

**THE USAGE OF PERFORMANCE MEASUREMENT SYSTEMS BY SELECTED
INTERNAL AUDITING DEPARTMENTS IN WINDHOEK, NAMIBIA AND CAPE
TOWN, SOUTH AFRICA**

by

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DECLARATION

I, Suveree Hjarunguru declare that the contents of this thesis represent my own unaided work, and that the thesis has not previously been submitted for academic examination towards any qualification. Furthermore, it represents my own opinions and not necessarily those of the Cape Peninsula University of Technology.

Signed

Date

ABSTRACT

Performance evaluation of internal auditing departments is extremely important as organisations depend on the advice and assurance they obtain from these department. Therefore, this study seeks to determine the perceived most relevant and appropriate performance measurement system (PMS) used to evaluate the performance of internal auditing departments. The determination of such a PMS may lead to effective performance measurement, meeting and exceeding stakeholders' expectations, and achieving strategic objectives. Questionnaires were distributed to organisations that hold an internal auditing department within the regions of Cape Town, South Africa and Windhoek, Namibia. The Statistical Packages for Social Sciences (SPSS) tool was used to analyse the data. The results obtained from the survey reveal that the most frequently used PMS to evaluate the performance of internal auditing departments is the Balanced Scorecard. The results also indicate that the Chief Audit Executive (CAE)/internal auditing managers are of the opinion that stakeholders expect the PMS of Internal Audit to assess the effectiveness and efficiency of their department. The CAE/internal auditing managers are also of the opinion that stakeholders expect the PMS to measure the competency of internal auditing departments and ensure that these departments adhere to the Code of Ethics, International Standards for the Professional Practice of Internal Auditing (ISPPIA), and apply the risk-based approach to their operations.

The implications of this study contribute to identifying the PMS perceived to be the most relevant and appropriate to evaluate the performance of internal auditing departments. This study has affirmed that the Balanced Scorecard is perceived to be this PMS for effective and efficient performance evaluation of internal auditing departments. Despite the Balanced Scorecard being the effective and efficient PMS for internal auditing departments, it is not utilised properly to make provision for measures focusing on the assessment of risk management processes, internal audit control, and governance.

Keywords: Performance measurement system, internal auditing, Balanced Scorecard, risk management, governance, International Standards for the Professional Practice of Internal Auditing (ISPPIA), Chief Audit Executive, best practice

DEDICATION

I sincerely wish to devote this thesis to the following members of my family:

- Azor T Hjarunguru
- Alexia U Hjarunguru
- Ngutjiua Hjarunguru
- Mbiunjuniue J Hjarunguru
- Nguripo Hjarunguru
- Azor Junior Hjarunguru
- Vakumbirua Hjarunguru
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CHAPTER ONE: INTRODUCTION AND BACKGROUND

1.1 Introduction

Chapter One focuses on highlighting the background of this study and stating the problem under investigation. The investigative questions and research objectives are elaborated on. A detailed discussion on the research design and methodology used for the purpose of this study is offered.

1.2 Background to the research problem

The performance evaluation of the internal auditing activity is a subject of interest to both the auditor and auditees. The effective performance of internal auditing functions adds value to the organisation by providing assurance of operational efficiency. Performance measures are important for internal auditing activity as they establish whether the goals and objectives of the internal auditing function are attained, in line with best practice, and comply with applicable standards.

According to ISPPIA, “the Chief Audit Executive (CAE) must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal auditing activity” (1300-Quality Assurance and Improvement Program) (Pickett, 2005a:137). The internal auditing activity should make use of the 1311-Internal Assessment for “ongoing monitoring of internal auditing activity and periodic reviews performed through self-assessment or by other persons with the knowledge of internal audit practices and standards” (Burke, Guy & Tatum, 2008:15-16). An internal auditing activity should further make use of the 1312-External Assessment “which includes quality assurance reviews of internal auditing functions” (Pickett, 2005a:137). It is the responsibility of the CAE and auditing committee to ensure that performance indicators are reliable and meaningful (Boecker, Keil, Kagermann, Kinney, Busch, Küting, Bussiek et al., 2007:513). The primary purpose of performance measurement systems (PMSs) for an internal auditing activity is to support continuous improvement of the internal auditing function (Ridley, 2008:354).

Although the Institute of Internal Auditors (IIA) have outlined the Performance Standard as a guide for performance assessment of internal auditing activity, the current methods of performance evaluation or PMSs for internal auditing activity focus on operational performance measurement of the internal auditing function (PWC, 2014:2). These measures include the assessment of adherence to the audit budget, project plan, and deliverable/timeliness reporting (PWC, 2014:2). These current measures are internally ordained rather than being aligned with stakeholders' expectations.

According to the research investigation conducted by Ziegenfuss (2000:36), the current internal auditing performance measures or systems are continuously changing and unstable; as a result, the internal auditing functions' performance is ineffective and inefficient; best practice is yet to be established.

The Institute of Internal Auditors (IIA) Research Foundation (2009:18-19) embarked on a journey of "determining the current state of internal auditing performance measures". The conclusion drawn from this study is as follows:

- Inadequate utilisation of performance measures or PMSs by the internal auditing function due to Performance Standards that do not specifically outline requirements on how the assessment should be executed. Furthermore, measurement of the impact the internal auditing function has on the management, board, and stakeholders is complicated. The internal auditing function lacks adequate resources (skilled staff, finance, and time) to conduct an effective performance measurement
- The internal auditing activity administratively reports to management but functionally to the board and auditing committee. However, the findings indicate that internal auditing functions' performance measurement was reported to executive management. The fact that the performance results of the internal auditing function are disclosed to management may negatively hamper management's perception of Internal Audit.

Measurement of internal auditing efficiency concentrates more on the financial aspects of budgeted hours versus actual hours rather than customer satisfaction, audit risk management, compliance to standards, and governance.

PMSs have been defined in many different ways by various authors. Harbour (1997:7) defines PMS as a graphical and numerical information system used to achieve desired performance levels. Harbour (1997:7) also defines performance measure as the process of measuring work accomplishments and outputs, as well as measuring in-process parameters that affect work output and accomplishments. Hoque (2009:1), on the other hand, views PMS as a mechanism that highlights whether the organisation is on track to achieve its desired goals.

In this study, PMSs are defined as frameworks or tools used by management to assess performance either departmentally or the entire organisation, to determine whether the desired performance targets are achieved. This will result in attaining the predetermine goals and objectives of the organisation.

1.3 Statement of the research problem

The demand for an internal auditing function has increased drastically in today's business environment. Stakeholders' expectations of internal auditing are increasing as they are faced with new challenges every day. In that regard, the internal auditing function is important in all industries or sectors. Internal auditing functions are independent, objective assurance and consulting activities adding value, improving organisational operations, and mitigating against operational risk exposure (Aksoy & Kahyaoglu, 2013:71). Financial and operating activities of organisations are facilitated by the internal auditing function by means of introducing systematic, disciplined ways to assess and improve the effectiveness of corporate governance, risk management, and internal control processes (Aksoy & Kahyaoglu, 2013:71). It seems apparent, however, that at the back of such importance of the internal auditing function, most organisations do not value PMSs of internal auditing activities.

Although the board of directors and the auditing committee are aware of the demand for internal auditing activities in their organisations, the performance measurement of an internal auditing department is not prioritised nor is it adequately executed.

Various studies relating to performance measurement of the internal auditing function have been conducted in the past. However, prior studies that focus specifically on PMSs of internal auditing functions have not adequately received sufficient research attention, particularly as it relates to Namibia and South Africa. This dearth of research reflects the need to explore how organisations in the delineated areas are assessing the performance of the internal auditing functions (Zureigat & Al-Moshaigeh, 2014:80).

Against the background discussed above, the research problem to be addressed within the ambit of this study is stated as follows: Performance management systems currently used by internal auditing functions do not measure key internal auditing performance.

1.3.1 Investigative questions and objectives

Table 1.1 below presents the investigative questions, research methods, and objectives of this study.

Table 1.1: Investigative questions, research methods, and objectives

Investigative questions	Research methods	Research objectives
1. How aware is the internal auditing management of the different types of PMSs available to evaluate the performance of internal auditing functions?	Questionnaire	To determine internal auditing management's awareness of various PMSs
2. Which PMS is used the most to evaluate the performance of internal auditing functions?	Literature review and questionnaire	To identify the most used PMS
3. What are the views of CAEs/managers on what they perceive the stakeholders would expect of the PMS of internal auditing functions?	Literature review and questionnaire	To identify the desired results that stakeholders expect of Internal Audit's PMSs

Investigative questions	Research methods	Research objectives
4. Do PMSs measure the risk focus of internal auditing?	Literature review and questionnaire	To determine whether PMSs evaluate the risk management processes of internal auditing functions To determine whether the relevant risk information is captured and communicated in a timely manner
5. Do PMSs measure the control focus of internal auditing?	Literature review and questionnaire	To determine whether PMSs evaluate the effectiveness and adequacy of internal controls in internal auditing functions To determine the promotion of continuous improvement in internal controls
6. Do PMSs measure the governance focus of internal auditing?	Literature review and questionnaire	To determine whether PMSs evaluate the governance of internal auditing functions To determine whether the internal auditing functions comply with ISPPA

1.4 Research methodology

This research is based on a literature and empirical study.

1.4.1 Literature study

According to Aveyard (2015:2), "literature review is defined as an evaluative report of information found in the literature related to your selected area of study". The literature review should describe, summarise, evaluate, and clarify the area of study. A literature study was undertaken to establish a theoretical framework for the research study – it identifies and articulates relationships between the literature and the field of study. The purpose is to provide a context for the research and justify the research; it also forms the basis for the formulation of questions included in the questionnaire (Boote & Beile, 2005).

1.4.2 Empirical study

In the context of this research, empirical study is defined as a study "based on experiments or experience rather than ideas or theories" (Hornby,

2010:480). It also refers to results obtained by observation rather than theory and mathematical equations (Collis, 2007:215).

This section concentrates on the research design, participants, techniques, and procedures that were planned for this research study. The chosen methodology generated useful information through collection and analysis of data on the different models of PMS that were adopted by the internal auditing function for effective performance evaluation and how these systems are suitable for the internal auditing function to achieve its objectives.

1.4.2.1 Research design

Flick (2009:128) defines research design as “a plan for collecting and analysing evidence that will make it possible for the investigator to answer whatever questions he or she has posed”. There are two types of research design, namely qualitative and quantitative; this particular study focuses on quantitative research (Welman, Kruger & Mitchell, 2005:6). The research design in Table 1.2 outlines the purpose, research process, data collection method, and inductive research approach of the study.

Table 1.2: Research design

Research focus	Characteristics
Purpose of the research	To determine what PMS is perceived to be the most relevant and appropriate for performance measurement of internal auditing functions
Nature of the research process	This research mainly focuses on the evaluation of PMS currently in use by internal auditing functions and determines the appropriateness of the performance
Method of data collection	The method of data collection is a structured quantitative questionnaire that consists of open and close-ended questions
Data analysis procedures	In this study, deductive research was adopted and is referred to as a specific expectation that is deducted from the general theoretical premises (Engel & Schutt, 2005:40)
Method of communicating the findings	Dissertation and research article

1.4.2.2 Population

Welman et al. (2005:52) define population as a “study object that consists of individuals, groups, organisations, human products and events, or the conditions to which they are exposed”. The target population for this study includes organisations that have an internal auditing function in Windhoek, Namibia as well as Cape Town, South Africa.

1.4.2.3 Sample size

A sample frame of all organisations that have an internal auditing department in Namibia was obtained from a CAE. This sample frame consists of 50 organisations that have an internal auditing department in Namibia. Ten of these organisations were excluded from the sample frame as they are situated outside the Windhoek Municipal Area. The researcher therefore distributed 40 questionnaires.

The sampling approach selected in Cape Town is the non-probability sampling procedure, specifically the judgmental sampling as no list of organisations with an internal auditing department was available. The researcher regards the judgemental sampling procedure to be the most suitable for the purpose of this study in Cape Town, as it is convenient and executable for the research. The researcher collected information from sources such as the Internet, lecturers, references from CAEs, and inter audit managers. Using the above-mentioned sources of information, the researcher was able to distribute 105 questionnaires via electronic mail to organisations with an internal auditing function.

1.4.2.4 Data collection

The data collection instrument selected for the purpose of this study is structured questionnaires that were distributed to organisations that have an internal auditing function.

1.5 Delineation of the research

This study is restricted to organisations that have an internal auditing function in Windhoek, Namibia and Cape Town, South Africa.

1.6 Chapter overview

The aim of this section is to provide an overview of the structure of the study. It further provides insight into what the various chapters entail.

Chapter Two: The role of internal auditing in governance

This chapter reviews the role of the internal auditing profession in Namibia and South Africa.

Chapter Three: Measuring organisational performance

This chapter review the literature on PMS and internal auditing. It reviews the development and implementation of PMSs for internal auditing and performance measures used to assess the performance of Internal Audit. The chapter also focuses on stakeholders' expectations of an internal audit department's performance measurement system.

Chapter Four: Research methodology

This chapter describes in detail the research methodology used in this study.

Chapter Five: Research findings and interpretation

This chapter present the results obtained from the survey.

Chapter Six: Discussion

This chapter discusses the findings gathered from Chapters Two and Four. Answers to research questions and investigative questions are provided.

Chapter Seven: Conclusions and recommendations

The conclusions are discussed in the final chapter. Recommendations on performance measures and PMS are provided for organisations with an internal auditing department.

CHAPTER TWO: THE ROLE OF INTERNAL AUDITING IN GOVERNANCE

2.1 Introduction

This chapter focuses on the role of internal auditing in governance processes of organisations in Namibia and the Cape Metropolitan. Firstly, the definition of internal auditing is provided, followed by the internal auditing profession and the responsibilities of internal auditors. Finally, a discussion on accountability of internal auditing and its involvement in corporate governance is provided.

2.2 Defining internal auditing

Internal auditing is “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” (IIA, 2009:2). In the context of this study, internal auditing is an independent, objective assurance and consulting function that provides assistance to management in accomplishing their strategic and operational goals. In order for Internal Audit to provide value-adding assurance to the organisations, PMSs should be used to assess the performance of Internal Audit continually.

Internal Audit is the eyes and ears of management, as it plays a unique role in the organisation. The role of Internal Audit in terms of risk management in the organisation focuses on enterprise risk management (ERM), which includes the identification of risk, risk assessment, communication, and assisting management to compel the risk register (McNally, 2013:5). The internal auditing function assists management by identifying various strategic and operational risks within the organisation and assesses the effectiveness of the current internal controls to mitigate those risks (McNally, 2013:5). Internal Audit also plays a role in fraud risk management, focusing more on preventative ways, identifying and investigating the probability of fraud occurrences in an organisation (Petraşcu & Tieanub, 2014:495). According to the Institute of Internal Auditors (IIA), “...the role of Internal Audit is to provide independent assurance that an organisation’s risk management,

governance and internal control processes are operating effectively” (Ojha, 2012:2). Assurance provision and satisfying regulatory compliance is the core stakeholders’ expectation of internal auditing activity; hence, Internal Audit plays a major role in that regard (Ojha, 2012:2). Since organisations trust Internal Audit to provide assurance for their business operations, the CAE should ensure that PMSs are in place to assess the performance of the internal auditing department.

It is the responsibility of the board of directors and management to ensure effective implementation of internal controls to mitigate the risks the organisations may be exposed too (COSO, 2013:3). However, Internal Audit assesses the effectiveness of these controls and recommends improvements based on best practice (COSO, 2013:10).

2.3 Internal auditing profession

The profession of internal auditing has been in existence for the last 20 years and since then this profession is growing continually. As more organisations are exposed to this profession, the demand for internal auditing services increases. As the demand for internal auditing increases, the role of Internal Audit is continuously transforming and becoming more and more specific. Internal auditing is no longer focused on financial-related internal controls only; the focus has been expanded to other areas such as corporate governance, risk management, and control environment.

Professional internal auditors must possess competencies and integrity in the execution of their audit activities. Internal auditors are expected to practice the Code of Conduct when engaging with clients and among themselves. The profession of internal auditing is governed by the IIA, which is a self-governing professional body that practices the International Standards for the Professional Practice of Internal Auditing in executing internal auditing activities (Gracyalny, 2009:2). The IIA standards also include a Code of Ethics that all internal auditors are expected to comply with. The King III principles in relation to internal auditing are also to be observed (Gracyalny, 2009:2).

The National Treasury in South Africa requires public sector organisations to practise internal auditing and comply with IIA Standards (Roux, 2008:9). The Johannesburg Stock Exchange (JSE) requires listed companies to align their business with the King III Report on Corporate Governance, which recommends that the boards of these companies implement a risk-based internal auditing activity (Roux, 2008:9). The Auditor General and the South African Institute of Chartered Accountants (SAICA) also recommend the implementation of the Standards of the IIA.

2.3.1 Responsibilities of internal auditors

The responsibilities of an internal auditing department vary based on the maturity of the internal audit function. However, the purpose of the internal auditing activity as per the IIA is to evaluate risk exposures relating to the organisation's governance, operations, and information systems (Institute of Directors in Southern Africa, 2013:2). In a general sense, the internal auditing activity may cover the following aspects (IIA, 2009:6-7; Institute of Directors in Southern Africa, 2013:2):

- **Risk Assessment:** Risk is defined as the possibility that an event will occur and prevent or affect the achievement of objectives (Everson, Soske, Martens, Beston, Harris, Garcia, Jourdan et al., 2013:4). Risk assessment involves a dynamic and iterative process for identifying and assessing risks to achieve the objectives (Everson et al., 2013:4). Risks are analysed to consider the likelihood and impact, to determine how these risks should be managed. An effective risk management process starts with performing a risk assessment by Internal Audit. Once management and the board of directors are fully aware of the strategic and operational risks, implementation of practical and effective controls to mitigate this risk become an easy process
- **Assess effectiveness of controls:** According to the Committee of Sponsoring Organisations (COSO), "internal control is a process implemented by the board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance" (McNally, 2013:4). The internal auditing department assesses the effectiveness of controls within the organisation to

provide assurance to management on how effective the current controls are

- **Assess governance processes:** Internal Audit must assess and make suitable recommendations for improving the governance process in achieving the following objectives (IIA, 2012:11):
 - Promoting appropriate ethics and values within the organisation
 - Ensuring effective organisational performance management and accountability
 - Communicating risk and control information to management
- **Monitoring compliance:** Internal Audit reviews the organisation's compliance with/to policies and procedures, contracts, laws and regulations
- **Reviewing** the organisation's reliability and integrity of financial and operational information

2.4 Internal auditing and corporate governance

Corporate governance in South Africa is regulated or coordinated by the King III report. However, the Namibian Code (NamCode, 2014) is the custodian/guideline of corporate governance in Namibia. The Namibian Code (NamCode, 2014) is aligned with the King III Report. The King III Report on Corporate Governance is internationally recognised as best practice in both private and public sectors (IIA, 2013:5). According to the King III Report and NamCode (2014), the role of the internal auditing department in an organisation is to provide assurance on the effectiveness of governance, risk management, and internal controls (KPMG South Africa, 2009:7). KPMG Hong Kong and China (2003:2), KPMG South Africa (2009:7), and the Institute of Directors in Southern Africa (2009:45) indicate that internal auditing assists the board and management in executing their governance responsibility by means of performing the following activities:

- Evaluate the company's governance processes
- Evaluate the existing risk and internal control framework
- Reviews of the existence and value of assets
- Provide a source of information on major frauds, corruption, unethical behaviours, and irregularities

- Ad hoc reviews of other areas of concern, including unacceptable levels of risk
- Reviews of the compliance framework and specific compliance issues
- Reviews of operational and financial performance
- Recommendations for more effective and efficient use of resources
- Assessment of corporate goals and objective achievement
- Feedback on adherence to the organisation's values and Code of Conduct
- Analyse business processes
- Provide a written assessment on the effectiveness of the entity's system of internal controls and risk management to the board

For the internal auditing department to effectively perform the above mentioned activities and provide assurance in all those areas, the CAE should continually ensure that the performance of the internal auditing department is assessed by means of using the best possible PMSs. The Key Performance Indicators (KPIs) within the PMSs should assess all significant areas of internal auditing activities to ensure that high performance is delivered to the organisation. The KPIs should assess the quality and time invested in the completion of engagements that relate to risk management, controls, and governance processes, as these are the core deliverables of the internal auditing department to their stakeholders.

It is the responsibility of the board of directors to ensure that an effective risk-based internal auditing function governed by an approved internal audit charter is in place (NamCode, 2014:89). This charter should adhere to the IIA Standards and Code of Ethics (IIA, 2013:4). The PMS for the internal auditing department should assess whether there is an approved internal audit charter indicating the purposes of the function and the activities to be executed. The CAE should assess whether all activities are executed efficiently and effectively as planned.

The ISPPIA defines governance as "the combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives"

(Marks, 2013b:13). Internal Audit assesses the effectiveness of the implemented governance process to determine whether the organisation's strategic and operational goals and objectives are accomplished as intended.

The board of directors and management are under pressure to attain the organisation's goals and objectives. Management frequently requests internal auditing assistance in providing independent assurance that the current controls are operating effectively, that all possible risks are identified, and that measures have been implemented to mitigate these risks (NamCode, 2014:91). Internal auditing plays an active role in assessing the effectiveness of the organisation's governance processes and recommending improvement areas (Hermanson & Rittenberg, 2003:31). The ISPPA outlines the objectives of internal auditing regarding governance to be promoting appropriate ethics and values within the organisations (Pickett, 2011:178). The National Treasury (2009:7) states that the internal auditing department should assist the organisation in attaining its goals and objectives.

According to Naidoo (2002:114), the internal auditing department has a sound insight into corporate governance in most public companies and a number of private companies. The National Treasury (2009:7) indicates that Internal Audit should carry out their governance task through appropriate accountability and assess the organisation's processes that contribute to accomplishing goals and values. It is perceived by the international guidelines that an effective relationship between corporate governance and internal auditing results in improved performance of the organisation (Karagiorgos, Drogalas, Gotzamanis & Tampakoudis, 2010:18). Internal auditing and elements of corporate governance contribute to improved operation of organisations (Karagiorgos et al., 2010:18).

Stakeholders in both the public and private sector are willing to spend huge amounts of money for good corporate governance standards (Campos et al., 2002, cited by Durukan, Özkani & Dalkilici, 2009:3); therefore, it is essential to establish an effective corporate governance system. The internal auditing department facilitates the board's self-assessment of governance practices (Vallabhaneni, 2013a:17). The role of internal auditing as noted in the

definition of internal auditing includes the responsibility to evaluate and improve governance processes as part of the assurance function.

2.5 Summary

The definition of internal auditing, together with the functional responsibilities and operational positions within organisations, was clearly outlined in this chapter. The role of internal auditing in terms of risk management in the organisation, focusing on enterprise risk management (ERM)—which includes the identification of risk, risk assessment, communication, and assisting management to compel the risk register—was discussed.

The role of internal auditing in governance was explained and identified as a pillar of strength to management performance. Internal Audit is responsible for assessing the effectiveness of the organisation's governance processes and compliance with laws, regulations, policies, and procedures.

In the next chapter (Chapter Three), a literature study is undertaken to explore various PMSs used in internal auditing departments.

CHAPTER THREE: MEASURING ORGANISATIONAL PERFORMANCE

3.1 Introduction

Measuring organisational performance has become a vital area in research, in both organisations and academics alike (Folan & Browne, 2005:663). Since the mid-1980s, the demand for more research regarding performance management systems as tools for effective strategy implementation has increased (Gimbert, Bisbe & Mendoza, 2010:477). In recent years, special attention has been drawn to strategic PMSs (Gimbert et al., 2010:477). Bota-Avram, Popa and Ştefanescu (2010:137) state that measuring the performance of the internal auditing department is of importance to the auditors and internal auditing clients who obtain assurance and advice from the internal auditing department.

As technology evolves and business operations change, the CAEs encounter various challenges, having to constantly improve their professional skills and keeping up with new establishments in business and the financial status of their organisation to remain relevant (Liang, 2010:2). Regulators and investors are demanding increased scrutiny of an organisation's operations, making the CAE's work more complex and challenging (MetricStream, 2013:1). Aligning internal auditing strategies to meet stakeholders' expectations and requirements, obtaining new skills to achieve these expectations, and adding value to the organisation's operation, are the key challenges encountered by CAEs (Liang, 2010:1).

