit reporting structures on effectiveness ............................... 51

4.16 Size of Internal Audit Compliment ...................................................................... 52

4.17 Effect of relationship between internal audit and management on internal audit effectiveness .................................................................................................................. 52

4.18 How internal audit addresses issues of employee corruption when they arise 53

4.19 Implementation of internal audit recommendations ............................................... 53

4.20 Effectiveness of the internal audit department ....................................................... 54

4.21 Problems faced in promoting independence and effectiveness of internal audit .......... 54

4.22 Benefits of internal audit effectiveness .................................................................... 55

4.23 Analysis of Secondary Data ................................................................................... 55

4.24 Summary .................................................................................................................. 56
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

5.1 Chapter Summaries

5.12 Independence and effectiveness of internal audit reporting structures

5.13 Forms or types of audits which can be undertaken to promote effectiveness

5.14 Challenges faced by internal audit in promoting effectiveness

5.15 Benefits of internal audit effectiveness

5.2 Conclusions

5.3 Recommendations

5.3.1 Reporting Structure within the organisation

5.3.2 Reporting to an independent, separate entity

5.3.3 Independent Internal Audit Department

5.3.4 Cooperation of internal audit and management

5.3.5 Competent and experienced personnel

5.3.6 Size of internal audit

5.3.7 Unrestricted Access

5.4 Suggested areas of further study
LIST OF FIGURES

Fig 1.1: Internal Audit Reporting Structure

Fig 2.3.1: Diagrammatic representation of an ideal reporting structure for internal audit

Fig 4.6.1: Size of the internal audit team

Fig 4.7.1: Effect of Reporting Structure on internal audit effectiveness

Fig 4.9.1: Internal Audit Effectiveness

Fig 4.10.1: Types of Audits

Fig 4.11.1: Benefits of effective internal audit

Fig 4.12.1: Challenges faced by internal audit
LIST OF TABLES

Table 1: Target Population ......................................................................................................................... 30
Table 2: Sample population ............................................................................................................................ 33
Table 4.1: Questionnaire Response Rate ....................................................................................................... 38
Table 4.2.1: Academic qualifications ........................................................................................................... 39
Table 4.3.1: Working experience of the respondents .................................................................................... 40
Table 4.4.1: Knowledge of Internal Audit Functions .................................................................................... 41
Table 4.5.1: Internal audit influence on management .................................................................................... 42
Table 4.8.1 Whether management implements internal audit recommendations ........................................... 45
Table 4.13: Interview Response Rate ........................................................................................................... 50
LIST OF APPENDICES

Appendix I: Cover Letter ................................................................. 71
Appendix II: Questionnaire ............................................................ 73
Appendix III: Interview Guide .......................................................... 77
CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter will look at the background to the study, statement of the problem, research objectives, research questions, delimitation or scope of the study, limitations of the study, definition of terms and acronyms or abbreviations relevant to this chapter and the entire research.

1.1 Background to the study

The mandate of internal audit is to examine compliance and performance, give recommendations to the management, offer investigatory and advisory role and produce independent audit reports on time… (Institute of Internal Auditors Research Foundation, 2011). However looking at all virtues, it can be noticed that internal audit departments in public sector organizations are not effective and this has led to poor service delivery.

At Chirumhanzu Rural District Council internal audit is one of the six departments that are in existence. Their duty is to make recommendations after reviewing control systems and compliance to internal control systems.
Investigation on effectiveness of internal audit in public sector organisations:  
The case of Chirumhanzu Rural District Council

The following is the organogram of CRDC pertaining to the Internal Audit:

![Internal Audit Reporting Structure](image)

*Extracted from CRDC Annual Report 2013*

**Fig 1.1: Internal Audit Reporting Structure**

In May 2011 the Anti Corruption Commission of Zimbabwe investigated and detected fraudulent activities that had been perpetuated by corrupt officials. The Finance Director was found guilty of abusing public resources (Anti Corruption Commission Report 2011). It was then discovered that Internal Audits had highlighted weak control systems and risk in the Finance department and had made recommendations to management (Internal Audit Report February 2011). However these recommendations were not taken into consideration.

In June 2012 the internal audit uncovered that the management had been enjoying more allowances and fringe benefits than what was stipulated in their service contracts. The organization had been paying for personal expenses of the CEO and executive directors. The internal audit team highlighted it. This misappropriation of funds resulted in CRDC failing to pay general hands for two months…(*Internal Audit Department Meeting Minutes July 2012*).
The custodian of audit reports at CRDC is the Chief Executive Officer. The C.E.O was authorizing fictitious invoices by the Financial Director from Mvuma town residents for water reconnection fees. In March 2013 internal audit discovered this and highlighted it. This led to the head internal auditor’s resignation (CRDC Internal Audit Department Minutes March 2013).

1.2 STATEMENT OF THE PROBLEM

At CRDC poor reporting structures and management’s failure to implement recommendations has rendered internal audit inefficient in execution of their mandate. This research shall articulate issues that undermine effectiveness of internal audit in the public sector realm focusing much on the internal audit reporting structure.

1.3 OBJECTIVES OF THE RESEARCH

- To investigate effectiveness and independence of internal audit reporting structures used at Chirumhanzu Rural District Council.
- To determine types of audits that can be used by Chirumhanzu Rural District Council to promote effectiveness.
- To assess the challenges faced by internal audit in promoting effectiveness in execution of their duties.
- To examine the benefits of internal audit effectiveness at Chirumhanzu Rural District Council.
- To recommend possible solutions or suggestions that management of organizations and the legal framework can adopt to enhance effectiveness of internal audit at Chirumhanzu Rural District council.
1.4 Research questions

- How effective are the internal audit reporting structures used at Chirumhanzu Rural District Council?
- What are the types of internal audit that can be used to promote effectiveness?
- What are the challenges faced by internal audit to promote effectiveness and what are the possible solutions.
- What are the benefits of internal audit effectiveness?
- What are possible strategies that internal audit can use to uphold effectiveness?

1.5 Significance of the research

1.5.1 To the organization

The major benefits that arise from this research are that organizations in Zimbabwe can realize the benefits associated with internal audit in promoting accountability. Chirumhanzu Rural District Council may instigate and extract the validity of this research to be of great magnitude considering enhancement of effectiveness which is compatible with the modern day good governance with effective communication reporting structures to citizens.

1.5.2 To the university

The research is set to provide enlightenment on the function of internal audit to uphold effectiveness.

1.6 Delimitation of the research

Chirumhanzu Rural District Council is in the Midlands province bordering with Kwekwe, Gweru and Shurugwi district. Chirumhanzu Rural District Council Head office is situated in Mvuma mining town. Chirumhanzu Rural District Council has two sub offices Charandura and Lalapanzi. However, the research shall concentrate on the period of 2011 up to 2014 and
only the head office where the internal audit department is located shall be the main scope of the research.

1.7 Limitations of the study

1. **Accessibility of auditors**-The research study may be disturbed by the difficulties in getting hold of members of the audit team to interview due to their everyday work commitments. The researcher will overcome this by communication and pursuing them until the required information is obtained.

2. **Confidentiality**-possible limited confidential information which might be useful for the purposes of the research. The student will mention that the study will be strictly for academic purposes so that the information can be released.

3. **Time constraint**-the researcher has to carry out the study research and at the same time attend lectures. Due to the huge weight that this research carries the student will make time to make sure that the research is thoroughly completed.

4. **Financial Constraint**-the researcher may face monetary challenges as the research may necessitate that the researcher travels to solicit the required information. This will be overcome by other means of obtaining information such as telephone interviews and electronic mail which are cost effective.

1.8 Definition of terms

- **Internal Audit**-an independent, objective assurance and consulting activity designed to add value and improve an organizations operation…Institute of Internal Auditors Research Foundation (2011).
• **Public Sector**-consists of all commercial and industrial enterprises owned and controlled by central and or state governments…Gupta(2007)

• **Governance**-the different modes of co-coordinating individual actions or basic forms of social order…Bang(2009)

• **Corruption**-the misuse of public office for private gain…Mikkelsen(2013)

• **Public Resources**-these are goods that are accessible to any person and are non rival…Raymond(2003)

1.9 List of Abbreviations/ Acronyms

CAE………………….Chief Audit Executive

CEO………………….Chief Executive Officer

CFO………………….Chief Finance Officer

CRDC…………………..Chirumhanzu Rural District Council

IIA………………….Institute of Internal Audit

ISA………………….International Standards in Auditing
1.10 Summary

The primary chapter focused on the introduction and outline of the study at large. All research components such as background of the study, statement of the problem, research questions, and research objectives, significance of the study, delimitation and limitations, definition of terms and acronyms have been dwelt on. The following chapter shall cover literature review on this research.
CHAPTER TWO

LITERATURE REVIEW

2.0 Literature review Defined

Literature review according to McKinney (2008) is a short and straight to the point analysis and summary of information which critiques the existing literature for the purposes of recognizing contemporary data of literature review. M Fink (2005) defines literature review as a systematic and explicit method for identifying, evaluating and synthesizing the existing body of completed and recorded work produced by researchers, scholars and practitioners.

2.1 Internal auditing and Internal Audit Department

According to Institute of Internal Auditors Research Foundations (2011) internal auditing is “an independent objective assurance and consulting activity designed to add value and improve an organization’s operation. 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.” The Zimbabwe Internal Audit Charter (2012) defines internal auditing as a control measure which examines and evaluates the adequacy, efficiency and effectiveness of organizational internal controls.

