

MIDLANDS STATE UNIVERSITY



FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING

“ASSESSMENT OF THE IMPACT OF INTERNAL AUDIT ON CUT HOTEL
PROFITABILITY”

By
HARZEL SOKIRI

R136787E

*This dissertation is submitted in partial fulfilment of the requirements of the **Bachelor of
Commerce Accounting Honours Degree** in the Department of Accounting at MSU.*

Gweru: Zimbabwe, 2017

APPROVAL FORM

The under designed certify that they have supervised Sokiri Harzel registration number R136787E on her dissertation entitled, *“An assessment of the impact of internal audit on profitability”: Case Chinhoyi University of Technology Hotel”* submitted in partial fulfilment of the requirements of the Bachelor of Commerce Accounting Honours Degree (HACC) at Midlands State University.

.....

Student

.....

Date

.....

Supervisor

.....

Date

.....

Chairperson

.....

Date

RELEASE FORM

Name of Author: Sokiri Harzel

Dissertation Title An assessment of the impact of internal audit on
profitability

Degree Title: Bachelor of Commerce Accounting Honours
Degree

Degree Code (HACC)

Year of Research: 2016

Permission is here granted to the Midlands State University to produce single copies of this dissertation and to lend the copies for scholarly and research purposes only. The author reserves other publication rights and neither the non-extensive extracts from it may be printed or otherwise reproduced without the author’s permission.

Signed.....

Date.....

Residential Address: Rujeko11644 Chinhoyi, Zimbabwe

Cell Number 0771507278

Email harzelsokiri@gmail.com

DEDICATION

This work is dedicated to my loving mother; my uncle George Beretu and the rest of the family. I know this dedication can in no way compensate for the time and other resources you sacrificed during the period of this study.

ACKNOWLEDGEMENTS

My greatest acknowledgement goes to the Almighty God for His grace that made me excel to the end. This project was never an individual effort but several people were helpful in making it a success. It is my pride and honour to extend my genuine gratitude to my supervisor, Ms Nyamwanza who immensely contributed to the success of this project.

I would also like to extend my sincere gratitude to my two brothers Innocent and Munashe for their unwavering support during the whole period I was doing this research. Unfathomable thanks goes to my friends: Winnie, Sandra and Leona for their words of encouragement and support. I thank my parents for giving me a special opportunity to pursue my honours degree programme, may the Almighty God abundantly bless you.

ABSTRACT

The study sought to investigate the impacts of internal audit on profitability of firms in the hospitality industry. Recent corporate scandals at global and local level in the presence of legislature and internal audit departments propelled the need to examine the impact of internal audit departments on profitability. The case study used was Chinhoyi University Hotel. A sample of 21 employees of Chinhoyi University of Technology was drawn from the population and stratified random sampling technique was used. Descriptive research design was used in data collection. Primary data was collected through questionnaires and interviews. The results showed that internal audit is vital tool in enhancing profitability of companies. Findings indicate that weak internal audit adversely affects the operations of CUT Hotel and results in poor internal communication, poor financial performance and high business risk. The study showed that value for money audits, information audits and continuous audits contribute substantially to the enhancement of profitability if implemented to the internal audit function. The study recommended that internal audit departments should focus on risk management to contribute to the profitability of a firm. Internal audit work should be organised and formally incorporated in annual work plans. Organisations should develop internal audit standards from the international standards on auditing and apply these consistently to optimise the effect of internal audit on organisational performance.

TABLE OF CONTENTS

Code	CONTENTS	Page
	COVER PAGE	i
	APPROVAL FORM	ii
	RELEASE FORM	iii
	DEDICATION	iv
	ACKNOWLEDGEMENTS	v
	ABSTRACT	vi
	TABLE OF CONTENTS	vii
	LIST OF TABLES	xii
	LIST OF FIGURES	xiii
	LIST OF APPENDICES	xiv
	CHAPTER ONE: INTRODUCTION	15
1.0	Introduction	15
1.1	Background of the study	15
1.2	Problem statement	18
1.3	Main research question	18
1.4	Research Objectives	19
1.5	Research Questions	19
1..6	Delimitation	19
1.7	Significance of the study	20

1.8	Limitations of the study	20
1.9	Assumptions of the study	21
1.10	Definition of Terms	21
1.11	Chapter Summary	22
	CHAPTER TWO: LITERATURE REVIEW	23
2.0	Introduction	23
2.1	The impact of internal audit and profitability in the hospitality industry	23
2.1.1	Errors, fraud and misappropriations	23
2.1.2	Enterprise risk management	25
2.1.3	Safeguarding assets	26
2.2	Operational challenges faced by local companies as a result of weak internal audit	27
2.2.1	Declining financial performance	27
2.2.2	Poor communication	30
2.2.3	High control risk	31
2.3	Techniques that enhances effectiveness of internal audit on financial performance if implemented	33
2.3.1	Performing Value for money audits	33
2.3.2	Conducting Information technology audits	35
2.3.3	Following Internal Audit Standards when conducting audits	36
2.3.4	Continuous audit	37
2.4	Factors to consider when implementing effective internal audit	39
2.4.1	Definition of stakeholder’s expectations	39

2.4.2	Independence of Internal Audit	40
2.4.3	Establishing the internal audit charter	42
2.4.4	Hiring and permanency of internal audit Staff	43
2.5	Chapter Summary	45
	CHAPTER THREE: METHODOLOGY	46
3.0	Introduction	46
3.1	Research Design	46
3.1.1	Qualitative Approach	47
3.2	Population	48
3.3	Sample Size	48
3.4	Primary Data	49
3.5	Research Instruments	50
3.5.1	Questionnaires	51
3.5.2	Interviews	53
3.6	Reliability and Viability	54
3.7	Data Collection Procedures	55
3.8	Data Analysis Procedures	56
3.9	Chapter Summary	56
	CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS	57
4.0	Introduction	57
4.1	Questionnaire Responses	57
4.2	How internal audit function enhances profitability of CUT Hotel	59

An assessment of the impact of internal audit on profitability”: Case CUT Hotel.

4.2.1	Reduces errors fraud and misappropriations	59
4.2.2	Enterprise risk management	60
4.2.3	Safe guarding of assets	62
4.3	What are operational challenges as a result of weak internal audit	64
4.3.1	Poor financial performance	64
4.3.2	Poor internal communication	66
4.3.3	Loss of assets	68
4.4	Techniques that internal audit should implement to enhance profitability	70
4.4.1	Does the implementation value for money audits enhance profitability	70
4.4.2	Does implementing Information technology audits enhance CUT Hotel profitability	72
4.4.3	Does implementing continuous audits enhance CUT Hotel profitability	74
4.5	What are the ways of improving internal audit function	75
4.5.1	Increased independence	75
4.5.2	Hiring skilled staff	77
4.5.3	Permanent internal audit function	79
4.6	Interview Questions Analysis	80
4.6.1	How does internal audit enhance profitability of CUT Hotel	80
4.6.2	What are the operational challenges being faced by local companies as a result of weak internal audit	83
4.6.3	What are the techniques that internal audit should implement to enhance profitability of CUT Hotel	86

4.6.4	What are factors to consider when implementing effective internal audit function	89
4.7	Chapter Summary	92
	CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	93
5.0	Introduction	93
5.1	Summary of Chapters	93
5.2	Major Findings	94
5.3	Conclusion	95
5.4	Recommendations	95
5.5	Areas of Further Studies	97
5.6	Chapter Summary	97
	Reference List	98

LIST OF TABLES

Table	Description	Page
1.1	An analysis of financial performance of CUT Hotel and CUT Farm	16
3.1	Population and Sample Size	39
3.2	The Likert scale	41
4.1	Questionnaire Response Rate	45
4.2	Detailed questionnaire Response Rate Budgeting as an effective cost control tool	46
4.3	Errors, fraud and misappropriations	47
4.4	Enterprise risk management	48
4.5	Safeguarding of assets	50
4.6	Weak internal result in poor financial performance	52
4.7	Weak internal result in poor internal communication	53
4.8	Whether weak internal audit result in loss of assets through pilferage and fraud.	55
4.9	Whether implementation of value for money audits enhance profitability	56
4.10	Whether the implementation of information technology audits enhance internal audit	58
4.11	Whether implementation of continuous audits enhance internal audit	60
4.12	Whether independence enhance internal audit function	61
4.13	Does hiring skilled staff enhance internal audit function	63
4.14	The importance of having a permanent internal audit function.	64

LIST OF FIGURES

Figure	Description	Page
4.1	Errors, fraud and misappropriations	48
4.2	Enterprise risk management	51
4.3	Safeguarding of assets	53
4.4	Weak internal audit result in loss of assets through pilferage and fraud	55
4.5	Whether the implementation of value for money audits enhance profitability	57
4.6	Whether information technology audits enhance profitability	59
4.7	Whether independence enhance internal audit function	62
4.8	What is the impact of hiring skilled staff enhance internal audit function.	63

LIST OF APPENDICES

Appendices	Description	Page
1	Questionnaire	90
2	Interview Guide	94

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter introduces the main purpose of the study which is to assess the impact of internal audit on profitability of companies in the hospitality industry. It further highlights the background of the study, the statement of the problem and the specific purpose of the study. Important contents of this chapter are specific objectives and the research questions of the study which guide the literature of the project.

1.1 Background of the Study

Mei Feng et al (2015), GeWeili et al (2015) and Ritternberg and Schwieger (2014) states that internal audit helps companies in developing countries to attain high profitability by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, safeguarding of assets, and governance processes. Jong-Hag Choi et al (2016), Williams (2015) and Chun (2013) also support that in developed countries effective internal auditing is a catalyst for enhancing an organisation's profitability through risk management by providing insight and recommendations based on analysis and assessments of data and business processes to support strategic decision making. Emmanuel and Merchant (2016) argue that internal audit in developed countries does not affect profitability of public companies because the purpose of audit is to assess the financial statements of an organisation that have already been prepared and therefore it does not affect the profitability of the organisation. Shireenjit et al (2013) and Lawrence et al (2015) agreed that although initial findings show that internal audit quality enhance

profitability in public companies, however the author states the this impact is contingent on whether firms outsource their internal audit activities and or whether they are politically linked, if internal auditors are employees of the company and political connections exist, the association between internal audit quality and profitability is negative in developed countries. The importance of internal audit on profitability is increasingly being acknowledged in the developed economies, yet very little research has been done on the effect of internal audit on profitability in developing economies, hence this study extends prior internal auditing literature by examining the effects of internal audit on profitability in the context of a developing country, namely Zimbabwe using a case of CUT Hotel.

Chinhoyi University of Technology established two major strategic business units, CUT Hotel and CUT Farm with the aim of expansion. CUT Farm has a separate internal audit department while CUT Hotel is audited by of Chinhoyi University of Technology internal audit staff. CUT Hotel has not been audited consistently as reviewed in the management minutes of the meeting held on 5 September 2016.

Table 1.1 an analysis of financial performance of CUT Hotel and CUT Farm

Business units	Profits for 2013	Profits for 2014	Profits for 2015	%Change 2013-2014	%change 2014-2015
CUT Hotel	\$344 514	\$316 515	\$296 515	- 8.12%	- 6.3%
CUT Farm	\$404 000	\$423589	\$451369	+ 4.85%	+ 6.56%

(Source): CUT Hotel and CUT Farm financial reports (2013 -2015)

Table 1.1 above shows annual profits of Chinhoyi University of Technology business units over the same period of time where there is a sound internal audit and where there is no sound internal audit. CUT Farm has a sound internal audit function which was as a

result of outsourcing internal audit (Maringosi 2013). CUT Farm shows a positive change from 2013 to 2014 of 4.85% and from 2014 to 2015 of +6.56% as shown in Table 1.1 whilst at CUT Hotel where internal audit is not sound there was a negative profitability change of 8.12% from 2013 to 2014 and - 6.3% from 2014-2015. Profits declined from \$344514 in 2013 to \$316515 at CUT Hotel in 2014 and from \$316515 in 2014 to \$296 515 in 2015. Manyera (2015) stated that the decrease might be as a result of weak internal audit resulting in misappropriation of assets in the tourism industry. The data in Table 1.1 shows that CUT Farm where internal audit is sound the profitability change for 2013-2014 was + 4.85% and a positive change of + 6.56 % from 2014-2015. Manyera (2015) and Matarutsa (2016) stated that CUT Farm has managed to maintain a constant profitability despite harsh economic conditions in developing countries because of the existence of an effective internal audit function which enables effective risk management and fraud detection. However, Shupiko (2015) suggested that despite poor internal audit function the declining profits might have been caused by lack of proper cost management techniques since CUT Hotel still uses the traditional costing methods which do not allocate cost to their respective cost centres and the general prevailing economic environment with was characterised by an economic recession.

According to the minutes of CUT Hotel management meeting held on 4 July 2016 management which gave an insight of outsourcing internal audit in order to solve the problem of lack of proper internal audit. However, Takawira (2015) argued that the decision of outsourcing is not feasible since the cost of outsourcing internal audit will outweigh the benefits derived from the audit because the cost of outsourcing is \$15 000 which is way high for the company to incur as a result outsourcing will negatively affect

profitability of CUT Hotel as the cost are too high. Furthermore, Samson (2016) agreed with the notion that internal audit should not be outsourced because external internal auditors will have little or no knowledge of how CUT Hotel is run therefore making it difficult to detect misstatements and lead to little or no change to profitability hence should not be outsourced since it is not the variable which affect profitability. This study will provide comprehensive oversights on the effect of internal audit on CUT Hotel profitability.

1.2 Problem Statement

CUT Hotel is facing stunted growth due to declining profits because of weak internal audit function which results in poor risk identification, management, control, and governance processes. This gives rise to the question, does proper performance of internal audit enhance CUT Hotel performance in terms of growth measuring with profitability of the company. To answer this question, the author analysed the current performance of internal audit of CUT and the potential changes that comes to the operations of the organisation as a result of application of sound internal audit to every organ of the entity.

1.3 Main Research Question

What is the impact of internal audit on the achievement of profitability at CUT Hotel?

1.4 Research Objectives

- To examine the impact of internal audit on profitability of CUT Hotel.

- To identify operational performance challenges faced by local companies as a result of weak internal audit function
- To identify techniques that enhances effectiveness of internal audit on financial performance
- To analyse factors to consider when implementing effective internal audit if it boosts profitability of local companies.

1.5 Research Questions

- What is the impact of internal audit on profitability of CUT Hotel.
- What are the operational challenges being faced by local companies as a result of weak internal audit.
- What are techniques that enhances effectiveness of internal audit on financial performance.
- What factors to consider when implementing effective internal audit if it boosts profitability of local companies.

1.6 Delimitation

The research to focused on the operations of CUT Hotel from year 2013 to 2015.

The research only covered CUT Hotel operations in the Mashonaland east region, with the major focus being on other business units of Chinhoyi University of technology that is CUT Farm. The research only focused on the assessment of the impact of internal audit on profitability of the CUT Hotel.

1.7 Significance of the Study

- To the researcher – the research study sought to help the researcher to develop the necessary skills and knowledge useful in the field of internal audit relative to the tourism industry. It is a partial fulfilment of the requirements of the Bachelor of Commerce, Accounting Honours Degree at the Midlands State University.
- To the firm – the study aims to help CUT Hotel to develop effective internal audit strategies or procedures that would enhance profitability crisis.
- For future research – the research is useful as a basis of future research on the same area of the study and other companies in the same industry.
- To the university – the research is expected to build good relationship between CUT Hotel and MSU

1.8 Limitations of the Study

Generally sensitive organisational information is withheld in all organisations thus some of the relevant information to the research might be withheld. The data sought has a high magnitude of sensitivity and respondents would not be free enough to give the data. However, to overcome this the researcher assured respondents that their names would not be disclosed under any circumstances as that would affect their reputation with the top brass in the hierarchy.

