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DEPARTMENT OF ACCOUNTING

**AN INVESTIGATION ON THE NEED FOR INTERNAL AUDITING IN RISK
MANAGEMENT – (A CASE OF JAMES NORTH ZIMBABWE (PVT) LTD)**

SUBMITTED BY

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*The dissertation is submitted in partial fulfillment of the Bachelor of Commerce Accounting
Honours Degree at
Midlands State University*

GWERU, ZIMBABWE

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APPROVAL FORM

The undersigned certify that they have supervised the student's dissertation entitled: An investigation on the need for internal auditing in risk management submitted in Partial fulfilment of the requirements of the Bachelor of Commerce Accounting Honours Degree with Midlands State University.

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RELEASE FORM

REG NO. OF AUTHOR: R112710W

DISSERTATION TITLE: An investigation on the need for internal auditing in risk management at James North Zimbabwe

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DATE November 2015

DEDICATION

This research is dedicated to my mother C. Chinjo, my aunt C. Madhaka, my brother Justice, my inspiring sister Janet, my beloved daughter Tiara, Timothy, Joshua and Patience May God take care of them. Thank you for all your support, in making this research a success. I love you so much. May God bless you.

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ABSTRACT

The aim of this research was to investigate the need for internal auditing in risk management at James North Zimbabwe (Pvt) Ltd. This research was triggered by the fact that the company is experiencing escalating levels of business risks yet the company has no internal audit function. A census of James North Zimbabwe employees was conducted and the researcher collected primary data through interviews and questionnaires. Data was analysed and presented in form of tables, pie charts and graphs. The study revealed that the absence of an internal audit function at JNZ is contributing to the increase in business risks in the company. The study also provided the practices that can improve JNZ's risk management processes.

CHAPTER ONE

1.0 Introduction

This chapter covers the background of the study, statement of the problem, , sub research questions aiding information gathering, main research question ,research objectives, significance of the study, delimitations ,limitations, definition of terms and chapter summary.

1.1 Background of the study

James North Zimbabwe (Pvt) Ltd (JNZ) is a manufacturing concern specialising in a wide range of protective clothing, rainwear and tarpaulins. Over the ages the dynamics in market relations have amplified the uncertainty of the commercial environment where business entities operate thereby making risk an inherent part of business and public life (Ayagre, 2014). Like any other entity, JNZ is also vulnerable to a number of risks, which include operational threats, financial threats, strategic risks as well as compliance threats; these are evidenced by back log issues (Minutes for accounts meeting July, 2014), improper application of accounting standards for instance assets having a negative carrying amounts (April Asset Register, 2014), rising amounts of credit losses written off annually (JNZ Debtors Age analysis 2014) and shifts in customer demand respectively. The escalating levels of credit losses written off annually are indicated in table 1.1 below:

Table 1.1: Extract of JNZ Credit losses written off schedule

Year	2011	2012	2013	2014
Total credit losses written off	\$147 200	\$163 435	\$182 400	\$198 205
% increase		11%	11.6%	8.7%

Source: JNZ Debtor’s Age analysis 2014

Table 1.1 indicates one of the risks that JNZ is experiencing; irrecoverable debts are increasing each year thereby resulting in cash flow challenges, this is a financial risk.

Blackman (2014) states that strategic risk is the threat that the corporate’s strategic plans turn out to be less effective causing the entity to struggle in attaining its objectives, this may emanate from shifts in customer demand, technological changes, emergence of a powerful competitor, increases raw materials costs, as well as further extensive changes. JNZ is also experiencing strategic risks, this is supported by shifts in customer demand illustrated in table 1.2:

Table 1.2 JNZ 2014 Extract of Customers’ List

Year	2011	2012	2013	2014
Total number of customers	300	268	210	155
% decrease in number of customers		10.7%	21.6%	26.2%

Source: JNZ 2014 Management Accounts

Table 1.2 shows how JNZ’s major customers have dropped over the years. There was a decline in number of major customers from 2013 to 2014 of 26.2%.

In an attempt to curb business risk James North Zimbabwe (Pvt) LTD has incorporated strategies like career development, market research, and technological advancement, cost control functions, designing and implementing internal controls among other things (JNZ Operational Handbook 2013). Risks linked to distribution channels, reserves and investments, fraudulent activities, privacy, accounting systems, overwrought economic conditions, corporate responsibility, regulation, are virtually among the modern, niche threats that have emerged and

require extremely specialized auditing expertise embodied in the internal audit function (Nolan, 2008). Internal auditing encompasses the identification of risks that impede an enterprise from attaining its goals and objectives, ascertaining that the organisational leaders are aware of these risks, and proactively recommending developments to help in plummeting the risks, it offers reasonable assurance and confidence that the corporate risks are properly mitigated and the system of internal controls implemented are producing intended results (The Institute of Internal Auditors, 2014).

James North Zimbabwe (Pvt) Ltd however, has overlooked the significance of internal auditing in managing risk this can be evidenced by the absence of an independent internal audit function in the organisation (Finance Department Structure). The company has depended upon the use of accounting personnel and external auditors to perform some of internal auditor's roles and responsibilities (Management Report 2014). This has not been successful in risk mitigation as supported by the aforementioned risks flogging the company.

1.2 Statement of the problem

Owing to the intricacy of today's entities with regard to performance and environment as well the rising levels of various enterprise risks, management is faced with an obligation to make available individuals with the appropriate expertise in the evaluation and mitigation of business risk (internal auditors). The traditional approaches of mitigating and managing risk at James North Zimbabwe (Pvt) Limited are failing to curtail the escalating risk levels as the company continuously experiences financial losses as well as cash flow problems from these risks. However the implementation of the internal audit function has been neglected thus prompting the research to be undertaken focusing on the need of internal auditing in risk management.

1.3 Main research question

- ❖ Can internal audit be effective in managing business risk?

1.4 Sub research questions

- ❖ What are the various forms of business risk?
- ❖ What is the significance of the internal audit function in an entity?
- ❖ Can internal audit be a useful tool in risk management?
- ❖ What benefits can JNZ enjoy as a result of implementing Risk based Internal Auditing?

1.5 Objectives

This research seeks to:

- ❖ To explain business risk and its various forms
- ❖ To determine the need of internal auditing function in an organisation
- ❖ To examine how internal audit play a critical role in risk management
- ❖ To explain the benefits of risk based internal auditing

1.6 Significance of the study

To the student

Even though the research was submitted in partial fulfilment of the Bachelor of Commerce Accounting Honours, it also accomplished a pivotal role in enlightening the student on the significance of the internal auditing in an organisation. Furthermore it equipped the student on the correlation between risk management and internal audit.

To the university

The research will become a reference point to succeeding researchers and scholars because of its availability in the university archive. It is also vital in bridging the hiatus between the concepts imparted in lectures and the reality prevailing in the industry thus enlightening succeeding scholars.

To the organisation

The research findings and recommendations will help the organisation appreciate the significance of implementing a risk based internal audit function.

1.7 Limitations of the study

Akin to other researches, this study is also susceptible to certain limitations. Despite the fact that this study has contributed eloquently to our understanding of the need of internal audit in risk management, some limitations must be spelt out. The research was undertaken using a manufacturing concern leaving out the service sector, however the identified limitation does not weaken the results and findings but only indicates the necessity for further research.

Information Access: organisational information is private and confidential and such access to it is restricted. However the researcher managed to secure adequate information to reach a conclusion.

1.8 Delimitations of the study

- ❖ The research was undertaken basing on data found at JNZ head office in Harare where the researcher was attached.
- ❖ The study only covered the period 2011 to 2014.

- ❖ The study focused on the finance department as well as the top management from other sections of the organisation it incorporated those who have a knowledge on business risk and the management thereof.

1.9 Definition of terms and abbreviations

- ❖ **Business risk** – is the threat that a business enterprise may fail to attain its goals and objectives because of the internal and external pressures, forces and factors that have a bearing on the entity, and finally the risk related to the profitability, sustainability and survival of the enterprise (Munro and Stewart,2011)
- ❖ **Risk Management-** identification, analysis, evaluation, control and minimisation or eradication of unacceptable and undesirable risks (IIA, 2010).
- ❖ **Internal auditing** –is an unbiased, reassurance, equitable and consulting function intended to augment value and develop an organisation's operations which helps an enterprise achieve its strategic goals through conveying a logical, orderly approach to evaluate and improve the usefulness of governance processes, risk management and control.(The Institute of Internal Auditors, 2013)
- ❖ **NSP** – North Safety Products
- ❖ **JNZ-** James North Zimbabwe (Pvt) Ltd
- ❖ **IIA-** The Institute of Internal Auditors

1.10 Summary

This chapter outlined the background of the study, statement of the problem, main research question, sub research questions, research objectives, delimitations limitations of the study as well as definition of terms and acronyms. The next chapter will be based on literature review.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter pursues to uncover the various kinds of business risks and how internal auditing can be a critical tool in risk management. It aims at answering the sub-research questions as well as the objectives, by broadly reviewing and surveying what other writers, prior authors and reliable consultants or authorities have disseminated in prior studies. A summary of the reviewed literature concludes the chapter.

2.1 Business risk and its various forms

Risk refers to the combination of the likelihood of an occurrence and the impact of its repercussions or consequences (Johnson and Johnson, 2013). According to (McNally, 2015) every business enterprise experiences a diversity of risks, emanating from external as well internal forces, hence resulting in business risk. Business risk is thus explained under this objective and its various forms are also expounded, these include; reputational risk, strategic risk, financial risk, operational risk as well as compliance risk.

2.1.1 Business risk

Munro and Stewart (2011) avers that business risk is the threat that a business enterprise may fail to attain its goals and objectives because of the internal and external pressures, forces and factors that have a bearing on the entity, and finally the risk related to the profitability, sustainability and survival of the enterprise. Broadleaf Capital International (2014) further asserts that business risk is the consequence of company's setting and pursuing objectives against an uncertain

environment, the uncertainty arising from those internal and external factors and influences that are not entirely under the corporate's control resulting in the organisation failing to accomplish its objectives or causing interruption in the attainment of those goals. Griffiths (2013) states that business risks are sets of circumstances that encumber the accomplishment of organisational goals. Businesses of today are flogged by different kinds of risks, Blackman (2014) classifies risks into five main types these are: compliance risk, financial risk, strategic risk, reputational risk as well as operational risk.

2.1.2 Strategic risk

Strategic risks have been defined as those threats that are supremely momentous to the enterprise's capacity to implement its strategies and accomplish its corporate objectives such risk exposures capable of affecting the shareholders net worth or the feasibility of the entity (Tonello, 2012). These are the risks that the corporation's strategy becomes less effective triggering the entity to struggle in reaching its objectives, this may be prompted by technological changes, emergence of a new powerful competitor in the market, changes in consumer demand, fluctuations in raw material costs, or additional significant changes (Blackman, 2014). PWC (2012) argues that strategic risks are the uncertainties and unexploited opportunities entrenched in the strategic intent and the best way they are executed therefore making them fundamental issues to be addressed by the board and encroach on the entire business, instead of a secluded unit. JNZ has experienced changes in customer demand, rise in cost of its raw materials as well as the emergence of a powerful new competitor thereby making it a victim of strategic risk. (JNZ Management Accounts 2014).

2.1.3 Operational Risk

According to KPMG (2012) operational risk is the threat of loss stemming from insufficient or futile internal processes, systems and individuals as well as from exterior events. This can be caused by fraud, human error in transaction processing, sabotage by employees and other external factors. According to Dutta and Babbel (2014) operational risk embraces regulatory and legal risk, technology failure, industrial practices and change risk, trustees or disclosure violations, monetary crime, and ecological risk. Operational risk also effectively encompasses anything that is capable of having an impact on the overall performance of the corporate and entity's ability to create value, therefore it encompasses events such as mistakes or overlooked opportunities (Roberts et al, 2012). Operational risk management is imperative to the feasibility of a company. Backlogs issues have also been experienced at the company under study, human error also put the company in jeopardy when the creditors' clerk made an error in computing NSSA Pension contributions (Minutes for accounts Meeting July 2014).