Burnaby and Hass (2011) assert that the main role of the internal audit department is to evaluate organisational performance using globally accepted standards, frameworks and procedures. Internal audit adds value by making suggestions for system improvements and to provide assurance on the adequacy of system controls to stakeholders at all levels. Moeller (2009) cites that the responsibilities of internal audit are defined through its charter. He states that there is no optimal way to organise an internal audit function. Much depends on size, nature of internal controls and span of the enterprise activities as well as the overall objectives of internal audit as outlined in an approved internal audit charter. Bennie et al
Investigation on effectiveness of internal audit in public sector organisations:  
The case of Chirumhanzu Rural District Council

(2011) point out another role of the internal audit function as that of carrying out analysis and independent appraisal of the adequacy and effectiveness of a company’s risk management and internal control system. The Institute of Internal Audit, Standards for the Professional Practice of Internal Auditing (2004) state that the purpose, authority and responsibility of the internal auditing department is defined in a charter that is approved by senior management and the board of directors and assessed by the director of internal audit. Results of assessments are reported to senior management and the board.

2.2 Audit Committee

Institute of Directors Southern Africa (2009) King III report available at www.nkonki.com stipulates that “a company should have an effective audit committee. An independent audit committee fulfils a vital role in corporate governance. The audit committee is a critical component in ensuring the integrity of integrated reporting and financial controls, the proper identification and management of financial risks and the integrity of the reporting practices.

At each annual general meeting, the shareholders of a public company, state-owned company or any other company that has an audit committee must elect an audit committee. Where there is a nomination committee, it should present shareholders with suitable candidates for election as audit committee members. The audit committee should constitute members who are independent non-executive directors and possess the necessary level of financial literacy.”

The audit committee is a key accountability instrument that plays a critical role in the financial management and control environments of public entities Bedard et al (2004:153). Van der Nest (2008) supports this view by stating that audit committees are increasingly regarded as an integral part of modern control structures and governance practices in both the private sector and public service.
Investigation on effectiveness of internal audit in public sector organisations: 
The case of Chirumhanzu Rural District Council

Information at www.meditari.org, accessed on 5 September at 3.15 pm states that “the audit committee’s responsibilities include assisting management in the discharge of their responsibilities by overseeing the financial reporting processes, to ensure that it provides accurate and useful information to users.” A key responsibility of the audit committee is to evaluate the audit process in the organisation. The process followed by both external and internal auditing must be evaluated for effectiveness and value added. The internal audit charter forms the basis of the independence, engagements and communication lines of the internal audit activity. (IIA 2007:20).

It is imperative that an audit committee be effective for the benefit of any organization. De Zoort, Hermanson and Reed (2002:40) identify the following four determinants of audit committee effectiveness which are:

Composition-the audit committee should comprise of people with the necessary expertise and these should have integrity, be independent and objective in carrying out their duties.

Authority-in tackling their responsibilities, the audit committee should have significant influence on management and auditors.

Resources -the audit committee should have an adequate number of members; have access to management, external auditors and internal auditors for them to be effective.

Diligence- audit committee members should be industrious, persevere and be a source of motivation to other members of the organization.

In Zimbabwe the Urban Councils Act (29:15) clearly stipulates the establishment of the audit committee. Section 97 of the Urban Councils Act Chapter (29:15) provides for the audit committee as follows: Every council should appoint an audit committee. Executive committee members inclusive of the chairman and his deputy cannot attend audit committee meetings and they cannot become audit committee members. In addition no other person is
entitled to attend audit committee meetings except for audit committee members and the
council’s external auditors unless their attendance is required. ‘Audit committees are
mandatory for every council; however there is no formal legislation that stipulates the
appropriate reporting structure for internal audit functions in organizations.

2.3 Internal Audit Reporting Structures

Hannan, Rankin and Towry (2010) define reporting structure as a hierarchy of administration
within an organization or company. According to Pedersen (2007:126) reporting structure
refers to the people to whom departments and individuals should report to.

Internal auditors report to different authorities in organizations, some to the CEO or CFO and
others to the audit committee and CEO functionally and administratively. Kranacher, Riley
and Wells (2010:181) assert that for internal auditors to be objective and unbiased in
assessing financial reporting processes and evaluating the design and implementation of
internal controls, they need to have a direct reporting line to the organization’s audit
committee. They continue to highlight that internal auditors are no longer allowed to
complete any work for the external auditor unless their reporting structure is such that they
report to the audit committee. In such circumstances, internal audit has the authority and
independence necessary to carry out their assigned duties.

According to Tysiac (2013), the Federal Reserve of the United States argues that the
objectivity of the internal audit function is served best when the chief audit executive (CAE)
reports administratively to the chief executive. While that relationship is encouraged by the
Federal Reserve, it is not required. If the CAE reports administratively to another executive,
the statement requires the audit committee to document its rationale for the reporting
structure.

Information accessed on www.deloitte.com, on 7September at 10.00 hours states that “when
internal audit reports to the audit committee, the function is kept structurally separate from
Investigation on effectiveness of internal audit in public sector organisations: 
The case of Chirumhanzu Rural District Council

management, a distinction of importance to many including regulators concerned with independence, external auditors seeking objectivity and analysts looking for strong corporate governance practices. Such an alignment encourages the free flow of communication pertaining to any issues and allows for direct feedback on performance of the audit function. This also ensures internal audit is staffed and budgeted properly and permits the audit committee to exert direct influence over the hiring, compensating and firing of the CAE.”

According to Morris, McKay and Oates (2009) there needs to be a close working relationship between head of internal audit and executive directors and also where relevant, good communication between the head of internal audit and the audit committee. Where the company has an audit committee, the head of internal audit should have a direct line of communication to the chairman of the audit committee. This would be to ensure that a platform is created for sensitive issues to be raised and discussed without executive management being present where necessary. This demonstrates and strengthens the independence of the internal audit function.

Goodwin and Yeo (2001) support this notion. They found that an effective audit committee can reinforce the position of the internal audit function by acting as an independent forum in which internal auditors may raise matters affecting management. Stewart (2011) believes that a close working relationship between internal audit and the audit committee is recognised as a fundamental principle of sound corporate governance. Internal audit independence, objectivity and effectiveness are promoted when the function reports directly to the audit committee as opposed to senior management (Cohen et al., 2004).

In addition Gramling et al. (2004, p. 198) assert that a strong relationship between the internal audit function and the audit committee helps provide internal audit “with an appropriate environment and support system for carrying out its own governance-related
activities”. The audit committee can reinforce the position of internal audit by acting as an independent forum for the CAE to raise matters affecting management (Braiotta, 2004; Goodwin, 2003; Goodwin and Yeo, 2001).

To achieve maximum benefit, it is recognised that open lines of communication should exist between internal audit and the audit committee. The CAE should have regular and confidential access to the committee (IIA, 2002) to facilitate the discussion of sensitive issues, particularly those affecting management (Braiotta, 2004). These findings emphasise the importance of a good working relationship between the CAE and the audit committee, which should strengthen both actual and perceived objectivity and enhance corporate governance practices.

Christopher et al (2009) state that the IIA and other previous research studies have established best practice guidelines for the internal audit function so that they can maintain independence. Attribute Standard 1110 of the International Standards for the Professional Practice of Internal Auditing (IIA, 2004) stipulates that the chief audit executive (CAE) should report to a level within the organisation that allows the internal audit function to accomplish its activities. Chapman (2001) adds that the primary goal of the internal auditor is objectivity, which involves an unbiased attitude and the avoidance of conflicts of interest. This only can be achieved if the internal audit function is appropriately placed in the organisational structure. Chapman (2001) goes on to describe organisational independence as the placement of the internal audit function in the reporting structure so that it is free to determine the audit scope and perform audit work without interference.

Some authors highlight the merits of the chief audit executive reporting to the CEO. Munro and Stewart (2011) “compare an internal audit function where the chief audit executive (CAE) reports to the chief executive officer (CEO) and has not had private meetings with the
audit committee, with one where the CAE reports to the audit committee and does have regular, private meetings with the committee. Although both the CFO and the CEO are part of management, reporting to the CEO should increase the status of internal audit in the organisation. It also overcomes potential problems that can arise when internal audit reports to the person with direct responsibility for the financial and accounting systems which the function is required to monitor.”

Gramling (2004) maintains that independence through an appropriate reporting relationship typically is viewed as the most important criterion describing objectivity. The importance of the independent status of the internal audit function through an appropriate reporting line was reinforced by the IIA (2004), which strongly insists that the CAE should report functionally to the audit committee. This reasoning is based on the argument that the functional reporting line for the internal audit function is the ultimate source of independence and authority.

Goodwin (2003) further indicated that independence is promoted if the members of the audit committee, in addition to being independent, have the technical expertise to understand the work of the internal audit function. Raghunandan, Read and Rama (2001) found that committees comprised solely of independent directors, and with at least one member having accounting or finance expertise, were more likely to have longer meetings with the CAE, to provide access to the CAE, and to review internal audit programs and results.

An important responsibility arising out of this reporting relationship, which can have an effect on the independence of the internal audit function, is the responsibility for hiring and firing the CAE. Bariff (2003) argues that the independence of the internal audit function is at risk if one who is being audited is responsible for hiring and firing the CAE. This is now
reflected in the IIA’s (2004) advisory guidelines 1110-1 and 2060-5, wherein the Board Audit Committee is required to participate in these responsibilities.

Christopher, Sarens and Leung (2009) mention cases in existence where the CEO or CFO is responsible for approving the internal audit budget. This may present a serious threat to the independence of the internal audit function, as imposing budget constraints is a powerful tool with which management can reduce the scope and impact of the internal audit function. They mention another independence threat pertaining to management possessing the authority to appoint and remove the head of the internal audit function. In some organizations, it is not the audit committee, but the CEO and/or CFO who is responsible for appointing, dismissing and evaluating the head of the internal audit function. It is suggested that such practices could impair the internal audit function's independence.
Investigation on effectiveness of internal audit in public sector organisations:
The case of Chirumhanzu Rural District Council

Fig 2.3.1 Diagrammatic representation of an ideal reporting structure for internal audit

Based on literature by Institute of Internal Audit (2004), Goodwin (2003), Stewart (2011) and most authors mentioned above internal audit should report functionally to the Audit Committee and administratively to the Chief Executive Officer.