1.9 Assumptions of the Study

There were a number of assumptions that were made in carrying out this study. These included the following;

- The respondents were willing to take part in the research and give unbiased information and concrete statistics thus authenticating findings of the study.
- The respondents who are going to be used for the research purposes possess the expertise and the relevant knowledge in the area of internal audit to enable the research to be carried out effectively.
- The time at the researcher’s disposal to carry out the research is sufficient to complete the study.
- The company chosen for the purpose of the research were expected to continue operating for the near foreseeable future.
- The researcher assumed that there would be no change would occur to the company’s internal audit function until the time of completion of the study.

1.10 Definition of Terms

Internal auditing: it as an independent appraisal activity within an organisation for the review of accounting financial and other operations as a basic of services to management (Sayag 2012). It is a managerial control, which functions by measuring and evaluating the effectiveness of other controls. Institute of internal audit (2014) defined Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Audit report: a report prepared by a qualified account and to express the opinion that the accounts snow a true and fair view and comply with statutory requirements Mafumbate et al (2013).

Fraud: The use of deception for unlawful gain or unjust advantage Abbott et al (2012).

1.11 Chapter Summary

The introduction gives a comprehensive background of the study, statement of the problem which prompted the researcher to have a further investigation of the effects of internal audit on profitability. Chapter two gives both theoretical and empirical literature review to the chosen area of study providing the researcher with a platform for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

A literature review is vital as it as it demonstrate the state of learning in the area of study. This chapter assesses diverse literatures in the fields of internal audit and impact it has on financial performance of organisations more particularly companies in the hospitality industry.

2.1 The impact of Internal Audit on Profitability in the Hospitality Industry

Singh and Newby (2013) noted that internal audit enhances profitability through avoidance of errors, fraud and misappropriations, enterprise risk management and safeguarding of assets.

2.1.1 Errors, Fraud and Misappropriations

At the empirical level, a survey led by Schiuma (2013) establish that the internal audit department in companies where it exists have a great impact on financial performance through assisting in recognizing profit verification in business disasters, especially financial misrepresentation always auditing reports in connection with frail governance. Michael (2015) and Chandler (2015) and Konor (2013) states that the purpose of internal audit is to guarantee that the work of the company is going on efficiently, productively and cost-effectively and that all the laws, standards, regulations controls governing the operations of the company are followed to enhance financial performance. Micheal (2014) added that internal audit function ensures that a sound internal control system

exists to prevent errors and misappropriations thus losses are avoided at all costs which promote company growth due to increased profitability. Chun (2013) noted that internal audit by acting as a watchdog could prevent the company from malpractice and irregularities thus enables the company to accomplish its targets of guaranteeing high level of efficiency and financial performance. Micheal (2014) additionally expressed that internal control is an important tool of administration for enhancing financial performance. Ncube (2013) says that with regards to prevention of economic risks and fraud and risks, internal audit can play a pivotal role in a company’s antifraud measures, which can more than pay for themselves. Organisational reputation is enhanced when fraud mitigating strategies are intact therefore profit is enhanced through increased customer loyalty.

However, Venables and Impey (2015) opposed the above scholars saying that internal audit is not an important tool of managing the enhancement of financial performance because internal audit function of companies, lack the independence to organise and execute their work thus restricting scope of audit being carried therefore errors and fraudulent acts will not be reported. Fadzil et al (2014) also stated that internal audit function lacks the of flexibility to audit the top level management and to decide the recruitment, removal, promotion and compensation of internal audit employees which are contribute substantially to independence of internal auditors. In these circumstances, the watchdog's occupation of preventing the endeavour from malpractices and anomalies which thus prompts enhanced execution is significantly undermined, in addition, Bazaar and Latorre (2015) added that if organisation management comes up short or it is hesitant to take activities internal audit review reports and suggestions, it negatively affect

profitability of companies. This research seeks to establish the effect of the ability of internal auditors to detect errors and fraud on the profitability and ultimately the financial performance of CUT Hotel.

2.1.2 Enterprise Risk Management

Khuawala et al (2015) and Ogneva et al (2014) states that internal audit has emerged as an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. Effective internal audit functions help organisations accomplish growth as a business objective through enhanced profitability by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes. Pinto (2013) in a land mark study states that risk as the potential for loss caused by an event (or a series of events) that could adversely affect the organisation's ability to achieve its objectives, or something that diminishes the effectiveness of the organisation. Mihret (2016) found that internal audit activity enhances profitability of organisations by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control system. Gramling (2014) added that sound internal auditing enhances performance of companies through enhanced corporate governance thereby reducing, market, credit, and legal risks, as well as risks to reputation. Minor (2012) stated that internal audit enhances profitability through facilitating identification and evaluation of risks, coaching management in responding to risks and thus losses are minimized. Konor (2013) noted that internal audit coordinates enterprise risk management and increases

profitability through maintaining and developing the enterprise risk management framework which helps eliminate risks that hinder growth.

However, Adeyemi and Uadiale (2012) argued that internal audit has no effect on profitability and aiding an enterprise in risk management because it does not set the risk appetite, impose risk management processes, assist in the management assurance on risks, take decisions on risk responses, implementing risk responses on management's behalf and neither does it help in taking accountability for risk management. This research also looked through the departments of CUT Hotel to ascertain the link between internal audit and profitability of the Hotel through enterprise risk management.

2.1.3 Safeguarding Assets

According to Kevin (2012), an effective internal audit service can, in particular, help reduce overhead, identify ways to improve efficiency and maximize exposure to possible losses from inadequately safeguarded company assets all of which can have a significant positive effect on the financial performance. Michael (2014) illustrated that internal audit plays a pivotal role in ensuring that efficient controls are operating in all the activities, be it is liabilities or assets of an organisation. Chun (2012) states that internal audit plays a constructive role to increase financial performance of companies by rendering service to the management with objective appraisal of systems, procedures, practices, compliance with policies. Pinto (2013) states that safeguarding of assets are those policies and procedures that provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposal of the company's assets that could have a material effect on the financial statements. Adams (2012) says that internal audit control

over safeguarding of assets against unauthorized acquisition, use or disposition is a process, effected by an entity's board of directors, management and other personnel which positively affect financial performance of organisations. Hitt (2016) believes that many firms with low performance is the result of poorly performing assets.

However, on the other hand Kaplan (2015) states that's audit risk is a component of the inherent risk, control risk and detection risks, therefore even there is no relationship between internal audit and profitability of companies. Adeyemi and Uadiale (2012) states that in any internal audit it is practically impossible to inspect all the source documents available and therefore a sampling risk always exists in the sense that the sample may be free from error but errors may exist elsewhere in the population hence internal audit cannot safeguard assets absolutely as it only gives a reasonable assurance which have no effect on profitability. This research seeks to establish how internal auditing leads to an improvement in financial performance through safeguarding assets of CUT Hotel.

2.2 Operational Challenges Faced by Local Companies as a Result of Weak Internal Audit

2.2.1 Declining Financial Performance

Alzebam and Sawan (2013) states that poorly performing firms are associated with weak internal audit as they are prone to inadequate reconciliation procedures, revenue recognition problems and failure to comply with applicable laws and regulations which lead to penalties that have a negative effect on profitability of companies in the hospitality industry. Spencer (2013) and Peurseem (2014) supported the notion that

insufficient internal audit also can increase the risk of organisations, which in turn have a negative on the firm’s financial performance. According to Mawanda (2015) performance is the ability to operate efficiently, profitably, survive growth and react to the environmental opportunities and threats failure to respond to the changing environment rather than weak internal audit contributes to declining performance. Hitt (2016) states that internal audit is a key part within an organisation, it bears the responsibility that make sure the internal policies under control; check and promise the accuracy and completeness of organisation's transition records; safeguard the organisation's assets; prevent and detect fraud activity and error; arrange the time to prepare reliable financial statement and the lack of sound internal audit will have a material negative effect on profitability of companies. Zhou and Zinyama (2012) reported that weak internal audit reflects that the shareholders and managers cheat their customers and report wrong figures that no one can stop them and finally the foundation becomes a fraud organisation completely which have a negative effect on firm’s profitability because of cash embezzlement.

However, Pickett (2012) says that the declining in profitability is not associated with weak internal audit as it solely depends on mark up and margins on company’s products and risk appetite. Hitt (2016) argues that weak internal audit has no effect on profitability but rather the extent to which the organisation utilises the efficiency gap, the expansion gap and the diversification gap is what determines an entity’s success and competitive edge and thus inability to fairly explore the gaps and position itself strategically in a particular market is what really leads to declining profitability. Ashbaugh-Skaife et al

(2015) noted that any internal audit department no matter how well conceived and operated, can provide only reasonable not absolute assurance to management and the board regarding achievement of an entity's objectives and do not have any financial influence, these include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Pickett (2012) urges that internal audit is conducted on a sample basis only sufficient evidence is gathered to obtain reasonable assurance depending on the materiality levels set by the internal auditor. In most cases such materiality or assertion levels are too low to make any significant contribution to profitability. The risk of material misstatement is a product of the inherent risk, the control risk and the detection risk. Ashbaugh-Skaife et al (2015) argues that inherent risk is largely dependent on the nature of operations of the firm, its industry and largely determines its profitability and competitive edge and this cannot be eliminated by any form of internal auditing thus declining financial performance cannot be solely a product of weak internal audit. Pickett (2012) argues that profitability is achieved by converting shareholder's capital into human resources, tangible properties, equipment and developing knowledge to enable production of products and services and their distribution to market segments where they will be readily acquired and consumed rather than through internal auditing. Nevertheless, Ashbaugh-Skaife et al (2015) maintains that internal audit ensures that the resources invested in assets, human resources and knowledge management systems are put to optimal use and utilised for the benefit of the entity thus contributing to profitability. Additionally, controls can be circumvented by the collusion of two or more people, and management has the ability to

override the system Pinto (2013). This research seeks to identify the effect of internal auditing on profitability of CUT Hotel.

2.2.2 Poor Communication

Peurseem (2014) noted that weak internal audit leads to poor communication within an organisation because the internal auditors report to both the board of directors and the senior management and such a dual reporting structure creates information asymmetry and this leads to poor decision making. Hitt (2016) says that weak internal communication will have negative effects on an entity namely undetected errors, demotivation of workers and poor financial performance. Peurseem (2014) is of the notion that poor communication will impair the reliability of organisation's financial statements, because weak internal communication will cause mistakes which cannot be detected on time and those responsible for validating the information cannot correct the mistakes on time. According to Hitt (2016) weak internal audits result in poor communication and impairs profitability by failing to avail procedures for discussing an identifiable risk framework and putting it in place. Poor communication results in failure to clarify the objectives of an entity, disclosure of strategies for dealing with significant risks and disclosing measurable performance targets and indicators thus leading to a decline in profitability. Hitt (2016) argues that weak internal audit results in poor communication of the various risks identified and the manner in which they are disclosed to various stake holders thus affecting the ability to raise capital and thus profitability. Bota and Palfi (2013) states that weak internal audit result in poor communication which encourage fraud risk in some degree, similar as the reasons mentioned before, if the organisation has

no serious restrictions and strong communication between employers and employees, the risk of mistakes on financial reporting will increased hence profitability is negatively affected.

On the other hand, Ashbaugh-Skaife et al (2015) states that weak internal audit has no effect on internal communication within an organisation as the overall objective of internal audit is to assist all members of management in the effective discharge of their functioning, by furnishing them with objective analysis, appraisals, recommendations and pertinent comments concerning the activities reviewed. Fadzil et al (2015) also noted that internal auditors help run a company more efficiently and effectively to increase shareholders value not to enforce internal communication. This study seeks to ascertain the relationship between internal audit effectiveness on financial performance through internal communication within CUT Hotel.

2.2.3 High Control Risk

If internal audit is weak control risk is high Beasley (2016). Beasley (2016) also stated that control risk as a component of the audit risk that relates to a misstatement that could occur in an assertion and that could be material, individually or when aggregated with other misstatements, will not be prevented or detected and corrected on a timely basis by the entity’s internal control system. Furthermore, Hitt (2016) noted that audit risk is the risk that an auditor may express a wrong opinion after reaching the wrong conclusion during the auditing of financial statements which have an adverse effect on profitability. Bota & Palfi (2013) noted that design and implementation of effective internal audit system reduces risk because it is the responsibility of the auditor to make an independent

evaluation of the effectiveness of the internal control system. Ashbaugh-Skaife et al (2015) went on to say that weak internal auditors lead to poor internal control which promotes fraudulent acts in the organisation and reduces profitability. Ashbaugh-Skaife et al (2015) argues that the risk of fraud will be high if the control system is weak to prevent and detect fraud.

However, Kaplan (2015) states that risks will remain if audit recommendations are not implemented within the agreed time frames even if internal audit is sound. Pinto (2013) added that if audit recommendations are not given adequate attention within the agreed time frames, it therefore means that the organisation will continue to experience risks such as wasteful spending, inefficient use of resources, and violation of statutory provisions which may lead to litigation proceedings with an adverse impact to the organisation's profitability. Pickett (2012) argues that it is not the role of the internal audit department to impose the risk management process on the entity, to manage assurance on risks, taking decisions on risk responses neither is it responsible for implementing risk responses on managements behalf nor is it accountable for risk management and due to the nature of its operations internal audit has very limited roles in reducing control risk. Kaplan (2015) further states that the role of internal auditing is limited to giving assurances on risk management processes, giving assurance that risks are correctly evaluated and reporting the risks thus its contribution to profitability is relatively insignificant. This research seeks to find out how weak internal audit within the business lead to a decline in financial performance.

2.3 Techniques That Enhances Effectiveness of Internal Audit on Financial Performance If Implemented

2.3.1 Performing Value for Money Audits

Value for money audit, according to Okwoli (2014) is a systematic evaluation of the methodologies employed in the execution of programmes, projects, and activities with the objectives of confirming whether the stated objectives of the programmes, projects, and activities were actually achieved and at what cost. According to Oshisami (2012), Value for Money Audit enhances profitability through determining whether the entity is acquiring, managing or utilizing its resources i.e. staff, buildings, spaces, materials, etc. in an economic and efficient manner and the causes of any inefficiencies or uneconomical practices. Oshisami (2012) went further to state that value for money audit positively affects profitability as it involves an inquiry into whether in carrying out its responsibilities, the organisation gives adequate consideration to optimal acquisition, procedures and practices, safe keeping of its assets, money and minimum expenditure of effort. Ene (2013) indicated that value for money is a great tool in enhancing profitability of companies as it involves the appraisal of pursuit of the economy’s efficiency and effectiveness in utilisation of organisational resource which minimises losses and wastages. Okwoli (2014) states that there is a positive relationship between value for money audit and profitability because it assesses whether or not an organisation has obtained the maximum benefit from the goods and services it both acquires and provides, within the resources available to it.

However, Fadzil et al (2015) states that value for money audit requires professionals with cognate experiences who are expensive to employ and therefore these employees are

costly to maintain which lead to decline in profitability. Hermanson and Rittenberg (2015) added that value for money auditing do not have a significant on profitability as its success solely depend on authority, responsibilities adequate delegation of authorities and adequate internal control system for feasible value for money audit, there must be sound internal control system which is not obtainable in many organisations. Moreover, Ashbaugh-Skaife et al (2015) indicated that value for money audits have issues in defining objectives, measuring outputs, sacrificing quality for quantity, measuring effectiveness, and over emphasis on cost control therefore it doesn't add value to internal audit. This paper therefore, provides a conceptual analysis on value for money audit as an accountability tool at CUT Hotel.