2.1.4 Compliance Risk

European Banking Authority (2014) states that compliance risk is the existing or potential threat to capital and earnings resulting from breaches, non-compliance and violations of regulations, rules, prescribed practices, contracts or ethical principles. Compliance risk is exposure to legal penalties, financial penalization as well as material loss faced by a corporate as a result of failing to act in harmony with business or commercial rules, laws and regulations, internal guidelines or set policies and practices (Rouse, 2014). Violation of accounting standards and international financial reporting standards thus form part of compliance risk, the internal audit function has been seen to be a key tool in compliance and regulatory issues (Botha and Boon, 2010).JNZ was

encountering such risks as it included negative carrying amounts on its asset register which is against International Accounting Standard on Property Plant and Equipment (IAS 16).

2.1.5 Financial Risk

Guzman (2015) avers that financial risk is the likelihood that a corporate's cash movements are not sufficient to pay accounts payables as well as fulfilling additional commercial or financial obligations. As a company's debt increases its probability of defaulting on its financial obligation becomes greater thereby raising the financial risk level (ibid). According to Blackman (2014) financial risk explicitly refers to the cash flowing in and out of the enterprise, and the likelihood of an abrupt financial loss, this entails that a financial threat may be expedited by debtors and borrowers who default in honouring their obligations. Credit risk and liquidity risks are forms of financial risks; Credit risk is the threat that a debtor may not be able to pay outstanding accounts when they are due whereas liquidity risk refers to the threat that the company has insufficient funds thus failing to pay outstanding amounts. (Karagiorgos et al, 2015). Such risks are also pestering the company under study as it is writing off large amounts of credit losses annually and it's also failing to pay its creditors.

2.1.6 Reputational Risk

According to Kossovsky (2014) reputation is an expectation and an anticipation of behaviour, thus reputation risk is the risk to satisfying expectations which in turn triggers a crisis. This is caused by ill managed expectations which end up surpassing capabilities, or it results from a corporate's failure to execute its organisational plans (ibid). Karagiorgos et al (2015) states that reputational risk is the threat that a corporate's repute will be negatively impacted, it is the likely loss of a company's reputational capital. Deloitte (2014) posits that reputational risk has become

a concern for every organisation owing to the ever-changing technological environment, therefore companies ought to find ways of managing this risk type since it adversely impacts an entity's market share. According to (JNZ Customer Complaints Register, 2014) customers have been making complaints mentioning that JNZ products overpriced when matched against amounts other suppliers are charging for similar products, thus marring the company's reputation and indicating reputational risk.

The current business environment, as well as conditions remain a challenge for numerous companies, as risk maintains a high position on every corporate agenda. Various risks that are posing great challenges to industries include strategic threats, financial threats, operational threats, compliance threats and reputational threats.

2.2. The need for internal audit in an organisation

This objective aims at unearthing the roles, functions and responsibilities of internal auditing in a company.

2.2.1 Background, concept of internal auditing definition

Internal auditing is an unbiased, reassurance, equitable and consulting function intended to augment value and develop an enterprise's activities which aids an enterprise in achieving its strategic goals through conveying a logical, orderly methodology to appraise and enhance the usefulness of governance processes, control and management of risk and (IIA, 2010). Mohammadi (2015) posits that internal auditing is a self-sufficiency, objective and impartial activity directed at providing realistic assurance that an organisation's business threats are being appropriately controlled and the risk management group in connection with the designed controls is generating anticipated results. Internal auditing is imperative in ensuring the sustainability and

success of any organization. Establishing an internal audit function ought to be a governance prerequisite for every company, it is not merely significant for bigger and intermediate enterprises but it's equally essential for smaller firms, as since they also experience complex surroundings characterized by less formal, vigorous organisational structure to safeguard the efficiency and usefulness of its governance, authorities and risk management practices (IIA, 2013).

Owing to the intense economic pressures companies must constantly reinvent ways of doing business as to curb the challenges of a dynamic marketplace and legislative environment, internal auditing is not exempt from such pressures and thus it is has grabbed an additional phase in order to promote performance and endorse techniques to enhance the fundamental business practices (Crowe Horwath, 2011). This has facilitated the development of the new Internal Audit Model shown in Fig 2.1:

Figure 2. 1: The Four Principles of the New Internal Audit Model



Source: Crowe Horwath LLP (2011)

Fig 2.1 above summarised the current roles of the internal audit function, expanding these roles gives a better understanding on the responsibilities and functions of internal auditing. The roles of internal auditing in an organisation thus include; evaluation of internal controls, ensuring compliance with regulations, evaluation of operational performance, monitoring corporate governance activities, value addition and consultation as well as risk identification and assessment.

2.2.2 Evaluation of internal controls

Gillis (2013) specifies that The Internal Audit function is designed to monitor and assess the company's internal control environment so as to ensure its adequacy, efficiency and effectiveness, its emphasis is not on the implementation of internal controls but on the effectiveness of their performance that is right controls are being performed correctly and cost effectively. Internal auditors are capable of evaluating control proficiency and usefulness and assess if the controls in place are sufficient to alleviate risks which impede, or have the potential to threaten, the entity, they also take part in reassuring that internal controls are operating as intended, this is vital to governance of an entity and the success thereof (Institute of Internal Auditors, 2010). However as advocated by (Vitez, 2015) auditing of internal control systems is laborious thus affecting proper management of time, and may cause management and personnel to discover methods of tempering with control system, this weakness may result in complex management circumstances and hinder operational effectiveness, he further states that internal auditors may end up having conflicts of interests with management as management may unable

and unwilling to devote the time required to analyse extensive internal auditor's control systems recommendations.

2.2.3 Ensuring compliance with regulations

The Institute of Internal Audit (2014) states that internal auditing a robust activity in assessing if the company is complying with set guidelines, laws, contracts, regulations and policies as well as the assessment of the reliability and integrity of information. According to IIA (2010) internal auditing is imperative in analysing how well the entity's compliance obligations have been met by managements the responsibilities, explicitly internal auditors are active in reviewing goals, specifying the repercussions and implications that may befall the entity as a result of noncompliance. They also need to safeguard goals formulated by management, so as to ensure that they are in tandem with the organisation's overall mission, vision, and goals. Marks (2013) argues that because of too much workload internal auditors may not be thorough and thus may fail to detect issues concerning non-compliance with regulations, accounting practices and policies, guidelines and other guidelines the company is expected to comply with.

2.2.4 Evaluation of operational performance

The internal audit function holds an exception position in the company so as to offer comprehensive reassurance to those charged with governance together with management on the usefulness of the governing processes and practices of the entity, it is well-placed to accomplish a consultative role pertaining to operative methods of enhancing prevailing practices and supporting management in executing recommended improvements (ECIIA, 2012). IIA(2010) posits that internal auditing is a catalyst for enhancing an entity's value and proficiency by

offering recommendations and insight centered on analysis and assessments of data in addition to organisational processes (The Institute of Internal Auditors, 2010). Internal audit provides independent, impartial analysis of the company's operations (IIA, 2014). Lenz et al. (2015) argues that internal auditing can only aid operational performance when it receives support from senior management and other stakeholders in the organisation, however stakeholders are many, and their expectations are not necessarily congruent. He further asserts that the skills and competences of internal auditors may be futile when not attuned with the organisational culture or when their professional services are not fully appreciated.

Kaplan Financial Limited (2012) contends that internal audit staff may be employees of an entity for an elongated time frame, thus hindering their usefulness due to familiarity with the systems under investigation, resulting in partiality in identifying errors in the systems. This have been seen to compromise the independency and objectivity of the internal auditor and consequently giving rise to familiarity threat (Code of Professional Conduct).

2.2.5 Monitoring Corporate Governance Activities

Corporate governance stipulates the dissemination of responsibilities and rights amongst diverse individuals in the entity, such as managers, the board, investors and additional stakeholders, and stipulates the guidelines, practices and procedures for making resolutions on corporate affairs (Mohammed et al, 2014). The Institute of Internal Auditors, (2013) stipulates that internal auditing dynamically aids the effectiveness of organisational governance affording definite conditions as well as nurturing its objectivity and professionalism. Internal auditing is essential in helping the board in discharging its governance and control roles, it helps the board and the executive management in protecting the assets, reputation and viability of the

enterprise (Gamal, 2014). Its role is to focus on evaluating and suggesting improvements to corporate governance systems of organisations (ibid.). IIA (2015) asserts that internal auditing is a fundamental pillar of virtuous governance. (Parikh, 2011) argues that internal auditors produce reports that are not readily acceptable to shareholders thus they may only be essential for management use, he further states that internal auditors may collide with management and purely act in the interest of top management and not necessarily in the preeminent interest of the enterprise. The internal auditors' suggestions and opinions are sometimes ignored or rejected by the management and thus discouraging hard efforts of the internal audit department, this tends to develop an uncaring attitude on the part of the internal audit function resulting in inefficiencies, in addition, errors and frauds may be left undetected due to the frustration given by management in the organization (Pickett 2011).

2.2.6 Value addition and Consultation

According to the Institute of Internal Auditors (2014) the internal audit function also acts as an advisor to management and the organisation as a whole, offering ideas, methods and techniques which will augment value and enhance company operations, this involves concentrating on productivity and success to advance processes and promoting cost-effectiveness in addition to proper allocation of resources. The value creation concept of internal audit is an integrated part of making sure that the company achieves long-term success and that it is creating value for the society at large (Gamal, 2014). According to Umor (2009) internal auditing can play a vital role in adding value to the business, adding to that Ravi (2014) indicates that organisations obtain substantial business value the internal auditing at various levels. However according to (Parikh, 2011) even after the internal audit function has done its duties the company still have to conduct an external audit thereby resulting in extra costs for the entity for hiring internal auditors.

Furthermore the setting up and performance of an internal audit function include additional overheads that small entities may not be able to pay for thus is confining internal audit to larger viable business (Banerjee, 2010). Internal auditing staff may be inexperienced thus an organization may not recognise the full benefits of having such a function in an entity, this may also hinder improvements in the business operations of the organization (Sey, 2013).

2.2.7 Identification and assessment of risks

According to IIA (2010) internal auditing aids the identification of risks that have the potential to hinder an organization from accomplishing its objectives, ascertaining that management is acquainted with such risks and proactively proposing ways that can be used to mitigate the threats. According to Allen (2012) internal auditors have the ability to pinpoint risks and assist management appreciate diverse opportunities and analyse the effect on corporate goals when risk events occur, they are also able gauge and analyse if operative plans are formulated to grasp those opportunities. By ascertaining that the organisation deliberates the upside as well as the downside of risks, internal audit has the capacity to bring about of success out of a substantial risk event (ibid.). However according to Ayagre (2014) most internal auditors because of their varied roles they are yet fully equipped to embark on or are they are not proactive to embark on risk management.

In spite of its limitations Internal Auditing is a key function in an organisation, its roles, functions and responsibilities in a company encompass evaluation of internal controls, ensuring compliance, evaluation operational performance, monitoring corporate governance activities, value addition and consultation and ultimately identification and assessment of risks.

2.3 Internal Auditing role in Risk Management

This objective intends to examine the role of internal auditing in risk management.