2.4 Internal Audit Independence and effectiveness

The concept of auditor independence encompasses both external and internal auditors. It follows that an independent internal audit function is most likely to be effective. According to Gitia (2010) there is a considerable difference in meaning for each. For internal auditors it refers to an attitude which is free from bias or undue influence. It also embodies the reporting structure of an internal audit function which includes reporting to the audit committee and CEO in order to allow for an appropriate level of organisational freedom and a lack of restriction in their work and access to records. For external auditors, auditor independence is a much more structured and refined term as well as regulatory requirement for performance. External auditors are required to confirm their audit independence in writing to the audit
committees of the companies they audit. Penalties can be levied against external auditors by their respective governing professional body.

Mutchler et al (2001) defines independence as” freedom from material conflicts of interest that threaten objectivity. In other words, it is a state where threats to objectivity are managed to the extent that the risks of ineffective internal audit services are acceptably controlled.” Gallegos (2002) highlights that for a company that has a strategic approach to meet its vision; independence of internal audit is an essential factor which is facilitated by having an audit function that can add value to the organization.

Arena and Azonne (2009) are of the view that the position of internal audit in an organization is bounded; it is a corporate unit that should have a large amount of autonomy and independence in order to perform its activities in a proper manner. This therefore implies that if the internal audit is independent it can perform its mandate effectively.

Shred (2013) asserts that effectiveness is improved by measuring the things which have been done against what needs to be achieved. In this context internal audit effectiveness can be measured by assessing how far they have gone in an attempt to reach the objectives of their mandate.

Arena and Azone (2009) state that the effectiveness of internal audit is linked to certain items that group the main organizational dimensions some of which are: resources and competencies of an internal audit team and activities and processes performed by the internal audit function.
2.5 Key elements for effectiveness of internal audit in both the public and private sector

2.5.1 Resources and competencies of an internal audit team

Golen (2008) cites that the audit activity needs professional consistent employees that collectively possess essential qualifications and are competent enough to perform effectively full range of audits as expected. Internal auditors should be competent in fulfilling their duties and adhering to the applicable professional standards. Arena and Azone (2009) also add that the auditors' competencies can also increase the effectiveness of the IA team by improving the recognition of their role within the organization.

“Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twaijry, Brierley and Gwillian 2003)”, accessed on poli.aifa.ac.il on 6September at 11.00am.

According to Ahmed (2009) the size of internal audit department determines its position and results produced. Internal audit should be well resourced and funded in proportion with its size and mandate.

2.5.2 Activities and processes performed

“Formal auditing standards recognise that internal auditors also provide services regarding information other than financial reports. Formal auditing standards require auditors to perform their duties objectively and in compliance with accepted criteria for professional practice, such that internal audit activity will evaluate and contribute to the improvement of risk management, control and governance using a systematic and disciplined approach. This is essential in order to comply with legal requirements and the scope of an auditor's duties
could involve the assessment of areas in which a high level of judgement is involved, and audit reports may have an effect on the decisions or the course of action taken by management (Bou-Raad 2000)”, accessed on poli.haifa.ac.il on 8September at 3.00am.

Arena and Azone (2009) support this by citing some of the processes and activities performed by internal auditors which are linked to efficiency. Internal auditors can provide consulting services to assist the organization in identifying, evaluating, and implementing risk management methodologies and controls to address significant risks

2.5.3 Competent Leadership

According to Cohen and Sayag (2010) the chief audit executive should be an eloquent public spokesman of the audit activity. The chief or head auditor should be competent and possess adequate recruitment and selection skills. In addition, one has to be fully equipped with staff retraining and managing skills. Henceforth, the internal audit leadership should be competent, dedicated and qualified so as to manage and recruit qualified personnel. If management encourages the cooperation of internal and external auditors this promotes internal audit effectiveness.

2.5.4 Open or Unrestricted Access

Accessibility is promoted through uncompromised jurisdiction over all property of the concerned entity. Access is dwelt on in Section 88 of the Urban Councils Act Chapter (29:15). It stipulates that the audit committee, internal audit team and department and internal audit committee should have access to employees of the council, assets of the council and access to all accounting books of the council, records and minutes of the council.
2.5.5 A Formal mandate

Mulugeta (2008) asserts that public officials are public chambers. This implies that government officials’ actions and that of citizens should be steered by effective legislation. In auditing, the term formal mandate entails that the legal framework for instance the national audit charter and national constitution should establish and provide for the audit’s jurisdiction that is the duties and powers of audit. This would provide a guideline on issues such as audit decision making and reporting lines and would also oblige an organization to cooperate with its internal auditors.

2.5.6 Stakeholder support

Baltci and Yilmaz (2006) state that the goal and mission of the internal audit department should be clearly understood and greatly supported by a cross realm of locally elected and selected government officials, the internal public relations department and civil societies for instance residents associations. Organizations in the public sector seek to provide services to the people in their locality. In this regard local citizens should acknowledge legitimacy of internal audit activity and what it stands for.

2.5.7 Organizational Independence

Bou-Raad (2000) argued that the strength of an IA department must be assessed with respect to the level of independence it enjoys from management and from operating responsibilities. In addition Cohen and Sayag (2010) highlight that auditors should be sufficiently independent from those they are required to audit so that they can both conduct their work effectively and without interference. Together with objectivity, organisational independence contributes to the accuracy of the auditors’ work and gives employers confidence that they can rely on the results and the report.
2.5.8 Professional Audit Standards

Internal auditors have certain global guidelines or standards which they are supposed to adhere to in performing their mandate in any organization. The IIA’s (2005) International Standards for the Professional Practice of Internal Auditing (Standards) provide a unifying mechanism and framework for internal auditors to perform their procedures and to add value to the organizations they serve. The three primary purposes of the Standards are to inform internal auditors of their responsibilities, provide a method for performance measurement and to improve the overall practice of internal auditing (IIA, 2007, p. 3). The IIA is the internal audit profession’s global voice with global headquarters in Altamonte Springs, Florida; USA. Adherence to these standards enhances internal audit effectiveness.

2.6 Types of Audits performed in both the public and private sector

Bidgoli (2006) categorises the types of audits which can be performed by external, internal or government auditors into financial and non-financial audits. Financial audits focus on balance sheets and income statements, the two primary outputs of the financial reporting process. In addition Romney and Steinbart (2003) highlight that a financial audit examines the reliability of accounting records. The four types of non-financial audits are operational, information technology, performance and program and compliance audits.

2.6.1 Operational Audit

Romney and Steinbart (2003) state that an operational, or management, audit is concerned with the economical and efficient use of resources and the accomplishment of established goals and objectives. According to Bidgoli (2006) operational reviews ensure reliability and integrity of information, compliance with policies, procedures, laws and regulations and
safeguarding of assets such as inventories. Operational audits are mostly performed by internal auditors.

2.6.2 Information Technology/Information Systems Audit

Romney and Steinbart (2003) define an information systems (IS) audit as an audit which reviews the general and application controls in accounting information systems to assess its compliance with internal control policies and procedures and its effectiveness in safeguarding assets.

It determines the security, availability and integrity of information systems processing and the data they generate along with computer operations and telecommunications. (Bidgoli 2006:831)

2.6.3 Performance and Program Audit

Krages (2000) describes performance audit as an audit with objectives related to assessing a program’s effectiveness, results or achievements, relative economy and efficiency with which an activity is operated and value for money audits. Arter (2003) defines performance audit as an audit which analyzes efficiencies and business results. It looks at compliance to set rules, effectiveness of those rules for use and suitability of the rules for achieving an organization’s goals.

Athmay (2008) cites the benefits of a performance audit. It promotes more efficient and effective public management, supporting initiatives aimed for producing clear objectives, means to assess them, and measurements of outputs or performance in relation to those objectives, so as to achieve the best use of resources.
2.6.4 Compliance Audit

Is concerned with conformance of an organization to a set of rules or legal requirements. They are designed to give assurance that activities have been executed properly. Examples of compliance audits include tax audits, financial audits and regulatory audits. Regulatory audits are performed in order for government to standardize certain activities. This information was obtained from Arter (2003). Krages (2000) cites environmental compliance as a type of compliance audit. This entails reviewing organizational operations and assessing whether they comply with environmental laws. Bidgoli (2006) mentions that external auditors, internal auditors and governmental auditors perform compliance audits.

2.7 Challenges faced by Public Sector Internal Audit in promoting effectiveness

There is a myriad of challenges that internal audit faces globally. Chartered Institute of Internal Auditors (2013) highlighted that budget cuts for internal audit functions in the public sector is a major challenge. Cuts are a false economy if they lead to public money being wasted as a consequence of inadequate reporting; weak management of risk and insufficient scrutinising of processes for collecting data for decision making. Another problem which they cited is that most recommendations made by internal audit in the public sector are not being implemented by management. This has resulted in numerous project failures.

Kramer (2009) states that strong internal control is lacking in some organizations and there is much downsizing. In addition, there is lack of strategic feedback model which facilitates communication between the executive management and internal audit. In Zimbabwe, this necessitates awareness of the executive management and audit committee so that they adapt to ever changing regulatory pressures.

Institute of Directors in South Africa point out a specific challenge. Accountability, role clarity and reporting lines are not always clear in the public sector. The manner in which
some public sector entities are structured poses threats to the internal audit department which may impede their effectiveness.