2.3.2 Conducting Information Technology Audits

Richard (2013) stated that an information technology (IT) audit is a test of controls in a specific area of the business using computer systems. Kahn (2015), added that information technology audit enhances internal audit function because in modern business, computers are vital to the functioning of the business, and therefore the controls over them are key to the business. Jim (2012) pointed out that information technology audits positively affects internal audit through real time user interface were most computerised accounting information systems are inter-linked through a network of computers this facilitates the availability of information to various users at the same time on a real time basis. Newton F (2012) is of the view that information technology audit increases accuracy since the possibility of error is eliminated when using computerised accounting information systems because the primary accounting data is entered once for

all the subsequent usage and processes in preparing the audit reports hence positively affecting internal audit function, Newton F (2012) further explains that information technology audits enhances profitability since accounting errors that used to occur in a manual accounting system because of repeated posting of the same set of original data several times while preparing different types of accounting reports is eliminated as computerized auditing information systems reduces the risk of errors as only one account entry is needed for each transaction rather than the two (or three) required in a manual double-entry system.

However, Bota & Palfi (2013) states that information technology audits may not enhance internal audit effectiveness due to system failure, the danger of the accounting information system crashing and the subsequent loss of work when no back-ups have been made, leads to the need to re-engineer all business processes this takes time and skilled personnel to integrate the failed system which is costly and negatively affects profitability. Rutto (2012) argues that most of the accounting information systems does not add value to internal audit because they have standardized, user defined formats of accounting reports that are generated automatically however internal audit to be effective should be flexible and tailor made hence they have no effect on profitability. Furthermore, Ashbaugh-Skaife et al (2015) indicated that information audits demotivate workers because of their nature of performing repetitive operations, it results in immune to tiredness, boredom or fatigue. Demotivated workers result in vandalism wastages and this negatively affect profitability. This study aims at investigating whether information audits add value to internal audit and profitability.

2.3.3 Following Internal Audit Standards When Conducting Audits

Glazer and Jaenike (2015) argued that performing auditing work according to internal auditing standards contributes significantly to the effectiveness of auditing. Ridley and D’Silva (2016) found in the UK that complying with professional standards is the most important contributor to internal audits added value. Glazer and Jaenike (2013) states that the implementation of internal audit standards requires auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, such that internal audit activity will evaluate and contribute to the improvement of risk management, control and governance using a systematic and governance using a systematic and disciplined approach thus financial performance is enhanced. Volosin (2013) added that this is important not only for compliance with legal requirements, but because the scope of an auditor’s duties could involve the evaluation of areas in which a high level of judgement is involved, and audit reports may have a direct impact on the decisions or the course of action adopted by management and increase financial performance Bou-Raad (2012). It can thus be argued that greater quality of internal audit work understood in terms of compliance with formal standards, as well as a high level of efficiency in the audits planning and execution will improve the audits’ effectiveness Ridley and D’Silva (2016).

However, Kaplan (2015) argued that following Internal Audit Standards do not add value to internal audit function rather it should be linked with professional competency in detecting fraud. Moreover, Kaplan et al (2013) added that to be effective internal audit department should possess skilled staff who are knowledgeable to be able to apply the

internal audit standards effectively to aid value to internal audit function. Newby (2015) states that perpetrators actively engage in deception in an attempt to conceal their behaviour, auditors may have limited experience in fraud detection so following and applying the internal standards alone is not enough to make the function effective but the organisation should also hire those individuals who, appear to share certain unique personality traits or characteristics are best suited to the fraud detection task. Newby (2015) internal audits standards’ efficiency is limited by the inherent limitations of the nature of accounting and its reliance on the use of different accounting treatments for transactions which can easily be manipulated for the purposes of creative accounting therefore having a directional effect on profitability. Ridley and D’Silva (2016) stated that accounting treatments for leases, depreciation and stock valuation among others is subjective given the existence of options for alternative accounting treatments and this on its own has a significant effect on the level of profits reported and is frequently abused to smooth profits to hide profit fluctuations in the short run however the long run profit remains the same thus compliance with internal audit standards has very little significance on the absolute profitability of an entity. This research seeks to find out if internal audit standards have a significant effect on CUT Hotel internal audit function.

2.3.4 Continuous Audit

According to Ramamoorti (2014) continuous auditing is the use of software to detect auditor specified exceptions from among all the transactions that are processed either in real time or online environment. Lindsay and Hawkes (2016) added that continuous auditing enables auditors to shift their focus from the traditional audit approach to the

system and operational audit using a risk- oriented audit plan which has a result of enhancing profitability. Spencer (2013) said that continuous auditing has a number of benefits including reduction of costs of the basic audit approach by enabling auditors to test a larger sample (up to 100%) and examine data faster and efficiently than manual testing when auditing around the computer. Ramamoorti (2014) further explained that continuous auditing reduce the amount of time and cost auditors traditionally spent on examination of transaction balances and increase quality of audits by allowing auditors to focus on all aspects of the internal control structure. Lindsay and Hawkes (2016) state that continuous audit of business processes and widespread availability of computer networking makes it possible to dramatically increase the frequency of periodic audits by redesigning the auditing architecture around continuous online auditing. Spencer (2013) supported the sentiment that continuous auditing increases the profitability of companies, since it provides decision makers with real-time assurances that the information is secure, accurate, and reliable, unlike the traditional audit, continuous auditing provides users with timely assurance reports, such as a report on demand. This research seeks to find out if continuous audit has a significant effect on CUT Hotel internal audit function.

However, Newby (2015) states that despite being accurate and reliable of a continuous audit, it cannot provide a complete set of final accounts from the system which lead to some errors going undetected therefore negatively affecting profitability. Kaplan et al (2013) states that auditor specific exceptions used in any continuous audit depend on the risk appetite of the auditor, which can negatively affect the internal audit function as a result of biased auditor’s decision. Lindsay and Hawkes (2016) pointed that the use of

standardized procedures in continuous audits provides comprehensive guide to the audit processes and usually provide a methodical approach that is inherent in traditional audits and it is common for audit exceptions to be prone to sampling error. Kaplan (2015) continuous audit are computer controlled environments which are subject to cyber-attacks and the quality on the decision making from the reports generated largely dependent on the skill and professional competency of the auditor which makes the technique less effective in enhancing internal audit function. This research seeks to study the effects of following internal audit standards when carrying out audits.

2.4 Factors to Consider When Implementing Effective Internal Audit

2.4.1 Definition of Stakeholder’s Expectations

To create an effective internal audit function, internal audit’s primary stakeholders must determine how the function will deliver the desired value Ngai (2014). Matthews et al (2012) states that internal audit enhances profitability when the stakeholders express specified outcomes expected from the internal audit function. Volosin (2013) added that stakeholders must point out functions which include; risk management and control assurance, assessment of internal control effectiveness and efficiency, regulatory and corporate compliance assurance, relevant regulatory readiness assessment and ongoing testing, ability to respond to urgent events, return of value from internal audit investment, consultative business partnering to address complex issues. Singh and Newby (2013) states that once the expected outcomes are defined the internal audit function should work with the senior and the audit committee to articulate the mission statement for internal audit, the mission statement should outline the function’s goals which is to

eradicate errors and increase profitability. Volosin (2013) also noted that to be effective the mission statement should align clearly and directly with stakeholder’s expectations to maximize profitability and provide the basis for evaluation of internal audit performance. Konor (2013) states that the stakeholder’s expectations can be tailored to suit fraudulent and shady deals of top management hence negatively affecting financial performance. According to Bazaar and Latorre (2015) linking stakeholders expectations and the internal audit function have negative consequences that includes the following senior management expects internal audit to compensate for management's loss of control resulting from increased organisational complexity to be the safeguard of the corporate culture through personal contacts with people in the field whilst the definition of internal audit is to be an independent appraisal activity within an organisation for the review of accounting financial. This research also ascertained the awareness of CUT Hotel internal auditors on following stakeholder’s expectations and financial performance.

2.4.2 Independence of Internal Audit

According to Chun (2013) independence is the essence of auditing, an internal auditor must be independent of both the personnel and operational activities of an organisation. Otherwise, the integrity of the auditors’ opinions, conclusions and recommendations would be suspect. Volosin (2013) states that independence is necessary for the effective achievement of the function and objective of internal audit to enhance profitability, this independence is obtained mainly from two characteristics organisational status and objectivity. Dumitrescu (2014) acknowledges that in hospitality organisations every hotel should have an internal audit department on which with regard to the volume and nature

of its activities it can rely Chun (2013) says that for internal audit department in an institution to have a positive impact on profitability must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes, in this way it is guaranteed that this department performs its activities objectively and impartially. Farber (2015) found boards of firms with independent internal audit have a significantly higher proportion of profit compared to firms where internal audit dependent. Beasley (2016) states that a more independent board is less susceptible to the undue influence of management and more likely to exert pressure on management to remediate material weaknesses and enhance profitability.

However, Sayag (2012) says that independence of internal auditors is inevitable tool for financial performance as it does have either positive or negative effect on profitability. Yan Jin'e and Li Dunjia (2016) states that dependent internal audit may occur but that the risks associated with dependency of internal audit are insignificant to financial performance because members of internal audit do not participate in the firm's operations which affect profitability. A recent study by Van Peurse (2015) found that internal audits are conducted in an environment of close and, sometimes, dependent associations with management, which makes their independence from management structurally at risk. Van Peurse (2015) also found that those who seem to be able to meet their own expectations are also those who most carefully balance the sometimes conflicting interests of their managers with the interests of their profession. Sayag (2012) also that essentially, a key issue is that internal audit would assume whatever position is in the best interests of their employer and would be reluctant to counter management,

irrespective of the consequences financial performance of the organisation. This research ascertained the independence of CUT Hotel internal auditors in improving effectiveness of internal audit function and how financial performance would be enhanced.

2.4.3 Establishing the Internal Audit Charter

Each hotel should have an internal audit charter that articulates the purpose, standing and authority of the internal audit function within the hotel in a manner that promotes an effective internal audit function Asoke (2014). Volosin (2013) states that internal audit charter is a statement of self-governance within the internal audit function furthermore Volosin (2013) states that the charter should be drawn up and reviewed periodically by the head of internal audit and approved by the board of directors. It should be available to all internal stakeholders of the organisation as it helps employees to work towards one goal and enhances business growth. Hitt, et al (2016) added that at a minimum, an internal audit charter establish, the internal audit function’s standing within the hotel its authority, its responsibilities and its relations with other control functions in a manner that promotes the effectiveness of the function ,the purpose and scope of the internal audit function, the key features of the internal audit function, The obligation of the internal auditors to communicate the results of their engagements and a description of how and to whom this should be done (reporting line). Fish and Young (2015) also added that internal audit charter add on the effectiveness of internal audit as it outlines the criteria for when and how the internal audit function may outsource some of its engagements to external experts and the terms and conditions according to which the internal audit function can be called upon to provide consulting or advisory services or to

carry out other special tasks. Pickett (2012) states that the charter allows the internal audit function, whenever relevant to the performance of its assignments, to initiate direct communication with any member of staff, to examine any activity or entity of the hotel, and to have full and unconditional access to any records, files, data and physical properties of the hotel. This includes access to management information systems and records and the minutes of all consultative and decision-making bodies.

However, Lindsay and Hawks (2016) argued that the internal audit charter is a mere document and do not add to the effectiveness of internal audit function if not followed. Cashell (2014) pointed out that internal audit charter does not guarantee internal audit effectiveness unless the internal audit function is active, Ramamoorti (2014) supported this argument and indicated that internal audit effectiveness would only materialise if the members are committed to pursue their roles and duties. Lindsay and Hawkes (2016) also support that internal audit charter is not responsible for internal failures, but there is just lack of independence between managers and internal audit function hence fraudulent activities are not eliminated. This research ascertained the involvement of CUT Hotel internal audit charter in improving the financial performance of the company through internal audit.

2.4.4 Hiring and Permanency of Internal Audit Staff

The internal audit activity requires personnel from diverse backgrounds and different levels of experience to be effective as pointed out by Richard (2013), before engaging in the hiring process the organisation should define the size of its internal audit function in

order for it to be effective smaller departments will necessarily have to rely on more experienced auditors while larger ones will benefit from a blend of newcomers, seniors, and people from different academic and professional backgrounds. Recognizing the extensive range of services provided by the internal audit function, Volosin (2013) states that internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities therefore profitability will be enhanced. Robertson (2015) states that proficient internal auditors hired pose a positive effect on profitability because of consistence in applying procedures, and techniques and detection of fraud. Richard (2013) illustrated that to be effective each business unit should have a permanent internal audit function, which should be structured consistent in fulfilling its duties and responsibilities, senior management and the board should take all the necessary measures to ensure that the hotel has a permanent internal audit function commensurate with its size, the nature of its operations and the complexity of its organisation.

However, Robertson (2015) opposed the above notion of permanency of the internal audit function saying it is believed that the long-term relationship between the employer and the auditor causes their extreme closeness and this in its turn hurts the auditors' independence and the auditing quality mitigation leading to poor internal audit function which negatively affects profitability because of failure to mitigate risks. Glazer and Jaenike (2015) expressed that permanency in auditor's tenure periods have negative impact on financial performance in that over stayed auditors tend to relax and overlook

company accounts and forego errors because of familiarity threat. Robertson (2015) states that there is a positive relationship between costs and hiring internal auditors hence the moment the company hire internal auditors; profits will drop as a result of increase in administration cost thus adversely impacting the financial performance. This research will look through if the relationship between permanency of internal audit and efficiency of internal audit function and ultimately how it has affected the financial performance of CUT Hotel.

2.5 Chapter Summary

From the literature review, several researchers concurred that there is a relationship between internal audit and financial performance of an organisation. These conclusions were confirmed after empirical evidence was obtained from the research. However, there seems to be very few studies done on effect of internal audit financial performance in organisations. The following chapter will describe, in as much detail as necessary, the research methodology employed by the researcher in this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. Specifically, the following sub-sections were included; research design, target population, data collection instruments, data collection procedures and finally data analysis.

3.1 Research Design

According to Creswell (2013) a research design as the scheme, outline or plan that is used to generate answers to research problems. Further Dooley (2016) notes that a research design is the structure of the research it is the glue that holds all the elements in a research project together. The study adopted a descriptive research design, which according to Kothari (2014) is used when the problem has been defined as non-experimental descriptive research design is sought in this study because the subject under study is behavioural, not calculus. The main purpose of this study is to assess the impact of internal audit on profitability and is best suited by non-experimental descriptive research because it involves literature review, talking to experts on the subject or conducting focus group interviews Burns (2014). Shuttle (2013) describes descriptive as a method involving observation and description of behaviour of a subject without influencing it in any way. Descriptive research design aims to get accurate description of the community or organisation in a way that minimizes bias and maximizes reliability.

The descriptive design was chosen because of its appropriateness to the topic under study which is to assess the effects of internal audit on profitability and the researcher chose the qualitative approach since, the design can be used where it's impossible for the researcher to measure or test a large sample needed for more qualitative research (Shuttle 2013).

Ngechu, (2012) states that based on the nature and variability of the phenomena under study, the descriptive approach was justified on the account of its economy, rapid data collection and ability to understand a population from a part. The researcher designed, developed and administered close ended questionnaires and interview to management staff, and non-management staff of Chinhoyi Hotel. However, greater emphasis was laid on capturing members in finance and finance related offices. The research tools used comprise of interviews and questionnaires.

3.1.1 Qualitative Approach

Qualitative research defines the methods and techniques most suitable for collecting and analysing data focusing on the meaning in context Shuttle (2013). Making use of information collected through qualitative measurements scales, the qualitative method will help in describing problems or particular occurrences Dooley (2016). The qualitative approach is useful in helping understand, clarify situations, beliefs and experiences of individuals in a particular group Kothari (2014). The research used the qualitative approach to understand and explain the immeasurable opinions and attitudes CUT Hotel employees that were selected to take part in the research. This is because some of the opinions and expressions were obtained through interviews and with them being immeasurable; the researcher found the qualitative approach very useful. Qualitative

approach requires data collection instruments that are sensitive to underlying meaning when interpreting data collected Shararn and Merriam (2015). For this study the researcher used the qualitative approach and the design is also cost effective in terms of gaining information about the impact of internal audit on operations of CUT Hotel

3.2 Population

According to Ngechu (2012) a study population is a well-defined or specified set of people, group of things, households, firms, services, elements or events which are being investigated. Thus the population should fit a certain specification, which the researcher was studying. The target population for this study was 26 the management and non-management staff of Chinhoyi hotel. Due to financial reasons and unavailability of time, the researcher found it uneconomic to conduct the research using the whole target population and therefore ended up deciding to use of sampling as highlighted in the following paragraph.