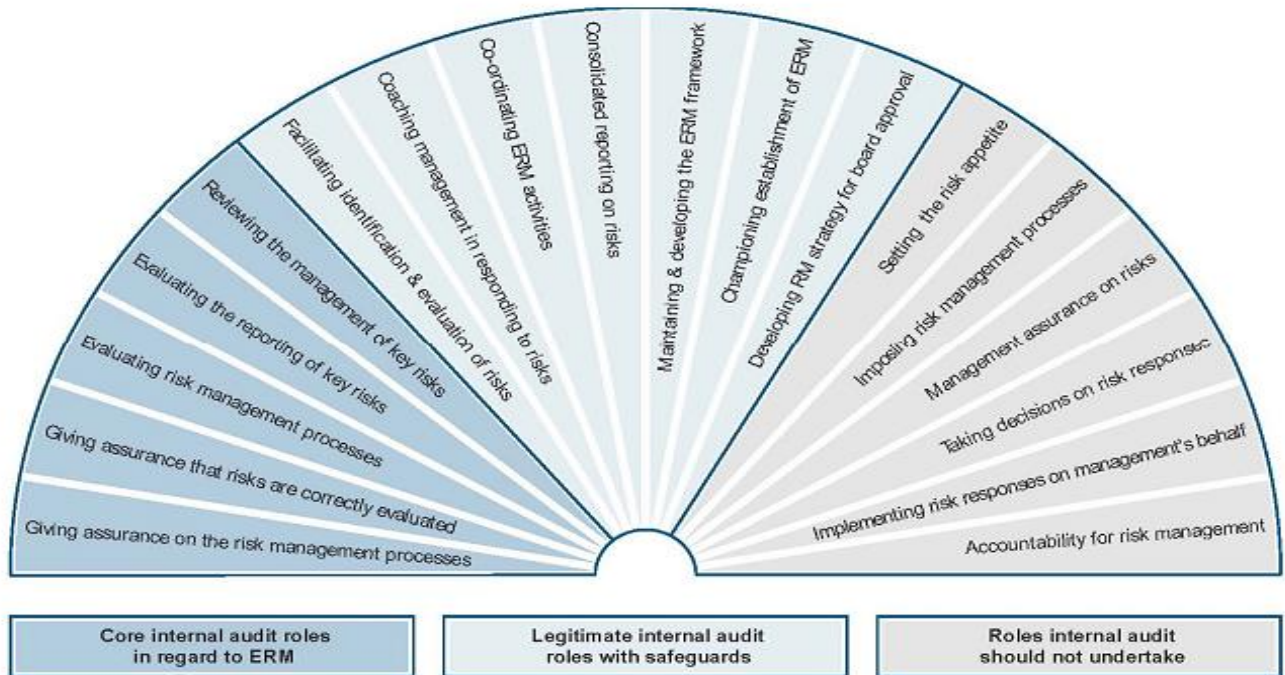
2.3.1 An Overview of Risk Management

Risk management is defined as the progression of detecting events that might adversely affect the organisation's capacity to attain its objectives whether operational, strategic, reporting tactical and or compliance in nature (McNally, 2015). It is therefore a control mechanism for ensuring that overall risk magnitude stays within acceptable limits (Roberts et al, 2012) and according to Pungas (2013) it raises the likelihood of success and diminishes both the possibility of failure as well as the degree of ambiguity related to the achievement of organisational goals. Enterprise Risk Management (ERM) is well recognised and established within the business community as a universal methodology to pinpointing, managing, controlling, as well as reporting on the broad range of threats pestering an organisation Reuvid (2012).

2.3.2 Internal auditing and Risk management

The internal auditing is significant to an entity as it gives an unbiased reassurance on the proper controlling and mitigating of enterprise risks and guarantee on the relevant internal control operations risk management (Institute of Internal Auditors, 2009). The internal auditing role in Enterprise risk Management (ERM) has been illustrated in Fig 2.2

Fig 2.2 Internal auditing role in enterprise risk management (ERM)



Source: Institute of Internal Auditors 2009

As depicted in the Fig 2.2 the role of internal auditing in risk management, ought to be the provision of assurance to the board and management and on the value of risk management. It is the responsibility of management to formulate and run the risk management framework on behalf of the board (IIA, 2009). Internal auditing has some legitimate roles that it can perform but with some safe guards so as to maintain its objectivity and independence. From the above diagram internal auditing roles in ERM encompass risk identification and reporting, risk assessment, giving reassurance on risk management, analysing the management of substantial risks and the evaluation of risk management processes.

2.3.2.1 Risk identification and reporting

Mebratu (2015) asserts that the internal auditing's role in risk management encompasses assessment, analysis and investigation of the risks faced by the entity, approving the controls necessary to alleviate such risks and assessing the trade-offs needed for the enterprise to achieve

its strategic, tactical as well as operational objectives. Internal auditing activities enables it to support management by directing them to risk areas, potential negative implications of risks as well as improving the risk control system management (Popescu & Omran, 2011). The internal auditor may perform a consulting role through effectually supporting the entity in pinpointing, assessing, and applying risk management approaches and controls to alleviate those risks (Ayagre, 2014).

2.3.2.2 Risk assessment and risk management assurance

According to (Mehmood, 2013) risk assessment is a determination to pinpoint, quantity and prioritize risks pestering an enterprise so as to center the internal audit activities in areas that can be audited with greater significance. (Fredrick & Gideon, 2014) asserts that internal auditors and the board of directors acknowledge that the two central methods through which internal auditing affords value an enterprise are in giving independent assurance that substantial enterprise risks are being appropriately managed and giving reassurance that the risk management and internal control framework is functioning excellently. Nissley (2014) avers that process risk assessments are piloted at the discrete internal audit engagements to pinpoint process level risks and evaluating the sufficiency and usefulness of internal control system to alleviate those risks. Furthermore internal audit is classically concerned with the provision of impartial reassurance to the board on the value of corporate's ERM practices thus ascertaining that substantial business risks are being appropriately managed and that the system of internal controls is operating effectively. (Narvaez & Bugalla, 2012).

2.3.2.3 Reviewing the management of key risks

Institute of Internal Auditors (2015) articulates that internal auditing offers the Chief Executive Officer, the Board of Directors, the Audit Committee, Senior Executives and stakeholders with an autonomous opinion on whether the entity has an applicable risk and control environment, it also a culture of compliance in the company. The argument centers on the risk management practices which must be possessed by the internal auditor, thus they must give advice management there is failure of planned activities (Pickett, 2010). Internal auditing is a very critical function in reporting key risks and analysing the management process of such risks as advocated by Narvez and Bugalla (2012).

2.3.2.4 Evaluation of the risk management processes

According to The IPPF Performance Standard 2120, the internal audit activity performs a vital role in assessing the efficacy of risk management practices and contribute to the improvement of risk management processes. The role of internal auditing in Enterprise Risk Management (ERM) which has lately emerged involves the determination of how a company will respond when faced with threats. IIA (2010) further states that internal auditing assesses risk exposures regarding the company's operations, governance, and information systems so as to aid the dependability and faithfulness of operational and financial information, usefulness and adeptness of programs and operations, protection of assets in addition to compliance with laws, guidelines, regulations, contracts, policies as well as procedures. As advocated by (Georgeta, 2013) internal auditing examines and evaluates the risk management processes implemented by management for appropriateness, sufficiency and effectiveness, and develop reports and recommendations to improve them.

The aforementioned roles of internal auditing in risk management can be summarised best in Table 2.1.

Table 2.1: internal Auditing core roles in relation to risk management

Basic roles of internal audit	Legitimate internal audit roles	Roles that internal audit should not undertake
<ul style="list-style-type: none"> - providing assurances regarding the risk management process; - providing assurances regarding the correct risk assessment; - assessment of the risk management process; - assessment of how the key risks are reported. 	<ul style="list-style-type: none"> - facilitating risk identification and assessment; - involvement of management in terms of how it responds to risks; - coordination of risk management activities; - preparation of consolidated reports on risks; - maintaining and developing a general risk management framework; - development of a risk management strategy. 	<ul style="list-style-type: none"> - setting the appetite for risk; - enforcement of risk management processes; - managing risks insurances; - preparation of decisions on how to respond to risks; - implementation of risk response measures on behalf of the management; - taking responsibility for risk management.

Source: Dima (2014)

However Ayagre (2014) argues that the risk management is a primary duty of management thus internal auditors should only help management together with the audit committee by investigating, assessing, reporting, and approving some developments on the suitability and usefulness of management’s risk processes. When the internal audit function extend its activities outside its core roles in ERM, there is need to apply specific safeguards, involving the fact that internal auditors must not manage any risk on management’s behalf as this will cause a self-review threat to objectivity and independence (Code Of Professional Conduct).

The core internal auditing’s role in risk management include identification of risks, reviewing management’s substantial risks, evaluation the reporting of substantial risks, assessment of risk management practices and giving assurance that risks are appropriately evaluated and mitigated.

2.4 Benefits of Risk based Internal Audit (RBIA)

This objective is designed to explain the benefits of Risk Based Internal Auditing.

2.4.1 Definition and Concept of RBIA

Risk Based Internal Auditing (RBIA) has been defined by the Chartered Institute of Internal Auditors (2014) as an approach that connects internal auditing to a corporate's general risk management framework, RBIA enables internal auditing to offer reassurance to those charged with governance that risk management processes effectively are mitigating risks, relative to the company's risk appetite. It has become more and more desirable for businesses because it enables organisations to figure out the key risks the entity is subjected to. (Al-khatib, 2014). Keskin (2010) explains RBIA as an audit methodology centered on determining risk profiles enterprises, modelling the audit advancement in accordance with the risk profile of the organisation and assigning the audit resources proportional to this profile in order to enhance the proficiency of the audit.

2.4.2 Cost reduction Recommendations

Risk based internal auditing holds a central portion of any planned cost reduction techniques or activities it is capable of warranting the streamlining business practices, whilst activities and processes continue responding to the risks, and are rooted in the business procedures and approaches (Ernest and Young, 2012). RBIA picks high risk areas as central points for the provision of time and resources, thus promoting proficiency in the apportionment and use of resources, consequently creating the opportunity to eradicate unnecessary costs and ultimately aiding easiness of resource alignment (Benli and Celayir, 2014). RBIA therefore promotes the

identification performance advancement and cost reduction opportunities. However according to Lyscom (2014) RBIA is more complicated than the traditional internal auditing and is not easy to set up and is thus not cost effective. Ohja (2012) also argues that RBIA implementation requires staff training and providing programs to employees to increase their knowledge and technical ability, this results in additional expenditure and negatively affects the company's cash flows.

2.4.3 Improved audit efficiency and effectiveness

According to Riskpro (2013) RBIA improves audit efficiency and effectiveness through repositioning internal auditing from its monitoring function to a well-designed activity capable of managing risk effectively, while promoting the accomplishment of wider corporate goals, it also supports strategic utilisation of limited audit resources, as it matches audit efforts with the goals and plans of management. The value of audit activities will be improved through the eradication of existing audit deficiencies, this is accomplished by using modern controls determined through risk identification together with risk assessment, and this will ultimately mitigate risk exposures by concentrating on sections which are prone to weaknesses (Ozaydin, 2010).

The Institute of Internal Auditors argues that RBIA is an ever-changing practice and thus continuously developing creating some complexities in its implementation relative to the traditional approach, controlling and organizing it will then turn out to be a key challenge considering the inconsistency and volatility of the audit plan. Moreover the closer relationship of internal audit with the entire organisation in RBIA implementation may hinder the objectivity and impartiality of the internal audit function as advocated by Griffiths (2014). Chartered Institute of Internal Auditors (2014) argues that RBIA is only compatible at an entity where the risk management is very strong and the internal control system is robust. The risk-based internal audit approach requires a substantial knowledge about the enterprise the environment thereof so

as to aid risk identification, however this may only be attained after long periods of engagement with the organisation in question (Fraser, 2011).

2.4.4 Effective risk identification, risk assessment and risk management

RBIA uses a discrete approach from that used in traditional internal auditing the distinction is embodied in its features, unlike the old approach it focuses on fields and areas exposed or vulnerable to high risk instead of dominantly concentrating on the financial field (Benli & Celayir, 2014). He further asserts that RBIA results in value creation since internal auditors are not solely concerned about the supervision and evaluation of internal control procedures and activities, but they also provide significant sustenance and aid to the improvement and success of the risk management processes through the outlining of the various risks as well as continuously monitoring and assessing the entity's risk status. RBIA is very essential in determining whether the corporate's risk management processes and its internal control system or environment are functioning efficiently, reliably and effectively identifying existing weaknesses (Kurnaz & Cetinoglu, 2010). According to (KIr, 2010) RBIA supports the assessment and evaluation of risk avoidance as well as risk diversification and consequently evaluating the possibility of sharing or transferring the risks. It aids in increasing opportunity risk whilst mitigating negative risks. Griffiths (2013) argues that by focusing on the auditing of inherent risks beyond the risk appetite, some audits formerly considered significant by top management are likely to disappear as balancing the responsibilities might be a challenge.