There is also the problem that most audit practitioners are aware of the applicable standards in the public sector but are generally not applying them. Public sector internal audit has to move with the ever-changing social, economic, political and technological environments in which it operates.

2.8 Internal audit legislative and institutional framework in Zimbabwe

In Zimbabwe the Ministry of Local Government, Public Works and National Housing and Ministry of Public Finance are directly related to internal audit in local authorities. These ministries endeavour to provide guidance, regulatory and controlling function in all public entities. In both the Urban Council Act Chapter (29:15) and the Rural District Councils Act Chapter (29.13) there is no actual provision of internal auditors. The Urban Councils Act Chapter (29.15) emphasises on the appointment of the external auditor by the minister. In support of internal audit the Ministry of Local Government Public Works and National has advocated for internal audit by introducing the establishment of the audit committee.

Section 98 of the Urban Councils Act proceeds to outline the functions of the audit committee which are” to inquire into and report upon the manner in which the finances of the council, its assets and human resources are being used. Another function is to ascertain whether the funds and assets of the council are applied to the purposes intended and are consistent with any regulations and standing orders issued by the council, or the Minister, as the case may be.

The audit committee has the power to call for information, explanations and evidence in respect of any matters in respect of which the auditors have made observations and to receive and consider reports of internal and external auditors and make appropriate recommendations.
to the council. Section 98 also stipulates that the audit committee can recommend to the council appropriate methods of investment of moneys, and custody of any other properties of the council.”

The Ministry of Finance through the Public Finance Management Act chapter (22:19) provides for the roles of internal auditors in a ministry or any reporting unit of a ministry. Section 80, Subsection 3 of the Public Finance Management Act states that internal auditors shall” have free access to any accounting documents and public resources of the reporting unit concerned. They shall have direct access to the accounting officer of the ministry or concerned reporting unit and may at any time cause search to be made or extracts to be taken from any document under control of the ministry or reporting unit concerned. This gives powers to the internal auditor and enhances effectiveness if the legislation is rightfully implemented.”

2.9 Benefits of Internal Audit Effectiveness in the Public Sector

The effectiveness of the internal audit function in public sector organizations and generally in all organizations poses numerous advantages. Phillips (2008) cites improved customer satisfaction as a merit. The ultimate goal of any quality management system is improved customer satisfaction. In public sector context this implies better service provision to local citizens. Rehbin (2006) asserts that another benefit of internal audit effectiveness is that of enhancing good corporate governance, cited in Tsou and Wang (2008). Enhancement of corporate governance promotes key factors which are integrity, public satisfaction, capability and accountability. In addition Kramer (2009) states that many local authorities have been trapped into risks such as using sub economic valuation rolls and the result in charging poor sub economic tariffs that may lead to organizational collapse. Local authorities should ensure
that governance and compliance risks (GGR) is elevated and incorporated within the operating system to make sure it has a visible place with the leader for competence’s sake. Internal audit assists the organization to adapt to rapidly changing information technology and compliance risks which have broadened the activities of internal audit. Effective functioning of the internal audit department enables an organization to effectively curb risk.

Effectiveness of the internal audit function brings about the benefit of accountability in public sector organizations which can then be accountable to local citizens. Harmalin and Weisback (2007) postulate that accountability is the central to the decision making process. Accountability encompasses the alignment of power and stewardship to the interest of individuals, corporations and community. In local authorities it promotes fair, efficient and transparent administration to ensure that they meet set objectives and fulfil their mandate. Internal audit provides structures of operation that control institutions to achieve their vision and mission which is that of satisfying citizens, suppliers and financiers or creditors. The credibility of an organization and its reputation are upheld through internal audit social accountability, fidelity, integrity and honesty. These values can only be achieved by the internal audit function if it is effective.

Borgia (2005) asserts that investors and shareholders require information on knowledge of organizational objectives and about an organization’s operating and financial results. They need to be aware of potential future risks to rate investment capacity. Therefore, internal audit paves way and creates a platform for entities to provide reliable and accurate financial information which has been generated through adherence to professional auditing and accounting standards. This is therefore beneficial to an organisation. In addition, the comparability of financial information and uniform disclosure which are attained from
adhering to international accounting standards help investors in comparing and determining investment capacity. This allows corporate performance assessment and better decision making by stakeholders of an organization and also shareholders. This notion is supported by the Organization for Economic Cooperation and development (OECD) (2004).

2.10 Summary

The chapter gave an in depth explanation on the definition of internal audit, internal audit department and the audit committee and the roles they have in an organization. It also went on to look at the effectiveness and impact of different internal audit structures and how they contribute to internal audit effectiveness. The relationship between independence and effectiveness was also elaborated. Challenges and benefits of an effective public sector internal audit were researched on and also the legal framework present for public sector internal audit. The next chapter will focus on research methodology.
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter provides a detailed description of the research methodology utilised in carrying out this research. It gives an analysis of the research design, the population, the sample, instruments, data collection procedures, data analysis and pilot study. Firstly the research design is discussed then develops into an overview of data sources to be used, procedure of collecting data, analysis and summary. Information relating to the validity and reliability of the data to be presented using the various data presentation tools is also given.

3.1 Research Design

Bhattacherjee (2012) defines research design as an all-inclusive plan for data collection in an empirical research project. According to Cresswell (2008) research designs are methods and processes which advocate for investigating a study or project effectively by extraction of decisions from assorted hypothesis to detailed methods of data collection and analysis. Bhattacherjee (2012) goes on to say that a “research design is a ‘blueprint’ for empirical research aimed at answering specific research questions or testing specific hypotheses”

The qualitative approach has been engaged in extracting information on the effectiveness of internal audit. This was done in order to explore people’s feelings and perceptions. The function of research design is to discover actions required to undertake a study. Through qualitative research, the researcher was able to obtain information on peoples’ behaviour, perceptions and attitude. The researcher employed both quantitative and qualitative data collection in the research design with the aim of providing accurate findings.
3.1.2 Qualitative Research Design

Borrego et al (2009) is of the view that data collection and analysis, research questions, sampling are parts of a project which should be included when planning a qualitative research design for a particular study or investigation. Conversational analysis, interviews, observation, surveys and analysis of textual data are characteristics of qualitative research.

Tewksbury (2009) cites many merits of qualitative research and highlights that a depth of understanding of an investigation or study is attained by using qualitative research. In relation to this project an in-depth understanding and analysis of internal audit effectiveness should be achieved. Knowledge gained through qualitative investigations results in information which is more informative, richer and offers enhanced understanding in comparison with quantitative investigations. However, qualitative research design can be time consuming and expensive particularly when conducting interviews.

3.1.3 Quantitative Research Design

Examination of the relationships between one or more variables by way of testing objectives is quantitative research as defined by Creswell (2008). For analysis of numerical data by use of statistical procedures, instruments can be utilised to measure variables. Hopkins (2008) states that quantitative research design can either be descriptive or experimental. In a quantitative research the objective is to determine the relationship between an independent variable and a dependant or outcome variables. Descriptive research design was utilised in this project. Castillo (2009) defines descriptive research design as a scientific research technique which involves describing and observing the behaviour of a particular subject, without particularly influencing it in any way.
3.2 Target Population

Babbie (2012) defines target population as the aggregation of elements from which the sample is actually selected.

The total number of respondents that the researcher was interested in is the target population. The target population in this study is forty (40) people. This encompasses including the employees, workers committee members, management and councillors. The target population shall be extracted from all departments of the council namely Finance, Planning, Internal Audit Department, Engineering and Works, Administration and Social Services and Natural Resources and Conservation department. This is done to enhance validity and reliability of the information gathered.

**Table 1: Target Population**

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Management</td>
<td>7</td>
</tr>
<tr>
<td>Councillors</td>
<td>10</td>
</tr>
<tr>
<td>General employees</td>
<td>14</td>
</tr>
<tr>
<td>Workers Committee</td>
<td>5</td>
</tr>
<tr>
<td>Internal audit employees</td>
<td>4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>40</strong></td>
</tr>
</tbody>
</table>

3.2.1 Sampling

Holloway and Wheeler (2010) define sampling as the purposeful selection of an element of the whole population to gain knowledge and information.

Sampling has the merit of being cheaper than the census method of surveying the whole population. It also saves time and effort. Sampling assisted the researcher to extract
consistent and unbiased information on the population status in terms of the research problem.

3.2.1.1 Sampling Methods Utilised

3.2.1.2 Probability and Non probability Sampling

Probability sampling is when elements in the population have a known chance of being chosen as subjects in the sample. (Sekaran and Bougie 2010)

It involves random selection of respondents who participate in the research thus heightening the chances of any constituent of the study population to take part in the research.

Sekaran and Bougie (2010) define non probability sampling as a sampling method where elements in the population do not have any probabilities attached to their being selected as sample subjects.

3.2.3 Sampling Techniques

3.2.3.1 Proportional Stratified Sampling

This involves stratifying the population according to known traits then drawing the sample randomly in a similar proportion from each stratum of the population according to its proportion. Sekaran and Bougie (2010) cite that members represented from each stratum in the sample will be proportionate to the total number of elements in the respective strata.

3.2.3.2 Purposive Sampling

Gerrish and Lacey (2013) give the definition of purposive sampling as a sampling method where elements from a specified group are for specific reasons sought out and sampled. It is confined to specific types of people who can provide the desired information either because they are the ones who possess it or conform to some criteria set by the researcher. (Sekaran
and Bougie 2013). Purposive sampling was used because not all people are knowledgeable enough to provide reliable and valid information on internal audit effectiveness.

3.2.3.3 Simple Random Sampling

O’Leary (2004) states that simple random sampling is a sampling method where from the whole target population, each element is exposed equally to the chance of being selected. Sekaran and Bougie (2010) cite that although the sampling process can be cumbersome and expensive, it has the least bias and offers generalizability.