3.3 Sample Size

Ngechu (2015) underscores the importance of selecting a representative sample through making a sampling frame. From the population frame the required number of subjects, respondents, elements or firms were selected in order to make a sample. The researcher resorted to using samples in order to economically use resources and time. The sample was drawn from CUT Hotel employees. The researcher selected her sample from the internal auditors, accountants, accounts clerks and operational managers. This is in line with the view of Donald (2016) the data was treated on the basis of applicability of the study, relevance, and accuracy, sufficient, cost of acquisition of the data and time

contribute greatly in supporting the overall data collection. The sampling technique used for the study is the judgment (purposive) sampling. Donald (2016) states that purposive sampling is where the researcher consciously decides who to include in the sample basing on the attributes and characteristics contained in the population that serve the purpose of the study. Table 3.1 below illustrates how the sample was selected from the target population.

Table 3.1 Population and Sample Size

Participants	Population size	Sample size	%of the total sample	Questionnaire	Interview
Internal Auditors	12	12	100%	12	2
Accountants	4	4	100%	4	1
Accounts Clerks	6	3	50%	3	1
Operational Managers	4	2	50%	2	1
Total	26	21	81%	21	5

3.4 Primary Data

According to Drury (2013) primary data is data that is collected for the first time in the field. The primary data is used to supplement and update the secondary data already available. In this research designing of questionnaires, interviews and observation were used to obtain reliable information. Degree of accuracy was high making the primary data to be more reliable than secondary data because the researcher collected this data

personally. Primary data enabled the researcher to collect specific information for the purpose of the research. The researcher managed to collect primary data using questionnaires and interviews done to the managerial and non-managerial employees of CUT Hotel.

3.5 Research Instruments

According to Mark (2015) research instruments are data collecting tools for collecting information or data measured to find the possible solution to problems under investigation. This research made use of the two basic research instruments namely the questionnaire and interviews. Drury (2013) illustrated that research instruments are tools used to obtain the required responses in a research and are mainly dependent on primary sources of data. To achieve this, the researcher designed specific closed question questionnaires and also conducted some interviews. The tools which were used to collect primary data includes self-administered questionnaires and personal interviews. The researcher distributed questionnaires to the chosen respondents which are the employees of CUT Hotel in the sample frame. These were delivered by hand to the respective respondents to ensure that they are received by those who were chosen by the researcher and make appointments with prospective interviewees. In some cases, if some respondents request to have interview questions forwarded to them prior to the interview so that they could research on their answers forwarded to them prior to the interview so that they could research on their answers. This enhanced the quality of answers that were obtained since the data collected proved to be reliable because it was primary data that

gave evidence of the real situation on the ground since it is obtained from the parties directly involved with the day to day activities of CUT Hotel.

3.5.1 Questionnaires

According to Drury (2013) a questionnaire is a document normally distributed through the post to be filled out by the respondent himself in his own time. It is a document containing questions designed to solicit information appropriate for analysis. The researcher had distributed the questionnaires to the targeted subjects at CUT Hotel constituted by managerial and non-managerial employees, in a way to enhance the quality of the data obtained and also to ensure that this data is in a form that can be objectively analysed. A self-designed questionnaire was used because of its applicability to the case - study research design since it was administered to large numbers of people at the same time. During the designing of the questionnaire close attention was made to the objectives which were then present in a thematic way. This type of research instrument was chosen as it satisfies the aspect of reliability as it gives constant results for the study to be undertaken. Bubbie (2014) states that the questionnaire gives the respondents' sufficient time to carefully consider their responses without interference from the researcher. This also reduces bias since there was no verbal or visual communication to influence the respondent and Saunders et al (2012).

Mark (2015) illustrated that when using questionnaires there is a tendency of obtaining complete data because respondents have enough time to carefully attend all questions in the questionnaire. Data obtained from respondents can be compared and analysed

because feedback from respondents is a written document. In this case some of the targeted group is management, management is not easily approachable but with questionnaires they are conveniently approachable and the researcher used the Likert scale rating questionnaire in collecting data from the respondents.

According to Bubbie (2014) the Likert scale measures attitudes and behaviours using answers that range from one extreme to another (for example, strongly agree to strongly disagree). The method allows the researcher to discover degrees of opinion and is very helpful for sensitive or challenging topics or subject matter. A range of responses helps researcher to easily identify areas of improvement. Drury (2013) went on to say that in each question, a statement is presented in which a respondent must indicate a degree of agreement or disagreement in a multiple choice type format.

Table 3.2: The Likert scale

Item	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree
Points	1	2	3	4	5

The researcher chose to use Likert scale because it is easily understandable as noted by LaMarca (2012) that it is a commonly used method so it's easily understandable. The Likert scale was used to group the responses from the respondents for clarity, brevity and analysis. Using the scale helps in grouping responses that are close together and accommodates the diversity that exists in respondents' answers. Respondents are given

the floor to respond in their degree of agreement, this made questions easy to answer. The method accommodates neutral or undecided feelings of respondents. Responses from respondents are very easy to code when accumulating data since a single number represents the participant’s response. The method is also quick, efficient and inexpensive methods for data collection. Attitudes of the population for one particular item in reality exist on a vast, multi-dimensional continuum.

3.5.2 Interviews

According to Mark (2015) an interview as a formal interaction between two or more people and the other person controls and directs the flow of information. Interviews are mainly used in qualitative research. The interviewer controls the participant to reveal rich and varied data based on the respondents understanding of the world and is thus a partner in the creating of knowledge and data as opposed to be a mere spectator. Interviews were mainly targeted for senior management staff that was considered to have vast experience in the operation of the organisation. The researcher designed interviews in such a way that they explore the validity and applicability of the responses towards answering the main research questions which is to express the relationship between internal audits on profitability of CUT Hotel. This lead to the collection of more data which was closely linked to the research objectives. The researcher gained valuable insights from the knowledge of the interviewees. Interviews are more flexible than questionnaires and this enables adjustments to be made, and they also cater for the need for clarity from both the interviewee and researcher. As interviews are pre - arranged, the researcher gets a 100%

response rate. This enables interviewee preparedness and all attention was solely focused on the interview.

3.6 Reliability and Viability

Reliability of an instrument refers to the extent to which the technique is consistent or dependable in measuring any object. A reliable instrument should produce precise and stable results. Reliability is directly related to the number of questions used to measure the variable interest Joppe (2015). According to Joppe (2015) the reliability of research instruments is tested during the design stage. During the design stage the question was administered to three different academics with vast experience in questionnaire design and found to be simple, clear and understandable and thus should be able to yield the same results if administered to the same respondents at different times. An analysis of instruments used was carried out after the research to ensure that the instruments used to collect data were valid to ensure that they provided accurate results at CUT Hotel. The instruments were reliable which implies that they were free from bias and error. Validity is the ability of an instrument to measure what it is supposed to measure. Validity revolves around the defensibility of the inferences researchers make from the data collected through the use of an instrument Sunders et al (2012), with this in mind, the researcher used both the interview and the questionnaire to ensure that the conclusions of the characteristics are valid, that is their attitude, perception and the applicability of their responses towards answering the research question through the objectives. The aim of the analysis is to ensure that the questions asked are properly answered and do not give bias

to the research results. The questions were valid and reliable while the interviews gave an atmosphere for a high response rate and for clear clarifications and explanations.

3.7 Data Collection Procedures

According to Ngechu (2014), there are many methods of data collection. The choice of a tool and instrument depends mainly on the attributes of the subjects, research topic, problem question, objectives, design, expected data and results. This is because each tool and instrument collects specific data. Donald (2016) notes that there are two major sources of data used by researchers which are primary and secondary data. Data was collected using both primary and secondary data collection technique. Primary data was gathered basically through structured questionnaires and interviews with key informant members. Secondary data was gathered through college publications, text books, journal, etc. The researcher administered a questionnaire to each member of the target population. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data to be collected for the study. The researcher administered the questionnaires individually to selected employee of Cut Hotel and Chinhoyi University Audit department. The researcher exercised care and control to ensure all questionnaires issued to the respondents were received and to achieve this, the researcher maintained a register of questionnaires which were sent and received.

3.8 Data Analysis Procedures

Donald (2016) states that data collected should be synthesised and analysed to give meaning to the specific objective of the study. The data collected from CUT Hotel was tabulated and presented using such statistical tools like percentages and tables. Narrative analysis was used to explain the qualitative results of the study. The data gathered was categorized in order to manipulate and summarize it to make it meaningful. The questionnaires were coded as they are received by the researcher from the respondents. With the use of Microsoft Excel, data was tabulated for easier analysis, comparison and interpretation. Data was then presented in the form of tables and graphs. Frequencies and percentages are the other statistical principles which were used in interpreting the data.

3.9 Chapter Summary

The previous chapter outlined the methodology which was used by the researcher throughout the research. It outlined the research design which was used, population, sampling techniques, data collection procedures and techniques used. The researcher conducted the research using questionnaires and interviews as the research instruments. The sample size is 21 Chinhoyi University of technology Hotel employees. The presentation and analysis of the collected data is presented in the following chapter in a systematic and understandable way.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.0 Introduction

This chapter introduces the results of data collected using graphs and tables. The focus of the study undertaken was to evaluate the effect of internal audit in the enhancement of profitability of CUT Hotel. The collection of data from secondary and primary sources was done to give answers to the study questions. In this chapter the data collected was tabulated and the findings discussed.

4.1 Questionnaire Responses

The questionnaires drafted were dispatched to twenty-one employees of the Chinhoyi University of Technology who are internal auditors, accountants, assistant accountants, accounting clerks and the operational managers. A total of eighteen responses out of twenty-one dispatched questionnaires were received. This resulted in the researcher obtaining a response rate of 86% from her targeted population as illustrated in Table 4.1 below.

Table 4.1 Questionnaire responses

	Number	Percentage%
Dispatched	21	100%
Valid response	18	86%
Non response	3	14%

The researcher could not achieve 100% response rate, 86%(18/21) response rate was attained the researcher found it reliable basing on the recommendations of Kumar (2012) who recommended the minimum of 60% as reliable and Converse et al (2013) recommended a minimum of 56%. From the above responses, the researcher used the 86% as it was above the recommend and reliable to use. Of the eighteen valid returns, there were 10 from the internal audit department 3 from accountants, 3 from accounts clerks and two from operational managers of CUT Hotel. The Table 4.2 illustrate the detailed questionnaire response rate:

Table 4.2 Detailed questionnaire Response Rate

Participants	Population size	Questionnaires distributed	Responses received	Response rate
Internal auditors	12	12	10	83%
Accountants	4	4	3	75%
Accounts clerks	6	3	3	100%
Operational Managers	4	2	2	100%
Total	26	21	18	86%

Table 4.2 above presents data of 21 questionnaires distributed showing 86% response rate from Chinhoyi university Hotel’s targeted employees. From the data presented in Table 4.2 the researcher attained favourable responses which were above 60%. According to Brenda and Risa, (2013) an overall 50% or above response rate is favourable enough to

draw reliable conclusions from research results. The researcher therefore concluded that the results obtained were enough to make necessary conclusions.

Questionnaire Presentation and Analysis

4.2 Question 1 How internal audit function enhances profitability of CUT Hotel

4.2.1 Reduces errors, fraud and misappropriations

The question aimed to find out if the employees of Chinhoyi University Hotel view the internal audit as of any help to in the enhancement of profitability of CUT Hotel Table 4.3 below shows the responses given by the employees pertaining to the effect of internal audit on profitability

Table 4.3 Reduces errors, fraud and misappropriations

Responses	Number	Percentage
Strongly agree	8	44%
Agree	7	39%
Not sure	0	0%
Disagree	3	17%
Strongly Disagree	0	0%

Out of the eighteen responses that were obtained, 8/18 (44%) respondents strongly agree that of the valid responses they strongly agree that internal audit reduces errors, fraud and misappropriations and 7/18 (39%) agreed that internal audit reduces error zero (0%) were not sure and 3/18 (17%) disagreed then none strongly disagreed thus 0%. In aggregate a modal class 15/18 (83%) (44% strongly agree and 39% agree) agreed that internal audit

reduces errors, fraud and misappropriations at CUT Hotel. The views of those who supported that internal audit enhances profitability concur with Micheal (2014) who stated that internal audit function ensures that an effective internal control system exists to prevent errors, frauds and misappropriations thus losses are avoided at all costs which promote company growth due to increased profitability.

The other 3/18 (17%) disagreed that internal reduces errors, fraud and misappropriations which is supported by Fadzil et al (2014) who cited that internal audit function lacks the freedom of access to the highest level of management and to determine the appointment or removal, promotion and remuneration of internal audit staff all of which make for internal auditor’s independence. In these situations, the watch dog’s job of saving the undertaking from malpractices and irregularities which in turn leads to improved performance is greatly undermined. From the modal responses on determining if internal audit reduces errors, fraud and misappropriations of CUT Hotel. the researcher discovered that internal audit is regarded as a significant tool in increasing profitability therefore internal audit is a vital tool on enhancing profitability controlling costs therefore it is an effective tool in controlling costs.

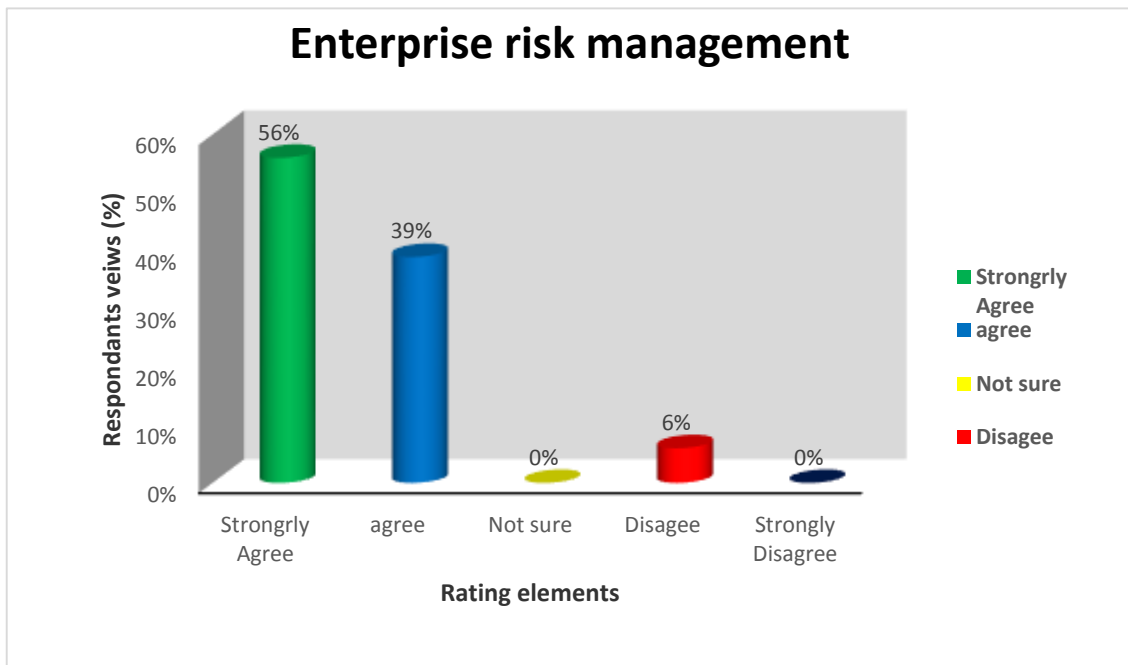
4.2.2 Enterprise risk management

From this research question the researcher was seeking to attain the importance of internal at cut hotel in the achievement of profit through mitigation of enterprise risk management. Table 4.4 which follow present the views of CUT Hotel employees.