2.4.5 Review of Fraud Risk Controls

Fraud is defined as any deliberate act by one or more persons amongst those charged with governance, management, personnel, or even third parties, encompassing the using of

deceptive or dishonesty to attain an unfair or illicit benefit. (International Standard on Auditing 240). Risk Based Internal Auditing plays a critical role in aiding the prevention of fraud through the analysis and evaluation of the usefulness, adeptness and adequacy of controls, proportionate to the extent or degree of potential exposure or risk in the various sections of the corporate's operations (Mohammed 2012). However Vitez (2015) argues that some fraud schemes are well construed and complicated that RBIA may fail to unravel them. Rezaee et al (2010) posits that despite the fact that internal auditors may play an unwavering role in the investigation of fraud, they normally lack the proficiency of specialists whose principal duty is investigation and detection of fraud.

As supported by the afore mentioned researchers and proponents Results Based Internal Auditing is beneficial to an entity as it facilitates cost reduction recommendations, improved audit efficiency, effective risk identification assessment and management as well as fraud detection and control. However these benefits are subject to some limitations which include the need for staff training, the workload of the internal auditors and the fact that fraud detection is complex and as such internal auditing may not be effective in carrying out that role.

2.5 Summary

This chapter has highlighted on what other researchers and scholars have said about the need for internal auditing in risk management. All the research objectives were exploited, the next chapter will focus on research methodology.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the methods and procedures that were used in carrying out this research study. It deals with research design, population of study, census, research instruments, data collection procedure, reliability and validity of the research, data presentation and analysis as well as summary.

3.1 Research design

As advocated by Wyk (2012) a research design is a complete strategy intended for linking the conceptual research problems of the related empirical research study. It articulates the data required, the methods that were used by the researcher to collect and analyse the data in order to answer the main research questions. According to Penwarden (2014) there are basically three types of research designs which are descriptive, explanatory and casual research design. The researcher used the descriptive design method and interpretative case study aimed at acquiring relevant information on the need of Internal auditing to manage risk at JNZ using qualitative and quantitative data.

3.1.1 Descriptive Research Design

Schmidt (2015) avers that a descriptive research is a study that is designed with the purpose of portraying the participants in an accurate manner. The researcher used this research design so as to obtain a distinct picture on the need for internal auditing at JNZ. Detailed questionnaires and descriptive interviews were used for data collection. Additionally, the researcher used the

descriptive research design since it poses a chance to use both qualitative and quantitative research data relating to the study population (Murphy and Media, 2015). The researcher was prompted to use descriptive research design because it is appropriate for a case study (Yin, 2009). The descriptive research design method was also adopted by the researcher because when assimilated in case studies, it promotes a holistic, exhaustive investigation of all population characteristics under study thus yielding highly dependable data and also capable of utilizing sundry measurement techniques and tools (Fairfux Country, 2012). Penwarden (2014) state that descriptive research design is preplanned, modified and organized in a way that allows the information gathered to be statistically inferred on a population.

3.1.2 Case Study

A case study is a research method that eases a profound exploration of a genuine contemporary occurrence in its ordinary and natural perspective (Sincero, 2015). According to Cooper and Schindler (2010) a case study is appropriate for descriptive research and thus the researcher used a case study of JNZ. Data was obtained using, questionnaires, interviews, document analysis and observation and linking to JNZ resulting in first-hand evidence and information on the need of internal auditing being collected.

The researcher used the case study because it offers a profound and better understanding of the need for internal auditing at JNZ comprehensively since it triggers the ‘why’ and ‘how’ questions for respondents to answer (Lobler et al, 2015). Furthermore, it was easier and relatively cheap to conduct since its only focus was James North Zimbabwe in Harare, it facilitated additional exhaustive information owing to its dependence on existing secondary data

sources as supported by Bryman (2012). A case study also enabled the researcher to effectively use quantitative data as advocated by Yin (2010).

3.2 Population

According to Philipov et al. (2014) a population denotes a cumulative or aggregate of every object, subject, or participant conforming to established specifications. Eldredge et al. (2014) defined target population as the complete set of persons, who are of interest to the researcher in order to simplify and streamline the conclusion. In this study the researcher used a target population of fifteen which embraces management, accounts personnel, sales and quality assurance personnel of JNZ.

3.2.1 Census

The study used census to extract more reliable data owing to the existence of a small set of individuals comprised in the target population. The Australian Bureau of Statistics (2013) states that a census is a study of everything or everybody in a population, referred to as complete enumeration. Therefore the census comprised of management, accounts personnel, sales staff and quality assurance personnel of JNZ. Table 3.1 overleaf indicates the population distribution.

Table 3.1: Population Distribution

<i>Target Respondents</i>	<i>Number of employees</i>	<i>Census population</i>
Management	5	5
Accountant	1	1
Accounts Clerks	6	6
Sales Clerks	2	2
Production supervisors	1	1
<i>Total</i>	<i>15</i>	<i>15</i>

Considering the population highlighted above, the researcher adopted the use of census instead of sampling so as to facilitate the exploration of ample and adequate data thus improving the feasibility of the research.

3.3 Sources of Data

Both primary and secondary data sources were used by the researcher in carrying out the study. Primary data was gathered from finance, quality control personnel, costing, and sales staff of JNZ in carrying out the research whereas secondary data was obtained from the records of the entity. Martirosyan et al. (2010) avers that data sources used by the researcher have an impact on the research findings. The researcher made use of the following sources of data:

3.3.1 Primary data

Primary data refers to is data that is initiated and originated by the researcher, with the intention of carrying out an investigation or a study at hand (Mwamadzingo, 2011). This is data collected for the first time thus implying that there are no publications in relation to that data. Primary data facilitates first-hand information concerning the research, and various methods and instruments are used to collet such data, these comprise questionnaires and interviews (Peters, 2010). Additionally, the researcher used primary data because its degree of originality and accuracy is high since the researcher directly collects the data from the population and processes it (World Bank, 2014). According to The Institute of Work and Health (2010) primary data concentrates on precise information therefore affording the researcher a realistic opinion of the study.

3.3.2 Secondary data

According to Andersen et al (2011) secondary data is data that is amassed and facilitated and supplied by a primary source. The study used secondary data to acquire an initial insight about the need for internal auditing in risk management as it is less costly and quicker to access (Sindhu, 2012).

3.4 Data collection instruments

According to Arvin (2015) a research instrument is a test, a rating, a survey carried out, a scale, or a tool designed to quantify information collected under study, it also includes characteristics and variables. The researcher used the following research instruments for data collection:

3.4.1 Questionnaire

A questionnaire refers to a tool that necessitates the accumulation of a set of enquiries and questions tailor-made to derive responses and reactions from participants in relation to the problem under study (Kumar, 2011). He asserts that questions are probed to individual respondents so as to acquire valuable data concerning the subject under study, they include the participants getting the questions, inferring what is required and individually documenting the responses. The questionnaires were cost effective to the researcher, and also enriched uniformity as the respondents received similar set of questions. However, the questionnaires were time consuming as the respondents took their time to complete the questionnaires. The researcher made use of both open ended and closed questions.

3.4.1.1 Open-ended questions

These are questions which give respondents the opportunity to freely express themselves without being limited to a particular response format, the participants have the privilege to write down their responses in their own words (Ballou, 2011).

The researcher made use of open ended questions because they deliver comprehensive information and effectively eradicate the likelihood of investigator bias as well as offering the respondents chance to freely express themselves, thus yielding a greater variety. However, open ended questions can only be effective when respondents are comfortable to express their views or ideas and are proficient in the dialect or language used. Open ended questions are difficult to analyse thus the researcher may not be able to effectively interpret the data (Creswell, 2012).

3.4.1.2 Closed questions

This type involves the use of structured questions. The possible responses are spelt out in the schedule or questionnaire, thus the respondents are supposed to tick the category that best describes the respondent's answer in accordance with the given parameters (Blair and Fredrick, 2011).

Closed questions typically necessitate less drive and responding to them is less threatening to respondents as it affords them a guideline in responding to them. Because they offer ready-made categories under which participants reply to the questions asked by the researcher, they help to certify that the information necessary to the researcher is obtained and the responses can be easily analysed (Creswell, 2012).

However, information accumulated through them lacks variety and depth investigator bias is promoted the researcher may only list the response patterns that are of interest to him or her

(Kumar, 2011). Owing to the varied benefits of closed questions the researcher predominantly made use of them.

3.4.1.3 The Likert Scale

Bertram (2010) posits that a likert scale is a psychometric scale frequently applied in questionnaires. Responding to questionnaires involving a likert scale respondents need to specify their degree of acknowledgement using a symmetric agree – disagree gage for a series of statements.

Table 3.2: Rating of a Likert Scale

Strongly agree	5
Agree	4
Uncertain	3
Disagree	2
Strongly disagree	1

A likert scale highlights the strength of the participant’s feelings to whatsoever is in the question. Data accumulated using a likert scale is relatively easy to assess and analyse and collection of data using a likert scale is very easy (Kumar, 2011). The researcher made use of a likert scale because it yields vastly reliable scale, since it’s easy to read and complete thus making user friendly.

3.4.1.4 Pre-Testing of Questionnaire

After developing the questionnaires researcher pretested them by giving fellow students to fill in. Questionnaires were pretested so as to confirm the aptness for the intended purpose as advocated by McGiven (2009). This aided the researcher to redesign it better as well as facilitating the estimation of the amount of time and funds required to effectively collect and process data.

3.4.1.5 Administration of questionnaires

The researcher hand delivered the questionnaire to the respondents at JNZ headquarters Harare.

3.4.2 Interview

According to Harsh (2010) an interview is an oral communication that exists between two or more persons with the purpose of gathering pertinent research information. The researcher made use of interviews as they are one of the most imperative information sources for case studies (Yin, 2010). In this research the respondents were interviewed using open ended questions so as to accumulate rich information as advocated by Wyse (2014). Leung (2010) asserts that interviews are flexible as the respondent is afforded a chance to explain in the event that misinterpretation arise thus improving clarification of ambiguity

3.5 Reliability and Validity

3.5.1 Reliability

According to Sagor (2015) reliability refers to the researcher's assertions concerning the accuracy and precision of their data. A dependable or reliable tool thus fulfills its purpose through the provision of accurate information. Owing to the research's inherent nature, the researcher performed a pilot test on the questionnaires and the results were used improving the questionnaires as supported by Sagor (2015). A census was also used by the researcher in order

to safeguard on the accuracy of the data collected this is supported by Mwamadzingo (2011) who states that sampling errors eradicated by census. Using both questionnaires and interviews on the same respondents also served as a reliability test, the reliability is evidenced by receiving similar responses on similar questions whilst using different instruments.

3.5.2 Validity

Heffner (2015) states that validity in data collection reflects that the findings obtained by researcher are a true representation of the phenomenon the researcher purports to measure. Therefore research data is said to be valid when it actually depicts a true picture of what it claims to measure. Validity of the data collected was improved by the researcher through deliberating and comparing research tools with fellow colleagues prior to administering as advocated by Miller and Dally (2013).

3.6 Data Presentation and Analysis

3.6.1 Data Presentation

Data presentation is useful in putting research findings into demonstrative and descriptive methods. The researcher used well labelled tables, graphs and charts so as to facilitate clarity through simplifying data interpretation, this is supported by Marjumder (2014) who posits that using such methods provides a clear and vibrant depiction of the trend thereby clearly illustrating a summary of gathered data.

3.6.2 Data Analysis

According to Nalzarro (2012) data analysis is the progression of relating statistical or analytical techniques methodically for the purpose of describing and evaluating data thus aiding the

establishment of relationships and trends amongst the variables. The researcher performed an analysis of data in order to acquire valuable, usable and relevant information thereby forming a research findings basis. This was achieved using the mode of the quantitative data collected based on the research findings.