In Chapter Three, the research focuses on the importance of PMSs in the organisation. The development and implementation of PMSs for internal auditing departments are discussed as well as performance measures and elements to consider when selecting a PMS for an internal auditing department. This chapter further discusses the frequently used PMS for internal auditing and stakeholders' expectations of internal auditing. Finally, a detailed discussion on risk management, internal controls, governance, and internal auditing is offered.

3.2 The importance of performance measurement systems

It is vital for an organisation or department to have a PMS in place because “what gets measured gets done” (Williamson, 2006:1). If you do not measure results, you will not be able to distinguish success from failure and thus you cannot claim or reward success (Williamson, 2006:1). According to the Department of Trade and Industry (2008:1), the main reasons for having a PMS in the organisation are:

- To ensure that customer requirements have been met
- To be able to set functional objectives and comply with them
- To provide standards for establishing comparisons
- To provide visibility and a “scoreboard” for people to monitor their own performance level
- To highlight quality problems and determine areas for priority attention
- To provide feedback for driving the improvement effort

Arveson (1998:1) also outlines a few reasons as to why an organisation should implement a PMS. Reasons include the following but are not limited to: (a) PMSs reduce process cost and improve productivity and mission effectiveness; (b) PMSs allow managers to identify best practices in an organisation and expand their usage in other areas; and (c) the organisation’s PMS significantly corresponds to its officials’ use of performance information for decision-making (Taylor, 2011:8).

The objectives of internal auditing include evaluating the effectiveness of financial and operating control, confirming compliance with company policies and procedures, protecting assets, and verifying the accuracy and consistency of organisations’ external and internal reports (Vos, 1987:72, cited by Salehi, Arianpoor & Salehi, 2013:47). Simmons (2013:1) states that objectives of internal auditing are to determine:

- the adequacy of goals and objectives established by management and whether they are effectively articulated and communicated; and
- whether the set goals and objectives are being achieved, and factors that hamper satisfactory performance are identified, evaluated, and controlled (Simmons, 2013:1).

It is important for the internal auditing department to have a PMS in place, as an appropriate PMS allows managers and supervisors to be more objective when detecting operating deficiencies, and target additional attention where it is needed most (Ammons, 2007:3). Ammons (2007:3) indicates that a good measurement system can enhance a talented supervisor's ability to perform the following: Instruct employees on how to execute their responsibilities, to plan and prioritise their work, and to motivate greater performance.

3.3 Developing performance measurement systems

The process of developing performance measures starts with the setting of business objectives and the development of strategies and plans to achieve the objectives (Cascarino & Van Esch, 2007:35). This process is followed by the development of appropriate performance measures to measure progress against the objectives (Cascarino & Van Esch, 2007:35). The chosen performance measures should be reliable and report not only on end outcomes, but also on intermediate outcomes (Infrastructure Management Group, 2010:15-16). The term 'intermediate outcomes' refers to the critical middle layer of any measurement framework (State Services Commission and the Treasury, 2008:4). This level is crucial as it allows leaders to track progress towards outcomes, measure the improvements made in the short/medium term, determine whether the right mix of inputs are in place, and evaluate cost-effectiveness by direct or indirect means (State Services Commission and the Treasury, 2008:4).

Performance measures of an internal auditing department should be accurately defined and analysed, and appropriately documented so that all interested parties are well informed (Vallabhaneni, 2013a:290). Performance objectives and standards that are designed for an internal auditing department should be simple, meaningful, comparable, reproducible, and traceable (Vallabhaneni, 2013a:290). Internal auditing must effectively demonstrate its value as a key component of the organisation's governance framework. Therefore, an internal auditing department can lead by example with strong, relevant, and reliable performance measures (Dubis, Jain, Manchanda & Thakkar, 2010:4).

Dubis et al. (2010:4) indicate that when developing measurements for the internal auditing function's effectiveness, the CAE should take into consideration the following:

- Understand key stakeholders' expectations of the internal auditing department. This will be achieved by means of the CAE communicating with the auditing committee and executive management as to what exactly they expect from the internal auditing function. The primary stakeholders of internal auditing should establish how the function should deliver the desired value (PWC, 2003:3)
- The CAE should develop measurement tools to document relevant attributes of effectiveness and efficiency as well as related performance measurements against these
- Agreed upon effectiveness and efficiency metrics with key stakeholders (i.e. delivery of high quality service and average response time to management requests)
- Identify performance categories, strategies, and measurements such as stakeholders' satisfaction as well as internal auditing innovation and capabilities. Strategies should be pursued in compliance with applicable laws and regulations, IIA, and other applicable professional standards to ensure stakeholder satisfaction. The use of performance measures can be an element that internal auditing departments use to comply with the ISPPA's standards in performing the internal assessment processes

Periodically, performance measures should be reviewed and updated by the CAE to ensure continuous applicability to the situation at hand (Vallabhaneni, 2013a:290). Evaluation of performance measures in internal auditing should concentrate on significant exceptions or deviations from the ISPPA (Vallabhaneni, 2013a:290). The CAE should review the PMS of the internal auditing department to ensure effective and proper measurement. The CAE may also consider periodic benchmarking of the current metrics and criteria with best practice. This can ensure that appropriate criteria are in place for measuring internal auditing departments' performance (Dubis et al., 2010:7).

3.4 Frequently used performance measurement systems for internal auditing departments

In the context of this study as mentioned earlier, PMSs are defined as frameworks or tools used by management to assess whether the desired performance targets are achieved. Some high performing organisations prefer to use sophisticated and complicated PMSs; nevertheless, basic performance measurement techniques can be used in all organisations regardless of size or complexity (Bourne, Neely, Mills, Platts & Wilcox, 2000:761). There are several PMSs used for performance evaluation in organisations (not limited to these mentioned below). The following PMSs are discussed in this study:

- Total Quality Management
- Performance Measurement Matrix
- The Balanced Scorecard
- The SMART Performance Pyramid
- Performance Prism
- Value-Based Management
- SWOT Analysis

3.4.1 Total Quality Management

Total Quality Management (TQM) is a management tool created in the 1950s by W. Edwards Deming but became more popular in the early 1980s (Keehley & Abercrombie, 2008:12). Total quality can be described as a culture or attitude adopted by an organisation to strive and to provide customers with satisfactory products and services that meet their needs (Hashmi, 2012). Organisations with such a culture or mentality aim to deliver quality in all aspects of their operations. TQM aims to exceed stakeholder, employee, and customer expectations using a process of continuous improvement. Van der Wiele, Dale and Williams (1997:237) note that TQM is dynamic in nature; it seeks continuous improvement and targets to achieve complete customer satisfaction by determining and developing best practice in processes, products, and services. All parties are expected to contribute for the best interest of everyone's achievement through customer satisfaction as it generates benefits to all staff in the organisation and community (Nigam,

2005:66). Successful organisations have realised that to achieve the benefits of TQM, they should start identifying the following key concepts in their business operation: customer satisfaction, continuous improvement, effective business management, on-going preventative action, leadership, and teamwork (Peratec Ltd, 1994:11). Moreover, organisations that continuously increase customer satisfaction levels do have a significant and positive impact on the performance of the organisations as a whole (Gharakhani, Rahmati, Farrokhi & Farahmandian, 2013:46). Researchers have proven that a well-implemented TQM improves long-term profitability and stock returns, and eventually results in improved quality performance (Gharakhani, et al., 2013:48). The TQM process and its various components are displayed in Figure 3.1.



Figure 3.1: Total Quality Management
(Source: Sallis, 2002:139)

According to Kanji and Asher (1996:1), TQM consists of four guiding principles, namely:

- **Voice of customer/Delight the customer:** This principle primarily focuses on internal and external customers and determining what will be delighting them, according to their needs. This principle also requires the organisation's commitment to deliver the best products and services required by customers

- **Resource management/Managerial leadership:** To attain total quality in an organisation, teamwork and proper leadership will be required. Teamwork promotes the opportunity of achieving quality improvement of products and services offered to customers
- **Communication/Employee involvement and control:** When employees understand what is required of them and obtain feedback on their performance, they are motivated to take on more responsibilities and give their best to deliver quality work. Once employees feel recognised and involved in the activities of the organisation, they also become committed to customer satisfaction
- **Continuous improvement:** As long as customers keep on demanding for more and competitors continue to improve their products and services as technology evolves, organisations will need to use TQM to keep-up with the changes. The best aspect of TQM is that it is not a short-term activity terminating once the set goals are achieved. Rather, TQM is a management process that continuously assesses improvement of the organisation's performance towards accomplishing strategic goals and objectives

TQM is described by Hakes (1991:3) as key for a business improvement strategy and the key management issue for future success, as it is essential for efficiency and competitiveness. Rezaee (1996:32) defines TQM as a continuous process of increasing customers' satisfaction with products and services, meeting their expectation through delivery of quality performance and fulfilling customers' needs. When this definition is applied to the internal auditing department, it refers to the capability, willingness, and commitment of internal auditors to foresee, satisfy, and possibly exceed the expectations of their stakeholders (Rezaee, 1996:30). According to Hawkes and Adams (1995:35), an important element of internal auditing in TQM is seen as the co-operative and participative approach rather than the independent and prescriptive appraisal function.

Quality audits performed by internal auditing departments lead to several auditing departments installing TQM approaches to improve audit operations (Vallabhaneni, 2013a:29). Measuring quality performance in internal auditing

requires a framework that will balance all the measures needed across a wide range of activities such as input, process, and output activities (Ridley, 2008:203).

The use of TQM should assist internal auditors to better serve their organisation by becoming more effective, efficient, and enhancing their own professional status and contributions (Rezaee, 1996:34). Proper implementation of a TQM system creates a healthy work environment, staff satisfaction, increased revenue, productivity, and teamwork, which eventually increases satisfied customers (Rezaee, 1996:34).

The eight aspects that the CAE and strategic planning team should undertake to implement TQM are as follows:

- The CAE and the strategic planning team should develop the mission and vision statement, and establish objectives for the internal auditing department. The strategic planning team includes the CEO, selected managers, and auditing committee members who are appointed by the CAE (Ziegenfuss, 2000:14)
- Establish and implement performance measures for various states of the internal auditing process
- Identify the internal auditing department's customers: Stakeholders are the primary customers of internal auditing and they are the auditing committee and board of directors. To improve the quality, effectiveness, and efficiency of the internal auditing department, internal auditors should utilise the TQM principles to determine who their customers are and what their needs are (Rezaee, 1996:34)
- Develop and implement an internal auditing customer satisfaction survey and feedback systems—this is determined by the stakeholders' expectations of Internal Audit
- Benchmark with other internal auditing departments
- Introspective self-analysis
- TQM training and education of the internal auditing staff
- Identify suppliers and detailed specifications of what is agreed to be delivered from them, when, and at what cost and quality (Ridley, 2008:203)

3.4.2 Performance Measurement Matrix

The Performance Measurement Matrix (PMM) was first introduced by Keegan, Eiler and Jones (1989, cited by Hyer & Wemmerlov, 2002:266), and is used to establish performance measures focusing on completeness and redundancy. PMM focuses on two aspects—the process and performance. The process aspect determines the key components that indicate whose performance should be measured or what operation should be assessed, whereas the performance aspect consists of KPIs specifying what measures should be used to evaluate performance (Hyer & Wemmerlov, 2002:266). The performance aspect correlates measures with the organisation's strategic goals. Hyer and Wemmerlov (2002:266) stipulate the following KPIs to be used for the performance aspect:

- **Quality:** This measure determines whether the organisation's services meet the expected quality and standards
- **Work environment:** This KPI assesses the safety and well-being of employees at the work place
- **Productivity:** Assessing how productive the staff are
- **Timeliness:** Assessing the effectiveness of staff in complying with deadlines
- **Financial:** Measuring the financial performance of the organisation

PMM does not only deal with process and performance aspects, it also consists of internal and external performance measures. Internal performance measures determine efficiency on how to manage resources, whereas external measures determine efficiency regarding consumer satisfaction (Quagini & Tonchia, 2010:56). Quagini and Tonchia (2010:56) agree with Hyer and Wemmerlov (2002) on the notion that internal and external measures include attributes of performance aspects/dimension. PMM integrates corporate objectives with operational performance indicators (Striteska & Spickova, 2012:7). PMM provides comprehensive information on the performance of the organisation as it displays performance measures on the framework and identifies areas that are omitted or requiring more attention (Neely, 2007:150). PMM also concentrate on four aspects on which performance measures should be centred (Salloum, 2010:25). It must

therefore be derived from strategy, integrated vertically and horizontally, a support of the multidimensional aspects of the organisation, and based on a well thought understanding of cost relationships and behaviour.

	No Cost	Cost
External	<ul style="list-style-type: none"> • Number of repeat buyers • Number of customer complaints • Market share 	<ul style="list-style-type: none"> • Competitive cost position • Relative R&D expenditure
Internal	<ul style="list-style-type: none"> • Design cycle time • Percentage on-time delivery • Number of new products 	<ul style="list-style-type: none"> • Design cost • Material cost • Manufacturing cost

Figure 3.2: Performance Measurement Matrix
(Source: Quagini & Tonchia, 2010:56)

3.4.3 The Balanced Scorecard

The Balanced Scorecard Institution (2012) defines the Balanced Scorecard as a strategic planning and management system used comprehensively in organisations worldwide to align business activities to the vision and strategy of the organisation, to improve internal and external communications, and monitor organisational performance against strategic goals. In the early 1990s, Kaplan and Norton developed the Balanced Scorecard Model (Blokdiik, 2008:16). The development of the BSC can be explained from different shortcomings of other PMSs (Kaplan & Norton, 1992, cited by Lahr, 2004:4). The organisation's mission and strategy are transformed into a detailed set of performance measures that provides a framework for strategic measurement (Kaplan & Norton, 1996:2).

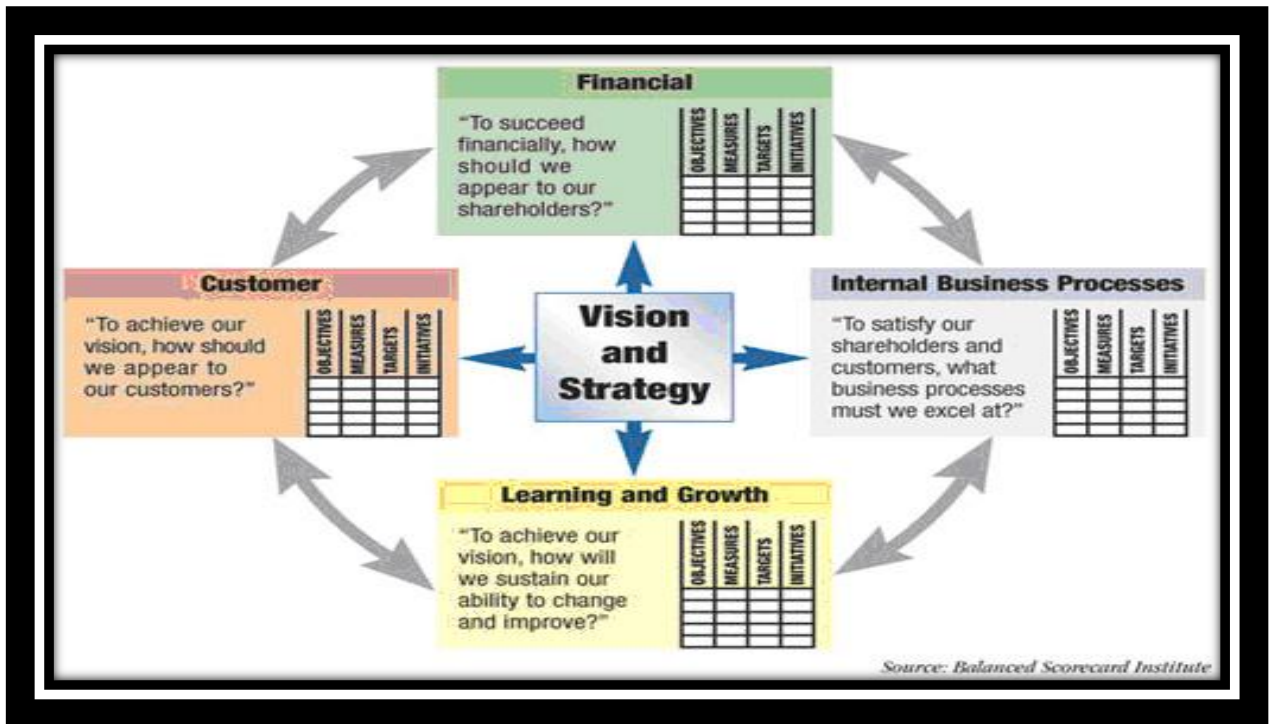


Figure 3.3: Balanced Scorecard
(Source: Frigo, 2002a:47)

The BSC consists of four approaches used in measuring the performance of the organisation. The BSC approach integrates financial and non-financial performance measures (Kagermann, 2008:527) which include financial measures, learning and growth, internal business processes, and customer satisfaction (Cascarino & Van Esch, 2007:35).

The BSC approach includes the following measures:

- **Financial:** These measures set out the financial performance expected from the organisation strategy and determine objectives (Kaplan & Norton, 1996:48). The business perspective question for this measure, according to Perlman (2013:70) is, to succeed financially, how should we appear to our stakeholders?
- **Learning and growth:** This measure focuses primarily on the internal skills and capabilities of the employees who are required to support the value created by internal processes to achieve customer and financial objectives (Davis & Davis, 2011:578). The question organisations should ask themselves, according to Perlman (2013:70) is, to achieve our vision, how will we maintain our capabilities to change and improve?

- **The internal business process:** This measure assists managers in determining how well the business is operating and focuses on the products and services desired by customers, as well as ensuring that these products and services are delivered to customers on time (Davis & Davis, 2011:578). The key question to business owners, according to Perlman (2013:70) is, to satisfy our stakeholders and customers, what business processes should we master or be known for as the best?
- **The customer:** This measure focuses on the satisfaction of the demands of customers, as it is conditional for attaining financial goals. Customers have a great influence on the income of the company as they have the buying power (Verlag, 2011:36). The key question to business owners according to Perlman (2013:70) is, to achieve our vision, how should we appear to our customers?

Each of the four approaches of the BSC includes objectives, measures, targets, and initiatives. Rousseau (2004:40) defines these as follows:

- **Objectives** are those major things the organisations want to achieve
- **Measures** are evident parameters that organisations use to track progress toward achieving their objectives
- **Targets** are those set goals/values for measures
- **Initiatives** can be described as the action programmes that should be carried out to achieve the set objectives

The BSC approach in internal auditing is a tool that is utilised to develop and measure the performance of internal auditing departments. It is also viewed as an effective tool for modifying and implementing strategies that present the value of an internal auditing department (Frigo, 2002a:49). Internal auditing departments must be aligned to the strategy of their organisation to ensure the incorporation of an effective BSC as guiding method for internal auditing departments' strategic role enhancement (Rousseau, 2004:56). Wieland (2003:78) supports this idea and states that a BSC assists the internal auditing department in demonstrating alignment of their performance measures to the organisation's key strategies.

The starting point in selecting the components of the BSC for the internal auditing department is to have a clear vision from which the mission and objectives of the department are derived (Kagermann, 2008:527). According to Frigo (2002, cited by IIA Research Foundation, 2009:3), internal auditing departments should use the BSC more frequently to improve their performance and add value to their organisation's operation. Performance objectives of organisations cannot be accomplished unless the BSC is properly implemented. The Institute of Internal Auditors Global Audit Information Network (GAIN, 2009:4) states that when implementing a BSC for the internal auditing department, the CAE should take note of the following:

- The CAE should recognise and document the performance measurement category of the BSC. The identification of performance measures can be benchmarked against accepted standards (i.e. ISPPA), prior performance, and agreed upon expectations (Dubis et al., 2010:6). Internal auditing departments' performance can be illustrated to key stakeholders by means of quantitative and qualitative metrics. Quantitative performance metrics are often based on current data and are not complicated to comprehend (e.g. percentage of completed versus planned audits) (Dubis et al., 2010:6). Qualitative metrics on the other hand are often based on the collection of unique information through more time intensive methods such as surveys or interviews (Dubis, et al., 2010:6)
- The CAE should identify objectives for each category together with their respective key performance indicators (KPI). This can be achieved with assistance from a strategic planning team (i.e. CEO, selected managers, and auditing committee members) appointed by the CAE (Ziegenfuss, 2000:14)
- The CAE should further identify in which KPIs senior management, the auditing committee, and the board of directors are mostly interest. This can be done by identifying clearly defined value drivers, agreed upon by major stakeholders as being the most vital to the superior performance of a specific unit (Cascarino & Van Esch, 2007:37)

- The CAE should confirm whether all metrics are directly linked to the goals and objectives of the internal auditing department and aligned to the organisation's strategies
- The board of directors and auditing committee must authorise the process for it to be successful
- The CAE should make sure that the board of directors, auditing committee, and senior management have a comprehensive understanding of the Balanced Scorecard methodology
- The number of KPIs used to keep the process efficient should be limited
- Determine if tools will be used to automate the performance measurement process and select a tool—such as dashboard applications—which best fits the internal auditing department's needs and budget
- The CAE should utilise modern technology for an effective implementation process. The CAE can utilise tools such as dashboard applications, which allows the CAE to have a better understanding of the internal auditing department's performance. A performance dashboard is a layered information delivery system that parcels out information, insight, and alerts to users on demand so they can measure, monitor, and manage business performance more effectively (Eckerson, 2010:10). It provides timely information and insights that enable business users to improve decisions and optimise processes, plans, and work proactively (Eckerson, 2010:4)

3.4.4 The SMART Performance Pyramid

This PMS was proposed by Cross and Lynch in 1992, with the intention of connecting the organisation's strategy with its operations by interpreting the organisational objectives from the top down and measuring from the bottom up (Striteska & Spickova, 2012:7). This PMS consists of internal and external performance measures that aim to assess the effectiveness and efficiency of the organisation. The SMART Performance Pyramid seeks to integrate corporate objectives with operational KPIs and manage these KPIs strategically (Striteska & Spickova, 2012:7). The Performance Pyramid does

not only concentrate on the financial measures, but also on measures that relate to business operating systems. The strategic objectives that drive these performance measures focus on customer satisfaction, flexibility, and productivity of the entire organisation (Johnson, 2005:1). Performance measures built within this PMS should be well implemented for a successful performance assessment. The satisfactory way of implementing the Pyramid is by using the “layers” approach, which provides information that allows an increase in the targeted interventions despite the cost of resources and time being more (Watkins & Leigh, 2009:7). Every layer of the Pyramid contains four inter-related activities namely finding, collecting, and analysing the information obtained, as well as decision-making.