Raw data: Enterprise risk management

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
No of Respondents	10	7	0	1	0

Fig 4.1 Enterprise risk management



Out of the eighteen responses that were obtained, 10/18 (56%) respondents strongly agreed that internal audit enhances profitability through increasing enterprise risk management, 7/18 (39%) agreed none where not sure 1/18 (5%) and none strongly. It can be concluded from the above findings that a larger population of 17/18 (95%) agreed that internal audit enhances profitability concur with Chan (2013) who illustrated that effective internal auditing is a catalyst for enhancing an organisation profitability through risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes.

1/18 (5%) respondent disagreed that there is negative relationship between internal audit and profitability that means that even if internal audit is valuable in increasing profitability there are also other factors which need to be considered like the independence of the internal audit function. Chun (2015) stated that for internal audit department in an institution to have a positive impact on profitability must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes, in this way it is guaranteed that this department performs its activities objectively and impartially. The researcher discovered that though internal audit positively affects the profitability of CUT Hotel, management has to ensure that the internal audit function is independent from the operations to, continue improving profitability of the company.

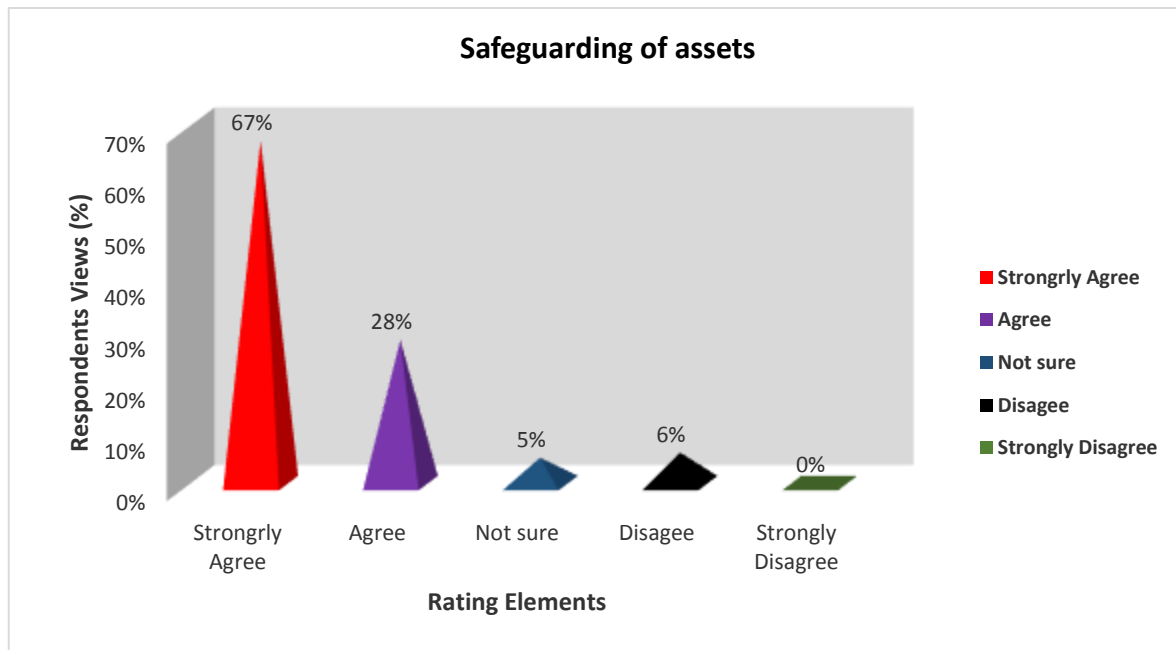
4.2.3 It safeguards assets

The purpose of this question was to discover if the employees of CUT Hotel value the existence of internal audit function in the organisation Fig 4.2 below shows the responses given by the employees pertaining to the relationship that exist between internal audit and profitability.

Raw data: Safeguarding assets

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
No of Respondents	12	5	1	0	0

Fig4.2: Safeguarding assets



From the above Fig 4.2 the results showed that 12/18 (67%) strongly agreed, 5/18 (28%) agreed that internal audit enhances profitability through safeguarding of assets only 1/18 (5%) respondent was not sure zero (0%) respondents disagreed, and none strongly disagreed. In aggregate a modal class of 17/18 (95%) (67%) strongly agreed plus (28%) agreed that internal audit enhances profitability through safeguarding assets of CUT Hotel. Adams (2012) says that internal audit helps in safeguarding of assets against

unauthorized acquisition, use or disposition is a process, effected by an entity's board of directors, management and other personnel which positively affect financial performance of organisations. Singh and Newby (2013) stated that many firm’s low performance is the result of poorly performing assets.

Finding that in none of the respondents disagreed or strongly disagree that internal audit enhances profitability through safeguarding assets of CUT Hotel that means that internal audit plays a pivotal role in safeguarding assets. Pinto (2013) states that internal control safeguard assets through policies and procedures that provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

4.3 What are operational challenges as a result of weak internal audit

4.3.1 Question 1: Poor financial performance

From this research question the researcher was seeking to attain if weak internal audit practises result in poor financial performance. Table 4.4 which follow present the views of CUT Hotel employees.

Table 4.4 Poor financial performance

Responses	Number	Percentage
strongly agree	7	40%
Agree	8	44%
Not sure	1	5%
Disagree	2	11%
Strongly disagree	0	0%

Table 4.4 shows that a larger population of the respondents which is 7/18 (40%) strongly agreed, 8/18 (44%) agreed that weak internal audit result in poor financial performance meaning that weak internal audit increases business risk. 1/18 (5%) respondent was not sure if weak internal negatively affect financial performance 2/18 (11%) disagreed and none strongly agreed. In aggregate, the percentage response rate of the respondents that agreed to the question were 15/18 (7/18 strongly agreed and 8/18 agreed) making a modal response of 84% which brought the researcher to the conclusion for the question. Spencer (2013) and Van Peurseem (2015) supported that insufficient internal audit also can increase the risk of organisations, which in turn have a negative on the firm’s financial performance.

2/18 (11%) disagreed that internal audit results in poor financial performance which means that internal audit is not the only factor that contributes to the enhancement of profitability as the internal audit function because it only gives a reasonable not absolute assurance that the financial statements are free from error which is supported by

Ashbaugh-Skaife et al (2015) who noted that any internal audit department no matter how well conceived and operated, can provide only reasonable not absolute assurance to management and the board regarding achievement of an entity's objectives and do not have any financial influence, these in the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The researcher discovered that weak internal audit reduces profitability of CUT Hotel because of undetected errors and fraudulent acts.

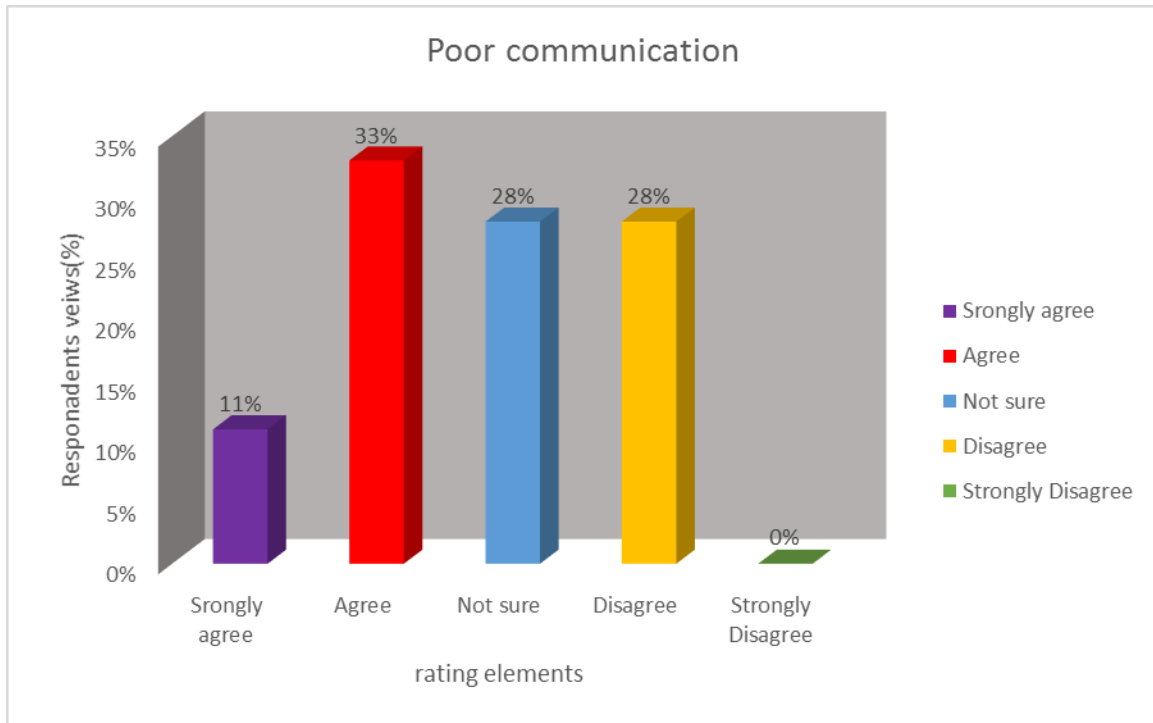
4.3.2 Question 2 Does weak internal audit result in poor internal communication

The question aimed to get an understanding on whether the participants view internal audit as an aid in improving internal communication of CUT Hotel Fig 4.3 which follows represents data on the views of employees in relation to this question.

Raw data: Poor internal communication.

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
No of Respondents	2	6	5	5	0

Fig 4.3: Poor Internal Communication



The above Fig4.3 shows that 2/18 (11%) respondents strongly agree that weak internal audit promotes poor communication and 6/18 (33%) agreed on the same issue then 5/18 (28%) are not sure if weak internal audit affect communication and 5/18 (28%) disagreed saying that weak internal audit does not affect internal communication and none strongly disagree. The responses clearly showed that a modal response rate of 2/18 (11%) strongly agree and 6/18 agree making (33%) response rate respondents agreed that weak internal audit negatively affect internal communication which means that internal audit is a vital tool in enhancing the organisation’s internal communication. Peurseem (2014) also noted that weak internal audit leads to poor communication within an organisation. 5/18 (28%) respondents disagreed and none strongly disagree which means that it is not the duty internal audit alone to foresee that internal communication is sound. This is in tandem

with what was discovered by Ashbaugh-Skaife et al (2015) states that weak internal audit has no effect on internal communication within an organisation as the overall objective of internal audit is to assist all members of management in the effective discharge of their functioning, by furnishing them with objective analysis, appraisals, recommendations and pertinent comments concerning the activities reviewed. From the data obtained the researcher discovered that internal audit helps to improve internal communication if its duty to advise management is played to the fullest.

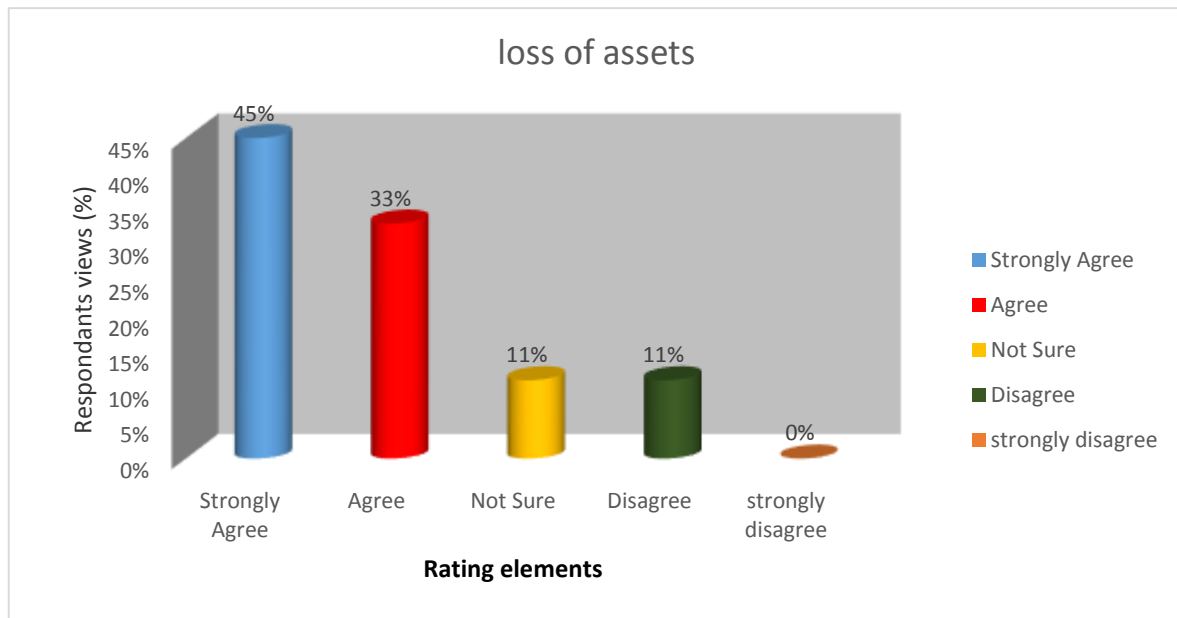
4.3.3 Question 3: Weak internal audit result in loss of assets through pilferage and fraud

From this research question the researcher wanted to find out if the employees of CUT Hotel view the internal audit as a watchdog which is able to save the company from fraudulent acts through theft and misappropriations of assets. Fig 4.4 below shows the views of respondents on the effectiveness of internal audit in safeguarding assets.

Raw data: Loss of assets through pilferage and fraud

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
No of Respondents	8	6	2	2	0

Fig 4.4: Loss of assets through pilferage and fraud.



From the above Fig 4.4 a larger population sample of 8/18 (45%) strongly agree that weak internal audit result in loss of assets 6/18 (33%), 2/18 (11%) were not sure and 2/18(11%) disagreed and none strongly disagree. From the respondents a modal class of 14/18 (78%) which was made up of 8/18 who strongly agreed and 6/18 who agreed were in agreement that weak internal audit result in loss of assets due to unauthorized acquisition. This was supported by Adams (2012) who says that internal audit control over safeguarding of assets against unauthorized acquisition, use or disposition, effected by an entity's board of directors, management and other personnel which negatively affect financial performance of organisations.

2/18 were not sure and 2/18 respondents disagreed this means that CUT Hotel has its inherent limitations which may not be prevented on timely basis with the internal audit as

said by Kaplan (2015) who outlined that that’s audit risk is a component of the inherent risk, control risk and detection risks, therefore even there is no relationship between internal audit and safeguarding CUT hotel assets. The researcher discovered that internal audit is a key factor in safeguarding company assets although there are some inherent limitations may not be detected by the internal auditors.

4.4 Techniques that internal audit should implement to enhance profitability

4.4.1 Question 1 Does implementing value for money audits enhance profitability

From this research question the researcher wanted to obtain the CUT Hotel employees views if the suggested techniques that can be implemented in the internal audit function helps to enhance profitability of CUT Hotel. Fig 4.5 which follows provides the views on how effective these techniques can be.