3.7 Ethical considerations

The researcher appreciated the importance of ethical considerations in carrying out the research. Respondents were assured that their views and opinions were not subject to penalty or any other undesirable consequences. This thus enabled the respondents to give their honest opinions and perceptions on the research area leading to more authentic data being collected as supported by Webster (2013).

3.8 Summary

This chapter covered research methodology, research design, study population, census, data sources, data collection instruments, reliability and validity of the research, data analysis and presentation and ethical considerations. The chapter that follows focuses on the presentation and analysis of the data collected using the various techniques and from sundry sources as discussed in this chapter.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter centers on the presentation and analysis of data collected from interviews and questionnaires on the need for internal auditing in risk management. The findings are presented in the form of tables, pie charts and graphs so as to promote clarity, furthermore the data collected is analysed and interpreted in order to obtain meaningful information from the data.

4.1. Response Rate

In this study questionnaires were administered to respondents and interviews were conducted with participants.

4.1.1 Questionnaire Response Rate

The researcher conducted a census of fifteen and administered some questionnaires to top management, accounts personnel, sales clerks, as well as quality assurance staff. All the fifteen questionnaires administered were returned yielding response rate of 100% as shown in table 4.1:

Table 4.1 Questionnaire Response Rate

Respondents	Questionnaires Distributed	Questionnaires Returned	% Completed
Management	5	5	100
Accountant	1	1	100
Sales Clerks	1	1	100
Accounts personnel	7	7	100
Production supervisor	1	1	100
Total	15	15	100

4.2 Response and Analysis of Questionnaires

4.2.0 Background Information

4.2.1 Duration with the company

The researcher posed this question so as to assess the respondents' length of service in the organisation. This helps in determining how much they know about the risks that are prevalent in the company. Table 4.2 illustrates the duration of the various respondents within the organisation.

Table 4.2 Duration with The Company

Duration with the company	0-3years	4-5years	6-10years	Over 10 years	Total
Number of Respondents	4	3	4	4	15
Respondents percentage	27%	19%	27%	27%	100%

From Table 4.2 it can be established that more than 70% have been in the company for more than four years, thus these respondents will give reliable information as advocated by Coulter (2010) who posits that any employee serving the company for more than two years is capable of providing reliable information concerning that entity.

4.2.2 Highest Academic Qualification

The main aim of this question was to establish the respondents capable of having reasonable knowledge about the study area. Table 4.3 illustrate the findings obtained:

Table 4.3 Highest Academic Qualification

Academic qualifications	O level	A level	Diploma	Degree	Masters	PhD	Other	Total
Number of respondents	0	0	3	5	3	0	4	15
Respondents percentage	0%	0%	20%	33%	20	0%	27%	100%

Majority of the respondents (12/15) hold degrees and other professional qualifications, thus the census includes participants who have a reasonable understanding on the need of internal auditing in risk management.

4.3 Responses to Questionnaires

The researcher obtained the following responses after administering questionnaires:

Question 1: Is James North Zimbabwe facing some business risks

The researcher asked the respondents whether JNZ was facing some business risks. Figure 4.1 highlights the results obtained from the respondents.

Fig 4.1 : JNZ facing some business risks?

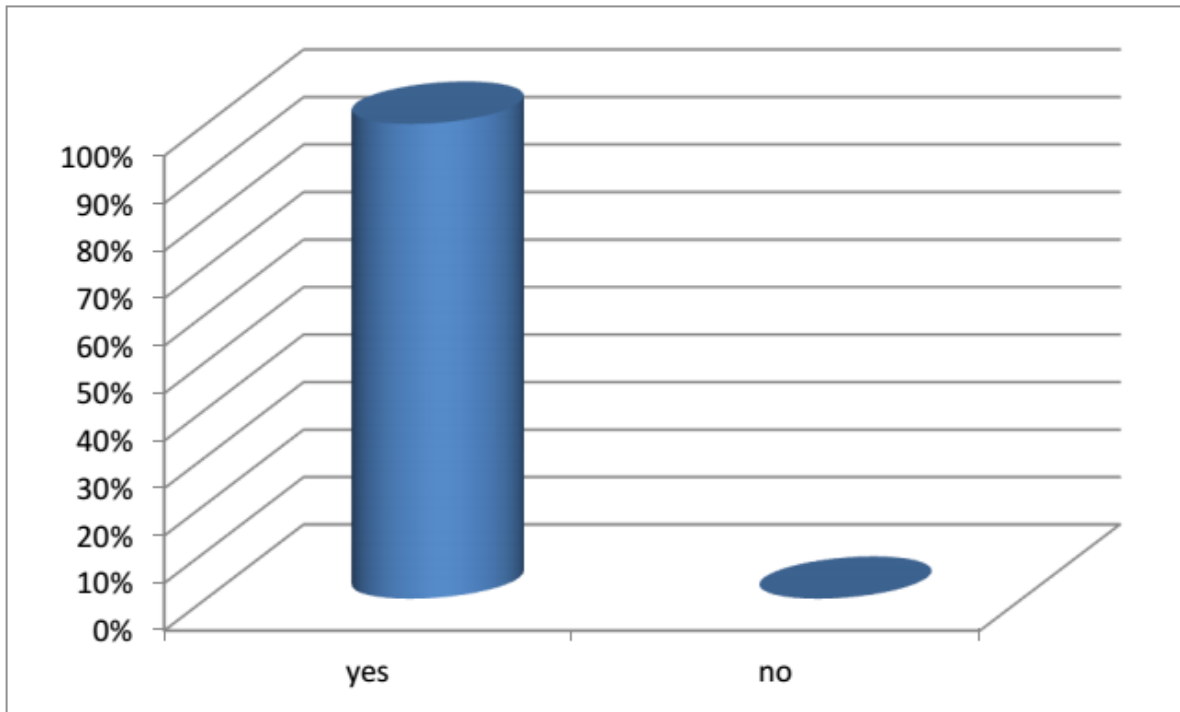


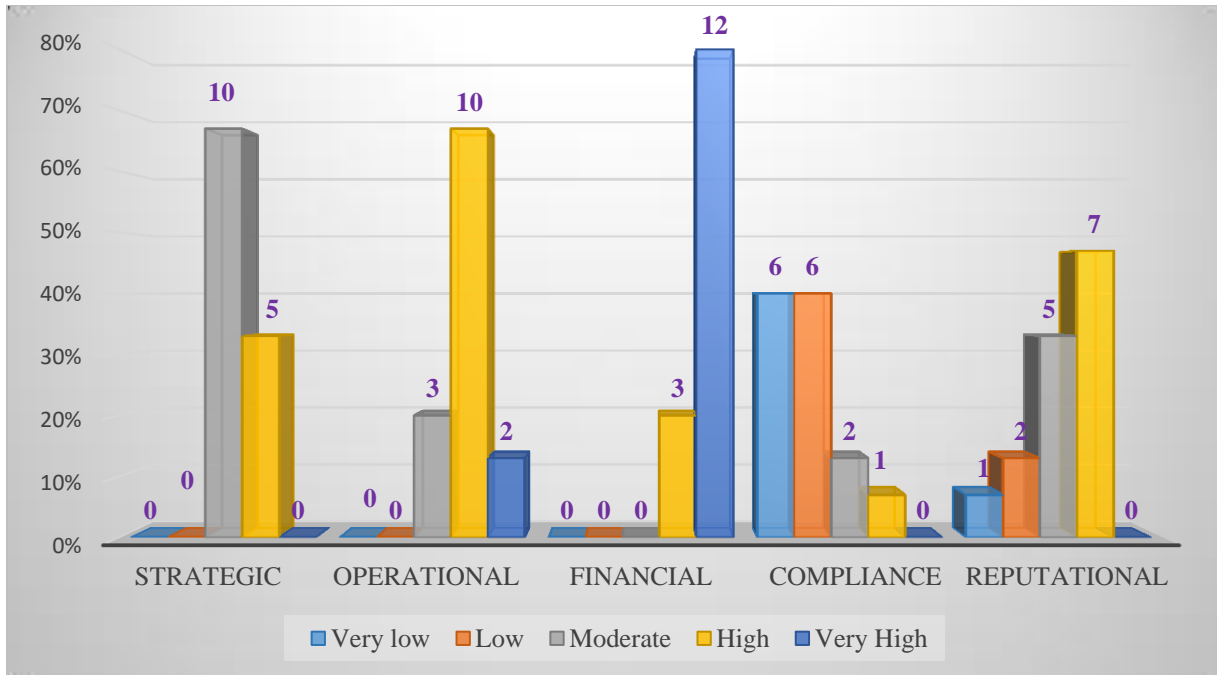
Fig 4.1 above indicates that everyone in the census acknowledges that JNZ is facing some business risks. None among the respondents disagreed that JNZ was facing some business risks. Hence JNZ is presently facing some business risks.

Question 2: JNZ is encountering operational risk reputational risk, financial risk, Strategic risk and compliance risk.

Respondents were requested to indicate the extent of the various business risks JNZ is facing.

Figure 4.2 illustrates the results:

Fig 4.2 The extent of business risks JNZ is encountering

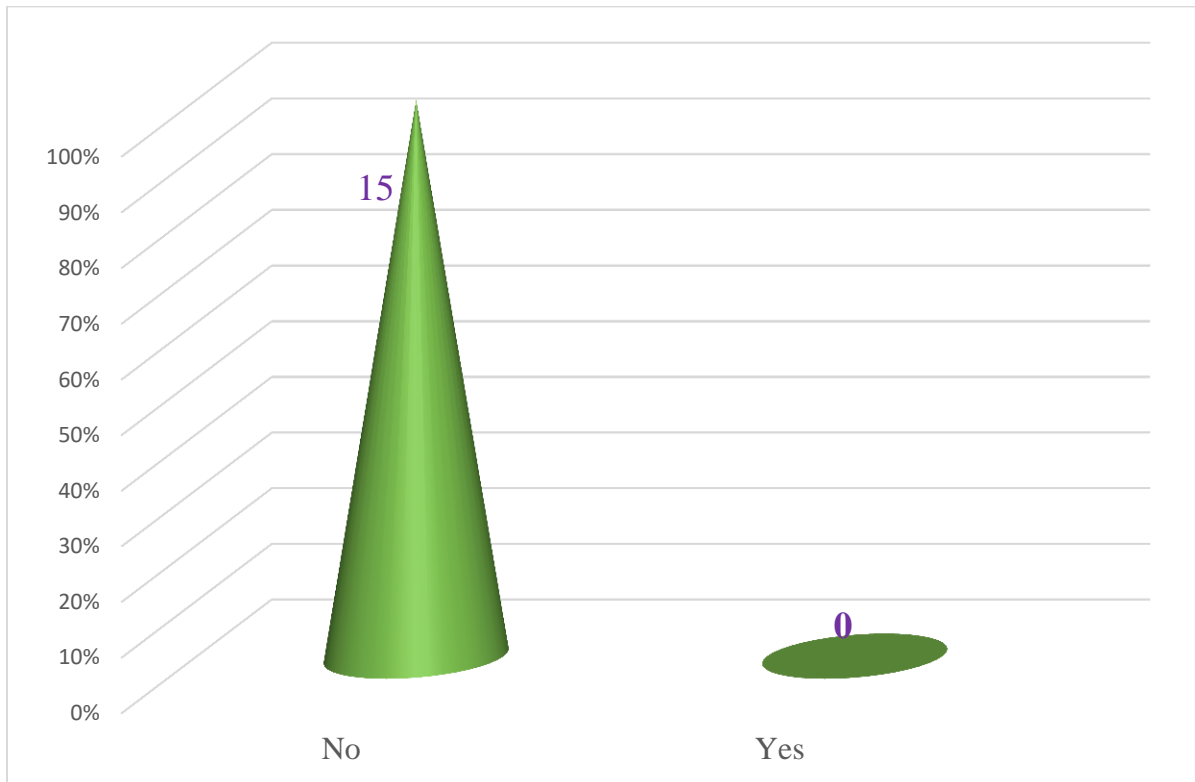


As highlighted by Fig 4.2 financial risk is the most prevalent risk, 80% (12/15) of the respondents acknowledged that financial risk is very high at JNZ. The remaining percentage (20%) also admitted that financial risk is high in the entity. Operational risk is the second dominant in the organisation with 67% of the respondents agreeing that it is high, 13% approved that it is very high and only 20% state that it is moderate. 46% of the respondents acknowledge that reputational risk is high, 33% admit that it is moderate, 14% stated that it is low and only 7% posits that it is very low, thus it can be concluded that reputational risk is virtually moderate at JNZ. Strategic risk is moderate as indicated 67% of the respondents and only 33% approving that it is high. Compliance risk is the least prevalent at JNZ with only 7% acknowledging that it is high 40% admit that it is very low and another 40% agree that it is low and the remaining 13% saying that it is moderate. In conclusion the respondents acknowledged that financial risk is the most prevalent and compliance risk is the least prevalent.