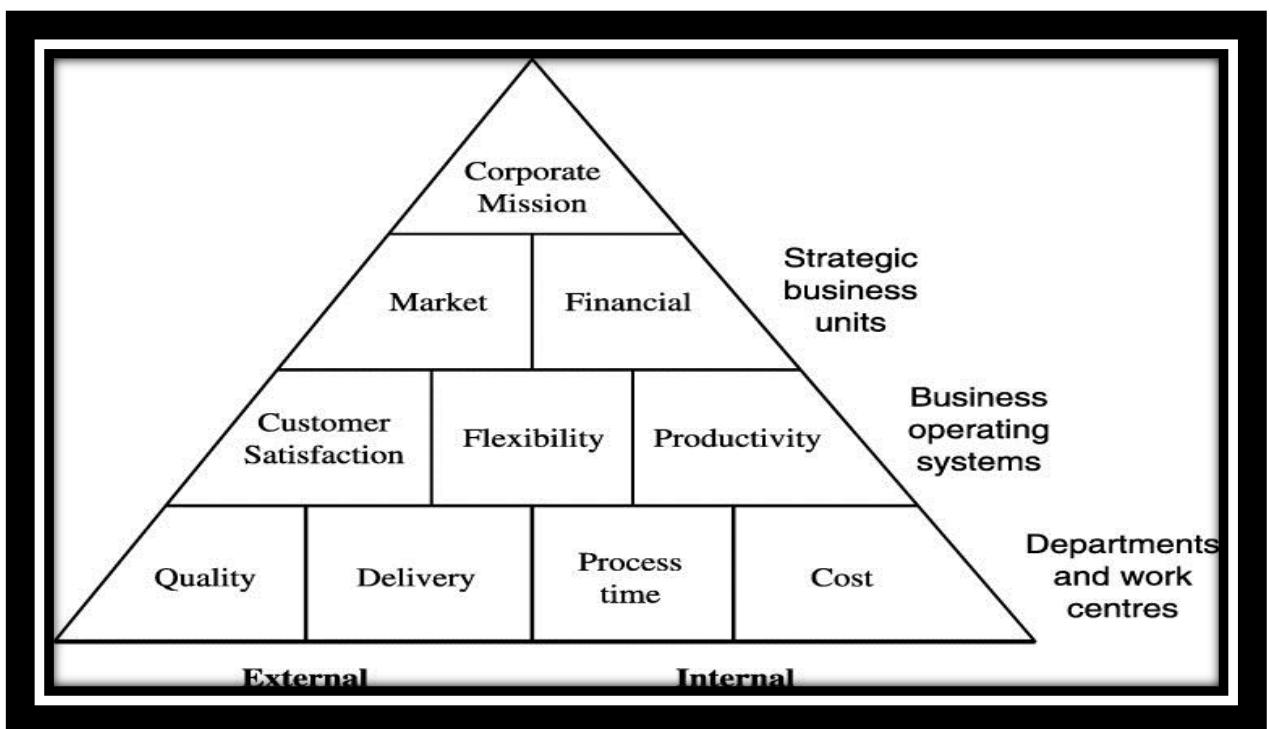


Figure 3.4: The SMART Performance Pyramid
(Source: Carr & Nanni Jr, 2009:107)

Watkins and Leigh (2009:7) add that executive management should review the following three success indicators to determine successful implementation of the SMART Performance Pyramid in an organisation:

- A well-implemented Performance Pyramid optimises performance, resulting in accomplishing the vision of the organisation

- A well-implemented Performance Pyramid allows continuous improvement in the operation of the organisation
- A well-implemented Performance Pyramid also “refines and improves the model while heeding the simple yet comprehensive matters”

3.4.5 Performance Prism

In 2002, Neely analysed the weaknesses and characteristics of existing PMSs and decided to develop a performance measurement and management framework called the Performance Prism (Hailey & Sorgenfrei, 2004:11). The Performance Prism is based on the authors’ belief that a good PMS should balance the scale between business and its performance. Furthermore, they reasoned that any performance measurement framework should be multi-dimensional and comprehensive (Neely, Adams & Kennerley, 2002b:178). The Performance Prism correlates value creation with performance measurement by means of investigating the organisation’s strategies, processes, and capabilities needed to create value for stakeholders (Hailey & Sorgenfrei, 2004:11). The Performance Prism also assists management in recognising the critical components of strategies, processes, and capabilities that need to be addressed, from a performance measurement and management point of view, in order to satisfy the various stakeholders’ and the organisation’s wants and needs (Neely, Adams & Kennerley, 2002b:178). According to Neely et al. (2002b:180), the components that are addressed when deciding on the organisation’s strategies, processes, and capabilities are illustrated in Table 3.1.

Table 3.1: The three aspects of the Performance Prism
(Source: Neely, Adams & Kennerley, 2002b:180)

Strategies	Processes	Capabilities
Corporate	Develop products & services	People
Business unit	Generate demand	Practices
Brands/products/services	Fulfil demand	Technologies
Operating	Plan & manage enterprise	Infrastructure

Neely et al. (2002b:158) state that the second performance measurement and management framework innovative in its approach is the Performance

Prism. It is considered as second; reason being that it builds on and strengthens existing management frameworks and methodologies such as the Balanced Scorecard, Performance Pyramid, and many more. The Performance Prism aims to manage the performance of an organisation from five interrelated facets (ACCA, 2012:1). According to Neely, Adams and Kennerley (2002a:4), the Performance Prism also encourages executives to focus on the following critical questions:

- **Stakeholder satisfaction:** Who are our stakeholders and what do they want?
- **Stakeholder contribution:** What do we want and what do we need from our stakeholders?
- **Strategies:** What strategies do we need to put in place to satisfy the wants and needs of our stakeholders while satisfying our own requirements too?
- **Processes:** What processes do we need to put in place to enable us to execute our strategies?
- **Capabilities:** What capabilities do we need to put in place to allow us to operate our processes?

These five questions are elaborated on below:

- **Stakeholder satisfaction:** This aspect of the Performance Prism focuses on who the stakeholders are and what they want. It further concentrates on identifying key stakeholders and pointing to their significance in the organisation (ACCA, 2012:2). This may depend on the power these stakeholders have and on whether or not they are likely to use it (ACCA, 2012:2). Organisations exist to satisfy their stakeholders' value, yet again, value is defined differently depending on the various stakeholders (Neely et al., 2002a:5)
- **Stakeholder contribution:** Organisations have become more demanding in what they expect from stakeholders (ACCA, 2012:3). In the same manner, stakeholders have expectations from executive management and the board of directors regarding the organisation's operations and its financial position. At this stage of the Performance Prism, users need to identify exactly what the organisation wants from

stakeholders and then identify measures to determine whether stakeholders have met their expectations (ACCA, 2012:2). KPIs are to assess whether stakeholders are delivering what the organisation wants from them (ACCA, 2012:1)

- **Strategies, processes, and capabilities:** The Performance Prism describes strategy as a means of how organisational goals will be achieved. It is the path the organisation follows to accomplish their goals, but not the goal itself (ACCA, 2012:1). In the strategies stated, the organisation enquires which strategies to adopt for the wants and needs of stakeholders to be satisfied, while ensuring that the organisation's requirements are satisfied too

Once the organisational strategies are identified, organisations need to determine whether they have the right business processes in place to support their strategies (Neely et al., 2002b:171). Processes are essentially cross-functional and represent the plans of what activities should be performed, when these activities should be completed, and how it will be executed. Capabilities can be referred to as a combination of an organisation's people, practices, technology, and infrastructure, collectively representing the organisation's abilities to create value for its stakeholders through a distinct part of its operations (Neely et al., 2002b:177).

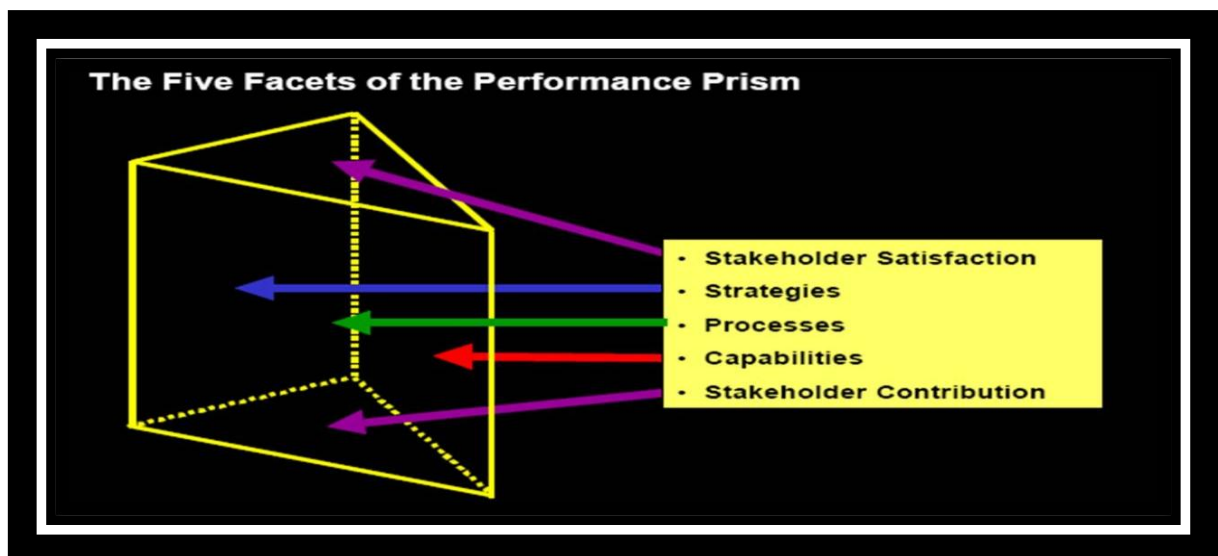


Figure 3.5: Performance Prism
(Source: Neely, Adams & Crowe, 2001:6-12)

The internal auditing definition states that internal auditing is designed to add value and improve the organisation's operations (Cascarino & Van Esch, 2007:11). Internal auditing departments can only determine whether they are actually adding value to the organisation's operations by using a PMS to evaluate their performance. The Performance Prism correlates value creation with performance measurement by inspecting the organisation's strategies, processes, and capabilities needed to create value for stakeholders (Hailey & Sorgenfrei, 2004:11). Internal auditing departments also need to make use of these three facets when performing their various audit operations. Although the BSC is claimed to be the optimal solution for measuring the performance of an internal auditing department, it is not certain that the BSC provides extensive evidence of Internal Audit's performance (Rupšys, 2008:7) since there is no certainty that the results obtained by using the BSC are the exact evidence of Internal Audit's performance. Therefore, internal auditing departments may use the Performance Prism to evaluate their performance, as it concentrate on five important aspects, namely stakeholder satisfaction, stakeholder contribution, strategies, processes, and capabilities.

3.4.6 Value-based Management

Value-Based Management (VBM) was established with the intention of determining whether the organisation (executive management and the board of directors) are creating value for their shareholders. The value created in an organisation can be determined when capital is invested at higher returns than the cost for that capital (Koller, 1994:87). Fourie (2010:1) defines VBM as "...a managerial process which effectively links strategy, measurement and operational processes to the end of creating shareholder value". VBM comprises of three essential elements, namely creating value, measuring value, and managing for value. VBM may also be seen as a financial scorecard as it includes the use of financial performance measures (value-based metrics) in a strategic management system (Delaney & Whittington, 2010:260). The value-based metrics/performance measures are return on investment (ROI), economic profit, economic value added (EVA), cash flow, and residual income. According to Ittner and Larcker (2001:350), the VBM approach focuses on the following:

- Establishing and implementing strategies that provide the greatest potential for shareholder value creation
- Implementing information systems that concentrate on creating value and motivating value creation throughout the entire organisation's operation, products, and customers
- Aligning management processes such as resource allocation and business planning with value creation
- Designing PMSs and incentive compensation plans that reflect value creation



Figure 3.6: Value Based Management
(Source: Google Image, 2016)

The key principle of the VBM approach is that the organisation must build its foundation on the concept of creating maximum long-term value for shareholders (Fourie, 2010:9). In addition, the main objective of VBM is that supreme value should also be created where possible, either in financial or non-financial terms. According to Ittner and Larcker (2001:353), the VBM framework may differ from one organisation to the next; however, in general, the VBM comprises the following six basic steps:

- i) Choosing specific internal objectives that lead to shareholder value enhancement

- ii) Selecting strategies and organisational designs consistent with the achievement of the chosen objectives
- iii) Identifying the specific performance variables, or “value drivers”, that actually create value in the business given the organisation’s strategies and organisational design
- iv) Developing action plans, selecting performance measures, and setting targets based on the priorities identified in the value driver analysis
- v) Evaluating the success of action plans and conducting organisational and managerial performance evaluations
- vi) Assessing the on-going validity of the organisation’s internal objectives, strategies, plans, and control systems in light of current results and modifying these as required

Internal auditing and VBM systems have something in common—“value”. Internal auditors seek to perform various audit activities in a manner that would add value to the organisation’s operation. On the other hand, VBM systems measure the performance of the organisation to determine whether value is created for shareholders. Since both internal auditing and VBM systems have the same mind-set of creating and adding value, VBM can be implemented to measure whether an internal auditing department performs their audit activities in a manner that will indeed add value to the organisation. The CAE and auditing committee should implement the VBM system to assess the performance of the internal auditing department. A well-implemented VBM system is beneficial to internal auditing as it will assist the CAE and auditing committee to focus on value creation, motivating and guiding auditors toward achieving stakeholders’ expectations (Frigo, 2002b:1).

3.4.7 SWOT Analysis

A SWOT analysis, also known as SWOT matrix, is a structured planning method that can find suitable applications across diverse management functions and activities; however, it is most appropriate at the beginning stages of strategic and marketing planning (Goleman, 2003:468). The word SWOT is an abbreviation of the following words: *Strengths*, *Weaknesses*, *Opportunities*, and *Threats*. SWOT measures the abilities of an organisation

to carry out various strategic activities with the intention of attaining targeted goals and objectives, as well as potential opportunities and threats (Investopedia, 2014). A SWOT analysis consists of internal and external factors (Friesner, 2014). The strengths and weaknesses of the organisation are the internal factors, whereas opportunities and threats are external factors. According to Hillson (2003:74-75), the four SWOT elements can be applied by internal auditing departments as follows:

- **Strengths:** These are the capabilities and resources of the internal auditing department, which allows it to effectively attain set objectives
- **Weaknesses:** These are characteristics (limitations, faults, or defects) that will place an internal auditing department in an unfavourable position to achieve its objectives
- **Opportunities:** These elements refer to the internal auditing department having a chance to exploit its advantages. It could also be referred to as a possible favourable situation for the department
- **Threats:** Refer to elements in an internal auditing department that could cause trouble to the well-being of the department. These elements could include any external factors that might be problematic, or any form of barriers and constraints

Performing a SWOT analysis requires identifying and recording the strengths, weaknesses, opportunities, and possible threats that an organisations as a whole, a department, or even an individual is exposed to (Goleman, 2003:468). The SWOT analysis aim to add value to the products and services offered to both new and current customers, as well as extending customer segments over the long-term (Friesner, 2014). The application of a SWOT analysis is beneficial, as it allows management to acquire a comprehensive understanding on how to provide satisfactory services to customers (Murray-Webster, 2010:88).

SWOT analysis and strategic planning often have a connection in the organisation's operations. The goals and objectives management sets during strategic planning sessions need to be assessed in order to determine whether these goals and objectives can indeed be accomplished. Hence, a SWOT analysis is used to assist management in evaluating the

organisation's strengths, weakness, opportunities, and threats. A SWOT analysis allows management to reflect on their capabilities and challenges to achieve various business operations as strategically planned. The sooner management is aware of and understand their strengths and weakness, the better, as this means they will begin to develop effective measures to operate more effectively in the areas where their strengths lie. A SWOT analysis also considers possible opportunities to improve the organisation's growth, resulting in the accomplishment of the planned goals and objectives. Since the SWOT analysis is applicable to various areas in the organisation, it can be an effective tool to develop strategies for the internal auditing department. Table 3.2 below illustrate an example of SWOT.

Table 3.2: SWOT Analysis
 (Source: Adapted from Baverstock, 2015:121)

	Positive	Negative
Micro-environment Internal Controllable	Strengths (to build on)	Weaknesses (to overcome)
Macro-environment External Uncontrollable	Opportunities (to take advantage of)	Threats (to avoid)

3.5 Performance measures for internal auditing

The Institute of Internal Auditors International Professional Practices Framework (2010:25) states that, “establishing performance measures is critical as it determines whether an internal auditing department is meeting goals and objectives consistent with the highest quality practice and standards”. Ziegenfuss (2000:12) strongly supports this view by stating that CAEs are faced with critical issues of selecting performance measures that reflect true performances of internal auditing and their progress in achieving missions and objectives. There are numerous performance measures used to evaluate the performance of internal auditing but the most challenging part is selecting suitable measures for the department (Holper, 2008:6). Selecting the right measures is vital for effective performance (Roberge, 2007:102). It is also important to build metrics into the PMS to allow individuals or

departments as a whole to understand how their performance contributes to the overall corporate goals (Roberge, 2007:102).

Prior to selecting the best performance metrics to capture the internal auditing department's performance, the CAE should be totally knowledgeable about stakeholder expectations, professional requirements, current organisational performance reporting processes, and the internal auditing department's maturity level (Pickett, 2011:250). Once the CAE has obtained a comprehensive understanding of this, the CAE may select the metrics that will best capture the internal auditing department's performance based on the organisation's needs. The selection and evaluation of performance measures should go hand in hand with the internal auditing department's mission and goals (Ziegenfuss, 2000:17). Performance measures should provide information that allows internal auditing to discern whether they are accomplishing their objectives as intended. In selecting the best performance metrics to evaluate the performance of the internal auditing department, the CAE and audit managers should perform the following steps (GAIN, 2009:3):

- Brainstorm and identify new performance metrics
- Determine the relationship between selected performance metrics, mission, and values of the internal auditing department
- The performance metrics should be classified into coherent groups, for example the audit plan management metrics, client satisfaction, staff development metrics, coverage metrics, and value creation metrics
- Prioritise and rank performance metrics according to each group
- Select the utmost two or three performance metrics by category
- Collect data from the utmost two or three performance metrics and establishing a performance baseline
- Report the collected data to senior management, the auditing committee, the board of directors, and Internal Audit
- Kindly request for stakeholders' response and implement continuous improvement techniques (GAIN, 2009:3)

In 2008, Ernst & Young conducted a survey on performance measurement, called the Global Internal Audit Survey (Bota-Avram et al., 2010:139). The findings highlighted from the survey indicate the frequently used procedures

to evaluate the performance of internal auditing activities as follows (Bota-Avram et al., 2010:139):

- Comparing the completed internal auditing engagements to the internal auditing plan for the year
- Maximum time for issuing the internal auditing reports
- Results from Internal Audit's clients survey
- Budgeted amount in comparison to the actual audit hours
- Percentage of audit recommendations implemented

The Global Auditing Information Network (GAIN) was also eager to identify the methods to evaluate the performance of internal auditing departments. Ziegenfuss (2000, cited by Bota-Avram et al., 2010:139) presented results from a study that was conducted by GAIN. In this study the five major/most frequently used performance indicators, identified by CAEs who participated, are:

- Staff experience
- Auditing committee reviews of audit work performed
- Stakeholders' expectations of internal auditing
- Percentage of recommendations implemented
- Internal auditors' qualification level

3.6 Characteristics of a good performance measurement system

PMSs should provide information that is meaningful and useful to decision-makers. A good system and good performance measures play an integral part in decision-makers' daily operations (Nixon, 2007:5).

An effective measurement system should satisfy the following criteria:

- **Result-oriented:** Focusing primarily on outcomes, efficiencies, and outputs
- **Selective:** Concentrating on the most important indicators of performance
- **Useful:** Provides information of value to the agency and decision-makers
- **Accessible:** Provides periodic information about results
- **Reliable:** Provides accurate, consistent information over time

3.7 Quality assurance and improvement programme

High performance and quality deliverables are key in executing internal auditing activities. As it is both the obligation to meet stakeholders' expectations and professional responsibilities inherent in conforming to the standards, that internal auditing departments in Namibia and South Africa are expected to conform as well (IIA, 2012:2).

According to the Institute of Internal Auditors (IIA, 2012:2), quality assurance and improvement programmes should consist of periodic internal assessments prior to an independent external assessment. Furthermore, the CAE should use the following two performance measurement processes for performance evaluation, namely:

- Periodic internal assessments
- Independent external assessments

3.7.1 Periodic internal assessments

PMSs provide significant evidence-based information that determines how the resources of the internal auditing department are utilised. The information provided by the PMSs also determines whether Internal Audit's resources are used appropriately with sufficient regard to economy and efficiency (Office of the Auditor General, 2006:14). It is important to regularly track and measure Internal Audit's performance against executive management expectations in order to meet and exceed the expectations of key stakeholders (PWC, 2003:16). According to Protiviti-Independent Risk Consulting (2006:6), PMS for an internal auditing department should be appropriately developed to help drive results, performance, quality assurance, and continuous improvement. Furthermore, a strong internal auditing department should have measurements in place to evaluate their own performance using a PMS such as the Balanced Scorecard as a measure that focuses on cost, quality, and timeliness. Prior to selecting the optimal PMS that will be used to measure the performance of the internal auditing department, the CAE should perform an inventory of the metrics being used, as well as reviewing the internal auditing department's mission and vision statements (Pickett, 2011:250).

The internal auditing department's PMS should consist of KPIs based on their objectives and performance targets that originate from the department's strategic plan (Office of the Auditor General, 2006:15). PMSs of internal auditing departments should be well-documented and state the following information clearly (Office of the Auditor General, 2006:14):

- The process and frequency of performance data collection
- The person responsible/accountable for data collection
- Quality data control
- Performance data report generator
- Determine the report receiver

It is the responsibility of the CAE to ensure that internal assessments are performed periodically in the internal auditing department. Internal assessment should consist of "on-going monitoring of Internal Audit's performance and periodic reviews performed through self-assessment or by other persons with the knowledge of internal audit practices and standards" (Burke, Guy & Tatum, 2008:15-16). The purpose of internal assessment is to determine whether all activities performed by Internal Audit comply with the internal audit charter, ISPPA, and the mission of adding value to the organisation's operations (Rezaee, 2008:240). The internal assessment should also determine the efficiency and effectiveness of the internal audit in achieving stakeholders' expectations.

The CAE should report the results of an internal assessment to the auditing committee on an annual basis (National Treasury, 2012:20). The report on internal assessment should outline the scope and approach of the review as well as the findings and the required action plan.

3.7.2 Independent external assessments

Internal auditing departments will reap quality assurance and process-improvement benefits when the department supplements its internal assessment with an independent external assessment (Office of the Auditor General, 2006:16). The external assessment should be conducted by a qualified reviewer or review team. The scope of external assessment should determine whether Internal Audit is meeting primary stakeholders'

expectations and adding value to the organisation's operations (Office of the Auditor General, 2006:16). The auditing committee and accounting officer should review and approve the external assessment (National Treasury, 2012:20). A formal external review report expressing an opinion of the external assessment results should be issued on completion of the assessment. The CAE should prepare a plan of action that will address significant areas identified during the assessment process and require modification (National Treasury, 2012:20). The external assessment scope does not include the effectiveness and efficiency of risk management processes, internal controls, and the governance of the internal auditing department.

3.8 Frequently used performance measurement systems in internal auditing

To have an effective internal auditing department, Internal Audit should be able to demonstrate results. This will be achieved by having PMSs in place that are tied to key stakeholder expectations and cover the significant scope of Internal Audit. PWC (2003:16) states that Internal Audit is no different from any other department in the organisation as their performance and value contribution can be measured if a clear vision, mission, and strategies are in place and effective measurement protocols/KPIs are developed. The methods used to measure an internal auditing department's performance will affect their efforts and focus on different audit activities and thus their perceived contributions to the organisation (Chen & Lin, 2011:45). A top performing internal auditing department is committed to quality, value, and satisfaction using PMSs such as the Balanced Scorecard to assess their contribution in quantifiable and measurable terms (Protiviti-Independent Risk Consulting, 2006:7).

The frequently utilised PMS that effectively evaluates the performance of an internal auditing department is the Balanced Scorecard, as it is an optimal solution for internal auditors (Rupšys, 2008:7). PWC (2003:16) supports this point by stating that to measure the value of the internal auditing department one should consider using the Balanced Scorecard, as it is an effective tool. PWC (2003:16) further adds that the Balanced Scorecard has been utilised

by thousands of corporations, organisations, and government agencies worldwide (PWC, 2003:16). The Balanced Scorecard model emphasises the alignment of an internal auditing department's objectives and activities with that of the organisations (IIA Research Foundation, 2009:3). Feizizadeh (2012:2777) recommends the Balanced Scorecard as it goes well beyond numbers to examine important broad-based activities, which leads to the internal auditing department satisfying the increased scrutiny and more demanding expectation of stakeholders. Performance measures selected, using this method, balances the perspectives of the various affected stakeholders of the auditing process (IIA Research Foundation, 2009:3). According to Frigo (2002, cited by IIA Research Foundation, 2009:3), the internal auditing department should use the Balanced Scorecard more frequently to improve their performance and add value to the organisation's operation.

