

*An assessment on the effectiveness of the internal audit function at Fabco Pvt Ltd*

## **MIDLANDS STATE UNIVERSITY**



### **FACULTY OF COMMERCE DEPARTMENT OF ACCOUNTING**

*An assessment on the effectiveness of the internal audit function at Fabco Pvt  
Ltd*

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*Submitted in partial fulfilment of the requirements of Bachelor of Commerce  
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## **DEDICATION**

This research is dedicated to my mum Elizabeth, Mrs Maundukuse and Children Alone with love.

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## **ABSTRACT**

The purpose of this research was to assess the effectiveness of the internal audit function at Fabco Pvt Lt. The questioning of the necessity of internal audit by the major shareholder and recurrent increased stock write-offs without adequate explanations by management probed the researcher to carry out the study. The study involved internal audit personnel, management and accounts staff. The study sample composed of three internal audit personnel, five managers and four accounts personnel. Research instruments considered for the purposes of this research are questionnaires which had 92% response rate and interviews which yielded 89% response rate. Data accumulated was analysed and presented through graphs, tables and pie charts and rational conclusions were drawn from this. Upon analysis of the accumulated data, the results of the study suggest that the audit policy is not formally documented and adequately disseminated to staff. It was also seen that there is no independent internal audit committee to review the work of internal auditors and that the entity in question does not engage calibre staff. The recommendations forwarded by the researcher are envisaged to lead to effectiveness of the internal audit function at Fabco Pvt Ltd.



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## **CHAPTER 1**

# **INTRODUCTION**

### **1.0 Introduction**

This chapter outlines the background of the proposed study and the problem statement underlying the research. It introduces and sets out the tone for the objectives, main research question, sub- research questions and the justification of the study. The limitations as well as the delimitations of the study are also explicitly covered. Finally it covers the chapter summary.

### **1.1 Background of the study**

The entity to be used as a case study and hence the point of reference is Fabco Pvt Ltd whose major business focuses on retailing building and electrical materials to the domestic market. This hardware retail company was formed in 1985 and is wholly owned by Zimbabwean shareholders. In 2005, the entity engaged Mookat Advisory Services a public registered accounting firm to carry out the internal audit function. This internal audit function is controlled by the directors of Fabco Pvt Ltd and has been providing internal auditing services to the entity since 2005 to date.

According to the Companies Act chapter 24.03, private limited companies are exempted from furnishing their annual financial statements with the registrar of companies and to the general public. Such companies can choose not to engage external auditors and Fabco Pvt Ltd is not an exception to this. This entity places heavy reliance on the internal audit function conducted by Mookat Advisory Services and does not engage external auditors.

The internal audit duties carried out by Mookat Advisory Services to Fabco Pvt Ltd are:

- Evaluating the adequacy and effectiveness of internal controls and systems checks for adequacy and efficiency of stock controls

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- Checking on prepaid accounts for completeness , accuracy and validity and carrying out investigations
- Risk profiling and identifying training needs and putting in place appropriate training measures for workers
- Economic value auditing and evaluating the implementation of business strategies and quality of financial information

According to **Krishna et al. (2010:90)**, the internal audit function is a pro-active approach designed to add value and improve the operations of the organisation. **The Institute of Internal Auditors (2009:2)** augments that the internal audit function helps an organisation to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Nevertheless, Fabco Pvt Ltd is facing liquidity constraints evidenced by its failure to honour obligations timely. It has a long outstanding debt of \$800 000 which it owes Interfin Bank where it has to deposit \$5000 of its daily sales towards this debt among other material debts. This is in accordance with the financial reports for Fabco Pvt Ltd December 2012. It also has large stock write-offs annually which management fails to explain adequately. For example, in September 2012 stock count reports, the management had to write off about \$10 000 worth of stock and no further investigations were done. The Managing director and major shareholder of Fabco Pvt Ltd expressed his major concern in the overall decline in company performance by questioning the necessity of internal audit in board meetings held in 2012. The financial manager is also the chief internal auditor.

Some material errors have also been overlooked by the internal audit staff. For instance, in 2011 the company was charged a fine on non-remittance of tax to ZIMRA on account that there were no invoices on non-tax deductible items. The internal audit staff had audited the expenses before ZIMRA carried out the investigations but the audit report did not highlight

such material issues. About 40% of the material taxable items had no proper supporting documentation for 2011. The Finance director then directed the accounts staff to make sure that there is sufficient documentation for every material taxable item before filing was done. According to Mutchler (2001), an internal auditor may become less critical or observant to errors and deficiencies due to the difficulty in maintaining independence and objectivity.

## **1.2 Problem statement**

From the aforementioned problems being faced by Fabco Pvt Ltd, the research seeks to assess the effectiveness of the internal audit function of Fabco Pvt Ltd in the absence of an audit executive which is divorced from management and executive directors of the auditee.

## **1.3 Main research question**

Assessment of the effectiveness of internal audit function at Fabco Pvt Ltd.

## **1.4 Sub research questions**

The following sub research questions arise from the main question;

- What is the role and policy of internal audit
- What are the qualities of an effective internal audit function
- Is the internal audit personnel adequate and competent
- What are the controls over internal audit
- What best practice can be implemented to ensure effectiveness in internal audit

## **1.5 Research objectives**

The sub-research questions give rise to the following objectives;

- To determine the role and policy of internal audit.
- To establish the qualities of an effective internal audit function.
- To determine the adequacy and competence of the internal audit personnel.
- To establish the controls that are over the internal audit function

- To determine the best practice that can be put in place to ensure effectiveness of internal audit.

## **1.6 Justification of the study**

### To the student

The research is carried out and submitted in partial fulfilment of the requirements of Bachelor of Commerce Accounting Honours Degree.

### To Fabco Pvt Ltd

The research seeks to aid Fabco Pvt Ltd to consider the adoption of recommendations to be made.

### To Midlands State University

If the research recommendations are incorporated by Fabco Pvt Ltd, it will benefit other scholars as it will provide the basis for future research and serves as a point of reference.

## **1.7 Delimitation of the study**

The research is restricted to Fabco Pvt Ltd. It covers the period 2012-2013

## **1.8 Limitations of the study**

### Financial

The researcher had inadequate financial resources to cover research expenses like travelling and stationery. Additional funds were solicited from family members to avoid compromising the research quality. The researcher also resorted to use of least cost methods without compromising the quality of the research, for instance, use of electronic mails other than travelling.

### Time

The respondents had busy work schedules hence there was a delayed response to questionnaires and this blew off the time budget. The researcher was also a student and the



research was carried out at the same time the author was doing other courses. This time constraint was curbed by working beyond normal hours.

### Confidentiality

For confidentiality reasons, respondents had restricted access to information and were not willing to divulge the information. For example, internal audit reports were held in confidentiality and the researcher guaranteed the firm that whatever was made available is to be held in confidence and used for academic purposes only.

## **1.9 Summary**

This chapter looked at the question underlying the research and highlighted the background of the problem of internal audit ineffectiveness. It also looked on the sub-research questions, objectives of the study and how it is going to be structured to serve its purpose. The limitations of the research that may compromise research quality have also been highlighted as well as the significance and delimitation of the study. Chapter two looks at literature review.

## CHAPTER 2

# LITERATURE REVIEW

### 2.0 Introduction

This chapter looks at the role and policy of the internal audit function, qualities of an effective internal audit function as well as adequacy and competence of the internal audit personnel. It also focuses on the controls that are applicable over the internal audit function and the best practices that can be implemented to ensure effectiveness of the internal audit function. It prompts answers to the sub research questions and objectives by taking a comprehensive review on what has been propounded by various authors and reputable authorities in prior studies. The chapter ends up by summarising the literature review.

### 2.1 Role and policy of internal audit

#### 2.1.0 Role of internal audit

A baseline of internal auditing definition propels the basis for comprehending the role of the internal audit function. The **Institute of Internal Auditors** officially defined internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations”. The **IIA** asserts that internal audit assists an organisation in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and enhance effective risk management, control and governance processes. An analysis of this definition shows that the internal audit function has a role to assurance, consulting and evaluation of risk management and control. Similarly, **Spenser Pickett (2005:114)**<sup>1</sup> further propounds that the internal audit is concerned with internal controls that ensure reliability and integrity of financial and operating information, efficiency and effectiveness of operations, assets safeguard and organisational compliance in respect of laws and contracts.

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According to [www.q.project.be](http://www.q.project.be), (03/08/2013, 12:25pm)<sup>16</sup>, the author identified four major roles performed by the internal audit function and these are assurance, assessment and recommendations, oversight and advisory roles. The assurance role encompasses an objective scrutiny of evidence with the prime intention of providing confidence as well as accurate and current information to stakeholders regarding policy and operational efficiency and effectiveness inclusive of auditee adherence status to statutory obligations. Regarding the assessment and recommendations role, internal audit engages in value addition by assessing and making recommendations on the effectiveness of the mechanisms that are employed by organisations in pursuance of their objectives and by discharging this duty in a manner that portrays informed accountable decision with regards to ethics, compliance, risk, economy and efficiency.

The third role derived from the aforementioned definition of internal audit is the oversight role. Internal audit plays a crucial part on the basis with which decision makers attain oversight and organisational control, sound risk management application, focus their attention to areas that need to be improved and demonstrate accountability. Internal auditors also take a disciplined evidence- based approach to establish whether or not assurance can be given, provided that major systems and processes are designed appropriately and are functioning as intended. Within their sphere of expertise, internal auditors will also provide advisory services to the auditee. In this respect, internal auditors are expected to forward solution based recommendations ([www.q.project.be](http://www.q.project.be); 03/08/2013, 12:25pm)<sup>16</sup>. Because of the dynamic business world, it seems the role of internal audit is now focussing on risk evaluation other than the old role of an auditor of being a watch dog on proper safeguarding of assets only.

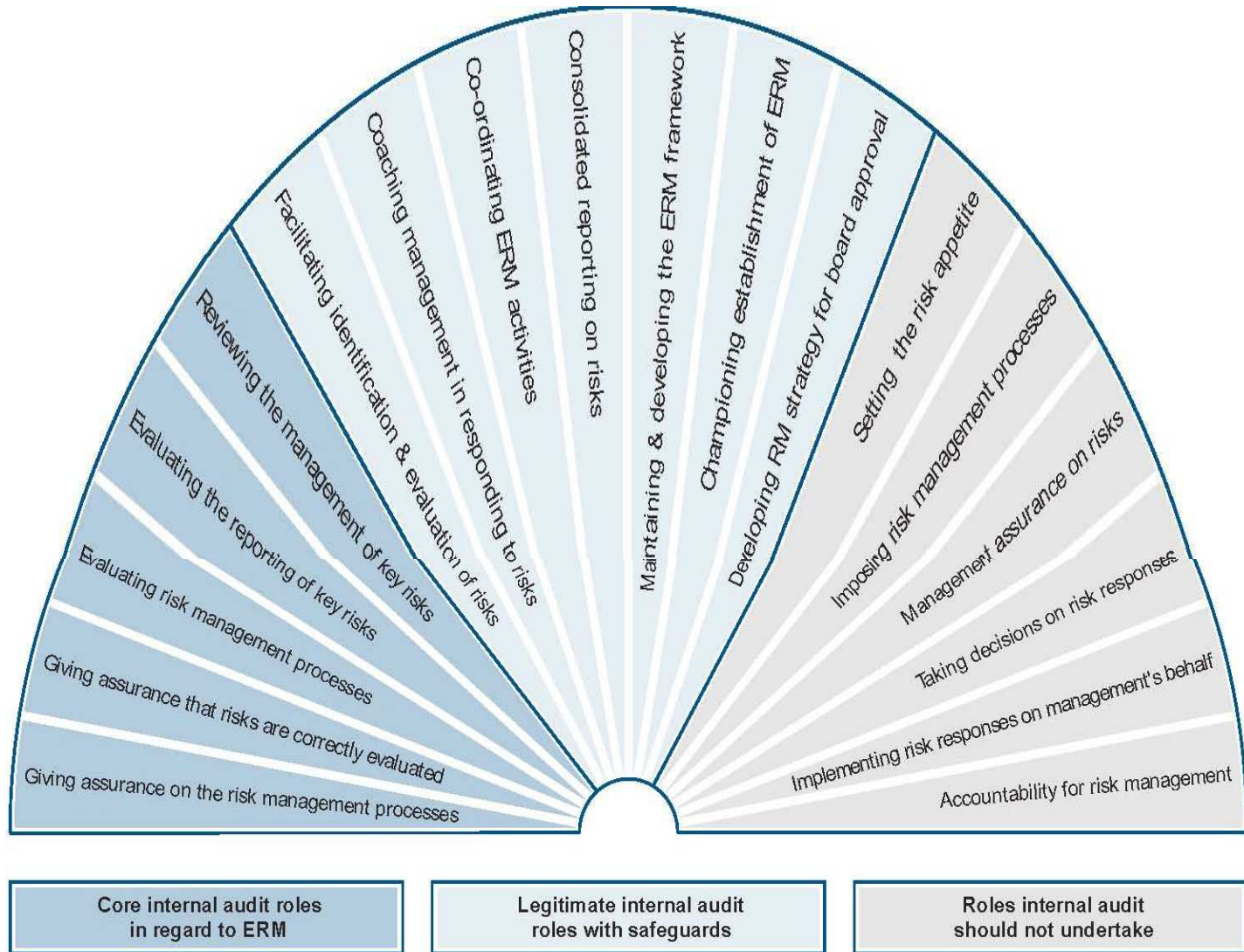
Similarly, Thompson Reuters Governance, Risk and Compliance (GRC) identified the key role of internal audit as that of assisting the board and/or its audit committee in discharging its governance responsibilities by establishing the source of information on major frauds as well as irregularities and giving recommendations for more effective and efficient utilisation of resources. ([www.kpmg.com.uk](http://www.kpmg.com.uk); 05/08/2013, 07:33pm)<sup>17</sup>

According to the **Institute of Internal Auditors (2009:3)**<sup>2</sup>, the internal auditors add value to the auditee by giving an objective assurance that key risk areas are appropriately managed as well as

providing assurance as to whether risk management together with the internal control framework are operating effectively. A further analysis of the definition of internal audit portrays that there has been a paradigm shift of the role of internal audit from the independent evaluation function to risk management role so that nowadays it is the core need of an entity. **Snezana *et al*, (2011:126)<sup>3</sup>** also agrees that this is so because risk management adds value to companies by providing independent objective assurance and consulting activities. On risk evaluation, the internal auditors determine the organisation's major activities and relevant risk factors and evaluate their significance. The internal audit techniques have since evolved from a reactive and control based nature to a more proactive risk based approach ([www.iiasa.org.za](http://www.iiasa.org.za) ;07/08/2013, 08:49pm)<sup>18</sup>.

**Figure 1** on page 9 portrays a wide range of risk management activities and shows the roles to be carried out by an effective professional internal audit function and the activities that it should not engage in. The most crucial factors to be taken into consideration when establishing the role of internal audit is an assessment as to whether the activity poses a threat to independence and objectivity of the internal audit function and whether it triggers improvement in organisational risk management, control and governance processes.

**Figure 1-internal auditing role in risk management**



**Source: IIA (2009:4)<sup>2</sup>**

**Figure 1** summarises the role of the internal audit function in risk management. The activities on the diagram are part of the wider assurance objective in respect to risk management. An internal audit function that is in adherence to the International Standards for the professional Practice of internal auditing should at least perform some of these roles (IIA, 2009:4)<sup>2</sup>.

### **2.1.1 Policy of internal audit**

Internal audit policy entails the rules and regulations that govern the internal audit profession. It serves as guidance on audit processes employed by the internal auditor which include planning, execution, reporting and follow up procedures performed by the internal auditor. The activities of the internal audit function are conducted in accordance with the Institute of Internal Auditors international standards for the professional practice of internal Auditing. The internal audit standards stipulate and require that the internal audit function be independent and objective in the discharge of its duties. For attainment of independence, the chief audit executive is required to report to a level within the organisation which permits the internal audit function to fulfil its responsibility.

According to **SDCERS Internal Audit Manual (2012:2)**<sup>4</sup>, the internal auditor directly reports to the board of directors via the audit committee. With such a reporting structure, the internal auditor can be free from interference in audit scope determination, work performance and communication of results as required by the IIA standards. For maintenance of independence and objectivity, the internal auditor is required to have an impartial, unbiased attitude and avoid conflict of interests and thus should not engage in audits under circumstances that impair independence. If there are circumstances that impair independence and objectivity, the internal auditor will report the apparent or actual impairment to the audit committee chair.

The internal audit function is guided by the Institute of Internal Auditors code of ethics and applies as well as adhere to the principles thereof which are; integrity, objectivity, confidentiality and competence. Integrity entails that the auditor should perform his work with honesty, diligence and responsibility. The principle of objectivity requires the internal auditor to make a balanced assessment of all the relevant circumstances and is not unduly influenced by his own interests or by others in formulating judgements. Internal auditors are also required to respect the value and ownership of information they receive and not to disclose it without due authority unless there is a legal or professional obligation to do so. Competency principle means that the auditor should apply the knowledge, skills and experience needed in the performance of internal audit services (**SDCERS Internal Audit Policy Manual, 2012:2-3**)<sup>4</sup>.