Raw data: Value for Money Audits

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
No.of Respondents	10	6	2	0	0

Fig 4.5 Value for money audits

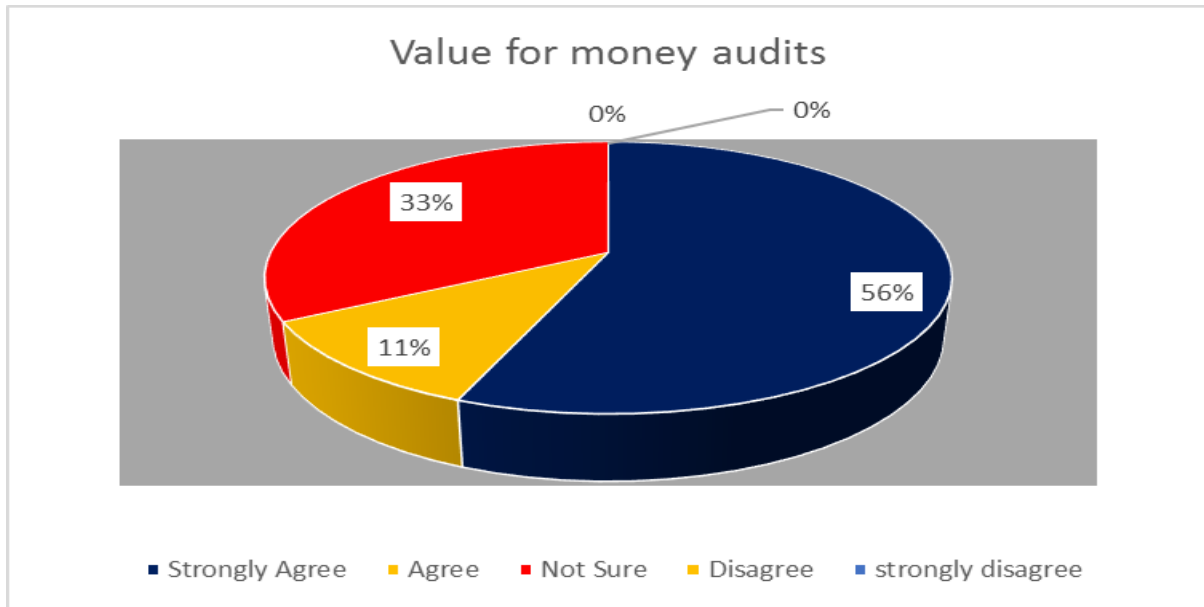


Fig 4.5 above shows that 10/18 (56%) strongly agreed, 6/18 (33%) agreed that value for money audits if implemented by the internal audit function enhances profitability 2/18 (11%) were not sure and 0/18 disagreed and none strongly disagree. Aggregated response rate of those that agreed made up to 16/18 (10/18 strongly agree and 6/18 agree) which means that the implementation of value for money audits helps in the efficient use of the company resources thus supported by Oshisami (2012) who states that Value for Money Audit enhances profitability through determining whether the entity is acquiring, managing or utilizing its resources in an economic and efficient manner and the causes of any inefficiencies or uneconomical practices.

2/18 (11%) respondents were not sure which means that value for money audits has its own drawbacks for example they need qualified personnel who are expensive to hire and

maintain, Fadzil et al (2015) echoed the same saying that value for money audit requires professionals with cognate experiences who are expensive to employ and therefore these employees are costly to maintain which lead to decline in profitability. From the above findings the researcher concluded that value for money audits enhances profitability if implemented to the internal audit function.

4.4.2 Question 2: Information technology audits

The objective of this question was to establish whether if introducing information technology audits enhance CUT Hotel profitability. Raw data below shows the respondent’s views on this area.

Raw data: Information technology audits

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
No.of Respondents	10	6	2	0	0

Fig 4.6 Information technology audits enhance profitability

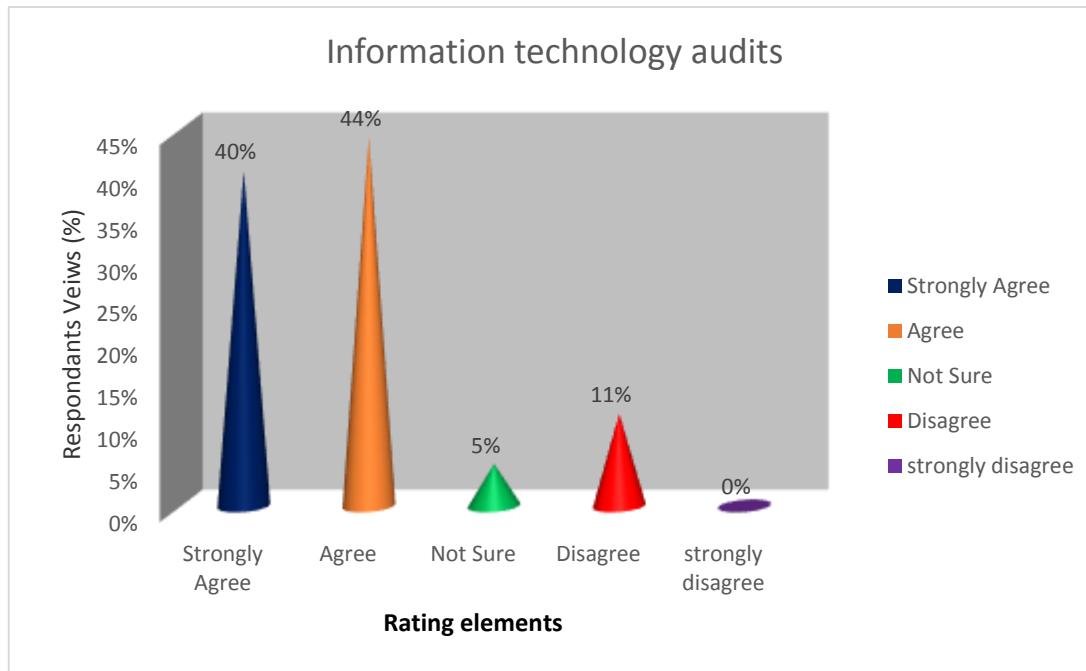


Fig 4.6 shows that a larger proportion of the respondents which is 7/18 (40%) strongly agreed and 8/18 (44%) agreed that information technology audits enhance profitability of the company. 1/18 (5%) were not sure 2/18 (11%) disagreed zero (0%) disagreed in total 15/18 (84%) made up of 40% strongly agree and 44% agreed that information technology audits enhance the internal audit function this means that information technology audits has a significant role in enhancing profitability as being supported by, Newton F (2012) who further explains that Information technology audits enhances profitability since accounting errors that used to occur in a manual accounting system because of repeated posting of the same set of original data several times while preparing different types of accounting reports is eliminated as computerized auditing information systems reduces

the risk of errors as only one account entry is needed for each transaction rather than the two (or three) required in a manual double-entry system.

1/18 (5%) were not sure and 2/18 (11%) disagreed that means that information may be lost if the machines crashes which tallies with the findings of Bota & Palfi (2013) who states that information technology audits may not enhance internal audit effectiveness due to system failure, the danger of the accounting information system crashing and the subsequent loss of work when no back-ups have been made, leads to the need to re-engineer all business processes this takes time and skilled personnel to integrate the failed system which is costly and negatively affects profitability. The researcher found that information technology audits have significant positive effect on profitability through eliminating errors and taking less time in processing transactions.

4.4.3 Question 3: Continuous audits enhance CUT Hotel profitability

The objective of this question was to establish whether if implementing continuous audits enhance CUT Hotel profitability. Table 4.7 below shows the respondent’s views on this area.

Table 4.7 Continuous audits

Responses	Number	Percentage
Strongly agree	8	44%
Agree	10	56%
Not sure	0	0%
Disagree	0	0%
Strongly disagree	0	0%

Out of the eighteen responses that were obtained, 8/18 (44%) respondents strongly agree 10/18 (56%) agreed that continuous audit has a positive effect on profitability and zero (0%) were not sure, none disagreed. In aggregate all the valid responses of 18/18 (100%) agreed that clearly show that continuous audit positively affect internal audit function and that this means that CUT Hotel employees views continuous audit as vital technique in enhancing profitability, Spencer (2013) supported the sentiment that continuous auditing increases the profitability of companies, since it provides decision makers with real-time assurances that the information is secure, accurate, and reliable, unlike the traditional audit, continuous auditing provides users with timely assurance reports, such as a report on demand. Concluding the researcher discovered the significance of implementing continuous internal audit because it is an important tool in enhancing profitability.

4.5. What are the ways of improving internal audit function

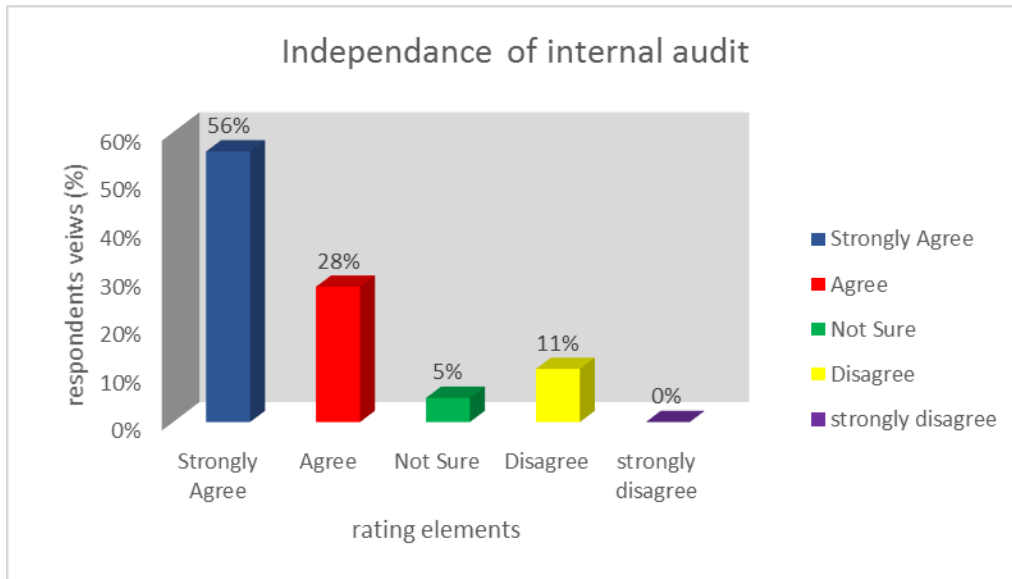
4.5.1 Question 1: Increased independence

The objective of this question was to find out if increased auditor independence increases internal audit profession. Fig 4.7 which follows provides raw data of CUT Hotel employee’s views on the ways of improving internal audit.

Raw data: Responses on whether independence enhance internal audit function

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
No.of Respondents	10	5	0	2	0

Fig 4.7: Independence of Internal Audit Division



A general overview of the responses from Fig 4.7 respondents agrees that independence enhance internal audit. 10/18 (56%) respondents strongly agree, 5/18 (28%) respondents agreed and only 1/18 (5%) respondent was not sure 2/18 (11%) disagreed and none strongly disagree. In total 15/18 (84%) agreed that independence is vital tool in improving internal audit because it helps to enforce objectivity in the execution of the duties in the internal audit function and eliminate bias their views are supported by Beasley (2016) who states that a more independent board is less susceptible to the undue influence of management and more likely to exert pressure on management to remediate material weaknesses. The two respondents who disagreed it maybe because at CUT Hotel the internal auditors are appointed by management therefore independence is inevitable Van Peurse (2015) illustrated that a key issue is that internal audit would assume whatever position is in the best interests of their employer and would be reluctant to counter management, irrespective of the consequences financial performance of the

organisation. From the data obtained from CUT Hotel employees the researcher found independence is very essential and must be properly maintained to have an effective internal audit in the company.

4.5.2 Question 2: Internal audit enhanced by hiring skilled staff

The objective of this question was to find out whether hiring of skilled staff enhance the internal audit function. Raw data below shows results of the findings on the effect of hiring skilled staff on internal audit function.

Raw data: Hiring skilled staff.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
No.of Respondents	5	7	3	3	0

Fig 4.8: Hiring skilled staff

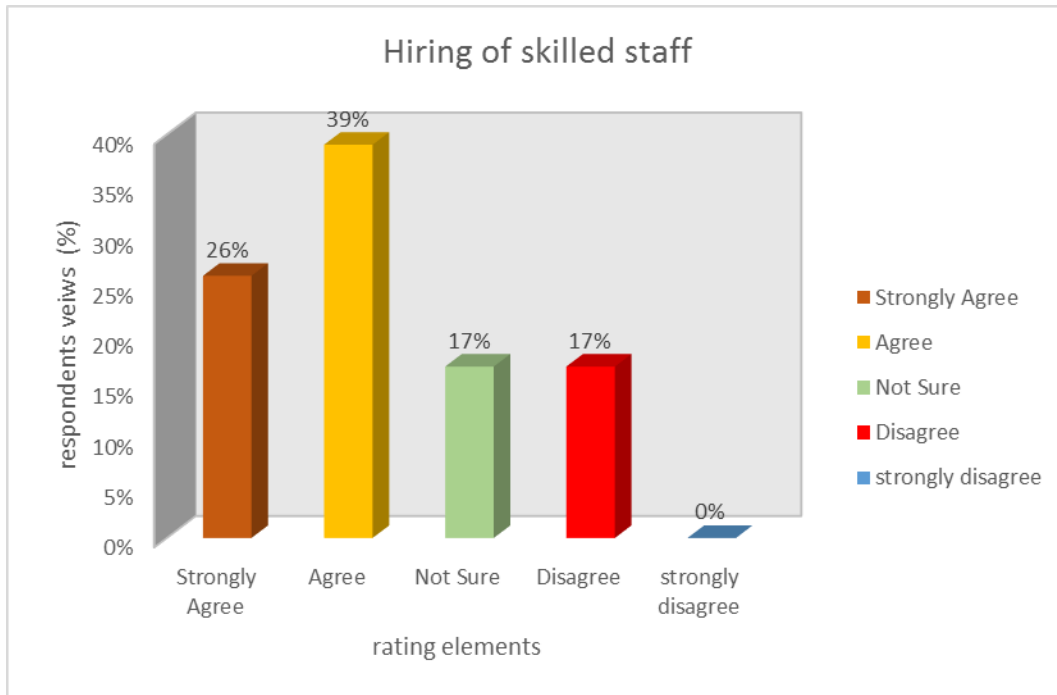


Fig 4.8 above shows that 5/18 (26%) respondents strongly agree 7/18 (39%) respondents agree 3/18 (17%) respondents are not sure and 3/18 (17%) disagreed and zero (0%) strongly disagreed. From the above data 12/18 (65%) agreed that hiring qualified internal auditor who have the sufficient knowledge and experience enhance the internal audit function, as illustrated by Volosin (2013) who states that internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. However not all employees agreed 3/18 (17%) disagreed saying that hiring competent staff is costly therefore it negatively affects profitability of the company. Robertson (2015) states that there is a positive relationship between costs and hiring internal

auditors hence the moment the company hire internal auditors; profits will drop as a result of increase in administration cost thus adversely impacting the financial performance. The researcher discovered that no matter the costs associated with hiring competent audit staff the benefits accrued outweigh the costs; therefore, hiring competent staff is essential in enhancing internal audit function.

4.5.3 Question 3: Permanent internal audit function

From this research question the researcher was seeking to attain the importance of having a permanent internal audit function. Table 4.8 which follow present the views of CUT Hotel employees.

Table 4.8 Permanent internal audit function

Responses	Number	Percentage
Strongly agree	6	33%
Agree	7	39%
Not sure	3	17%
Disagree	2	11%
Strongly disagree	0	0%

Table 4.8 shows out of the eighteen responses that were obtained, 6/18 (33%) strongly agreed and 7/18 (39%) respondents agreed 3/18 (17%) were not sure, and 2/18 (11%) disagreed and none strongly disagreed that permanency internal audit positively affect internal audit function.in agreegate13/18 (72%) agreed that permanency in internal audit division enhances its effectiveness their views were supported by Richard (2013) who illustrated that to be effective each business unit should have a permanent internal audit function, which should be structured consistent in fulfilling its duties and responsibilities,

senior management and the board should take all the necessary measures to ensure that the hotel has a permanent internal audit function commensurate with its size, the nature of its operations and the complexity of its organisation. However, 3\18 were not sure and 2/18 (11%) employees disagreed that permanent internal audit have a danger of becoming too close to the organisation to the extent of overlooking errors which tallies with Glazer and Jaenike (2015) who expressed that permanency in auditor’s tenure periods have negative impact on financial performance in that over stayed auditors tend to relax and overlook company accounts and forego errors because of familiarity threat.