3.9 Stakeholders' expectation of an internal audit department's performance measurement system

It is important for an internal auditing department to have a clear understanding of who their stakeholders are and what their expectations will be to function effectively and efficiently. The primary stakeholders of Internal Audit are the board of directors, head of the organisation (e.g. CEO), auditing committee, senior management, and all related disciplines that require operational interaction. Mallin and Christine (2011, cited by Feizizadeh, 2012:2777) state that Internal Audit also needs to understand the expectations of primary stakeholders (auditing committee and board of directors) and align their activities accordingly. This alignment ensures that an internal auditing department and primary stakeholders share the same priorities when it comes to applying internal auditing resources to risk management and control (Feizizadeh, 2012:2777).

Protiviti Knowledge Leader (2005:18) supports this view by adding that high-performing internal auditing departments align their activities to stakeholders' expectations and prioritise their activities to areas of greatest risk and opportunities to yield the most value for the organisation. Stakeholders have certain expectations from the company and by assessing the extent to which

these expectations are currently being satisfied, a valuable indicator of current and future performance of management is provided (Curtice, 2006:2).

In order to create an effective internal auditing department, primary stakeholders should determine how the internal auditing department delivers the desired values. Internal Audit needs to demonstrate their effectiveness by using PMSs that are tied to the stakeholders' expectations (Feizizadeh, 2012:2777). According to Deloitte (2013:1), the specific expectations of the internal auditing department differ from one organisation to the next; however, they should include the following elements:

- Stakeholders expect that internal auditing departments should objectively observe and report on the financial aspects of the organisation, compliance controls, and operational issues
- The internal auditing department is expected to provide a total understanding of the effectiveness of risk management and control assurance
- Stakeholders expect the internal auditing department to provide assistance on the effectiveness of the organisation
- Stakeholders expect the internal auditing department to be the facilitator for effective modification in processes and controls
- The internal auditing department is expected to add value and assist the board of directors, auditing committee, and executive management with assessing effectiveness and providing assurance on controls, risk management, and corporate governance
- The internal auditing department should manage their activities appropriately and communicate their audit perspectives with external auditors
- Effectively managed audit fees through coordination with an external auditing firm (PWC, 2003:5)
- Fadzil, Haron and Jantan (2005:845) are of the opinion that executive management expects Internal Audit to comply with ISPPIA when performing their various activities

3.9.1 Auditing committees' expectations of Internal Audit

A healthy and effective relationship between the internal auditing department and the auditing committee is essential, as it is fundamental to the success of an internal auditing department (Deloitte, 2012:2). The auditing committee clearly states expectations that are of strategic focus and offers all possible support so that the internal auditing department can accomplish these expectations (Deloitte, 2012:2). The auditing committee holds Internal Audit accountable for not accomplishing their expectations (Deloitte, 2012:2). The internal auditing department is also expected to facilitate the operation and effective functioning of the auditing committee, as the goals and objectives of the internal auditing department are closely aligned with the financial reporting oversight responsibilities of the auditing committee (Scarborough, Rama & Raghunandan, 1998; Goodwin & Yeo, 2001; Goodwin, 2003, cited by Davidson, Goodwin-Stewart & Kenta, 2005:247).

The auditing committee has raised the bar for the CAE, as they continuously increase expectations and demand more insights that are beyond assurance. The CAE is expected to have a clear understanding of relevant risks the business is exposed to, as well as their significances, and supporting management in developing responsive action plans (Deloitte, 2012:5). Auditing committees further expect the internal auditing department to conform to ISPPA, Code of Ethics, and laws and regulations as they perform their various tasks (Auditor General Alberta, 2005:1).

It is of utmost important for the auditing committee to assess whether the internal auditing department is monitoring critical controls, identifying and addressing developing risks. The CAE and the auditing committee should determine whether the internal auditing department's expectations are aligned with the strategic and operational objectives of the organisation on a periodic basis (Deloitte, 2012:2).

3.10 Performance measurement systems: risk and control focus

PMSs that are used to assess the performance of the internal auditing department should reflect upon internal audit risks, controls, and governance

focus. This section will concentrate on how the PMS evaluates risks, controls, and governance in the internal auditing department.

3.10.1 Risk management in internal auditing departments

According to the ISPPIA (2120-risk management), internal auditing is expected to assess effectiveness and contribute to improving risk management processes within the organisation (Chambers & Rand, 2011:77). Management and accounting officers are the key personnel responsible for establishing an effective risk management process in the organisation (National Treasury, 2009:35). Risk management is the process of identifying, assessing, managing, and controlling potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives (Pickett, 2005b:4). The internal auditing department should perform an assessment to determine whether each department and the organisation as a whole effectively manage all identified risks in order to to accomplish their goals and objectives (Marks, 2013a). Chambers and Rand (2011:77) indicate that Internal Audit will perform this assessment by:

- Determining whether the organisation's objectives and mission are aligned
- Identifying and evaluating significant risk
- Selecting appropriate risk responses that align risk with the organisation's risk appetite
- Capturing and communicating relevant risk information within a reasonable time that will enable management to carry out their responsibilities effectively

In the last decade, the role and importance of internal auditing has increased and stakeholders' expectations are continuously expanding (Vallabhaneni, 2013a:39). For the department of internal auditing to meet and exceed these expectations, Internal Audit must use PMSs to evaluate their risk-orientated focus. The internal auditing department experiences challenges that relate to the unavailability of qualified staff, increased compensation cost, and a demand for specialised resources such as information systems, fraud, derivatives and taxes (Vallabhaneni, 2013a:39). Internal auditing departments are not immune to risk; it is therefore necessary for Internal

Audit to put all necessary measures in place to ensure that their departmental risks are effectively managed. Internal auditing management should ensure that there are performance measures/KPIs built into the PMS they use in order to evaluate their department's risk management systems/processes, as failure of internal auditing does not only destroy their reputation, but also increases the organisation's exposure to risk. According to Marks (2013a), internal auditing departments are faced with numerous risks in their daily operations, such as:

- Failing to be heard by management; results from inadequate communication; insignificant recommendations which are not appreciated by management; and poor professional conduct causing business disruption
- Failing to obtain full value from the audit staff, whether from a lack of training or motivation
- The internal auditing department fails to add value to business operations due to their recommendations not being implemented or considered by executive management. Reasons could include not being persuasive or failing to make the right recommendation
- Internal auditing having an ineffective relationship with the auditing committee and/or executive management, leading to untimely reporting
- Insufficient resources

3.10.2 Mitigation of risk in the internal auditing department

Auditing departments find it difficult to implement PMSs or methods focusing on the evaluation of risks facing them. There is no certainty that internal auditing will not be exposed to failures in performing their various audit activities. Vallabhaneni (2013b:40) states that Internal Audit can mitigate risk in their department by implementing the following practices:

- It is of the utmost importance for every internal auditing department to implement an effective quality assurance and improvement programme
- On a routinely basis, evaluate the organisation's dynamic risk profile to determine the completeness of the audit universe

- Planning effectively: The risks of audit failure can be drastically reduced with thorough planning processes that include relevant updated information about the client and effective risk assessment performance
- Resource allocation: It is of great importance that the CAE allocates the right personnel for an engagement; especially engagement that involves material risks and technical issues
- Involvement of internal auditing management in the audit process is important as the current engagement risks will be mitigated beforehand
- Effective audit design reduces the chance for audit failure by identifying excluded controls
- The internal auditing management should periodically review the current audit plan to determine high risk assignments

Literature relating to risk management and internal auditing departments focuses on the fact that Internal Audit must evaluate the effectiveness and contribute to the improvement of the organisation's risk management processes (Pickett, 2010:221). Pickett (2010:221) further states that internal auditors should be watchful of risks that might affect objectives, operations, and resources of the organisation. The main priority of CAEs and stakeholders is to improve the risk assessment process. To accomplish an effective risk management and monitoring process, an internal auditing department should identify significant business risks (Ernst & Young, 2012:16). An internal auditing department should have a PMS or KPIs in place to determine the effectiveness of the risk management process in their department. However, there is no PMS or methods measuring the extent to which risk is evaluated in the internal auditing department. PWC (2008:9) lists examples of frequently performed risk assessments in the organisation. The following risk assessment criteria could be used by Internal Audit to evaluate risk in their department:

- **Strategic risk assessment:** The CAE should evaluate risks relating to the internal auditing department's mission and strategic objectives

- **Operational risk assessment:** The CAE should assess the risk of loss in the financial performance of the internal auditing department resulting from inadequate internal processes, people, systems, and external factors
- **Compliance risk assessment:** The CAE should assess risks that are relative to the internal auditing department's compliance to policies and procedures, laws and regulations, the Code of Ethics, and professional standards and contracts

3.10.3 Internal auditing and internal controls

According to Kagermann, Kinney, Küting and Weber (2007:9), the Committee of Sponsoring Organisations (COSO) Framework defines internal control “as a process affected by an entity's board of directors, management and other personnel designated to provide reasonable assurance regarding the achievement of objectives” in the following categories:

- Efficiency and effectiveness of operations
- Management and financial reporting reliability
- Laws and regulations compliance

The internal auditing department assists management with assessing, reviewing, and assuring that proper internal control systems are in place. The internal auditing department evaluates the effectiveness and efficiency of controls and promotes continuous improvement (Solita & Fajardo, 2008:326). The internal auditing department assesses the adequacy and effectiveness of governance, operations, and information systems (Vallabhaneni, 2013b:24). This evaluation is also extended to reliability and integrity of information, the effectiveness and efficiency of operations, safeguarding of assets, and compliance (Vallabhaneni, 2013b:24).

3.11 Summary

Several PMSs were discussed in this chapter. The BSC is used to align business activities to the vision and strategy of the organisation, resulting in improved internal and external communications when monitoring organisation performance against strategic goals. TQM is a performance tool that strives to provide customer satisfactory products and services that meet

their needs. TQM aims to meet and exceed stakeholders' expectation by assessing the quality of products and services offered. Performance Prism aligns value creation with performance measurement by investigating the organisation's strategies, processes, and capabilities. VBM aims to assess whether the organisation is generating value for stakeholders. This is determined when capital is invested at higher returns than the cost of the capital invested. SWOT analyses the strengths, weaknesses, opportunities, and threats of an organisation. This is an effective performance tool enabling the CAE to be more aware of the department's strengths, weaknesses, opportunities, and threats. Hence, it also allows the CAE to respond timeously to any red flags that might arise. The SMART Performance Pyramid seeks to incorporate the organisation's objectives with operational KPIs and managing these KPIs strategically.

Internal auditors are knowledgeable in performing their duties and can easily identify which PMS is best for measuring the organisation's performance. This research study seeks to determine the perceived most relevant and effective PMS used to evaluate the performance of internal auditing departments. According to literature, the most used PMS to assess the performance of internal auditing departments is the BSC. However, the utilisation of the BSC and other PMSs are not appropriately rolled-out and essential performance areas such as risk management, internal controls, and corporate governance are not measured in the internal auditing departments. Stakeholders expect internal auditing departments to evaluate the organisation's operations, which include the evaluation of risk management, internal controls, and corporate governance. It is therefore vital for Internal Audit to have a well-designed PMS that focuses on measuring the essential aspects of internal auditing.

In answering the investigative questions posed in Chapter One, the information obtained from the literature review conducted in Chapters Two and Three will be elaborated on in Chapter Six, with the data obtained from the survey as discussed in Chapter Five.

In the next chapter, the focus will be on the research methodology.

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1 Introduction

This chapter describes the research methodology adopted for the study. A quantitative study was conducted, focusing particularly on experimental research design. A non-probability sampling technique was selected, specifically judgmental sampling as it is the most suitable for this study. The data collection instrument selected is a questionnaire that was distributed to organisations having internal auditing departments. The survey was conducted in Cape Town, South Africa and Windhoek, Namibia. The survey data were analysed using the Statistical Packages for Social Sciences (SPSS V22.0) tool.

Before elaborating on the research design and methodologies used, it is important to consider which investigative questions were asked (Chapter One); reason being that the questions posed influence the final selected research design and methodology.

4.2 Investigative questions

Investigative questions usually start as a general idea or topic. These ideas may generate from the researcher's interest, an identified problem, or a recognised gap in the current knowledge (Verhagen & Van Mechelen, 2010:3). The core of any research is the investigative questions (or in some cases, a set of research questions), that identify the gaps in existing knowledge the study seeks to fulfil (Julius & Wright, 2000:17). Defining the investigative question requires the researcher to articulate the purpose of the research (Verhagen & Van Mechelen, 2010:3). The investigative question lays down the basis on which the researcher can make decisions with regard to methodology and design (Verhagen & Van Mechelen, 2010:3).

Furthermore, investigative questions can be posed when the researcher believes there is a slight possibility that the research outcome will be realised and can be used to generate hypotheses. However, a hypothesis is more specific than investigative questions and it requires certain knowledge to be acquired; it is not based on general research questions being posed

(Verhagen & Van Mechelen, 2010:7). Significantly, an investigative question in a quantitative study is an interrogative sentence that asks a question about the relation between two or more variables (Johnson & Christensen, 2010:74).

The research problem for this specific study is formulated as follows:

Performance management systems currently used by internal auditing functions do not measure key internal audit performance.

The following investigative questions support the research problem:

- How aware is the internal auditing management of the different types of PMSs available to evaluate the performance of internal auditing functions?
- Which PMS is used the most to evaluate the performance of internal auditing functions?
- What are the views of CAEs/managers on what they perceive the stakeholders would expect of the PMS of internal auditing functions?
- Do PMSs measure the risk focus of internal auditing?
- Do PMSs measure the control focus of internal auditing?
- Do PMSs measure the governance focus of internal auditing?

4.3 Research paradigm

A research paradigm is defined as a type of framework that guides a researcher on how to actually conduct research, based on existing philosophies (which hold relevancy to the study as a whole) and particular assumptions about the society and the nature of knowledge (Collis & Hussey, 2009:55). Johnson and Christensen (2010:31) define the research paradigm as a perspective about research held by a community of researchers that is based on a set of shared assumptions, concepts, values, and practices. Research paradigms are based on specific concepts and favour specific types of questions (LeCompte & Schensul, 2010:57). The research methods and research philosophies are both included in the research paradigm and this combination assists researchers to obtain knowledge and develop an understanding of the research topic.

Research studies are categorised into two broad categories, namely quantitative research, also known as positivist, traditional or experimental research, and qualitative research, also known as constructivist or interpretive research (Clarke, 2005:9; Leedy & Ormrod, 2005:94). According to Leedy and Ormrod (2005:94), “quantitative research is used to answer questions about relationships among measured variables with the purpose of explaining, predicting and controlling phenomena”, and qualitative research “is used to answer questions about the complex nature of phenomena”.

This empirical research study adopted a quantitative approach. Prior to the empirical study, a literature study was undertaken to gain a thorough understanding of the topic, which, in turn, formed the basis of the empirical study (questionnaire). Quantitative research was selected because “it is usually associated with a deductive approach, where the focus is on using data to test theory” (Saunders, Lewis & Thornhill, 2016:166). The researcher decided on quantitative research as it is objective and reliable. In quantitative research, findings can be generalised by using statistics. Mukherji and Albon (2009:14) state that a positivist paradigm leads to a scientific and systematic approach to research and as such, lends itself to the use of quantitative methodology. “The positivistic research paradigm consists of a deductive process (formulating a perception based on existing theory); theories (perceptions) are empirically tested to answer a research question” (Collis & Hussey, 2009:56-57).

Research philosophies can be categorised into three types, namely positivism, interpretivism and realism (McNabb, 2007, cited by Williams, 2011:2). Positivism focuses on highly structured methodology that allows generalisation and measureable observations (Sundars, 2003, cited by Madaan, 2013). It also uses statistical methods to measure results (Sundars, 2003, cited by Madaan, 2013). Positivism gives rise to the quantitative research methodology. This methodology includes the collection of scientific data that are precise and based on measurement, and are often analysed using statistics with the notion that the findings can be generalisable (Mukherji & Albon, 2009:21).

For the purpose of this study, the positivist research paradigm was adopted, focusing particularly on experimental research design. Experimental research design is one of three types of quantitative research designs.

The deductive research approach was adopted for this study. Wilson (2010:7) refers to deductive research as an approach that is concerned with developing a hypothesis based on existing theory and then designing a research strategy to test the hypothesis.

4.4 Validity and reliability in quantitative research

Validity is an important element in research as it assures that the research performed is true and that none of the information is invalid, as it will be rendered worthless (Cohen, Manion & Morrison, 2013:179). The validity of research is based on the right/correct methods used and being used appropriately (Parahoo, 1997, cited by Callara, 2008:69). In most quantitative research studies, validity is expected to be faithful to its evidences of positivism and positivist principles, e.g. controllability, predictability, and randomisation of sample (Cohen et al., 2013:180). The positivist paradigm commences with an assumption that the truth is 'out there' (Cohen et al., 2013:180). Quantitative research, which derives from this, aims to improve validity by careful sampling, appropriate instrumentation, and appropriate statistical treatment of data (Cohen et al., 2000:105; cited by Callara, 2008:69). In terms of this study, the author has validated 100% of the results obtained from respondents by means of ensuring that the questionnaires were completed by either the CAE or the managers of the internal auditing department, as they are responsible for performance assessment of the internal auditing department. The instrument was validated by means of a pilot study (see section 4.10) where care was taken to ensure that the questions posed measured what they intended to measure. After the pilot study was conducted and the necessary amendments and changes were made, the questionnaires were distributed to the selected organisations.

Reliability is defined as the extent to which results are consistent over time. An accurate representation of the total population under study is referred to as *reliability*, and if the results of a study can be reproduced under a similar

methodology, the research instrument is considered *reliable* (Joppe, 2000:1). Reliability in quantitative methods includes selecting measures that illustrate consistency and replication over a period of time, instrument, and groups of respondents (Cohen et al., 2000:117, cited by Mukherji & Albon, 2009:14). According to Kirk and Miller (1986:41-42) there are three types of reliabilities referred to in quantitative research, namely: (i) the extent to which a measurement that is administered repeatedly remains the same, (ii) the stability of a measurement over time, and (iii) the similarity of measurements within a given time period.

Cronbach's alpha, where applicable, was used by the researcher to validate the reliability of the Likert-type questions used in the questionnaire. According to Saunders et al. (2016:451), Cronbach's alpha is a method "for calculating internal consistency of responses to a set of questions that are combined as a scale to measure a particular concept". The authors state that it "consists of an alpha coefficient with a value of between 0 and 1. Values of 0.7 or above indicate that the questions combined in the scale are measuring the same thing" (see section 5.2.2).

4.5 Population

Parahoo (1997:218, cited by de Langen, 2009:58) defines population as "the total number of units from which data can be collected", such as individuals, artefacts, events, or organisations. According to Welman et al. (2005:52), a population is defined as a "study object that consists of individuals, groups, organisations, human products and events, or the conditions to which they are exposed". The target population, for the purpose of this study, consists of all organisations that have an internal auditing department in Windhoek, Namibia and Cape Town, South Africa.

The questionnaires were distributed in these cities because the researcher was familiar with the cities and it was convenient. The researcher was well familiar with the geographical areas selected in this study, because the researcher is from Windhoek and resides in Cape Town.

4.6 Sample

A sample, according to Saunders et al. (2016: 727), is a “subgroup or part of a larger population”. It can be seen as a finite part of a population of which the properties are studied to gain information about the whole population (Webster, 1985, cited by Mugo, 2002:1). When dealing with people, it can be defined as a set of respondents (people) selected from a larger population for the purpose of a survey (Mugo, 2002:1). According to Floyd and Fowler (2009:4), to sample is to select a small subset of a population representative of the whole population. The key to good sampling is finding a way to give all (or nearly all) population members the same (or a known) chance of being selected and using probability methods when choosing the sample (Floyd & Fowler, 2009:4). Gray (2009:148) indicates that samples are selected from a sampling frame that is a list of the population elements. In that regard, a sample frame of all organisations that have an internal auditing department in Namibia was obtained from a CAE. This sample frame consists of 50 organisations that have an internal auditing department in Namibia, from which 10 were excluded because they are situated outside Windhoek Municipal Area. The researcher distributed 40 questionnaires to the CAE or internal auditing manager of all internal auditing departments based in Windhoek, either by hand to their offices or by emailing them directly.

The non-probability sampling procedure was selected for Cape Town, specifically the judgmental sampling, as no list of organisations with an internal auditing department was available. When using the judgemental sampling procedure, the researcher purposively selects areas of interest in which he/she is of the opinion that these interest areas are relevant to the topic under investigation (Sarantakos, 1997:152). The researcher regarded the judgemental sampling procedure to be the most suitable for the purpose of this study in Cape Town, as it was convenient and executable for the research. The researcher collected information from sources such as:

- Internet
- Lecturers
- Reference from CAEs and internal auditing managers
- Internal auditors

Using the above-mentioned sources of information, the researcher was able to distribute 105 questionnaires via electronic mail to organisations with an internal auditing function.

4.7 Data collection

Data collection begins with the researcher deciding from where and from whom data will be collected (Talbot, 1995:472, cited by Mamabolo, 2009:57). The collection of data refers to a purposive gathering of information relevant to the subject matter of the study from the units under investigation. Aaker, Kumar and Day (2004:432) explain that data collection is critical in obtaining useful knowledge for an individual researcher by examining the raw data from the questionnaires. In this regards, “the method of data collection depends mainly upon the nature, purpose and the scope of inquiry which is dependent on the availability of resources and time” (Singh & Bajpai, 2011:123). The distribution of questionnaires was conducted during the period of December 2013 to August 2014.

4.7.1 Questionnaires

Brown (2001:6) defines questionnaires as “any written instrument that presents respondents with a series of questions or statements to which they are to respond”. Structured questionnaires were used for this study (Gillham, 2000:5-8). The reasons for selecting the questionnaires as the data collection instrument are as follows:

- Responding to questionnaires is less time-consuming as the answers could be ticked, circled, underlined, or marked with an acceptable symbol by the respondent
- Questionnaires can be distributed at low cost, either by hand or electronic mail to the intended destination/persons/organisations

The design of the questionnaire in this study was structured, as it consisted of close-ended questions, including questions using the Likert-style rating and multiple-choice. Only one questionnaire was distributed per organisation because the same responses would be given by either the CAE or manager. The questionnaire for this study was designed in relation to the investigative questions presented below in Table 4.1.

Table 4.1: Investigative questions in relation to the questionnaire

Investigative questions	Question Number
How aware is the internal auditing management of the different types of PMSs available to evaluate the performance of internal auditing functions?	14
Which PMS is used the most to evaluate the performance of internal auditing functions?	1; 2; 3; 4; 5 & 6
What are the views of CAEs/managers on what they perceive the stakeholders would expect of the PMS of internal auditing functions?	15
Do PMSs measure the risk focus of internal auditing?	7; 16 & 17
Do PMSs measure the control focus of internal auditing?	8; 20; 22 & 26
Do PMSs measure the governance focus of internal auditing?	9; 10; 11; 12, 13; 18; 19; 21; 23; 24 & 25

The first page of the questionnaire presents a confidentiality statement that serves to gain the respondents' confidence in completing the questionnaire, and for ethical purposes. This statement clearly explains to the respondent that the information obtained will be used for the purpose of this research study and that their identity will remain anonymous.

4.8 Unit of analysis

The unit of analysis is the internal auditing department and the unit of observation is the CAE or internal auditing manager. Questionnaires were distributed to CAEs and internal auditing managers because they are responsible for measuring the performance of their departments. The participation of this unit of observation was considered important for the successful collection of data for this study (Boubala, 2010:52). As the unit of observation has been identified as internal auditing management (CAE and internal auditing managers), no language and literacy barriers were experienced in completing the questionnaires.

4.9 Pilot study

According to Saunders et al. (2016:473), "...the pilot test is to refine the questionnaire so that respondents will have no problems in answering the questions and there will be no problems recording the data", and that "...it will enable you to obtain some assessment of the questions' validity and likely

reliability of the data that will be collected both for individual questions and scales comprising a number of questions”. The questionnaires were tested among five respondents comprising of CAEs and internal auditing managers. As alterations were suggested by the respondents of the pilot study, the data could not be included in the final data set.