Question 3: Is there an internal audit function at JNZ?

The researcher asked the respondents whether there is an internal audit function at JNZ. The results obtained are shown in Fig 4.3

Fig 4.3 The existence of an internal audit function at JNZ

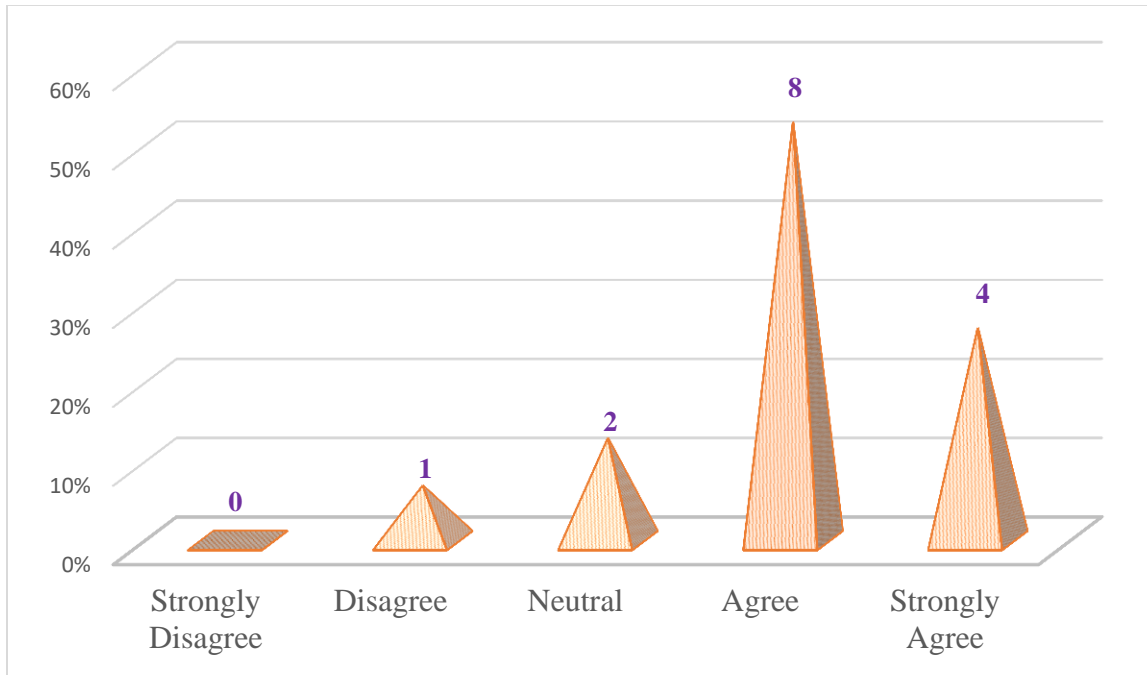


The entirety of the census acknowledged that there is no internal audit function at JNZ. None of the respondents objected to the absence of an internal audit function at JNZ, thus there is no internal audit function at JNZ.

Question 4: Do you agree that the absence of an independent internal audit function has contributed to the increase in business risks at JNZ?

The researcher asked that question to establish whether the absence of an internal audit function is contributing to the increase in business risks at JNZ. Fig 4.4 shows the results accumulated:

Fig 4.4 The absence of internal auditing has contributed to the increase in risks

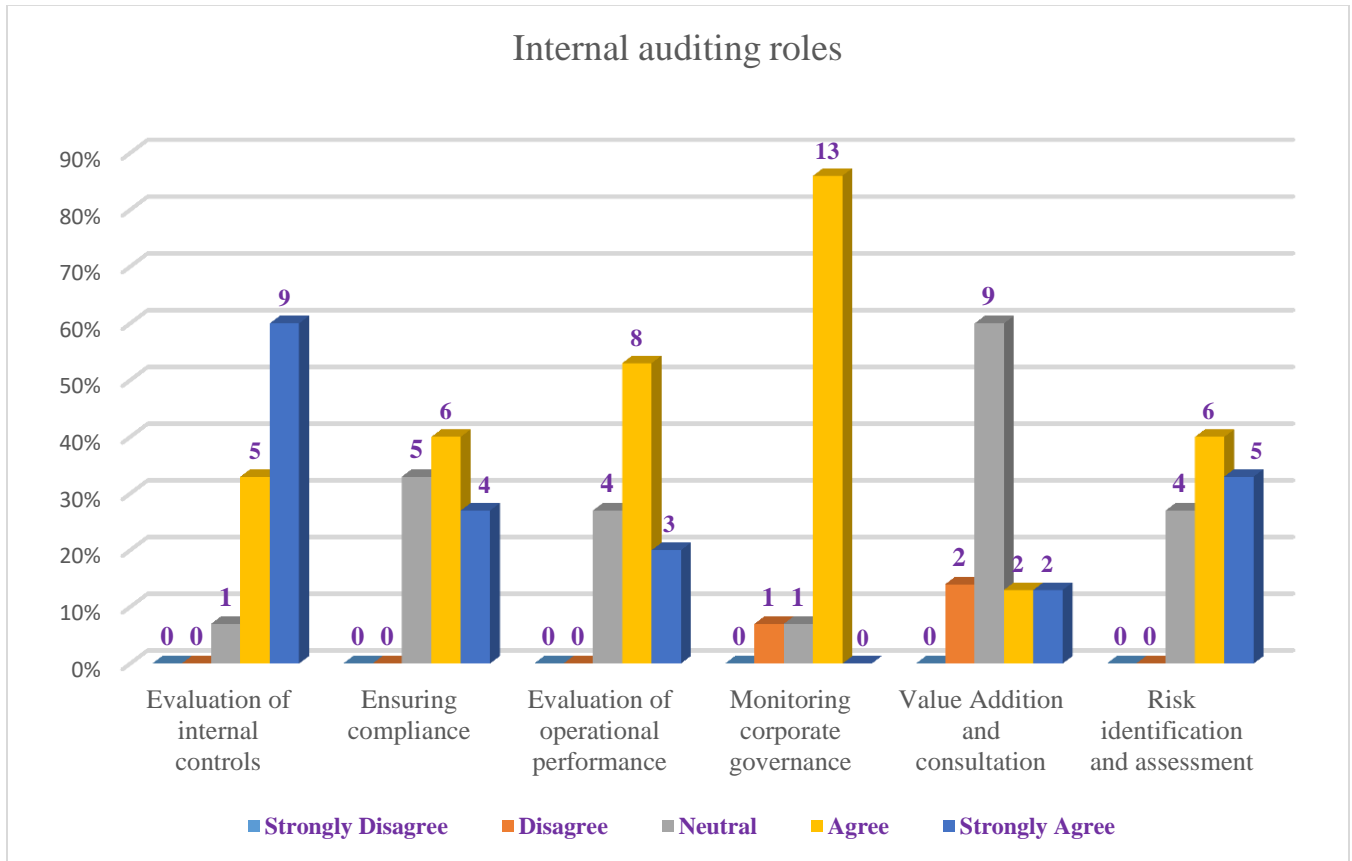


Majority of the respondents (53%) agree that the absence of an independent internal audit function has contributed to the increase in risks at JNZ, 27% strongly agree, 13% are neutral and only 7% disagree. Hence it can virtually be concluded that the absence of an independent internal audit function is contributing to the increase in risk at JNZ as supported by Mohamud and Salad (2013) who avers that internal auditing is intended to give realistic assurance that the corporate's risks are accurately managed.

Question 5: What are the roles and responsibilities of internal auditing in an organisation?

The question was posed so as to determine the roles and responsibilities of internal auditing in an organisation. The findings are indicated in Fig 4.5:

Fig 4.5 The roles and responsibilities of internal auditing



No one disagreed that evaluation of internal controls, ensuring compliance with regulations, evaluation of operational performance and risk identification and assessment are the roles and responsibilities of internal auditing. 7% and 14% disagreed that corporate governance and value addition are roles of internal auditing respectively. However 87% agree that internal auditing is responsible for monitoring corporate governance. 60% strongly agree that it is the role of internal auditing to evaluate internal controls and only 7% is neutral concerning this role the remaining 33% are also in agreement. Majority of the respondents (60%) are neutral about the role of internal auditing in value addition and consultation and only 27% agree. 73% of the respondents acknowledge that internal auditing is responsible for evaluating operational performance and only 27% are neutral, the same prevails for risk identification and assessment. Among the

respondents 67% affirmed that internal auditing plays a key role in ensuring compliance with regulations and only 33% are neutral. The main role of internal auditing is evaluation of internal controls, followed by monitoring of corporate governance activities, risk identification and assessment comes in the third position together with the evaluation of operational performance whilst value addition and consultation occupy the last position. These findings are supported by Ravi (2014) who indicates that the roles of internal auditing in an entity encompass; evaluation of internal controls, monitoring corporate governance, evaluation of operational performance, ensuring compliance, risk identification and assessment as well as value addition and consultation.

Question 6: Will internal auditing enhance the risk management process at JNZ?

The researcher asked this question in order to assess whether internal auditing was relevant in risk management. Fig 4.6 highlights the findings:

Fig 4.6 The significance of internal auditing in risk management

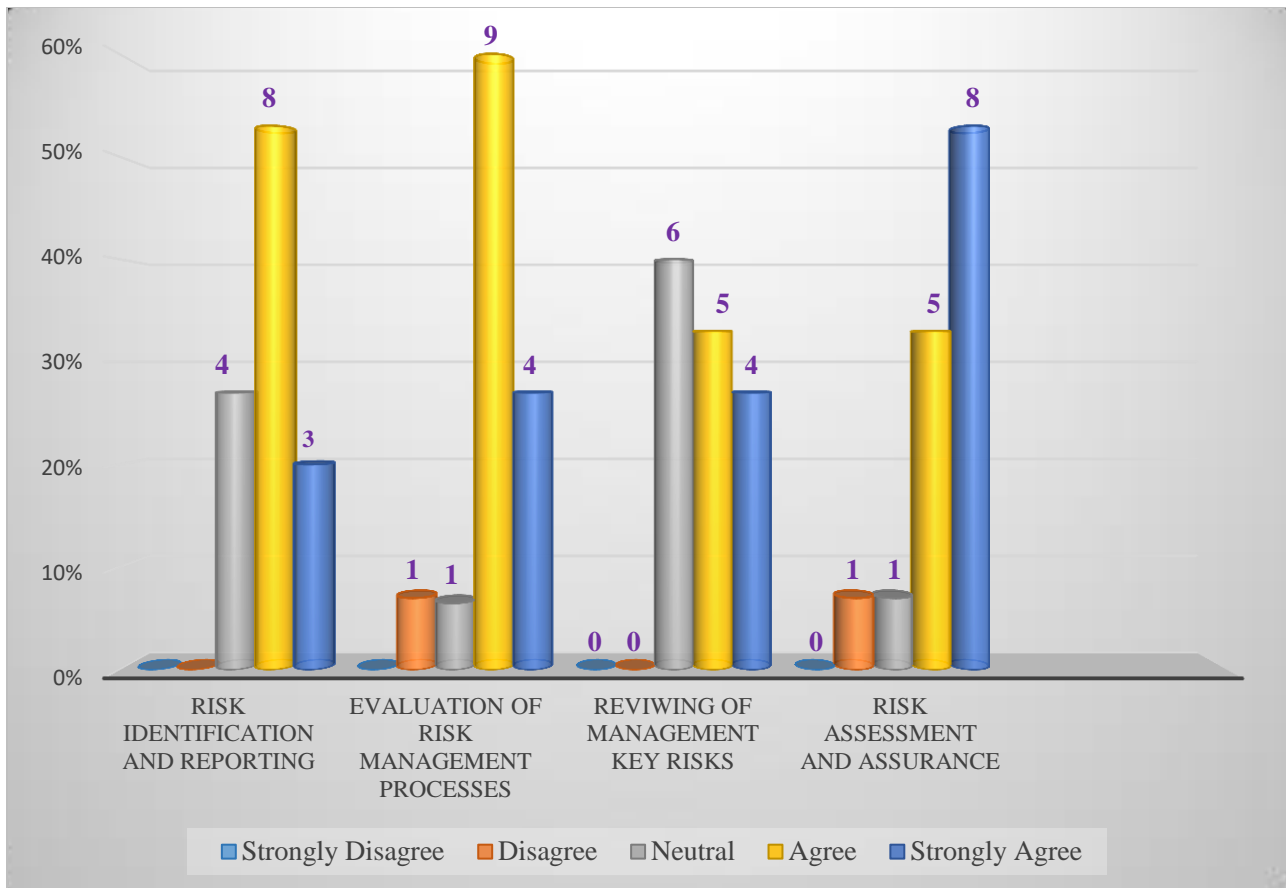


Almost all the respondents (14/15) agreed that internal auditing will enhance the risk management process at JNZ. Only one respondent disagreed that internal auditing is relevant in risk management. The results are supported by Popescu and Omran (2011) who postulates that internal auditing play a pivotal role in risk management and improves an organisation's effectiveness in managing key risks.

Question 7: What are the core roles of internal auditing in risk management?

The respondents were asked this question in order to determine the role of internal auditing in risk management. The results accumulated are presented in Fig 4.7:

Fig 4.7 Core roles of internal auditing in risk management

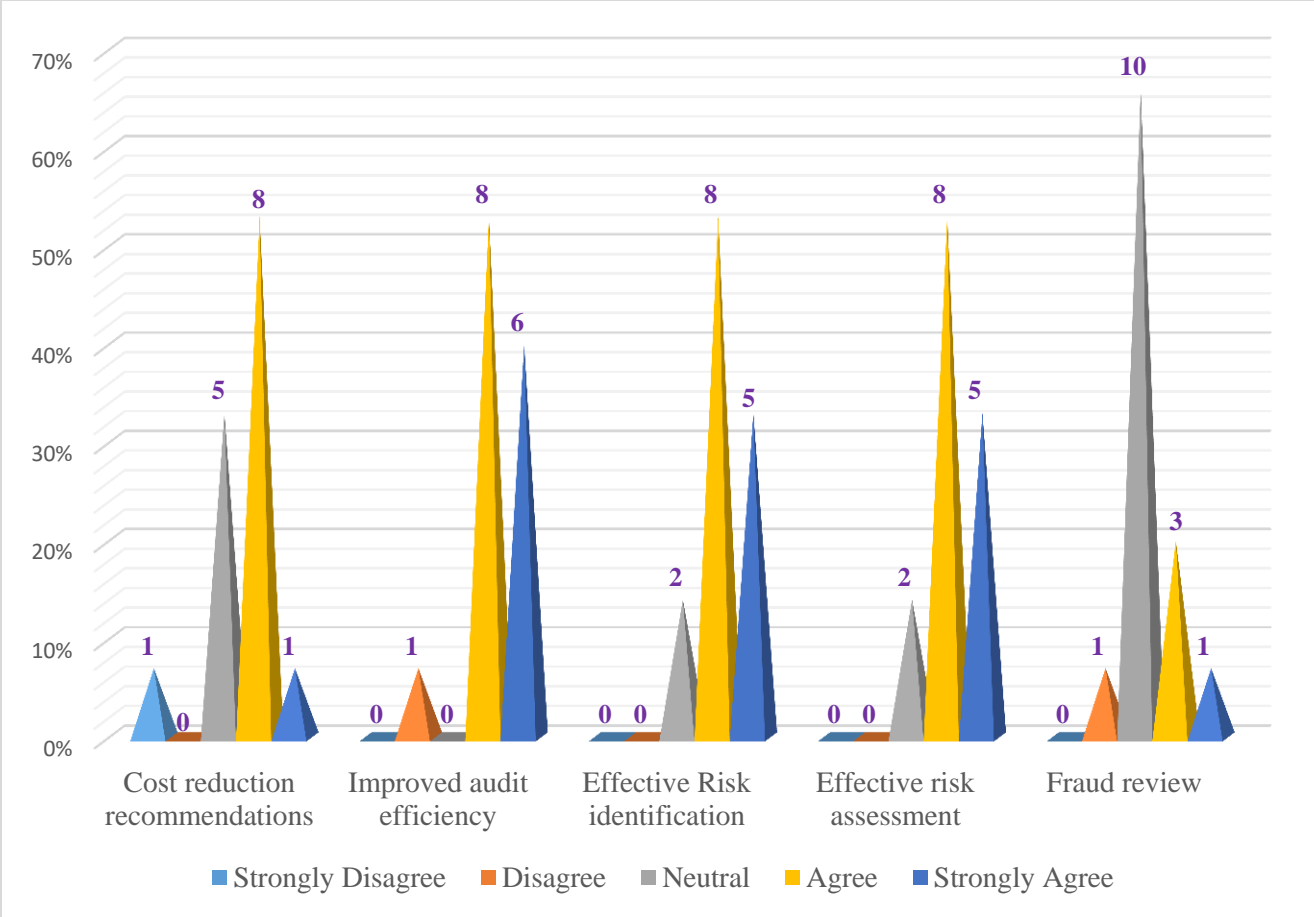


7% of the respondents disagreed that internal auditing plays a pivotal role in evaluation of risk management processes as well as risk assessment and assurance. Majority of the respondents (73%) agreed that risk identification and reporting is one of the core roles of internal auditing in risk management, the remaining percentage (27%) was neutral concerning this role. Of the whole census 86% acknowledged that evaluation of risk management processes forms part of internal auditing's core roles in risk management and 7% of the respondents were neutral. Of all the respondents 60% agreed that internal auditing is responsible for the reviewing of management key risks and whilst 40% were neutral. In total 86% agreed that risk assessment and assurance is one of the core roles performed by internal auditing in risk management whereas 7% were neutral. Thus the core roles of internal auditing in risk management are evaluation of risk management processes as well as risk assessment and assurance.

Question 8: What are the benefits of Risk Based Internal Auditing?

The purpose of the question was to establish the benefits that will accrue to the company as a result of implementing a Risk Based Internal Audit Function. Fig 4.8 illustrates the results obtained:

Fig 4.8 Benefits of Risk Based Internal Auditing



From the data gathered, 60% of the respondents agreed that cost reduction recommendations are a benefit of risk based internal auditing, 33% were neutral while 7% strongly disagreed. Majority of the respondents (93%) agreed that improved audit efficiency and effectiveness is a benefit of risk based internal auditing and only 7% disagreed. In total 86 % of the respondents affirmed that Risk Based Internal Auditing (RBIA) results in effective risk identification and risk assessment, while 14% were neutral. Most of the respondents 67% were neutral concerning the ability of RBIA to review fraud risk controls, 26% agreed that RBIA promoted the review of fraud risk controls whilst 7% disagreed. This is advocated by Vitez (2015) who argues that some fraud schemes are well construed and complicated that RBIA may fail to unravel them and organisational personnel have limited understanding concerning fraud control schemes.

Improved audit efficiency proved to be the paramount benefit of RBIA followed by effective risk identification and assessment.

Question 9: What recommendations would you give to the management of JNZ concerning the implementation of an internal audit function?

The respondents provided the following responses as far as the implementation of an internal auditing at JNZ is concerned:

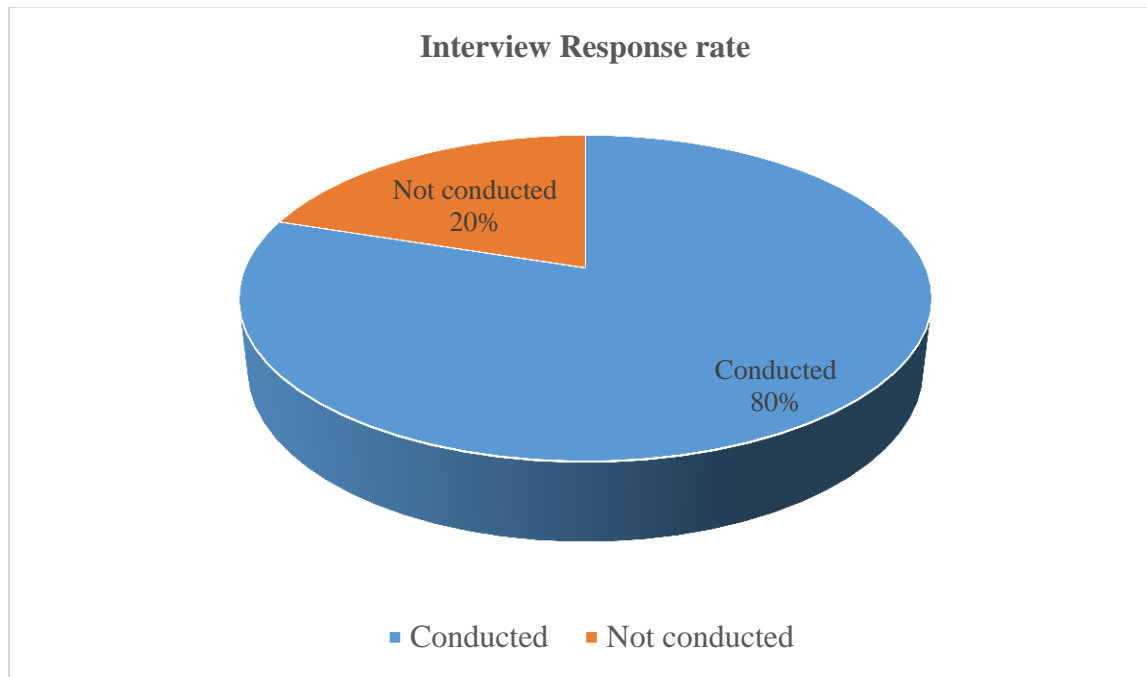
Most of the respondents were of the opinion that internal auditing should be implemented considering its relevance in risk management, they appreciated the benefits the company can enjoy by implementing RBIA. Some of the respondents are of the opinion that the company may consider occasionally outsourcing internal auditing services so as to lower the level risks. However they argued that due to economic pressures pestering the company and the high level of financial risk, financial challenges may hinder the effectiveness of implementing an internal audit function. A few contended that adding an additional function in the company will increase the entity's expenditure.

4.4 Interview Response rate

4.4.1 Interviews Conducted and Their Success

The researcher had planned to conduct five interviews of these four were conducted with the Finance Manager, Company Accountant, credit controller and cash disbursement auditor. The percentage of successful interviews is 80% as indicated in Fig 4.9:

Fig 4.9 Interview Response Rate



4.5 Interview Responses

The researcher accumulated the following interview responses:

Question 1: Is JNZ facing some business risks and which is the most prevalent risk? Is JNZ currently succeeding in effectively managing its business risks?