The following table relates to Sample Size:

**Table 2: Sample population**

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Population sample</th>
<th>Sampling method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td>7</td>
<td>6</td>
<td>Purposive sampling</td>
</tr>
<tr>
<td>Councillors</td>
<td>10</td>
<td>7</td>
<td>Random sampling</td>
</tr>
<tr>
<td>Employees</td>
<td>14</td>
<td>10</td>
<td>Stratified random sampling</td>
</tr>
<tr>
<td>Workers committee</td>
<td>5</td>
<td>4</td>
<td>Random sampling</td>
</tr>
<tr>
<td>Internal audit employees</td>
<td>4</td>
<td>3</td>
<td>Purposive sampling</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>40</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>
3.3 Sources of Data

The data sources used in this project encompass both primary and secondary data sources.

3.3.1 Primary Data Sources

This involves collecting information for the first time in research for instance extracting data from observations or interviewing respondents. Primary data usually reinforces and refines secondary data for a given research. Interviews and questionnaires were utilised to obtain information regarding this project.

3.3.2 Secondary Sources

Secondary data sources used in this study included internal sources of information such as audit reports and interim financial statements. Secondary data reviewed existing data that was originally collected for other purposes than the purpose at hand and data was provided in a way which made evaluation easy.

3.3 Research Instruments

In collecting data, both primary and secondary data collection instruments were used. Annum (2014) asserts that the appropriateness of research instruments utilised greatly influences the reliability and reliability of a research project. In a bid to achieve this, the researcher used questionnaires and interviews.

3.3.1 Questionnaires

Annum (2014) defines a questionnaire as an analytical document which contains a designed set of questions asked to get responses from research respondents for the purposes of data collection. Questionnaires are a quantitative data collection instrument.

Schonlau (2009) cites that open ended questions persuade the respondent to explain more when answering as compared to close ended ones which only allow for a yes or no answer which leave the researcher with less information.
Data obtained from questionnaires was easy to analyse and questionnaires allowed the researcher to be consistent in asking questions. However questionnaires had certain shortcomings. The respondents had limited knowledge which resulted in misunderstanding the questions or lack of information when responding to the questions.

**3.3.2 Interviews**

Face to face interviews were conducted with the participants. Interviews were used by the researcher to obtain information from the councillors, top management, workers committees and internal audit employees. Interviews posed an advantage to the researcher since they could take into account non verbal cues of the respondent and come up with a more credible judgment on responses given. In general interviews gave room for the researcher to obtain rich data. However, some interviewees may feel that other issues are sensitive or personal and thereby be guarded in answering questions.

**3.4 Data Collection Procedures**

Permission was sought to be able to access information relating to the organization under study, CRDC. This was done with the aid of a permission letter from the institute which confirmed that the research was strictly for academic purposes and that they were a student at Midlands State University. It also stated that the information gathered would be kept with utmost confidentiality. This was done because the student could not access the information of CRDC without their permission. A day was taken to go into the field and carry out the interviews and had informed the council beforehand so as to be accommodated. The researcher recorded the responses as the interviews progressed so as to capture all essential information.

**3.5 Validity and Reliability**

To ascertain that data collected was valid, the relevance of the data collected was considered in addressing the research questions and objectives of the study. Reliability can be termed as the
precision and accuracy of the instrument. The data collection techniques employed and sources where data was extracted were also reliable.

3.6 Data Analysis and Presentation

Data presentation and analysis will be basically in narrative form. These will be presented by qualitative statements of opinion and facts. In order to group and organise data tables will be used. They also ensure that data is manageable and easy to interpret and are effective in displaying summarised information accurately and concisely. Graphs were also employed due to the fact that they enable comparison and changes over time. Pie charts were used since they are easy to display and interpret data.

3.7 Summary

This chapter described the research design employed by the researcher. The target population and sampling methods and techniques selected and why they were chosen were discussed. The researcher went further to describe the research instruments to be utilised and data collection procedures to be followed in carrying out the research. Data analysis and presentation was also highlighted. The following chapter will elaborate on data presentation, analysis and interpretation.
Investigation on effectiveness of internal audit in public sector organisations:
The case of Chirumhanzu Rural District Council
CHAPTER FOUR
DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction
This chapter is an outline all the data collected by utilising interview guides and questionnaires as research instruments to investigate on the effectiveness of internal audit in public sector organisations specifically Chirumhanzu Rural District Council. Tables were used to present data obtained from different sorts and groups of respondents. The percentage rate shall be utilised to present the responses obtained from each class and sort. Analysis and interpretation of the data has been done in a simplified manner which enhances understanding. The percentage system has been utilised in a bid to provide a standard measure for effective analysis and interpretation. Conclusions and proposed recommendations will be made from the findings in this chapter. Tables, graphs, bar charts and pie charts shall be used for clear presentation, analysis and interpretation of data.
4.1 Response rate for questionnaires

Table 4.1: Questionnaire Response Rate

<table>
<thead>
<tr>
<th>Sample group (Departments)</th>
<th>Questionnaire given to respondents</th>
<th>Questionnaire Returned</th>
<th>Response rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>3</td>
<td>2</td>
<td>67%</td>
</tr>
<tr>
<td>Planning</td>
<td>1</td>
<td>1</td>
<td>100%</td>
</tr>
<tr>
<td>Finance</td>
<td>3</td>
<td>3</td>
<td>100%</td>
</tr>
<tr>
<td>Engineering</td>
<td>2</td>
<td>1</td>
<td>50%</td>
</tr>
<tr>
<td>Natural resources</td>
<td>1</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Councillors</td>
<td>7</td>
<td>5</td>
<td>71%</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>12</td>
<td>71%</td>
</tr>
</tbody>
</table>

Questionnaires were distributed to three respondents from the administration department, only two were returned and a total of 67% response rate was attained. Furthermore, there was a 100% response rate from the planning and finance department. From the engineering department two questionnaires were distributed and one was returned and the response rate 50%. However, the Natural resources department yielded a 0% response rate since no questionnaire was returned. Overall, the response rate for questionnaires was 12 out of 17 that is 71%. Therefore reliability of results was achieved because high response rate is a gauge of quantity assurance. Of the councillors 71% responded to questionnaires however, 29% did not return the questionnaires the reason being that they were not able to read and answer the questionnaires. In this context, accuracy of results found was diminished to some extent.
4.2 Background information for respondents

Table 4.2.1: Academic qualifications

<table>
<thead>
<tr>
<th>Category</th>
<th>Academic qualifications</th>
<th>Number</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Councillors</td>
<td>ZJC</td>
<td>4</td>
<td>57%</td>
</tr>
<tr>
<td></td>
<td>‘O’ Level</td>
<td>2</td>
<td>29%</td>
</tr>
<tr>
<td></td>
<td>‘A’ Level</td>
<td>1</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>Degree</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Internal auditors</td>
<td>ZJC</td>
<td>1</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>‘O’ Level</td>
<td>1</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>‘A’ Level</td>
<td>1</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>Degree</td>
<td>1</td>
<td>33%</td>
</tr>
</tbody>
</table>

This question sought to assess the competences of internal auditors and councillors who are part of the audit committee. According to the research, it was found that councillors have poor academic qualifications and low literacy rate as shown above. The greatest population of councillors which is 57% have Zimbabwe Junior certificate (ZJC), 29% have Ordinary level certificates and 14% Advanced level certificates. This shows that, effectiveness of internal audit is being affected, since councillors are individuals who are tasked to supervise internal audit are not adequately qualified and they preside over all internal audit activities through their audit committee (Section 97 of the Urban Councils Act). Golen (2008) cites that audit activity requires professional, consistent employees that collectively possess essential qualifications and are competent enough to perform effectively full range of audits as expected.
4.3 Working experience

Table 4.3.1: Working experience of the respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of working experience (years)</th>
<th>Number of respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General employees</td>
<td>0-5</td>
<td>1</td>
<td>10 %</td>
</tr>
<tr>
<td></td>
<td>5-10</td>
<td>3</td>
<td>30 %</td>
</tr>
<tr>
<td></td>
<td>10-15</td>
<td>4</td>
<td>40 %</td>
</tr>
<tr>
<td></td>
<td>15-20</td>
<td>2</td>
<td>20 %</td>
</tr>
<tr>
<td>Councillors</td>
<td>0-5</td>
<td>5</td>
<td>71 %</td>
</tr>
<tr>
<td></td>
<td>5-10</td>
<td>2</td>
<td>29 %</td>
</tr>
<tr>
<td></td>
<td>10-15</td>
<td>0</td>
<td>0 %</td>
</tr>
<tr>
<td></td>
<td>15-20</td>
<td>0</td>
<td>0 %</td>
</tr>
<tr>
<td>Internal audit employees</td>
<td>0-5</td>
<td>1</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>5-10</td>
<td>1</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>10-15</td>
<td>1</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>15-20</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Top management</td>
<td>0-5</td>
<td>3</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>5-10</td>
<td>3</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>10-15</td>
<td>0</td>
<td>0 %</td>
</tr>
<tr>
<td></td>
<td>15-20</td>
<td>0</td>
<td>0 %</td>
</tr>
</tbody>
</table>

This question aimed to assess the working experience of respondents since those who have worked there longer had a better chance of providing reliable responses.
According to the research 10% of general employees have 0-5 years working experience and 40% which is the highest percentage have 10-15 years working experience; as such there is high chance of establishment of informal relationships with internal audit which affects capacity of operation and delivery of internal audit department. Moreover, 71% of councillors have 0-5 years working experience and also internal audit has 33% of employees who have 0-5 years working experience. Furthermore, 33% of internal audit have 10-15 years working experience. In addition, top management has 50% people who have 10-15 years experience. Al-Twairy, Brierley and Gwilliam (2003) purport that an audit requires professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits requirements.