4.10 Ethical considerations

According to Welman et al. (2005:181), ethical behavior is as important in research as it is in any other field of human activity. Ethics is a set of moral principles or norms that are used to guide moral choices of behaviour and relationships with others (Blumberg et al., 2005, cited by Gray, 2009:69). Gray (2009:69) also defines research ethics as conducting research in a way that goes beyond merely adopting the most appropriate research methodology, thus conducting research in a responsible and morally defensible way. The author of this dissertation upholds the values and principals of ethical behavior and considers the following ethical issues embrace by Gray (2009:74-80):

- **Protection from harm:** It is assured that no participant would be harmed as a result of participating in the study holistically
- **Informed consent:** The researcher informed the participants of the nature of the research, as it is important to ensure that all participants (i.e. internal auditing staff) completely understand what they are required to do when completing the questionnaires. The researcher availed the necessary option to the participants to engage in the research at their own free will and under no form of deception or oppression
- **Right to privacy:** Due respect was paid to the privacy of the participants, and the researcher is committed to ensure that all details of participants’ performance will be kept strictly confidential. The right to confidentiality and anonymity was granted to participants by the researcher
- **Falsification of results:** Falsifying results in a research study is dishonourable. Welman et al. (2005:182) supports this by saying that “[t]he falsification of research results or the misleading reporting of results is clearly unethical”. This defeats the purpose of research as

the analysis will be based on false information. The researcher maintained objectivity and integrity while performing the research study. The research findings were reported in a complete and honest manner

- **Dignity:** The researcher has not embarrassed and/or ridiculed participants when distributing questionnaires and/or when respondents had to answer questions listed in the questionnaire

4.11 Summary

This chapter dealt with the design and methodology of the study. Firstly, the investigative questions were discussed. A description of the research paradigms that guided the study's methodology was deliberated on. Following the discussion on the research paradigms, a detailed description of quantitative research as well as validity and reliability in quantitative research were given. The research methodology was shown to support the researcher's choice of sampling, the target population, and data collection. Lastly, ethical issues such as protection from harm, informed consent, right to privacy, falsification of results, and dignity were discussed.

In the subsequent chapter (Chapter Five), the findings from the survey are analysed in detail; thereafter the results from the literature and survey are discussed (Chapter Six), followed by the conclusions and recommendations (Chapter Seven).

CHAPTER FIVE: RESEARCH FINDINGS AND INTERPRETATION

5.1 Introduction

This chapter presents the findings obtained from the questionnaire survey that was conducted in Windhoek, Namibia and Cape Town, South Africa. The analysis of the data will be discussed separately for the two areas. As explained in Chapter One, the main purpose of this study is to determine the perceived most relevant and appropriate PMS to measure the performance of internal auditing functions.

5.2 Presentation and analysis of the research results

In this section, a detailed discussion of the structured questionnaire survey results will be given. The findings obtained are presented in three formats namely tables, pie charts, and bar charts. All responses to the questions posed in the questionnaire are discussed in detail.

5.2.1 Survey

In Windhoek, the distribution of questionnaires was conducted for a period of three months, from December 2013 to February 2014. In Cape Town, the distribution of questionnaires took a while due to slow responses. The distribution of questionnaires was conducted for nine months, from December 2013 to August 2014. Thirty responses were obtained from the 40 questionnaires that were distributed in Windhoek (response rate of 75%). In Cape Town, a low response rate was received. The total number of questionnaires that were distributed amounts to 105, but only eleven (11) completed questionnaires were received back (response rate of 10%).

The researcher investigated all 41 received questionnaires for completeness, numbered them, and then captured the data using SPSS V22.0 software. The data was captured separately according to the two cities and then submitted to the statistician to analyse before the researcher could interpret the results. The two sets of results (one set for each city) obtained were not compared and are discussed separately, as it is not a comparative study. The results are divided into six sections (A-F) to align with the research questions.

5.2.2 Reliability testing

Cronbach's alpha coefficient was applied to all statements consisting of Likert-scale responses in the questionnaire. Table 5.1 illustrate Cronbach's alpha coefficients.

Table 5.1: Cronbach's alpha coefficients

Compliance		
Question 16	In our internal auditing department, we sometime fail to understand significant business risk on time and as a result, leaving these off the audit plan.	Cronbach's alpha coefficient = 0.777
Question 17	In our internal auditing department, we sometime perform activities that do not really matter at all.	
Question 18	Our internal auditing department has an excellent relationship with the auditing committee.	
Question 19	Our internal auditing department has an excellent relationship with the executive management.	
Question 20	Our internal auditing department has sufficient resources and this allows us to perform our work effectively.	
Question 21	On occasional basis, we are unable to effect change, as the recommendations we make are not being implemented.	
Functioning of internal auditing department		
Question 22	The performance measurement system in place evaluates whether the internal auditing department complies with the International Standards for the Professional Practice of Internal Auditing (ISPPA).	Cronbach's alpha coefficient = 0.854
Question 23	The performance measurement system in place evaluates whether the internal auditing department conforms to the IIA's Code of Ethics.	
Question 25	The performance measurement system in place evaluates whether the internal auditing department complies with the company's policies, procedures, and contracts.	
Question 26	The performance measurement system in place evaluates the adequacy and effectiveness of controls in response to risks within the internal auditing department's operations.	

Cronbach's alpha coefficient for the statements measured in the questionnaire using the Likert scale is 0.777 for questions 16 to 21, and 0.470 for questions 22 to 26. If question 24 is excluded, the Cronbach's alpha

coefficient rises to 0,854. The Cronbach's alpha coefficient is greater than the acceptable level of 0.700, which indicates that the data referred to in the specified questions are reliable for analysis.

Section A: Awareness of performance measurement systems

This section aims to determine internal auditing management's awareness of various PMSs used to assess the performance of their department, as this allows internal auditing management to not only be limited to the PMSs they know, but also to advance their knowledge on performance measurement. Table 5.2 below illustrates the number of PMSs the CAE or the internal auditing managers are knowledgeable of, according to the survey results obtained.

Table 5.2: CAE's awareness of various PMSs

Number of PMS	Windhoek		Cape Town	
	Count	Percentage	Count	Percentage
1	6	20.7%	1	10.0%
2	11	37.9%	3	30.0%
3	11	37.9%	3	30.0%
4	1	3.4%	0	0.0%
5 and more	0	0.0%	3	30.0%
TOTAL	29	100.0%	10	100.0%

Most of the respondents (75.8%) in Windhoek are aware of two to three PMSs being used to measure the performance of the internal auditing department. Only 3.4% of the respondents are aware of more than three PMSs available.

Six (6) out of ten (10) respondents in Cape Town are aware of two to three PMSs being used to measure the performance of the internal auditing department and 30.0% are aware of five and more, but only 10.0% of respondent is aware of a single PMS. One (1) respondent from each of the cities did not answer this question.

Section B: The use of performance measurement systems

This section seeks to determine the most used PMS and why it is frequently used. Table 5.3 below illustrates the number of internal auditing departments using PMS to evaluate performance.

Table 5.3: Number of internal auditing departments using PMSs

Question	Responds	Windhoek		Cape Town	
		Count	Percentage	Count	Percentage
Does the internal auditing department have a performance measurement system in place to evaluate performance?	Yes	22	73.3%	10	90.9%
	No	8	26.7%	1	9.1%
Total Respondents		30	100.0%	11	100.0%

The majority of the respondents in Windhoek (73.3%) use PMSs in their internal auditing departments to evaluate performance. However, 26.7% do not use PMSs, due to various reasons stated below by the respondents:

- The internal auditing department has been in operation for only twelve months at the time of the survey. The CAE was in the process of implementing a PMS
- The entire company, including the internal auditing department, has no PMS in place
- There are no proper rules and regulations in place to regulate the implementation of a PMS for their internal auditing department

Ten (10) of the eleven (11) respondents (90.9%) in Cape Town utilise PMS in their internal auditing department to evaluate performance. One (1) respondent (9.1%) does not use PMS because the CAE was in the process of implementing PMS at the time, the survey revealed.

Table 5.4 illustrates the frequently used PMSs in internal auditing departments and the question was posed as follows: What type of PMS do you use?

Table 5.4: Frequently used PMS

Types of PMS	Windhoek		Cape Town	
	Count	Percentage	Count	Percentage
Balanced Scorecard System	15	68.2%	5	50.0%
Total Quality Management (TQM)	1	4.5%	0	0.0%
Value-Based Management (VBM)	0	0.0%	0	0.0%
SWOT Analysis	0	0.0%	1	10.0%
The Performance Measurement Matrix	4	18.0%	4	40.0%
The Performance Prism	0	0.0%	0	0.0%
The SMART Performance Pyramid	0	0.0%	0	0.0%
Others	2	9.1%	0	0.0%
Total Respondents	22	100.0%	10	100.0%

Two (2) of the 22 respondents who indicated they use a PMS to evaluate the performance of their department do not utilise any of the PMSs listed in question 2 of the questionnaire. These two respondents indicated that the PMS used is specifically designed for the internal auditing department in their organisation.

The majority of the respondents in Windhoek (68.2%) indicated that they use the Balanced Scorecard to evaluate performance. The results also indicate that 18.0% of the respondents use PMM to evaluate performance. Lastly, 4.5% of the respondents specified that they use TQM to evaluate performance. In Cape Town, 50.0% of the ten respondents use the Balanced Scorecard to evaluate the performance of the internal auditing department. PMM is used by 40.0% of respondents and the SWOT Analysis is used by only 10.0% of respondents to evaluate performance.

5.2.3 Motivating facts for internal auditing department to use PMSs

As per the survey, the respondents were given a choice of selecting multiple options from the list given in question 3 of the questionnaire. Survey question 3 is stated as follows: Why do you use this performance measurement system? In Windhoek, 22 respondents replied to this question and in Cape Town, ten (10) respondents, as indicated in Table 5.5.

Table 5.5: Motivating factors for the internal auditing department to use PMSs

Motivating factors	Windhoek		Cape Town	
	Count n=22	Percentage	Count n=10	Percentage
It is currently the optimal performance measurement system	3	13.6%	2	20.0%
It aligns the internal auditing department's objectives and activities with that of the organisation as a whole	17	77.0%	8	80.0%
It aims to exceed stakeholders' expectations by using a process of continuous improvement	3	13.6%	2	20.0%
It targets to achieve complete customer satisfaction	1	4.5%	1	10.0%
It concentrates on the stakeholders' contribution, strategies in place, processes, and the capabilities of staff and resources	1	4.5%	3	30.0%
Other	2	9.0%	1	10.0%

Two (2) respondents of Windhoek reasoned that their internal auditing department based their use of PMS on the effective mechanism it provides in evaluating internal auditors' compliance to ISPPIA and applicable company policies. One (1) respondent from Cape Town stated, "It's a requirement of standards". Figure 5.1 below demonstrates whether the currently used PMSs improve the performance of internal auditing departments. The question was posed as follows: Do you think the performance measurement system that is currently in use improves the performance of the internal auditing department?

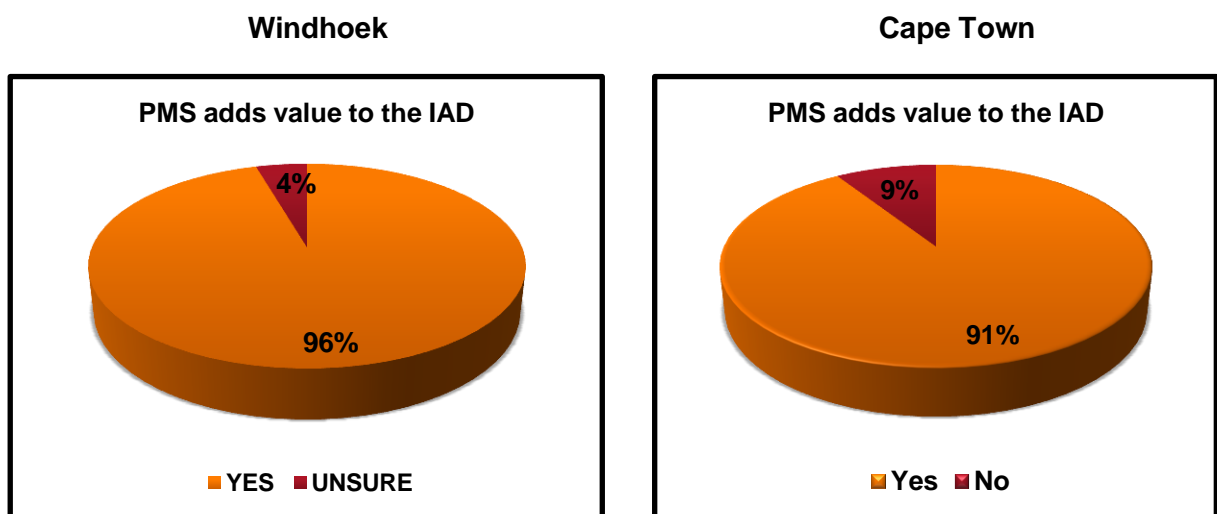


Figure 5.1: Performance improvement of the internal auditing department

According to the results obtained from the survey, 96.0% of the Windhoek respondents believe their current PMS improves the performance of the internal auditing department, while 4.0% of the respondents are uncertain. In Cape Town, all respondents (91.0%) who indicated that they use PMSs to measure the performance of internal auditing departments believe that the current PMS improves the performance of the internal auditing department.

In Table 5.6, the positive impact of using a PMS in the internal auditing department is illustrated.

Table 5.6: Positive impact of PMS in internal auditing department

Improvements	Windhoek		Cape Town	
	Count n=22	Percentage	Count n=11	Percentage
Improvement in effectiveness and efficiency of Internal Audit's operations	19	86.4%	9	81.8%
Improvements of customers' satisfaction	8	36.4%	5	45.5%
Improvement in higher quality service supply to clients	8	36.4%	6	54.5%
Improved communication in the internal auditing department	7	31.8%	4	36.4%
Improvement in the risk assessment process	3	13.6%	2	18.2%
Educational level of internal auditors recruited has improved	2	9.1%	3	27.3%
Improvement in audit recommendation implementation	2	9.1%	3	27.3%

The use of PMSs contributes to the improvement of internal auditing departments' operations in various ways. The respondents were given a choice to select multiple options from the list given in question 5 of the questionnaire. The question is stated as follows: What are the changes or improvements that are brought about by the use of this performance measurement system? Twenty-two (22) respondents in Windhoek and eleven (11) in Cape Town answered this question as stated in the table above.

Table 5.7 below illustrates how often the current PMS is reviewed by the CAE.

Table 5.7: Frequency of PMS reviews

Period of PMS review	Windhoek		Cape Town	
	Count	Percentage	Count	Percentage
Every three months	3	14.3%	1	12.5%
Every six months	5	23.8%	5	62.5%
Once a year	8	38.1%	1	12.5%
After two years	0	0.0%	0	0.0%
Within five years	4	19.0%	1	12.5%
Never	1	4.8%	0	0.0%
Total Respondents	21	100.0%	8	100.0%

One (1) of the 22 Windhoek respondents who indicated that they use PMS in their internal auditing department stated that PMS is reviewed on a continuous basis after every engagement is completed. The total number of respondents in table 5.7 is therefore indicated as 21 respondents.

In Windhoek, 4.8% of respondents never reviewed their PMS; however, the majority (38.1%) review their PMS annually. About a quarter of respondents review their PMS every six months, and 19.0% of respondents review their PMS every five years.

The results obtained from Cape Town indicate that the ten (10) respondents who use PMS in their departments do review those PMSs. However, two (2) of the ten (10) respondents indicated that their PMS in their internal auditing department is reviewed on an on-going basis; therefore, the count in Table 5.7 is eight (8) respondents. The majority of the respondents (62.5%) indicated that departmental performance is reviewed every six months.

Section C: Stakeholders' expectations of internal auditing departments' PMSs

In any department or organisation the expectation of stakeholders is important. This section seeks to determine what the CAEs/managers perceive is the stakeholders' expectancy of Internal Audit's performance. According to the survey, the respondents gave their opinions on the stakeholders' expectations of the internal auditing department's PMS.

Question 15 of the survey stated: In your view, what are the expectations of Internal Audit's stakeholders (auditing committee and senior management) regarding the performance measurement system used to evaluate the internal auditing department?

Various responses were obtained from the respondents in Windhoek and the results are reflected below:

- Stakeholders expect the PMS to be robust enough to measure the real performance of the internal auditing department and not just a routine activity that is done as part of an annual process. The PMS should also be able to identify areas of improvement
- Stakeholders expect the PMS to evaluate how Internal Audit's reports are written and determine compliance with the ISPPIA
- Stakeholders expect the PMS to cover all aspects of risk the internal auditing department is exposed to, as well as providing assurance to their clients
- To ensure that the internal auditing department is managed by officials with the necessary competence and experience, who will add value and deliver high quality work on a continuous basis?
- The PMS should measure the competency of the internal auditing department and ensure that it adheres to the Code of Ethics, ISPPIA, and the risk-based approach of internal auditing
- To ensure that Internal Audit provides quality service to stakeholders and provides reasonable assurance based on relevant and current risks the organisation is facing
- Stakeholders expect the PMS to evaluate customers' satisfaction and performance improvement
- The stakeholders also expect the PMS to measure effectiveness and efficiency of Internal Audits' performance
- The PMS should evaluate governance, risk management, and internal control processes in the internal auditing department
- The PMS should be adequate to effectively measure the performance of internal auditors for work remuneration and development

Respondents in Cape Town indicated that stakeholders expect the following from Internal Audit's PMSs:

- The PMS should improve the effectiveness and efficiency
- Stakeholders expect the PMS be reliable and value adding
- The PMS should be adequate to effectively measure the internal auditor's performance for work remuneration and development
- The PMS should ensure that Internal Audit is strategically positioned to contribute to business performance. Internal auditing processes should meet business needs and must have core competencies to deliver its mission/objectives

Section D: Risk measurement in internal auditing departments

The objective of this section is to determine whether PMSs evaluate the risks that the internal auditing department is exposed to. The question aims at knowing whether the current PMS measures the risk-based focus of the internal auditing department. Table 5.8 below illustrates the extent to which the PMS evaluates the risk-based focus of internal auditing department.

Table 5.8: Risk measurement in internal auditing departments

	Windhoek		Cape Town	
	Count	Percentage	Count	Percentage
None	1	5.0%	1	11.1%
Seldom	0	0.0%	0	0.0%
Moderate	7	35.0%	2	22.2%
Very Often	6	30.0%	2	22.2%
Extensively	6	30.0%	4	44.4%
Total Respondents	20	100.0%	9	100.0%

The results presented in Table 5.8 above show that the PMSs of 95.0% of Windhoek and 88.8% of Cape Town's respondents evaluate the risk-based focus of internal auditing department extensively, very often, or moderately.

Figure 5.2 below demonstrates the results of the internal auditing department that fails to comprehend significant business risk.

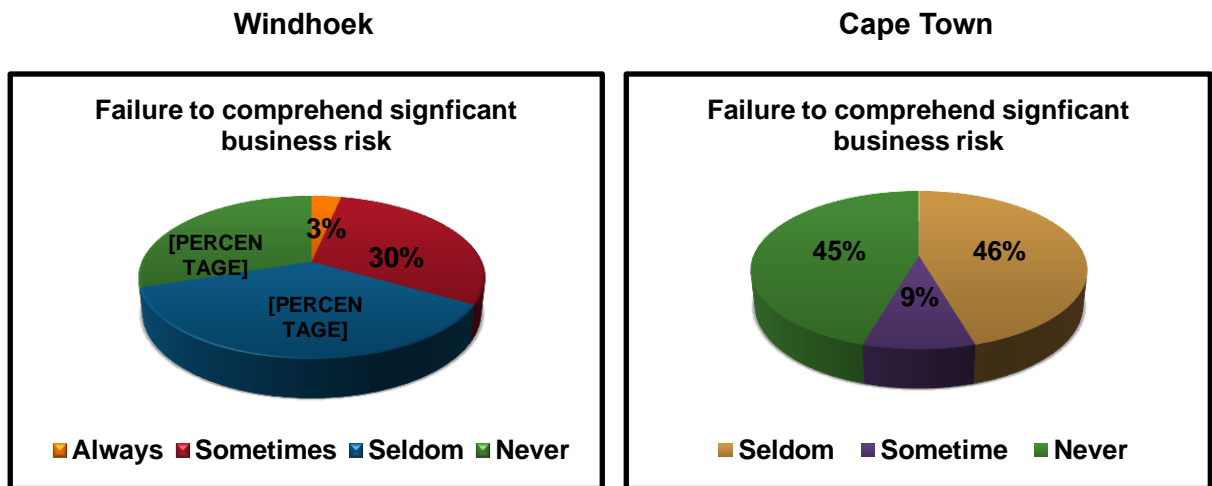


Figure 5.2: Internal auditing department fails to comprehend significant business risk

In figure 5.2, 30.0% of the respondents in Windhoek sometimes fail to understand significant business risk. Failure of the internal auditing department to understand significant business risk could expose the organisation to material risk, which might result into ruining the reputation of the business and occurring unnecessary high expenses. Moreover, 3.0% of respondents indicated that they always fail to recognise significant business risk on time, which leads to risks being excluded from the audit plan. In Cape Town, 46.0% of the respondents indicated that it is seldom their departments do not understand significant business risk on time, while 9.0% specified their departments sometimes fail to understand significant business risks, leading them to be excluded from the audit plan. Figure 5.3 demonstrates whether the internal auditing department performs irrelevant activities.

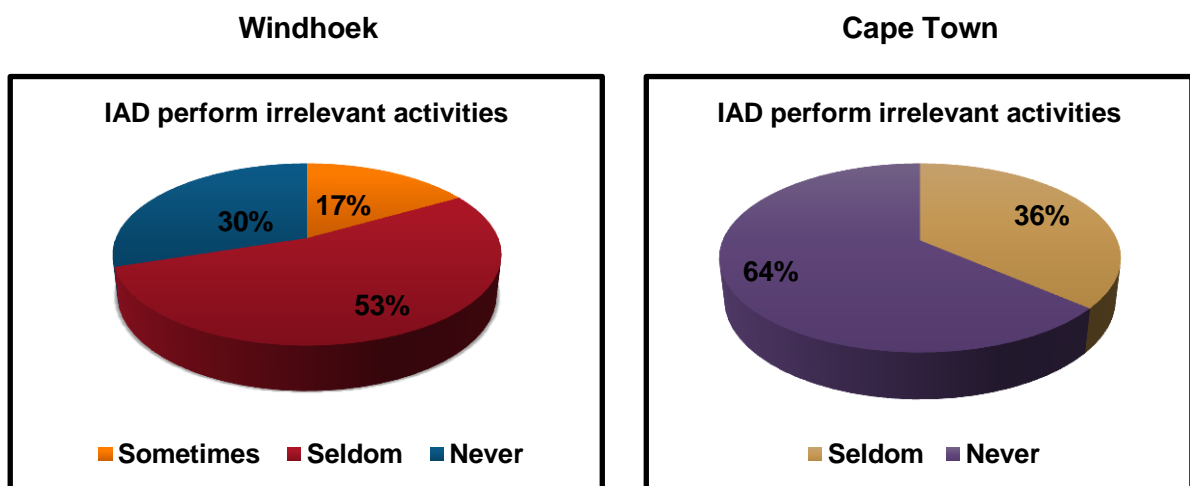


Figure 5.3: Internal auditing department performs irrelevant activities

The majority (53.0%) of the respondents from Windhoek indicated that they rarely perform insignificant activities, and 17.0% of respondents specified that they sometimes perform irrelevant activities in their department. In Cape Town, 36.0% of the respondents do not perform irrelevant activities at all in their departments. Sixty-four percent (64%) of the respondents indicated that their departments seldom perform irrelevant activities.

Section E: Internal control measurement of internal auditing departments

This section aims to determine whether PMSs evaluate effectiveness and adequacy of internal controls in an internal auditing department. Table 5.9 below illustrates the extent to which PMSs evaluate the internal control-based focus of internal auditing department.