All the respondents agreed that the company is facing some business risks. Amongst the risks they cited are financial, strategic, operational and reputational risks. Operational risk is evidenced by loss of key staff who have experience and exposure, moreover because of numerous transactions processing errors are also dominant. The interviewees acknowledged the presence of strategic risk caused by the emergence of North Safety Products their major competitor, this has also resulted in customer demand shifting adversely, they also stated that the entity has failed to keep up with the technological advancement and as such they are still using

ancient machinery while their competitors have grabbed modern technologies. Some of the respondents also affirmed the presence of reputational risk in the company, this has been facilitated by the company failing to effectively satisfy customer needs and thus losing customer good will/ loyalty. Financial risk has proved to be the most prevalent in the company because cash is tied up in receivables while the company is struggling to pay its payables. The respondents mentioned that JNZ is currently ineffective in managing most of its risks, it has only succeeded in managing compliance risk through constant update on accounting standards. The presence of business risks at JNZ is supported by McNally (2015) who avers that every business entity faces a variety of risks, from both internal and external forces.

Question 2: Do you have an internal auditing function? What challenges are you facing as a result of its absence?

All the participants interviewed, acknowledged that there is no internal audit function at JNZ. Some of the respondents (20%) argued that if the company's turnover would continue increasing it would be having an internal audit function. The respondents agreed that they were facing some challenges because of the absence of an internal audit function; they stated that the company's internal control systems' effectiveness is not being assessed thus dependence and reliance cannot be placed on such a system. Misappropriation of funds was also cited among the challenges .They also indicated that because errors were not timeously detected this have resulted in backlog issues as the staff would have to re perform transaction processing at a later date usually after a board meeting.

Question 3 and 4: Do you think internal auditing is essential in an organisation. What are the benefits of internal auditing in an entity?

The respondents agreed that an internal audit function is very critical in the organisation. Among the key areas that needed internal auditing expertise they mentioned corporate governance, internal controls evaluation as well as risk management. The benefits of internal auditing pointed out by the respondents include evaluation of operational performance, ensuring compliance with regulations, monitoring corporate governance activities and risk management. These benefits are supported by the definition of internal auditing which says internal auditing is an internal auditing is an unbiased reassurance and consulting function intended to increase value and enhance an entity's operations which aids an organisation to achieve its strategic goals by conveying an organized, well-organized methodology to assessing and improving the usefulness of risk management, control, and governance processes (IIA, 2010).

Question 5: Do you think internal auditing is relevant in risk management

All the participants (4/4) stated that internal auditing is a critical tool in risk management. One of the interviewees went on to explain the role the internal auditor plays in risk identification, this is in agreement with what was advocated by Allen (2012) when he posited that internal auditors have the ability to identify risks through helping management see the range of opportunities and analyse the impact on objectives should risk events occur, they can also assess whether effective plans are in place to exploit those opportunities.

Question 6: If JNZ was to implement Risk based internal Auditing, what benefits would accrue to the company

The respondents mentioned that RBIA would help the company in effectively managing its business risks. They posited that the company's viability was greatly hindered by the escalating levels of risks the company is encountering. The benefits they cited encompass improved risk identification and assessment, improved audit efficiency and effectiveness, curbing misappropriation of funds and fraud as well as cost reduction. These merits are in tandem with what (Benli & Celayir, 2014) postulates, who says that RBIA facilitates cost reduction recommendations, improved audit efficiency, effective risk identification assessment and management as well as fraud detection and control.

4.6 Summary

The chapter centered on data presentation, analysis as well discussions, with the aim of determining major research findings on the need for internal auditing in risk management. The data that presented was obtained from questionnaires and interviews that were carried out by the researcher. The next chapter will focus on the recommendations and conclusions.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This final chapter summarises the entire research on the need for internal auditing in risk management at JNZ. The chapter focuses on chapter summaries, major research findings, recommendations, conclusions and suggestions for further research.

5.1 Summary

The research was investigating on the need of internal auditing in risk management at JNZ.

Chapter One

The chapter briefly outlined the background of the study and the statement of the problem which is the increase in business risks at JNZ facilitated by the absence of an internal audit function. It also encompassed main research question, sub research questions, research objectives, significance of the study, limitations, delimitations as well as definition of terms and acronyms. A summary of the chapter outlined the contents of the chapter and introduced the next chapter.

Chapter Two

This chapter extensively reviewed existing empirical and theoretical literature relating to the problem under study. It explored business risk and its various forms, the significance of internal auditing in an organisation, the role internal auditing plays in risk management and the benefits which will accrue to JNZ if it implements Risk Based Internal Auditing (RBIA).

Chapter Three

The chapter presented the research methodology incorporated in carrying out this research. It highlighted the research design used which is the descriptive research design method, this was selected because of its suitability in a case study. It also outlined the sources of data, research instruments employed, the type of questions used, population and the reason why a census was carried out, reliability and validity, use of likert scale as well as data analysis and presentation. The researcher made use of interviews and questionnaires to collect primary data.

Chapter Four

This chapter centered on data analysis and presentation as well as deliberations on major findings. Data analysed and presented was amassed from a field research carried out at JNZ by way of questionnaires and interviews. Fifteen questionnaires were administered and the entire set was responded to thus yielding a 100% response rate. Of the five interviews scheduled, four were successful resulting in an 80% interview response rate. The research findings were presented using tables, pie charts and graphs. Chapter five focuses on conclusions, major findings and recommendations.

5.2 Major Research Findings

5.2.0 Role of internal auditing in risk management.

The research established that the core roles of internal auditing in risk management include identification of risks, reviewing management's substantial risks, evaluating the reporting of substantial risks, assessment of risk management processes and giving assurance that risks are correctly evaluated and managed (IIA, 2010).

5.2.1 Risk identification and reporting

The study revealed that internal auditing aids the identification of risks that have the potential to hinder an organization from accomplishing its objectives, ascertaining that management is acquainted with such risks and proactively proposing ways that can be used to mitigate the threats. Internal auditors have the ability and expertise to identify risks thereby helping management see the range of opportunities and analyse the impact on objectives should risk events occur, they can also assess whether effective plans are in place to exploit those opportunities (Allen, 2012).

5.2.2 Risk assessment and risk management assurance

The research indicated value is added to the entity by the internal audit function through giving an impartial assurance on the proper management of enterprise risks and reassurance on the active processes of risk management and internal control framework. Process risk assessments are directed at the separate internal audit engagements to pinpoint process level risks and evaluating on the sufficiency and usefulness of internal control system to alleviate those risks (Fredrick & Gideon, 2014).

5.2.3 Reviewing the management of key risks

According to the research internal auditing offers the Chief Executive Officer, the Board of Directors, the Audit Committee, Senior Executives and stakeholders with an autonomous opinion on whether the entity has an applicable risk and control environment, it also a culture of compliance in the company. The argument centers on the risk management practices which must be possessed by the internal auditor, thus they must give advice to management if there is failure

of planned activities. Internal auditing is a very critical function in reporting key risks and analysing the management process of such risks.

5.2.4 Evaluation of risk management processes

The study indicated that internal auditing's role in Enterprise Risk Management (ERM) has lately emerged and involves the determination of how a company will respond when faced with threats. Internal auditing assesses risk exposures regarding the company's operations, governance, and information systems so as to aid the dependability and faithfulness of operational and financial information, usefulness and adeptness of programs and operations, protection of assets in addition to compliance with laws, guidelines, regulations, contracts, policies as well as procedures. It examines and evaluates the risk management processes implemented by management for appropriateness, sufficiency and effectiveness, and develop reports and recommendations to improve them (Georgeta, 2013).

5.2.5 Internal Auditing legitimate roles in risk management

The research established that apart from the core roles of internal auditing in risk management, internal auditing may also perform some legitimate roles which are governed by safeguards, these roles encompass; maintaining and developing a general risk management framework, coordination of risk management activities as well as developing a risk management strategy

5.3 Recommendations

The researcher proposes the following recommendations to James North Zimbabwe:

- ❖ JNZ should implement a risk based internal audit function as it plays a critical function in business performance, reinforcing the robustness of an entity's operations and ultimately

improving a company's profitability and growth, it also coordinates all sections of the organisation whilst remaining independent and objective.

- ❖ The company must set up a coordinated enterprise risk management framework, this will help in identifying and quantifying the corporate's key risks and ensure that they are effectively managed and mitigated to acceptable levels. The framework will then work together with the internal audit function and sustain the entity in effectively attaining its goals and objectives.
- ❖ JNZ must be flexible to the dynamic technological and economic environment, there is need to constantly keep up with global business environment, this will enable the company to keep competitors off the balance and boost customer loyalty and ultimately improve customer demand and curb reputational risk which triggers the other forms of risk.

5.4 Suggestions for Further Study

Despite the contribution made by this research on the need of internal auditing in risk management, further research can still be done focusing on the effectiveness of internal auditing's role in risk management of SME's.

5.5 Conclusion

The researcher investigated the need of internal auditing in risk management. The study established that the absence of an internal audit function at JNZ contributed to the increasing business risks the company is facing. Thus JNZ should implement RBIA so as to effectively manage its business risks.

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APPENDIX A



Midlands State University

P. Bag 9055

Gweru

31 August 2015

James North Zimbabwe

6 George Avenue

Msasa

Harare

Dear Sir/ Madam

RE: AUTHORITY TO RESEARCH ON THE NEED FOR INTERNAL AUDITING

My name is Tracy Chinjo and I am a final year student at Midlands State University studying for Bachelor of Commerce Accounting Honours Degree. Am undertaking a research entitled “An investigation on the need for internal auditing in risk management at James North Zimbabwe Pvt Ltd”, in partial fulfilment of the requirements of my degree program. I kindly ask for your assistance in filling in the questionnaires to the best of your knowledge. The views that you provide shall be used solely for academic purposes and it shall be treated with great confidentiality.

Your positive response for this research is greatly appreciated.

Yours Faithfully

Chinjo Tracy

Company Stamp

APPENDIX B

RESEARCH QUESTIONNAIRE

Respondents are asked to complete the questionnaires and not to divulge their names for confidentiality purposes.

Instructions:

Please tick in the appropriate boxes or write in the spaces provided.

Section A

Background information

i. Duration with the company

0-3 years 4-5 years 6-10 years over 10 years

ii. Position held within the company

.....

iii. Gender

Male Female

iv. Highest academic qualification attained

O Level A Level Diploma Degree Masters Phd

Other *Please specify*.....



Section B

Tick where appropriate

1. Is James North Zimbabwe facing some business Risks?

YES	NO

2. The following are the business risks James North is encountering. Indicate the extent of each risk.

Type of business risk	Very Low	Low	Moderate	High	Very High
Strategic risk					
Operational risk					
Financial risk					
Compliance risk					

Reputational risk					
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3. Is there an internal audit function at James North Zimbabwe

YES	NO

4. If your answer to question 3 above is No, do you agree that the absence of an independent internal audit function has contributed to the increase in business risks at JNZ?

Strongly Disagree

Disagree

Neutral

Agree

Strongly Agree

5. The following are the roles and responsibilities of internal auditing

Roles and responsibilities	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
Evaluation of internal controls					
Ensuring compliance with regulations					
Evaluation of operational performance					
Monitoring corporate governance activities					
Value addition and consultation					
Identification and assessment of risks					

6. Will internal auditing enhance the risk management process at JNZ?

Yes

No

7. The following are the core roles of internal auditing in risk management

Core roles	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
Risk identification and reporting					

Evaluation of risk management process					
Reviewing the management of key risks					
Risk assessment and assurance					



8. JNZ will accrue the following benefits by implementing a Risk Based Internal Audit function.

Benefit	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Cost reduction recommendations					
Improved Audit efficiency and effectiveness					
Effective risk identification					
Effective risk assessment					
Review of fraud risk control					

9. What recommendations would you give to the management of JNZ as far as internal audit implementation is concerned?

.....
.....
.....
.....

Thank you so much for your cooperation



APPENDIX C

INTERVIEW GUIDE

1 (a) Is James North facing some business risks? Which risk is the most prevalent in your organisation?

(b) Is JNZ currently succeeding in effectively managing its business risks?

2 (a) Do you have an internal audit function at JNZ?

(b) If not, what challenges are you facing as a result of its absence?

3. Do you think internal auditing is important to the organisation?

4. What are the benefits of internal auditing in an entity?

5. Do you think internal auditing is relevant in risk management?

6. If JNZ was to implement Risk Based Internal Auditing, what benefits would accrue to the company?

Company Stamp