4.4 Functions of Internal Audit

Table 4.4.1: Knowledge of Internal Audit Functions

<table>
<thead>
<tr>
<th>Category ticked</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>75</td>
</tr>
<tr>
<td>No</td>
<td>17</td>
</tr>
<tr>
<td>Not Sure</td>
<td>8</td>
</tr>
</tbody>
</table>

To be able to obtain findings on the effectiveness of internal audit, it was necessary to find out if the respondents knew the functions of internal audit. From the questionnaires, 75% responded that they knew the roles of internal audit in an organisation. Those who did not know the functions of internal audit were 17% and those who were not sure were 8%.
4.5 Influence of Internal Audit on Management

Table 4.5.1: Internal audit influence on management

<table>
<thead>
<tr>
<th>Category ticked</th>
<th>Total percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positively</td>
<td>74</td>
</tr>
<tr>
<td>Negatively</td>
<td>15</td>
</tr>
<tr>
<td>Not sure</td>
<td>11</td>
</tr>
</tbody>
</table>

This question sought to establish the way in which internal audit influences management. The table shows that employees of the council know the importance of internal audit and that it influences the management. Those who agreed that internal audit positively influences management are 74%, 15% were of the opinion that internal audit influences management negatively. It also highlighted that at times management may be reluctant to implement internal audit recommendations. However, 11% from the questionnaire were not sure whether the internal audit influences the management positively or negatively.

4.6 Size of Internal Audit Team

Respondents were asked if the size of the internal audit team was proportional to the size of the organization and work to be done. This was to establish if internal audit was adequately staffed.
When asked if the size of the internal audit team was proportional to the amount of work to be performed and size of the organization 8% agreed that it was proportional. Those who were not sure were 17% while the majority of respondents, 75% stated that the size of internal audit team, work to be done and size of the organization did not complement each other. Ahmed (2009) highlights internal audit size as an essential factor influencing results produced.
4.7 Effect of Internal Audit Reporting Structures on internal audit effectiveness

From this question information was sought to determine the responses on how the reporting structure for internal audit affects effectiveness.

![Effect of Reporting structure on Internal audit effectiveness](image)

**Fig 4.7.1: Effect of reporting structure on internal audit effectiveness**

The majority, which is 58% of the respondents, felt that the reporting structure whereby the Chief Audit Executive reports to the Chief Executive Officer had a negative effect on internal audit effectiveness. Other respondents, 25% felt that the reporting structure had a positive impact on internal audit effectiveness and 17% were not sure. Institute of Internal Auditors (2004) insists that the CAE should report functionally to the audit committee. This reasoning is based on the argument that the functional reporting line for the internal audit function is the ultimate source of independence and authority.
4.8 Implementation of Internal Audit Recommendations

Table 4.8.1 Whether management implements internal audit recommendations

<table>
<thead>
<tr>
<th>Category Ticked</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>25</td>
</tr>
<tr>
<td>No</td>
<td>50</td>
</tr>
<tr>
<td>Partially</td>
<td>17</td>
</tr>
<tr>
<td>Not Sure</td>
<td>8</td>
</tr>
</tbody>
</table>

The objective of this question was to ascertain the extent to which recommendations from internal audit are implemented by management. Those who agreed that management implements internal audit recommendations were 25% while 50% disagreed. Those who thought recommendations were implemented in part were 17% and 8% were not sure. Burnaby and Hass (2011) assert that internal audit adds value by making suggestions for system improvements and to provide assurance on the adequacy of system controls to stakeholders at all levels. This supports the view that management should take internal audit recommendations into consideration.

4.9 Effectiveness of internal audit

The objective of this question was to obtain the views of the respondents on whether or not the internal audit department is effective.
Fig 4.9.1: Internal Audit Effectiveness

From the respondents who were given questionnaires 58% responded that internal audit is not effective, 25% responded that internal audit is effective and 17% reflected that they were not sure. In this context, the research revealed that internal audit is not that effective although looking at some perspectives it can be argued that it is partially effective.

Arena and Azonne (2009) state that the effectiveness of an internal audit function is related to certain items that group the main organizational dimensions. Resources and competencies of an internal audit team and activities and processes performed by the internal audit function can determine the effectiveness of internal audit.

4.10 Types of Audits Performed

Information on the types of audits performed was sought from respondents through this question.
Fig 4.10.1: Types of Audits

In this perception, 33% of the respondents agreed that operational audit is done simultaneously another 33% agreed that Financial audit is the most common, 18% of respondents were not sure if any of the audits were executed and lastly only 8% agreed that Compliance audit is done. However another 8% agreed that all the types of audit are done at the council. In this view, it is argued that operational and financial audits are the most common audits done.

Bidgoli (2006) states the types of audits which can be performed by external, internal or government auditors in a bid to achieve their mandate. These are operational, compliance, performance, financial and non financial audits. This implies that these audit types are essential and can be performed where necessary to enhance effectiveness. All types of audits should be done fairly and equally according to the Institute of Internal Audit (2004) International Audit Standards as such, one is bound with the thoughts to unfold that internal audit is not effective to some extent.
4.11 Benefits of Effective Internal Audit

This question aimed to obtain responses on the merits or advantages of effective internal auditing.

**Fig 4.11.1: Benefits of effective internal audit**

In this context, 40% of the respondents agreed that accountability is a merit of effectiveness of internal audit. Furthermore, 30% agreed that organizational independence is a benefit of internal audit effectiveness, 20% cited that transparency comes as a result of internal audit effectiveness and ultimately 10% were of the view that effective risk management will be enhanced if the internal audit function is efficient and effective in performing their mandate.

Brewer (2010) states that organizational effectiveness results from internal audit effectiveness and it is determined by what has been attained. It entails whether internal audit is able to meet set targets or not. Performing effectively means that the right work is being completed. In addition, effective risk management is also given as an advantage of internal audit...
effectiveness (Kramer 2009). Hence, to sum up, effectiveness of internal audit is not essential to operational activities of the council only but a door way to other stakeholders and this induces confidence to the employees and to citizens promoting service delivery and good governance image.

4.12 Challenges faced by internal audit

The question aimed to acquire information on the impediments facing internal audit.

According to the pie chart above 30% responded that political influence is the major challenge affecting internal audit at the council, 20% agreed that management influence might have affected effectiveness of internal audit since internal auditors are permanent employees of the council and their grades and powers are less than the management. Furthermore, from the questionnaire responses in Fig 4.7.1, it was found that 58% thought the reporting structure was weak and this posed a serious challenge whereby the internal audit department reports to the Chief Executive Officer (CEO). Braiotta (2004) asserts that...
Investigation on effectiveness of internal audit in public sector organisations: The case of Chirumhanzu Rural District Council

the Chief Audit Executive should have regular and confidential access to the audit committee to facilitate the discussion of sensitive issues, particularly those affecting management.

Those who concurred that weak reporting structure is a challenge were 25%. Apart from this, according to 17% of the respondents, familiarity is another serious impediment that undermines effectiveness of internal audit.

4.13 Response rate from interviews

Table 4.13: Interview Response Rate

<table>
<thead>
<tr>
<th>Sample group</th>
<th>Designed quantity of interviews</th>
<th>Actual completed</th>
<th>Response rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td>6</td>
<td>4</td>
<td>67%</td>
</tr>
<tr>
<td>Internal audit</td>
<td>3</td>
<td>3</td>
<td>100%</td>
</tr>
<tr>
<td>Workers Committee</td>
<td>4</td>
<td>3</td>
<td>75%</td>
</tr>
<tr>
<td>Total</td>
<td>13</td>
<td>10</td>
<td>77%</td>
</tr>
</tbody>
</table>

As show by the table above, 13 interviews were scheduled and 10 were done that is an overall response rate of 77%. The response rate for top management was 67% since some were absent and were attending a workshop. All of the internal audit employees were interviewed giving a response rate of 100%. The workers’ committee response rate was 75% because one was absent from work due to illness.

4.14 Internal audit effectiveness

This question’s objective was to assess knowledge on what respondents knew about effectiveness of internal auditing. Most of the interviewees (80%) when asked seemed to know about internal audit effectiveness since they were able to outline the functions of internal audit and what is expected of it to be effective. However, 20% could not say anything
tangible on internal audit effectiveness since they merely knew that internal audit was only a department of the organisation. Therefore as outlined in the questionnaire responses in Table 4.4.1 where 75% stated that they knew the functions of internal audit, knowing the functions of internal audit in an organization implies knowing its objectives and what is expected of it to be effective. Shred (2013) states that measuring what has been done against what needs to be achieved enhances effectiveness.

4.15 Effect of Internal audit reporting structures on effectiveness

Of the interviewees, all of the respondents from the internal audit department, one from top management and two from the workers’ committee highlighted that the reporting structure was weak and impaired internal audit effectiveness. This was supported by findings from Fig 4.7.1 which highlighted that 58% of the respondents felt that the prevailing reporting structure had a negative impact on internal audit effectiveness. Two of the respondents from top management argued that it enhances effective internal auditing. The remaining respondent from top management stated that the present reporting structure caused the internal audit to be partially effective while one workers’ committee member was not sure. Goodwin (2003) states that when the Chief Audit Executive reports to the Chief Executive Officer, this undermines effectiveness especially when reporting on issues concerning management. This is also supported by Institute of Internal Audit (2004) which stipulates that the chief audit executive (CAE) should report to a level within the organisation that allows the internal audit function to accomplish its activities. This implies that the internal audit reporting structure in an organisation has a huge bearing on effectiveness.
Investigation on effectiveness of internal audit in public sector organisations:  
The case of Chirumhanzu Rural District Council

4.16 Size of Internal Audit Compliment  
Of those asked if size of internal audit compliment affects effectiveness 6 respondents seemed to agree arguing that the number of internal audit employees should be commensurate with the size of the organization and audit activities to be performed. These were all internal audit employees interviewed, 3 from top management and 1 workers’ committee member. One of the interviewees from the workers’ committee disagreed and the remaining 2 from top management and workers’ committee agreed in part. Only 1 respondent from the workers’ committee was not sure as they pointed out that they were not well versed with internal auditing. Questionnaire responses from Fig 4.6.1 also supported these findings since the majority of 75% stated that the size of internal audit was not proportional to size of organization and amount of work to be done. According to Ahmed (2009) the size of internal audit department determines its position and results produced. Therefore it was found that the number of internal audit employees does not complement the amount of work to be done thereby undermining effectiveness.