South Carolina State University **Internal Audit Policies and Procedures Manual (2011:50-56)**<sup>5</sup>, tend to take a different view as it does not focus on the reporting structure of the internal audit but the audit process itself. It articulates that the internal auditor should document a plan with respect to every audit assignment and this commences upon receipt of the assignment. It further stipulates that an audit programme should be formulated for all audits and this should be authorised by the internal audit director before the commencement of fieldwork. The internal auditor is required to collect, analyse, interpret and document information to support audit conclusions and recommendations. The internal audit policy requires the internal auditor to document all relevant information and maintain it in a file that will then be reviewed and authorised by designated audit management. Policy number 100 of SC State University requires the internal auditor to communicate their results promptly in an objective, clear, concise and constructive manner. Lastly, policy 120 stipulates that internal auditors should enhance their skills through continuous professional development.

## **2.2 Qualities of an effective internal audit function**

According to **Mihret *et al* (2007:475)**<sup>6</sup>, internal audit quality hinges around the function's ability to provide useful audit findings and recommendations and it is one of the most crucial factors influencing audit effectiveness. The International Internal Auditing standards require the internal auditor to plan and perform his work such that he will be able to derive useful audit findings and come up with recommendations for improvement. The internal audit function's ability to plan, perform and communicate audit results is crucial to audit quality. Ultimately, it can be argued that internal audit quality revolves around extensive staff expertise, reasonableness of the scope of service, effective planning, execution and communication of internal audits.

The internal standards on proficiency of the auditor places a demand on the internal auditors that they should possess the necessary knowledge, skills and other competencies required discharge their duties (IIA). Therefore an effective internal audit function constitutes auditors with extensive professional skills and at the same time upgrading their skills through continuous staff development and training. An effective internal audit activity should engage in a full range of audit activities as is required by the professional standards. For instance financial audit, compliance audit, performance, consultancy as well as special projects audit. An effective

internal audit should not only undertake risk assessments and audits on regular activities but also on irregular projects. (Mihret *et al*, 2007:475-6)<sup>6</sup>

According to Mihret *et al* (2007:477)<sup>6</sup>, for an effective internal audit, fieldwork should be documented in audit working papers with consistency and in a standardised manner. An effective internal audit should have the assurance team leaders undertaking a thorough quality review of the audit working papers and draft reports to ensure that the audit work has been performed according to plan and is properly documented. This is done to ensure that conclusions and internal audit findings have sufficient appropriate evidence. Changes prior to the issuance of the final audit report are then decided upon by the internal auditor directors after the review has been carried out.

The IIA (2003:6)<sup>7</sup> agrees with the other authors that effective communication has long qualified as an internal audit attribute. Making the audit report requires sharp written skills that convey a crystal clear message in a few well chosen words as possible. Audit communication is crucial to an effective internal audit function. Audit communication should be engaged throughout the period of fieldwork and written audit reports should be forwarded to acknowledge completion of the audit. Exit conferences are also held with the auditee with the core aim to audit findings in the internal audit draft reports. Moreso, exit meetings act as a platform to resolve questions and resolutions concerns of the auditee in respect of audit findings prior to issuing of the final audit report. Auditors are normally seen as critics thus effective internal auditors should possess the ability to wise and motivational criticism to probe people to improve. (Mihret *et al*, 2007:478)<sup>7</sup>.

## **2.3 Adequacy and competence of internal audit personnel**

### **2.3.1 Adequacy of internal audit personnel**

Gronewold *et al* (2009:3; 7; 9)<sup>8</sup> said that there are two major components of adequacy, that is, qualitative and quantitative. Size is a characteristic related to quantitative adequacy of the internal audit function. Adequacy of internal audit personnel is positively and significantly related to size of the auditee, significance of capital market to the auditee, diversity of audit tasks to be covered by the internal audit and spatial decentralisation of the internal audit function.



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Total number of employees, that is, company size also determines the adequacy of internal audit personnel. A crucial role of internal auditing is that of assuring those charged with governance that business risks the auditee faces are identified, evaluated and controlled. This entails increased internal audit activity in firms that are exposed to higher risk levels compared to those with lower risk levels. Thus the higher the risk levels the company faces, the larger is the size of the internal audit function and the number of audit personnel required.

For internal auditors to discharge their duties adequately, they are required to possess sufficient qualification/competence as well as practical experience. The author argued that adequacy of the internal audit is a function of the competence thereof, the lower the qualification and experience of the internal audit personnel, the more personnel will be required to fulfil at least "in sum", the level of qualification and experience that would reasonably be expected.

Conversely, more qualified and experienced staff will have the ability to conduct audits and other tasks more effectively and efficiently resulting in fewer personnel required to discharge the internal audit tasks. Thus the higher the level of qualification and experience of the internal audit staff, the fewer the internal audit personnel required. **(Gronewold et al, 2009:9; 10)<sup>8</sup>**

Demand for internal audit services depends on the task range the internal audit function of the auditee is required to cover. Where the internal audit activity is required to cover a wider range of various audit tasks, for instance, financial auditing, operational auditing, management auditing, IT auditing or compliance auditing, a broader range of skills and qualification of the audit personnel is required compared to an internal audit activity which specialises on a few task areas only. Given that most internal auditors are often skilled in a limited number of audit tasks areas; this would most likely result in an increased number of internal audit personnel. Therefore, higher the diversity of internal audit tasks to be covered, the larger the number of internal audit personnel required. **(Gronewold et al, 2009:10)<sup>8</sup>**

**Gronewold et al, (2009:12)<sup>8</sup>** further asserts that the adequacy of internal audit personnel is a function of the level of willingness of audited departments within the auditee to constructively cooperate with the internal auditors. From this it follows that an auditee with departments that

are willing to constructively cooperate, forward the required information and documentation to auditors without undue delay, as well as supporting them in the discharge of their duties will result in audits being performed with efficiency as opposed to departments that lack auditability because they resist and work against auditors. Increase in efficiency of audits is normally associated with a smaller number of auditors required to properly discharge the audit work. Thus the more auditable the auditee and the more constructive it cooperates with internal auditors, the fewer the number of internal audit personnel required.

### **2.3.2 Competence of internal audit personnel**

Competency entails the ability of an individual to perform a job or task properly, and encompasses a set of defined knowledge, skills and behaviour ([www.global.theiia.org](http://www.global.theiia.org) ; 11/08/2013, 02:14pm)<sup>19</sup>. Core competencies that are necessary for internal auditors to carry out their function effectively vary depending on the seniority of the internal auditor and the qualification requirements differ from country to country. For instance, in the United Kingdom, an internal auditor is most likely to hold a Chartered Institute of Internal Auditors diploma in Internal Audit Practice or equivalent. Senior internal auditors on the other hand are required to hold the Institute's advanced diploma in Internal Auditing Management or equivalent ([www.qfinance.com](http://www.qfinance.com); 11/08/2013, 03:01pm)<sup>20</sup>. The United Kingdom government articulates the following as the competencies required of an internal auditor;

- The internal auditor should possess an understanding of the identification, assessment and management of risk, inclusive of that arising from the extended enterprise nature of the organisations.
- A competent internal auditor must be able to identify and critically evaluate elements of governance and risk management in an organisation
- An awareness of , and an understanding of the organisation's risk management strategy should be possessed by the internal auditor
- The internal auditor must have an understanding of the relationship of risk management to corporate governance

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- The auditor should be able to review and provide advice and recommendations on the implementation of risk management strategy of the auditee.
- The internal auditor should be characterised by an understanding of the organisation's high level objectives , how they are funded and the key related risks
- The ability to identify and understand how operational objectives link into the higher level objectives characterises a competent internal auditor
- The competent internal auditor is defined by an understanding of the relationship between audit risk management , including the choice of roles available to internal audit depending on the risk maturity of the organisation and its possible impact on corporate governance
- He/she should understand the specific risks related to operational activities of the entity and be able to contribute to the review of risks in operational areas
- The auditor should be able to relate the organization's risk appetite to the appropriateness of controls and to undertake reviews to evaluate their effectiveness and report to management accordingly
- The internal auditor must possess an understanding of the principles of performance measurement and output targets designed to deliver organisational objectives ([www.qfinance.com](http://www.qfinance.com); 11/08/2013, 03:01pm)<sup>20</sup>.

Similarly, the **IIA (2013:1-2)**<sup>9</sup> articulates that there are ten core competencies for the internal audit activity for each broad job level, that is, internal audit staff, internal audit management and the chief audit executive. These core competencies though defined individually, have connections and are interdependent on each other. These core competencies are cited below;

- The internal auditor should promotes and apply professional ethics
- The internal audit management must develops and manage the internal audit function

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- The International Professional Practices Framework (IPPF) must be adhered to
- The internal audit function must apply a thorough understanding of governance, risk and control appropriate to the entity
- The internal audit activity must possess business acumen which entails maintenance of expertise of the business environment, industry practices and specific organisational factors
- It must be able to communicate with impact
- The function should be capable of persuading and motivating others through collaboration and cooperation
- It should be able to apply process analysis, business intelligence and problem solving techniques
- Internal audit engagements must be delivered timely
- A competent internal audit must embrace change and drive improvement and innovation within the entity.

The **IIA (2013:2)**<sup>9</sup> asserts that ‘professional ethics’ and ‘internal audit management’ constitute a strong basis for an effective internal audit. For provision of effective service, internal auditors are required to discharge their duties in accordance to high ethical standards as well as coordinating the resources and activities of the internal audit function. The core areas of focus of an internal auditor’s expertise are the IPPF in governance risk and control and business acumen. Internal auditors require technical expertise in governance; risk and control to inform their work and assist an organisation realize its objectives.

Business acumen constitutes an understanding of the auditee, its culture, the way it works, section it operates in, and the local and global factors and is another crucial requirement that enables internal auditors to discharge their duties effectively. Internal auditors also have to be competent in communications, persuasion and

collaboration and critical thinking in order to deliver internal audit engagements and trigger improvement and innovation within the auditee. **(IIA, 2013:2)**<sup>9</sup>

**Alkafaji et al (2010:7)**<sup>10</sup>, also agreed with the other authors that level of formal education, academic major, professional certification, professional and technical skills define an auditor's competence. Educational qualification level is an indicator of competency since highly educated auditors were found to be capable of dealing with job challenges in a more skilful and competent way than the lesser educated.

## **2.4 Controls over the internal audit function**

Control in its basic sense is a force that triggers something to happen or not happen. Even if internal audit is often considered part of the control framework of an organisation, it is obvious that this function must also have its own control to track whether its performance is consistent with its roles and objectives. International Standards for the Professional Practice of Internal Audit articulates that the chief internal audit executive is required to formulate a programme tailored at maintaining quality and improvement and covering all aspects of the internal audit function. This programme also encompasses assessment of efficiency and effectiveness of the internal audit function and identifies areas of improvement. **(IIA, 2010:2)**<sup>11</sup>

Similarly, according to [siteresources.worldbank.org](http://siteresources.worldbank.org) (12/08/2013, 09; 21pm)<sup>23</sup>, quality reviews for the work of internal auditors is crucial in the maintenance of professional standards and this constitute a control measure in respect to the effectiveness of internal audit function. Such reviews include the following aspects;

- The preparation reviewing and approval of the field plan
- Ensuring that there is direction, supervision, and review of work at all levels for adequacy
- Ensuring that all internal audit working papers in compliance with prescribed standards
- Making sure that significant issues are properly documented , pursued to finality and are appropriately reported
- Resolving of any differences that may arise in relation to professional judgement among staff involved in audits

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- Conducting on the job training programmes of audit personnel to enhance their development of appropriate skills and competence
- Engaging in overall review of audits to ensure that the quality of each audit meets professional standards.

In instances where audit results are not satisfactory, the reviewer will then engage in discussions for appropriate action with the auditor. The appropriate action is documented for reference purposes to the auditor. This can also involve peer reviews by audit staff and this is advantageous in that it has a dual effect in improving the standard of work performed and at the same time enabling auditors to learn from their peers.

According to [www.emeraldinsight.com](http://www.emeraldinsight.com) (12/08/2013, 09:45pm)<sup>21</sup> to achieve effectiveness in the internal audit function operating guidelines need to be laid down and these differ from the other authors aforementioned. They are in the form of an audit manual which defines the roles, objectives and standards of performance of the internal audit function within the organisation. Specific guidance on the audit procedures, for example audit planning, audit programme implementation and standards of audit working paper are laid down in the manual. Standardized reporting lines, improving the audit personnel and widening their exposure through job exposure also constitute a control measure to internal audit effectiveness.

### **2.5 Best practice to ensure effectiveness of internal audit**

According to [www.indiangaming.com](http://www.indiangaming.com) (14/08/2013, 08:36pm)<sup>22</sup>, best practices for the internal audit function include having a formal audit charter, well defined communication, implementation of quality control system and hiring quality staff. These best practices were recommended for the internal audit in the Indian tribal gaming industry. The author articulates that a formal audit charter helps internal audit in the role of the internal auditor within the organisation and forms the basis of his authority. The ideal audit charter will clearly define the role of the internal auditor and scope limitations that may exist. Internal audit should have access to all areas of an entity without limitations on the information or areas of subject to the audit. This includes access to the financial statements, general ledger, departmental budgets, annual audit results, payroll, expenses, and most importantly of all credit card and travel.

**Timothy (2011:38)** further asserts that ‘...nothing will get you in trouble faster as an internal auditor than failing to communicate findings to management prior to issuance of the audit report. ‘The second best practice is that of communication. Successful internal audit departments understand the essence of communication. Communicating with management with regards to audit plans, timing of audit fieldwork, results of work performed and most importantly timing of management responses will result in an improved internal audit process.

[www.indiangaming.com](http://www.indiangaming.com);( 14/08/2013, 08:36pm) <sup>22</sup>

Implementation of a quality control system is the third best practice. The author said that the most effective internal audit functions have a quality control system in place. These departments follow the IIA standards and assess their adherence to them frequently to ensure that quality work is attained. Continuous professional development is essential in audit quality control. The author also argues that internal audit staff personnel must be adequately trained and must be experts in order to gain credibility with the management of the auditee. Timothy (2011:39) also said that good internal audit departments will require 20-40hours of continuous professional education on an annual basis. The topics to be covered may include internal audit training, understanding financial statements, tracing transactions to the general ledger, casino fraud among others.

[www.indiangaming.com](http://www.indiangaming.com);( 14/08/2013, 08:36pm) <sup>22</sup>

## **2.6Summary**

This chapter gave an insight on what the role and policy of internal audit is. It has brought to light that the role of internal audit has shifted to also include and mainly focus on assurance on risk management. It has also highlighted what constitutes the qualities that define an effective internal audit function and this hinges around the internal audit’s ability to provide useful audit findings to the auditee. Adequacy and competence of internal audit personnel has been looked at as mainly a function of the level of qualification and experience of the internal auditor. The controls applicable over an internal audit function as well as the best practices that ensure internal audit effectiveness have been noted. Chapter three will look at the research methodology.

## CHAPTER 3: RESEARCH METHODOLOGY

### 3.0 Introduction

This chapter elaborates the research methodology which constitutes a crucial part of this research. It will therefore fundamentally describe the diverse instruments and procedures that were employed by the researcher in gathering data to accomplish the main idea for which the research was conducted. This section will focus on the justification for the research design, target population, sampling methods and sampling techniques, data sources, research instruments, data collection and administration. It will also present the validity and reliability of findings as well as data analysis and presentation tools. This will be backed up by what literature articulates in respect of methods used in carrying out the study. The chapter ends up by summarizing the research methodology.

### 3.1 Research Design

According to [www.businessdictionary.com](http://www.businessdictionary.com); (24/08/2013, 01:42pm) a research design entails “a detailed outline of how an investigation will take place. It will typically include how data is to be collected, the instruments to be employed, how the instruments will be used and the intended means for analyzing the data so collected”. The research design is a blueprint for conducting the study which guides the researcher in planning and implementing the study so as to achieve accurate results (Grove *et al*; 2012:195)<sup>12</sup>. Research designs can either be exploratory, descriptive or causal.

#### 3.1.0 Exploratory Research

According to [www.monroecollege.edu](http://www.monroecollege.edu) (29/08/2013, 08:24pm), exploratory research is tailored at discovering new ideas as well as insights. It provides a better understanding of the research problem by unveiling what is taking place and why it is happening and thus probing answers or



decisions. **Elahi and Dehgdashti (2011:2)** articulated that an exploratory research design is suitable when the researcher wants to identify problems, come up with a precise formulation of a vaguely identified problem, and also attaining insight about the variables instrumental in a situation. They further propounded that it is best suited for priority formulation regarding the materiality of problems, gaining management perspectives, discovering and recommending alternative courses of action. Problem identification is through interviews, and secondary data sources.

The advantage of exploratory research design is that it is flexible with regard to the methods that can be employed for gaining insights. It can also provide a pool of meaningful data or definitive explanations to the research problem under consideration. This research design increases the researcher's familiarity with the problem especially where the author does not know much about the problem being researched. Conversely, when employed over a large population it does not probe definitive answers since it is usually suitable for relatively small target populations who are not randomly selected for participating.

### **3.1.1 Descriptive research design**

This research design places emphasis on determination of how frequently something takes place or the degree to which certain variables relate. It unveils a description of the target population with respect to important variables. It is geared towards providing answers rather than unveiling initial insights since sometimes the management may happen to know a lot about the research problem, understand key issues as well as questions that have to be asked thus warranting a descriptive research ([www.monroecollege.edu](http://www.monroecollege.edu) ; 29/08/2013, 08:24pm). According to [www.mu.ac.in](http://www.mu.ac.in) (29/08/2013; 09:50pm) , it is aimed at interpreting conditions at present, differences as well as relationships that are existent , opinions held, processes going on and evident trains. It is well suited for case studies.

The merits involved with descriptive research when incorporated in case studies is that it enhances a detailed, holistic investigation of all characteristics of the population subject to study. It also yields data that are highly reliable and can utilize diverse measurement tools as well as techniques. The data collection can be instituted over a period of time and the data so collected is

contextual. The pitfall of descriptive research designs is that data generated are not easy to verify or cross check.