From the data the researcher finds out that permanent internal audit function should exist in order for it to be helpful and effective.

4.6 Interview Questions Analysis

The interview guide questions were designed in such a way that they accommodated the target population, the researcher managed to interview 5 employees of CUT Hotel. Data collected from interviews was similar to data obtained by questionnaires the only difference being the procedures done in collecting the research data.

4.6.1 Question 1: how does internal audit enhance profitability of CUT Hotel

Respondent 1

The first interviewee stated that internal audit enhances profitability through its role to evaluate risk management process. The respondent said that if risks are mitigated profits will increase because of reduced costs. The respondents stated that by anticipating risks and identifying them the organisation could avoid determine the best way to reduce the

risk through avoidance, elimination and transferring the risk. This finding is in tandem with that of Committee Sponsoring Organisations (COSO) (2014), which also found that internal audit activity assists by identifying and evaluating significant exposures to risk. The interviewee suggested that the internal audit department should put more effort in risk assessment to increase profitability.

Respondent 2

The second interviewee stipulated that internal audit enhances profitability as it detect fraud as well as errors which maybe material at financial statement level and transaction level that could negatively affect profitability if they go undetected. The respondent also pointed out that internal audit enhances profitability through implementing recommendations and suggestions to identified risks. Micheal (2014) in echoed the same findings that internal audit function ensures that an effective internal control system exists to prevent errors, frauds and misappropriations thus losses are avoided at all costs which promote company growth due to increased profitability.

Respondent 3

The third respondent highlighted that internal audit enhances profitability through safeguarding assets because assets will be protected from unauthorised acquisition and disposal. The respondent pointed out that the efficient utilisation of the entity’s resources in the interests of the company contribute immensely to profitability. The interviewee also stated that internal audit enhances profitability because when internal audit is sound helps to minimise business risk through advising management and enforcing controls.

This is supported by Minor (2012) who stated that internal audit enhances profitability

through facilitating identification and evaluation of risks, enabling management to strategically respond to risks thus minimising losses.

Respondent 4

The fourth respondent stated that internal audit has no effect on the profitability of CUT Hotel because of lack of independence since it is the senior management that hire internal auditors therefore if the auditors detect acts of fraud by senior management will not be able to report it which negatively affect profitability. The fifth respondent echoed the same pointing out that internal audit does not enhance profitability since it is the management’s responsibility to ensure the adoption of sound accounting practices and for the maintenance of an adequate and effective system of internal controls to ensure sound corporate governance processes, the safeguarding of assets, and the production of reliable financial statements According to Beasley (2016) the responsibility for the prevention and detection of fraud and errors lies with management. This responsibility is met by the implementation of sound internal controls as may be recommended by the auditors from time to time.

Discussion

The questionnaires and interview responses pointed out that sound internal audit enhances profitability through prevention of errors, fraud and misappropriations, safeguarding of assets and enterprise risk management. However, the effectiveness of internal audit solely depends on management’s discretion of recruiting competent internal audit staff. From the information obtained the researcher discovered that internal audit indeed enhances profitability of CUT Hotel.

4.6.2 Question 2: What are the operational challenges being faced by local companies as a result of weak internal audit

Respondent 1

The first interviewee revealed that due to weak internal audit CUT Hotel has faced declining profitability as a result of high control risk which encourages material misstatements to go undetected. As noted by Bota & Palfi (2013) a weak and poorly designed internal audit system increases the inherent, the control and detection risk thus the overall audit risk. Repeated control failures in the internal system reduce the level of reliance that can be place on the internal control system and thus the work of internal auditors thus the ability to enhance profitability is impaired.

Respondent 2

The second interviewee pointed out that due to weak internal audit overall company cost increases as there will be no motivation to comply with regulations this will result in litigation and regulatory penalties. The respondent also stated that weak internal audit results in poor communication in the organisation because of lack of coordination between management and junior staff. This is in line with Bota & Palfi (2013) who stated that weak internal audit result in poor communication which encourage fraud risk in some degree. Bota & Palfi (2013) added that, if the organisation has no control restrictions, segregation of duties and strong communication between employers and employees, the risk of mistakes on financial reporting will increased hence profitability is negatively affected.

Respondent 3

The third interviewee pointed that if internal audit is weak financial performance will decline because of an increase in the risk of undetected fraud and lack of assistance in the investigation and reporting of irregularities. This is being supported by Hitt (2016) who stated that internal audit is a key part within an organisation. It bears the responsibility of ensuring that the internal policies under control, checking and verification of the accuracy and completeness of organisation's transaction records, prevention and detection of fraud activity and errors, arrangement of the time for the preparation of reliable financial statements. Therefore lack of sound internal audit will have a material negative effect on profitability of companies.

Respondent 4

The fourth respondent stated that weak internal audit results in misrepresentation of assets in financial statements and added that internal audit imposes policies and procedures that provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition and disposal. Internal audit evaluates the presentation, the records, the existence and the valuations of assets during the preparation of financial statements to substantiate the figures depicted thus contributing to profitability. Pinto (2013) also echoed the same sentiments that weak internal audit leads to unauthorised acquisition use or disposition of the company's assets that could have a material effect on the financial statements.

Respondent 5

The fifth respondent opposed the notion saying that weak internal audit doesn't have adverse impacts on the organisation as it only gives a reasonable assurance therefore even if it efficient some material misstatements will go undetected. The respondent highlighted that it is not the primary objective of auditors to detect fraud but to give an opinion as to the true and fair view of the entity's financial position. The respondent also said that it is the responsibility of management and not internal auditors to ensure controls are effective within the entity the respondent further explained that internal audit is only a mechanism to assist management in meeting its responsibilities of running the business efficiently and effectively by providing management with some valuable recommendations. This is supported by Ashbaugh-Skaife et al (2015) who noted that any internal audit department no matter how well conceived and operated, can provide only reasonable not absolute assurance to management and the board regarding achievement of an entity's objectives and do not have any financial influence, these include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

Discussion

The responses from the questionnaires and interviews conducted the researcher discovered that a weak internal audit leads to poor internal communication, misappropriations of assets through weak controls and failure to timely prevent and detect fraud and errors. The researcher concluded that weak internal audit has an adverse impact on CUT Hotel profitability.

4.6.3 Question 3: What are the techniques that internal audit should implement to enhance profitability of CUT Hotel

Respondent 1

The first respondent states that in order for the internal audit to enhance profitability the auditing team should conduct value for money audits to ensure that costs of internal audit department are not outweighing its benefits (cost benefit analysis). The interviewee went on to say that value internal audit helps to efficiently use economic resources of the company. Okwoli (2014) states that Value for money audit enhance profitability because it assesses whether or not an organisation has obtained the maximum benefit from the goods and services it both acquires and provides, within the resources available to it.

Respondent 2

The second respondents if of the sentiment that internal audit should also implement information technology audits which allows internal auditors to use computer aided audits in the execution of their duties the interviewee went on to say that computer aided audits enhances the function especially at CUT Hotel where computers are important in the conduct of business for example there is the use of accounting packages like PASTEL. Kahn et al (2015), added that information technology audit enhances internal audit function because in modern business, computers are vital to the functioning of the business, and therefore the controls over them are key to the business.

Respondent 3

The third respondent is of the opinion that information technology audit helps the internal audit function as it increases the accuracy due to the prevention of errors of double capturing this tallies with the findings of Newton F (2012) who further explains that Information technology audits enhances profitability since accounting errors that used to occur in a manual accounting system because of repeated posting of the same set of original data several times while preparing different types of accounting reports is eliminated as computerized auditing information systems reduces the risk of errors as only one account entry is needed for each transaction rather than the two (or three) required in a manual double-entry system.

Respondent 4

The fourth interviewee stated that information technology audits are not very useful to the internal audit function as the computers are prone to malwares and system error this has the danger of errase the saved files and destroying the audit trail, Bota & Palfi (2013) states that information technology audits may not enhance internal audit effectiveness due to system failure, the danger of the accounting information system crashing and the subsequent loss of work when no back-ups have been made, leads to the need to re-engineer all business processes this takes time and skilled personnel to integrate the failed system.

Respondent 5

The fifth interviewee stated that information technology audits are prone to external environmental conditions, electrical and magnetic interference, accidental damage or destruction and human manipulation environmental. The final interviewee is of the opinion that information technology audits are boring because it tends to be repetitive doing the same standardised thing they don't allow creativity therefore it reduces the moral of workers. Ashbaugh-Skaife et al (2015) and Dawson (2014) supported the above notion that most of the accounting information systems does not add value to internal audit because they have standardized, user defined formats of accounting reports that are generated automatically and indicated that information audits demotivate workers because of their nature of performing repetitive operations, it results in immune to tiredness, boredom or fatigue.

Discussion

From the information obtained from both the questionnaires and interview responses it can be concluded that value for money audit, continuous audit and adhering to the internal audit charter enhance the internal audit function and increases profitability of the company if implemented effectively. However, some techniques demotivate employees because of repetitive tasks.

4.6.4 Question 4: What are factors to consider when implementing effective internal audit function

Respondent 1

The first interviewee stated that when implementing effective internal audit management should ensure that independence of the internal audit function he further explained that independent internal audit have objective mind and is able to enforce internal controls and reporting fraud happening in the organisation. The interviewee went on to say that internal audit should have an internal audit charter which helps the functions to have direction in the execution of its duties. Volosin (2013) added that every internal audit function should have an internal audit charter as it helps employees to work towards one goal and enhances business growth.

Respondent 2

The second interviewee said that the organisation should hire permanent internal audit staff that helps the function because the employees will have knowledge of how the CUT Hotel operates ,which tallies with what Richard (2013) illustrated that to be effective each business unit should have a permanent internal audit function, which should be structured consistent in fulfilling its duties and responsibilities, senior management and the board should take all the necessary measures to ensure that the hotel has a permanent internal audit function commensurate with its size, the nature of its operations and the complexity of its organisation.

Respondent 3

The third interviewee stated the management should hire skilled and competent audit staff who collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities therefore profitability will be enhanced. Volosin (2013) echoed the same sentiments saying that internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities therefore profitability will be enhanced.

Respondent 4

However, the fourth interviewee opposed saying that over stayed auditors may start developing familiarity threat which negatively affect objectivity and independence of internal auditors. The respondent went on to say dependent auditors may give biased reports which are in favour of the management. Robertson (2015) supported the above notion saying that permanency of the internal audit function is believed that it causes long-term relationship between the employer and the auditor causes their extreme closeness and this in its turn hurts the auditors’ independence and the auditing quality mitigation leading to poor internal audit function which negatively affects profitability because of failure to mitigate risks.

Respondent 5

The fifth interviewee states that the strategies that maybe put in place in order to enhance internal audit function are sometimes costly as compared to the benefits which will be derived from them. The interviewee went on to say that factors that the company needs to consider when implementing an effective internal audit are time consuming and the benefits accrued are not measurable but the cost negatively affect profitability of the company. This is in tandem with Robertson (2015) who states that there is a positive relationship between costs and hiring internal auditors hence the moment the company hire internal auditors; profits will drop as a result of increase in administration cost thus adversely impacting the financial performance.

Discussion

From the interviews and the questionnaire responses it can be concluded that independence of internal auditors enhance its function as well as hiring of permanent staff and establishing an internal audit charter add to the effectiveness of internal audit. However, the researcher obtained an understanding that not all factors that need to be considered when implementing effective internal audit are beneficial some might be costly to the company.

4.7 Chapter Summary

The chapter focused on presentation, discussion and analysis of the obtained data from research instruments. Included in this chapter are presentations of research data in form of graphs, pie-charts, tables and a discussion of these presentations was also done. An analysis of the research data was also done in a way whereby the researcher analyse the research results by comparing data from research instruments to information in the literature review. The following chapter will be looking at the summary of all chapters, conclusions and recommendations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter focused on summary of chapters where major research findings are discussed, recommendations to the problems and challenges discussed in this study, also included in this chapter is a conclusion by the researcher.

5.1 Summary of Chapters

Chapter one was an introduction to the background of the study where the researcher gives a brief background of the factors and problems which has led to the carrying on of this research study. Also covered in chapter one is the statement of problem which brings about the research gap where the researcher pointed out that the research was on extending literature on prior internal auditing literature by examining the effects of internal audit on profitability in the context of a developing country, using a case of CUT Hotel and suggesting ways of improving it. Also included in chapter one is the significance of the study, limitations and delimitations of the study.

Chapter two focused on reviewing the literature related to the effects of internal audit on profitability. The chapter revealed the relationship between internal audit and profitability of companies. The chapter also covered the operational challenges which come as a result of weak internal audit function and the techniques that can be implemented on to internal audit to enhance profitability of the company and finally ways that enhance internal audit function. Major sources used in this chapter are research academic journals.

Chapter three gave a detailed discussion of the research methodology where the researcher chose descriptive research design to be the appropriate method for the study. The researcher selected a sample size using stratified sampling from the total population of CUT Hotel employees. The researcher used the judgment (purposive) sampling to select from the strata. Questionnaires and interviews were used to find data.

Chapter four focused on presentation, discussion and analysis of the obtained data from research instruments. Presentation of research data was done in form of graphs and tables and a discussion of these presentations was also done. An analysis of the research data was also done in a way whereby the researcher analyse the research results by comparing data from research instruments to information in the literature review.

5.2 Major Findings

- Internal Audit is vital tool in enhancing profitability of companies. The researcher discovered that internal audit positively affects profitability through preventing and detecting fraud and errors, safeguarding assets and reducing risk.
- The researcher also found out that if there is weak internal audit it negatively affects the operations of CUT Hotel and results in poor internal communication, poor financial performance and high business risk.
- Also discovered by this research was the fact that value for money audits, information audits and continuous audits contribute substantially to the enhancement of profitability if implemented to the internal audit function

- The research revealed that proper recruitment and training of internal auditors, increasing auditor’s independence and establishing an internal audit charter enhance internal audit function.

5.3 Conclusion

Internal audit is a significant tool in enhancing profitability of CUT Hotel as it eliminates business risks. From the results obtained by the research it is evident that declining profits, poor internal communication, high business risk loss of assets was a result of weak internal audit. Relating to the data obtained through questionnaires and interviews a positive improvement in the internal audit function will be noticed if the suggested ways of improving the function are implemented successfully, value for money audits and having a permanent internal audit function

5.4 Recommendations

- The scope of the internal audit function should be focused on the risk management system of the organisation in order to enhance profitability. Their recommendations to management must also include the adequacy and effectiveness of the risk management system that is employed in the organisation. Thus the division should start to do comprehensive risk management audits so that they get the accurate information pertaining to the level of effectiveness of risk management system.
- In order to increase the effectiveness of the function, the divisional annual plan should be well organized and enough time should be allocated to the audit

assignments so that the actual positions of the departments being audited are exposed through the audits. Time should be set aside for the ad hoc assignments as well as resources before they happen so that they do not interfere with the actual planned assignments for the year.

- The relationship between internal audit and external audit should improve so that there is no duplication of efforts that happen. This should be attained through regular meetings between the two parties giving each other mutual cooperation and support by identifying and implementing activities to accomplish both professional groups' common objectives.
- The internal audit division should try to stick to the requirements of the Institute of Internal Auditors so that the function can be accredited as one of the best functions by the board that gives the accreditation like ISO certification. They can attain this through their involvement in the regular meetings that are done by the Institute to continuously upgrade the internal audit function.
- Proper competency management should be done by the head of the internal audit (Internal Audit Executive) that is to do a people plan process which starts with the definition of the required core competencies for the various roles within the internal audit function. The identified competencies will provide input into the recruiting strategy and the development of learning plans for the existing auditors. This will also help to identify skills gap in the audit plan so that appropriate action can be taken like hiring the required skill from outside, training the auditor or accessing the needed skill through a third part service provider.