4.17 Effect of relationship between internal audit and management on internal audit effectiveness  
When this question was asked, the objective was to establish whether the relationship between internal audit and management influences effectiveness. From the interview, 70% responded that the relationship between management and internal audit has a bearing on internal audit effectiveness. An internal audit employee who was interviewed indicated that there needs to be good communication lines between management and internal audit to enhance internal audit effectiveness. Fig 4.5.1 questionnaire responses indicate that internal audit influences management in a positive manner since 74% of the respondents agreed. This is supported by Morris (2009) who postulates that there needs to be a close working relationship between head of internal audit and executive directors to enhance effectiveness.
There is the issue of familiarity between internal audit and top management which may exist especially if they have been with the organization for long. However, 30% seemed to think that the relationship between management and internal audit has no effect whatsoever on internal audit effectiveness.

4.18 How internal audit addresses issues of employee corruption when they arise

This question was asked to find out how internal audit deals with issues of employee corruption in the organisation. Of those interviewed 2 respondents from the workers’ committee stated that they did not know how internal audit deals with cases of employee corruption. The responses given by the remaining internal audit, top management and workers’ committee members showed that internal audit documents the cases and reports them to the Chief Executive Officer who together with other members of management decides on the course of action to take. IIA(2009) states that internal audit 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. By dealing with employee corruption internal audit curbs risk and improves corporate governance.

4.19 Implementation of internal audit recommendations

The purpose of this question was to find out if management takes into consideration recommendations from internal audit. In the interviews, all internal audit members stated that what they recommended was noted but at times was never implemented. However most of the members of top management argued that they had the intention of considering recommendations by internal audit but were hindered by factors such as funding. Table 4.8.1 from questionnaire responses reveals that the majority of 67% stated that recommendations were either partially implemented or not at all. Gallegos (2002) highlights the importance of having an audit function which assists in adding value to organisations. Therefore if
recommendations are not implemented this defeats the purpose of value addition by internal audit to some extent.

4.20 Effectiveness of the internal audit department

The interviewees were asked this question with the aim of obtaining responses on whether or not the internal audit department is effective. In the interviews conducted, 3 respondents agreed that the internal audit department was effective. However 6 responded that internal audit was ineffective pointing out that the reporting structure was weak and management was reluctant to implement some recommendations given by the internal audit department. Only one respondent was not sure. This is also revealed in Fig 4.9.1 where responses from questionnaires highlighted ineffectiveness of internal audit. Gallegos (2002) highlights that if an audit function can add value to an organisation it is independent and effective. Most responses however highlighted the challenges impeding the internal audit department to effectively add value to organisation.

4.21 Problems faced in promoting independence and effectiveness of internal audit

This question sought to get information on the problems faced in promotion of internal audit independence and effectiveness. From the interviews conducted, it was gathered from internal audit employees that some of the problems affecting independence and effectiveness of internal audit are the number of internal audit employees in proportion to the size of the organization and duties to be performed by internal audit. Another issue which arose from the responses was that of unskilled or inexperienced councillors in the audit committee who are not well versed with the internal audit operations. Weak internal audit reporting structures were also mentioned as an obstacle to effectiveness. This is supported by questionnaire findings from Fig 4.12.1 where internal audit challenges are stated and 25% stated that weak reporting structure was a major challenge, 20% agreed that influence of management was a problem and 17% agreed that familiarity was a threat to internal audit effectiveness. Arena
and Azonne (2009) assert that appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. Therefore the audit committee and internal audit team should comprise of competent members to enhance effectiveness.

4.22 Benefits of internal audit effectiveness

The objective of this question was to ascertain responses on the advantages of internal audit effectiveness. The merits of internal audit effectiveness from the responses given from the interviews were improved service delivery to the public. Other interviewees from internal audit and the workers’ committee said accountability and transparency at the council could be enhanced by internal audit effectiveness. Fig 4.11.1 findings from questionnaire responses also reveal that 20% cited transparency as a benefit and 40% stated that accountability was a benefit of internal audit effectiveness. Another advantage cited by top management and workers’ committee members was that it enhances corporate governance as supported by Tsou and Wang (2008). In addition, Phillips (2008) cites improved customer satisfaction as a benefit of internal audit effectiveness. Harmalin and Weisback (2007) supported the interview responses by mentioning that the credibility of an organization and its reputation are upheld through internal audit social accountability, fidelity, integrity and honesty and this can only be achieved if internal audit is effective.

4.23 Analysis of Secondary Data

This analysis was done to reinforce findings from questionnaires and interviews. During the research current information was sought a in a bid to investigate more on internal audit effectiveness

The following is an extract of Notes to the financial statements taken from the interim financial statements:
Chirumhanzu Rural District Council

Notes for the half year ended 30 June 2014

Note 4. The company experienced an accumulated deficit of $15 500. Of this amount $5000 is attributable to misappropriation of funds by a senior management employee in May 2014.

Source: Interim Financial Statements for half year ended 30 June 2014

From the information above, misappropriation of public funds was still evidenced indicating lack of effective risk management and controls. This implies that recommendations made in the previous audit have not yet been implemented thereby undermining effectiveness.

4.24 Summary

This chapter articulated and presented all the data and findings that were excavated. Responses from questionnaires were represented by use of tables, pie charts and graphs accordingly. Interview responses were stated and the data analysed. All this was in a bid to analyse factors affecting internal audit effectiveness. It was found that factors such as number of internal audit staff, reporting structure and non implementation of recommendations by management impede internal audit effectiveness. The types of audits to be performed, challenges and benefits of internal audit effectiveness were also investigated on. This has paved way for chapter five giving conclusions and specific recommendations to the problems detected in this chapter.
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter shall provide a summary of what the research was dwelling on. It shall also give conclusions regarding effectiveness of internal audit in public sector organizations particularly Chirumhanzu Rural District Council and proceed to give recommendations on how internal audit can overcome the challenges they face so as to be effective in performing their mandate.

5.1 Chapter Summaries

The main aim of this research was to investigate on effectiveness of internal audit in public sector organisations. This was in a bid to improve service delivery to citizens.

The first chapter dwelt on the background of the study where the organization and its operations were introduced and the problems instigating the research were highlighted. The objectives of the study were to investigate the independence and effectiveness of internal audit reporting structures, to determine types of audits which can be undertaken to promote effectiveness, to assess the challenges faced by internal audit in promoting effectiveness, to examine the benefits of internal audit effectiveness and to recommend possible solutions or suggestions which can be adopted to promote internal audit effectiveness at Chirumhanzu Rural District Council.

In chapter two, literature from other authors was sought to get their views. Literature reviewed what internal audit is and the functions of internal audit department. The audit committee and its functions were also discussed. Different views on the appropriate internal auditing reporting structures were sought from authors. Most were of the opinion that internal audit should report to the audit committee functionally and administratively to the Chief
Executive Officer to promote internal audit effectiveness and independence. Apart from this there are key elements of internal audit effectiveness which are competent leadership, unrestricted access, sufficient funding, competent staff, a formal mandate, organizational independence, professional audit standards and stakeholder support. Compliance, performance, operational and financial audits are some of the forms of audit which if appropriately performed enhance internal audit effectiveness. Challenges facing internal auditors were also discussed.

Research methodology comprised of both qualitative and qualitative research designs. The descriptive research design was utilised for the purposes of this project. The target population was forty (40) people and a sample of 30 people was taken and the descriptive research design was employed. Probability and non probability sampling were both used in this research. Probability sampling was used through stratified sampling and simple random sampling. Non probability sampling was used through purposive sampling in selection of internal audit employees and top management. Questionnaires and interviews were employed to obtain responses on the required information on internal audit effectiveness. The use of primary and secondary data was employed to strengthen sources from both interviews and questionnaires. Pie charts, tables and graphs were used to present research data in a vivid manner which could be easily interpreted. Secondary data sources were also analysed.

Major Findings

5.12 Independence and effectiveness of internal audit reporting structures

It was found that the reporting structure where internal audit or the CAE reports to the Chief Executive Officer impairs independence. This reduces internal audit effectiveness since it poses difficulties for internal audit to report findings or matters which are sensitive and implicate management.
5.13 Forms or types of audits which can be undertaken to promote effectiveness

The research revealed that many forms of audits are done in public sector internal audit and these should be performed when appropriate to enhance effectiveness. Compliance audits should be performed to check adherence to set policies, regulations and controls. Operational, financial were found to be some of the audit types performed to promote effectiveness.

5.14 Challenges faced by internal audit in promoting effectiveness

The challenges which impede effectiveness of internal audit that were found are weak internal audit reporting structures. It was also found that the size of internal audit compliment is not proportional to the size of the organisation and the duties that internal audit is expected to perform. Some of the councillors who are part of the audit committee were found to be unskilled and inexperienced in internal audit issues thereby hindering effectiveness. Influence of management in a negative manner and familiarity are some of the hindrances that were noted from the research. The existence of all these factors in an organisation negates internal audit effort to be independent and achieve efficiency and effectiveness.