### **3.1.2 Causal research design**

According to [www.monroecollege.edu](http://www.monroecollege.edu) (29/08/2013, 08:24pm), it is mainly employed for establishing a cause and effect relationship among variables. It mainly involves use of experiments since these are best suited to establish cause and effect.

The main advantage of this research design is that where some independent variables cannot be manipulated it is most appropriate in carrying out the research. The disadvantages are that the researcher lacks control and ability to influence independent variables methodologically and power to randomly select units from the target population. It also exposes the researcher to danger of deducing inappropriate interpretations.

### **3.1.3 Justification for use of descriptive and exploratory research**

This study takes a qualitative research paradigm which encompasses descriptive and exploratory research designs. These have been considered for this research because they are best suited for a case study and they complement each. The researcher also considered the aforementioned merits to these research designs.

A qualitative research emphasizes words rather than numbers in the collection and analysis of data (Bryman, 2012:380)<sup>13</sup> and is well suited for case studies (Murthy *et al*, 2008:55)<sup>14</sup>. This research is a case study on assessing the effectiveness of the internal audit function through empirical data collection at FABCO Pvt Ltd. Thus a qualitative approach had been considered for this study. The selected designs enabled the researcher to deduce an approach which prompted answers to the research problem in the most suitable way within the given constraints. The researcher also used the deductive approach since no new theories were propounded, but drew reference from established theories and standards in the internal audit profession. Because of the use of a case study, the problem was researched in a normal setting and enabled easy demarcation of the target population into portions that are manageable.

## **3.2 Target population**

A population is any complete group that shares the same common characteristics (**Zikmund et al, 2012:385<sup>15</sup>**). It is a complete set of people or items under consideration in a study ([www.memoireonline.com](http://www.memoireonline.com); 24/08/2013, 03:45pm). The population considered in this study encompasses the internal audit personnel, management and accountants of Fabco Pvt Ltd. The population was selected as the most suitable respondents as they were considered to be in the best position to provide insight into the research questions probed.

## **3.3 Sampling methods and sampling techniques**

### **3.3.0 Sampling**

Sampling entails the selection of a subset of units or elements of the total population under study. It is used to choose respondents from the target population ([cmfetraining.files.wordpress.com](http://cmfetraining.files.wordpress.com) ; 24/08/2013 , 09:05pm). When selecting a sample, it is crucial that it truly represents the typical characteristics of the total population subject to study.

#### **3.3. 1 Sampling methods**

According to [www.fairfaxcountry.gov](http://www.fairfaxcountry.gov) (30/08/2013; 11:35am), there are two categories of sampling methods which include probability and non-probability sampling. Probability sampling is used when the exact chances of selection for each population element are known.

The advantages associated with probability sampling include that it gives room to the researcher to compute a precision of estimates derived from the sample. The researcher is also capable of deducing the error bounds and probability samples are the only ones that allow generalization of results from the sample to the target population. However the pitfall is that they are difficult and expensive to administer.

Conversely, non-probability sampling encompasses sampling methods that do not incorporate the use of known probabilities of selection ([highered.mcgraw-hill.com](http://highered.mcgraw-hill.com) ; 24/08/2013; 09:35pm). The commonly used types of non-probability sampling include convenience sampling and judgmental sampling.

The merits of non-probability sampling are that it is less complicated and thus saves time compared to probability sampling. It can also be used where the researcher does not have an intention of generalizing beyond the sample. However non-probability sampling does not allow the researcher to compute sampling statistics that provide information relating to results precision.

The author incorporated non-probability sampling, particularly convenience sampling and judgmental sampling. This was considered because of its ease to administer and that it is less complicated. The researcher had limited time frame to carry out the research which warrants the use of non-probability sampling as it less time consuming. The researcher also had no intention of generalizing the results of the research beyond the target population.

### **3.3.2 Convenience Sampling**

It involves choosing respondents at the convenience of the researcher. The sample is chosen on the basis of ease to access by the researcher and it incorporates the use of interviews. It is presumed that the researcher will select elements that represent the typical characteristics of the target population under study. ( [highered.mcgraw-hill.com](http://highered.mcgraw-hill.com) ; 24/08/2013; 09:35pm).

Convenience sampling is advantageous in that it is easy to apply and can produce accurate research findings in a target population that is homogenous thus justifying the researcher to incorporate it. It presents the researcher with respondents that they have ease of access to, and is less costly and it serves time. These merits propelled the researcher to adopting this technique. However it is criticized of its lack of sampling accuracy but this has been curbed by incorporating judgmental sampling.

### **3.3.3 Judgmental sampling**

Judgmental sampling is sometimes referred to as purposive sampling and involves the researcher employing their own expert judgment in respect to which respondents should comprise the sample frame. It usually involves the use of prior knowledge and research skills in selecting the units to be sampled. ( [highered.mcgraw-hill.com](http://highered.mcgraw-hill.com) ; 24/08/2013; 09:35pm).

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The merits involved with judgmental sampling are that it has a low sampling cost and can be employed over a short time. It also allows the researcher to select respondents who are well vested with the topic under study which implies that there is lesser distortion of results. The pitfalls include the idea that experiment bias and stereotypes may be evident that can distort the research findings. ([www.isfaq.com](http://www.isfaq.com) ; 30/08/2013, 01:18pm)

Judgmental sampling was applied for this research because it produces reliable samples that are most representative of the target population. It also enabled the researcher to choose respondents who were regarded to be in the best position to supply the required information best suited to probe answers to the research problem. With judgmental sampling, the researcher also managed to use prior organizational experience with Fabco Pvt Ltd.

#### **3.3.4 Sample size**

A sample size appropriate for a qualitative research is one that adequately answers the research problem. When the target population is small, a convenient as well as judgmental sample can be considered. ( <http://spa.hust.edu.cn> ;30/08/2013; 10:48am). Since the target population for potential key informants under consideration for the purposes of this study is small, the author used convenience sampling as well as an element of judgment in sample size determination. This was done to ensure that the respondents constitute of those who are in the best position to probe answers to the research questions posed.

The author used a sample size of 3 internal auditors within the internal audit function, 4 personnel from the accounts department and 5 respondents from the management of Fabco Pvt ltd. The sample was chosen on the basis that the researcher would be able to institute rigorous controls hence ensuring accuracy of research findings. It was also chosen on the consideration that the data can be collected within the set time frame, at reduced effort and minimum costs. The selected sample properly represents the target population under study.

### **3.4 Data Sources**

Both primary and secondary data sources will be used for the purposes of this study.

#### **3.4.0 Primary Data**

**Hox and Boeijs (2005:593)**, asserts that this involves accumulation of data for a specific identifiable problem being researched. The data so collected originates from the researcher and thus are current, of an original nature and readily suited for the research problem at hand. These data are collected through various methods like interviews and questionnaires. Primary data was incorporated by the researcher because it is envisaged to produce direct and useful information best suited for the requirements of this study.

The advantages involved with primary data are that the data generated are original in nature and thus of relevance to the problem being researched. This also primary data collection to a high degree of accuracy in data accumulated. Primary data gives a more realistic insight about the problem under consideration because of the current nature of the data so accumulated. The other merit is that the data generated are highly reliable since the author personally engages in the data accumulation process. Questions are rightly tailored to probe answers to the research problem and gives room to the researcher to build relationships with respondents and thus capture their opinions. However, it is time consuming and costly to accumulate and analyze the data.

#### **3.4.1 Secondary Data**

Secondary data are data originally accumulated for a different purpose and then incorporated in another research problem. The data are not gathered for the study at hand but for other reasons. It is advantageous in that it is readily available and thus inexpensive to collect and can be analyzed over a reasonably long time. ( [www.ilo.org](http://www.ilo.org) ; 24/08/2013, 08:40pm)

The drawbacks involved with secondary data include that the data may be incomplete and unreliable and thus cannot be utilized in isolation. ( [www.ilo.org](http://www.ilo.org) ; 24/08/2013, 08:40pm). The researcher utilized secondary data because it can provide comparative data that can render insightful interpretation of primary data. Secondary data incorporated for this study include

internal audit reports, management reports, minutes for board meetings, stock count reports and the financial statements of Fabco Pvt Ltd.

### **3.5 Research Instruments**

Research instruments entail the measurement tools, for instance questionnaires, designed to accumulate data on a topic being researched ( <http://support.epnet.com> ; 27/08/2013;09:21pm).

The researcher used questionnaires and interviews to solicit data relating to the research problem.

#### **3.5.0 Questionnaires**

According to <http://shodhganga.inflibnet.ac.in> (26/08/2013, 01:16pm), a questionnaire entails a compilation of a set of questions tailored to derive responses from participants in respect to the problem under research. The series of questions are asked to individual respondents to acquire useful data about the topic being researched. They involve the respondents getting the questions, interpreting what is required and documenting the responses individually.

According to [www.ilo.org](http://www.ilo.org) (26/08/2013, 01:45pm), questionnaires have a merit of being economical as they cut-off the expenses and time consumed in conducting interviews. They also enhance uniformity in questions propelled to respondents since they are given the same set of questions which are articulated in exactly the same manner. Questionnaires therefore yield data that are comparable and with controls instituted over the conditions under which they are answered, they can be standardized. The demerits include that it is difficult to assess participants' motivation and this may impact on the validity of responses forwarded.

#### **3.5.1 Types of questions**

The author used both open-ended and closed-ended questions. According to [www.ihmgwalior.net](http://www.ihmgwalior.net) (26/08/2013; 03:02pm), closed-ended questions encompass all possible response categories and participants are required to choose their answers among them, for instance multiple choice and scale questions. These are sometimes called 'yes –no' questions as respondents are limited to positive or negative answers and may be used to find out the number of people who use a service.

The advantages of closed -ended questions are that it reduces investigator bias and responses can be quickly obtained from participants. The questionnaire coding is simple and cheap where the questions are closed-ended. Nevertheless, the wording incorporated may cause bias and limits response range. The shortcomings are curbed by use of open-ended questions as well.

Conversely, open-ended questions give room to respondents to respond in their own words and thus do not have boxes to tick but rather have blank sections to be filled in by the respondents. With open-ended questions, there are no standardized responses to questions and participants have freedom to respond in their own words and these are best used to gather facts like age, academic qualification of internal auditors.( [www.ihmgwalior.net](http://www.ihmgwalior.net) ;26/08/2013; 03:02pm).

The merits of open-ended questionnaires include their capability to eliminate or reduce forced choices bias and providing an unlimited response variety. However they have a pitfall of promoting investigator bias and the responses accumulated may be difficult to code and analyze.

### **3.5.2 Likert scale**

**McGivern (2009:33)** articulates that Likert scales are a scaling technique used to measure some underlying attitude in an undimensional manner. The response format include 5 response categories that is strongly agree, neither agree or disagree, strongly disagree and agree. The participants specify their level of agreement or disagreement in respect of the favourable or unfavourable statements pertaining to the problem under study.

It has merits of being easy in terms of administration and construction, reliable and easily comprehensible by respondents. The disadvantage is that it places participants in a position to engage in a great deal of decision making. The researcher also incorporated Likert scaling in the questionnaires.

### **3.5.3 Interviews**

According to <http://shodhganga.inflibnet.ac.in> (26/08/2013; 08:01pm), interviews involves the researcher personally meeting the participants and asking necessary questions to them in respect of the problem under study. These are best suited for qualitative researches to collect in-depth information about the research topic. Cross examination of interviewees was employed by the



author to gather data efficiently from individuals. Interviews used by the researcher include personal /depth interviews and also telephone interviews. **Harrel and Bradley (2009:24)** assert that interviews capture opinions, perceptions as well as attitudes of participants. They further articulated that these help accumulate background information which may encompass background information, facts and descriptions of processes.

**Harrel and Bradley (2009:27)** articulate that interviews can be semi-structured and this is the approach that was incorporated by the researcher in probing answers to the research questions. They argue that these constitute the use of a guide with questions as well as topics that need to be covered and the researcher has discretion with respect to the order of asking questions. The questions are standardized and may include probes to ensure that the researcher covers the required material.

The merits of interviews according to <http://shodhganga.inflibnet.ac.in> (26/08/2013; 08:01pm) are that they leave no chances of non-response by respondents as the researcher is personally involved in data collection. The data so collected has a high degree of reliability as the interviewer has room to systematically accumulate the data through cross examination of respondents. Given the high response rate, interviews can yield required data in quantities quickly and timely. They enhance flexibility and adaptation of questions and also provide room to explanation of responses that is fuller explanations can be forwarded. The participants do not need to need or write.

The demerits of engaging in interviews are that they can be time consuming and relatively expensive. They also promote the possibility of interviewer, interviewee bias since respondents may not be relaxed. The time involved may not be convenient for respondents.

### **3.5.4 Justification for use of questionnaires**

The researcher used questionnaires as they provide convenience to the participants who would respond when they had the time and they also eliminate interview bias thus producing accurate results. Follow ups were also made with the participants to fill in the information and this resulted in 100% response for all the questionnaires sent to respondents.

### **3.5.5 Justification for use of interviews**

The researcher used interviews to collect in-depth data which can probe answers to the problem being researched. They have also been considered so that they can complement the questionnaires thus producing a good quality research.

### **3.6 Data collection procedures**

Granting of permission to conduct the study was first solicited from Fabco Pvt Ltd prior to administration of the instruments to the respondents. The questionnaires were administered directly to the selected sample of respondents. These were distributed to 3 the internal auditors, 5 to the top brass, and 4 to the accounts department of Fabco Pvt Ltd. Questionnaire follow up was also instituted to curb non-response as some of the participants had busy work schedules. However the researcher successfully managed to kindly persuade them to respond.

#### **3.6.0 Interview administration**

Interview appointments were made well in advance by the researcher to give room for preparation by the interviewees. The interviewees included the chief internal auditor, 2 top management and the accountant of Fabco Pvt Ltd. These interviews were conducted so as to compliment the questionnaires and thus enhance validity and reliability of research findings.

### **3.7 Validity and reliability of research instruments**

According to <http://researchrundowns.wordpress.com> (27/08/2013; 06:50pm), validity entails the extent to which an instrument is capable of measuring that which it purports to measure and perform as it was designed. Reliability on the other hand refers to consistency, that is, does the instrument manage to exhibit consistency in measuring what it is intended to measure. An instrument that is most useful must be both valid and reliable. These components constitute a crucial criterion in determining and assessing the quality of a study because they determine the credibility, authentication and the degree of reliance to be placed on the findings. The author ensured that these were wholly integrated in the research.

To enhance validity and reliability of research findings, the author eliminated or at least reduced bias and ambiguity by using both questionnaires and interviews. The researcher also engaged in rigorous fine-tuning of questions integrated on the questionnaires to make them clear and easy to comprehend. Moreso, before the questionnaires were administered to participants the author conducted a pilot-test by using 4 classmates at Midlands State University. This was meant to assess whether the questionnaires were easily comprehensible and well suited to probe answers to the research problem under study. The 4 classmates chosen for the pilot-test had done auditing and accounting courses already and thus were presumed to understand the purpose underlying the research and the repercussions thereof. The constructive criticisms and responses forwarded by the 4 pilot-test classmates were incorporated by making necessary amendments and revision to the questionnaires.

### **3.8 Data Presentation**

According to [www.canterbury.ac.uk](http://www.canterbury.ac.uk) (30/08/2013; 02:54pm), text, tables, or graphs and charts can be used for data presentation. Tables and graphs provide clarity. Texts are best suited for presenting numerical data, on the other hand, graphs are better for depicting relationships, comparisons and showing trends.

Charts, tables and graphs were used to analyze the qualitative data accumulated from the closed-ended questionnaires. The researcher chose these presentation tools since they made data analysis and interpretation relatively easy.

### **3.9 Data analysis**

As aforementioned, this study takes a qualitative research paradigm thus data were analyzed qualitatively by incorporating an approach called content analysis. According to **Bryman and Bel (2007:302)**, content analysis involves the researcher making inferences by systematic and objective identification of specific characteristics in texts and documents. Rigorous, careful and close examination of the content of responses forwarded by participants was done by the researcher. The examined data were also merged with what is articulated by the theoretical framework to ascertain patterns of resemblance or divergence so as to derive meaningful and persuasive conclusions.

Quantitative data were analyzed using descriptive statistics, that is, the mode and percentages. Electronic data analysis was also incorporated by using Microsoft Office Excell. Data coding was also instituted. **Varalakshmi et al (2005:28)** articulated that the mode is a statistical measure of the value which is most frequent in occurrence in a distribution. The mode denotes the centre of concentration of the frequency in relation to given values.

Using the mode as a statistical tool is advantageous in that it is easy to compute and in some instances, it can be established by mere inspection. In the case of extreme values, the mode remains unaffected and it represents the actual values which are a crucial part in analyzing data. However, the mode is criticized by the idea that it may be ill-defined generally in circumstances where it is not possible to determine the mode in some classes of data. It is also not based on all observations and lacks further mathematical treatment. (**Varalakshmi et al; 2008: 133,134**) The researcher incorporated the mode in analyzing data because it is the best representative of data and upon consideration of the aforementioned merits of this statistical measure.

### **3.10 Summary**

This chapter detailed out the research methodology which encompasses the research design, the target population, the sample and sampling techniques incorporated by the author. It also elaborated on the data sources used, research instruments utilized, validity and reliability of research instruments as well as data presentation and analysis. Chapter four will focus on data presentation and analysis.