Table 5.9: Internal control measurement in the internal auditing department

	Windhoek		Cape Town	
	Count	Percentage	Count	Percentage
None	1	4.5%	2	20.0%
Rarely/Seldom	1	4.5%	1	10.0%
Moderate	8	36.4%	1	10.0%
Very Often	9	40.9%	2	20.0%
Extensively	3	13.6%	4	40.0%
Total Respondents	22	100.0%	10	100.0%

According to the results obtained, only 4.5% (Windhoek) and 20.0% (Cape Town) of the respondent's PMSs do not evaluate the internal control-based focus of the internal auditing department. The results further show that 13.6% of Windhoek and 40.0% of Cape Town respondents' PMSs evaluate the internal control-based focus of the internal auditing department extensively. In Cape Town, 10.0% of respondents' PMSs seldom evaluate the internal control-based focus of the internal auditing department.

Figure 5.4 below illustrates whether the internal auditing department has sufficient resources to perform their various activities effectively.

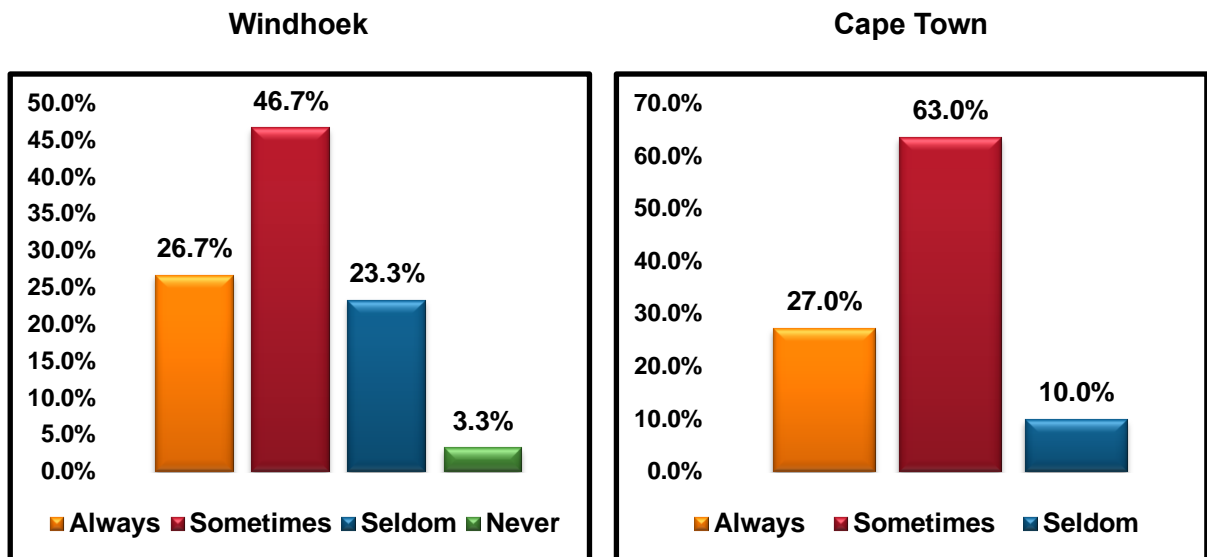


Figure 5.4: Sufficient resources for effective performance

According to the results shown in figure 5.4 above, 3.3% of the Windhoek respondents certainly do not have sufficient resources in their department, leading to ineffective performance. Figure 5.4 also shows that 23.3% of respondents seldom have all the necessary resources that will enable them to carry out their various tasks effectively. However, 26.7% of the Windhoek respondents always have sufficient resources. In Cape Town, 63% indicated that internal auditing departments ‘sometimes’ have sufficient resources to perform their audit activities, while 27% indicated they always have sufficient resources to allow them to perform their activities effectively. Figure 5.5 demonstrates whether PMSs assess compliance of internal auditing departments with the ISPPIA.

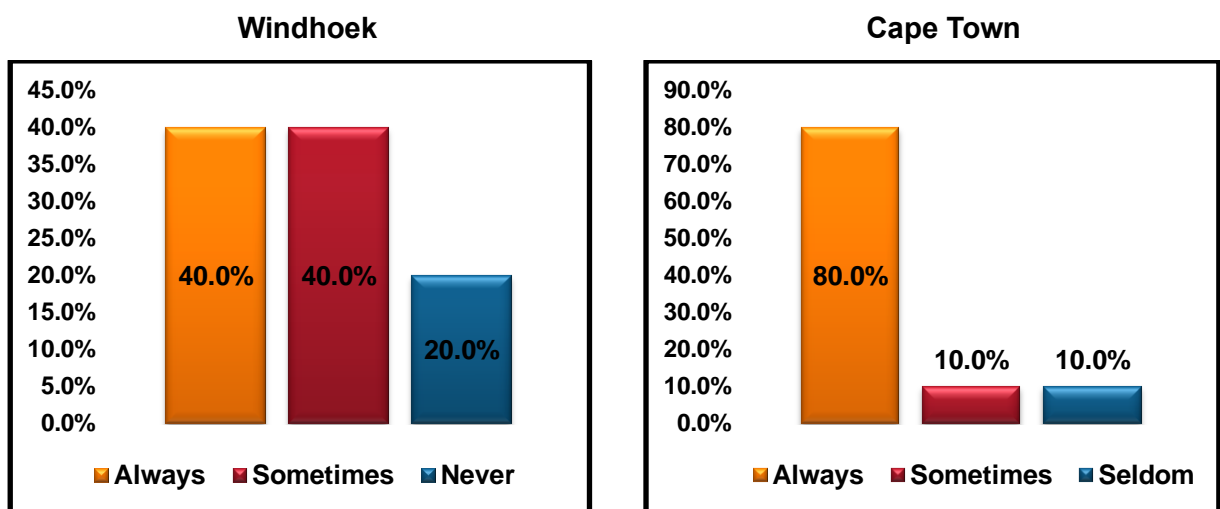


Figure 5.5: International Standards for the Professional Practice of Internal Auditing

In Windhoek, 80.0% of the respondents' PMSs always (40%) and sometimes (40%) evaluate compliance of the internal auditing department with the ISPPIA. Twenty percent (20.0%) of the respondents' PMSs seldom evaluate compliance of internal auditing department with the ISPPIA. In Cape Town, eight (80.0%) of the ten (10) respondents' PMSs always, and one (10.0%) respondent sometimes evaluate whether internal auditing departments comply with ISPPIA. The survey indicated that one (10.0%) of the respondents' PMSs never evaluate compliance of the internal auditing department to the ISPPIA.

Figure 5.6 below demonstrate whether PMS evaluate the adequacy and effectiveness of controls in response to risks within the internal auditing department's operations.

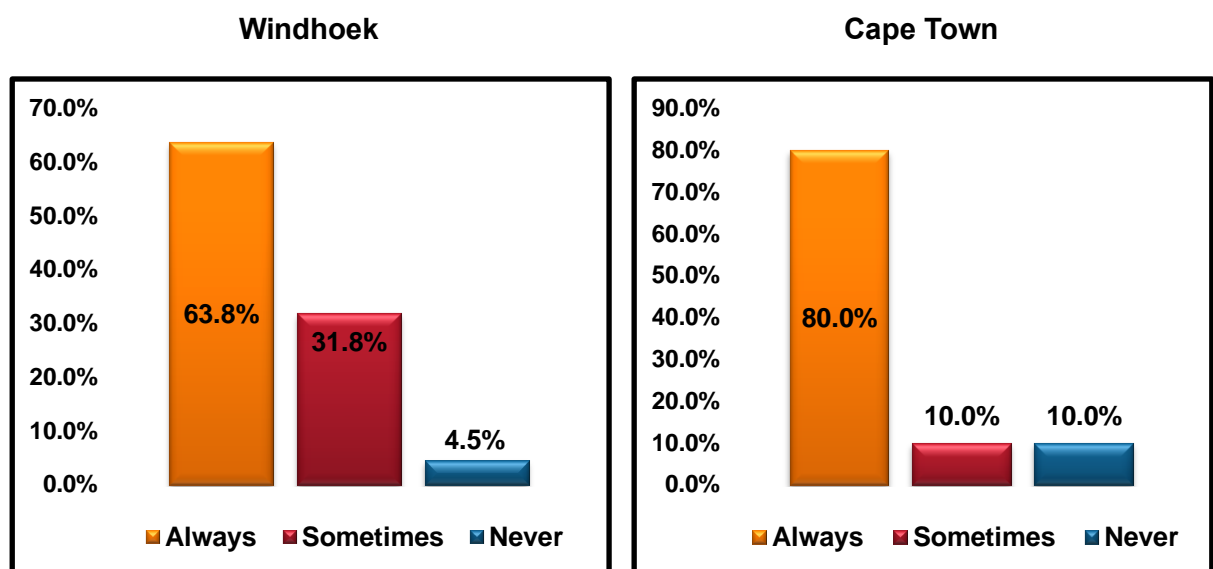


Figure 5.6: Adequacy and effectiveness measurement of controls

Figure 5.6 presents that 31.8% of the Windhoek respondents' PMSs sometimes and 4.5% never evaluate the adequacy and effectiveness of controls in response to risks within internal auditing departments. Eighty percent (80%) of the respondents' PMSs in Cape Town assess the adequacy and effectiveness of controls in response to risks within the internal auditing department.

Section F: Governance measurement in internal auditing departments

This section aims to confirm whether PMSs evaluate the effectiveness and adequacy of internal controls in the internal auditing department.

Table 5.10 illustrates the extent to which the PMSs evaluate the governance-based focus of the internal auditing department.

Table 5.10: Governance measurement in the internal auditing department

	Windhoek		Cape Town	
	Count	Percentage	Count	Percentage
None/Never	0	0.0%	1	11.1%
Rarely/Seldom	1	4.5%	0	0.0%
Moderate	5	22.7%	2	22.2%
Very Often	13	59.1%	4	44.4%
Extensively	3	13.6%	2	22.2%
Total Respondents	22	100.0%	9	100.0%

In Windhoek, the majority (59.1%) of the respondents' PMSs very often evaluate the governance-based focus of the internal auditing department. Zero percent of the respondents' PMSs never evaluate the governance-based focus of the internal auditing department, while only 4.5% of the respondents' PMSs seldom assess governance. In Cape Town, most (44.4%) respondents' PMSs very often evaluate the governance of internal auditing. It was also indicated that 22.2% of the respondents' PMSs evaluate governance in internal auditing moderately and extensively. A few of the respondents' PMSs never evaluate the governance-based focus of the internal auditing department.

Table 5.11 below illustrates how often the CAE evaluates the performance of Internal Audit.

Table 5.11: Frequency of internal auditing departments' performance review

	Windhoek		Cape Town	
	Count	Percentage	Count	Percentage
Monthly	2	8.0%	0	0.0%
Quarterly	7	28.0%	4	44.4%
Twice per year	13	52.0%	2	22.2%
Once a year	3	12.0%	3	33.3%
Total Respondents	25	100.0%	9	100.0%

All respondents were required to answer question 10 of the questionnaire: How often does the Chief Audit Executive evaluate the performance of the internal auditing department? Thirty responses were obtained from the survey conducted in Windhoek. Five (16.7%) of the respondents indicated that the CAE evaluates the performance of Internal Audit at the end of each engagement; the total in table 5.11 is therefore 25. The majority of respondents (52.0%) indicated that the CAE evaluates the performance of Internal Audit twice per year. Twelve percent (12%) of the respondents evaluate performance annually, whereas 8.0% of the respondents evaluate performance on a monthly basis.

Eleven responses were obtained from Cape Town regarding the frequency of Internal Audit's performance evaluation conducted by the CAE. Two of the eleven respondents evaluate performance on an on-going basis or at the end of each engagement, which clarifies the above total being nine. Forty-four percent (44%) of the respondents indicated that the CAE evaluates the performance of Internal Audit on a quarterly basis and 33.3% stated that performance is evaluated annually.

Table 5.12 illustrates the types of training attended by internal auditors in Windhoek.

Table 5.12: Types of training attended by internal auditors in Windhoek

Windhoek	
Types of training	Count
Risk-based auditing: A value add proposition	26
Effective writing for auditors	15
Financial auditing for internal auditors	12
Introduction to IT auditing	11
Internal auditor fraud	10
Performing an effective quality assessment	8
Statistical sampling for internal auditors	5

The respondents could select from multiple types of training that internal auditors attend from the options that were listed in survey question 12. Thirty respondents indicated that internal auditors attend training to enhance their internal auditing knowledge. A few of the respondents specified the following types of training:

- Elements of internal auditing
- Product knowledge
- Risk management training
- Time management, communication, and analytical skills
- Introduction to the internal auditing process

Table 5.13 illustrates the types of training internal auditors attended in Cape Town.

Table 5.13: Types of training attended by internal auditors in Cape Town

Cape Town	
Types of training	Count
Risk-based auditing: A value add proposition	9
Effective writing for auditors	8
Introduction to IT auditing	6
Performing an effective quality assessment	5
Internal auditor fraud	4
Financial auditing for internal auditors	4
Statistical sampling for internal auditors	2

Table 5.13 above presents the results of various types of training attended by internal auditors in Cape Town to brighten their knowledge on internal auditing. Results are displayed in descending order. In both cities, frequently

attended training is the risk-based audit and effective writing for auditors, as risk-based audit and effective communication is key in the internal auditing environment. The least attended training is statistical sampling for internal auditors, as sampling in internal auditing is random-based.

Table 5.14 shows the frequency of external reviews conducted within a specific timeframe.

Table 5.14: External review frequency of the internal auditing department

Period	Windhoek		Cape Town	
	Frequencies	Percentage	Frequencies	Percentage
6 Months ago	2	6.7%	3	27.3%
A year ago	3	10.0%	1	9.1%
2 years ago	3	10.0%	2	18.2%
3 years ago	4	13.3%	3	27.3%
5 years ago	3	10.0%	0	0.0%
Never	15	50.0%	2	18.2%
Total	30	100.0%	11	100.0%

According to the responses obtained, 50.0% of internal auditing departments in Windhoek have never been reviewed externally, while 13.3% of the departments were reviewed externally three years ago. Furthermore, 10.0% of the respondents' internal auditing departments were reviewed externally a year ago, 10.0% indicated 2 years ago, and another 10.0% five years ago. According to the results received, 6.7% of the respondents' internal auditing departments were reviewed externally six months ago.

In Cape Town, most (81.8%) of the internal auditing departments have been reviewed externally over the last three years. However, 18.2% of internal auditing departments have never been reviewed externally, while 9.1% of the departments were under review at the time the survey was conducted.

Figure 5.7 illustrates the relationship of the internal auditing department with the auditing committee.

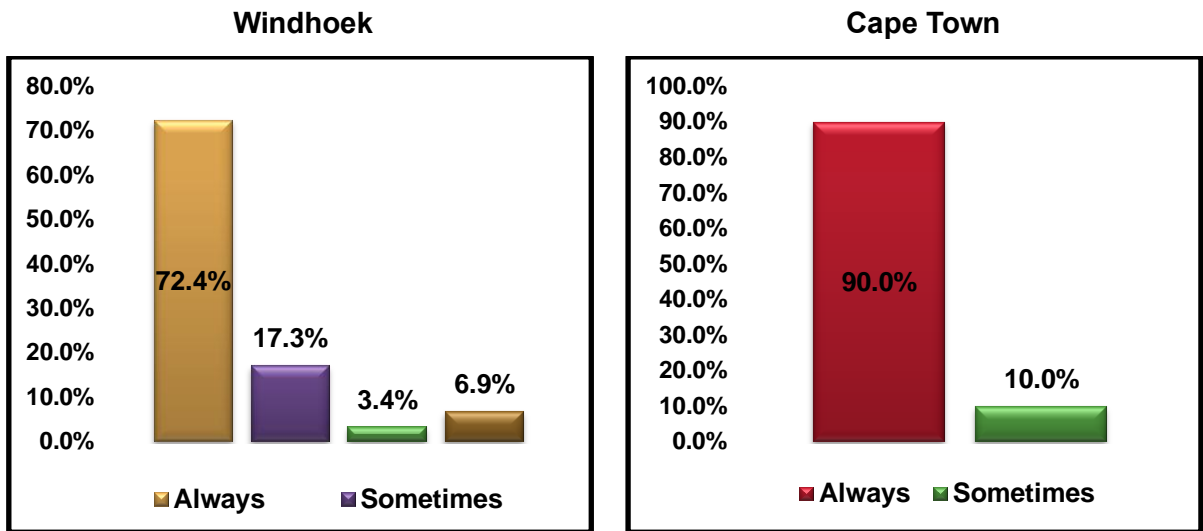


Figure 5.7: Relationship of the internal auditing department with the auditing committee

The results reflect that most of the respondents (72.4%) in Windhoek always have an excellent relationship with the auditing committee. However, 6.9% of respondents never, and 3.4% of respondents rarely have an excellent relationship with the auditing committee. In Cape Town, 90.0% of the eleven respondents always have an excellent relationship with the auditing committee.

Figure 5.8 illustrates the relationship of the internal auditing department with the executive management.

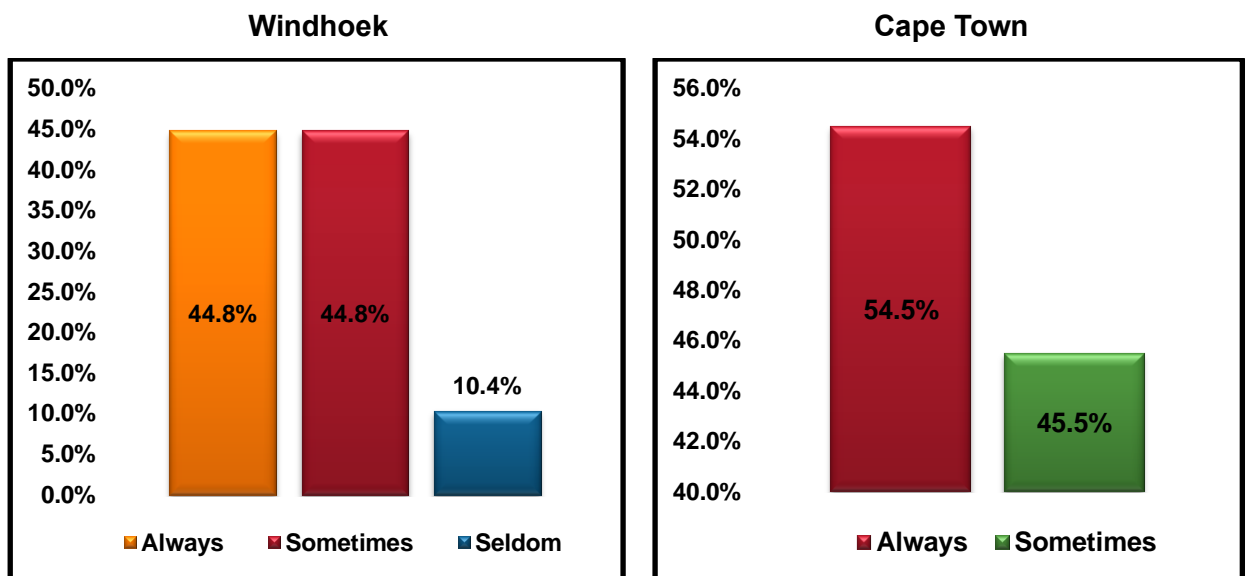


Figure 5.8: Relationship of the internal auditing department with the executive management

Figure 5.8 indicates that 89.6% and 100% of respondents sometimes/always have an excellent relationship with executive management for Windhoek and Cape Town respectively.

Figure 5.9 below shows the percentages of internal auditing departments that are unable to effect change in organisations due to recommendations not implemented by the executive management.

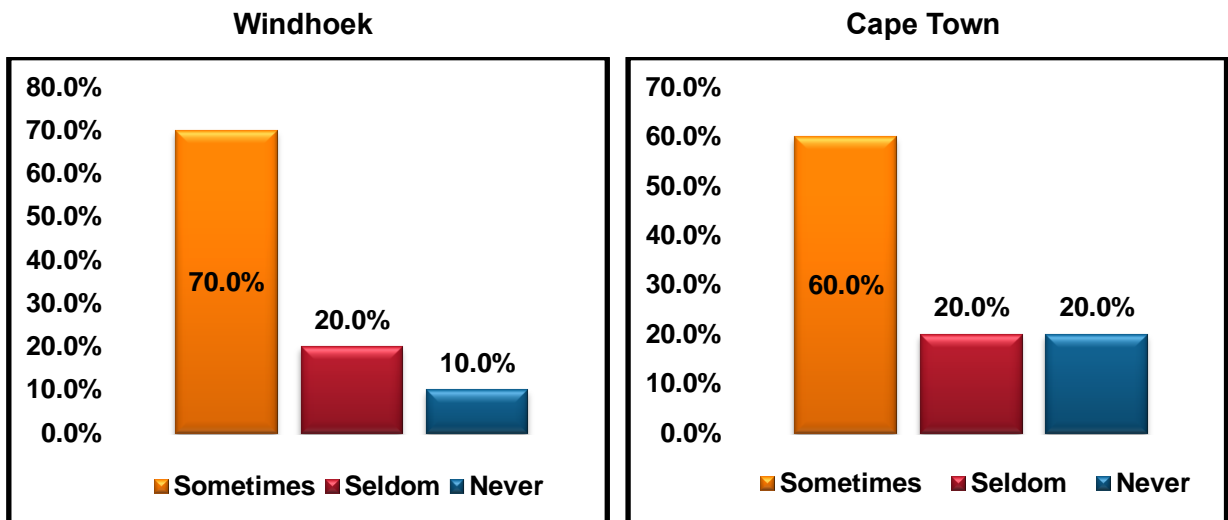


Figure 5.9: Internal auditing recommendations are not implemented

Most of the respondents (70.0%) in Windhoek are sometimes able to effect change; 20.0% of the respondents are seldom able to effect change; and 10.0% of the respondents are never able to effect change, as the recommendations they make are not implemented by the executive management. Respondents from Cape Town (60.0%) stated that their departments are sometimes able to effect change; 20.0% of respondents are rarely able to effect change, while 20.0% are never able to influence change, as the recommendations they make are not implemented by executive management.

Figure 5.10 demonstrate whether PMSs assess compliance of internal auditing departments with the Code of Ethics.

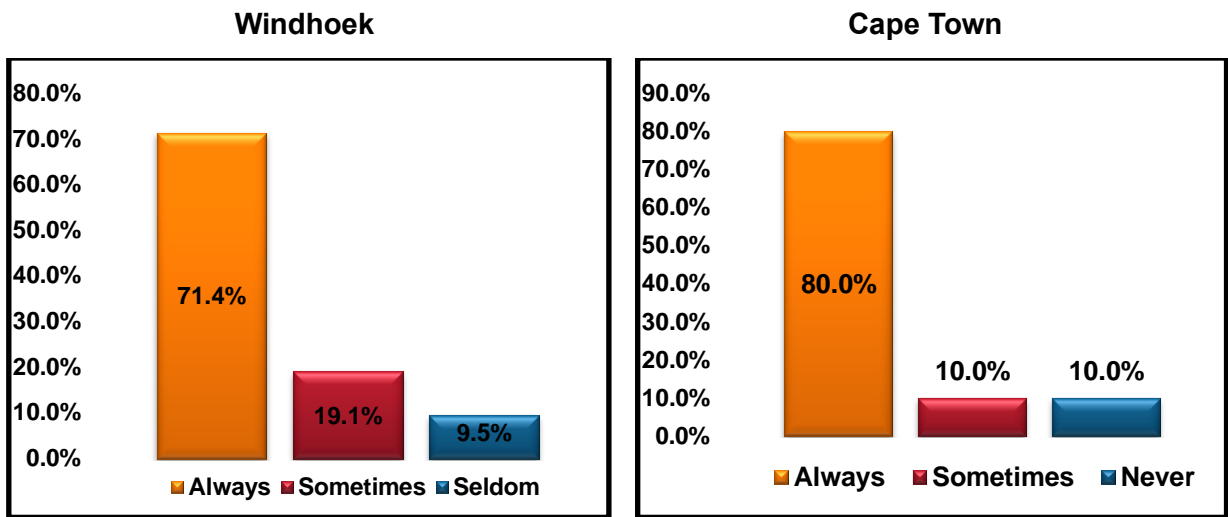


Figure 5.10: Code of Ethics

According to figure 5.10 above, PMSs in Windhoek seldom (9.5%) and sometimes (19.1%) measure conformity of the internal auditing department to the IIA's Code of Ethics. In Cape Town, 80.0% of the respondents' PMSs always assess whether the internal auditing department conforms to the IIA's Code of Ethics. It was also presented that 10.0% of the respondents' PMSs never assess conformity of the internal auditing department to the IIA's Code of Ethics.