5.15 Benefits of internal audit effectiveness

Improved service delivery and organizational independence were found to be the merits of having an effective internal audit function. It was also found that effective risk management is achieved through internal audit effectiveness. Transparency and accountability of internal audit and the organisation at large to stakeholders is enhanced by the effectiveness of internal audit. The research also revealed that effectiveness of the internal audit department enhances corporate governance.

5.2 Conclusions

The major objective of this study was to investigate on the effectiveness of internal audit in public sector organisations particularly Chirumhanzu Rural District Council. It aimed to
expose issues or concerns that impede internal audit effectiveness and find a way to solve those problems. The objective of the project was attained since it unearthed the factors undermining internal audit effectiveness. Internal audit reporting structure was the key challenge that was found to be causing internal audit effectiveness. The research was a success as the research objectives are met.

5.3 Recommendations

Basing on research findings the following was recommended:

5.3.1 Reporting Structure within the organisation

Internal audit should report functionally to the audit committee and administratively to the Chief Executive Officer to promote independence and effectiveness (IIA 2004) There should be a close working relationship and good communication lines between internal audit and the audit committee.

5.3.2 Reporting to an independent, separate entity

In a bid to promote independence and effectiveness internal audit could report its findings to a separate body outside the organisation such as the Ministry of Local Governance or the Anti Corruption Commission of Zimbabwe.

5.3.3 Independent Internal Audit Department

To maintain independence, the internal audit department ideally should be established outside of the organization. It should have separate operational systems and exist as a self sustaining body. This would promote efficiency and effectiveness.

5.3.4 Cooperation of internal audit and management

Internal audit and management should complement each other. This can be done by management taking note of internal audit recommendations and implementing them
accordingly. Morris, McKay and Oates (2009) state that there needs to be a close working relationship and cooperation between internal audit and executive directors. This cooperation achieves not only internal audit effectiveness but ultimately contributes to overall organizational effectiveness.

5.3.5 Competent and experienced personnel

Councillors and internal audit employees should be adequately skilled, qualified and competent so as to ensure effective running of both the audit committee and internal audit department in fulfilling their mandate. Arena and Azone (2009) assert that internal audit requires competent and qualified staff to increase effectiveness.

5.3.6 Size of internal audit

The number of internal audit staff should be commensurate with the tasks to be performed and the size of the organisation. New qualified and competent staff should be recruited so that they work hand in hand with the existing internal audit team to improve efficiency and effectiveness. Ahmed (2009) states that internal audit should be proportional to its size and mandate.

5.3.7 Unrestricted Access

Unrestricted access to organizational operations should be given to internal audit in the public sector so that they can freely perform their duties. Section 88 of the Urban Councils Act stipulates that internal audit department and audit committee should have open access to all assets, records, accounting books and employees of a council.

5.4 Suggested areas of further study

Areas of study for consideration in order to overcome the challenges faced by internal audit, there is need to look at conformance to professional accounting and audit standards by both
Investigation on effectiveness of internal audit in public sector organisations:  
The case of Chirumhanzu Rural District Council

management and internal audit, independence of internal audit and the relationship between internal audit and audit committee.
Investigation on effectiveness of internal audit in public sector organisations: The case of Chirumhanzu Rural District Council

Reference List


Van der Nest, D.P (2008), *The Perceived Effectiveness of Audit Committees in the South African Public Service*, Department of Auditing, Tshwane University of Technology


Investigation on effectiveness of internal audit in public sector organisations:
The case of Chirumhanzu Rural District Council


Investigation on effectiveness of internal audit in public sector organisations: 
The case of Chirumhanzu Rural District Council


Romney, M.B, Steinbart, P.J, (2003), Accounting Information Systems 9\textsuperscript{th} Ed, Prentice Hall Business Publishing


Investigation on effectiveness of internal audit in public sector organisations:  
The case of Chirumhanzu Rural District Council


Deloitte n Touche (2011)*Optimising the role of Internal Audit in the Sarbanes-Oxley Era*


Institute of internal auditors,” *The Role of Internal Auditing in Enterprise-wide Risk Management*, September 29 2011


*Audit and Risk: Insights from the Chartered institute of internal auditors,”* Public Sector: Internal Audit’s Critical Role’, November 11 2013
Investigation on effectiveness of internal audit in public sector organisations:
The case of Chirumhanzu Rural District Council

http://www.theiia.org...accessed on 27 August 2014 at 17.45hours.

http://www.deloitte.com......accessed on 3 September 2014 at 18.00hours.

http://www.poli.haifa.ac.il....accessed on 5 September 2014 at 06.15hours.

http://www.meditari.org...accessed on 6 September 2014 at 16.33hours.


Chirumhanzu Rural District Council, Internal Audit Department Minutes, March (2013)

Chirumhanzu Rural District Council, Internal Audit Department Minutes, July (2013)

Chirumhanzu Rural District Council, Interim Financial Statements for half year ended 30 June 2014
APPENDIX 1: Cover Letter

Midlands State University

P Bag 9055

Gweru

18 September 2014

The Chief Executive Officer

Chirumhanzu Rural District Council

44 Nepier Road

Box 27

Mvuma

REF: APPLICATION TO CONDUCT A RESEARCH AT YOUR ORGANISATION

I am a fourth year student at Midlands State University currently studying towards the completion of a Bachelor of Commerce Accounting Honours Degree. I am seeking your permission to conduct my research at your organisation on the topic: **An investigation of the effectiveness of internal audit in public sector organisations: Case of Chirumhanzu Rural District Council.**
All information sought from your organisation will be kept confidential since the research is strictly for academic purposes only.

I am looking forward to your assistance.

Yours faithfully

Isabel T. Ingwani
APPENDIX II: Questionnaire

My name is Isabel T. Ingwani, studying towards completion of a BCom Honours Degree in accounting at Midlands State University. I am conducting a research on Effectiveness of internal audit in public sector organizations: Case of Chirumhanzu Rural District Council. I kindly request for your assistance by responding to all the questions included in this questionnaire. Your response shall be used for academic reference only and kept confidential.

INSTRUCTIONS

i) Tick [✓] where applicable.

ii) May you please respond and provide answers on the spaces provided below.

iii) Names on this questionnaire are not allowed to promote confidentiality.

SECTION A

Background Information

Tick [✓] the suitable answer.

1) Academic qualifications

‘O’ Level [ ]

‘A’ Level [ ]

Degree [ ]

2) Professional Qualifications
Investigation on effectiveness of internal audit in public sector organisations:  
The case of Chirumhanzu Rural District Council

3) Employee Department

- Administration
- Engineering
- Finance
- Internal Audit
- Planning
- Natural resources

4) Working experience

- 0-5 years
- 5-10 years
- 11-15 years
- 15+ years

SECTION B

Tick [√] the most appropriate answer on questions below.

5a) Do you know the functions of internal audit?

- YES
- NO
- NOT SURE

5b) If you ticked yes describe what they are. Tick the most appropriate [√]

- It is concerned with planning
- It is a department which handles finance
- It is a section under engineering department
- It is an independent and objective activity that adds value to an organization

6) Do you think the size of internal audit team is proportional to the size of the organization and work to be performed?

- YES
- NO
- NOT SURE
Investigation on effectiveness of internal audit in public sector organisations: The case of Chirumhanzu Rural District Council

7) The internal audit team or department of CRDC is effective.
   YES [     ]
   NO [     ]
   NOT SURE [     ]

8a) Internal audit department reports to whom?
   Citizens [     ] Chief Executive Officer [     ] HR manager [     ] Not sure [     ]

8b) How do you think the current internal audit reporting structure affects effectiveness?
   POSITIVELY [     ] NEGATIVELY [     ] NOT SURE [     ]

9) How does internal audit influence management in decision making?
   POSITIVELY [     ] NEGATIVELY [     ] NOT SURE [     ]

10) Does management effectively implement recommendations from internal audit?
    YES [     ] PARTIALLY [     ] NO [     ] NOT SURE [     ]

11) Which type of audit is used by internal auditors at CRDC?
    Operational audit [     ]
    Performance audit [     ]
    Compliance audit [     ]
    Financial audit [     ]
    All of them [     ]
    Not sure [     ]

12) What challenges are faced by CRDC in promoting internal audit effectiveness?
13) What are your recommendations in promoting internal audit effectiveness?
APPENDIX II: INTERVIEW GUIDE

My name is Isabel T.Ingwani. I am studying towards the completion of a BCom Honours Degree in Accounting at Midlands State University. I am researching on **Effectiveness of internal audit in public sector organizations: Case of CRDC.** I kindly request for your assistance by responding to all the questions included in this interview guide. Your response shall be used for academic reference only hence shall be kept confidential.

**Interview guide**

Interview guide for CRDC employees in order to obtain information about **Effectiveness of internal audit in public sector organizations: Case of Chirumhanzu Rural District Council.**

Date of interview……………………………………

**INTERVIEW QUESTIONS**

1. What do you know about effectiveness of internal audit?
2. What do you think of the present internal audit reporting structure?
3. How does the relationship between the management and internal audit department affect efficiency and effectiveness of internal audit at your organization?
4. Do you think size of the internal audit team affects effectiveness?
5. Do you think the internal audit department at your organisation is effective?
6. How does internal audit address issues of employees’ corruption when they arise?

7. Are internal audit recommendations implemented in the council?

8. What problems have you faced in promoting independence of internal audit as well as effectiveness?

9. What are the benefits of internal audit effectiveness?

10. What recommendations can you give to enhance internal audit effectiveness at CRDC?
Investigation on effectiveness of internal audit in public sector organisations: The case of Chirumhanzu Rural District Council