## CHAPTER 4

### Data presentation and analysis

#### 4.0 Introduction

This chapter focuses on the presentation, interpretation and analysis of data accumulated from field research conducted at Fabco Pvt Ltd through questionnaire and interview administration. The data so presented and analyzed will provide a basis for answering the sub-research questions appropriately, and assist the researcher in deriving research conclusions.

#### 4.1 Response rate

For the purposes of this study, questionnaires totalling 12 were administered at Fabco Pvt Ltd. Three questionnaires were distributed to the internal audit personnel, four to the accounts staff and five to the management of Fabco Pvt Ltd. Table 4.1 below depicts the response rate of the target population under study.

**Table 4.0: Questionnaire response rate**

<b>Participants</b>	<b>Questionnaires administered</b>	<b>Questionnaires responded to</b>	<b>Response rate(%age)</b>
Internal audit personnel	3	3	100
Management	5	4	80
Accounts staff	4	4	100

As shown on Table 4.0, 3 questionnaires were administered to Fabco Pvt Ltd internal audit personnel, and all the 3 were responded to yielding a 100% response rate. Relating to the management, 5 questionnaires were issued and only 4 were answered, thus giving a response rate of 80%. Of the accounts staff, 4 questionnaires were distributed and all these were answered hence yielding a 100 % response rate. Overallly, the researcher administered 12 questionnaires and 11 were successfully completed culminating to an overall response rate of 92 %.

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This can be argued to be a satisfactory response rate as more than three quarters of the target population participated in the field research. This is supported by Richardson (2005:406) who argued that a response rule of thumb of 60% or more is desirable.

### **Interview Response rate**

The interviews were targeted at management and accounts staff as well as internal audit personnel. Table 4.1 Tabulates the response rate in respect to interviews.

**Table 4.1 Interview response rate**

	Responses		Response rate(%age)
	Internal audit staff	Management and accounts staff	
Interviews scheduled	3	6	100
Interviews done	3	5	89
Interviews not done	0	1	11

Out of the 3 participants in the internal audit function, 3/3(100%) of the interviews were successfully conducted. For the interviews scheduled with management and accounts staff, 5/6(83%) were successful with only 1/6(17%) not done since the manager had a busy work schedule when the field research was carried out. This gives an overall response rate of 8/9(89%).

### **4.2 Demographic details**

**Table 4.2 Gender response rate**

Participants	Gender		Response rate(%age)
	Male	Female	
Internal audit personnel	3	0	27
Management	3	1	36
Accounts staff	3	1	37
<b>Total</b>	<b>9</b>	<b>2</b>	<b>100</b>

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From table 4.2 above, 3/11(27%) are male which constitutes all the respondents from internal audit. For the management and accounts staff participants, 3(75%) out of 4 were male and 1 (25%) out of 4 were female.

Overall, as depicted on table 4.2, the participants comprised of 9/11(82%) male and only 2/11(18%) female which shows that the organization is staffed with more males with the internal audit function in the extreme since it comprises of 100% male and 0% female.

**Table 4.3 Participants age**

Age group	Responses		Response rate(%age)
	Internal audit staff	Management and accounts staff	
20 years or less	0	0	0
21-30 years old	3	5	73
31-40years old	0	2	18
41-50years old	0	1	9
More than 50years old	0	0	0
<b>Total</b>	<b>3</b>	<b>8</b>	<b>100</b>

As depicted on table 4.3, 0/11(0%) are 20years or less, 8/11(73%) are 21-30years, 2/11(18%) are 31-40years, 1/11(9%) are 41-50years and 0/11(0%) are more than 50 years old.

3/3(100%) of the internal audit participants are 21-30years including the internal audit manager.

Since more than half of the participants are within the 21-30 age group, this may persuade one to conclude that they are more adaptable to learning and executing instructions quickly.

#### 4.2.2 Qualification of internal auditors

**Table 4.4 Academic qualifications**

<b>Academic qualifications</b>	<b>Number of respondents</b>	<b>Area of academic major</b>	<b>Response rate(%age)</b>
A 'level	1	Accounting	33 1/3
Diploma	1	Banking and finance	33 1/3
Undergraduate degree	1	Accounting	33 1/3
Masters	0	-	0
Others	0	-	0
<b>Total</b>	<b>3</b>		<b>100</b>

Table 4.4 portrays that 1/3(33 1/3%) have an A 'levels only and the same applies to those having a diploma or undergraduate degree, 0/3(0%) have a masters or other qualification. 2/3(67%) majored in accounting and 1/3(33%) in banking and finance.

Overally, 2/3(67%) have an A'level qualification or a diploma in banking and finance who can be argued as not having vast knowledge in auditing and thus rely on the 1/3(33%) of their counterparts.

Using the modal basis, it shows that the internal auditors are less academically qualified and may not be capable of handling job challenges.

**Alkafaji et al (2010:7)** confirms that highly educated auditors were found to be more capable of dealing with job challenges in a more skilled and competent way than the less educated.



**Table 4.5 Professional qualifications**

<b>Professional qualifications</b>	<b>Number of respondents</b>	<b>Response rate(%age)</b>
ACCA	2	67
CIA	0	0
CISA	0	0
CIMA	0	0
Other	1	33
<b>Total</b>	<b>3</b>	<b>100</b>

Table 4.5 depicts that 2/3(67%) have ACCA, 0/3(0%) have CIA and the same applies to CISA and CIMA. Only 1/3(33%) have other, that is IMM.

Overallly, 2/3(67%) have ACCA qualification.

Interview findings show that 1/3(33%) successfully completed ACCA, and 1/3(33%) is still on part 2 of the course. The third is pursuing IMM which does not relate to auditing.

From this it can be seen that the internal auditors at Fabco Pvt Ltd are under qualified as more than half(67%) have not completed ACCA or are pursuing IMM which does not tally with the audit profession.

#### **4.2.3 Professional experience**

Table 4.6 denotes the period that the internal auditors have been in the audit profession.

**Table 4.6 Professional experience of internal auditors**

<b>Time period</b>	<b>Respondents</b>	<b>Response rate(%age)</b>
Less than 1year	1	33 1/3
1-4years	1	33 1/3
5-7years	1	33 1/3
8-10years	0	0
more than 10 years	0	0
<b>Total</b>	<b>3</b>	<b>100</b>

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From table 4.6, 1/3(33 1/3%) have less than 1 year, and the same magnitude have 1-4 years and 5-7 years. 0/3(0%) have 8-10years and more than 10years.

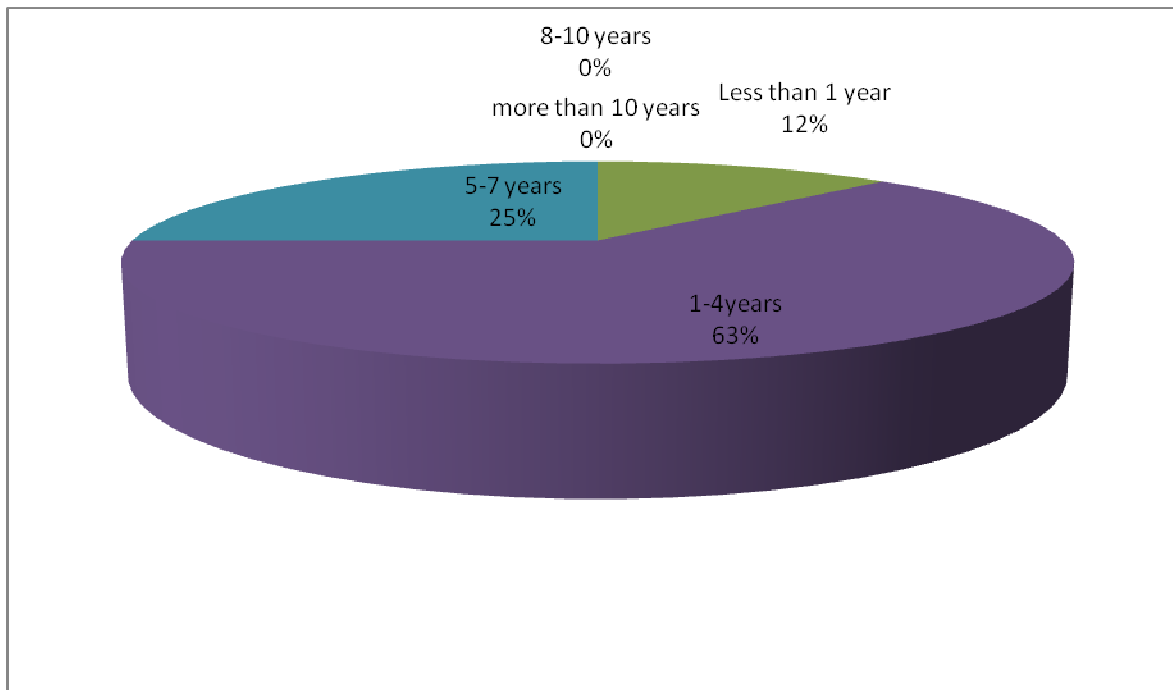
Overall, 2/3(67%) have at least 1-7years experience.

Interview findings portray that 2/3 (67%) have not more than 2years professional experience with only 1/3(33 %) having 5 years experience. 0/3(0%) have 8years and above.

This implies that the internal auditors have limited professional experience and are likely to be less efficient in conducting audit tasks.

This position is further reinforced by **Gronewold et al (2009:10)** who asserts that more experienced staff will have the ability to conduct audits and other tasks more effectively and efficiently.

**Fig 4.1 Management and accounts staff work experience**



From fig 4.1, it shows that 1/8(12%) have less than 1 year, 5/8(63%) have 1-4 years, 2/8(25%) have 5-7years and 0/8(0%) have at least 8years of experience with Fabco Pvt Ltd.

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Overall, the findings show that 7/8(88%) have at least 1 year but not more than 7years experience with the entity.

This shows that the participants from management and accounts staff are in a position to present reliable information.

### **4.3 There is an internal audit policy manual in place**

**Table 4.7 Existence of internal audit policy**

<b>Strength of feeling</b>	<b>Respondents</b>	<b>Response rate(%age)</b>
Agree	1	33 1/3
Strongly agree	0	0
Disagree	1	33 1/3
Strongly disagree	1	33 1/3
Uncertain	0	0
<b>Total</b>	<b>3</b>	<b>100</b>

As portrayed on the table above, 1/3(33 1/3 %) agree, 0/3(0%) strongly agree, 1/3(33 1/3%) disagree, and the same magnitude strongly disagrees, 0/3(0%) are uncertain.

Overall, 2/3(67%) of the respondents disagreed to the existence of an internal audit policy manual with only 1/3(33%) in agreement.

From the interview findings, 3/3(100%) asserted that there was no internal audit policy

Basing on the mode it can be deduced that there is no internal audit policy manual at Fabco Pvt Ltd.

**4.4 The internal audit policy manual is formally documented.**

**Fig 4.2 Documentation of internal audit policy.**

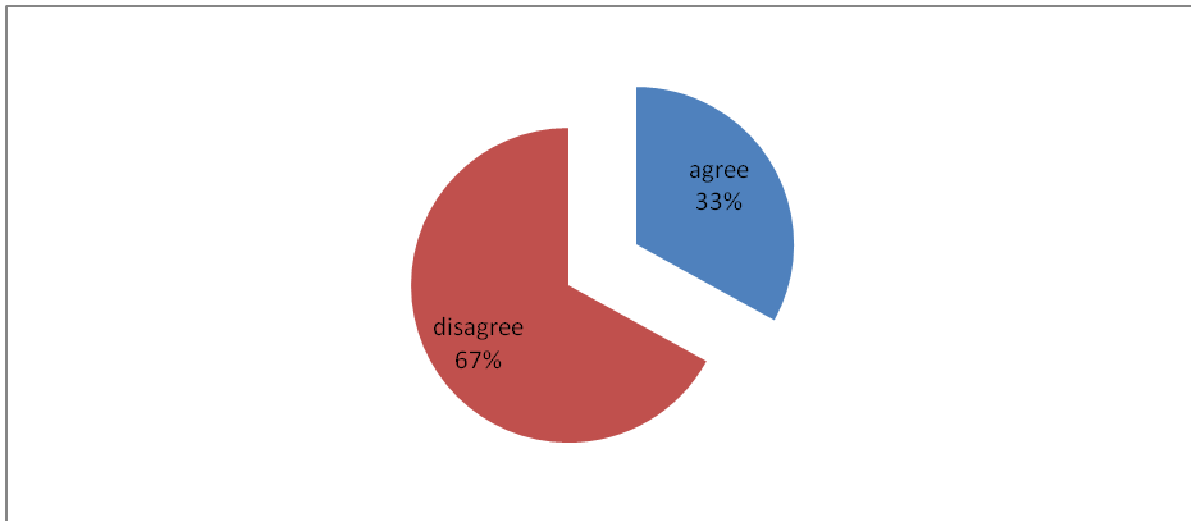


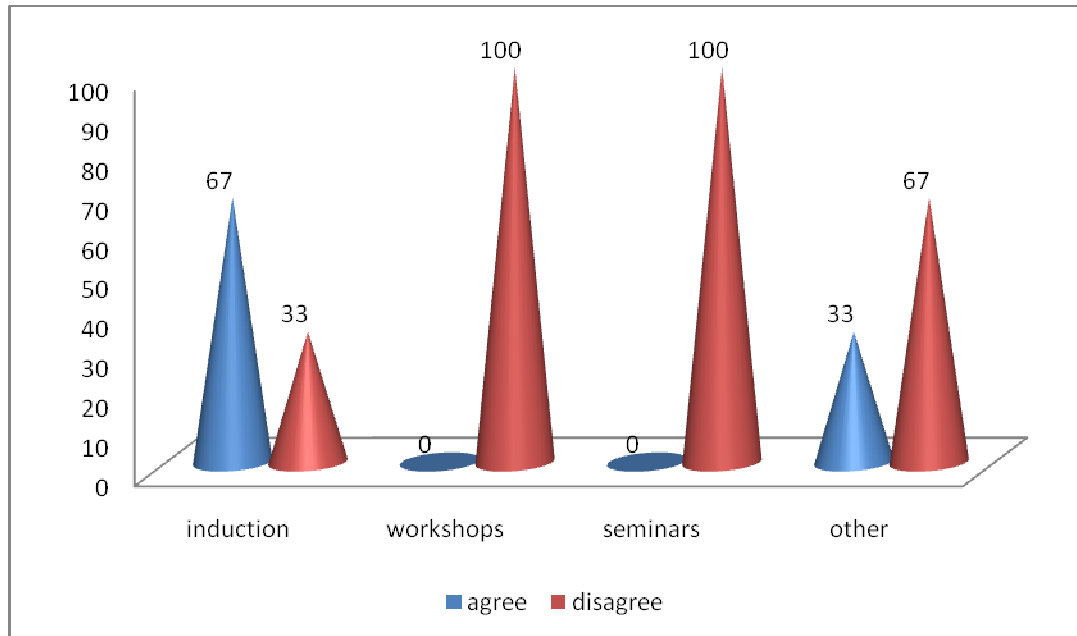
Fig 4.2 shows that 1/3(33%) agree and 2/3(67%) disagree to the formal documentation of the internal audit policy.

From the interview findings, 3/3(100%) disagreed to the formal documentation of the internal audit policy.

Using the mode, this entails that Fabco Pvt Ltd internal audit function does not have a formally documented internal audit policy.

**4.5 The audit policy implementation guidelines are properly communicated to staff on a regular basis using induction, workshops, seminars and others.**

**Fig 4.3 Internal audit policy communication tool**



**Induction**

In relation to induction, 2/3(67%) agree and 1/3(33%) disagree

Basing on the mode the internal audit policy is communicated to staff using induction.

**Workshops**

Fig 4.3 denotes that 0/3(0%) agree and 3/3(100%) disagree

On the whole there is a disagreement that the internal audit disseminates its policy through workshops

**Seminars**

It shows that 0/3(0%) agree and 3/3(100%) disagree to holding of seminars.

Since all the participants disagree, it means seminars are not used as a platform to communicate the internal audit policy.

**Other**

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1/3 (33%) agree to other means like memorandums and 2/3(67%) disagree.

On the whole, using the mode, the entity only employs induction other than workshops, seminars and other ways of communicating the internal audit policy.

**4.6 The internal audit policy guidelines are clarified to new internal audit staff.**

**Table 4.8 Clarification of audit policy guidelines to new staff**

<b>Strength of feeling</b>	<b>No. of Respondents</b>	<b>Response rate(%age)</b>
Agree	0	0
Strongly agree	1	33 1/3
Disagree	1	33 1/3
Strongly disagree	1	33 1/3
Uncertain	0	0
<b>Total</b>	<b>3</b>	<b>100</b>

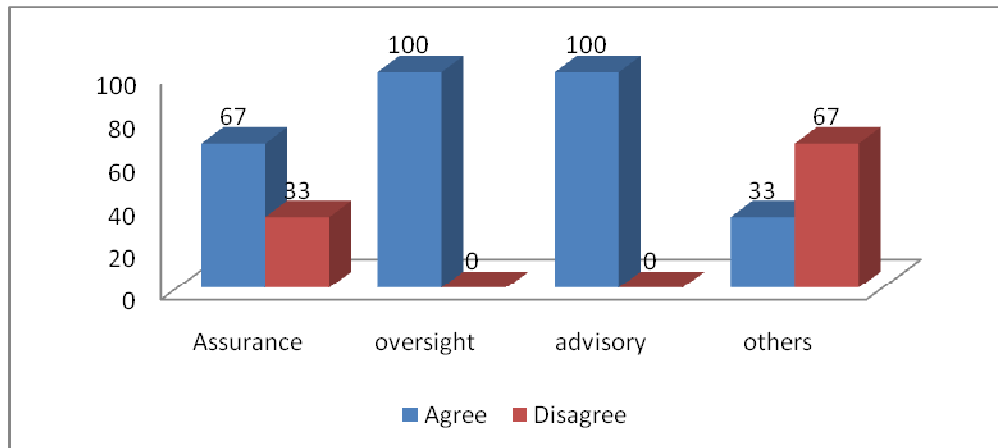
Table 4.8 shows that 0/3(0%) agree, 1/3(33 1/3%) strongly agree, 1/3(33 1/3%) disagree with the same magnitude strongly disagreeing and 0/3(0%) uncertain.