- Internal audit should properly communicate with the departments that are being audited so that it receives maximum cooperation, which is very essential tool for an effective audit.
- The internal audit function should develop a risk language that is understood by everyone in the organisation so that the concept of risk is known by everyone and enough participation is received from the various departments in the company.

5.5 Areas of Further Studies

Attention must be given on evaluation of the benefits derived from internal audit division and cost associated with establishing and maintaining the internal audit function.

5.6 Chapter Summary

This chapter focused on concluding the research findings in this research study. Also highlighted in this chapter are major research findings, area of further study and the suggested recommendations necessary to the company.

REFERENCE LIST

BOOKS

1. Burns, R. L. (2014) *Introduction to Research Methods*, Sage. London. UK.
2. Coderre, D. (2012). *Internal audit Efficiency through automation*, Prentice Hall, New Jersey, USA.
3. Daniel, G. J. (2012), *Public Sector Accounting*. ABU Press Ltd, Zaria
4. Emmanuel, C and Merchant, K. (2016) *Accounting for Management Control*, Chapman and Hall, London. UK
5. Glazer, A. S. and Jaenike, H. R. (2015) *A Framework for Evaluating an Internal Audit Function*, Foundation for Audit Ability Research and Education: Altamonte Springs FL.
6. Hayes, R. (2015) *Principles of Auditing*: Pearson Education Ltd. Pretoria, South Africa.
7. Hermanson, D. R. and Rittenberg, L. (2014) *Internal Audit and Organisational Governance*: The Institute of Internal Auditors Research Foundation. Florida.
8. Jackson, R.D.C and Stent, W. J. (2012) *Auditing Notes for South African*: Lexis Nexis, Durban South Africa.
9. Johnson, I.E. (2016) *Public Sector Accounting and Financial Control*. Financial Training Nigeria, Lagos. Nigeria.
10. Kothari, C.R. (2014) *Research Methodology, Methods and Techniques*, Prentice Hall, New York.
11. Kumar, R. (2012) *Research Methodology*, Sage, London, UK.

12. Mathews, C., Cooper, B.J. and Leung, P. (2012) *A Profile of Internal Audit in Malaysia*, Institute of Internal Auditors, Kuala Lumpur, Malaysia.
13. Mawanda, S. P. (2015) *Effects of Internal Control System on Financial Performance*, Duke University Press, Uganda.
14. Minor, C.A. (2012) *Principles for corporate governance in Zimbabwe, Manual of Best Practice*, Carlo Brothers Group, Harare, Zimbabwe.
15. Okwoli, A. A. (2014) *Value for Money Auditing in the Nigeria Public Sector: Its problems and Prospects in the Next Millennium*. Go-go Int’l Ltd. Jos. Lagos, Nigeria
16. Oshisami, K. (2012) *Government Accounting and Financial Control Principles and Practices*, Spectrum Books Limited, Ibadan, Nigeria.
17. Rittenberg, L. E. and Schwieger, B. J. (2014) *Auditing: Concepts for a Changing Environment*: The Dryden Press, New York.
18. Saunders, M., Lewis, P. and Thornhill, A. (2012) *Research methods for business students*, Prentice Hall, New Jersey.
19. Spencer, P. K. H. (2013) *the Internal Auditing Handbook*, U.K. City University press. U.K.
20. Subomi, O. (2014) *Principles of Auditing and other Assurance Services*, Nature Print: Lagos, Nigeria.
21. Venables, I. S. R. and Impey, K. W. (2015) *Internal Audit and corporate governance*, Butterworth & Co. (Publishers) Limited, London.UK.
22. Volosin, E. (2013) *The Theories of Audit Expectations and the Expectations Gap*.Grin Publishing company, Munich, Germany.

23. Whittington, O. R. and Panny, K. (2015) *Principles of Auditing and other Assurance Services*: McGraw – Hill. New York. USA.

JOURNALS

24. Abbott, L.J., Parker, S. and Peters, G.F. (2012), Audit fee reductions from internal audit-provided assistance: the incremental impact of internal audit characteristics, *A Journal of Practice & Theory*, 29(1), 94-118.
25. Adams, M. B. (2012) Agency Theory and Internal Audit, *Managerial Auditing Journal*, 45(3), 8-12.
26. Adeyemi, S. B. and Uadiale, O. M. (2012) An empirical investigation of the audit expectation gap in Nigeria, *African Journal of Business Management* 14(8) 964-971
27. Alzebam, A and Sawan, N (2013) The role of internal audit in the public sector context, *African Journal of Business Management* 17(6), 443-454.
28. Arena, M. & Azzone. G. (2012). Internal audit effectiveness, Relevant drivers of auditee’s satisfaction, *Journal of Services Recovery*, 25(4), 370-393.
29. Ashbaugh-Skaife, H., Collins, D., Kinney W. and Lafond, R. (2016) The effect of internal control deficiencies on firm risk and cost of equity, *Journal of Accounting Research* 47(1) 143-146.
30. Bazaar, H. and Latorre, J. (2015), Alignment the ultimate best practice, *Internal auditors*, 56(5)142-145.

31. Beasley, M.S. (2016) An empirical analysis of the relationship between the board of director composition and financial statement fraud, *The Accounting Review journal*, 71 (4), 443-465.
32. Bota, C. & Palfi, C. (2013) Measuring and assessment of internal audit's effectiveness, *Economic Science Series*, 18(3), 784-790.
33. Cashell, G. R. (2014.). Benefits and Problems Associated with Independent Auditors Taking on the Role of Internal Auditor. *Internal Audit Outsourcing Journal*, 65(2), 536-541.
34. Chan, D. Y., and Vasarhelyi, M. A. (2012) Innovation and practice of continuous auditing. *International Journal of Accounting Information Systems*, 12(2), 152–160.
35. Chandler, R.A. (2015). Value for Money Auditing: Its Potential and Its Problems, *Accounting and Economic journal* 36(10), 77-120.
36. Chun, C. (2013). Functions and Objectives of Internal Audit and their Underlying
37. Conditions. *Managerial Auditing Journal*, 8(6) 247-250.
38. DeFond, Mark L. and Lennox, Clive S., (2015) Inspections Improve the Quality of Internal Control, *Audits Journal of Arid Zone Economy*, 12(2), 56-60.
39. Dumitrescu, M. I. B. (2014) Internal Audit in Banking Organisations, *Managerial Auditing Journal*, 89 (2), 16-19.
40. Ene, E. (2013) Value for Money Audit in the Public Sector *Journal of Basic and Applied Scientific Research*, 3(8), 542-549.
41. Fadzil, F.H., Haron, H. and Jantan, M. (2014), Internal auditing practices and internal control system, *Managerial Auditing Journal*, 20 (8), 844-86.

42. Farber, (2015), Restoring trust after fraud: does corporate governance matter, *The Accounting Review journal*, 80(2), 539-561.
43. Fish, K. M. & Young LLP (2015). Internal Audit's Role in the New Asset Management Era. *Australian Accounting Review*, 46(16), 26-34.
44. Ge, Weili, Li, Zining, Qiliang, McVay, and Sarah, E. (2016) When Does Internal Control over Financial Reporting Curb Resource Extraction, *A Journal of Practice & Theory*, 99(6), 44-50.
45. Gramling, A.A (2014). Role of Internal Audit Function in Corporate Governance, A Synthesis of the Extent Internal Auditing Literature and Directions for Future Research, *Journal of Accounting Literature* 23(9), 263-78.
46. Hitt, M. A. (2016) The Market for Corporate Control and Firm Innovation. *Managerial Auditing Journal*. 12(1), 9-15.
47. *Internal Auditors-United Kingdom (IIA-UK) journal*, 96(5), 12-14.
48. Jim, G.Z. (2012) Sustainability of governmental use of microcomputer-based information technology in Kenya, *Global Information Technology and Socio-Economic journal* 67(16) 56-60.
49. Jong-Hag Choi, Sunhwa Choi, Chris E. Hogan, and Joonil Lee (2016) *Journal of Accounting Research* 77(3) 14-20.
50. *Journal of Management, IT and Engineering*, 3(7), 568-570
51. Kahn (2015), Data Processing Systems; Accounting Information Systems, *Indian Streams Research Journal*, 3(5), 1-8.
52. Kaplan, J. (2015) Internal controls and the detection of management fraud, *Journal of Accounting research*, 56(37), 567-570.

53. Kevin L. James (2013) The Effects of Internal Audit Structure on Perceived Financial Statement Fraud Prevention. *Accounting Horizons*, 17(4), 315-327.
54. Khumawala, S., Parsons, L and Gordon, T. (2015). Assessing the quality of not-for-profit efficiency ratios: do donors use joint cost allocation disclosures? *Journal of Accounting, Auditing and Finance* 20(3), 287–309.
55. Konor L Dr. (2013), The importance of Internal Audit to a director and audit committee, *Academic Journal* 97(2), 6-8.
56. Konor L. (2013), The importance of Internal Audit to a director and audit committee *Accounting Horizons*, 99(3), 8-810.
57. Lawrence, J Abbot, Brian Daugherty, Susan Parker, Gary, F. (2015) Internal Audit Quality and Financial Reporting Quality, The Joint Importance of Independence and Competence Authors, *Journal of accounting research*, 45(9) 89-95.
58. Lindsay C. and Hawkes, M. B. (2016). Implications for Internal Audit, *Total Quality Management, Journal* 25(4)309 – 327.
59. Mafumbate, J., Chivivi, O., Mafuka, A. and Ndlovu, N. (2013) an evaluation of the effectiveness of auditing on fraud management in the Zimbabwean Medical industry, *Internal audit manual*, 22(8), 24-25.
60. Mei Feng, Chan Li, Sarah E. McVay, and Hollis Skaife (2015) Does Ineffective Internal Control over Financial Reporting affect a Firm's Operations, *The Accounting Review*, 90(2), 529-557.
61. Michael, B. A. (2014) A systems Theory Approach to Internal Audit, *Managerial Auditing*, 8(2), 56-60.

62. Michael, P. (2014), Is there too much of a good thing, *Internal Auditing journal*, 54(6), 54-56.
63. Mihret, D. G (2016). Internal audit effectiveness, *Managerial Auditing Journal* 26(9), 44-46.
64. Ncube D. (2013), Internal auditing as a product, *Internal auditor’s news*, 30(2), 6-10.
65. Newton F (2012), Information Technology: Improving Internal Audit Administration in Developing Countries Global, *Journal of Business Research*, 7(1), 43-58.
66. Ogneva, M., Subramanyam, K. and Raghunandan, K. (2014) Internal control weakness and cost of equity, *The Accounting Review*, 82(5), 1255-129.
67. Pickett, S (2016) Developing Internal Audit Competencies. *Managerial Auditing Journal*, 265-274.
68. Pinto, J (2013) Role of internal audit in managerial Practice in organisations, *African Journal of Business Management* 7 (45) 4465-4476.
69. Processes and Practices, *International Journal of Accounting and Financial Reporting*, 2 (2), 218-237.
70. Ramamoorti, S. (2014). Internal Auditing, History, Evolution and Prospects, *Managerial Auditing Journal*, 34(5), 6-10.
71. Richard H. (2013) Information systems for Public Sector Management, working paper series, *International Journal of Management Sciences and Business Research*, 2(8),49-59.

72. Ridley, J. and D’Silva, K. (2016) Perceptions of Internal Audit Value, *Institute of internal auditors* 52(5), 30-36.
73. Rutto, G. K. (2012). Relationship between Internal Audit Independence and Co-Operate Governance, *International Fiscal Documentation*, 37(1)3-14).
74. Sayag, A. C. (2012). The Effectiveness of Internal Auditing, *Australian Accounting Review*, 45(4), 286-290.
75. Sayag, A. C. (2012). The Effectiveness of Internal Auditing, *Australian*
76. *Accounting journal*, 36(5), 296-304.
77. Schiuma, B. M. (2013). Business Performance Measurement. *Managerial Auditing journal*, 56(7), 680-687.
78. Shireenjit K. Johl, Satirenjit Kaur Johl, Nava Subramaniam, Barry Cooper, (2013) Internal audit function, board quality and financial reporting quality, *Managerial Auditing Journal*, 28 (9), 780 – 814.
79. Singh H. and Newby R. (2013) Internal Audit and Audit Fees—Further Evidence *Managerial Accounting Journal*, 25(4), 100-105.
80. Stewart, Goodwin and Kent (2013) The Relationship between external audit fees, audit committee characteristics and internal audit, *Accounting and Economic journal* 13(6), 97-100.
81. Van Peurse, K. (2015), internal auditors’ role and authority, *Managerial Auditing Journal*, 19(3), 378–393.
82. Williams, J. J. (2015) Do Changes in a Firm’s Management Accounting and Control System Affect the Firm’s Performance, *Iran Journal of Basic and Applied Scientific Research*, 3(8), 542-549.

83. Yan Jin'e and Li Dunjia (2016) Performance Audit in the Service of Internal Audit *Managerial Auditing Journal* 50(9) 192–195.
84. Zhou. G and Zinyama, T (2012) Auditing Government institutions in Zimbabwe, Frameworks, *Managerial Auditing Journal* 59(7) 12-15.

INTERNAL AND OTHER SOURCES

85. CUT HOTEL (2015) Management accounts

86. www.cuthotel.co.zw(accessed02/12/2016)

MIDLANDS STATE UNIVERSITY



**FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING**

To whom it may concern:

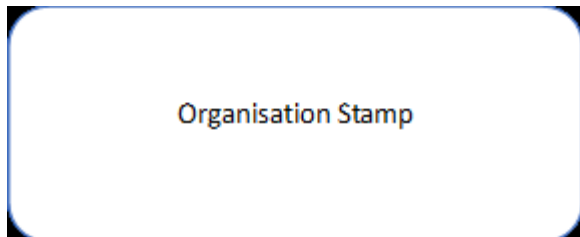
This letter serves to certify that Harzel Sokiri is a final year student in the department of Accounting at the Midlands State University. She is carrying a research entitled **“Assessment of the effects of internal audit on profitability of CUT Hotel.”**

May you kindly assist her carry out this project by answering the following questions. The research is purely for academic purposes and therefore the results will be treated confidentially and professionally.

Thank you

Ms Nyamwanza

ACADEMIC SUPERVISOR.



Signature

Interview question schedule

The interview questions aim for the responder’s view and comments on the subjects of the effects of internal audit on profitability of CUT Hotel. Your contribution will be treated with confidentiality and will be used solely for academic purposes

Questions

What is the effect of internal audit on profitability of CUT HOTEL?

1. How does internal audit enhance profitability of CUT Hotel?
2. What are the operational challenges being faced by local companies as a result of weak internal audit?
3. What are the techniques that internal audit should implement to enhance profitability of CUT Hotel?
4. What are strategies resulting in efficient internal audit function

Instructions:

Please respond to the following statements by indicating the extent to which you agree or disagree with the situations. strongly agree [1] not sure [2] agree [3] disagree [4] strongly agree [5]

1. Do not write your name.
2. Tick in the appropriate box.
3. Answer all questions.

How does internal audit affect profitability of CUT Hotel?

	1	2	3	4	5
It reduces errors, fraud and misappropriations					
Reduces enterprise risk management					
It safeguard assets					

Operational challenges as a result of weak internal audit

	1	2	3	4	5
Weak internal audit result in poor financial performance					
Weak internal audit function result in poor internal communication					
Weak internal audit result in loss of assets through pilferage and fraud					

Techniques that internal audit should implement to enhance profitability

	1	2	3	4	5
Performing value for money audits					
Information technology audits					
Implementing continuous auditing					

Ways of improving internal audit function

	1	2	3	4	5
Internal audit function is enhanced by increased independence					
Hiring skilled staff					
Having a permanent internal audit function					