Figure 5.11 illustrates whether PMSs measure adherence of internal auditing departments to applicable laws and regulations.

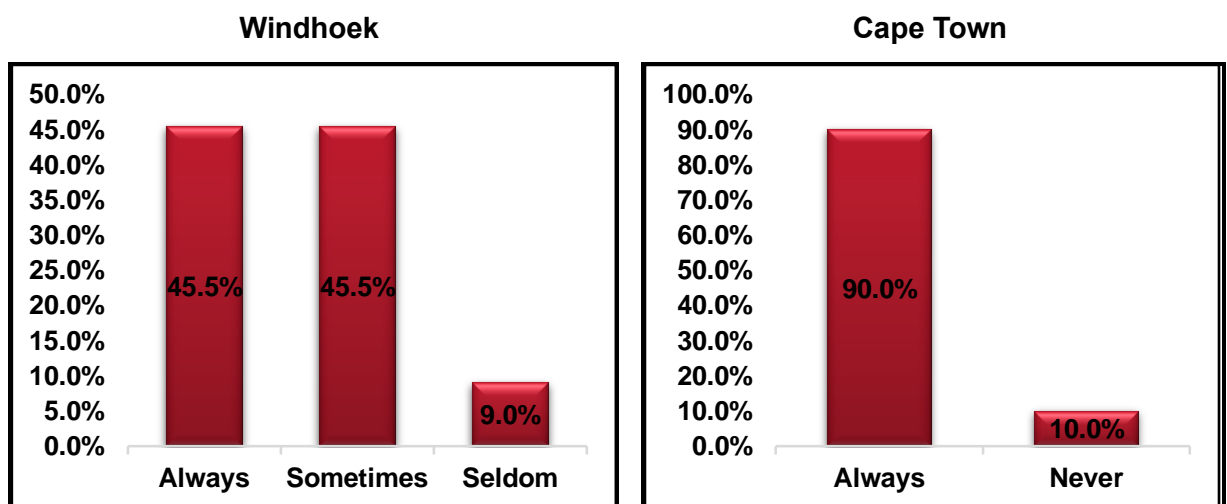


Figure 5.11: Laws and regulations

It is important that internal auditing departments adhere to applicable laws and regulations when performing their various responsibilities; however, the results stipulate that 9.0% of the respondent's PMSs rarely evaluate whether the internal auditing department comply with laws and regulations of Namibia. In Cape Town, nine of the ten respondents' PMSs always assess compliance of internal auditing departments to laws and regulations of South Africa.

Figure 4.12 illustrates whether PMSs measure adherence of internal auditing departments to applicable company policies, procedures, and contracts.

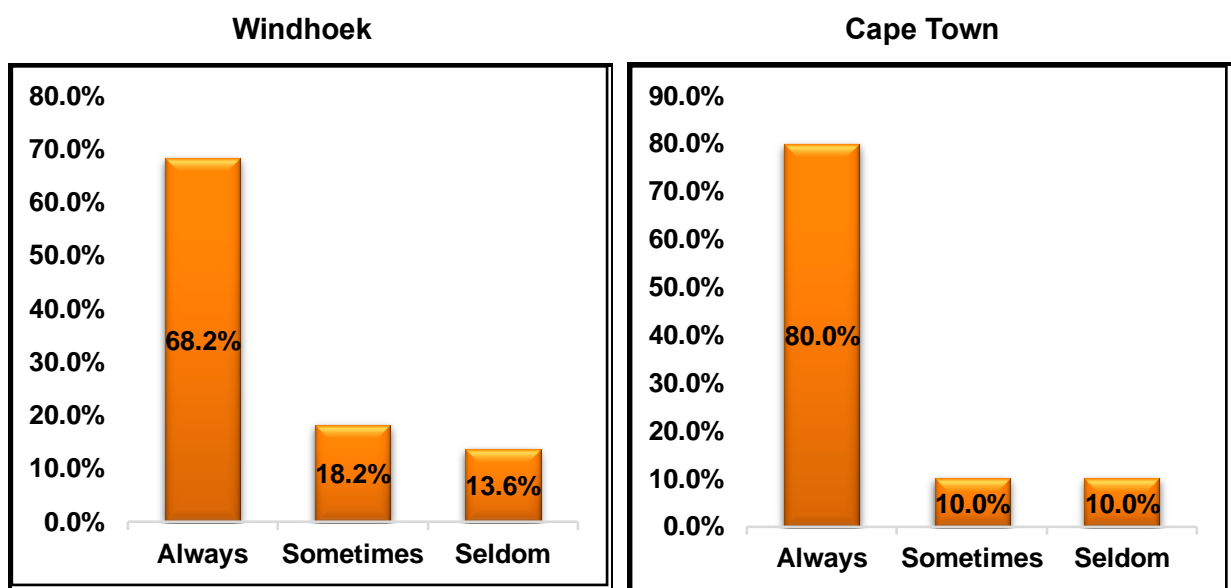


Figure 5.12: Company policies, procedures, and contracts

According to the results received, 13.6% of the Windhoek respondents' PMSs rarely evaluate whether the internal auditing department complies with company policies, procedures, and contracts. In Cape Town, 10.0% of the respondents' PMSs sometimes and another 10.0% never assess whether the internal auditing department complies with company policies, procedures, and contracts.

5.3 Summary

This chapter presented the results obtained from the survey that was conducted in Windhoek and Cape Town, with the purpose of the study in mind, namely the determination of the perceived most relevant yet effective

PMS used to evaluate the performance of internal auditing departments. The findings gathered from the results will be discussed in-depth in the next chapter; however, the findings are briefly summarised as follows:

- Most of the internal auditing departments both in Windhoek and Cape Town make use of PMSs to assess performance
- Most CAEs have limited knowledge of PMSs used to assess performance. According to the results obtained, CAEs are only aware of two to three PMSs
- The most used PMS to assess performance in the internal auditing department is the Balanced Scorecard, as it aligns Internal Audit's objectives and activities with that of the organisation as a whole
- Stakeholders expect Internal Audit's PMSs to effectively assess the performance of their department, as Internal Audit's performance impacts on the services they provide to the organisation
- In some internal auditing departments, PMSs rarely or never assess the risk-based focus of the department
- A few respondents in Windhoek (9.0%) and 30% in Cape Town rarely or never assess the internal control-based focus of their department
- Most internal auditing departments ensure that they assess the governance-based focus of their department

In the subsequent chapter (Chapter Six) the findings from the literature study and survey are discussed.

CHAPTER SIX: INTERPRETATION OF RESULTS

6.1 Introduction

The purpose of this chapter is to provide a discussion on the findings obtained from the literature study and the empirical study.

The discussions in this chapter are based on the following six sections (A-F):

Section A: Awareness of performance measurement systems

Section B: Frequently used performance measurement systems

Section C: The perception of internal auditing managers/CAEs on stakeholders' expectations regarding internal auditing departments' PMSs

Section D: Risk measurement of internal auditing departments

Section E: Internal control measurement of internal auditing departments

Section F: Governance measurement of internal auditing departments

Section A: Awareness of performance measurement systems

It is important for internal auditing management to be well-informed and aware of the various PMSs and performance measures that are used to measure the performance of internal auditing departments. The investigative question posed seeks to know the following: How aware is the internal auditing management of the different types of PMSs to measure the performance of an internal auditing department?

The findings indicate that most of the respondents in Windhoek know of two or three PMSs that are used for internal auditing departments' performance measurement. About 20% of the respondents only know one PMS being used in the internal auditing department (refer to Table 5.2). The findings reveal that internal auditing management have limited knowledge of PMSs used to measure performance in their department. The disadvantage is that internal auditing management may not be able to spread their horizons and use other PMSs or performance measures, as their knowledge is limited. In Cape Town, most respondents are aware of three and more PMSs used in internal auditing; this is beneficiary to the departments as the CAE can select the best PMS for their department. The more PMSs the CAE know of, the

better the chance of selecting an effective and efficient performance measure to assess their department.

Section B: The use of performance measurement systems

The investigative question is stated as follows: Which PMS is used the most to evaluate the performance of internal auditing functions? The research objective for this question is to determine the frequently used PMS to evaluate the performance of internal auditing departments.

According to the findings obtained from the survey conducted in Windhoek and Cape Town, the frequently used PMS to evaluate the performance of internal auditing departments is the Balanced Scorecard. This response was represented by 75% of the respondents in Windhoek and 50% of the respondents in Cape Town who participated in the survey (refer to Table 5.3). The findings stipulate that the Balanced Scorecard is the most used PMS because it aligns internal auditing departments' objectives and activities with that of the organisation as a whole. The Balanced Scorecard also aims to meet and exceed stakeholders' expectations by using a process of continuous improvement.

According to Rupšys (2008:7), the most used PMS to evaluate the performance of internal auditing departments effectively is the Balanced Scorecard. PWC (2003:16) supports this point by stating that one should consider using the Balanced Scorecard to measure the value of the internal auditing department, as it is an effective tool. PWC (2003:16) further notes that the Balanced Scorecard has been utilised by thousands of corporations, organisations, and government agencies worldwide; therefore it has been proven a fairly effective PMS (PWC, 2003:16).

The Balanced Scorecard model emphasises the alignment of an internal auditing department's objectives and activities with that of the organisation's own objectives (IIA Research Foundation, 2009:3). Feizizadeh (2012:2777) recommends using the Balanced Scorecard, as it goes well beyond numbers to examine important broad-based activities leading to the internal auditing department satisfying the increased scrutiny and more demanding expectation of stakeholders. According to Frigo (2002a, cited by the IIA

Research Foundation, 2009:3), the internal auditing department should use the Balanced Scorecard more frequently to improve their performance and add value to the organisation's operations.

Literature and findings from the survey stipulate that the Balanced Scorecard is perceived to be the most relevant and effective PMS to assess the performance of internal auditing departments. However, it was discovered that organisations do not use the Balanced Scorecard appropriately to cater for the assessment of core significant aspects of Internal Audit such as risk management, internal control, and governance of internal auditing departments.

Section C: Stakeholders' expectations of internal auditing departments' PMSs

The investigative question for this section is stated as follows: What are the views of CAEs/managers on what they perceive the stakeholders would expect of the PMS of internal auditing functions? This question was posed with the intention of identifying the desired results stakeholders expect of Internal Audit's PMSs.

According to the findings obtained from Windhoek and Cape Town, stakeholders expect the PMSs of internal auditing departments to:

- Evaluate how Internal Audit's reports are written and determine compliance with the ISPPA
- Cover all aspects of risk an internal auditing department is exposed too
- Ensure that the internal auditing department is managed by officials with the necessary competence and experience who will add value and deliver high quality work on a continuous basis
- The PMS should measure competency of Internal Audit staff and ensure that they adhere to the Code of Ethics, ISPPA, as well as performing a risk-based approach in internal auditing
- Stakeholders expect PMSs to evaluate customer satisfaction and performance improvement

- Stakeholders expect PMSs to be robust enough to measure the real performance of an internal auditing department and not just a routine activity that is done as part of an annual process. The PMS should also be able to identify areas of improvement
- Stakeholders expect PMSs to assess effectiveness and efficiency of Internal Audit's performance
- PMSs should evaluate governance, risk management, and internal control processes of the internal auditing department
- PMSs should be able to effectively measure the performance of internal auditors for work remuneration and development purposes
- Stakeholders expect PMSs to be reliable and add value
- PMSs should ensure that Internal Audit is strategically positioned to contribute to business performance. Internal auditing processes should meet business needs and must have core competencies to deliver its mission and objectives

There is only limited literature available on stakeholders' expectations of internal auditing departments' PMSs. Most literature focus on the services Internal Audit is expected to deliver to their stakeholders. Internal Audit is expected to provide support to senior management in monitoring and improving risk management, internal controls, as well as corporate governance (Sarens & De Beelde, 2006:219). Sarens and De Beelde (2006:220) further state that Internal Audit is expected to "compensate for managements loss of control resulting from increased organisational complexity and actively collaborate with external auditors". Internal auditing departments should take into account stakeholders' expectations and viewpoints when developing departmental objectives. According to the Protiviti Knowledge Leader (2005:18), high-performing internal auditing departments are aligning their activities to stakeholders' expectations and prioritising their activities to areas of greatest risk and opportunities to yield the most value for their organisation.

In order to create an effective internal auditing department, the primary stakeholders (including board of directors, auditing committee, and senior management) should determine how an internal auditing department delivers

desired values. Internal Audit needs to demonstrate their effectiveness by using PMSs that are tied to stakeholder expectations (Feizizadeh, 2012:2777). According to Deloitte (2012:1), specific expectations of an internal auditing department differ from one organisation to the next; however, they should include the following elements:

- Stakeholders expect the internal auditing department to objectively observe and report on the financial aspects of the organisation, compliance controls, and operational issues
- An internal auditing department is expected to provide total understanding of the effectiveness of risk management and control assurance
- Stakeholders expect an internal auditing department to provide assurance on the effectiveness of the controls in the organisation
- Stakeholders expect an internal auditing department to be the facilitator for effective modification in processes and controls
- An internal auditing department is expected to add value and assist the board of directors, auditing committee, and executive management with assessing effectiveness and providing assurance on controls, risk management, and corporate governance
- An internal auditing department should manage their activities appropriately and communicate their audit perspectives with independent auditors
- Internal Audit is expected to be a training ground for future managers

Literature is limited on stakeholders' expectations of what an internal auditing department's PMSs should assess. The survey fairly indicates what CAEs/internal auditing managers perceive stakeholders' expectations are of Internal Audit's PMSs, as stated in **Section C** of Chapter Five.

Section D: Risk measurement in internal auditing departments

The investigative question in this section seeks to determine the extent to which PMSs evaluate the risk-based focus of Internal Audit. The findings obtained from the survey conducted in Windhoek reveal that most of the respondents' PMSs evaluate the risk focus of the internal auditing department either extensively, very often, or moderately (refer to Table 5.8).

The fact that 60% of the respondents' PMSs very often and extensively evaluate the risks that their department is exposed to indicates that internal auditing management is willing to ensure that all identified risks are effectively managed. However, a few internal auditing departments in Windhoek do not have risk management processes in place to mitigate possible identified risks. This results from inadequate management of the department and lack of proper resources and support from the auditing committee in establishing risk-based processes. Internal auditing departments find it difficult to implement PMSs or methods that focus on evaluating the risks they face.

The response rate in Cape Town was extremely low and the findings are inadequate, thus making it impossible to determine the actual reality on how PMSs evaluate the risk focus of internal auditing departments. Due to this, the researcher could not make an informed judgment. Nevertheless, PMSs do assess the risk-based focus of internal auditing departments (refer to Table 5.8).

Literature on risk management and internal auditing departments focuses on the fact that Internal Audit must evaluate effectiveness and contribute to the improvement of the organisation's risk management processes (Pickett, 2010:221). Pickett (2010:221) further states that internal auditors should be alert of significant risks that might affect objectives, operations, and resources of organisations. The main priority of CAEs and stakeholders is to improve the risk assessment process of the organisation. To accomplish an effective risk management and monitoring process, the internal auditing department should identify significant business risks (Ernst &Young, 2012:16).

Section E: Internal Control measurement of internal auditing departments

This section seeks to determine the extent to which Internal Audit's PMSs evaluate the control focus of the internal auditing department. The aim is to determine whether Internal Audit evaluates effectiveness and adequacy of

internal controls in their department and promotes continuous improvement of internal controls.

According to the findings from Windhoek, most (77.30%) internal auditing departments' PMSs do assess effectiveness of control in their department, either very often or moderately. About 4.50% of PMSs in the internal auditing department do not measure effectiveness of controls in their department (refer to Table 5.9). In Cape Town, 20.0% of the ten respondents' PMSs do not measure the control-based focus of internal auditing departments. Only 10.0% of the ten respondents' PMSs seldom measure effectiveness of controls. PMSs that do not measure effectiveness of controls in a department or the organisation as a whole are inadequate and increase the probability of exposing the internal auditing department to significant risk. It is the responsibility of the CAE to ensure that effective measures that detect the real performance of Internal Audit are in place. The CAE must establish and maintain a quality assurance and improvement programme that covers all aspects of internal auditing (Pickett, 2010:4).

The literature review indicates that the internal auditing department should evaluate the effectiveness and efficiency of the organisation's controls and promote continuous improvement (Solita & Fajardo, 2008:326). This evaluation is also extended to reliability and integrity of information, effectiveness and efficiency of operations, safeguarding of assets, and compliance (Vallabhaneni, 2013a:24). Effectiveness of the internal auditing department can be described but it is difficult to measure, as effectiveness is determined by the perception of the auditees (Barrett, 1986, cited by Fadzil et al., 2005:845). Literature on how internal auditing departments should evaluate controls in their department is minimal.

Section F: Governance measurement in internal auditing departments

The investigative question for this section seeks to determine the extent to which PMSs evaluate the governance-based focus of internal auditing departments. The aim is to confirm whether internal auditing departments comply with ISPPA, Code of Ethics, and King III Report in their operations, and whether PMSs assess governance of internal auditing departments.

The findings from the survey in Windhoek indicate that the majority of respondents' PMSs do evaluate the governance of internal auditing departments (59.1% very often and 22.7% moderately). More than half of the respondents' PMSs evaluate the governance of internal auditing departments, which would result in effective performance of Internal Audit and proper management of audit activities. A few of the internal auditing departments' PMSs in Cape Town very often evaluate governance. However, only 22.2% of the internal auditing department's PMSs moderately, and 22.2% extensively evaluate the governance-based focus (refer to Table 5.10). According to the findings obtained from the survey, internal auditing departments reasonably assess governance. However, they are faced with various challenges as there is no legislation governing internal auditing departments based in private sectors and that are non-members of IIA—apart from ISPPA and the King reports—that is compulsory to independent auditors. Public and state-owned companies are governed by the Internal Audit Framework of the National Treasury, the Public Finance Management Act (Act No. 1 of 1999, as amended by Act 29 of 1999 (PFMA) and the Municipal Finance Management Act 56 of 2003 (MFMA)). This situation has made things complicated and problematic for CAEs to develop performance measures/KPIs that assess governance in their departments.

Literature on governance and internal auditing focuses on how internal auditors should assess the governance of the organisation. The primary focus of an internal auditing department regarding corporate governance is to assist the board of directors so that they perform their responsibilities effectively. The internal auditing department is an integral part of the corporate governance regime in most public companies and a larger number of private companies (Naidoo, 2002:114). It is perceived from international guidelines that an effective relationship between corporate governance and internal auditing results into improved performance of the organisation (Karagiorgos et al., 2010:18). The contribution of internal auditing to corporate governance is illustrated through establishing a relationship between Internal Audit and key elements of corporate governance (Karagiorgos et al., 2010:18).

6.1.1 Period of internal auditing department performance evaluations

The findings obtained from the survey performed in Windhoek reveal that 52% of respondents evaluate the performance of internal auditors twice a year. In Cape Town, 22.2% of the eleven respondents also assess the performance of internal auditors twice a year. Respondents believe that when a weakness or an error has been detected during the first assessment, there is sufficient time for performance improvement before the second assessment is conducted. The findings also show that 28% of the respondents in Windhoek and 44.4% of the respondents in Cape Town evaluate the performance of internal auditors on a quarterly base (refer to Table 5.11). These respondents believe that the more frequently performance is evaluated, the better the chances for performance improvement because when an issue arises during the assessment, it is addressed immediately to prevent delays and avoid the same issue to be dealt with again in the next assessment.

6.1.2 Training for internal auditors

All the respondents specified that internal auditors do attend training to enhance their audit knowledge. Training increases internal auditors' ability to perform effectively, which results in improving the department's performance. The respondents specified that some training are compulsory for internal auditors to attend, while and individuals may select to attend some types of training according to their areas of weakness.

According to the surveys conducted both in Windhoek and in Cape Town, the most attended types of training by internal auditors are the risk-based auditing training, effective writing for auditors, introduction to IT audit, and financial auditing for internal auditors (refer to Table 5.12 and Table 5.13). These types of training focus on significant aspects to be performed by internal auditing departments. A well-written audit report enables effective communication with Internal Audit clients and immediate responses to recommendations. The advancement of technology increases rapidly, therefore auditors must enhance their knowledge on how to perform IT audits. Risk-based audits effectively identify the risks an organisation is exposed to and thus can be dealt with as soon as possible.

Internal auditors also attend training such as internal auditing fraud, performing an effective quality assessment, and statistical sampling. Respondents further indicated other types training internal auditors attend such as elements of internal auditing, product knowledge, risk management training, time management, and communication of analytical skills training.

6.1.3 External review of internal auditing departments

Fifty percent (50%) of internal auditing departments in Windhoek are not externally reviewed, although it is a requirement of the ISPPIA (refer to Table 5.14). In Cape Town, 18.2% of the internal auditing departments have never been reviewed externally; however, 9.1% of the respondents were under review at the time the survey was conducted. The respondents indicated that this was due to the lack of proper management in the department and support from the auditing committee. Respondents also reasoned that this was due to insufficient resources owned by the department. Respondents further indicated that some of the internal audit department's stakeholders do not understand the purpose of an internal auditing department in the organisation, which makes it extremely complicated for Internal Audit to meet the requirements from the ISPPIA.

6.1.4 Relationship of internal auditing departments and stakeholders

Although the survey in general specified that internal audit departments have a good relationship with the auditing committee and board of directors, the following was discovered:

- The auditing committee does not support Internal Audit in executing their various audit activities effectively and efficiently
- Independence of in-house internal auditing departments is at high risk because the CAE reports functionally and administratively to the auditees (i.e. management) and not to the auditing committee and the board. This leads to impairment of internal auditors' integrity and objectivity, resulting from an unstable auditing committee that lacks knowledge and understanding of the purpose of the internal auditing function in an organisation

6.2 Summary

The findings obtained from analysing literature and the survey data are summarised as follows:

- The Balanced Scorecard is the most known and frequently used PMS for effective performance measurement of internal auditing departments both in Windhoek and in Cape Town
- The findings also present that stakeholders expect the PMSs of internal auditing department to evaluate all aspects of risk the internal auditing department is exposed to. Stakeholders expect PMSs to measure the effectiveness and efficiency of Internal Audit's performance
- Stakeholders further expect that PMSs assess governance, risk management, and internal control processes of internal auditing departments
- Stakeholders also expect PMSs to be robust enough to measure the real performance of the internal auditing department and not just a routine activity that is done as part of an annual process. The PMSs should also be able to identify areas for improvement
- Inadequate PMSs results from poor management of the department and lack of proper resources (i.e. skilled internal auditing labour, lack of finance to implement the correct IT systems, and the development and implementation of PMSs). Lack of support from the auditing committee in establishing risk-based processes also hampers the quality of the work internal auditing departments deliver
- The findings also reveal that some internal auditing departments' PMSs do not measure effectiveness of internal controls in their departments. This increases the probability of exposing internal auditing departments to significant risk
- There is no legislation or law act that governs internal auditing departments based in private sectors that are non-members of IIA—apart from ISPPIA and the King reports—that is compulsory to independent auditors
- Some CAEs are of the opinion that frequent performance assessment allows for the detection of weaknesses and threats at an earlier stage,

and that this prevents delays in addressing issues identified and avoids unnecessary poor performance. Hence, these CAEs assess performance twice or on a quarterly base

The findings provided form the basis for the recommendations and conclusions drawn in the next chapter.

CHAPTER SEVEN: CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

This chapter reviews the following elements of the study:

- The research problem
- The investigative questions
- The research objectives
- The findings obtained from literature and the survey

This chapter also provides recommendations on performance measures that internal auditing departments may use to evaluate performance successfully. As in most research studies, there were limitations to this study that are discussed. Suggestions for further research on performance measures and PMSs for internal auditing are provided, and conclusions are drawn based on the entire study.