Overallly 1/3(33%) agree whilst 2/3(67%) disagree to the existence of clarification practices of internal audit policy guidelines to new personnel.

Since more than half disagree, this persuades one to conclude that new internal audit personnel approach their duties without clear knowledge of what comprises the internal audit policy guidelines.

**4.7. The following roles are discharged by the internal audit function: assurance, oversight, advisory, other.**

**Fig 4.4 Internal audit Roles**



**Assurance**

As depicted on fig4.4 2/3(67%) agree and 1/3(33%) disagree.

Interview findings unveiled that 2/3(67%) agreed and 1/3(33%) disagreed citing that assurance role was not done since they were not involved in audits at financial statement level.

Basing on the mode this means that the internal audit function discharges the assurance role.

**Oversight**

It is shown that 3/3(100%) agree whilst 0/3(0%) disagree

Interview findings proved that 3/3(100%) agreed and 0/3(0%) disagreed. Particular mention was made that this involved systems checks for adequacy and efficiency of stock controls.

This entails that the internal audit function performs the oversight role as all the participants agree to this.

**Advisory**

Fig 4.4 denotes that 3/3(100%) agree with 0/3(0%) in disagreement.

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Interview findings revealed that 3/3(100%) agreed and 0/3(0%) disagreed. Risk profiling was mentioned by the interviewees to comprise this role.

This means that the advisory role is also discharged by the internal audit function since all the respondents are in agreement.

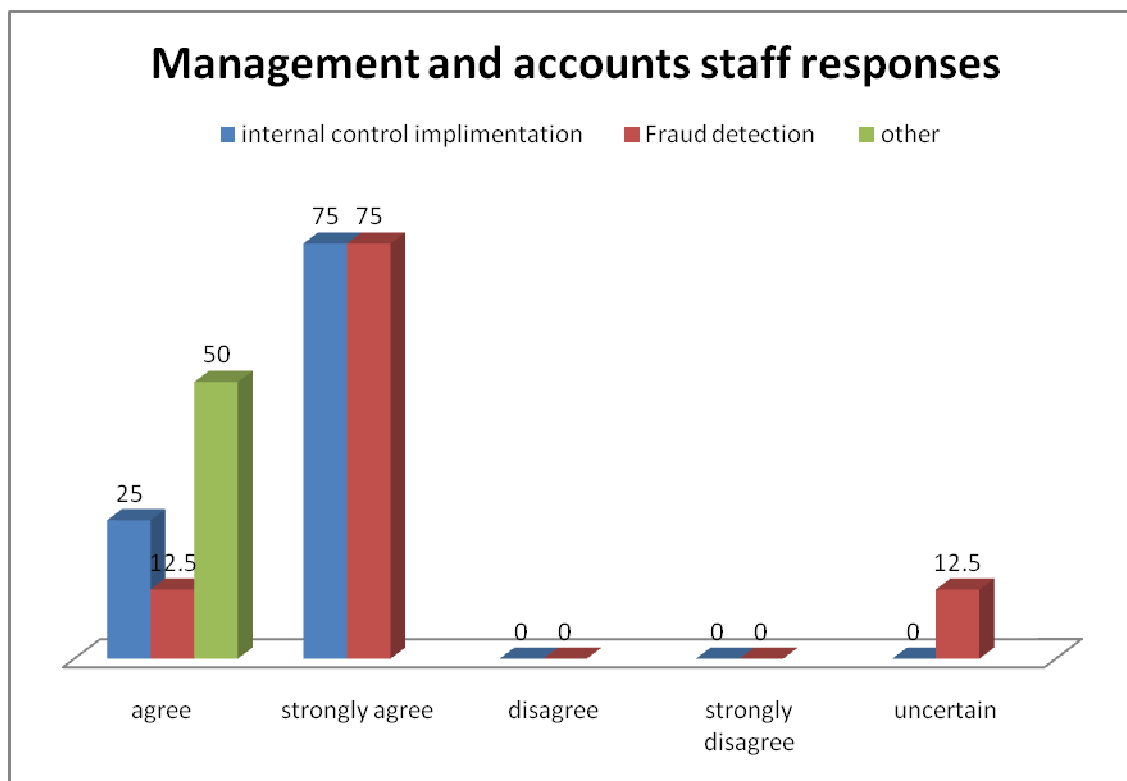
### **Others**

Fig 4.4 also shows that 1/3(33%) agree mentioning that they are also responsible for reviewing internal controls and 2/3(67%) disagree.

Interview findings showed that 1/3(33%) agreed asserting that they also carried out economic value auditing and 2/3(67%) did not mention other roles.

From this it can be ascertained that the internal audit function performs assurance, oversight and advisory roles.

**Fig 4.5 Internal audit duties**





### **Internal control implementation**

From fig 4.5 it is evident that 2/8(25%) agree, 6/8(75%) strongly agree, 0/8(0%) disagree and the same magnitude strongly disagree.

Overally, 8/8(100%) agree and 0/8(0%) disagree

Interview findings portrayed that 5/5(100%) agreed and 0/5(0%) disagreed

On the whole, the findings clearly show that the management and accounts personnel have a misconception (expectation gap) on what the role of internal auditors is.

### **Fraud detection**

From fig 4.5, 1/8(12.5%) agree, 6/8(75%) strongly agree, 0/8(0%) disagree and 1/8(12.5%) are uncertain.

Cumulatively, 7/8(87.5%) agree and only 1/8(12.5%) disagree.

Interview findings revealed that 5/5(100%) agreed and 0/5(0%) disagreed.

Using the mode, it shows that the internal audit function is also responsible for fraud detection.

### **Other**

Fig 4.5 depicts that 4/8(50%) agrees that the internal audit function discharges other roles. These were mentioned in the open-ended questions as safeguarding of company assets, evaluation of costing structures, analysis of stock movements, systems compliance, daily spot checks and tracing variances.

#### 4.8 Internal audit work is properly planned.

**Fig 4.6. Proper planning of internal audit work**

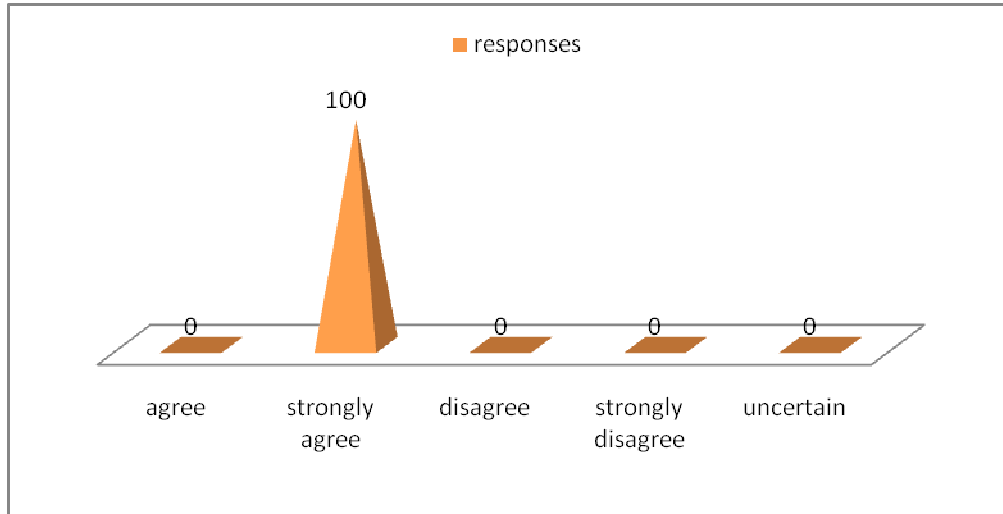


Fig 4.6 shows that 0/3(0%) agree, 3/3(100%)

strongly agree, 0/8(0%) disagree and the same magnitude strongly disagrees and are uncertain.

Overall, 3/3(100%) agree

Interview findings revealed that 3/3(100%) agree and cited that the audit manager is responsible for reviewing the audit plan on a monthly basis.

From the research findings it shows that the internal audit work is properly planned.

**Mihret et al (2007:475)<sup>6</sup>** confirms that internal audit function's ability to plan determines its effectiveness.

#### 4.9 Internal audit reports are issued on time.

**Table 4.9 Timing of internal audit reports**

Strength of feeling	No. of Respondents	Response rate(%age)
Agree	0	0
Strongly agree	3	100
Disagree	0	0
Strongly disagree	0	0
Uncertain	0	0
<b>Total</b>	<b>3</b>	<b>100</b>

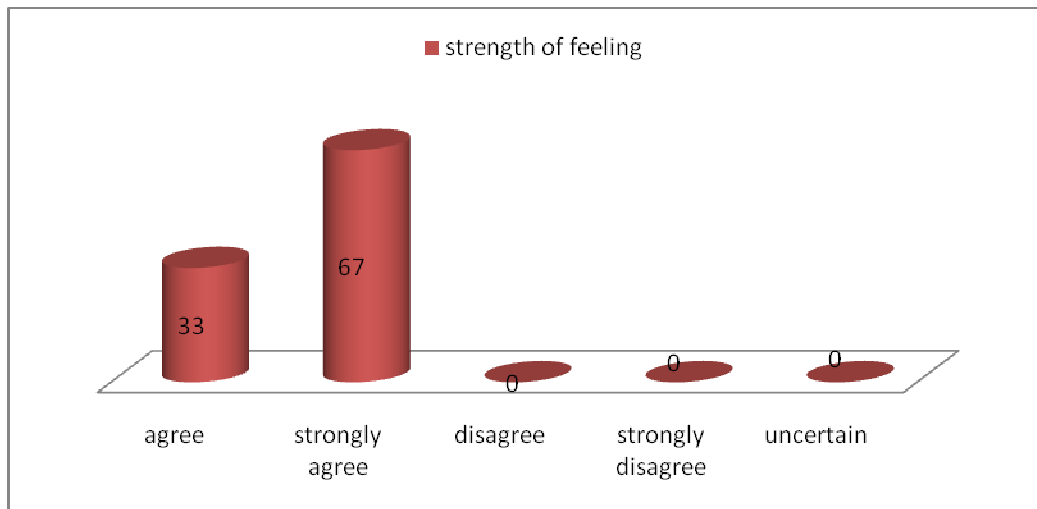
Table 4.9 shows that 0/3(0%) agree, 3/3(100%) strongly agree, 0/8(0%) disagree and the same magnitude strongly agree and 0/8(0%) are uncertain.

Overallly, 3/3(100%) of the participants agree

This means that the internal audit reports are issued on time.

#### 4.10 The management implements the internal audit recommendations

**Fig 4.7 Implementation of internal audit recommendations**



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Fig 4.7 denotes that 1/3(33%) agree, 2/3(67%) strongly agree, 0/3(0%) disagree, 0/3(0%) strongly disagree and the percentage are uncertain.

Overallly, 3/3(100%) agree whilst 0/3(0%) disagree.

From the interview findings showed that 3/3(100%) agreed that the management implements the internal audit recommendations.

This means that the internal audit recommendations are implemented by management.

**4.11 There is a sound relationship between internal audit and management.**

**Table 4.10 Relationship between internal audit and management**

<b>Strength of feeling</b>	<b>No. of Respondents</b>	<b>Response rate(%age)</b>
Agree	2	67
Strongly agree	0	0
Disagree	1	33
Strongly disagree	0	0
Uncertain	0	0
<b>Total</b>	<b>3</b>	<b>100</b>

Table 4.10 portrays that 2/3(67%) agree, 0/3(0%) strongly agree, 1/3(33%) disagree, 0/3(0%) strongly disagree and 0/3(0%) are uncertain.

Cumulatively, 2/3(67%) agree and 1/3(33%) disagree.

Basing on the mode, the findings show that there is a sound relationship between management and the internal audit staff.

#### **4.12 Audit assignments are completed in a timely manner.**

**Fig 4.8 Timely completion of audit assignments**

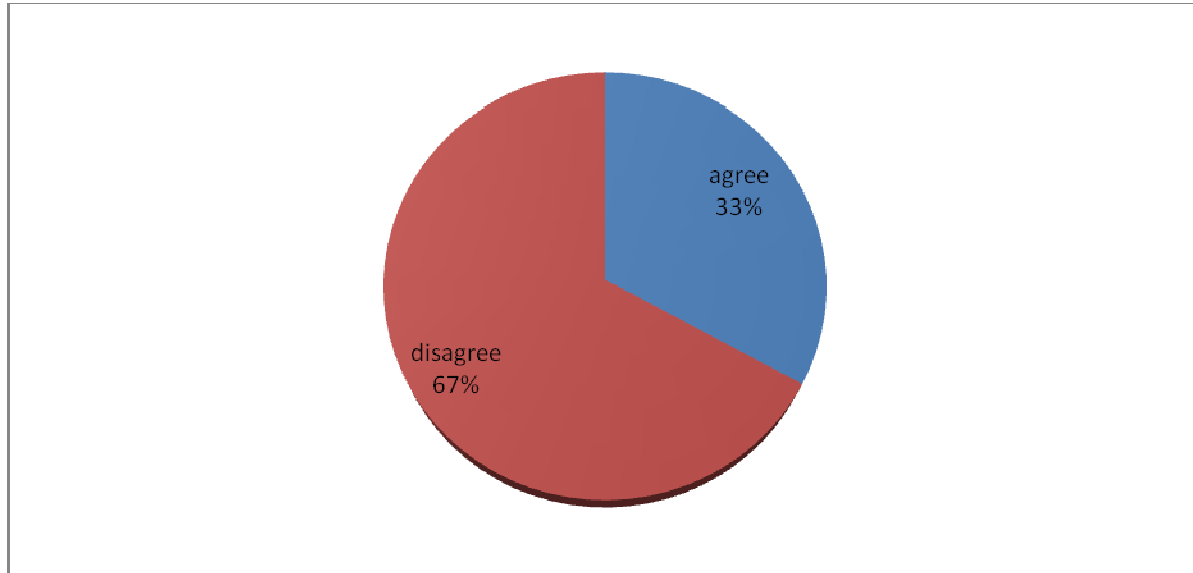


Fig 4.8 shows that 1/3(33%) agree whilst 2/3(67%) disagree.

This shows that the audit assignments are not completed on time.

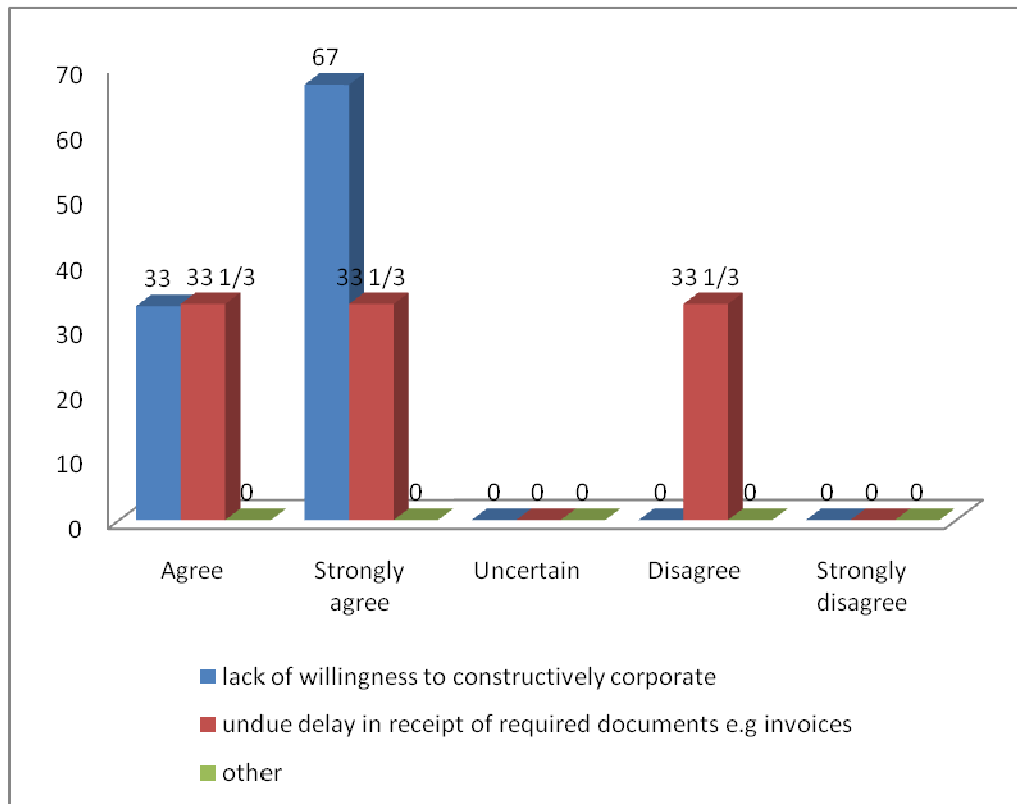
The interview findings revealed that 1/3(33%) who is the internal audit manager agreed whilst 2/3(67%) disagreed.

Overall, the internal audit function of Fabco Pvt ltd does not complete audit assignments on time as indicated by more than half of the respondents who are in agreement to this.

**4.13 The following difficulties are faced in dealing with the auditee; (i) lack of willingness to constructively cooperate, (ii) undue delay in receipt of required documents e.g. invoices, (iii) other**

Fig 4.9 illustrates the responses of the study.

**Fig 4.9 Internal auditor’s difficulties with the auditee**



**(i)Lack of willingness to constructively cooperate**

Fig 4.9 portrays that 1/3(33%) agree, 2/3(67%) strongly agree, 0/3(0%) are uncertain, 0/3(0%) disagree and the same magnitude strongly disagree.

Overall, 3/3(100%) agree and 0/3(0%) disagree.

Interview findings revealed that 2/3(67%) agreed whilst 1/3(33%) disagreed.

Basing on the mode, the interview findings reveal that there is unwillingness to constructively cooperate.

Cumulatively, the findings show that the internal auditors face unwillingness to constructively co-operate from the auditee.

**(ii) Undue delay in receipt of required documentation e.g. invoices**

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Fig 4.9 denotes that 1/3(33 1/3%) agree and the same percentage strongly agrees, 0/3(0%) are uncertain, 1/3(33 1/3%) disagree and 0/3(0%) disagree.

Overallly, 2/3(67%) agree whilst 1/3(33%) disagree

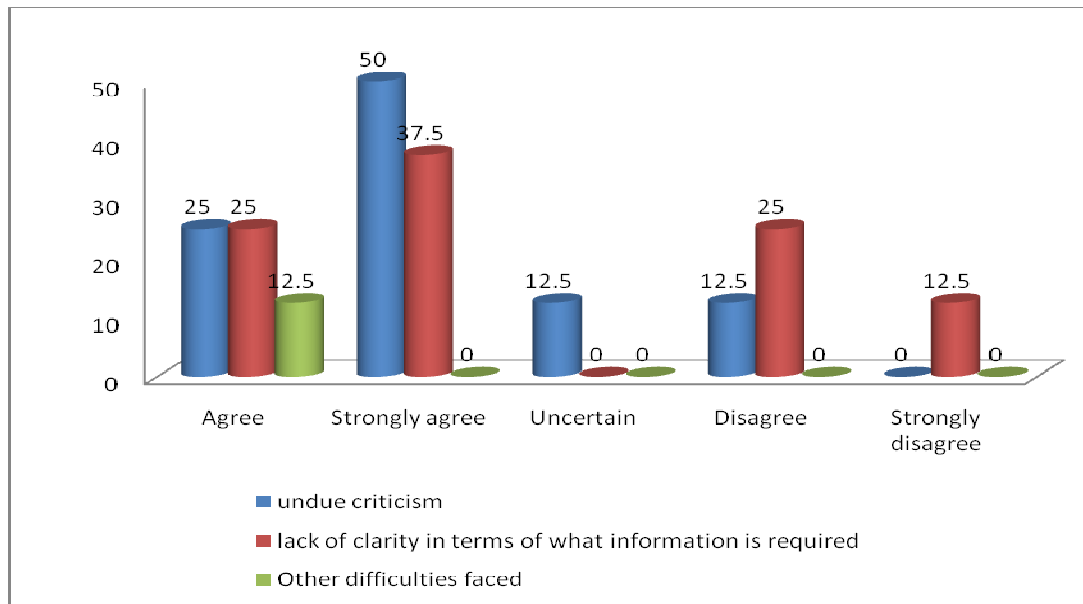
Basing on the mode, the internal auditors experience undue delay in receipt of necessary documents from the auditee.

**Other**

As depicted on fig 4.9 there were no other difficulties faced apart from the aforementioned as indicated by 0/3(0%) for all the responses.

A similar question was posed to management and accounts staff from *Appendix III questionnaire* to ascertain whether any difficulties were encountered in dealing with the internal auditors;

**Fig 4.10 Difficulties faced when dealing with internal**



**(i)Undue criticism**

As depicted on the diagram, 2/8(25%) agree, 4/8(50%) strongly agree, 1/8(12.5%) are uncertain, 1/8(12.5%) disagree and 0/8(0%) strongly disagree.

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Overallly, 6/8(75%) agree whilst 2/8(25%) disagree.

From the interview findings 4/5(80%) agreed compared to 1/5(20%) who disagreed

Overallly, basing on the modal responses, the management and accounts personnel face undue criticism from internal auditors.

This contravenes with **Mihret *et al* (2007:478)** who argues that internal auditors should possess the ability to wise and motivational criticism to probe people to improve.

**(ii) Lack of clarity in terms of what information is required**

Fig 4.10 denotes that 2/8(25%) agree, 3/8(37.5) strongly agree, 0/8(0%) are uncertain, 2/8(25%) disagree and 1/8(12.5%) strongly disagree.

On the whole, 5/8(62.5%) agree and 3/8(37.5%) disagree

Interview findings showed that 5/5(100%) agreed and 0/5(0%) disagreed

From these findings, it can be deduced that there is lack of clarity in terms of what information the internal auditors require from the auditee.

**(iii)Other**

Only 1/8(12.5%) revealed other difficulties like hostility from the internal auditors.

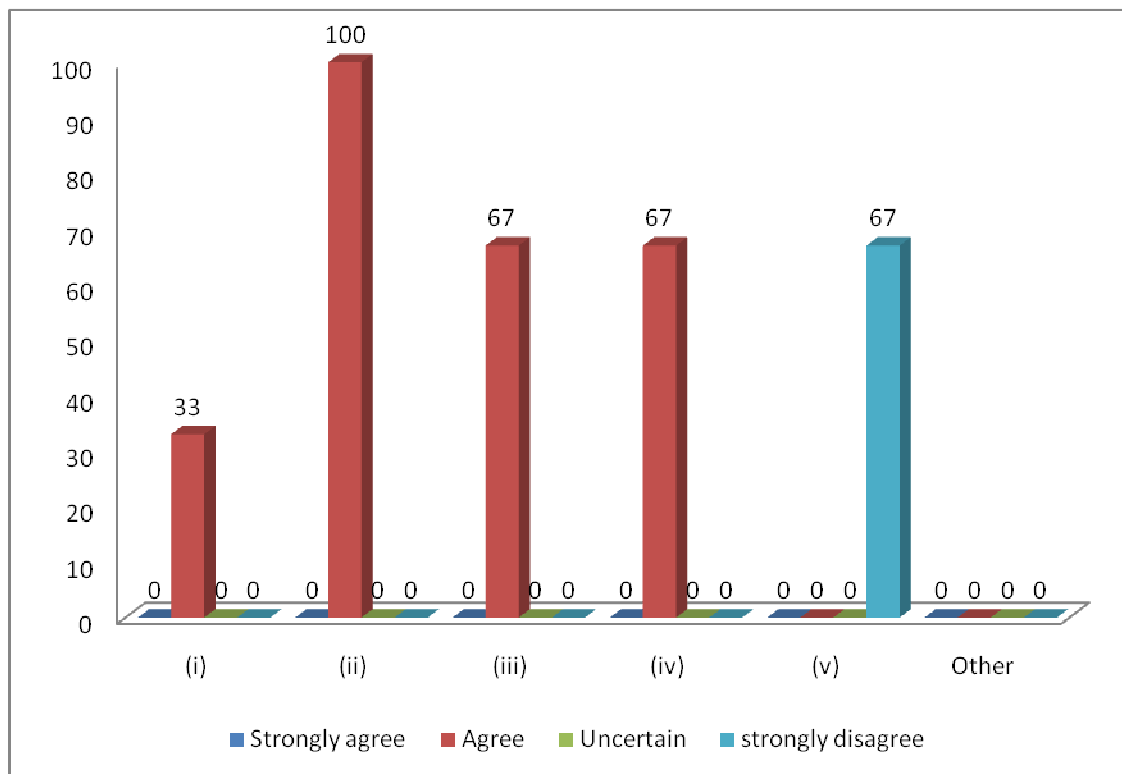
From this it can be argued that the internal auditors lack effective communication skills

This does not tally with the **IIA (2003:6)**<sup>6</sup> which propounded that effective communication is one of the attributes of an effective internal audit function.

**4.13 Controls over the internal audit function comprise the following; (i) quality reviews at all levels (ii) review of audit work at all levels for adequacy (iii) proper documentation of significant issues on standardized working papers (iv) standardized well defined reporting lines (v) independent audit committee reviews the internal audit work**



**Fig 4.11 Controls over the internal audit function**



**(i) quality reviews at all levels**

Fig 4.11 denotes that 1/3(33%) agree, 0/3(0%) strongly agree, 0/3(0%) are uncertain, 2/3(67%) disagree and 0/3(0%) strongly disagree.

Overall, 1/3(33%) agree and 2/3(67%) disagree.

On a modal basis, it can be argued that the internal audit does not engage in quality reviews at all levels and this implies non-compliance to professional standards.

This position does not agree with [siteresources.worldbank.com](http://siteresources.worldbank.com) (12/08/2013; 09:21pm)<sup>23</sup> where it is argued that quality reviews for the work of internal audit is crucial in the maintenance of professional standards.

**(ii) review of audit work at all levels for adequacy**

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Fig 4.11 shows that 0/3(0%) strongly agree, 3/3(100%) agree, 0/3(0%) are uncertain and the same magnitude disagree and strongly disagree.

Overall, 3/3(100%) of the participants agree.

Interview findings unveiled that 3/3(100%) agreed with the internal audit manager asserting that he had the responsibility to carry out such reviews and 0/3(0%) disagreed.

From this, it shows that reviews of audit work at all levels for adequacy is instituted by the internal audit function

**(iii) proper documentation of significant issues on standardized working papers**

It shows that 0/3(0%) strongly agree, 2/3(67%) agree, 0/3(0%) are uncertain, 1/3(33%) disagree and 0/3(0%) strongly disagree.

Cumulatively, 2/3(67%) agree whilst only 1/3(33%) disagree.

Basing on the mode, it can be argued that the internal auditors properly document all significant issues on standardized working papers.

According [www.emeraldinsights.com](http://www.emeraldinsights.com) (12/08/2013; 09:45pm) it is confirmed that internal audit controls should involve documentation of key issues on standardized working papers.

**(iv) standardized well defined reporting lines**

Fig 4.11 depicts that 0/3(0%) strongly agree, 2/3(67%) agree, 0/3(0%) are uncertain, 1/3(33%) disagree and 0/3(0%) strongly disagree.

Overall 2/3(67%) agree and 1/3(33%) disagree.

From the interview findings it showed that 3/3(100%) agreed and 0/3(0%) disagreed.

From this it can be deduced that there are standardized well defined reporting lines within the internal audit function as indicated by more than half of the participants who agree to this.

**(v) independent audit committee reviews the internal audit work**

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Fig 4.11 denotes that 0/3(0%) agree and the same magnitude strongly agree, 0/3(0%) are uncertain, 1/3(33%) disagree and 2/3(67%) strongly disagree.

Thus only 0/3(0%) agree whilst 3/3(100%) disagree.

The interview findings showed that 0/3(0%) agreed and 3/3(100%) disagreed to the existence of an independent audit committee.

Relying on the mode, it can be seen that there is no independent audit committee that reviews the work of internal auditors and this impairs the objectivity.

**Other**

Fig 4.11 shows that there are no other controls over the internal audit function apart from the aforementioned as denoted by 0/3(0%) for all the responses.

Management and accounts staff were also asked a similar question from *Appendix III questionnaire*: There is an independent audit committee which reviews the work of internal auditors.

**Table 4.11 Independent audit committee reviews**

<b>Strength of feeling</b>	<b>No. of Respondents</b>	<b>Response rate(%age)</b>
Agree	0	0
Strongly agree	0	0
Disagree	0	0
Strongly disagree	8	100
Uncertain	0	0
<b>Total</b>	<b>8</b>	<b>100</b>

Table 4.11 shows that 0/8(0%) agree and the same applies to those strongly agreeing and disagreeing. 8/8(100%) strongly disagree and 0/8(0%) are uncertain.

Overall, 8/8(100%) disagree

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The interview findings show that 5/5(100%) of the participants disagreed to the existence of an independent audit committee.

This shows that there is no independent audit committee which reviews the work of internal auditors at Fabco Pvt Ltd which may point towards lack of objectivity of the internal auditors.

This contravenes with **SDCERS Internal Audit manual (2012:2)**, which articulates that the internal auditor directly reports to the board of directors via the audit committee to promote objectivity.

**4.15 The internal audit function is in compliance with international auditing standards**

**Fig 4.12 Compliance with International auditing standards**

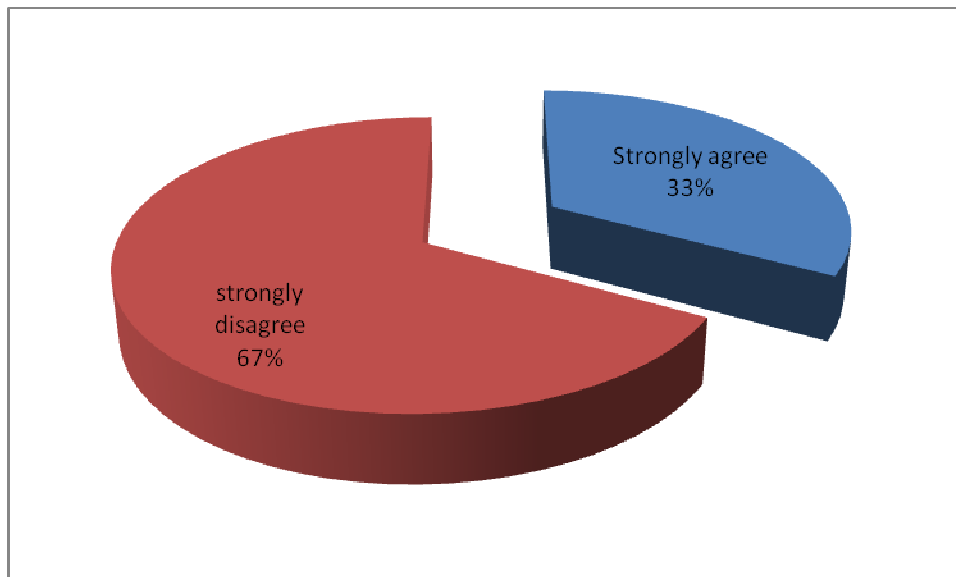


Fig4.12 depicts that 1/3(0%) agree and 2/3(67%) strongly disagree.

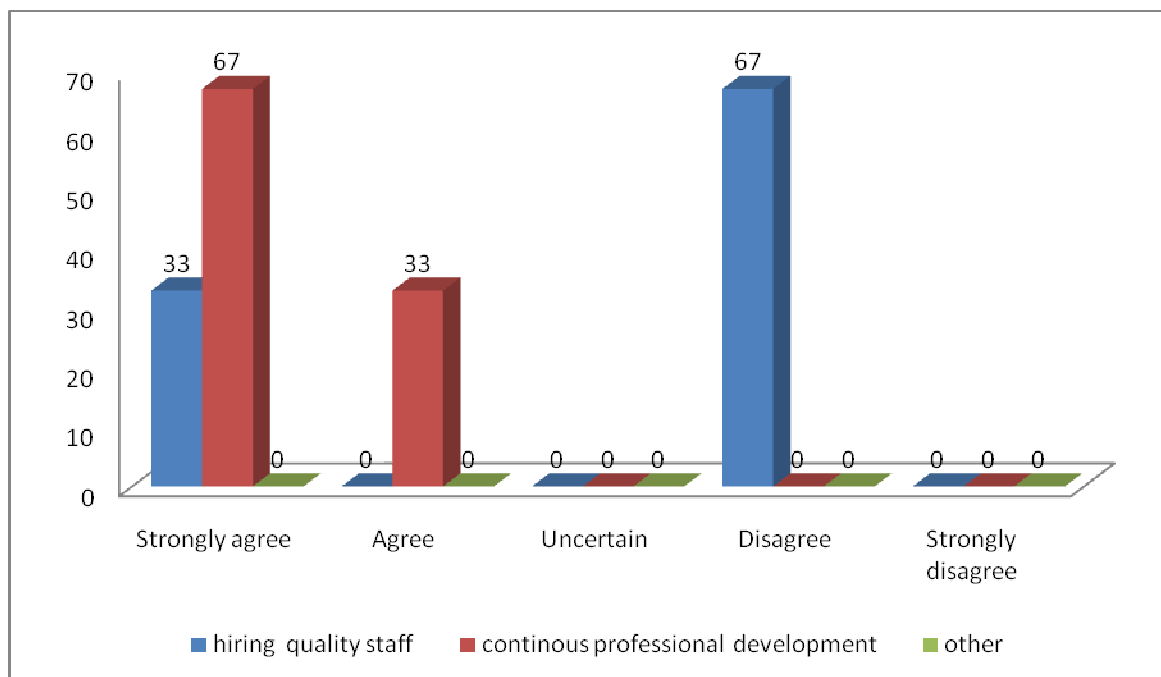
Interview findings showed that, 2/3(67%) said that they did not know what international professional practices in internal auditing are and 1/3 (33%) agreed.

On the whole, it can be argued that the internal audit function is not in adherence to international standards on auditing and may thus not be competent.

This position does not agree with the IIA (2013:1-2)<sup>9</sup> which proposed that adherence to the international Professional Practices Framework and international internal auditing standards results in a competent and thus effective internal auditor.

**4.16 The following best practices are implemented within the internal audit function; (i) hiring quality staff (ii) continuous professional development**

**Fig 4.13 Internal audit best practices**



**(i) hiring quality staff**

Fig 4.13 denotes that 1/3(33%) strongly agree, 0/3(0%) agree, 0/3(0%) are uncertain, 2/3(67%) disagree and 0/3(0%) strongly disagree.

Overall, only 1/3(33%) agree and 2/3(67%) disagree.

Interview findings showed that 1/3(33%) agree and 2/3(67%) disagreed

Basing on the mode, it can be argued that the internal audit function does not hire staff of high calibre.

**(ii) continuous professional development**

It shows that 2/3(63%) strongly agree, 1/3(33%) agree,0/3(0%) are uncertain, 0/3(0%) disagree and the same magnitude strongly disagree.

Overallly, 3/3(100%) agree and 0/3(0%) disagree.

Interview findings revealed that 3/3(100%) agree and 0/3(0%) disagree

The internal auditors engage in continuous professional development since all the respondents agree to this.

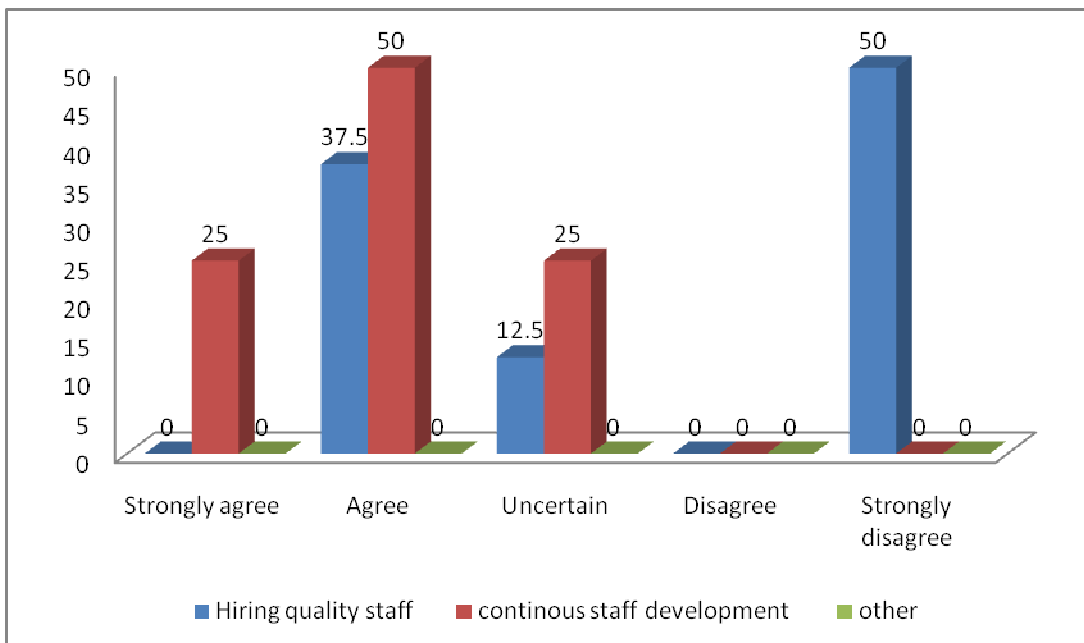
**Other**

As depicted on fig 4.13 is 0/3(0%) in respect to other best practices apart from the aforesaid.

Interview findings showed that 2/3(67%) mentioned the existence of an audit charter

The same question was posed to management and accounts staff from *Appendix III questionnaire* and the following results on fig 4.14 was obtained.

**. Fig 4.14 Internal audit best practices**



### **Hiring quality staff**

Fig 4.14 shows that 0/8(0%) strongly agree, 3/8(37.5%) agree, 1/8(12.5%) is uncertain, 0/8(0%) disagree and 4/8(50%) strongly disagree.

Overally, 3/8(37.5%) agree and 5/8(62.5%) disagree.

Interview findings revealed that 5/5(100%) disagree and 0/5(0%) agree

Basing on the mode, it shows that the internal audit staff does not engage calibre staff.

### **Continuous staff development**

It is denoted that 2/8(25%) strongly agree, 4/8(50%) agree, 2/8(25%) are uncertain, 0/8(0%) disagree and also strongly disagree.

Overally, 6/8(75%) agree and 2/8(25%) disagree.

Interview findings proved that 4/5(80%) agree and 1/5(20%) disagree

On the basis of the modal response, the internal auditors practice continuous professional development.

### **Other**

Fig 4.14 shows that the management and accounts staff did not mention other best practices apart from the aforementioned as indicated by 0/8(0%) for all the possible responses.

## Appendix III questionnaire results and findings

### 4.17 Your department has been subjected to an audit before

**Fig 4.15 Audited departments**

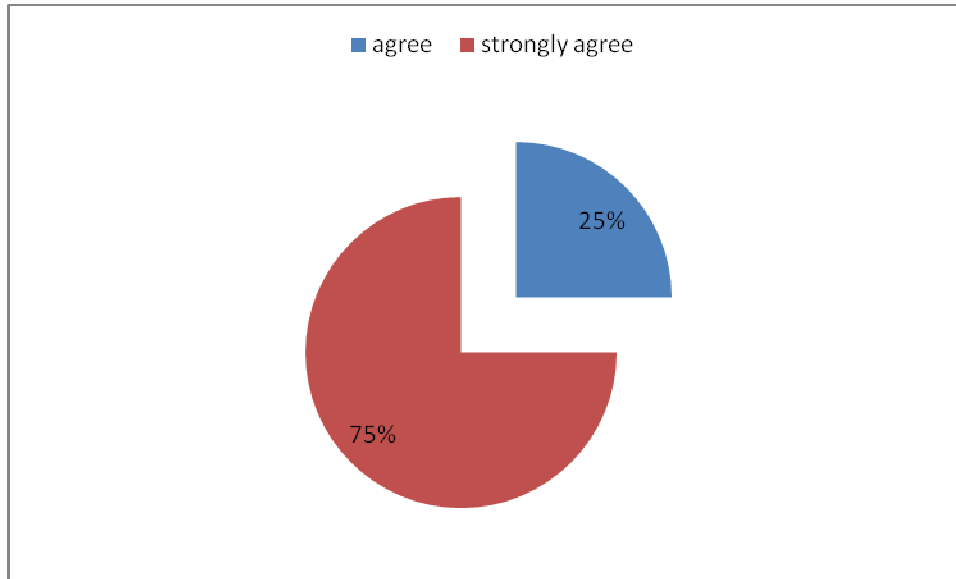


Fig 4.15 depicts that 2/8(25%) agree and 5/8(75%) strongly agree

Overallly 3/3(100%) agree that they had been subject to an audit the previous month.

This means that the internal audit function is quantitatively adequate since it is capable to cover all the departments within the auditee.

This position is confirmed by **Gronewold *et al* (2009:3)** who asserted that quantitative adequacy of the internal auditors is positively and significantly related to the size of the auditee.

### 4.18 Internal audit contributes to greater levels of quality assurance

Table 4.13 tabulates the responses in respect to this question.



**Table 4.12 Internal audit contribution to quality assurance**

<b>Strength of feeling</b>	<b>No. of Respondents</b>	<b>Response rate(%age)</b>
Agree	4	50
Strongly agree	3	37.5
Disagree	0	0
Strongly disagree	0	0
Uncertain	1	12.5
<b>Total</b>	<b>8</b>	<b>100</b>

As depicted on table 4.12, 4/8(50%) agree, 3/8(37.5%) strongly agree, 0/8(0%) disagree and strongly disagree and 1/8(12.5%) is uncertain.

Overally, 7/8(87.5%) agree and 1/8(12.5%) disagree

Basing on the mode, it can be deduced that the management and accounts staff perceive the internal auditing as contributing to greater levels of quality assurance.

#### **4.19 The internal audit contributes to improved company performance**

**Table 4.13 Contribution to improved company performance**

<b>Strength of feeling</b>	<b>No. of Respondents</b>	<b>Response rate(%age)</b>
Agree	5	62.5
Strongly agree	0	0
Disagree	3	37.5
Strongly disagree	0	0
Uncertain	0	0
<b>Total</b>	<b>8</b>	<b>100</b>

Table 4.13 shows that 5/8(62.5%) agree, 0/8(0%) strongly agree, 3/8(37.5%) disagree, 0/8(0%) strongly disagree and the same number of respondents are uncertain.

Cumulatively, 5/8(62.5%) agree whilst 3/8(37.5%) disagree.

Interview findings showed that 5/5(100%) agreed and 0/5(0%) disagreed

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This persuades one to conclude that the internal audit function contributes to greater levels of company performance at Fabco Pvt ltd since more than half of the respondents agree to this.

This agrees with the International Internal auditing Standards as they require that the internal auditors perform his work such that he will be able to derive useful audit findings and come up with recommendations for improvement.

**4.20 Internal audit conclusions forwarded are always supported by relevant facts.**

**Fig 4.16 Relevance of facts on internal audit conclusions**

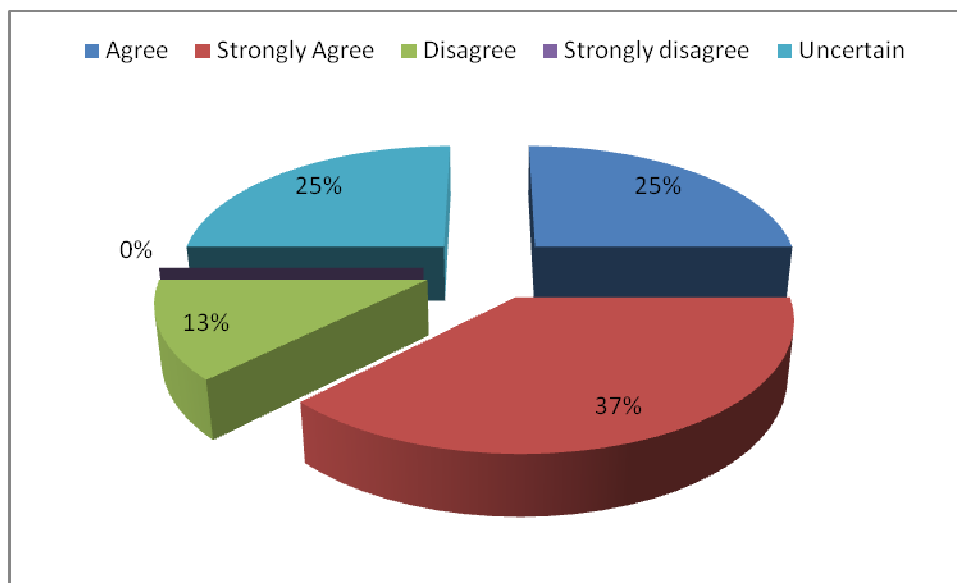


Fig 4.16 denotes that 2/8(25%) agree, 3/8(37%) strongly agree, 1/8(13%) disagree, 0/8(0%) strongly disagree and 2/8(25%) are uncertain.

Overall, 5/8(62.5%) agree and 3/8(37.5%) disagree.

Interview findings showed that 4/5(80%) agreed and 1/5(20%) disagreed

It shows that the internal audit conclusions are always supported by relevant facts since more than half of the respondents agree to this.

#### **4.21 Internal audit conclusions forwarded are after a thorough analysis.**

Table 4.15 tabulates the results obtained in relation to this question.

**Table 4.14 Thorough analysis on audit conclusions**

<b>Strength of feeling</b>	<b>No. of Respondents</b>	<b>Response rate(%age)</b>
Agree	2	25
Strongly agree	0	0
Disagree	4	50
Strongly disagree	0	0
Uncertain	2	25
<b>Total</b>	<b>8</b>	<b>100</b>

Responses on table 4.14 shows that 2/8(25%) agree, 0/8(0%) strongly agree, 4/8(50%) disagree, 0/8(0%) strongly disagree and 2/8(25%) are uncertain.

Overally, 2/8(25%) agree and 6/8(75%) disagree.

On the basis of the mode, it can be argued that the thorough analysis is not done before internal audit conclusions are forwarded to the auditee.

#### **4.22 The internal audit reports are readily understandable**

**Table 4.15 Understandability of audit reports**

<b>Strength of feeling</b>	<b>No. of Respondents</b>	<b>Response rate(%age)</b>
Agree	5	62.5
Strongly agree	1	12.5
Disagree	1	12.5
Strongly disagree	0	0
Uncertain	1	12.5
<b>Total</b>	<b>8</b>	<b>100</b>

Table4.15 shows that 5/8(62.5%) agree, 1/8(12.5%) strongly agree, 1/8(12.5%) disagree, 0/8(0%) strongly disagree and 1/8(12.5%) are uncertain.

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Overallly, 6/8(75%) agree and 2/8(25%) disagree.

From the interview findings 5/5(100%) agreed whilst 0/5(0%) disagreed.

On the basis of the modal response, it can be argued that the internal auditors possess sharp written communication skills.

This position agrees with the IIA (2003:6)<sup>7</sup> which articulates that making the audit report requires sharp written skills that convey a crystal clear message in a few well chosen words as possible.

**4.23 Internal audit reports forwarded by the internal audit reports are constructive.**

**Fig 4.17 Constructiveness of internal audit reports**

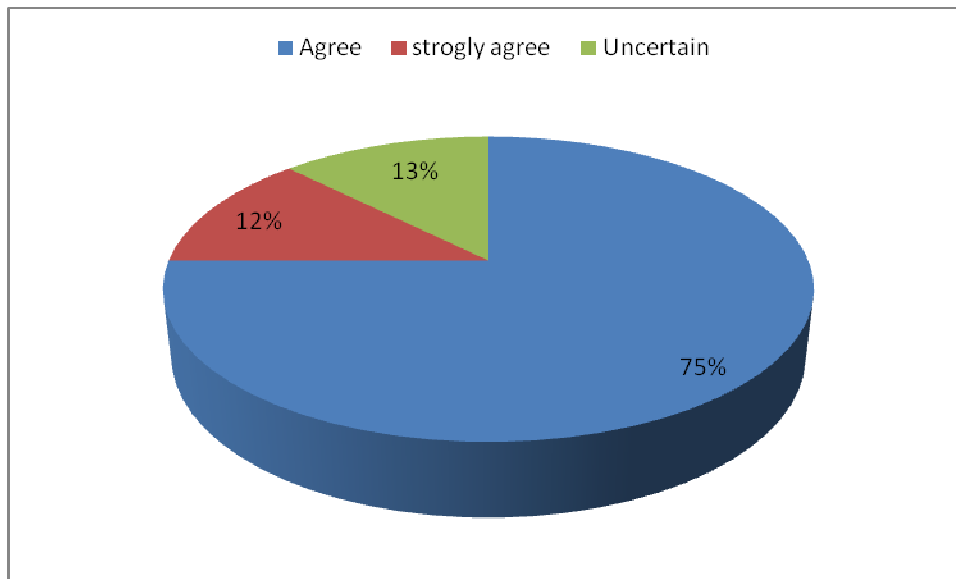


Fig 4.17 depicts that 6/8(75%) agree, 1/8(12%) strongly agree and 1/8(13%) are uncertain.

Overallly, 7/8(87%) agree and 1/8(13%) disagree.

It can be deduced that the internal audit reports are constructive since more than half agree to this.

**4.24 The internal audit strategy is aligned to the entity’s operating and business environment.**

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The following responses were obtained in respect of this question.

**Table 4.16 Internal audit strategy**

<b>Strength of feeling</b>	<b>No. of Respondents</b>	<b>Response rate(%age)</b>
Agree	7	87.5
Strongly agree	1	12.5
Disagree	0	0
Strongly disagree	0	0
Uncertain	0	0
<b>Total</b>	<b>8</b>	<b>100</b>

As tabulated on table 4.16, 7/8(87.5%) agree, 1/8(12.5%) strongly agree, 0/8(0%) disagree and strongly disagree, whilst 0/8(0%) are uncertain.

Overallly 8/8(100%) of the participants agree

The internal audit strategy is aligned to the entity's operating and business environment as all the participants agree to this.

**4.25 The internal audit strategy is aligned to the entity's key priorities.**

**Table 4.17 Internal audit strategy**

<b>Strength of feeling</b>	<b>No. of Respondents</b>	<b>Response rate(%age)</b>
Agree	8	100
Strongly agree	0	0
Disagree	0	0
Strongly disagree	0	0
Uncertain	0	0
<b>Total</b>	<b>8</b>	<b>100</b>

As depicted on table4.17, 8/8(100%) agree, 0/8(0%) disagree and the same magnitude also disagree, strongly disagree and are uncertain.

Overallly, 8/8(100%) of the participants agree.

## *An assessment on the effectiveness of the internal audit function at Fabco Pvt Ltd*

From the interviews, 5/5(100%) agreed and 0/5(0%) disagreed.

This persuades the researcher to conclude that the internal audit strategy is indeed aligned to Fabco Pvt Ltd's key priorities as all the respondents are in agreement to this position.

### **4.26 The internal audit function has an adequate budget to discharge its duties successfully**

Fig 4.16 depicts the results obtained.

### **Fig 4.18 Adequacy of internal audit budget**

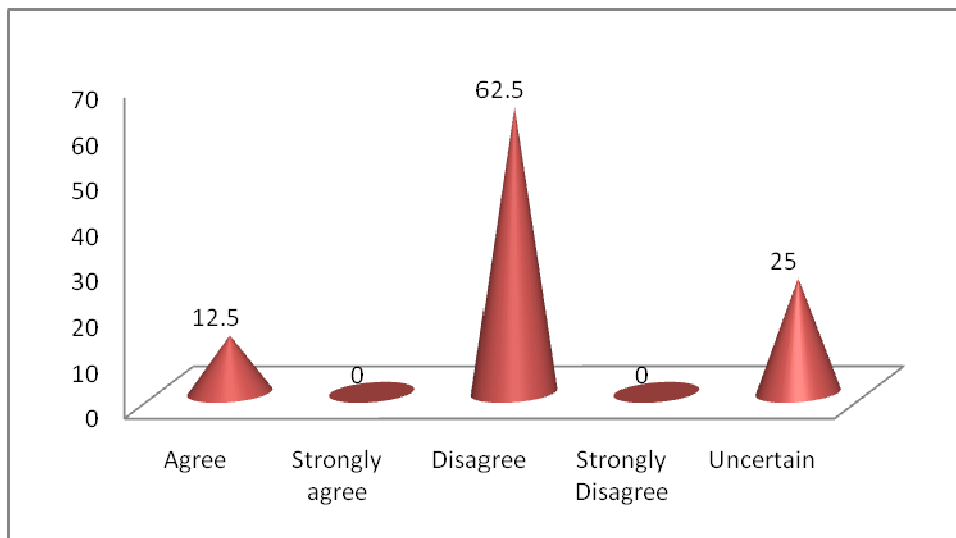


Fig 4.18 shows that 1/8(12.5%), 0/8(0%) strongly agree, 5/8(62.5%) disagree, 0/8(0%) strongly agree, 2/8(25%) are uncertain.

Overallly, 1/8(12.5%) agree and 7/8(87.5%) disagree and the participants also commented that this was due to the financial constraints being faced by the entity.

Basing on the mode, the internal audit function does not have an adequate budget to discharge its functions.

### **4.27 Internal auditors demonstrate professionalism in their approach to duty**

Table 4.27 tabulates the results obtained in relation to this question.

**Table 4.18 Professionalism of internal auditors**

<b>Strength of feeling</b>	<b>No. of Respondents</b>	<b>Response rate(%age)</b>
Agree	5	62.5
Strongly agree	3	37.5
Disagree	0	0
Strongly disagree	0	0
Uncertain	0	0
<b>Total</b>	<b>8</b>	<b>100</b>

Table 4.18 shows that 5/8(62.5%) agree, 3/8(37.5%) strongly agree, 0/8(0%) disagree and strongly disagree, 0/8(0%) are uncertain.

Overallly 8/8(100%) of the participants agree.

These findings prove that the internal auditors are professional in their approach to duty.

#### **4.28 Internal auditors are objective in their approach to duty.**

**Table 4.19 Objectivity of internal auditors**

<b>Strength of feeling</b>	<b>No. of Respondents</b>	<b>Response rate(%age)</b>
Agree	0	0
Strongly agree	1	12.5
Disagree	4	50
Strongly disagree	2	25
Uncertain	1	12.5
<b>Total</b>	<b>8</b>	<b>100</b>

Table 4.19 depicts that 0/8(0%) agree, 1/8(12.5%) strongly agree, 4/8(50%) disagree, 2/8(25%) strongly disagree and 1/8(12.5%) are uncertain.

Overallly, 1/8(12.5%) agree and 6/8(75%) disagree.

The interview findings showed that 1/5(20%) agreed and 4/5(80%) disagreed.

The researcher was persuaded to conclude that the internal audit function is not objective in its approach to duty as evidenced by more than half of the participants taking this side.

#### **4.4 SUMMARY**

This chapter focused on the analysis and presentation of the data accumulated from the field research through questionnaire administration and interviews in respect to the research objectives and sub-research questions. This study noted that there is absence of a formally documented audit policy, hiring poor quality internal audit staff among other deficiencies aforementioned which needs to be addressed. Chapter five will focus on major research findings, conclusions and recommendations.



## CHAPTER 5

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction

This chapter dwells on the chapter summaries, major research findings and conclusions. It also focuses on the recommendations and suggestions for further research forwarded by the researcher basing on the research findings. It ends up by summarizing the same.

#### 5.1 Chapter summaries

The main thrust of this study was to analyze the effectiveness of the internal audit function at Fabco Pvt Ltd.

Chapter one briefly outlined the background of the study which covered a brief history of the entity in question and the problems being faced that prompted the researcher to conduct the study. The problem statement, main research question on the assessment of the effectiveness of the internal audit function was also looked at. The sub-research questions, objectives underlying the research, justification and delimitation of the study were outlined. Limitations of the research like time constraints and how these were curbed to uphold the research quality were highlighted and it ended up by summarizing the same.

Chapter two dwelt on reviewing literature related to the problem under study in line with the research objectives. In respect to the internal audit role and policy, the **IIA (2009:3)** revealed that there has been a paradigm shift in the role of internal auditors from the independent evaluation function to risk management role so that nowadays it is the core need of an entity. In relation to qualities of an effective internal auditor, **Mihret et al (2007:475)** cited that internal audit quality revolves around the function's ability to provide useful audit findings. It also dwelt on adequacy and competency of the internal audit function where **Gronewold et al (2009:3;7;9)** argued that

adequacy hinges around auditee size and diversity of audit tasks to be covered. Controls over the internal function involve quality reviews for work of internal auditors as proposed by [siteresources.worldbank.org](http://siteresources.worldbank.org) (12/08/2013, 09:21pm). Literature on best practices that have been proposed to ensure effectiveness of the internal audit function were also articulated. According to [www.indiangaming.com](http://www.indiangaming.com) (14/08/2013, 08:36pm) having an internal audit charter and engaging calibre staff were argued to constitute best practices for internal audit effectiveness. A summary was then given and this chapter formed basis for the framework of the research.

Chapter three outlined the research methodology incorporated by the researcher. It focused on the research design where the researcher employed the descriptive and exploratory research design since these were considered to be most suited for a case study and complement each other. Target population for the purposes of the study was looked at. The researcher used convenience as well as judgmental sampling techniques since these were considered to produce a sample most representative of the target population under study. The chapter outlined the sample size for the research, data sources utilized and the research instruments. The validity and reliability of the research findings and also the data presentation and analysis tools were articulated. A summary of the chapter was then given.

Chapter four focused on data presentation and analysis. The data analyzed was accumulated from the field research conducted at Fabco Pvt Ltd through interviews and questionnaires which focused on answering the sub-research questions and objectives. Accumulated data was presented using graphs and tables as well as pie charts. Data was then analyzed using descriptive statistics, that is, the mode and percentages. The study revealed the challenges being faced by Fabco Pvt Ltd's internal audit function which hamper its effectiveness and thus need to be addressed.

## **5.2 Major findings**

In line with the research objectives, the following major findings were identified;

- There is an internal audit policy at Fabco. The roles discharged by the internal audit function at Fabco Pvt Ltd include assurance, oversight, advisory as well as reviewing of

## *An assessment on the effectiveness of the internal audit function at Fabco Pvt Ltd*

internal controls and fraud detection. There is no clear-cut job description and responsibility outline regarding the role of internal audit.

- The internal audit function at Fabco Pvt Ltd engages in proper planning and internal audit recommendations are implemented by management timeously. There is lack of effective communication skills and lack of clarity to employees in terms of internal audit requirements.
- In terms of adequacy, audit assignments are not completed timely and the internal audit faces undue resistance from the auditee. The internal audit also has an inadequate budget to discharge its functions. In relation to internal audit competency, personnel are under qualified and have limited professional experience.
- In line with controls existent over the internal audit function, reviews for adequacy are done. Quality reviews at all levels are not done and there is no adherence to international standards in auditing. There is absence of an independent audit committee that reviews the work of internal auditors and this impairs objectivity.
- Continuous professional development is instituted as a measure for best practice. Hiring high calibre staff is not practiced and this causes ineffectiveness of the internal audit function.

### **5.3 Conclusion**

The main thrust of the study was to analyze the effectiveness of the internal audit function at Fabco Pvt Ltd. The research objectives were attained proving that the research was a success.

### **5.4 Recommendations**

- An internal audit policy manual should be compiled, clearly stating the job descriptions and responsibility areas. The auditee should be enlightened on the role of internal audit through workshops, seminars and meetings.
- Exit conferences should be held with the auditee to discuss findings prior to issuing the audit report .A two-way communication channel should be introduced and a separate committee established for further clarification on audit requirements for better

understanding. This is confirmed by **Mihret et al (2007:478)** who asserted that the auditors should possess the skills for effective communication and motivational criticism.

- The entity should include background checks on hiring employees, consider revising the internal auditor's budget for adequate resource allocation and give awards to employees who constructively cooperate and comply with internal audit requirements. **Gronewold et al (2009:12)** also cited that an auditee with departments and individuals who are willing to constructively cooperate results in audits being performed efficiently.
- Quality reviews for audit work should be done to ensure adherence to professional standards. According to [siteresources.worldbank.org](http://siteresources.worldbank.org) (12/08/2013, 09; 21pm)<sup>23</sup>, quality reviews of audits ensure that each audit meets professional standards. An independent internal audit committee that reviews the work of internal auditors should be engaged. **SDCERS Internal Audit Manual (2012:2)**<sup>4</sup> agrees that the internal auditors directly report to the board of directors via the audit committee.
- The internal auditors should consider hiring staff of high calibre. This can be achieved through aptitude tests (special skills tests). That is internal audit personnel should be recruited on the basis of merit other than on the basis of who knows them.

## **5.5 Suggestions for further research**

Considering the afore mentioned recommendations, the researcher proposes that further research be instituted in respect to the evaluation of the implementation of the suggested recommendations. The evaluation can be done in a different industrial setting and entity size.

## **5.6 Summary**

This chapter summarized the previous chapters comprising the research. It dwelt on the major research findings and conclusions. Recommendations were also suggested which enhances the effectiveness of the internal audit function at Fabco Pvt Ltd. It also highlighted suggestions for further research.

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## APPENDIX I: INTRODUCTORY LETTER



Midlands State University

P Bag 9055

Gweru

13 September 2013

The Managing Director

Fabco Pvt Ltd

80-85 Cameroon Street

Harare

Dear Sir/Madam

### **RE: REQUEST TO CARRY OUT A RESEARCH**

I am a Midlands State University student who is currently studying an honours degree in Bachelor of Commerce Accounting. Please may you grant me permission to conduct a research in your entity as a case in point. The project topic is; **“An assessment on the effectiveness of the internal audit function at Fabco Pvt Ltd”**.

The information to be furnished, inclusive of personal views is assured to be held in confidence. It is also to be utilized solely for academic purposes relating to this research.

Your corporation in this study is greatly valued

Yours Sincerely

Nyasha Dhliwayo



## APPENDIX II

### QUESTIONNAIRE FOR THE INTERNAL AUDIT STAFF (HIGHLY CONFIDENTIAL)

This questionnaire was compiled by Nyasha Dhliwayo, a Midlands State University accounting student. It is aimed at accumulating information on the “assessment of the effectiveness of the internal audit function at Fabco Pvt Ltd”. Prior approval to conduct this study with Fabco Pvt Ltd as a case in point has been attained from the management of the aforesaid entity. Please be free to kindly respond to all the questions. This is purely an academic research and strictest confidentiality in respect of the information to be forwarded is guaranteed. Thank you for your contribution.

#### Instructions

For your answers, you are kindly asked to tick in the box resembling your response or simply fill in the blank spaces indicated.

Position .....

#### Company stamp

#### 1. Demographic Details:

Gender : Male  Female

Age : 20 years or less  21-30 years old  31-40years old  41-50years old  more than50years old

Please indicate your highest academic qualification attained:

A 'Level [ ] Diploma [ ] Undergraduate degree [ ] Masters [ ] Other (please indicate)

.....

Please indicate your area of academic specialization (e.g. accounting, banking)

.....

Please indicate your professional qualifications if any: ACCA [ ] CIA [ ] CIMA [ ] CISA [ ] other (please specify) .....

Please indicate your audit experience: Less than 1year [ ] 1-4 years [ ] 5-7 years [ ] 8-10years [ ] more than 10years [ ]

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2. There is an internal audit policy manual in place

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

3. The internal audit policy is formally documented

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

4. The audit policy implementation guidelines are properly communicated to audit staff on a regular basis using the following:

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
(i) Induction					
(ii) workshops					
(iii) seminars					

Other( please specify)

.....  
 .....

5. The internal audit policy guidelines are clarified to new internal audit staff

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

6. The following roles are discharged by the internal audit function;

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
(i) Assurance					
(ii) Oversight					
(iii) Advisory					

Other (please specify).....

7. The internal audit also performs the following professional services;

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	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
(i)consultancy					
(ii) Risk assessment					
(iii)conducting fraud investigations					

Other (please specify).....

8. The internal audit work is properly planned;

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

9. Internal audit reports are issued on time.

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

10. The management implements the internal audit recommendations

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

11. There is a sound relationship between management and the internal audit function.

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

12. Audit assignments are completed in a timely manner.

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

13.The following difficulties are faced in dealing with the auditee;

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
(i)lack of willingness to constructively corporate					
(ii) undue delay in receipt of required documents e.g. invoices					

Others (please specify)

.....  
 .....

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14. Controls over the internal audit function comprise the following;

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
(i) quality reviews at all levels					
(ii) review of audit work at all levels for adequacy					
(iii) proper documentation of significant issues on standardized working papers					
(iv) standardized well defined reporting lines					
(v) independent audit committee reviews the internal audit work					

Others (please specify)

.....  
 .....

15. The internal audit function is in compliance with international auditing standards.

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

16. The following best practices are implemented within the internal audit function:

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
(i) Hiring quality staff					
(ii) Continuous professional development					

(iii) Others (please specify)

.....

*Your corporation is greatly appreciated*

### **APPENDIX III**

#### **QUESTIONNAIRE FOR THE MANAGEMENT AND ACCOUNTS STAFF (HIGHLY CONFIDENTIAL)**

This questionnaire was compiled by Nyasha Dhliwayo, a Midlands State University accounting student. It is aimed at accumulating information on the “assessment of the effectiveness of the internal audit function at Fabco Pvt Ltd”. Prior approval to conduct this study with Fabco Pvt Ltd as a case in point has been attained from the management of the aforesaid entity. Please be free to kindly respond to all the questions. This is purely an academic research and strictest confidentiality in respect of the information to be forwarded is guaranteed. Thank you for your contribution.

#### **Instructions**

For your answers, you are kindly asked to tick in the box resembling your response or simply fill in the blank spaces indicated.

Position .....

Professional Experience (e.g. 3 years).....

#### **Company stamp**

#### 1. Demographic Details

Gender : Male  Female

Age : 20 years or less  21-30 years old  31-40years old  41-50years old  more than 50years old

#### 2. Your department has been subject to an audit before

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

Please indicate the last time it was audited.....

#### 3. The internal audit function discharges the following duties;

*An assessment on the effectiveness of the internal audit function at Fabco Pvt Ltd*

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
(i) internal control implementation					
(ii) Fraud detection					

(iii) Other (please specify)

.....  
 .....

4. There is an independent audit committee which reviews the work of internal auditors.

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

5. The internal audit contributes to greater levels of quality assurance

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

5. The internal audit contributes to improved company performance

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

6. The following difficulties are faced in dealing with the internal auditors;

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
(i) undue criticism					
(ii) lack of clarity in terms of what information is required					

Others (please specify)

.....  
 .....

7. Internal audit conclusions forwarded are always supported by relevant facts.

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

8. Internal audit conclusions forwarded are after a thorough analysis

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

9. The internal audit reports are readily understandable.

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Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

10. Internal audit reports forwarded by the internal audit are constructive

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

11. The internal audit strategy is aligned to the entity’s operating and business environment

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

12. The internal audit strategy is aligned to the entity’s key priorities.

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

13. The internal audit function has an adequate budget to discharge its duties successfully

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

Comment.....  
.....

14. Internal auditors demonstrate professionalism in their approach to duty

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

15. Internal auditors have an objective approach to duty

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

16. Fabco Pvt Ltd engages in continuous education programs for internal audit members

Agree [ ] Strongly Agree [ ] Disagree [ ] Strongly disagree [ ] Uncertain [ ]

17. The following best practices are implemented within the internal audit function:

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
(i) Hiring quality staff					
(ii) Continuous professional development					

Other (please specify)  
.....  
.....

***Your corporation is greatly appreciated***

## **APPENDIX IV**

### **INTERVIEW GUIDE FOR THE INTERNAL AUDIT STAFF OF FABCO PVT LTD**

1. What are the core roles of the internal audit function?  
.....  
.....  
.....
2. Is there an internal audit policy manual, and if so how often is it reviewed?  
.....  
.....  
.....
3. How often is the internal audit policy disseminated to staff?  
.....
4. Is the management implementing internal audit recommendations and to what extent?  
What determines the degree of implementation and who is mandated to follow up  
implementation of the internal audit recommendations?  
.....  
.....  
.....
5. Are there established training programmes for the existing internal auditors?  
Which subjects comprise the programmes?  
Are these training programmes specifically designed to cater for new internal audit staff  
and to what extent?  
.....  
.....  
.....
6. Is there use of computer systems to carry out the tasks of the internal audit function?  
In what areas and how many personnel are skilled in use of computer techniques?  
.....  
.....
7. How often and at what stage is internal audit planning reviewed?  
.....  
.....
8. Is there any adherence to best practices and if so what are the best practices being  
incorporated?



**CONTACT DETAILS FOR QUESTIONNAIRES AND INTERVIEW RESPONDENTS**

<b>Tel (landline)</b>	<b>04-773003/4/5</b>
<b>Internal audit manager ( Mr A Madiyiko)</b>	<b>0772 271 610</b>
<b>Assistant internal auditor ( Mr A Mushonga)</b>	<b>0773 496 703</b>
<b>The Accountant ( Mr K Tigere)</b>	<b>0775 346 860</b>