7.2 The research problem revisited

A research problem is defined as narrowing down the general interest in a research theme to focus on a particular research problem that is small enough to be investigated (Welman et al., 2005:13). PMSs that are result-oriented and goal-focused are in great demand in internal auditing departments to introduce changes in how performance is assessed, as performance measures are the main strategy development tool (Vallabhaneni, 2005:207). A good PMS should be cost effective, robust, balanced (assessing both financial and non-financial aspects of internal auditing), and appropriate (Bouckaert & Halligan, 2008:141). An effective PMS in the internal auditing department is a necessity, not a 'want', as stakeholders depend on the advice and assurance provided by Internal Audit. The CAE should ensure that proper PMSs are in place to assess and improve performance.

The research problem in the context of this study is as follows:

Performance management systems currently used by internal auditing functions do not measure key internal auditing performance.

It is important for internal auditing departments to possess excellent performance measures incorporated within their PMSs, which appropriately cover the entire scope of internal auditing. Effective performance of the internal auditing department increases stakeholders' confidence in the services offered to them by Internal Audit. As a result, the demand for internal auditing departments in organisations increases and the awareness of internal auditing is boosted.

7.3 Investigative questions revisited

The following investigative questions were posed and results gathered from the survey and literature outlined to respond to these questions.

Investigative question 1: How aware is the internal auditing management of the different types of PMSs used to evaluate the performance of the internal auditing function?

- Internal auditing management, both in Windhoek and Cape Town, has very limited knowledge/awareness of the various PMSs used to measure the performance of internal auditing departments. The majority is only aware of three or less PMSs that can be implemented
- The literature reviewed by the researcher does not reveal the awareness aspects of internal auditing management regarding PMSs used to assess performance in their departments

Investigative question 2: Which PMS is used the most to evaluate the performance of internal auditing functions?

The literature and survey revealed that the Balanced Scorecard is the optimal PMS used for performance measurement of internal auditing departments. In Windhoek, 75% of the respondents use the Balanced Scorecard to measure the performance of internal auditing departments. In Cape Town, 91% of the respondents use the Balanced Scorecard to measure performance. This corresponds with Rupšys (2008:7) who reveals that the most used PMS to effectively measure the performance of internal auditing departments is the Balanced Scorecard, as it is an optimal solution for internal auditors.

Investigative question 3: What are the views of CAEs/managers on what they perceive the stakeholders would expect of the PMS of internal auditing functions?

- Stakeholders expect PMSs to evaluate customers' satisfaction and performance improvement of internal auditing. Customers' satisfaction is attained when an internal auditing department aligns their strategic objectives in accordance with stakeholders' expectations
- PMSs should effectively measure the performance of internal auditors for remuneration purposes and personnel development
- Stakeholders expect PMSs to measure competencies of the internal audit division and ensure that they adhere to the Code of Ethics, ISPPIA, and the risk-based approach of internal auditing
- PMSs should also evaluate governance, risk management, and internal control processes of internal auditing departments

Literature does not specify stakeholders' expectations of Internal Audit's PMSs, but instead states what is expected of an internal auditing department:

- Stakeholders expect that an internal auditing department objectively observes and reports on the financial aspects of the organisation, compliance controls, and operational issues
- The internal auditing department is expected to provide a total understanding of the effectiveness of risk management and assurance control
- Stakeholders expect an internal auditing department to provide assistance on the effectiveness of the organisation

Investigative question 4: Do PMSs measure the risk focus of internal auditing?

- PMSs used by organisations in both Windhoek and Cape Town do indeed measure the risk-based focus of internal auditing departments. This indicates that appropriate performance measures are in place to evaluate any possible risk-related activities. This further indicates that internal auditing departments are risk-based focused when executing their audit activities and measuring the risk

- Literature relating to risk management and internal auditing departments focuses on the fact that Internal Audit must evaluate the effectiveness and contribute to the improvement of the organisation's risk management processes (Pickett, 2010:221). Pickett (2010:221) further states that internal auditors should be watchful of risks that might affect objectives, operations, and resources of the organisation. The main priority of CAEs and stakeholders is to improve the risk assessment process. To accomplish an effective risk management and monitoring process, an internal auditing department should identify significant business risks (Ernst & Young, 2012:16)

Investigative question 5: Do PMSs measure the control focus of internal auditing?

- In Windhoek, more than 90%, and in Cape Town, 70% of the respondents' PMSs evaluate the internal control-based focus of internal auditing departments moderately to extensively. This indicates that internal auditing management ensures effective controls are in place to mitigate current and future risks to a level of tolerance. Assessment of controls in the internal auditing department can promote continuous improvement of controls
- The internal auditing department evaluates the effectiveness and efficiency of controls and promotes continuous improvement (Solita & Fajardo, 2008:326). The internal auditing department assesses the adequacy and effectiveness of controls over governance, operations, and information systems (Vallabhaneni, 2013b:24). This evaluation is also extended to reliability and integrity of information; effectiveness and efficiency of operations; safeguarding of assets; and compliance (Vallabhaneni, 2013b:24). Measuring the effectiveness of internal auditing departments can however be described as complicated since their clients have the final perception regarding Internal Audit's effectiveness (Barrett, 1986, cited by Fadzil et al., 2005:845).

Investigative question 6: Do PMSs measure the governance focus of internal auditing?

- Two thirds of the respondents' PMSs in Windhoek and Cape Town evaluate the governance of internal auditing departments
- Literature relating to governance and internal auditing focuses on how internal auditors should measure governance of the organisation. The primary focus of an internal auditing department regarding corporate governance is to assist the board of directors and the auditing committee to perform their responsibilities effectively. The internal auditing department is an integral part of the corporate governance regime in most public companies and a larger number of private companies (Naidoo, 2002:114)

7.4 Key research objectives revisited

The objectives stated in Chapter One are achieved as follows:

Table 7.1: Research objectives

Research Objectives	Achievement of objective
<ul style="list-style-type: none"> • To determine internal auditing management's awareness of various PMSs 	<ul style="list-style-type: none"> • Internal auditing management have limited knowledge of PMSs used to measure the performance of the internal auditing department
<ul style="list-style-type: none"> • To identify the most used PMS 	<ul style="list-style-type: none"> • It was identified that the most used PMS to measure the performance of an internal auditing department is the Balanced Scorecard
<ul style="list-style-type: none"> • To identify the desired results that stakeholders expect of Internal Audit's PMSs 	<ul style="list-style-type: none"> • Stakeholders expect the PMS to be robust enough to measure the real performance of the internal auditing department and not just a routine activity that is done as part of an annual process. The PMS should also be able to identify areas for improvement • Stakeholders expect the PMS to evaluate how Internal Audit's reports are written and determine compliance with the ISPPA • Stakeholders expect the PMS to cover all aspects of risk that internal auditing department is exposed to, as well as providing assurance to their clients • To ensure that the internal auditing department is managed by officials with the necessary competence and experience, who will add value and produce high quality work on a continuous basis?

Research Objectives	Achievement of objective
	<ul style="list-style-type: none"> • The PMSs should measure the competency of the internal auditing department and ensure that it adheres to the Code of Ethics, ISPPIA, and the risk-based approach of internal auditing • To ensure that Internal Audit provides quality service to stakeholders and provides reasonable assurance based on relevant and current risks the organisation is facing • Stakeholders expect PMSs to evaluate customers' satisfaction and performance improvement • The stakeholders also expect PMSs to measure the effectiveness and efficiency of Internal Audit's performance • PMSs should evaluate governance, risk management, and internal control processes in the internal auditing department • PMSs should be adequate to effectively measure the performance of internal auditors for work remuneration and development
<ul style="list-style-type: none"> • To determine whether PMSs evaluate the risk management processes of internal auditing functions • To determine whether the relevant risk information is captured and communicated in a timely manner 	<ul style="list-style-type: none"> • Based on the findings, it is established that PMSs evaluate the risk management processes in almost all internal auditing departments
<ul style="list-style-type: none"> • To determine whether PMSs evaluate the effectiveness and adequacy of internal controls in internal auditing functions • To determine the promotion of continuous improvement in internal controls 	<ul style="list-style-type: none"> • Based on the findings, it is established that PMSs evaluate the effectiveness and efficiency of internal controls in internal auditing departments very moderately to extensively. The fact that the effectiveness of controls is measured, continuous improvement of the internal auditing department becomes inevitable
<ul style="list-style-type: none"> • To determine whether PMSs evaluate the governance of internal auditing functions • To determine whether the internal auditing functions comply with ISPPIA 	<ul style="list-style-type: none"> • The survey has established that, in both cities, two thirds of the respondents' PMSs evaluate the governance-based focus of internal auditing departments, hence compliances to ISPPIA becomes inevitable

7.5 Recommendations

The analyses of the research findings (from the literature and the empirical study) led to the following recommendations:

- The internal auditing management should attend forums and workshops to enhance their knowledge of the PMSs used in internal auditing departments
- Since this study has revealed that the BSC is perceived to be the most suitable PMS to measure performance in internal auditing departments, the Balanced Scorecard is therefore recommended as an effective tool for those internal auditing departments not currently utilising PMSs or for those that seek to change their performance measurement system
- It is further recommended that the CAE take into consideration stakeholders' expectations of Internal Audit's PMS (as stated above in par 5.2), as it assists the CAE to identify significant areas Internal Audit should assess. These expectations also direct the CAE to implement performance measures that cover all significant aspects of Internal Audit as required by ISPPIA
- PWC (2008:9) lists examples of frequently performed risk assessments methods in organisations. The researcher recommends the following risk assessment methods to be used by internal auditing management to evaluate risk in their department:
 - **Strategic risk assessment:** The CAE should evaluate risks relating to the internal auditing department's mission and strategic objectives
 - **Operational risk assessment:** The CAE should assess the risk of loss in the financial performance of the internal auditing department that results from inadequate internal processes, people, systems, and external factors
 - **Compliance risk assessment:** The CAE should assess risks that are relative to the internal auditing department's compliance obligations to policies and procedures, laws and regulations, Code of Ethics and professional conduct, standards and contracts

7.6 Limitations

The major limiting factor in this study was identified as the low response rate in Cape Town. Although several follow-ups were done, respondents have still not replied. The number of questionnaires distributed in Cape Town, South Africa is 105, while only eleven (11) completed questionnaires were returned. Respondents gave numerous reasons as to why they are not able to complete the soft or hard copy of the questionnaire delivered to them. The following reasons were given:

- Confidentiality (the company's information is strictly confidential and cannot be shared)
- Non-availability of staff (by CAE and internal auditing managers)
- Losing the questionnaire, even when provided several times
- Approval is needed from directors to complete the questionnaires, but the directors were never available to authorise

The researcher also experienced some challenges with travelling and telephone costs to continuously follow-up with respondents due to a lack of funds.

7.7 Contribution of the research

Internal auditing is defined as an independent, objective assurance and consulting activity that is designed to add value and improve the organisation's operations (Pickett, 2011:132). Surely internal auditing can achieve this, provided that their performance is effective. Internal Audit can only determine if their performance is effective when proper performance measures and systems are in place. This study contributes to the effective performance of the internal auditing functions by identifying the perceived most relevant and appropriate PMS. PMSs contribute to increased customer satisfaction and lead the internal auditing function to meet and exceed stakeholders' expectations and deliver quality services. Effective performance measures do not only add value, but also increase awareness of internal auditing functions in organisations.

7.8 Areas for future research

The researcher suggests the following areas for future research:

- The study focused only on Cape Town and Windhoek; it therefore provided only a partial view of the use of PMSs in internal auditing departments. Further studies adopting an extensive quantitative method to ensure generalisability of results in other geographical areas, are recommended
- The effective performance of an internal auditing department is vital, to not only the auditors themselves, but also to their clients (stakeholders) who base their decisions on the advice and assurance obtained from Internal Audit. Therefore, exploring new and more effective performance measures that evaluate risk, internal controls, and governance of internal auditing departments will be a benefit to any organisation

7.9 Reflection on the study

The Balanced Scorecard as per the findings of the study is perceived as the most relevant and appropriate PMS to be used by internal auditing departments to fulfil stakeholders' expectations. The Balanced Scorecard as a performance measure focuses on the financial perspective but also integrates the additional perspectives—customer, internal business processes, and learning and growth—that are proposed as the drivers for creating long-term value.

The researcher believes that it is important for PMSs to be reliable as the internal auditing departments' performance decisions are based on the results obtained. The information obtained should be accurate and consistent over time. PMSs provide significant evidence-based information that determines how the resources of internal auditing departments are utilised. The usage of PMSs in internal auditing departments is essential, not only to the auditors but also to the entire set up of organisations.

Due to the low response rate in Cape Town, South Africa, the statistical analysis was compromised and therefore cannot be generalised to the population.

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APPENDIX 1: QUESTIONNAIRE

TITLE

The usage of performance measurement systems by selected internal auditing departments in Windhoek, Namibia and Cape Town, South Africa

By

SUVEREE HIJARUNGURU

QUESTIONNAIRE

for a

MAGISTER TECHNOLOGIAE: INTERNAL AUDITING

at the

CAPE PENINSULA UNIVERSITY OF TECHNOLOGY

in the

FACULTY OF BUSINESS AND MANEGEMENT SCIENCES

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How to complete this survey
Please tick the applicable answer in each question. If you select other options, please specify in the space below.

Research title
The usage of performance measurement systems by selected internal auditing departments in Windhoek, Namibia and Cape Town, South Africa.

The primary objectives of the survey
This survey seeks to determine which performance measurement system is perceived to be the most appropriate and relevant to effectively evaluate the performance of internal auditing departments.

Confidentiality
The information obtained will be strictly confidential and will not be disclosed to any other persons except the researcher.

QUESTIONNAIRE

This questionnaire is designed to determine which performance measurement system is perceived to be the most appropriate and relevant to effectively evaluate the performance of internal auditing departments.

		(✓) Please tick the appropriate box
1	<p>Does the internal auditing department have a performance measurement system in place to evaluate the performance of internal auditors?</p> <p>If no, please state why and then proceed to question 10. If yes, please carry on with question 2.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <hr/> <hr/>
2	<p>Which performance measurement system do you use?</p>	<p><input type="checkbox"/> Balanced Scorecard System</p> <p><input type="checkbox"/> Total Quality Management (TQM)</p> <p><input type="checkbox"/> Value-Based Management (VBM)</p> <p><input type="checkbox"/> SWOT Analysis</p> <p><input type="checkbox"/> The Performance Measurement Matrix</p> <p><input type="checkbox"/> The Performance Prism</p> <p><input type="checkbox"/> The SMART Performance Pyramid</p> <p><input type="checkbox"/> Other (Specify)</p> <hr/>
3	<p>Why do you use this performance measurement system? You may select multiple responses.</p>	<p><input type="checkbox"/> It is the optimal performance measurement system currently</p> <p><input type="checkbox"/> It aligns Internal Audit's objectives and activities with that of the organisation as a whole</p> <p><input type="checkbox"/> It aims to exceed stakeholder's expectations by using a process of continuous improvement</p> <p><input type="checkbox"/> It targets to achieve complete customer satisfaction</p> <p><input type="checkbox"/> It concentrates on the stakeholder's contribution, strategies in place, processes and the capabilities of staff and resources</p> <p><input type="checkbox"/> Other (Specify)</p> <hr/>

4	Do you think the performance measurement system that is currently in use improves the performance of the internal auditing department?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unsure
	If your answer to question 4 is Yes, please proceed to question 5, else proceed to question 6.	
5	What are the changes or improvements brought about by the use of this performance measurement system? You may select multiple responses.	<input type="checkbox"/> Improvement in effectiveness and efficiency of Internal Audit's operations <input type="checkbox"/> Improvements of customer's satisfaction <input type="checkbox"/> Improvement in higher quality service supply to clients <input type="checkbox"/> Improved communication in the internal auditing department <input type="checkbox"/> Improvement in the risk assessment process <input type="checkbox"/> Educational level of internal auditors recruited has improved <input type="checkbox"/> Improvement in audit recommendation implementation <input type="checkbox"/> Other (Specify)
6	How often is the performance measurement system in use reviewed?	<input type="checkbox"/> Every three months <input type="checkbox"/> Every six months <input type="checkbox"/> Once a year <input type="checkbox"/> After two years <input type="checkbox"/> Within five years <input type="checkbox"/> Never <input type="checkbox"/> Other (Specify)
7	Does this performance measurement system evaluate the risk -based focus of the internal auditing department?	<input type="checkbox"/> 1. None <input type="checkbox"/> 2. Rarely/Seldom <input type="checkbox"/> 3. Moderate <input type="checkbox"/> 4. Very Often <input type="checkbox"/> 5. Extensively

8	Does this performance measurement system evaluate the control-based focus of the internal auditing function?	<input type="checkbox"/> 1. None <input type="checkbox"/> 2. Rarely/Seldom <input type="checkbox"/> 3. Moderate <input type="checkbox"/> 4. Very Often <input type="checkbox"/> 5. Extensively
9	Does this performance measurement system evaluate the governance-based focus of the internal auditing function?	<input type="checkbox"/> 1. None/Never <input type="checkbox"/> 2. Rarely/Seldom <input type="checkbox"/> 3. Moderate <input type="checkbox"/> 4. Very Often <input type="checkbox"/> 5. Extensively
10	How often does the Chief Audit Executive evaluate the performance of the internal auditing function?	<input type="checkbox"/> Monthly <input type="checkbox"/> Quarterly <input type="checkbox"/> Twice per year <input type="checkbox"/> Once a year <input type="checkbox"/> Other (Specify) <hr/>
11	Do internal auditors attend training or workshops to increase their internal auditing knowledge?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unsure
12	If yes to question 11, what type of training? You may select multiple responses.	<input type="checkbox"/> Effective writing for auditors <input type="checkbox"/> Financial auditing for internal auditors <input type="checkbox"/> Risk-based auditing: a value add proposition <input type="checkbox"/> Internal auditor fraud <input type="checkbox"/> Statistical sampling for internal auditors <input type="checkbox"/> Performing an effective quality assessment <input type="checkbox"/> Introduction to IT auditing <input type="checkbox"/> Other (Specify) <hr/>
13	When last was the internal auditing function externally reviewed?	<input type="checkbox"/> 6 Months ago <input type="checkbox"/> A year ago <input type="checkbox"/> 2 years ago <input type="checkbox"/> 3 years ago <input type="checkbox"/> 5 years ago <input type="checkbox"/> Never <input type="checkbox"/> Other (Specify) <hr/>

14	How many performance measurement systems used to measure the performance of the internal auditing department do you know?	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 and more
15	In your view, what are the expectations of Internal Audit's stakeholders (auditing committee and senior management) regarding the performance measurement system used to evaluate the internal auditing department?	
16	In our internal auditing department, we sometime fail to understand significant business risk on time and as a result leaving them off the audit plan.	<input type="checkbox"/> Always <input type="checkbox"/> Sometimes <input type="checkbox"/> Seldom <input type="checkbox"/> Never
17	In our internal auditing department, we sometime perform activities that do not really matter at all.	<input type="checkbox"/> Always <input type="checkbox"/> Sometimes <input type="checkbox"/> Seldom <input type="checkbox"/> Never
18	Our internal auditing department has an excellent relationship with the auditing committee.	<input type="checkbox"/> Always <input type="checkbox"/> Sometimes <input type="checkbox"/> Seldom <input type="checkbox"/> Never
19	Our internal auditing department has an excellent relationship with the executive management.	<input type="checkbox"/> Always <input type="checkbox"/> Sometimes <input type="checkbox"/> Seldom <input type="checkbox"/> Never
20	Our internal auditing department has sufficient resources and this allows us to perform our work effectively.	<input type="checkbox"/> Always <input type="checkbox"/> Sometimes <input type="checkbox"/> Seldom <input type="checkbox"/> Never
21	On occasional bases, we are unable to effect change, as the recommendations we make are not being implemented.	<input type="checkbox"/> Always <input type="checkbox"/> Sometimes <input type="checkbox"/> Seldom <input type="checkbox"/> Never
	If your answer to question 1 was NO, thank you very much for your time in participating in this survey. If your answer was YES, please proceed to question 22.	

22	The performance measurement system in place evaluates whether the internal auditing department complies with the International Standards for the Professional Practice of Internal Auditing (ISPPA).	<input type="checkbox"/> Always <input type="checkbox"/> Sometimes <input type="checkbox"/> Seldom <input type="checkbox"/> Never
23	The performance measurement system in place evaluates whether the internal auditing department conforms to the IIA's Code of Ethics.	<input type="checkbox"/> Always <input type="checkbox"/> Sometimes <input type="checkbox"/> Seldom <input type="checkbox"/> Never
24	The performance measurement system in place evaluates whether the internal auditing department complies with laws and regulations.	<input type="checkbox"/> Always <input type="checkbox"/> Sometimes <input type="checkbox"/> Seldom <input type="checkbox"/> Never
25	The performance measurement system in place evaluates whether the internal auditing department complies with the company's policies, procedures and contracts.	<input type="checkbox"/> Always <input type="checkbox"/> Sometimes <input type="checkbox"/> Seldom <input type="checkbox"/> Never
26	The performance measurement system in place evaluates the adequacy and effectiveness of controls in response to risks within the internal auditing department's operations.	<input type="checkbox"/> Always <input type="checkbox"/> Sometimes <input type="checkbox"/> Seldom <input type="checkbox"/> Never

APPENDIX 2: CONSENT LETTER

PART A

Keizersgracht and Tennant Street
P.O. Box 652
Zonnebloem, Cape Town
Tel: (+27) 21 460 3911

Dear: Chief Audit Executive/Internal Audit Manager

As a prerequisite to obtain a Master's degree at the Cape Peninsula University of Technology, I am currently conducting research under the supervision of Dr A van den Berg on "*The usage of performance measurement systems by selected internal auditing departments in Windhoek, Namibia and Cape Town, South Africa*".

This study contributes to improving performance measurement of internal auditing departments, which therefore results in effective internal auditing performance evaluation, increased quality assurance, and continuous improvements.

In this survey, organisations that hold an internal auditing department in Windhoek, Namibia and Cape Town, South Africa will be approach. The method for collecting data in this study will be questionnaires that will be distributed to organisations that have an internal auditing department. Therefore, you are requested to complete a questionnaire with questions about the performance measurement systems used in the internal auditing department. Possible answers are provided to most of the questions; the respondent should select the most appropriate answer to complete the questionnaire. In addition, a few questions have been added to allow the respondents to provide more information. These questions have no prepared answers provided the respondent is required to give his/her perception, how the respondent feels about the subject, attitudes and understanding of the subject.

Once you have read the Consent Form and indicated that you have understood it, you will be provided with a questionnaire to complete. It is anticipated that the questionnaire will not take longer than 30 minutes to complete.

Confidentiality: All respondents are assured of confidentiality, anonymity and safety from any harm or loss whatsoever. Participation is voluntary. Data collected will be used for research purposes only. All information you provide will be considered confidential unless otherwise agreed to, and the data collected will be kept safely. Your name and the name of your business will not appear in any thesis or publication resulting from this study.

Right to withdraw: You can answer only those questions that you are comfortable with. The information that is shared will be held in strict confidence and discussed

only with the research team. You may withdraw from the research project for any reason, at any time, without penalty of any sort.

If you have any questions concerning the research project, please feel free to ask at any point. You are also free to contact the researchers using the contact details below for further clarification:

Student researcher: Suveree Hjarunguru
Email: suvereehjarunguru@ymail.com
Cell number: 00 264 812 239 321

Supervisor: Dr A van den Berg
Email: vandenberga@cput.ac.za
Telephone: 021 460 3873

Please find attached is a consent form whereby you agree or disagree to participate in this study. Thank you for your willingness to participate in this study.

Yours faithfully

Suveree Hjarunguru, M-Tech Candidate

CONSENT LETTER

PART B

I have read and understood the description provided on the study being conducted by Suveree Hjarunguru, a Master's student at the Cape Peninsula University of Technology in the Department of Internal Auditing, under the supervision Dr A van den Berg. I have had an opportunity to ask questions and, if I have done so, they have been answered. I consent to participate in the research project, understanding that I may withdraw my consent at any time by advising the researcher.

I am aware that extracts from the survey may be included in the thesis and/or publications to come from the research.

With full knowledge of all abovementioned, I provide my position below whether I agree or disagree to participate in this study.

Agree Disagree

(please indicate by ticking appropriately)

Business Name :.....(Please print)

Contact Number:

Participant Name :.....(Please print)

Participant Signature:

Witness Name :.....(Please print)

Witness Signature:

Date: