



Cape Peninsula  
University of Technology

**Role of Internal Auditing Function in Performance of State-Owned  
Enterprises (SOEs) in Zimbabwe: A Corporate Governance  
Framework**

**By**

**HENRY MUKONO**

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**Supervisor: Professor Job Dubihlela**

**Cape Town**

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## ABSTRACT

Corporate governance has been seen as an indispensable factor in making sure that misappropriation in state-owned enterprises (SOEs) is deterred. This study examined the role of internal auditing in boosting good corporate governance practices in the SOEs sector in Zimbabwe focusing on performance and to, possibly, provide guidance on strengthening the role of internal auditing in corporate governance. Currently, there is a lacuna of academic work in the public sector on the role of internal auditing as an integral part of corporate governance. Corporate governance is a topical issue in the private and public sectors due to a plethora of corporate failures and a myriad of challenges. Previous researchers have documented studies on internal audit function (IAF). However, there is a dearth of research conducted in Zimbabwe, in particular, and Sub-Saharan Africa, in general, on the role of IAFs on the performance of SOEs using a corporate governance approach as well as studies premised on the agency, institutional and stakeholder theories. The study of the role of internal auditing as a cornerstone of corporate governance is an unexplored area. This study addresses the knowledge gap by examining the role of internal auditing in the performance of SOEs using a corporate governance approach in a Zimbabwean setting. The study elucidates the role of internal auditing, which is assumed to be inimitable, the hindrances, the consequences of SOEs in emerging economies, particularly in Zimbabwe.

This study used a constructivist/interpretivist paradigm. A qualitative research approach was chosen, using a case study research design, and data was gathered through semi-structured in-depth face-to-face interviews with 20 purposively sampled participants such as senior managers (SMs), senior internal auditors (SIAs), chief audit executives (CAEs), chief executive officers (CEOs), audit committees (ACs) and board of directors (BODs) of SOEs as these are connected with IAFs of five (5) Zimbabwean SOEs and documentary review. Thematic content analysis was used for data analysis. Data was analysed using Atlas.ti software version 8. It is recommended that internal audit stakeholders should take cognisance of these components or dimensions when considering the effectiveness of the roles of the IAFs. The results contribute to the current literature through the inside view about the benefits and current challenges of IAFs in varied set-up of entities. Suggestions to enhance the performance of the IAF include effective involvement of ACs in internal audit activities, the employment of competent internal auditors and determining the impact of internal audit on corporate governance. The findings of the study showed that IAFs are viewed in a positive light and respondents do put trust on internal audit. The study further found that IAFs are informants of the ACs who are vital in areas of internal control, risk management, governance and compliance matters. This is underpinned by the fact that internal auditing is regarded as ethical, competent in its core technical areas and able to provide internal audit reports, which are informative, persuasive and calling for action.

The findings elevated by the IAFs should be considered by the leadership and assurance bringers as well as executing their commendation. The research indicates that the IAFs, as currently structured, does have a role to play within legislative frameworks and professional best practices. However, the literature review indicates that the IAF remains a key component of corporate governance for providing valuable guidance on issues relating to control and risk in SOEs. The study recommended that state-owned enterprises should employ workers with experience in internal auditing in order to boost the performance of corporate governance. The work experience will equip internal auditors with certain soft skills such as team working, communication skills and commercial awareness, which improve corporate governance. Imperative areas were elucidated by the study in order for the policy makers, politicians and oversight bodies to consider IAFs valuable in order for IAFs to be able to rescue SOEs who are critical in the nation. However, they are not treated seriously and with care. The study findings support literature on the contribution of internal audit to the performance of SOEs from an emerging market perspective and is the first of its kind in Zimbabwe. The study finding suggests ways of boosting the development of knowledge for upcoming researchers so that they can research further in emerging economies. Besides, the study presented a framework which was informed by the theoretical framework, empirical results and best practice as documented in the literature. This can serve as a practical and sustainability toolkit for use by SOEs on the role of IAFs.

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## **DEDICATION**

I humbly and respectfully dedicate this thesis to the following persons posthumously: My late grandfather, Mushonga Vadhara Kufakunesu Zivengeramwa Mukono, and my late grandmother, Sarafina Mugandani Mahlahlaza Wazihumbwa Mukono. This thesis is dedicated to you; you have made me what I am today.

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## ACRONYMS

ACCA	Association of Chartered Certified Accountants
AGZ	The Auditor General of Zimbabwe
AMB	Agricultural Marketing Board
CAAZ	Civil Aviation Authority of Zimbabwe
CG	Corporate Governance
CGU	Corporate Governance Unit
CIA	Certified Internal Auditor
CIMA	Chartered Institute of Management Accountant
CPA	Certified Public Accountant
CPD	Continuous Professional Development
CPUT	Cape Peninsula University of Technology
ERM	Enterprise Risk Management
ET	Equity Theory
GDP	Gross Domestic Product
GMB	Grain Marketing Board
H.E.	His Excellency.
IAC	Internal Audit Charter
IAF	Internal Audit Function
ICAEW	Institute of Chartered Accountants of England and Wales.
ICTs	Information and communications Technologies
IFAC	International Federation of Accountants
IFC	The International Finance Corporation
IIA	Institute of Internal Auditors Global
IIAZ	Institute of Internal Auditors of Zimbabwe
IMF	International Monetary Fund
IPPF	International Professional Practices Framework
ISPPA	International Standards for the Professional Practice of Internal Auditing
MICTCS	Ministry of Communication Technology, Postal and Courier services
MMCZ	Minerals Marketing Company of Zimbabwe
MoF	Ministry of Finance

NRZ	National Railways of Zimbabwe
NSSA	National Social Security Authority
OECD	The Organisation for Economic Cooperation and Development
OPC	Office of the President and Cabinet
OPM	Operating Profit Margin
PAAB	Public Accountants and Auditors Board
PAC	Public Accounts Committee
PECG ACT	Public Entities Corporate Governance Act (Chapter 10:31)
PFMA	Public Finance Management Act
POTRAZ	Postal and Telecommunications Regulatory Authority
PSMAS	Premier Services Medical Aid Society
PWC	Price Waterhouse Coopers
ROA	Return on Assets Ratio
ROE	Return on Equity
SAS	Standards on Auditing Standards
SECZ	Securities and Exchange Commission of Zimbabwe
SERA	State Enterprises Restructuring Agency
SOEs	State Owned Enterprises
TCT	Transaction Cost Theory
TFP	The Total Factor Productivity
TIMB	Tobacco Industry Marketing Board
TSP	Transitional Stabilisation Programme
ZACC	Zimbabwe Anti-Corruption Commission
ZBC	Zimbabwe Broadcasting Corporation
ZDI	Zimbabwe Defence Industries
ZESA	Zimbabwe Electricity Supply Authority
ZINARA	Zimbabwe National Road Authority
ZMDC	Zimbabwe Minerals Development Company
ZSE	Zimbabwe Stock Exchange

## CHAPTER ONE

### NATURE AND SCOPE OF THE STUDY

#### 1.1 Introduction and background to the study

Corporate governance (CG) arose out of obscurity and has attracted the attention of governments, professionals, regulators, academics and society in the last two decades. Major corporate failures such as Parmalat, Ahold, Lehman Brothers, World com, Enron, Swissair in the US were due to corporate governance and risk management failure, areas that are critical for the scope of internal auditors (Lenz & Sarens, 2012). Some spill-over effects happened internationally and governments saw a need to assess the performance of the state-owned enterprises (SOEs). Concern on CG has resulted in legislation to regulate SOEs. Many countries advocate for the development of CG codes to promote best corporate practices such as the Sarbanes-Oxley Act, 2002; King 1V of South Africa, 2016; UK Governance Code, 2018; Zimbabwe National CG Code, 2015 and many codes of other countries in Africa like Nigeria, Namibia, Kenya and Malawi.

Business environments are changing for SOEs because of accelerated globalisation and advancements in technology that have resulted in SOEs facing challenges (Crosby, 2014). These developments have put into question the panoptical central role of internal auditors in operationalising CG. Mindra (2017) regarded internal auditors as gatekeepers who normally are aware of the operational upheavals and exposures in most SOEs for disregarding the need to mitigate the risks. Roussy and Brivot (2016) argue that external auditors regard themselves as 'watch dogs' charged with detecting critical internal control weaknesses. In essence, it may not be an overstatement to allege that poor CG is promoted by deliberate circumvention of legitimate processes, and lack of transparency and accountability.

CG is now considered a key element, which among others, improves economic efficiency, growth and stability including encouraging private investments. The protracted demonstration of annual balance sheet weaknesses, allegations of corruption, underhand dealings, flouting of tender procedures, humongous salaries by the highest-ranking persons in the majority of SOEs is worrisome and calls for a stronger antidote because the economy cannot endure prolonging the current state of affairs. Anderson and Svare (2011) conceded the foundations of the profession of internal auditing such as governance, internal control systems and risk management processes. The government of Zimbabwe (GoZ) established SOEs as part of its developmental agenda in the country's Vision 2030 and Transitional Stabilisation Programme (TSP) as a key for fostering sustainable economic development. SOEs are

regarded as powerful agents that serve as an extension of the government's development policy. Unfortunately, however, SOEs have been rocked by a litany of allegations grounded on failure to follow the demands of good CG principles. Some of the allegations include nepotism, fraud, extravagant allowances, wasteful and fruitless expenditures and various forms of collusion.

Audit report of 2013/14 shows that IAFs in most Zimbabwean SOEs were exposed as the reason for CG deficiencies and poor performance. Good CG should be practised, that is, directors should be ceaselessly monitored and to ensure that their interests and those of shareholders are in tandem in order to enhance company performance (Afrifa & Tauringana, 2015). The role of IAF is considered as an indispensable concomitant of SOE growth and performance. However, the weaknesses inherent in the SOE sector, unfortunately, impacts on the IAF's ability to effectively support the SOEs (Van Essen et al., 2013). A key question most people have been asking is: "what are the roles of IAF in SOEs in Zimbabwe, especially considering the ubiquitous nature of their functions?" One wonders whether improvement in IAF roles could be a solution to SOEs failure in Zimbabwe. Conceptualisation of the role of IAFs in the performance of SOEs using a CG framework as well as the three theories applied are central to this study.

The study was underpinned by the following theories, that is, the Agency Theory, Institutional Theory and the Stakeholder Theory giving rise to the role of IAFs and the need for corporate governance (see Chapter Two). In this chapter, first, the problem statement is presented. The rationale and significance of the study is explored next. The aim of the research, research objectives, research questions, review of the literature on SOEs, CG and role of internal auditing and the theoretical framework are highlighted. Subsequently, key concepts and the research design relevant are explored. Thereafter, information on delimitation of the study and ethical considerations identified with the study are addressed. Finally, the structure of the thesis is given.

## **1.2 Problem statement**

Despite a chequered history of poor performance, SOEs are central to the economic advancement agenda in many Sub-Saharan African countries (Aproskie, Hendriksz & Kolobe, 2014:2; Ngonini,2014:406). Reports are decidedly depressing insofar as they are an indictment of deficient CG in many SOEs in an expose that further gives impetus to the concomitant action being taken by the Government and the Corporate Governance Unit (CGU) in Zimbabwe. In an attempt to rectify corporate governance irregularities in SOEs, the GoZ, enacted the Public Entities Corporate Governance Act [Chapter 10:31] to regulate the activities of SOEs. Whether the CG regulations and standards are being followed still remains a question.

SOEs are the yardstick of the economy. This is evident in the creation of jobs and wealth. In Zimbabwe, these entities are facing perennial and operational inefficiencies,

which can be attributed to or maybe be caused by the economic sanctions and the liquidity crunch. Furthermore, a close scrutiny shows that the poor performance of most SOEs in Zimbabwe results from indiscipline and poor CG ethos by management. This raises the issue of challenges faced by state-owned enterprises despite having internal audit functions (IAFs). Pillay's study (2016), states that corruption occurs where there is systematic and organisational motivation for an individual to be involved in corruption. In order to improve financial accountability, strong internal control systems should be executed by management in order to check corruption in SOEs. Buttressing this point, Adagye (2015) attests that little is known of the role of IAFs in SOEs. The study was therefore envisaged to take a further step to come up with means of enhancing roles of the IAFs, policy and advocacy in emerging economies contexts. This study endeavoured to address the above knowledge gaps and clarify some of the scientific contestations related to the role of IAFs in performance of SOEs. The study was aimed at elucidating new information for planning to policy makers, internal auditing professionals, the Institute of internal auditors of Zimbabwe (IIAZ), SOEs management and the Auditor general.

The corporate world has been disturbed and alarmed by the countless frauds and scandals in various entities around the world such as the Enron, Worldcom, Adelphia and Tyco amongst others. The economic meltdown of 2007-2008 resulted in many entities including SOEs failing to identify, assess and manage the risks that emerged and destroyed stakeholder confidence (McShane, Naira & Rustambekov, 2011:641; Marks, 2011:12; Beasley et al., 2010:29). Msiza (2011:27-28) propounded that since SOEs had to depend on treasury or the government in order to continue with their operations as well as in requesting for additional funding, the risks that compromised the financial sustainability of the SOEs should have been brought to the fore by the IAFs as it is part of their role. The question remains whether the IAFs will be given this opportunity by management to address this CG malpractices vacuum.

A large number of researchers indicated that malfunctioning of the board of directors in implementing their responsibilities, loopholes in both management and financial accounting, monitoring and control systems, poor risk evaluations, pitiable levels of disclosures, accountability and transparency as well as feeble internal auditing systems resulted in SOE failures. These series of the corporate failures have come up as a clarion or wake up call to acknowledge IAFs towards CG in SOEs. There are several reasons why SOEs fail to practice transparency and accountability as conceded by Bruton et al. (2015:97). In Zimbabwe, as in other developing economies, a myriad of challenges are faced by the SOEs and the most challenging one are CG malpractices (Mc Gregor, 2014:5; Soko, 2017). Okibo and Kamau (2012:109) opined that in order to ensure good CG within SOEs, it is plausible for the IAFs in SOEs to improve the internal control systems and risk management. Management and the audit committee anticipate IAFs in SOEs to assess and enhance risk management, however, the role of IAF in an

emerging country such as Zimbabwe remains unexplored. Poor service delivery, fraud, corruption, maladministration and malfeasance are continuously rampant in SOEs, despite having IAFs and this results in a few SOEs having unqualified audit reports. The fact that CG malpractices are continuously recurring maybe is because IAFs in SOEs are not aware and sure of their roles or its something else. It is not explicit whether the IAF is consummating its role satisfactorily towards CG in SOEs. Thus the problem discussed in this study. With this research study, the researcher aims to comprehend the roles of the IAFs in the performance of SOEs using a CG approach as well as why poor CG take place within SOEs.

This matter of corruption has not been historically interrogated. Although a lacuna of literature exists, particularly on SOEs in a developing economy such as that of Zimbabwe, a dearth of research can be partly ascribed to the fact that internal auditing is still a new discipline that has not been much researched (Sarens, 2009; Lenz & Hahn, 2015), especially from a Zimbabwean view point. This explains the gulf in literature, a development this research addresses. This calls for a need to introspect on areas of focus if maximum value is to be derived from SOEs. Consistent with the literature on the subject is the lack of or total absence of an effective system of IAF and deficiency of appropriate CG practices impacting negatively on the performance of organisations. Consequently, this study is focuses on exploring the role of internal auditing in the performance of SOEs in Zimbabwe by developing a framework for effective CG. Ultimately, therefore, a specific framework to guide internal audit functions of SOEs that could be useful for governments in emerging markets and add value to research on CG is developed. Changes in IAF practices, their role and responsibilities and their current and future skills set should be made. Thus published suggestions for improvement garnered from the literature, for internal auditors to play a more prominent role in managing emerging risks, would also be germane for internal auditors in SOEs. Msiza (2011:29) advocated that the IAF's operations should be set with the increasing and changing needs of the entity's stakeholders as well as the risk profile variation of its entity. In order to succeed, it is of vital importance that the IAF be buttressed through the allocation of enough resources to allow it to entice the required skills.

### **1.3 Rationale and significance of the study**

A number of reasons impelled this study, the major one being the need to enhance CG principles. The other reason for carrying out this research is perceived benefits of the role of internal auditing in the performance of SOEs, which has been sidelined in business research, especially in the public sector mainly focusing on the performance of SOEs. Intrinsically, this study is an introductory attempt in developing an IAF effectiveness model for SOEs in Zimbabwe. To date, the role of IAFs in SOEs' performance using a CG framework has gained attention nationwide. As there is a lacuna of literature on the topic, the study significantly apprises government, senior

managers, the board of directors as well as audit committees (ACs) of SOEs on ways internal auditors can help them to overcome obstacles they come across in carrying out their various tasks. In addition, this contemporary/current study could contribute to policy-makers' and government regulators' initiatives in order to transform the part aimed at developing CG infrastructure, which involves promoting IAF in order to save or rescue a sector that has been unsatisfactorily managed. Nevertheless, no research has been carried out in Zimbabwe on the role of internal auditing on the performance of SOEs, and a study amalgamating these three elements (SOEs performance, CG & internal auditing) is opportune. Research on how internal auditing proffers solutions to obstacles faced by the SOEs in the economy is a prerequisite. Against this backdrop, the research gives upcoming researchers, practitioners and professionals deep insight into how the role of IAFs and good CG could have improved the performance of SOEs in Zimbabwe.

The importance of this research, consequently, is to contribute to theory, policy-making and regulation, resulting in extension of knowledge. The role of internal auditing in CG in stopping corporate scandals is understood and has been acknowledged in the literature, that, the establishment of the effective IAFs is crucial. In order to unravel the dearth of studies in this particular area, this study points out important areas IAFs need to give special importance to in order to obtain the desired degree of effectiveness. Most research on IAFs are from developed economies, according to Mihret (2010). This research gives verifiable evidence from an emerging economy's view point and could contribute to expand and shape internal auditing as a profession with reference to Zimbabwe and Africa in its entirety. The study ends with the development of a model framework that could be used to execute the effectiveness of IAFs roles. This model framework is a useful contribution to the existing body of knowledge and could open substantial prospects in SOEs and the public sector at large with respect to the reasoning and operations linked to CG, SOE performance and internal auditing.

#### **1.4 Aims of the study**

The study examines and identified improvements on the current roles of internal auditing in Zimbabwe mainly in the performance of state-owned enterprises.

#### **1.5 Objectives of the study**

##### **1.5.1 The primary research objective was:**

To examine the role of internal auditing as well as develop a practical framework for effective internal audit functions in SOEs in Zimbabwe.

### **1.5.2 The specific objectives were:**

- To determine the duties and responsibilities of IAF on Zimbabwean SOEs' performance.
- To elicit views of IAFs on the challenges they face within CG practices of SOEs in Zimbabwe.
- To propose CG interventions necessary to improve the performance and sustainability of SOEs in Zimbabwe.
- To develop a model framework to guide IAF effectiveness and its relationship between CG practices and SOEs' performance.

## **1.6 Research questions**

This study was designed to answer the main research question and sub-questions as reflected in 1.6.1. and 1.6.2.

### **1.6.1 The primary research question**

The main research question of the study was:

- What are the roles played by internal auditing in the performance of SOEs in Zimbabwe?

### **1.6.2 The sub-questions**

The sub-questions of the study were:

- What are the duties and responsibilities of IAF on Zimbabwean SOEs' performance?
- How do IAFs view the challenges they face within CG practices of SOEs in Zimbabwe?
- What CG interventions are necessary to improve the performance and sustainability of SOEs in Zimbabwe?
- What IAF model framework can be developed to guide the role of internal auditing in the performance of SOEs in Zimbabwe?

## **1.7 Research paradigm, methods and methodologies.**

Doyle et al. (2009) and Ackermann (2015) define research paradigm as a collection of tenets and actions that are fundamental during the process of research and act as a benchmark for the researcher in carrying out the research. The researcher was inspired by the Interpretivism paradigm (Merriam, 2009). Interpretivism believes that social science differs from natural science: knowledge of reality depends on the point of view, context, and means of knowing. It is subjective and inductive and reality is dynamic. A qualitative research approach describes the perceptions of people experiencing a phenomenal or developing an emerging theory based on observed data. A qualitative



research approach as propounded by Creswell (2009) was considered suitable because with qualitative research, no statistical procedures are arrived at and it is non-numerical (Strauss & Corbin, 1990). Qualitative research should, therefore, be carried out in accordance with the setting of the nature of the phenomena of interest. According to Brynard, Hanekom and Brynard (2014), qualitative research makes use of data of a descriptive nature from respondents' own words about their individuals stories and thoughts. The qualitative method was considered of paramount importance in choosing 20 representatives of SOEs for this study.

Leedy and Ormrod (2010) define a research design as a plan of action that is acquired in order to carry out research and unravel the questions to be researched on and have a plan to perform the research. It is also about how the researcher will carry out ways of answering the research questions. A case study research design was considered germane for this study (Babbie & Mouton, 2004) because the focus behind the research question is to get an accurate and deep understanding of the subject matter. A case study approach assists to comprehend aspects of CG and the role of the IAF (Cooper & Morgan, 2008). A population is the total consortium of people, things which are given attention and proceedings which the study made an inquiry about, according to Sekaran and Bougie (2013). Five SOEs were targeted and a sample of 20 employees was purposively selected: senior managers, Chief Executive Officers (CEOs) and internal auditors as specialists in the field (see Table 1.1). The selection was based on operational relevance and potential participants' experience of the nature of SOEs environments.

**Table 1.1: List and aggregate of respondents**

<b>List of respondents</b>	<b>Aggregate of respondents</b>
Audit committee members	2
Senior managers	5
Board of Directors	2
Chief audit executives	5
Senior internal auditors	4
Chief executive officers	2
<b>TOTAL</b>	<b>20</b>

Source: Author's own compilation (2019)

The portion of participants drawn from the entire population that contributes to the survey whose responses are generalised to the whole population is referred to as a sampling frame (Saunders et al., 2009). Inevitable limitations of time and budget made it impossible to collect large quantities of data and subject it to complex processes of interpretation and analysis. Therefore, the study was restricted to a selected sample of men and women in managerial positions in selected SOEs to obtain a quality sampling frame and eliminate bias and error. Participants for the qualitative research were

chosen across institutions responsible for executing CG procedures. Kumar (2014) defines sampling as a method of selecting and identifying a little or small figure (sample) from a big class (population). Purposive sampling method was used in this study (Babbie et al., 2010). This sampling method, by its nature of being a non-probability sampling method, allows for the selection of participants of specific traits or elements (Dooley, 1995). Purposive sampling gave the researcher the opportunity to choose only potential respondents who are available and can be part of the study as well as those participants with relevant knowledge of CG, IAFs and SOEs (Vanderstoep & Johnson, 2009). A sample is a small number of persons from a population who take part in a survey and from whom the findings are generalised to the entire population (Saunders et al., 2009). A sample of 20 respondents, comprising senior managers, CEOs, audit committee members and internal auditors was used in the study. The sample comprised both men and women selected on the basis of their knowledge, experience and skills in carrying out their tasks (Shoup, 2015).

To collect data from the selected respondents, semi-structured interviews were conducted with senior managers, CEOs and internal auditors. Tape-recorded semi-structured in-depth interviews were helpful in that they enabled the researcher to collect data that cannot be collected using a questionnaire. Furthermore, document analysis was used in collecting secondary data. In this case, documents were reviewed, which is ideal since document analysis is used to complement interviews in generating data. Document analysis is a social report that validates facts stated in research, especially during literature review (Bowen, 2009). Documents such as Auditor General reports and internal audit reports were used. Hardon, Hodgkin and Fresle (2004) defend the use of documents by surmising that they are a cost-efficient way of doing research and tend to avoid duplication of efforts. A technique is a tool used to gather information from the sample population (Abawi, 2013). This study used semi-structured interview guides and document review guides. The discussion/interview guide with open-ended questions facilitated easy collection of data from individual respondents. To harmonise data capture and reduce bias, senior managers, CEOs and internal auditors were interviewed with similar questions. Digital audio recorders and tape-recorded semi-structured interviews could augment the theoretical tools. In addition, documentary review guides were used. Both internal and external audit reports for the identified SOEs were reviewed. The field work began by purposively identifying senior managers, CEOs, BoDs, ACs, CAEs and senior internal auditors as outlined in Table 1. The selected respondents were sent some emails requesting them to participate. Official letters were delivered to the offices of all the people who took part in the study. Where the questions were not responded to within three days after the emails had been dispatched, those who did not respond through were contacted telephonically. Interviews were conducted at the respondents' work places. A 10-15 minutes interview appointment was secured with each respondent. During the interviews field notes were

made and all semi-structured interviews were recorded using digital audio recorders. Document reviews were done.

To avoid personal bias, the researcher sought help from colleagues who were also into research. Research assistants were enrolled, trained and assisted with field work. Key informant interviews were also made. Key informants such as former CEOs, heads of internal audit and accounting officers were interviewed. Key informants' experiences on the role of IAF in performance of SOEs in Zimbabwe were established. Data was analysed thematically using ATLAS.ti. This technique (Braun & Clarke, 2006) helped in organising the raw data into meaningful patterns and themes. ATLAS.ti is ideal for coding data as well as assisting in displaying and reducing data (Creswell, 2012). Coding was done following Creswell's (2014) steps. Coding is a system of arranging data into fragments of the text before the data is given meaning. For documents, content reviews were conducted and again gists/ themes were identified. The themes were developed and grouped from the codes, which subsequently formed the basis for the results and discussions presented in Chapter four.

## **1.8 Demarcation/delimitation of study**

Delimitations are the boundaries of a study that are managed by the researcher (Merriam, 2014). Leedy and Ormrod (2015) assert that delimitations show what the research did not partake or did not intent to do. The research dwelt entirely on Zimbabwe, but the validity of the findings could be extended to other countries within a similar situational context. The study excluded the private sector as well as roles of external auditing. AT, IT and ST were the theoretical lenses used in this study. Five SOEs, that is, Telecel, Telone, Net one, Postal and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ) and tobacco Industry and Marketing Board (TIMB) in Zimbabwe were selected because of the well thought out way they operate in the emerging Zimbabwean economy. Public sector entities were considered of utmost importance in this study. However, the findings are not generalisable to all Zimbabwean public sector entities because only five SOEs were considered in this qualitative study, which is inherently subjective. The study looked at 5 functioning and viable SOEs out of 107 SOEs in Zimbabwe. As part of the economic agenda of the country, the functioning SOEs unlike their counterparts are anticipated to function and produce profits which can be used by the government to fund others projects. The study gave a comprehension of CG and IAFs practices in the Zimbabwean setting, however, it may not suit to every single SOE in the country. The majority of the SOEs are found in Harare and hence the study only focused on purposively sampled 5 SOEs and did not cover the entire country. Harare was chosen because of its closeness to the researcher. These SOEs were chosen because of their proximity to the researcher. In addition, most SOEs as well its population is found in Harare province and the researcher thought it was plausible to carry out the study.

## 1.9 Outline of the thesis

The study is organised into five (5) chapters. Figure 1.1 outlines the contents of each chapter and the overall structure of the study.

### **Chapter One: Introduction**

This chapter is introductory. It provides the background to the study, states the research problem, spells out the origin of research problem, aims and objectives, and research questions. It further encapsulates the limitations of the study, underpinning theories, significance of the study, research design, methodology, data analysis and the statement of the problem. In short, this chapter provides essential background to the study.

### **Chapter Two: Literature review.**

Chapter Two firstly reflects review of extant literature on corporate governance and internal auditing and their origins and roles in state-owned enterprises. The first section shows the importance of CG, merits and demerits of good CG. It further shows an evaluative assessment of CG and ownership models, definitions of internal auditing and the roles of IAFs in the performance of SOEs. Secondly, chapter two shows the profile of state-owned enterprises in Zimbabwe. It further indicated the challenges of SOEs in regard to CG, definition of SOEs, reasons why SOEs exist, the role and the legal and regulatory framework of SOEs as well as CG challenges of SOEs in Zimbabwe. Thirdly, it looked at the theoretical framework section. This chapter focuses on theories used as overarching theoretical lenses through which the roles of internal auditing in state-owned enterprises in Zimbabwe is examined. The study is embedded in three theories, namely: Institutional Theory, Agency Theory and the Stakeholder Theory.

### **Chapter Three: Research methodology**

The chapter discusses the qualitative method research approach employed in the study. The study area, population, sampling method as well as data analysis methods are discussed. The case study method, which was used comprised in-depth interviews and documentary reviews of Auditor General reports, annual reports, policies and procedures, board charters and internal audit reports. Issues on the role of IAFs in the performance of SOEs in Zimbabwe are discussed in detail by way of semi-structured interviews, giving an opportunity to explore more towards understanding CG challenges and role of IAFs in the performance of SOEs in Zimbabwe.

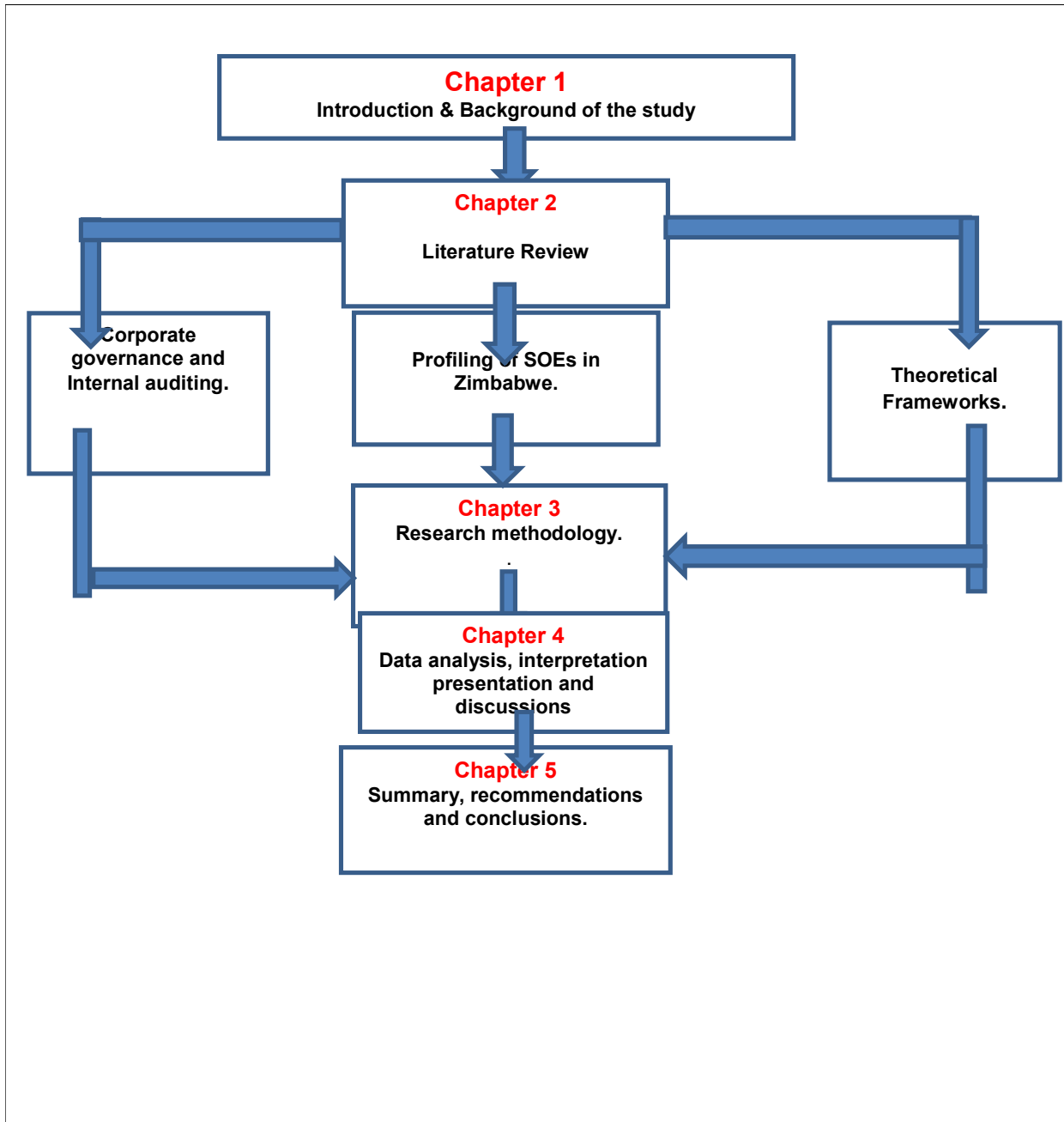
### **Chapter Four: Data analysis, interpretation, presentation and discussion of results**

This chapter deals with data analysis, interpretation and discussion and presents the research findings. It further reflects on the findings, results of interviews and provides a general review of documentary reviews. Data analysis and presentation of findings are

directed by the study's conceptual framework buttressed by the ensuing themes: good corporate governance, challenges of corporate governance, role of internal audit function, challenges faced by the internal audit function and sustainability of SOEs. The findings on these themes are juxtaposed with the research questions so as to verify the extent to which appropriate responses were provided to the research questions.

### **Chapter Five: Summary, conclusions and recommendations**

A synopsis of the research objectives and research questions is given in this chapter. Conclusions of the study are based on the five research objectives. The conclusions and recommendations are based on the study findings. A summary of findings from the reviewed literature, qualitative data analysis as well as documents analysed. The limitations of the study, implications of the results and suggestions for further studies are briefly presented in this chapter. The contribution of the study to the existing body of knowledge is also indicated. This is the final chapter of the study. It aggregates the study by indicating a proposed model framework for internal auditing for SOEs to be effective as well how the performance of existing SOEs can be strengthened.



**Figure 1.1:** Chapter outline

**Source:** Author's own compilation (2019)

### 1.10 Summary of chapter

The chapter looked at the introduction and background to the study that gave detailed insights into the role of IAFs in the performance of SOEs in Zimbabwe using a CG approach. The problem statement was examined which indicated that SOEs are failing to meet the government's anticipations resulting in SOEs having poor service delivery as well as having

sustainability problems. It outlined the aim of the study, significance of the study, both the general objectives and specific objectives to the study. Additionally, the chapter spelt out general and key research questions, research paradigm, research method and research methodology, delimitation of the study as well as the structure of the thesis (see Figure 1.1).

## **CHAPTER TWO**

### **CORPORATE GOVERNANCE AND INTERNAL AUDITING, PROFILING OF STATE-OWNED ENTERPRISES IN ZIMBABWE AND THE THEORETICAL FRAMEWORK.**

#### **2.1 Introduction**

The current chapter provides a review of related literature for the study. Bell (1991) describes a literature review as a procedure that gives the reader an impression of the state of knowledge and of main questions in the subject area being explored. The relevant literature has been reviewed on the role of the internal audit function (IAF) in the performance of SOEs in Zimbabwe by using a corporate governance framework as a research area ideal to pursue. The study is a review of existing literature and academic musings about the nature of internal auditing and its role in today's public organisations, particularly SOEs. SOEs are supposed to be frugal, efficient and innovative, while a focus on maximising learning and ceaseless improvement is even more important. The chapter consists of four (4) main sections that underline this study and these sections will review literature on crucial dimensional areas and concepts. The first section gives an overview of corporate governance and internal auditing. The section covers the role of IAF in the performance of SOEs since it is the main thrust of this study. The various roles of the IAF, challenges faced by the IAF provide a conclusion to this section.

Corporate governance is also covered in the first section and defined. Various people attribute different meanings to CG depending on the context and type of situation(s). This has led to the concept becoming so malleable and elastic to the extent of falling prey to the idiosyncrasies of the person defining it. CG, which is imbedded within the role of the internal audit function (IAF), is arguably the most important given the chequered track record emerging market entities have in managing CG deficiencies in SOEs. SOEs have the capacity to do very well given the fact that they adhere to good governance and, thus, better service delivery is enhanced. However, most SOEs do not meet these ideals and such a situation justifies the need to study and carefully appraise options for making SOEs perform highly, if they are to play a meaningful role in achieving Vision 2030, the vision of Zimbabwe to become a middle-class economy.



It is vital to acknowledge the role IAFs play in modern corporate governance. Of cardinal importance is how the practice is strongly entrenched or protected. IAF is one of the cornerstones of CG (Carcello, Hermanson & Raghunandan, 2005; Gramling, Maletta, Schneider & Church 2004; Holt & De Zoort, 2009; Paape, Scheffe & Snoep, 2003; Sarens & De Beelde, 2006; Soh & Martinov-Bennie, 2011; Zain & Subramaniam, 2007). Significant research has been carried out using the private sector view, that is, understanding the nexus between IAFs and other role players of CG such as executive management, audit committees, external auditors and board of directors (Fadzil, Haron & Jantan, 2005 ; Gramling et al. 2004; Sarens, 2007; Sarens & De Beelde, 2006, Allegrini, D'Onza, Paape, Melville & Sarens, 2006; Myers & Ziegenfuss, 2006; Sarens, De Beelde & Everaert, 2009; Turley & Zaman, 2004) and (Gramling et al. 2004; Pilcher, Gilchrist, Singh & Singh, 2013). In this way, there is a lacuna of research as far as IAF in the public sector is concerned. It is against this backdrop that the researcher has seen it ideal to investigate the role of IAF as one of the cornerstones of CG using the public sector perspective and, thus, the study concentrates on the role of IAFs in SOEs (public sector) using a CG approach.

This study reflects that IAFs are considered imperative in boosting CG in SOEs (Coetzee et al., 2009). To the best of the researcher's knowledge, no research has empirically investigated the role of internal auditing on the performance of SOEs in Zimbabwe. Given that the effort to curtail SOEs' poor CG status has not been achieved, it is pertinent to examine the role of internal auditing, particularly in the performance of SOEs. This research addresses an apparent gap in the literature on the role of internal auditing function (IAF) in performance of SOEs. The second section explores the profiling of SOEs in Zimbabwe. The third section looks at the theoretical framework underpinning this study, that is, the Agency Theory, Stakeholder Theory and the Institutional Theory. The last section of the chapter ends by reviewing the conceptual framework which guided this study.

## **2.2 Corporate governance**

Many studies are almost exclusively concerned with CG in mature market economies as well as the role of internal auditing in developed countries. Yet the problem of CG is arguably even more serious and of cardinal importance in transition and emerging economies, particularly in Zimbabwe. Public entities have been plagued by an abyss of audit results and a perilous financial state that leads to deleterious financial consequences. This cause is due to corporate governance deficiencies. CG has received much attention globally because of corporate failures such as Enron, WorldCom in the United States of America and Marconi in the United Kingdom (Lenz & Sarens, 2012). Internal CG attributes are expected to enhance entity performance during normal economic times by effectively monitoring directors and ensuring that their interests and those of shareholders are in tandem (Afrifa & Tauringana, 2015). The

public sector, particularly SOEs has had corporate scandals that saw dismal performance of most SOEs such as the ZBC, NRZ, PSMAS and NSSA, just to mention a few. CG has the opportunity to report on financial statements and the standard of financial statements. Ideally, financial statements should be prepared according to international standards and laws of the country and certified correct by an independent auditor. These financial standards should show all relevant information to shareholders and Boards of Directors for them to be able to make key decision for the company. Wixley and Everingham (2019) define CG as a procedure where the entities are directed and controlled. In addition, CG is concerned with the management, decision making and control in entities, that is, organisational processes and structures (Wixley & Everingham, 2019).

Governance, according to Vagliasindi (2008), means the system where power and policies are managed. Graham et al. (2003) refer to governance as the way in which decisions are made and taken in a complex world, how the government and other social organisations interact and relate to citizens. The World Bank (2014) refers to governance as a system or procedure in which power is used in the running of a country's social and economic resources for its well-being (Santiso, 2001). Government's legitimacy is, however, important for good governance elements such as effectiveness, efficiency, responsiveness, equity, public participation, transparency, accountability, rule of law and consensus orientation to be effective (Abdellatif, 2003). According to the OECD (2015), CG is ideal for companies that require equity resources for long-term investments since CG gives confidence to companies as well as integrity in many entities. CG is a system of monitoring entities' performance (Wong, 2004). Hemphill and Cullari (2014) state that CG can lead to the company's higher profit margins and accountability which will result in not benefitting the shareholders and stakeholders of the entity alone but the national country as a whole will benefit. Access to capital and less conflict of interest are some of the benefits of CG. Public sector entities and their officials should function responsibly, transparently and with accountability, according to Balkaran (2013). CG has evolved due to corporate failures in entities, particularly SOEs. Shleifer and Vishny (1997) define CG as a situation where those who have provided money ascertain themselves of attaining company goals and get a return on their investment.

The OECD (2004) also defines CG as a situation where management of an entity, the Board of Directors, shareholders and other stakeholders are connected/related. This definition by the OECD (2004) focuses on many stakeholders, rather than shareholders only. According to King IV (2016), CG is about a situation when ethical and strong leadership is made by the governing body as a way of ascertaining ethical culture, successful performance, fruitful control and legitimacy (KPMG, 2016). Other authors

describe CG as the system by which entities are directed and controlled (Cadbury Report, 1992). Interactions between many participants in ascertaining the direction and performance of organisation is referred to as CG according to Monks and Minow (2001). In this study, participants refer to management, shareholders and Board of Directors. CG refers to propositions recommended to be followed by all entities, regardless of dimensions and appearance and whether it is a corporate business or a non-trading entity (Jordan, 2008; IoDSA, 2002; Le Roux, 2010).

### **2.2.1 Principles of corporate governance**

An association of chief executive officers of American corporations advocated for the principles of CG. The Business Roundtable (2010) summarises the principles as follows:

- A board has a vital duty to choose and superintend a skilled CEO and senior managers;
- In order to enhance good CG, there should be proper and timely reporting of financials;
- Independent directors should be able to meet and deliberate on the strategic goals and objectives of the organisation without the presence of senior managers and the CEO;
- An entity has the mandate to communicate with the shareholders and other stakeholders effectively;
- In order for shareholder value to rise, the organisation's management should act in an ethical and effective manner;
- Employees should be dealt with in a fairly and rational manner, that is, they should be remunerated fairly and responsibly; and
- There is supposed to be a CG committee at a firm which consists of independent directors and these will address issues to do with the relaying of information to the board, selecting and naming of directors and assess the effectiveness of the board.

### **2.2.2 Key components of governance**

Governance is taken from the Greek word 'Kubernetes', which means steersman. According to Ngoepe and Ngulube (2015), governance means the system by which an organisation arranges its processes and structures so that it can make decisions, carry out its work and monitor its progress as well as setting direction, applying and implementing key effective governance, provided people are willing to follow the proposed lead. The key components of governance, according to Tricker (2009) in Wixley and Everingham (2019) are: (i) supervising and monitoring management

performance, and (ii) ensuring accountability of management to shareholders and other stakeholders. Ethical leadership is indicated by the ability of leaders of organisations to ameliorate negative organisational consequences and this is shown by practising competence, integrity, responsibility, accountability, fairness and transparency. Effective leadership is about achieving organisational strategic objectives and positive outcomes of the entity. It internally focuses on effective and efficient implementation. This means that effective and ethical leadership aggregate and augment each other. King IV stipulates that non-executive and executive directors should establish a risk governance committee and advocates that risk and audit should not be under one committee. Governance guidelines advise that a company should only combine the two if it is able to dedicate enough time to dealing with risk-related issues. For example, on the Steinhoff company scandal case, it seems unbelievable that more control by audit and risk committee should have been done and carried out and more time should have been spent (Wixley & Everingham, 2019).

According to the World Bank (1989), good governance was first introduced as a policy strategy in 1989, a fact supported by Van Doeveren (2011). Good governance was redefined by international organisations and other scholars made and put fresh dimensions to it. Governance may be pronounced to be good when four dimensions are met namely: a link between the governed and government; an accountable administration; a well-organised public service; and dependable and well-founded judicial system. Good governance consists of efficiency and effectiveness, responsiveness, transparency, accountability, rule of law and forward vision (OECD, 2009). In addition, the UNDP (1997) adds consensus-oriented and participation to what has been alluded to by the by OECD. The Asian Development Bank (1995) advocates for four principles of good governance: accountability, predictability, transparency and participation. The furtherance of an enabling legal and judicial framework as well as accountability, transparency, participation and prevention of corruption is known as good governance as defined by the African Development Bank (2008). The European Union (2001) has propounded that coherence, effectiveness, transparency, accountability and participation define good governance. Good governance accentuated an approachable and thoughtful administration that will be able to deal with obstacles within a society through enactment of appropriate laws and measures (Qudrat-I Elahi, 2009). For the purpose of this study, good governance probably suggests transparency, accountability and the potential to stand against bureaucratic corruption in SOEs.

The Cadbury Report (now known as the United Kingdom Corporate Governance Code) gave importance to improved standards of CG in the UK. Zimbabwe, too, has its own corporate deficiencies since the setting up of SOEs and other entities in the economy. Despite the introduction of legislation such as the Companies Act, PFMA, Auditing

Professions Act and, considering the International Financial Reporting Standards and introduction of the Zimbabwe National Corporate Governance Act in 2015, issues of business failures have been rampant both in the public and private sectors. Good CG does not exist separately from the law, and a corporate governance code that applies on a voluntary basis may also cause legal repercussions. The Saxon model of governance has irregularities too as pointed out by Keasey and Wright, two UK academics, and enunciated by Wixley and Everingham (2019), including the spread of creative accounting; spectacular increases in unexpected business failures; the apparent ease with which unscrupulous directors could expropriate other stakeholders' funds; very limited role of auditors; apparently weak link between executive compensation and company performance; and a market place on short-term perspectives, to the detriment of general economic performance.

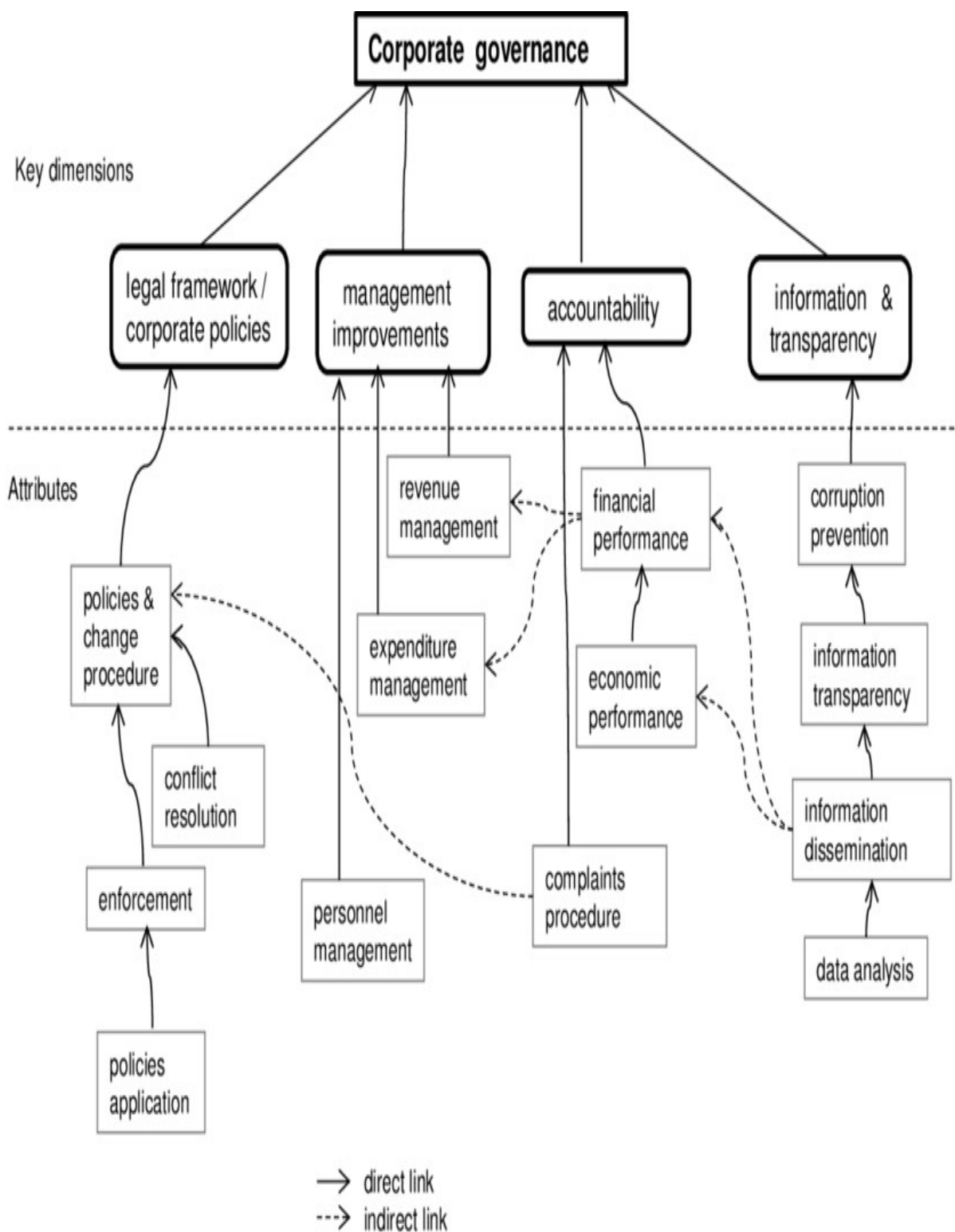
According to Naidoo (2009), the major advantage of good corporate governance is better access to capital as such companies can attract foreign and institutional investors which aids in sustainable growth. Companies that are properly governed have the foresight to reduce risk as they are better able to attract top notch human resources that eventually translates into profit. Corporate governance also contributes towards creation of competitive advantage. Good CG encourages domestic investors and local capital market as well as ensures transparency, accountability and fairness in reporting as well as promotes goodwill and confidence in financial system. It also enhances corporate performance, value as well as provides meaningful and reliable financial report on firm operations. Poor CG creates too much informality, leading to poor controls and losses. It also leads to lack of capital and management skills as well as perceptions of nepotism in SOEs, poor internal controls and risk assessment, poor strategy and disputes between owners. By attracting better quality, larger and cheaper funding, a company can create trust, business confidence and indispensable social capital that affect performance (Naidoo, 2009). Figure 2.1 shows attributes of CG.



**Figure 2.1:** Attributes of corporate governance

Source: Becht et al. (2003)

In agreement, Haat et al. (2008) indicate that good corporate governance practices like better financial reporting and transparency improves investor confidence. Figure 2.2 shows the key dimensions and attributes of CG framework.



**Figure 2.2:** Key dimensions and attributes of corporate governance framework  
Source: World Bank (1991)

### 2.2.3 Effects of corporate governance on state-owned enterprises

Good CG in SOEs enhances the reputation of the organisation and makes it attractive to customers, investors and suppliers, among others. Good CG reduces entities' capital costs; organisations tend to gain trust of investors; it induces a more stable financial sources; reduces incidence of potential corruptible interfaces and bureaucratic bottlenecks; is ideal for sustainable economic development, and entails that rules, laws and processes must be observed (OECD, 2018b). Conversely, poor CG leads to markets losing confidence in the inability of an SOE to properly manage its assets and liability. The entity becomes a market risk, negatively affecting the operating performance of firms by raising the cost of capital and reducing firm value if it fails to adhere to good corporate governance. Furthermore, poor corporate governance impairs investors' confidence; contributes to proliferation of corruption, damages the interests of investors and reduces existing transparency (OECD, 2018b). Poor CG acts as a stumbling block for the sustainability of SOEs in emerging economies and leads to failure to appreciate the significance of outside stakeholders. Good CG results in reduced risk and increased productivity for organisations, as highlighted by Yortt (2009).

According to Ntim (2013), good CG also gives rise to investor confidence over time ahead of cash flows and, as a result, is priced into stock values. CG, being a practice of how companies are managed and controlled, is the execution of an approach which renders it possible for the company to ensure compliance with the legal and regulatory obligations (Naidoo, 2002). The creation and continuous monitoring of a procedure of checks and balances to make super power is enhanced and practiced within an entity if good CG is adhered. Good CG is seen as the carrying out of a process whereby risks within an enterprise are identified and controlled within agreed guidelines for the viability and sustainability of the company. The growth of practices which keep and render a company to be more accountable to the large society in which it operates can only be over-emphasised when good CG is practiced (Naidoo, 2002).

CG is about being responsible, especially leaders of the company, that is, leadership should be accountable, transparent and answerable to the company's identified interested groups (stakeholders). It aims to balance the collective, economic, individual and social goals so as to put in order the interests of individuals, company and society at large. Table 2.1 shows reasons for CG in organisations.

**Table 2.1:** Reasons for corporate governance in organisations

- Foreign direct investment. If companies are managed well, there is an increase in attraction of both foreign and institutional investment. Entities can be able to manage sustainable growth, identify and manage business risks within agreed guidelines and thus limiting their chances of potential liability.

By consummately putting it, if a country is not of good standing for good CG practices,



capital will flow elsewhere. The reputation of individual players and the way they conduct themselves in the economy, its legal and regulatory approach to CG makes the country's reputation of good standing. Institutions will find it ideal to invest especially in emerging economies if they adhere to sound CG practices. With the release of the Public Corporate Governance Act, Zimbabwe now has undeniably one of the best CG frameworks, but Zimbabwe and, indeed, much of Africa, already fall behind other emerging markets in its ability to attract foreign direct investment (FDI), mainly because most African countries has been labelled as 'high risk' area for investment.

- Access to institutional funding. An entity whose CG practices are sound have got a good chance of accessing capital, enhancing its growth and its sustainability is enhanced in the medium to the longer term. Good CG means a lower investment risk that those entities without or have a fewer CG practices in place, thus allowing them the benefit of lower interest rates and better access to credit ratings. Good CG is imperative since its immensely add shareholder value.
- Investor responsibility. Institutional investors are frightened to lend money to organisations whose risks including environmental risks are not openly discussed identified and controlled in terms of its risk management programme.

Source: Author's own compilation

According to Naidoo (2009), CG if correctly applied, can be a vital competitive advantage which can be used to influence a company to attract foreign investment, enhance company performance and speed capital investments prospects. CG is ideal for nurturing trust and confidence in an organisation and a country at large. The exercise of power within the company in order for it to achieve its organisational purpose has been considered by Naidoo (2009) as the definition of CG. This means that a method where checks and balances are monitored within a company is put in place and making sure the company complies to its legal and regulatory obligations on the exercise of power constitutes CG as well as the execution of the risk management process and making sure accountability to stakeholders of the entity is done (Naidoo, 2009).

#### **2.2.4 Corporate governance in SOEs**

CG has two main concepts, that is, governance is one of the terms and is taken from the word "govern", which can mean 'to control a point in use'. According to Lipman and Lipman (2006), CG is ideal for SOEs and can result in good CG assisting SOEs in eradicating CG deficiencies/scandals, fraud and lack of management skills. SOEs can manage risks faced, which makes CG an economic benefit to the entity. Good CG can

see early features of corruption and, thus, it can eliminate it. SOEs, if well run, can redress imbalances and create infrastructure for national development so as to achieve government's mandate/national goals. Table 2.2 shows the justifications for CG in SOEs.

**Table 2.2 : Justifications of CG in SOEs**

<ul style="list-style-type: none"> <li>• Protection of investors' legal and other interests. The government benefit by safeguarding against the organisation failure like any other stakeholder. Legal protection of investors' return on their investment is very important especially from insiders and this can only take place when there is good CG (OECD, 2004 ).</li> </ul>
<ul style="list-style-type: none"> <li>• Improved entity and economic performances. Economic and organisational goals is improved if there is good CG. According to the OECD (2004), good governance makes it ideal for entities to be able to raise capital, lower their capital costs and to attain their competitive goals. In addition, good CG increases company shares and capacity for restructuring in a crisis. The International Finance Corporation (IFC) (2014) states that a country with a conducive and convivial atmosphere for investment is ideal since investment increases the economic growth of a country.</li> </ul>
<ul style="list-style-type: none"> <li>• Contributes to social development. Good CG is vital for the development and sustainability of capital markets, simulation of innovation, reduce social conflict, avoids outflow of capital from a country (IFC, 2014).</li> </ul>
<ul style="list-style-type: none"> <li>• Improves economic efficiency, growth and stability.</li> </ul>
<ul style="list-style-type: none"> <li>• Encourages investments in the economy.</li> </ul>
<ul style="list-style-type: none"> <li>• Good CG attracts domestic and foreign direct investment needed driving economic growth and development.</li> </ul>
<ul style="list-style-type: none"> <li>• Increases accountability.</li> </ul>
<ul style="list-style-type: none"> <li>• Increases efficiency and prevent public entity failures, thus minimising adverse social effects (OECD, 2006).</li> </ul>
<ul style="list-style-type: none"> <li>• The organisation can be able to manage risks better.</li> </ul>
<ul style="list-style-type: none"> <li>• Boost chances of succeeding in the market and to achieve sustainable long-term growth</li> </ul>
<ul style="list-style-type: none"> <li>• Put in transparency in decision making which is ideal for shareholders, regulators, potential investors, suppliers, customers, employees and any other stakeholder who may be affected by the entity's endeavours (Hontz et al., 2009).</li> </ul>
<ul style="list-style-type: none"> <li>• Increases public entities profitability, productivity and competitiveness (Hontz et al., 2009).</li> </ul>
<ul style="list-style-type: none"> <li>• Makes sure that public funds invested in these entities are not misused,</li> </ul>

<p style="text-align: center;">mismanaged and are spent effectively (Hontz et al., 2009).</p>
<ul style="list-style-type: none"> <li>Improved CG for public entities improves financial position for the government, better protection and utilization of public assets, reduced corruption, greater attractiveness to investors resulting in state income and efficient service delivery to the public.</li> </ul>
<ul style="list-style-type: none"> <li>Simplifying the rules and procedures for making decisions on corporate affairs, by whom the decisions should be made and how they should be implemented (OECD, 2004).</li> </ul>
<ul style="list-style-type: none"> <li>CG put in place a method that guides the connection between shareholders, boards, managers and other various stakeholders.</li> </ul>
<ul style="list-style-type: none"> <li>CG reduces the potential conflict and reconciles the interests of the various stakeholder groups (Weil &amp; Manges, 2002).</li> </ul>

**Source:** Author's own compilation

CG is crucial in SOEs, especially if it is defined as good corporate governance (Auditor General Report, 2018). In such a scenario, the following benefits are realised: added credibility and enhanced reputation; access to capital and loans on better terms; ability to attract talent for employment; improved access to customers and market participants; better positioning to capture business opportunities; better fraud prevention due to improved controls; leadership continuity through success planning; business continuity arrangements that permit SOEs to operate under conditions of volatility; and better management of the risk of conflict in SOEs.

### **2.2.5 Dangers of poor CG and financial risks in Zimbabwean SOEs**

Poor CG results in malfeasance, maladministration and misuse of public funds (Auditor General of Zimbabwe Report, 2018). This results in SOEs facing challenges leading to unemployment and poverty to citizens. In such a case, the following dangers of poor CG are noticed: poor strategy; dispute between owners; lack of access to capital; lack of management skills; perceptions of nepotism in SOE; nepotism engulfs a number of SOEs; too much informality leading to poor controls and losses; and failure to appreciate the importance of outside stakeholders. The Auditor General Report (2018) affirms that an SOE such NRZ operated for a long time without a Finance Director. In the same situation, NRZ, spent a long period employing an acting Chief internal auditor. This situation compromises the decision-making process of the company since decisions made by those in acting capacities may be limited to a short period. Material uncertainty is also due to poor CG. As indicated by the Auditor General Report (2018), an SOE such as Net One had its current liabilities exceeding its current assets by \$59381639 during the year ended 31 December 2018 and no allocation register for test lines (under Trade receivables). This indicates the existence of a material uncertainty that may cast significant doubt about the company's ability to continue operating as a

going concern. This, however, was caused by other factors, including monetary policy shifts, which saw the country changing its accounting currency from US dollar to local currency, and exchange rate distortions maintained by the government at 1:1 until February 2019 that affected the company's financial position. Implementation of the mobile financial services strategy; establishment of franchise shops to sell airtime and sim cards and approval by the board of balance sheet restructuring initiatives to unlock capital for investment are some measures the SOE should take to ameliorate the aforementioned dangers of poor corporate governance and financial risks (Auditor General, 2018).

Dominance of SOEs leads to unequal competition and low efficiency in the market. Favourable state intervention policies and overwhelming support from the state in terms of bank loans, favourable tax reforms and technology development funds put SOEs ahead of other players in the market (Auditor General, 2018). Poor profit-making capabilities is part of SOEs growth. A lack of performance evaluation among SOEs means that they will continue having low profitability capabilities because their return on equity (ROE) ratio is usually lower compared to private firms. Corruption and cronyism have been major challenges in a number of SOEs in Zimbabwe. ZESA, NSSA, ZINARA, GMB, just to mention a few, have been under scrutiny because of corruption claims (Auditor General, 2018). If senior executives in SOEs are not subjected to checks and balances, they are bound to act as de facto owners of SOEs. The salary gate scandal rocked the country's public sector during 2013-2014, which became one of the biggest post-independence public sector scandals, was just a delayed manifestation of the weak governance systems in SOEs. King III (2009) reminds the board of the drawback it may come across, especially within an integrated report in measuring whether IAF was operating effectively during a particular period. Even though a risk-based plan could be enough and in existence, a strong holistic approach was advocated for such as annual report disclosure that an IAF which is effective was not put in place; in the event that the IAF was outsourced, an entity custodian function is ideal; ethics of the enterprise to be reviewed; the assurance fatigue being prevented and optimisation of costs; an evaluation of the significance of the control environment, the nexus between audit committee and the IAF; the standing and characteristics of the CEO; enhancement of the programme and implementation of internal audit quality assurance, mutual cooperation between other assurance providers and IAF such as risk management (King III, 2009).

## **2.2.6 Barriers, obstacles or challenges to implementing corporate governance**

Political will and good ways or culture of CG are ideal systems of bailing out some SOEs since most of them have been in a quagmire for a long time. This makes it possible for the government to list on public stock exchanges SOEs that are strategic to the growth of the economy as a way of bailing them out of the doldrums. SOEs are now

conduits for corruption; poor CG; battlefields for political endeavours; having monopolistic features in some structures, being grossly inefficient and undermining achievements for structural reform programmes impacted adversely in the performance of SOEs. Failure to give in to structural reform and poor CG have left many SOEs losing their profits as well as performing badly (World Bank Systematic Country Diagnostic, 2019). According to Gumede (2019), some SOEs are seen by analysts as failures and being inefficient for a long time. Some people muse that SOEs can be taken out of this quagmire if political will and good CG structures are put in place and strongly observed (Estrin & Pelletier, 2018). Accountability, effective controls and transparency could be ensured by good CG (Frederick, 2011). The business model of most SOEs is not viable, leading to perennial losses, that is, expenditure always outweighs revenues, triggering the need to constantly seek government bailouts in the form of subsidies and guarantees, thereby affecting the fiscal budget. SOEs have failed to transform to varying operational environments for a number of years. The main corporate governance barriers or challenges facing SOEs are highlighted in the next section.

#### **2.2.6.1 Interference by politicians**

The norm in most SOEs in Africa is that the minister superintending the public entity ministry is the one who chooses the Board of Directors for a named SOE. This being the case, the board will pursue the political agendas of the given minister and fail to balance the agenda of the public and that of making the SOE profitable and viable (Corrigan, 2014). Fighting political squabbles or factions has made many Boards of Directors to avoid their mandate and sabotage becomes highly pronounced, leading to the board failing concentrating on core goals, mandates, objectives and oversight roles (Friedman, 2017).

#### **2.2.6.2 Having conflicting and innumerable objectives**

Economic efficiency and commercial performance are required for the performance of SOEs, hence creation of employment and affording goods and services to poor members of the community is a mandate of SOEs. The way SOEs are run is evidence of control by government as the main shareholder. Approving price increases for SOEs by the regulatory arms and government takes a long time. Failing to put into action reforms and restructuring exercise are some of the challenges because some politicians and employee unions disregard good CG principles in order to avoid retrenchment of workers (Ritchken, 2014).

#### **2.2.6.3 Weak capitalisation**

Inadequate capitalisation of SOEs is rampant (Balbuena, 2014). This is due to the bad business models for most SOEs where operational costs outweigh revenue. The public, for example, the poor, enjoy in a country where there is transport, electricity,

broadcasting, rail and communication among others. Low capitalisation and poor balance sheet results in SOEs failing to obtain enough revenue and the government intervenes after a long time to bail them out by issuing guarantees (International Monetary fund (IMF, 2018). Many CEOs, Board of Directors and senior management are always in acting capacities, are incompetent, have low skills mindset or no experience. A profit-oriented strategic business model that is clear, considerable and embedded in commercial SOE experience, integrity, business ethics and professionalism is key for profitability of SOEs.

#### **2.2.6.4 Nepotism and corruption**

Most appointments in SOEs in Sub-Saharan Africa do not follow any consistent, well-laid out procedure in terms of recruitment process, conducting interviews and assessment (OECD, 2018a) due to cronyism and nepotism. Nepotism and corruption is perpetrated in SOEs (Balbuena, 2014; Frederick, 2011; OECD, 2018a), that is, friends, spouses and relatives of CEOs, senior managers, Board of Directors and politicians are given jobs and contracts in SOEs. Gomba (2019) reveals another corrupt case of nepotism in was mentioning that executives are still being employed after reaching the age of retirement, some retired and rehired as consultants with the so-called special skills and some are given school fees allowances even though they have over 60 years old.

#### **2.2.6.5 Lack of internal controls**

Internal controls, if put into effect and observed, lead to good CG. Internal controls are always there, but there is often no follow up by management and failure to put internal controls into action is cancerous. Absence of internal controls is seen when the enterprise fails to protect the assets of the entity, boost accountability, increase efficiency and to cease fraudulent activities (OECD, 2018b). A control measure to put in place is internal auditing and other setting up of committees for control purposes. Financial statements should be audited and published within six months, according to International Standards Reporting best practices (PWC, 2015). Players of oversight roles such as ministers superintending SOEs, executives, Board of Directors and accounting officers are not given prepared and audited financial reports. In most emerging countries, the Auditor General fails to audit all public entities due to a lack of the ability to audit accounts, substandard financial statements and incomplete accounts.

#### **2.2.6.6 Inefficient monopolies**

Monopsony power is commonly observed in SOEs due to policies that are ideal for them, dearth of competition and the fact that the key shareholder is the government. Inefficient and inequitable use of resources is pronounced in SOEs of emerging economies. Too much bureaucracy; lacuna of price controls; centralisation of decision-

making processes; absence of incentives for investors; monopolistic standing; and restrictions on dismissal and recruitment of employees leads to lack of competition in SOEs.

#### **2.2.6.7 Dearth of oversight and transparency**

Financial disclosure is attributed to absence of precise accounting standards, lack of strong auditing practices and absence of financial statements (OECD, 2018b). This lead to a lack of transparency and accountability in SOEs' performance by the public and accounting officers. If accountability and transparency are lacking, it is difficult to play oversight roles, leading to concealment of what SOEs have spent, accumulation of debts, overburdening fiscal budgets and creating room for corrupt activities and expenditure of an irregular nature. The OECD indicates that a strong performance monitoring system should be functional in most SOEs in order to ensure oversight, transparency and accountability can be easily executed (OECD, 2018b). In the next section, IAFs definition, roles and the challenges are explored.

### **2.3 Internal Auditing**

The IIA (2020:1) defines internal auditing as 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.” The Institute of Internal Auditors’ (IIA, 2020) definition summarises the tasks of internal auditing as assurance and audit services, which aim to create value as well as enhancing the entity’s operations. However, present studies find that the services offered by internal auditing, and hence the degree to which the IIA’s definition is fulfilled, may vary, and stakeholders in the profession ask whether internal auditing is able to live up to its assigned role at all (Heesakkers et al., 2019). Jiang et al. (2016) find that IAF’s involvement in operations-related services has a vital positive association with operating performance. Furthermore, the authors separate the IAF tasks into traditional areas (for example, operational audit) and more business-oriented services (for example, strategy consulting), and reveal that the assurance services in the traditional areas are prevalent in the IAFs whereas advisory and consulting services are less frequent.

There are mounting complaints in Zimbabwean that the performance of some SOEs does not satisfy the expectations of society. This could be due to social, cultural, economic, historical and political factors. Notwithstanding an avalanche of theoretical contributions rendered by many scholars on the role of IAFs in the literature, not much has been said on their roles in SOEs and it appears that some SOEs are not performing

according to plan. Research on the role of the IAF in the performance of SOEs in Zimbabwe using a corporate governance framework is limited. According to Sarens, (2009) and Lenz and Hahn (2015), there is a dearth of research, which can be partly ascribed to the fact that internal auditing, as an academic discipline, is in its infancy and still a relatively unexplored area. It is in the light of this context that this study addresses the gap in the literature that exists due to the limited research in this field.

The IAF is more recognised these days than before in both the public and private sectors (Carcello, Hermanson & Raghunandan, 2005). The spate of corporate scandals such as WorldCom, Enron, Parmalat and the Willowvale cash gate have made entities to give special attention to CG, strong internal controls and intended oversight, which resulted in IAFs in enterprises being imperative. These variations led to favourable situations or circumstances as well as obstacles to the IAF, thus putting great importance to its mandate in CG. The roles of the IAF is augmented by the demands for accountability and transparency from executive management, management, other levels of management, be it the Board of Directors or audit committee. In addition, Cohen and Sayag (2010) argue that funding is a vital ingredient that shows that IAFs are benefitting from the support of management and this also gives room for other employees to support and work hand and gloves with IAFs.

Internal auditing is increasingly becoming very important as the economies develop and wish to build sustainable success. Therefore, it means that government will try and fight fraud and corruption and as well as donors and development agencies to work towards assurance in the responsible distribution of funds. Internal audit plays a significant role in bringing accountability, transparency and a desirable change. Moreover, Lenz et al., (2014) assert that the quality and effectiveness of audits are difficult to evaluate even if the 'right things' are done. Furthermore, an audit's successfulness is not completely, directly observable, except when it fails. As a best practice, IAF should be independent and be able to allow professionalism to take centre stage as well as having competently staffed departments. IAF should improve the performance of their entities so as to make sure the organisations become fully aware of their planned goals. Demand by the public for more accountability and better utilisation of public resources is unrelenting. This makes it not only a challenge for ministers, senior executives and managers, but a question is raised as to what internal auditors can do to assist the public sector to perform under the face of global competition, demographic change and technological transformation.

Notwithstanding, the increase in internal audit (Shabnam et al., 2014; Pizzini et al., 2015; Coetzee & Lubbe, 2014; Regoliosi & d'Eri, 2014; Stewart & Subramaniam, 2010; Christopher et al., 2009), scholars indicate that there is a dearth of literature on internal

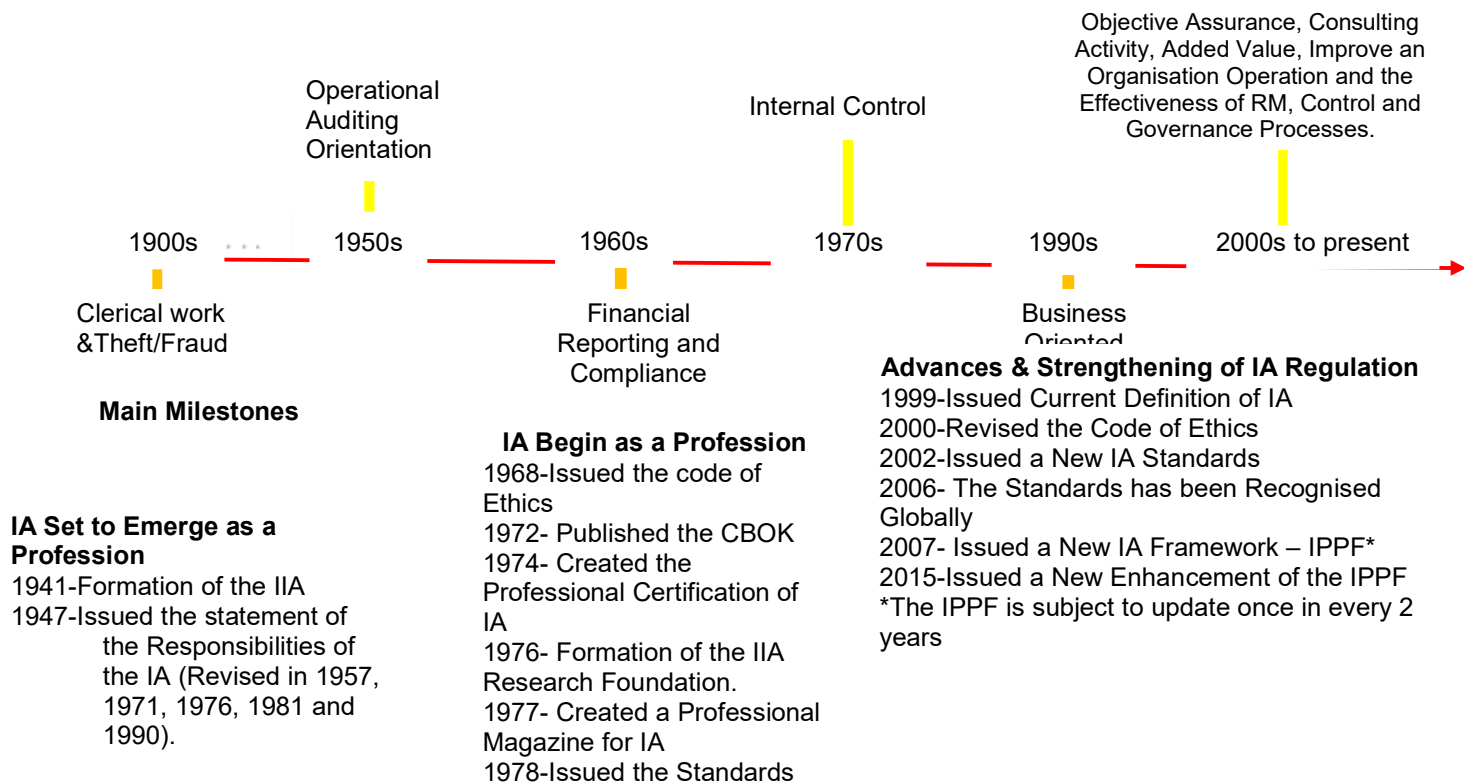


audit and this is also indicated by Roussy and Bivot, (2016); Roussy, 2013; Mihret & Grant, 2017) and others indicate that internal audit effectiveness is a polysemous notion (Roussy & Brivot, 2016). There is a dearth of research on internal auditing which can be, in part, be ascribed to the fact that internal auditing, as an academic discipline, is in its infancy and is, therefore, still a relatively unexplored area in emerging markets (Sarens,2009; Lenz & Hahn,2015). An explorative study was carried out by Ebaid (2011) on IAF in the African context as a case study using data from Egypt. However, there was no mention of the IAF's role in the performance of SOEs and also no consideration of changes in the accounting profession like the growth in use of information technology to facilitate fraud and to buy-pass internal controls. There is a need for competent internal auditors in order to improve the performance of SOEs. Despite this paucity, existing literature researched on internal auditing in the public sector indicates that there is shortage of competent internal auditors as an important deterrent to service delivery and quality of the IAF (Erasmus et al., 2014). In Zimbabwe, a system of internal audit is also a requirement. The IAF should be conducted by employees within SOEs, but exemptions are permitted in terms of Treasury Regulations 3.24 provided selection is in accordance with government tendering process.

### **2.3.1 Relationship between IAF and top management**

Working in partnership with management, internal auditors provide the Board, the audit committee and executive management the assurance that risks are mitigated and that the organisation's corporate governance is strong and effective. When there is room for improvement, internal auditors make recommendations to enhance processes, policies and procedures (IIA, 2013b). According to Pickett (2010), internal auditors can assist top management through monitoring activities that top management cannot monitor itself; identifying opportunities and minimising risks of failure. IAFs are vital for validating reports to senior management; protecting senior management in technical analysis that is beyond their knowledge. Furthermore, IAFs are imperative in providing information for the decision-making process; reviewing for the future as well as for the past; and helping line managers to manage by pointing out violation of procedures and management principles to them. The internal auditor's mission is to help the organisation achieve its objectives. The role of the internal auditor is, therefore, to evaluate and improve risk management, control and governance processes (Reding et al., 2013). Pitt (2014) posits another meaning of internal auditor's role based on the type of entity (private or public sector) rather than on the enterprise's environment as echoed by Pickett (2010). Considering the public sector entity, the internal auditor's role is look at the equitably use of resources by the public officials. In the private sector set up, the propensity to satisfy stakeholders and to maximise profit will be used to measure the focus and role of the internal auditor (Pickett, 2010). Based on the aforementioned definitions, IAF should have independent authority, reporting lines and access to the audit committee without any hindrances. Internal auditing departments should be well

resourced, staffed and trained, with suitable specialised skills based on the nature, size and complexity of the operating environment of an entity (Ohja, 2012). The evolving role, focus and professionalism of internal audit is illustrated in Figure 2.3.



**Figure 2.3:** The evolving role, focus and professionalism of internal audit

Source: Azharudin (2016)

### 2.3.2 Internal audit function

The definition of internal auditing has been scrutinised over the past 70 years and considered as including risk management, governance processes and internal control (IIA, 1995; Pickett, 2010). PwC (2014) further consented that internal auditing was expanded to include value-adding services that are not being performed by the IAF (Mihret & Yismaw, 2008). A strong IAF serves as one that can monitor and enhance good governance systems in an entity (Belay, 2007). Coram et al. (2006) echo that organisations should make sure that their internal auditors are well resourced and effective so as to avoid outsourcing from outsiders. IAFs are ears and eyes of top

management (Reynolds & Aggarwal, 2011). Thus, IAF is part of the mosaic of CG due its strategic position in an entity (Carcello, Hermanson & Ye, 2011; Gramling et al., 2004; Soh & Martinov-Bennie, 2011) and that it is one of the cornerstones of CG in the public sector as indicated in the literature in this study (Eulerich, Theis, Velte & Stiglbauer, 2013; Paape et al., 2003). It is of cardinal importance to note that the giving of value-added services is considered the purpose of the profession. An IAF that would not generate net benefits to its organisation could not be worth having (Chambers et al., 1987; D’Onza et al., 2015). Moreover, even assuming that “right things” are done, the quality and effectiveness of audits are difficult to assess. An audit’s effectiveness is often not completely, directly observable, except when it fails (Lenz et al., 2014). Different authors define internal auditing differently. Table 2.3. shows various definitions of internal auditing.

**Table 2.3: Different definitions of internal auditing by different authors**

Definition of Internal auditing.	Source(s).
<ul style="list-style-type: none"> <li>An independent appraisal function established to examine and evaluate institutional activities, with the objective of promoting effective control and assisting institutions, including management, to discharge their responsibilities effectively.</li> </ul>	Willson & Root (1984), D’silva & Ridley (2007)
<ul style="list-style-type: none"> <li>A function that is responsible to the owners of an institution, and which provides a service to senior management.</li> </ul>	Willson & Root (1984)
<ul style="list-style-type: none"> <li>A systematic, objective appraisal by internal auditors of the diverse operations and controls within an organisation to determine whether(1)financial and operating information is accurate and reliable,(2) risks to the enterprise are identified and minimised,(3) external regulations and acceptable internal policies and procedures are followed,(4)satisfactory standards are met,(5) resources are used</li> </ul>	Sawyer (1988)

<p>efficiently and economically, and(6) the organisation's objectives are effectively achieved, all for the purpose of assessing members of the organisation in the effective discharge of their responsibilities.</p>	
<ul style="list-style-type: none"> <li>• An appraisal activity established within a company as a service. Internal auditing functions include examining, evaluating and monitoring the adequacy and effectiveness of the accounting and internal control systems.</li> </ul>	Soltani (2007)
<ul style="list-style-type: none"> <li>• An independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation.</li> </ul>	IIA (1995)
<ul style="list-style-type: none"> <li>• A function for assessing the internal risk management and control systems.</li> </ul>	The Dutch Corporate Governance Code (DCGC) (2008)
<ul style="list-style-type: none"> <li>• An objective assurance with the aim to evaluate and improve the effectiveness of risk management, control and governance processes.</li> </ul>	IIA (2010b)
<ul style="list-style-type: none"> <li>• According to the America Society for Quality (ASQ), internal auditing is defined as a first party audit, that is, it is performed within an organisation to measure its strengths and weaknesses against its own procedures or methods and/or against external standards adopted by (voluntary) or imposed on (mandatory) the organisation. A first part audit is an internal audit conducted by the organisation being audited but who have no vested interest in the audit results</li> </ul>	Russell (2013)

of the area being audited.	
<ul style="list-style-type: none"> <li>An independent appraisal of the effectiveness of internal control within an entity of its management process in achieving set objectives and goals.</li> </ul>	Gill and Cosserat (1993) Harol et al. (2010).
<ul style="list-style-type: none"> <li>An independent appraisal function within an organisation for the view of systems of control and the quality of performance as a service to the organisation.</li> </ul>	Millichamp (2000)
<ul style="list-style-type: none"> <li>An independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation.</li> </ul>	Gupta (1999) IIA (1991)

Source: Author's own compilation.

### 2.3.3 Reasons entities have IAF

Dambatta (2004) is of the view internal auditors should ensure that enterprises' errors, strengths and deficiencies of internal control systems are shown. The role of an IAF is to protect the assets and liabilities of an organisation and constructive services to speed up the efficiency and effectiveness of the organisation's operations by examining accounting systems, internal control systems, implementation of policies, and conducting special investigations as set by the management. According to Tijjan (2003NIR), as cited in Dambatta (2004) and also Coetzee et al. (2012), internal audit functions can be given important functions such as:

- Enhancing efficiency in government and the public sector such as SOEs and many other organisations;
- Helping management to adhere to its responsibility of financial control and reporting. It is the duty of management to put in sound accounting policies, keep an effective and enough accounting system, protect the assets of the organisation and create and keep an internal control structure that will result in preparing precise financial statements. The internal auditor helps management to achieve this significant responsibility. It is the role of the internal auditor to advise management on important affairs since management might not have all the requisite knowledge;
- Create control in public institutions, hence internal auditors are seen as a deterrence to inefficiency, waste and fraud;

- As alluded by the Agency Theory, the owners (shareholders for the private sector and general public for the government) and managers of the business enterprise (board of directors for the private sector and the parliament for the government) are non-identical persons. The owners (principals) entrust their business to a manager (agent). In such a case, the agent will use financial statements and report to the owner. In order to give imperative affirmation to the owner, external auditors are assigned to carry out independent and objective audits. The internal auditor helps management by making the organisation's operations better as well as adding value. The main reason an IAF is established within an entity is to add value to the Agency Theory as it keeps employees on their toes. An effective IAF will promote the Agency Theory even more. As far as the theory is concerned, internal and external auditors play vital roles;
- IAFs can be depended upon as far as their mandate is concerned by external auditors, thereby making the work of external auditors easier; and
- IAF could be a training ground from which high caliber staff are seconded to other units within the enterprise to fill management posts.

#### **2.3.4 Services performed by the IAF**

The IIA (2012c) avers that management and the audit committee (AC) expect various services from the IAF and they also determine the skill composition (skill mix) and size of the audit team. In choosing the audit team, management and the audit committee should seriously consider risk assessments, critical systems and business processes, business objectives and growth strategies. This will make it easier for internal auditors to carry out their assignments which, in general, are carried out in teams. Internal audit team size, internal audit members' expertise, internal audit member experience is of cardinal importance in numerous entities especially SOEs because a large team would enable the higher rotation of auditors which could provide more objectiveness. Collaboration of audit tasks and combined audit activities forms part of the IAF. Internal auditing should be done in accordance with standards. Internal auditors give a level of assurance to the AC or other committee of the Board of Directors and senior management that the financial report of the organisation has been effectively prepared in a transparent manner. IIA (2017) asserts that internal auditors may not perform compliance audits, that is, internal auditors may look and audit the compliance process and effectiveness of compliance professionals. This is very important for internal auditors to comprehend since compliance audits are the role of compliance professionals. However, internal auditors should be in a position to know organisational policies, regulations, specific laws and the compliance framework being used.

According to Tucker and Kasper (1998), technical regulatory compliance is a combination of different experts who are trained in quality management, internal

controls and risk management, whereas internal audits under ISO 14000 led to systems audits. The IAF perform several services as highlighted by Fadzil et al. (2005), including assessing how the assets of the organisation are safeguarded; efficiency and economy of resources employed; scrutinising the adequacy and efficacy of control systems (accounting, financial, operational); analysing programmes or operations to ascertain that outcomes are set up by management as well as confirming compliance to procedures, rules, policies and regulations, which have effects on the entity's operations. Monitoring management controls; proactive in pointing out and assessing risks to institutional assets and tasks; and investigating failures in controls that have occurred and those that have a probable chance of occurring and making recommendations for enhancing responses to risk and attaining institutional objectives are other services performed by the IAF (Fadzil et al., 2005).

#### **2.3.4.1 Combined assurance**

In order for the internal auditors to add value and improve the organisation's operations, it is supposed to be consultative in nature (IIA, 2010b). This means there is a collaboration between integral audit and what the IIA outlined. Combined assurance has not yet been outlined. Combined assurance has not yet been defined by the IIA (IIA,2010b). Combined audit is a situation whereby when two or more various management systems are audited at the same time (IIA, 2010b). The IIA (2010a) espoused the ISO standard for risk management, and this means with combined assurance, audit criteria for quality audits into process audits is incorporated and hence this shows a new direction for internal audit. Adequate resources are ideal whenever internal auditors are carrying out internal audit.

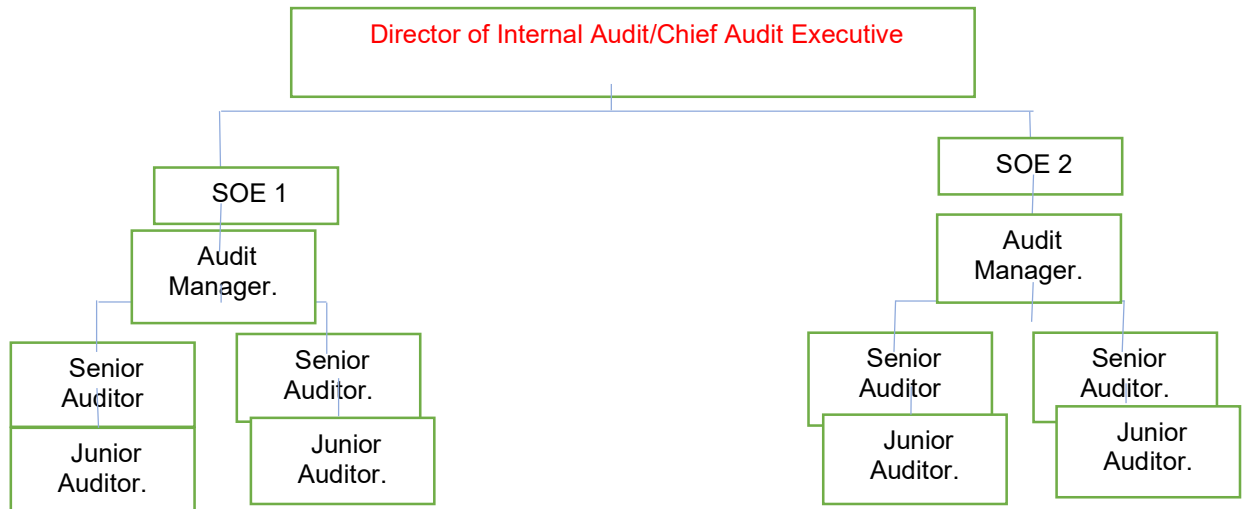
#### **2.3.4.2 Reasonable assurance**

According to ICAEW (2011), *reasonable assurance* refers to a degree of confidence the user of the audit report has that shows that due professional care has been exercised in the audit. One may think that reasonable assurance should be considered vital for external audits only. Dittenhofer (1997) indicates that the auditee provides information and confirmation of factual information is regarded imperative. When undertaking improvements with the entity, internal auditors' reports and opinions are relied upon. External auditors evaluate the work of internal auditors to see if they can rely upon it when doing financial audits or other engagements (Felix et al., 2001; Haron et al., 2004).

#### **2.3.5 Structure of the IAF**

IAF or Internal Audit Activity (IAA) is defined by Johl et al. (2013); Zain and Subramaniam (2007) as a department (branch, facet) that performs internal audit. IAF could be in-house, out-sourced, co-sourced, seconded or sub-contracted. It is against this background that IAF means the internal audit process and its reporting structure,

despite the fact that it can be out-sourced, co-sourced or out-sourced. Figure 2.4 shows the structure of the internal auditing department.



**Figure 2.4:** Structure of the IAF

Source: Author’s own compilation

### 2.3.6 Roles of the IAF

IAFs roles are outlined below in their various forms.

#### 2.3.7 Assurance and Consulting services

From the definition of internal auditing stated above, the internal auditor provides assurance and consulting services.

##### 2.3.7.1 Assurance services

Assurance in the context of internal auditors means an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the entity (IIA, 2009). This can be done by other external assurance providers such as sustainability and environmental auditors, external actuaries and external forensic fraud examiners and auditors. Examples include financial, performance, compliance, systems security, and due diligence engagements. When providing assurance services, it is the prerogative of the internal auditor to ensure that an objective evaluation of evidence to provide an independent opinion or conclusions is made regarding an organisation, operation, function, process, system, or other subject matter. The internal auditor’s role is to optimise performance and ensure sustainable business success. Assurance services, according to Coetzee et



al. (2012), means evaluation of evidence in order to give an independent and objective opinion by the IAF. These independent and objective opinion are shown in activities such as making sure that management sets procedures and policies which are followed. Assurance services include taking into consideration that the organisation is following as well as complying with appropriate and well considered laws and regulations. Furthermore, discovering whether internal controls put in place by management are in a position to alleviate uncertainties threatening objectives set by management are some of the assurance services offered by the IAFs (Coetzee et al., 2012). The internal auditor is the one who decides the scope and the nature of the assurance engagement. Parties involved in assurance services are: (1) the person or group solely involved in assurance services within the organisation, operation, function, process, system, or other subject matter, that is, the process owner; (2) the person or group making the assessment, the internal auditor, and (3) the person or group using the assessment, that is, the user.

### **2.3.7.2 Consulting services**

According to IIA (2013), consulting services refer to advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an entity's governance, risk management, and control processes without the internal auditor assuming management responsibility. An IAF can provide both consulting and assurance services to entities. Consulting (advising) services may be conducted as a routine activity or upon the requests of management. An engagement client specifically requests for a consulting service to be performed since these services are advisory in nature. Proper arrangements should be rendered with the engagement of the client since the scope and nature of the consulting engagement is done by the engaging client. With consulting services, only two parties are involved and these are: (1) the person or group giving the advice, that is, the internal auditor; and (2) the person or group requesting and presented with the advice, that is, the engagement client. It is the role of the internal auditor to be objective and restrain from taking/assuming management responsibility. Coetzee et al. (2012) provide examples of consulting service activities as follows: carrying out staff training; giving guidance, carrying out counselling and giving advisory services to management on issues to do with evaluating risk management, internal controls and governance processes; helping in developing and preparing policies; and taking part in quality teams.

### **2.3.8 The role of IAF in governance processes**

Governance falls under the Nature of Work, which is a Performance Standard 2110. A study carried out in the public sector in Ethiopia concluded that the governance role articulated by the IAF is gained when there is capable staff as well as when compliance with professional auditing standards is exercised (Agumas, 2015). Furthermore, the author asserts that when compliance with internal standards on auditing and national

laws regarding auditing, unrestricted access to books of accounts and any additional information which is vital, formal mandate, top management support and talented leadership as well as enough funding are part of the IAF roles. In this case, other attributes of IAF roles such as risk management as well as effectiveness of internal controls can be pronounced to have been performed. Around 2000s, the term 'corporate governance' was used in referring to a concept pertaining to balance that should be kept between [an organisation's] economic responsibilities, environmental responsibilities and social responsibilities and individual goals and communal goals, all with the aim to optimally align the interests of relevant stakeholders in and around an organisation (IoDSA, 2002).

CG also means the tone set by top management, which is built on the foundation of ethical values as set and practised by an organisation's management, all intended to assist the organisation to become sustainable (Qiang, 2003; Turyakira et al., 2012 & IFC, 2014). More importantly, the result of sound CG is through improvement in organisational sustainability (Lantos, 2001). Organisational sustainability refers to the anticipated prolongation of an entity through means of achieving precise economic responsibilities, environmental responsibilities and social responsibilities (Bechtold et al., 2013). IAFs pay attention on how values are accepted to make sure effective and efficient control and management of public sector enterprises (Asare, 2009). According to IIA (2006), internal audit role in governance is two-fold. Initially, internal auditing is there to give independent, objective evaluation of the appropriateness of an enterprise's governance structure and the operating effectiveness of clearly defined governance tasks. Secondly, internal auditing makes things change by giving guidance and enhancements to increase the entities governance structures. Standard 2110 of the IIA surmise that internal auditors should evaluate and put appropriate recommendations for intensifying the governance process in order to complete defined objectives. IAFs superintend risk management and control, make strategic and operational decisions, advance proper ethics and values within the entity to ensure management, accountability, coordination and communication of information with external and internal auditors respectively (IIA, 2016).

According to Gramling et al. (2004), financial scandals give room for the improvement of CG. IAF is considered to be improving CG when it overcomes the failure of organisational systems of reporting, ethical behaviour as well as internal control (Bailey et al., 2003). Various guidance, regulations and best practices articles underline connections between qualified internal auditors and related parties who can maintain good CG (Gramling et al., 2004). The significance of CG by IAFs is also indicated in the definition of internal auditing and in the Standards of Internal Auditing issued by the IIA. The glossary of the IIA (2013) defines CG as the combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities

of the organi[s]ation towards the attainment of its objectives. In addition, Gramling et al. (2004) define CG as the procedures and activities employed by representatives of an organisation's stakeholders to provide oversight of risk and control processes administered by management.

CG elements such as ethics, accountability to owners, creditors, workers, authorities and the public at large, according to Ridley and Chambers (1998), require sound financial and operational control of the tasks of the entity and Ridley and Chambers (1998) advocate that strong internal control systems create and keep good CG since problems can be easily solved. It is the prerogative of AC members to make sure that internal auditors are respected within an organisation as well as assist the IAF in implementing good CG (Goodwin & Yeo, 2001). Considering the process of financial reporting incorporated in the process of CG and integrity, according to the IIA (1989), internal auditing is considered an important factor. According to Christ et al. (2015), Hansen (1997), Prawitt et al. (2009), Schneider and Wilner (1990), internal auditors prevent employee theft and financial reporting irregularities as a way of enhancing the governance process. Moreover, to make better the quality of risk management (Lin et al., 2011 & Sarens, 2009) and prevent management misconduct (Ege, 2015; Prawitt et al., 2012), internal auditors can raise the governance process. These, in turn, will result in an increase in the performance of a company (Gordon & Smith, 1992). According to the IIA (2013), guidance set for internal auditors to make better governance processes are that of encouraging precise ethics and values within an entity, guaranteeing effective business performance management and accountability; communicating risk and control information to relevant areas of the organi[s]ation; and organising the tasks of and conveying information among the board, external and internal auditors, and management.

According to Carcello et al. (2005), internal auditors are powerful in the organisation and this position is supported by awareness of senior management in the governance process. Furthermore, internal auditors should be in a position to handle whistle-blowing matters as they have more opportunities to report negative information to the executive management because they are more powerful than others. Even though the relationship between internal auditing and AC are vital, management and external auditors can also enhance the governance processes of the organisation (Antoine, 2004; Gramling et al., 2004). Other scholars such as Churchill and Cooper (1965); Ebaid (2011) and Uecker et al. (1981), however, state that internal audit tasks do not affect CG. They advocate that risk management, internal controls and governance processes are areas that are within the scope of work of an internal audit that can be made better by the pursuit of assurance and consulting activities.

### **2.3.9 Role of IAF in enterprise risk management**

Alviunessen and Jankensgard (2009) define enterprise risk management (ERM) as a careful and harmonised approach to evaluate and respond to all risks that have an effect on the attainment of an entity's strategic and financial objectives. In addition, ERM is also defined, according to Acharyya (2013) and Hardy (2010), as a procedure whose purpose is to investigate, assess and control all the uncertainties that have an adverse effect on achieving the objectives of the entity. COSO (2004) defines ERM as a process executed by an organisation's Board of Directors, management and other personnel, applied in strategic setting and across the enterprise, planned to pinpoint possible events that may have an impact on the organisation, and to control risks to be within risk appetite to give reasonable assurance concerning the attainment of the business's objectives. ERM is in infancy in SOEs. ERM units work well with and form a part of the IAF. Notwithstanding the fact there are differences between the roles and responsibilities of the second line of defence (IIA, 2013), the two functions are devoted to boosting management of risks in their businesses. In the public sector, even where the ERM framework is not available, increasing management practices and "risk education" are sole areas that enables a more active IAF to add value to the public sector. According to the IIA (2004), it is the responsibility of internal auditing to give assurance in public sector entities by assessing risk management practices (including the ERM framework) as well as how risks are checked out and reported. Internal auditors enable singling out and evaluation of risks. In addition, internal auditors can train management on ways of answering to risks that they face. If the ERM framework is fledgling in its execution in public sector organisations, it is the prerogative of internal auditors to promote the creation or strengthening of ERM of their entities (IIA, 2004). Fast drastic changes are taking place in an environment, hence good risk-based auditing is needed, with risk assessments being done here and there in anticipation of new risks resulting in the adjustment of the audit plan. This means that internal auditors will be better positioned to enable the organisation to adapt its internal controls, taking into consideration new risks (for example, by assisting managers with risk-self evaluations and giving guidance on control design) (IIA, 2004).

### **2.3.10 Role of IAF in internal control activities**

Control falls under the Nature of Work which is a Performance Standard 2130. COSO (1999) and Miller et al. (2013) assert that an internal control system was designed and was meant to stop and identify the presence of risks. Management control can be used interchangeably with internal control. Internal control is defined by COSO (1992) as a procedure brought about by an organisation's Board of Directors, management and other personnel established to give reasonable assurance in connection with attainment of objectives linked to effectiveness of financial reporting, and compliance with appropriate laws and regulations. Internal control improves economy, efficiency and

effectiveness of operations, reliability and integrity of financial and non-financial information in a succinct manner; and compliance with relevant policies, procedures, laws and regulations. According to the IIA (2013), control is defined as any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. Operational auditing is auditing of operational control requested by the entity and financial auditing is auditing of financial accounting controls done due to a call from those outside the firm, such as shareholders, banks, and the government (Sprakman,1997). Management control is when policies and methods are put in place by management as well as taking a look at how public sector enterprises direct themselves at the advancement of accountability of the entity's resources. IAFs are required to report to the senior management of SOEs on the performance of internal control systems and recommending advancements/improvements where applicable. Internal audit improves the control and monitoring within the entities to detect fraud (Coram et al., 2007). Internal control systems are ideal for improving accountability and transparency of public procurement systems in detecting and preventing corruption (Szymanski & Ross, 2007).

### **2.3.11 Role of IAFs on performance**

IAF roles in the performance of SOEs is ubiquitous. The role of internal auditors is to optimise performance and ensure sustainable business success. The IIA (2010) avers that IAFs give counsel to top management of an entity. Furthermore, internal auditors evaluate an enterprise's ethics strategy, risks, compliance with guidelines and modus operandi, control, and pinpointing of deficiencies in formal and informal systems and procedures (IoDSA, 2009a; IIA, 2012a). The IIA (2013a) defines the role of the IAF as that of evaluating an entity's ethics plans and undertakings (IIA, 2013a). The International Standards for the Practice of Internal Auditing (hereafter referred to as the Standards), according to IIA (2013a) proposes that internal auditors give recommendations to business as well as strategies for addressing uncertainties as part of the advisory roles. The IIA (2012) argues that when the definition of internal auditing is expanded, the role of IAF is to incorporate assurance and consulting services, respectively, which is given to its interested groups. Moreover, IAF add value to corporate governance, risk management and control processes in public sector entities such as SOEs. A few SOEs in Zimbabwe do not have IAFs and some prefer to outsource than have in-house IAF. However, outsourcing of the IAF, as far as prior studies are concerned with particular in allusion to the public sector situation, is limited. This is in line with studies carried out in the United Kingdom's private and public sectors by Selim and Yiannakis (2000). Furthermore, Coram et al. (2008) carried out a study and looked at outsourcing the IAF in Australia and New Zealand' private and public

sector entities respectively. Their study found that in-house and co-sourced IAF have a propensity to be liked than out-sourced IAFs. However, Barac and Motubatse (2009), using the South African context, argue that the significant reasons for outsourcing IAFs were the need for specialised technical skills within the organisations and may also be as a result of scarcity of knowledgeable internal auditors. Mjoli (1997) carried out a study that came out with the same findings on the role of internal auditing and the value it added, which resulted in pointing out that dearth of skills is the main reason for outsourcing of IAFs.

In addition, in a more recent study by Yasseen (2011) and Papageorgiou et al. (2013) of the South African context of both the public and private sectors, neither of the authors differentiated between the results of the private and public sector. In this study, the views of the CAE and Accounting officers (AOs) only revealed that the crucial reasons in opting to outsource the IAF are the flexibility in scheduling of the outsourced service and the legitimate responsibility safeguard of external service providers. The results indicate that using the South African context is not very different from results that can be found in Zimbabwe, given that the two countries are close to each other and may share the same principles and methods. In the aforementioned studies, reasons for outsourcing IAFs were given as cost implications; the need for public sector expertise; great objectivity by outsourced internal auditors; a strategy to outsource non-core functions; and a need for experts in technical skills and a scarcity of knowledgeable internal auditors (Yasseen, 2011; Papageorgiou et al., 2013).

### **2.3.12 Anticipated roles to be carried out by the IAF**

Having reviewed the roles of IAF, it is opportune to examine anticipated roles to be carried out by the IAF. Soh and Martinov-Bennie (2011) suggest that IAFs report the AC, which gives the AC an opportunity to ensure that it has power to enable it push internal auditors to work effectively. AC meets six times a year and it must make sure that the IAF is well resourced in order to carry out its activities well. In order to perform their assignments, IAFs must have sufficient know-how of controls, technology-based audit techniques as well as information technology risks as enunciated by Standard 2110.A3. Internal auditors are expected to perform many roles such as foresight, detection, oversight, deterrence and insight in order to accomplish the goals of the entity (IIA, 2006).

#### **2.3.12.1 Detection roles**

In their study, Hillison et al. (1999) state that internal auditors are better positioned to detect and stop fraud, rather than external auditors, that is, they can detect and report employee fraud easily. Internal auditors should be able to identify fraud risks and help to external auditors through the application of standards on auditing standards (SAS).

According to the IIA (2006), internal auditors play detection roles using various ways. The detection role played by internal auditors include: naming inappropriate, inefficient, illegal, fraudulent, or abusive acts that would have taken place and gathering evidence in order to enhance decisions pertaining to criminal prosecutions, disciplinary actions, or other remedies. Detection can take different forms such as audits that examine internal controls and the enterprise's disbursements such as information systems security audits; payroll and accounts payable; examination of possible conflict of interest when rules; laws and procedures are coming into being and executed; audits asked for by law enforcement officers that scrutinise and clarify complex financial statements and transactions for use in looking into and building evidentiary cases against those who carry out immoral acts; and audits based on doubtful situations or complaints that include approaches and tests to specified fraudulent, wasteful, or abusive tasks (IIA, 2006). During the course of the audit, red flags may be present and this should name acts of fraud, waste, or abuse.

#### **2.3.12.2 Deterrence roles**

Deterrence is usually to name and decrease conditions that permit corruption. Prosperous detection attempts may have a deterrence result. This means IAFs are supposed to be able to name problematic and risk areas before the risks arise, and make sure resources of the entity are safeguarded. In order for IAFs to add value to the enterprise, they should be able to employ the right people with specialised skills who can effectively do their work (IIA, 2006). Internal auditors attempt to stop fraud, abuse, and negligence of public trust by evaluating controls for existing or proposed functions; examining an entity or audit-specified risks; assessing contracts for probable conflict of interest; and appraising proposed amendments to the operational laws, rules, and implementation mechanisms.

#### **2.3.12.3 Foresight roles**

IIA (2006) asserts that foresight roles pinpoint trends and prominent challenges. Internal auditors should make use of instruments such as financial audits, performance audits, investigations, and advisory services to each of these responsibilities. Foresight roles take the following forms such as the IAF, through risk-based auditing, giving vital and appropriate information to the entity for controlling its risks. Furthermore, an audit approach such as risk-based auditing does an organisational audit of the risk management framework, which can help to name and prevent unacceptable risks; auditors should not only examine the probable abuse of power, but also be apprised of their own power within an entity. This results in auditors serving as a check on abuse of power; the auditor's work must show principles of transparency, equity and integrity anticipated in the public sector. Audits that pay attention to foresight assist to answer the question: "what policy revisions or implementation would meet a future need or

risk?” Auditors play a significant role in assisting managers to comprehend and start risk assessments. Auditing’s own risk evaluation makes certain that audit resources are used successfully to solve the areas of greatest exposure (IIA, 2006).

#### **2.3.12.4 Insight roles**

A study by IIA (2006) highlights that internal auditors must know policies and exhibit knowledge in this area in order to add value to organisations. Insight helps decision-makers by giving an independent evaluation of the public sector programs, policies, operations, and outcomes. This is done by auditors in order to help decision-making by examining which programmes and systems are working and which are not, sharing best practices and benchmarking information. This is carried out by looking horizontally across public sector enterprises and vertically among the levels of the public sector to find opportunities to borrow, adjust, or re-engineer management practices. Insight roles result when auditors come up with well-informed understanding of operations and make conclusions based on evidence. This can only happen if they work systematically and objectively. Stakeholders are forced to rethink solutions by auditors if audits give a profound description of problems, resources, roles and functions that can be put together with the comprehension of the root cause of the problem and useful recommendations (IIA, 2006). In this kind of role, audits significantly contribute to answering the wider question: has the policy brought about intended results? Simultaneously with the accountability function, audits give rise to enhancing the operation of the public sector.

#### **2.3.12.5 Oversight roles**

Oversight roles look at whether the SOEs, which are public entities, are doing what they are supposed to do and serve to prevent and unearth public corruption such as fraud, waste, or abuse, and other misuses of the power and resources entrusted to government officials (IIA, 2006). The audit process should be in a position to point out challenges to be brought out by the demographic trends, economic conditions, or changing security threats. Risks and opportunities emanating from changes developing in science and technology, complexities of modern society and changes in the nature of the economy should be picked out. According to IIA (2006), internal auditors ensure that SOEs use money for the intended purpose and comply with laws and regulations. Insight roles result when it is ideal to mention that audits involving issues to do with insight functions answer the question: has the policy been implemented as planned and are managers implementing effective controls to lessen risks? This is supported by auditing when internal auditors find out how companies are committed to rules, regulations and aims. In addition, oversight audits ensure public accountability is practised and that access is given to this performance information to interested groups within and outside of the entity under audit. Officials chosen and appointed as well as



SOEs' managers have an obligation to give direction and explain objectives of the enterprise (IIA, 2006). Public sector managers have tasks to do such as evaluating risks and putting in place effective controls in order to attain objectives and avoid risks. In their oversight function, internal auditors in SOEs evaluate and give feedback on the success of these efforts. The effectiveness of management's internal control structure is checked by auditors in order to select and lessen the circumstances that give rise to corruption. Auditors in the public sector should answer to allegations in the public sector through detection and deterrence (IIA, 2006).

### **2.3.13 Perspectives on effectiveness of the IAF**

The Auditor-General's reports have repeatedly revealed serious weaknesses in the governance of ministries and departments, local authorities and SOEs, resulting in lack of accountability and high levels of pilferage. Internal auditing has been neglected despite pronouncements that it forms the backbone of risk management, internal control and corporate governance processes. This raises concern for the effectiveness of internal audit (The Standard, July 8-24, 2018). Several authors, including Al-Twaijry, Brierley and Gwilliam (2003); Mihret and Yismaw (2007), Dittenhofer (2001) and Arena and Azzone (2009), among others, define effectiveness in various ways. Al-Twaijry and Gwilliam (2003) in their study, 'The journey so far on internal audit effectiveness', surmise that audit effectiveness results only when internal auditors carry out their assignments, duties, obligations, responsibilities and professional practices by means of portraying high adherence to goals, objectives, procedures, processes, policies and audit standards. Dittenhofer (2001) looks at the term differently and refers to effectiveness as the ability to complete clearly stated objectives and goals. In addition, Arena and Azzone (2009) suggest that effectiveness means the capacity to get anticipated outcomes that are linked or aligned with identifiable and stated objectives, while Mihret and Yismaw (2007) view effectiveness as the extent to which an IAF meets its purpose. This means that effectiveness is measured in terms of the ability to attain or achieve stated objectives and goals. Grounded on the above definitions and discussions on the effectiveness of IAFs, this study defines internal audit effectiveness as the ability of the IAFs to assist management of SOEs to execute, deliver and attain defined goals and objectives within the spheres/parameters of SOEs in Zimbabwe. Previously, research carried out was found to vary to a very great extent in measuring and determining the effectiveness of IAFs, as the factors resulting in effectiveness of IAFs were viewed differently by other researchers (Mihret & Yismaw, 2007).

SavCuk (2007) states that the action of internal auditors subordinating to the AC, professional certification, internal audit strategy and operating responsibilities and experience are determinants of IAFs effectiveness. Another study carried out by Arena and Azzone (2009) examined organisational drivers of internal audit effectiveness in Italian companies. The study emphasised that the role of IAFs increase due to the

connection between the IAF and internal control as well as the risk management system. Arena and Azzone (2009) identified internal audit effectiveness as the independent variable and audit processes and activities, resources, competencies of the internal audit team, the level of interaction between IAF and AC as independent variables. It went on to make many conclusions such as: more attention is supposed to be given to determine IAFs competencies in order to see the skills that IAFs need in order to be effective; IAFs should develop skills such as those related to risk management, internal control processes so that they can solve organisational risks and bring sanity in managers so that they can have confidence to determine whether they can alleviate risks and controls within the entity. The characteristics of the IAF, the audit process, activities, and organisational connections have an impact on internal audit effectiveness. Further to that, an increase in internal audit effectiveness can also result, according to Arena and Azzone (2009), if there is an increase between the ratio of the number of internal auditors and employees, the entity embraces control risk self-assessments approaches, and a strong link exists between the AC and internal auditors, that is, the AC should be able to work hand-in-hand and should be involved in all the activities of internal auditors.

#### **2.3.14 Determinants of the effectiveness of the IAF**

It is the objective of this study to determine IAF effectiveness and its influences on the Zimbabwean SOEs' performance even though the study's key focus is on the roles of the IAF. Many factors have been put forward as determinants of IAF effectiveness. In this study, internal auditors' competence, internal audit quality, internal audit independence and management support are considered as some of the determinants of IAF internal audit effectiveness as explored next.

##### **2.3.14.1 Internal auditors' competence**

An internal audit team should be competent in terms of academic level, experience, skill and training (Baharud-din et al., 2014). According to Burnaby et al. (2009), Al-Twaijry et al. (2003) and Abu-Azza (2012), internal auditors must have experience, knowledge and competence in their tasks and educational levels to improve effectiveness of IAFs. The following are internal auditors' competence standards. According to the IIA and Code of Ethics, the two key IIA Attribute Standards that are relevant are **Standard 1210**. This standard is on proficiency, which requires the IAF to have internal auditors with knowledge, expertise and other proficiencies required to execute their individual responsibilities (IIA, 2013b). The second standard is **Standard 1230**. This standard is on continuing professional development (CPD); it states that internal auditors should ceaselessly improve their knowledge, expertise and other proficiencies through continuing professional development (IIA, 2013b) According to ISPPA (1210-proficiency), internal auditors must have skills, knowledge and other competencies to

carry out their tasks (IIA, 2011). This statement is supported by Fitsum (2017) who echoes that IAFs should have varied skills mix to make them capable of undertaking audits of areas beyond financial tasks. Ramamoorti (2003) argues that for internal auditors to be a key governance tool for management, they need a greater range of skills, attributes and competencies.

#### **2.3.14.2 Internal auditors' independence**

Independence is a situation where the internal auditors should be fair and objective in their review and appraisal and not be under undue pressure from any party to the extent that this could bias their opinions. Standard **1100** indicates that independence is the freedom from any condition that threatens the ability of the IAF to do internal audit responsibilities in an unbiased manner (IIA, 2016). Without independence, the defined results of internal auditing cannot be noticed (Vanasco et al. (1996). Two factors, that is organisational independence of IAFs and individual independence of internal auditors (Goodwin & Yeo, 2001) impact the independence of internal auditing. The connection between IAF and the AC is called organisational independence, whilst individual independence of internal auditors is concerned with individual employees in the internal audit unit independence and objectivity, which considers the IAF as a foundation for a highest management level (Goodwin & Yeo, 2001). The IIA (2001) surmises that organisational independence is dealt with through reporting internal audit tasks to top bodies in an enterprise, whilst individual independence is satisfied through employees' fairness, objectivity and avoiding conflict of interests (IIA, 2001).

#### **2.3.14.3 Management support**

Internal audit effectiveness is strengthened by management support, which is vital especially if it come from top management. For a good IAF, management support to internal audit is a very important factor. CAE should improve internal audit effectiveness by developing and adhering to the following factors, namely: top management; an appropriate corporate environment; and a high-quality internal audit. The support that the IAF receives from senior management is connected to the maturity of the IAF and internal audit finds this support by promoting and conveying its usefulness to add value. IIA (2016) argues that the IIA's ISPPIA (1110-organisational independence) acknowledges that for internal auditors to obtain cooperation from the auditees as well as to discharge their tasks free from intrusion, support from top management and the board is imperative. Stemming from this, it appears to note that support from senior management and the Board of Directors intensifies internal audit independence as well as effective work performance. Management support is defined by Abbu-Azza (2012) as a motivation given by senior management to internal auditors. Furthermore, management support is shown by giving education and training programmes to IAFs; sufficient budget to IAF; embracing and putting into effect internal audit

recommendations; and bonuses and recompense to IAFs. Financial support such as giving sufficient budget to IAFs and providing financial incentives makes a competent IAF (Paape, 2007), increases effectiveness of the internal audit team in the working area as well as impacts positively on the independence of the IAF (Mizrahi & Ness-Weisman, 2007)

### **2.3.15 Audit of public entities**

Wixley and Everingham (2019) echo that all public entities of the state are audited by independent auditors called external auditors. This means that the Auditor General is the external auditor for the government. The Auditor-General can select a private sector auditor, according to the Public Accountants and Auditors Act, which is vital when auditing public entities such as SOEs is concerned in Zimbabwe above the ethos in the Companies Act. The powers and duties of auditors are unrestricted access to any document be it a book, written or electronic record or information of the auditee client that shows the financial results, financial position or the way the auditee executes the duties of the organisation; assets under the jurisdiction of the auditee client; and any employee or representative of the auditee client powers to find out more information from the auditee that can enable the auditor to carry out work without fear or favour. In addition, it is the mandate of auditors to get relevant information from ideal individuals including restricted or secret information. All public enterprises must set up internal audit components. The AC keeps a check on activities of the IAF, including its annual work programme, coordination with external auditors. The IAF gives an account of significant investigations and responses of management to specific recommendations. The internal auditing profession has proliferated. More recently, external audit's failure to pick out defective financial statements has underlined the importance of a strong and independent internal audit (Wixley & Everingham, 2019). This means that for many years internal auditing was a 'Cinderella' profession, and not being recognised and considered insubstantial and inferior, while its glamorous cousin, the external auditing profession, is always in the public eye (Wixley & Everingham, 2019).

### **2.3.16 Challenges faced by IAFs**

Internal auditing is in its infancy in public sector organisations (Arena & Jeppesen, 2015), even more so in the African continent (Onumah & Krah, 2015; Odoyo et al., 2014; Mihret & Yismaw, 2007) and particularly in Zimbabwe. Internal auditors should lessen risks to acceptable levels in the public sector. According to the Auditor General (2018), wanton breach of PFMA rules will hinder Zimbabwe from attaining sustainable development goals (SDG) to reduce poverty, support health education, clean water and clean energy. This is as a result of government departments and SOEs failing to account for, for example, four million United States dollars (USD 4million) that was paid to ZESA for transformers in 2017, but not accounted for and yet the country is struggling

with electricity cuts. Multiple groups can be included in assessing the risk management processes and these, if they happen in phases, coordination of these aspects and aggregating of data from different audits can be a challenge, but it is important to stick to crucial observations and trends (Onumah & Krah, 2015; Odoyo et al., 2014; Mihret & Yismaw, 2007) It is ideal that audits be staffed by the same teams in order to have continuity to audit tasks. Human resources should be properly managed and the CAE should make sure IAF's risk management responsibility are adhered to. Staff development should help in the comprehension of risk management elements and processes. However, it should also help staff to convey risk management procedures, policies and process elements to their auditees/engagement clients (IIA, 2017).

New challenges that include information piracy seen lately in top international brands, add to the ever-changing risk landscape that business organisations should now manage with new and enhanced processes and controls (PwC, 2015). Internal auditing faces skills shortage. Surveyed CAEs reveal a lack of competent internal auditors as one of the challenges faced by departments in order to function effectively (Erasmus et al., 2014). The internal auditors' limited knowledge of the business processes in which they work and poor management support for internal auditors were perceived as main challenges faced by IAFs in the public sector, according to Motubatse et al. (2015). The Zimbabwean SOEs' crises hinge on legitimacy issues, corruption and looting of national resources by those in government who are in charge of governance and in higher positions who compromise the working conditions of an IAF, resulting in internal auditors failing to reports key issues in their reports. To look into the space of IAF laxity in SOEs over the years, especially during 2017 and 2018, one needs to look at gaps in government services and potential value of instigating a commission of inquiry or some other mechanisms. Studies carried out by Barac and Van Staden (2014), Coetzee, (2014), Erasmus and Fourie (2014), Motubatse (2014), Steyn (2014) and Van Gansberghe (2005) in the South African public sector noted a lot of challenges in the public sector. Challenges pinpointed were paucity of business knowledge; absence of management support; unavailability of an audit action monitoring process; and unwillingness by external auditors to depend on the work of internal auditors. Similarly, another study was carried out by Radasi and Barac (2015) on internal audit in SOEs: Perceptions, expectations and challenges. It was concluded that IAFs face varied challenges such as absence of performance auditing and combined assurance in SOEs; differences in methodologies and auditing systems used by outsourced functions of internal auditors; reiterated (adverse) audit findings; dearth of business knowledge and of understanding on the party of the entity; and failure to act in accordance to quality assurance and improvements standards.

IAF is vital in CG circles as it monitors risks and assesses controls. Corruption scandals in recent months have eroded SOEs such as Civil Aviation Authority of Zimbabwe (CAAZ), NSSA, Zimbabwe Electricity Supply Authority (ZESA) Holdings, ZETDC,

National Pharmaceutical company (Nat Pharm), Air Zimbabwe and many others (Auditor-General, 2018). Understanding and acknowledging the main roles of internal auditors on the performance of SOEs, that is, employees who are not connected directly to the profit and loss account, is a daunting task (Nobel, 2010). Nowadays, the perceived value and professional persona of internal audit among stakeholders outside the internal audit community is not where internal audit professionals and the internal audit profession would wish to be. When looking closely at reality (Anderson, 2009; KPMG, 2009; PwC, 2010; Ernst & Young, 2012; Lenz & Sarens, 2012; PwC, 2013), one cannot ignore a certain degree of disappointment among internal audit interest groups in regard to the role and relevance of internal audit before, in and after the last financial crises that started in 2007. In SOEs, issues of irregularities are unearthed by the external auditor (Auditor-General), which means that if the work of internal auditors is considered as being of cardinal importance, transparency and accountability will be enhanced. It seems IAFs in SOEs have weaknesses, as alluded in the Auditor-General reports (2012-2018), and these are stated as failure to identify increase in irregular expenditure; non-observance of accountability failures, which could manifest into service delivery challenges, deteriorating financial health and governance failures. If these are not controlled, they could lead to increase in poverty and employment figures could nosedive since SOEs play a crucial role in creation of employment and sustainability of the nation. Internal auditors are reluctant and unaware that environmental audits should be done, that is, they only concentrate on financial and operational audits.

Most importantly, the treatment of donations (grant management) is a challenge to both accountants and management in the public sector. This is contrary to the provisions of Treasury Instruction (TI) 2002 read in conjunction with section 4.9. of the GoZ accounting procedures manual, which states that donations, for example, of equipment, should be recorded in the master assets register and become property of the government or state. This means that administration officers and accountants in the public sector would be flouting Treasury regulations, which may go unnoticed by the IAF, that is, there will be no record of the asset in the master asset register. Failure by accountants of SOEs to treat loans in the books of accounts is contrary to Treasury Instructions (TI) 0909. IAFs should be able give advice to management in cases where accountants of SOEs fail to inform management that a monetary value should be given on the loans. This is contrary to section 4.2 of the GoZ accounting procedures manual. IAFs were unable, especially at ZINARA, to pin-point weak internal controls on road funds and also failed to report to management, AC and the board that millions of ZINARA funds were being disbursed to provinces through the SOE's employees' personal accounts. Corruption being an antithesis of justice, has left a stain on our post-independence. Paucity of skilled internal auditors with investigation skill result in the government losing a lot of public funds.

SOEs' management and ministers superintending them are facing a slew of criminal abuse of office. One key example is NSSA (Auditor-General, 2018). A differing view of audit or landscape that requires regular changes of the Internal Audit Standards to be improved and changed was enunciated at an annual audit seminar for challenges of IAFs (The Institute of Internal Audit, New York, 2010). This is done in order for internal auditors to be well acquainted with recent developments of the standards because an IAF that disregards the IIA standards is both ineffective and inefficient. Following up and understanding the meaning of new regulations and legislation and comprehension of the legislative process but not mentioning the political force that might drive this policy is another challenge. IIA (2010) concedes that change in business operations, ceaseless auditing and whole opinions, various stakeholders' requirements, quality assurance and internal control, compliance, risk management as a support of other functions of assurance are some of IAFs challenges. Given such a scenario, the IAF should work in an efficient way and cover all key entity encounters by working in together with external auditors of the enterprise. Strengthening its independence might be a challenge for the IAF where an AC is not being effective. An AC gives help on the standing of internal auditors and strengthens their independence. It is, therefore, incumbent for the audit committee to make sure the IAF has a voice in a company (Steward & Subramaniam, 2010).

The threat of compromising the functionality of IAFs as a challenge is rendered when fraud risk assessment reporting is made by the IAFs (Norman et al., 2010), that is, if the IAFs report high levels of uncertainty or dangers to the AC, lives will be in danger, so IAFs tend to lower the way they report levels of fraud risk. To give a competitive advantage to the enterprise, technology for IAFs should be upgraded and changed. In this case, technology is considered a vital resource for IAFs. Thus, not having appropriate technology brings up an internal audit challenge (Wolfe et al., 2009). Resourcing the IAF is a further obstacle, that is, recruitment and employment of skilled people within the IAF who have knowledge of the entity and its culture or beliefs (View Point, 2013). It is vital to acknowledge the standing of IAFs within an enterprise; attributes such as being loyal, highly valued and having a strong position in an entity is of cardinal importance. The CAE and CEO should have a strong and healthy nexus and the CEO should confirm the role of the IAFs to boost independence and objectivity (Song, 2011). Further, a major challenge is stated as not emphasising IAF enough at executive levels in organisations.

## **2.4 PROFILING OF STATE-OWNED ENTERPRISES IN ZIMBABWE**

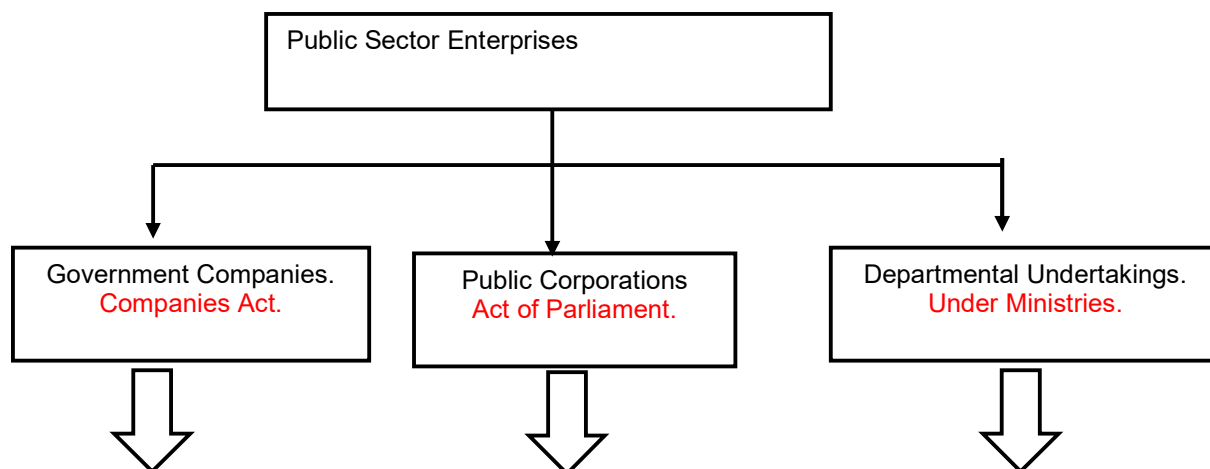
It is argued that state-owned enterprises (SOEs) are normally secretive and tend to be difficult to study, especially in emerging markets (Yaacob et al., 2012). Researcher recognise that SOEs in Sub-Saharan Africa virtually operate in all sectors and this

strengthens their relevance (Kikeri & Kolo, 2006). According to the World Bank (2007), SOEs in emerging economies contributed 40 per cent to the total output and also accounted for up to 25 per cent of service delivery (Vagliasindi, 2008). It is acknowledged that there exists a lacuna of SOEs performance literature across different SOEs in developing economies.

The chapter set the trajectory of the study as to why SOEs exist and what are their mandates and this guided the researcher in a systematic and coherent manner, that is, from general to the particular. The context and challenges of SOEs as well as the legal and regulatory framework governing SOEs in Zimbabwe and in Africa are spelt out since SOEs' challenges differ from one SOE to another and ways to ameliorate these challenges are well articulated. SOEs are government entities. In Zimbabwe, they include: Zimbabwe National Road Administration (ZINARA), Zimbabwe Electricity Supply Authority (ZESA), National Railways of Zimbabwe (NRZ). Net one, Air Zimbabwe, Telone, Telecel, a regulator Postal and Telecommunications Regulatory Authority (POTRAZ), Tobacco Industry Marketing Board (TIMB) and Grain Marketing Board (GMB), just to mention a few. SOEs are called economic enablers since they lead to an improvement in the standards of living for all Zimbabweans (Nyoni, 2012). They provide significant services to the nation such as water and sanitation, communication, transport and electricity since they are strategic entities. Woetzel (2008) and Schlettwein (2010) argue that despite the government pouring a lot of resources into SOEs, these enterprises have been characterised by mismanagement, board dysfunction, ceaseless dependence on government subsidies for sustainability and, hence, fail to realise any returns on investment. There is a serious knowledge gap in the Zimbabwean literature, which articulates the plea of malfeasance, lack of accountability and transparency and the risk these issues pose to the performance of SOEs.

Micro-management and political interference, particularly in Zimbabwe, are some of the reasons SOEs perform poorly. These intrusions negatively impact the performance of SOEs and contribute to inefficiency and perennial losses (Nyoni, 2012). This has been seriously hemorrhaging Treasury. Figure 2.5 shows the classification of public sector enterprises in Zimbabwe.





State Enterprises	Parastatals	Local government institutions
<p>These are entities where the Government owns 51% or more of the paid-up capital. They are governed and registered under the Companies Act (24.03). Many government-owned business facets fall under this category. For example, NRZ, Air Zimbabwe, Minerals Marketing Company of Zimbabwe (MMCZ) and most of the subsidiaries of the Zimbabwe Minerals Development Company (ZMDC).</p>	<p>Management, functions and power for these companies is enforced by the Parliament. These entities are also known as statutory corporations. Their capital is wholly provided by the Government. For example, ZESA, GMB, ZBC, Zimbabwe Defence Industries (ZDI).</p>	<p>These entities provide services which are essential to the citizenry and the Government exercise control for the benefit of the public. Their functions are controlled by as well as financed by a ministry of the Government. City councils and state-owned universities fall under this sector.</p>

**Figure 2.5:** Classification of public sector enterprises in Zimbabwe

Source: Chavunduka (2016)

## 2.5 DEFINITION OF SOES

SOEs are identified by many names such as government business enterprises, government corporations, government-linked companies, parastatals, public entities, public enterprises, public sector units or enterprises and so on. The definition of SOEs varies across countries. The OECD (2005) suggests that a wide range of legal forms prevails for SOEs, including:

- The level of government that owns the enterprise (central/federal, state/regional or local).
- The way in which the enterprise was founded.
- The position in the public administration hierarchy.
- The purpose of the SOE.
- The status of the SOE if it is in the process of being privatised.

**Other variations include:**

- Full, majority or minority ownership by the government.
- Listing (or not) on Stock Exchange.
- Government shareholding through vehicles such as government pension funds, asset management funds, restructuring corporations and development lenders.
- State-enabled (for example, enterprises which has been granted exclusive rights by the state) as opposed to state-owned.

According to Florio (2015:201), an SOE is an organisation that is possessed or co-possessed by the state, which internalises a communal undertaking among its aims while functioning mostly in a market setting, SOEs remain accountable only to the government for its governance and existence. Jahed et al. (2015: i) also defined SOEs as entities formed by the government to carry out commercial and public benefits on its behalf, whilst satisfying the government's promise of a sustainable economy with a sustained financial status.

However, other authors hold that SOEs are government enterprises for profit making. SOEs are defined depending on their relationship with the government as the main shareholder, that is, they can also be defined as entities whose capital is partially or wholly possessed by the government or the state through direct placement emanating from reserved state assets. In other words, SOEs are organisations whose shares are mostly owned by the state and the government of the Republic of Zimbabwe.

The Public Financial Management Act, 1999 (PFMA) refers to SOEs as “the government entities who are controlled by the national executive (the line minister), who is given financial and operational mandate to run the entities activities, as the principal business provides goods and services in accordance with the ordinary business principles, and are financed fully or substantially from sources other than the National Revenue Fund or by way of tax, levy or other statutory money”. SOEs are accountable to government departments and parliament, whilst the Minister acts as the representation of the shareholder. Gumede (2009) defines SOEs as entities where the government is the major shareholder/stockholder whose shares are more than 50%. SOEs can be referred to as government-owned entities with most of their monopolies and infrastructure owned by the state such as strategic goods and services, energy, railways and telecommunications, just to mention a few.

## 2.6 Purpose of establishing SOEs

SOEs provide the economy with numerous opportunities as well as a plethora of its biggest problems since the colonial era. Despite a declining contribution to Gross Domestic Product (GDP), Zimbabwean SOEs remains a pillar of the economy and a major global player. The sector contributes 2% of GDP and creates jobs. Boundless (2013) defines SOEs as legal entities created by the government to undertake commercial activities on behalf of government. Furthermore, Toninelli (2000) defines SOEs as companies that are established by the government on the central or local level to intervene the economy. Christiansen (2011) states that SOEs are vital policy instruments. In addition, Millward (2011), reiterates that the state uses SOEs for the implementation of industrial policy and in order to foster research and innovation. In other words, SOEs are institutional units that are potential sources of financial gains or losses to government units that own or control them. Allen and Vani (2013) distinguish between financial and non-financial public entities by identifying institutions such as banks and insurance companies as financial public corporations owned and controlled by the state. It is ideal that SOEs deliver societal outcomes desired and will remain an influential force to reckon with globally for some time to come. SOEs are owned to deliver real public value, hence they are catalysts for sustainable public value creation.

Several authors such as Bance and Obermann (2015); Mbo and Adjasi (2017); Amatori (2017) and Bermer (2015) have highlighted the performance of SOEs and many others, have focused on the performance of SOEs in Africa, specifically, according to MacDonald (2014). This study provides the basis for analysis of SOEs within the spectrum of governance, economic and legal spheres within which these SOEs operate. Coase (1937), Williamson (1975) and Williamson (1985) state that using the Transaction Cost Theory, firms such as SOEs thrive because they conform to transaction or economic costs in a more fashionable way than markets. Furthermore, Peng et al. (2016), reiterate that market failures also contribute to SOEs' prominence and tenacity.

SOEs are entities that the government partially and wholly possesses (Business Dictionary, 2013). The OECD (2009) asserts that SOEs are business enterprises whose supervisory management are from government and they are inaugurated by the local and central governments. Furthermore, the OECD (2009) differentiates state-holding and state-owned enterprises by arguing that SOEs are wholly state-funded entities, whereas state-holding entities are firms in which majority shares are owned by the government. SOEs in Africa have influence in national development and provide citizens with important services such as telecommunication, health, water, electricity and transport.

SOEs are differentiated from privately-owned entities regarding access to resources, governance and risks (Estrin et al., 2016). This is because the state manages many

entities such as courts and, by so doing, the concept of hybrid organisations is pronounced (Bruton et al., 2015). According to Cui and Jiang (2012), Musacchio and Lazzarini (2012), although SOEs are state entities, they vary in terms of control and ownership in that some are categorised under central government, local government or local authorities. According to Thomas (2012), SOEs provide strategic goods and services such as electricity, transportation as well as water and sanitation (Balbuena, 2014; Vagliasindi, 2008). Balbuena (2014) further alludes that SOEs' infrastructure and utilities are some of the priorities for economic development and these services are in the interest of emerging economies (Aposkie et al., 2014) and of cardinal importance to the government since they enhance and sustain democratic governance trajectory and sustainability of the country (Ngonini, 2014). SOEs close the gap between the rich and the poor in society, hence social and economic transformation matters are solved (PRC, 2013). In order to accomplishing this, SOEs are required to imitate private sector governance principles, while keeping full state ownership (Frederick, 2011).

SOEs are ideal for driving economic development in areas where the private sector is not optimal, hence the government plays a role in retaining control over units of the state that seem to be crucial and strategic (Bozec et al., 2002). SOEs provide electrical power, railways, telecommunications, air transport, water and sanitation (Nellis, 2005). According to Stureson et al. (2015), SOEs are vital in that they drive societal and public value creation in developing economies, all things being equal, given the right interest. This gives the researcher impetus to research SOEs' performance since a gap still exists and once the gap has been filled, important lessons could be discerned to guide the quest for improving SOEs' performance. Against this background, the significance of SOEs, the legal and regulatory framework for SOEs, challenges SOEs face and how these challenges are addressed, are examined. Beyond placing blame for poor SOEs' performance and inefficiencies on political interference, existing studies have not provided consensus on what could be the fundamental drivers of performance in these enterprises and this is an area towards which this study seeks to contribute.

In Sub-Saharan Africa, many countries have different socio-political and economic conditions. This means even in the future, state participation will still be noticed. Stureson et al. (2015) allude that these aspects of state intervention in the future epitomises the significance of improving the performance of SOEs, particularly in Sub-Saharan Africa where they are anticipated to be in front in the requisite state-intervention. According to the OECD (2014b, 2015), SOEs ceaselessly take part in today's public sector, particularly in circumstances of natural monopolies like railways and where recurring policy objectives which are always at play, including public service delivery. The study of SOEs allows us to comprehend hybridity in public governance and indicates that hybridity is an ongoing concern and not a temporary phenomenon (Christensen & Lagreid, 2011; Denis et al., 2015). According to Elwel and Labonte (2007), SOEs are pitched at the nucleus of the nation's economic prosperity and

development particularly in China, whose economy is anticipated to surpass that of the United States of America.

## **2.7 The role of SOEs**

The scenario of SOEs has been looked at with different views. SOEs operate in contexts that are different and also face varied difficulties or mishaps. Some SOEs are performing very well. However, others signal poor performance throughout the year. Wang, Hong, Kafouros and Wright (2012) propound that SOEs are established for consolidation of political or economic power, historical heritage, inertia and for pragmatic response to economic problems. SOEs are ideal in order to pursue national goals, promote political ideology and to increase economic efficiency (Ayee, 2013). Xie, Li & Li (2012) state that SOEs play a vital role in economic development and emancipation such as creating and controlling monopolies in strategic industries, ideological branding and enhancing economic development. Public entities are important because they provide services in order to satisfy and meet demands of the citizens.

Florio (2013) further reiterates that other reasons for establishing SOEs are: abuse of natural monopolies, capital market failure, externalities, and equity issues, which justify the significance of creating SOEs. SOEs are essential in the sense that they help to lessen inequitable distribution of economic inefficiencies, economic surpluses, and capital market failure. Hvidman and Andersen (2014) state that public sector performance can be benchmarked by improving and offering ideal services to the public or citizens. In addition, measuring performance of the private sector means being on top of your rivals and being at a competitive advantage than others.

## **2.8 Zimbabwe SOEs' legal instruments**

In order to have a consistent framework, SOEs are put into different sectors starting with those with a commercial purpose to those with a non-commercial or regulatory purpose (including "boards" or authorities). Some SOEs are formed according to ordinary company law, some according to statutory laws, that is, Acts of Parliament and others embedded in general government and these perform non-commercial activities. These non-commercial functions can be characterised as "Quasi-corporations". However, in practice, they are called "parastatals" or "public enterprises". Some SOEs are incorporated under the Companies Act (Chapter 24:03) in Zimbabwe. However, most of them are statutory corporations. Public entities that are commercialised or registered under the Companies Act are still under the Act of Parliament. This being the case, it gives the relevant Ministries in Zimbabwe the mandate to ceaselessly to superintend them at both micro and macro policy levels (Zhou, 2000 & 2012). The Companies Act, Acts of Parliament, Public Entities and Corporate Governance Act,

Public Procurement and Disposal of Public Assets Act and the Public Finance Management Act govern the operations of SOEs. The PFMA is recognised for the financial responsibilities and management of public finances; it also includes provisions bearing on the activities of SOEs.

The legal instruments that establish and govern SOEs are subdivided into two categories. These are individual Acts of Parliament that establish and govern statutory corporations, referred to as 'parastatals' and the Companies Act, which establishes corporatised entities referred to as 'state enterprises'. The country follows a decentralised ownership model for its SOEs. This ownership model is characterised by dispersed ownership of SOEs across line ministries. Line ministries have responsibilities to exercise direct control over SOEs under their purview (Ministry of Finance, Mid-Term Fiscal Policy Review, 2015).

### **2.8.1 Public Finance Management Act**

The PFMA was established in 1999 to provide the framework for financial management and control within public service sector. The legislation guides the control mechanism for resources, control, protection, regulation and recovery thereof, as well as the verification and auditing of public accounts and the common treasury issues on public entities. In addition, the PFMA was enacted to state issues that could result in financial misappropriation by public officers as well as to inform state entities to stick to sound CG rules, regulations, methods, imperatives and their execution (Section 50 of the Public Finance Management Act (Chapter 22:19). This means that public entities are penalised if they fail to conform with principles of good CG rules, methods, practices and procedures to which they are asked to adhere (PFMA (Chapter 22:19) (No.11 of 2009).

According to the PFMA (2009), its purpose is to secure transparency, accountability and sound management of the revenue, expenditure, assets and liabilities of entities that are specified in section 4(1). 251 Section 4, then provides that the Act shall apply to ministries, designated corporate bodies and public entities, constitutional entities and statutory funds (Section 4 (1) (a)-(d) Public Finance Management Act (Chapter 22:19).

State-owned enterprises are categorised under corporate bodies and public enterprises. The Act defines a public enterprise as any corporate body that is established by or in terms of any Act for special purposes, a company in which the state has a controlling interest by virtue of shares or by right of appointment of members to the controlling body, a local authority and any partnership or joint venture between the state and any person which is prescribed by the Minister (Section 2 of the Public Finance Management Act (Chapter 22:19). The PFMA makes it mandatory for the establishment of accounting authorities at public enterprises, that is, the board and the CEO when the board is not formed or an individual person in charge of the organisation or solely

appointed by Treasury for a particular entity (Section 41 (1) (3) Public Finance Management Act (Chapter 22:19).

According to Section 42 of the PFMA, the accounting authority's duties of trust, which include due care in making sure the assets and records of the public organisation, are taken care of and disclosure of material facts to the Minister that may influence his decisions (Section 42(1)(c) Public Finance Management Act (Chapter 22:19). The greatest thing is the duty to "act with fealty, nobility, uprightness and in the best interests of the public organisation in managing the affairs of the public entity (Section 42(1)(c) Public Finance Management Act (Chapter 22:19). This is in tandem with the OECD (2015), which highlights that board members must act in the best interest of the company and it precisely takes place where the accounting authority is the board. The section of the Act functions well when there is an honest, upright, genuine and straightforward accounting authority. In some SOE boards, it was fruitless and resulted in malpractices.

The Act requires employees of these public entities to be accountable, responsible, fealty, upright, and equitably make use of available resources. This is imperative in order to avoid what transpired at the Zimbabwe Broadcasting Corporation (ZBC) and Premier Services Medical Aid Society where board members and management of these SOEs gave themselves lucrative salaries that were even above commercial and private sector rates (Zimbabwe Independent, 24 October 2014). The intention of the laudable law and straightforward intent was to overcome corruption and malfeasance though the law was binding on the accounting authorities themselves. In such circumstances, board members should be thoroughly scrutinised before they are chosen and pressure groups should be used when selecting boards for public entities.

## **2.8.2 Public Entities Corporate Governance Act [Chapter 10:31]**

**Statutory Instrument (SI) 168 of 2018** is the Public Entities Corporate Governance Act (PECG ACT) (Chapter 10:31). It brings into law and effect the revised governance requirements for SOEs. The PECG ACT is seen as a milestone in fostering good CG in SOEs, constitutional commissions and other entities controlled by the government. The recently promulgated PECG ACT is a governance framework that should be put into use by the government to promote good corporate governance in SOEs. The Act further explicitly requires that members of the Board of every public entity must have appropriate diversity of skills, experience and qualifications for managing the entity in the fields of Law, Accountancy, Banking, ICT, Human Resources, Marketing, Pharmaceuticals, Medicine and Engineering. The country's economic landscape is dominated by SOEs and it is imperative that these mammoth, but desperate entities, are cured of the potential ills of corruption (The Government Gazette, August 31, 2018).

In a bid to improve CG irregularities, the PECCG ACT has been enacted to regulate the activities of SOEs.

The Statutory Instrument now requires all SOEs to hold annual general meetings and present accounts. It underlines the responsibility of line ministries to effectively monitor, oversee and supervise the management of public entities under the jurisdiction and ensure strict compliance with provisions of the Act. Political will to implement provisions of the Act and holding public entities to account will be very important going forward if there is going to be a significant improvement in how SOEs and other public entities are governed. Further, the PECCG ACT gives birth to the Corporate Governance Unit (CGU) within the Office of the President and Cabinet (OPC), whose major responsibilities include:

- The allocation and storage of CG related information for all public entities;
- Coordination and oversight of board induction and training programmes; and
- Including general oversight of public entities in consultation with line ministries and compliance with provisions of the Act.

## **2.9 The legal and regulatory framework for SOEs**

The OECD (2005) defines SOEs as entities where the government has important control through full, majority, or significant minority ownership. SOEs are viewed as commercial government agencies, state enterprises, public entities or government-owned corporations and are legal entities created by a government to undertake commercial activities on behalf of the government. Zimbabwean SOEs are governed by separate Acts of Parliament under which they are set up. The Public Finance Management Act (PFMA) (Chapter 22:19) and Treasury Instructions are also applicable to all public entities. They stipulate that these entities should have accounting authorities as the governing authorities. The legal and regulatory frameworks for SOEs are the PFMA, Constitution of Zimbabwe of 2013 Amendment Number 20, Public Entities Corporate Governance Act and the Companies Act, among others. The legal and organizational form of SOEs vary from country to country (Allen & Vani, 2013).

According to the World Bank (2014), a well-defined regulatory and legal framework is supposed to be instituted in order to guide the responsibilities of SOEs. The roles of the government, shareholders, Board of Directors and senior managers of SOEs need to be respected and should be incongruent to the legal framework. The OCED (2011) states that it is imperative for SOEs to adhere to the legal and regulatory framework in order to ensure the governance of SOEs. Furthermore, OECD (2014b) recommends five things be done for an effective legal and regulatory framework for SOEs by the government, which are:



- Economic development should always prevail where the private entities and the SOEs compete (or might compete) and no enterprise will be taken advantage of or disadvantaged (OECD, 2014b);
- All commitments and roles to be undertaken by the SOEs should be written down, have to be made public and any expenditure to be covered in a transparent manner;
- SOEs should be subjected to ordinary company law whenever they are incorporated. This makes the legal form to be simplified and harmonised;
- A comprehensive legal and regulatory framework for SOEs should be complied with and executed; and
- A clear and distinct operation of other state functions and the state's ownership function must be spelt out since these may have an effect on the functions of SOEs.

The aforementioned legal and regulatory frameworks apply to SOEs in Zimbabwe. However, various countries in sub-Saharan Africa has varied legal and regulatory frameworks. The various clearly stipulated legal and regulatory frameworks for SOEs in sub-Saharan African countries are shown in Table 2.4.

**Table 2.4: Legal and regulatory frameworks for SOEs**

	Classifying SOEs and legal status			Overall ownership policy	National SOE guideline or code	Competition authority	Ownership function separate from regulatory functions	Categorization of commercial and non-commercial entities
	Incorporated SOE (company/commercial law)	Statutory legislation	Non-commercial Entities/Regulatory bodies/Boards/Authorities/Mixed bodies					
Angola	✓	✓	No	✓	No	No	✓	No
Botswana	✓	✓	✓	In progress	No	✓	No	No
DR Congo	✓	✓	✓	No	✓	In progress	In progress	✓
Lesotho	✓	✓	No	No	No	No	In progress	No
Malawi	✓	✓	No	✓	✓	✓	✓	No
Mauritius	✓	✓	✓	No	✓	✓	✓	In progress
Mozambique	✓	✓	✓	✓	✓	In progress	✓	No
Namibia	✓	✓	✓	No	No	✓	No	No
Seychelles	✓	✓	✓	No	No	✓	In progress	In progress
South Africa	✓	✓	✓	✓	✓	✓	✓	In progress
Swaziland	✓	✓	✓	No	No	✓	In progress	No
Tanzania	✓	✓	✓	No	No	✓	No	No
Zambia	✓	✓	✓	No	No	✓	✓	No
Zimbabwe	✓	✓	✓	No	✓	✓	In progress	No

Source: OECD (2014a)

## **2.10 Context and rationale of SOEs in Africa**

In most African countries, SOEs have always been there since those countries gained their independence. According to Balbuena (2014), African countries mainly concentrated on fishing and farming. The rationale for establishing SOEs is to curtail monopolistic powers in many units as well as address high prices of products that cannot be afforded by the general citizens (Kowalski et al., 2013). In emerging economies, SOEs correct regional and economic imbalances, create employment in the country and minimise monopoly power in the country. Palcic and Reeves (2013) add another significance by stating that SOEs are impetus for industrial and financial assistance that result from irreparable crises. Unlike private entities, SOEs have various stakeholders such as employees and citizens. SOEs can be defined as enterprises that are wholly or partially owned by the state. Partial ownership, in this regard, refers to majority ownership. Motivations of SOEs may be different, but they share a number of similarities with their private sector counterparts, that is, they have shareholders to which they are accountable (even if the shareholder is government), they are ceaselessly on the lookout for talent and they operate in a local, national and/or global market for their services. SOEs carry out both commercial and social functions and this makes them relevant in solving inequalities instigated by issues such as gender, race and income. SOEs can play an important role in resolving such social issues, thus highlighting the relevance of SOEs in the African context.

### **2.10.1 Overview of SOEs in Zimbabwe**

When Zimbabwe got independence in 1980, it had only twenty SOEs across the country. According to Zhou (2012), the Agricultural Marketing Board (AMB), Rhodesia Broadcasting Corporation, Rhodesia Airlines, Rhodesia Railways Lines, and Rhodesia Iron and Steel Company were some of the SOEs that were in operation at that time. The number of SOEs increased after Zimbabwe attained independence, enabling the country to change enabling Acts and to put in control measures in order for the state to have control on entity marketing, investment, pricing and borrowing (Zhou, 2012). Zimbabwe had and still has problems in running these entities since 1980. Major scandals took place in SOEs such as the Willow Vale Motor Industry in 1988, the ZBC and Premier Services Medical Aid Society (PSMAS) in 2014 as well as ZESA, National Social Security Authority (NSSA) and ZINARA in 2018.

According to OECD (2005), Public enterprises or SOEs refers to entities where the government is in charge, through full, majority or significant minority ownership. Shirley (2013) states that SOEs mean entities that get most of their revenue from the realisation of goods and services. In addition, an SOE is considered a legal person and the bulk of

SOEs are possessed or owned by the government. Many countries and their organisations have designed ways of increasing performance of SOEs and their oversight roles. This improved and inculcated a spirit of efficiency, effectiveness, transparency and accountability in guiding the operations of public enterprises (OECD, 2005). Currently, Zimbabwe has heightened efforts to attract both domestic and foreign direct investments, which can only happen if the operation of SOEs is not plagued by corporate governance scandals as is the case in some SOEs in our economy.

Poor performance of SOEs, particularly ZESA, ZINARA, Civil Aviation Authority of Zimbabwe (CAAZ), GMB, NSSA, Air Zimbabwe, among others, send negative signals on the state of corporate governance in the country. This is attributed to various reasons, among which are unethical and poor corporate governance principles (Zimbabwe Corporate Governance Framework for State Enterprises and Parastatals, 2010). According to Nellis (2005), effective and efficient service delivery to citizens is the general mandate of the government and it is the government's prerogative to provide essential goods and services both to the urban and rural populace. Many SOEs have been structurally separated into smaller business-oriented units and arranged under a wholly state-owned holding company. SOEs are under the purview of State Enterprises Restructuring Agency (SERA). However, the responsibility for SOEs' coordination lies in the hands of line Ministries.

SOEs are vital for socio-economic transformation, creation of employment and they are seen as instruments for economic emancipation. Efficiency in SOEs is not measured by the maximisation of profit and hence the reasons why SOEs are established is to provide goods and services that the private sector does not usually provide (Shirley, 2013). Most SOEs are in existence in order to address development failures and close gaps where markets or the private sector cannot.

### **2.10.2 Size and composition of the state sector in the economy**

The country's SOEs operate in all facets of economic activity and their presence is vital to the nation. Economic activities include areas such as infrastructure, oil, transport, agriculture, public utilities, telecommunications and many more. SOEs significantly account for 40% of Gross Domestic Product (GDP). According to the OECD (2014a), SOEs are considered to be regulatory entities that are mandated to do sector regulation but, in addition, are commercial enterprises used as a conduit for the achievement of social objectives. Table 2.5. depicts the profiles of some SOE.

**Table 2.5: Profiles of some SOEs in Zimbabwe**

<b>PUBLIC ENTITIES UNDER THE CATEGORY OF AUTHORITIES AND AGENCIES</b>	
<b>SOE</b>	<b>CATEGORISATION</b>
Agricultural Marketing Authority (AMA)	Agriculture
Civil Aviation Authority of Zimbabwe (CAAZ)	Transport
<b>ENTITIES UNDER THE CATEGORY OF COMMISSIONS.</b>	
Competition and Tariff Commission	Financial services
Forestry Commission	Environment
Sports and Recreation Commission	Sports
Zimbabwe National Road Administration (ZINARA)	Transport
Zimbabwe Parks and Wildlife Management Authority (ZIMPARKS)	Environment
Zimbabwe Revenue Authority (ZIMRA)	Financial services
<b>PUBLIC ENTITIES UNDER THE CATEGORY OF BOARDS</b>	
Grain Marketing Board (GMB)	Agriculture
<b>PUBLIC ENTITIES UNDER THE CATEGORY OF COUNCILS.</b>	
National Aids Council	Health
Zimbabwe Council for Higher Education (ZIMCHE)	Education
Zimbabwe Schools Examinations Council (ZIMSEC)	Education
<b>PUBLIC ENTITIES UNDER THE CATEGORY OF COMPANIES AND CORPORATIONS.</b>	
Allied Timbers Zimbabwe (private) Limited	Environment
CMED (private) Limited	Transport
Minerals Marketing Corporation of Zimbabwe (MMCZ)	Mining

National Oil Infrastructure Company of Zimbabwe NOIC)	Energy and power
National Railways of Zimbabwe (NRZ)	Transport
Petro Trade (Private) Limited	Energy and power
Powertel Communications (Private) Limited	Telecommunications
Print Flow (Private) Limited	Industry and trade
Zimbabwe Broadcasting Corporation (ZBC)	Information
Zimbabwe Consolidated Diamond Company	Mining
Zesa Enterprises (Private) Limited (ZENT)	Energy and power
Zesa Holdings (Private) Limited	Energy and power
Zimbabwe Electricity Transmission and Distribution Company (ZETDC)	Energy and power
Zimbabwe Posts (Private) Limited (ZIMPOST)	Financial services
Zimbabwe Power Company (private) Limited	Energy and power
Air Zimbabwe (Private) Limited	Transport
<b>public entities under the category of financial institutions</b>	
People's Own Savings Bank (POSB)	Financial services
<b>Public entities under the category of funds</b>	
State Lotteries Fund	Sports and culture
<b>Public entities under the category of hospitals</b>	
Chitungwiza Central Hospital	Health
Harare Central Hospital	Health
Mpilo Central Hospital	Health
United Bulawayo Hospitals	Health
<b>PUBLIC ENTITIES UNDER THE CATEGORY OF UNIVERSITIES AND TERTIARY INSTITUTIONS.</b>	
Bulawayo School of Hospitality and Tourism	Tertiary institution
Bindura University of Science Education (BUSE)	Tertiary institution

National University of Science and Technology (NUST)	Tertiary institution
Midlands State University	Tertiary institution
Chinhoyi University of Technology (CUT)	Tertiary institution
Great Zimbabwe University	Tertiary institution
University of Zimbabwe	Tertiary institution
Harare Institute of Technology	Tertiary institution

Source: Auditor General (2017)

According to the OECD and World Bank (2014a), SOEs are important because they:

- Provide public goods and merit goods such as public parks and national defence and merit goods such as public health and education that are very important to the citizens of the country.
- Generate public funds, that is, through the state investing in certain units and control entry in order to impose monopoly prices and the make use of the resulting SOE revenues as income.
- Encourage economic development and industrialisation through channeling capital into vibrant SOEs in order to achieve economies of scale in areas where the start-up costs are otherwise significant and also controlling the reduction of sun set industries. SOEs are also ideal for the creation of employment to the economy.
- Improve labour relations, particularly in strategic sectors.
- Increase access to public services (World Bank Group, 2014).

Given the significance of the mentioned SOEs, some SOEs, nevertheless, face many obstacles. The challenges could be due to political, cultural, economic, environmental, legal or corporate governance issues, among others. Table 2.6 presents performance challenges in SOEs.

**Table 2.6: Performance challenges in SOEs**

Challenge	Description
<b>Inadequate capitalisation</b>	SOEs rely on debt and finance to fund basic operations, but this may not be enough to fund intensive capital projects especially rehabilitation and upgrading of infrastructure in the utilities and network industries.
<b>Below cost pricing or Cost recovery</b>	Tariff structures may need to be revisited if tariffs are kept artificially low and prevent full cost-recovery by SOEs. Compensation may be required for noncommercial services.
<b>Remnants of poor investment decisions</b>	Remnants of initial investment decisions in industrial and commercial SOEs; lack of ability to adjust to changing market conditions.
<b>Collection deficiencies</b>	SOEs have been underfinanced partly because they have not been able to collect on services (historically).
<b>Inadequate reporting systems</b>	Inadequate reporting and monitoring does not allow for transparency and accountability surrounding SOE cost structure. It further does not help expose where SOEs may be over or under financed, and it ultimately shields SOE from misuse of public budgets, corruption, and from revealing where inefficiencies may exist.
<b>Deficient boards of directors</b>	SOEs' boards may require further professionalization and shielding from the political apparatus.
<b>Other shortcomings</b>	Encouraging and attracting talent in SOE boards and in SOE management. Upgrading or downsizing SOEs to ensure efficient functioning.

Source: Adapted from Nellis (2005)

### 2.10.3 The state acting as the owner

Government agencies are entrusted with ownership rights. Internationally, predominant ownership models are: (1) centralised ownership, which consists of only one ownership agency or dedicated unit in a government ministry; (2) dual ownership, which comprises one-line ministry and one economic ministry sharing the ownership role; and (3) decentralised ownership, where individual line ministries look after their “own” entities ideally (but in practice not always) subject to government coordination at the cabinet level. A hybrid solution has, in some cases, included decentralised ownership combined with a coordinating agency with distinct national differences regarding the agency’s powers to “coordinate”. Table 2.7 captures the various institutions in sub-Saharan



African countries showing their characteristics/challenges and classification of the ownership function across SADC economies.

**Table 2.7: Organisation of the ownership function across SADC economies**

<b>Classification of ownership role</b>	<b>Features/challenges of the ownership function</b>	<b>Institution/Ministry/Public enterprise reform arm</b>	<b>Country</b>
<b>Full centralisation</b>	Accumulation of ownership control of the SOEs in done by a single ministry.	IGEPE and National Treasury of Public Enterprises.	Mozambique
		Department of Public Enterprise.	South Africa
		Ministry of Portfolio.	DR Congo
<b>Dual ownership</b>	Line ministries controls SOEs and the Ministry of Finance (MOF) acts as a shareholding ministry. In addition to playing a performance monitoring role, the MOF assists Line ministries on technical and operational matters.	Institute of Public Sector Enterprises.	Angola
		COPIREP (advisory body for reforms).	Dem. Rep of Congo
		MOF Privatisation Unit	Lesotho
		SOE Governance Council Secretariat	Namibia
		Public Enterprises Monitoring Commission (PEMC, MOFTI).	Seychelles
		MOF. Public Enterprises Unit	Swaziland
	Investment and Debt Management Unit (MOF)	Zambia	

<b>Full decentralisation</b>	Ownership is spread throughout line ministries / departments. Line ministries control the operation of SOEs through the minister and also through an advisory or performance monitoring role.	Public Enterprise Evaluation and Privatisation Agency	Botswana
		Office of the Public Sector Governance	Mauritius
		Department of Statutory Corporation	Malawi
		MOF/State Enterprises Restructuring Agency	Zimbabwe
<b>Other</b>	Holding company structure.	Consolidated Holding Corporation	Tanzania

Source: Balbuena (2014)

#### 2.10.4 Stakeholders in Zimbabwe's SOEs

Stakeholders are people who have an interest in the running of, in this case, SOEs. There are many stakeholders in SOEs who have different interests and these include: managers, shareholders, employees, customers, suppliers, state/government, creditors and the public at large, amongst others. These groups have various interests and goals in SOEs, as outlined by Needham and Dransfield (1997) as follows:

- **Civil society**

Civil society represents the general public who benefit directly and indirectly depending on how a specific or particular SOE can benefit society either some through creation of employment or through social corporate responsibility.

- **Trade unions**

Trade unions care for workers, be it their welfare or for good working conditions, in SOEs. In addition, they care for workers' training, compliance, convivial working conditions, good salaries and benefits. Workers pay membership fees in order for trade unions to represent them.

- **Managers and employees**

Managers and employees want guarantee and security of their employment. They need an income and a convivial working atmosphere where promotion prospects are high. Managers should empower workers under them and make sure they undergo proper training and learning programmes so that they can be instrumental in these SOEs.

- **Consultants, suppliers and contractors**

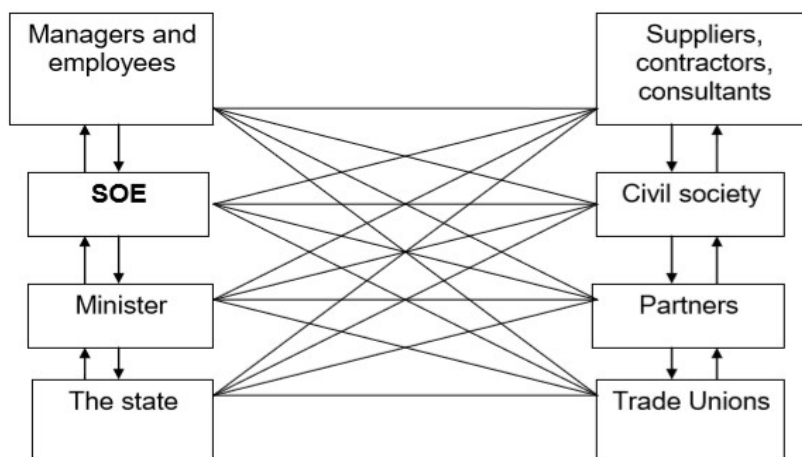
Outstanding provision of services results in payment being received if services are made to the SOEs as well as delivery of products. For the benefit of both stakeholders and the SOE, services and products should be up to standard and of high quality.

- **Partners**

In order for SOEs to be viable and operate optimally as well as raise enough capital, they can enter into Public-Private Partnerships. This is imperative in the sense that risks can be distributed, and experience and skills shared. These PPPs may be short-lived and long-lived for the survival of the SOEs. Share of profits and fees for the wit and intellect amongst the partners can be made and distributed equitably.

- **The government/state**

The state is the main shareholder in SOEs. It guides the operation of SOEs through the Ministers and Line Ministries and intervenes in their operations. The state has to meet its political objectives such as social-economic development and delivery. The various stakeholders are shown diagrammatically in Figure 2.6.



**Figure 2.6:** The interrelationship between an SOE and its main stakeholders

Source: Abdullah & Valentine (2009)

### 2.10.5 Zimbabwe's SOEs' performance

The history of SOEs spans over decades, and they have evolved over time to serve different purposes in various economic sectors across the world, even so in less developed territories. Despite the proven importance in Sub-Saharan Africa, where they operate in virtually all sectors (Kikeri & Kolo, 2006), SOEs in this region have a long history of poor performance dating back to the 1970s (Nellis, 2005). The reasons for

such poor performance are only vaguely documented and are often argued along Government's involvement.

Zimbabwe economic update compiled by the World Bank in 2017 highlighted that 107 SOEs continued to be a drain on the fiscus amid indications that the total SOEs expenditure has steadily increased over the past five years, while dividends declared to government have been plummeting (The Financial Gazette April 19-25, 2018). As a result of these weaknesses, SOEs reneged on service delivery, which is the basis for their creation and operated at low-capacity utilisation levels, thereby negatively impacting the standards of living of citizenry. SOEs are established by the government to promote economic growth in order to increase government's ability to service delivery as well as to help develop the state. Major SOEs have come under scrutiny, with the media accentuating their short-comings. Malfeasance, inept leadership mismanagement has often been cited as some of the issues that the SOEs are faced with.

According to Dore et al. (2008), Zimbabwe had seventy-six (76) public entities of which 60% had been inherited from the Rhodesian administration. These SOEs provide essential services to the public, fair distribution of resources and economic stabilisation. Tambudzai (2003) and the Public Entities Corporate Governance Act note that the state of ownership was also connected to the government's socialist ideology and an inward-looking economic strategy. Most SOEs are operating sub-optimally and posting losses financially, which has contributed to a decline in the GDP to around 15%. SOEs owe their continued existence to government assistance, a development exerts more pressure on the already strained national purse (MOF, Mid-Term Fiscal Policy, 2015).

#### **2.10.6 Challenges faced by SOEs in Zimbabwe**

Many SOEs face challenges, among them corporate governance ones and performance-related challenges, as indicated in the Auditor General's report 2016-2018. According to Sherbourne (2017), SOEs are seen to be increasing public spending and lending to the sector, excessive financial returns due to monopoly pricing, increased capital intensity, but decreasing productivity of capital, high levels of debt, low tax payments, inconsistencies in governance practices, undue political interference, uncertainty about SOEs' development role and unsatisfactory performance of Board members. The following challenges have led to poor performance of SOEs and their insignificant viability in terms of their mandate in Zimbabwe. Table 2.8 below shows challenges.

**Table 2.8: Challenges faced by SOEs.**

<b>Challenges faced by SOEs in Zimbabwe</b>	<b>Explanation</b>
<p><b>1. Lack of management skills</b></p>	<p>Most SOEs fail to perform because they know the government will always assist financially. Accountability problems are rampant in SOEs. Steytler (2009) states that CEOs contribute to dismal performance of SOEs due to weak management practices. According to the World Bank (1995), a study entitled 'Bureaucrats in Business' indicated that poor performance of SOEs cannot be blamed on the incompetence of SOEs' CEOs, but the World Bank highlighted contradictory goals and perverse incentives under which the CEOs of these entities operate as factors leading to poor performances.</p>
<p><b>2.Challenges associated with bureaucracy</b></p>	<p>Many SOEs have not been ill-fated by their inherent nature in order for them to have governance and performance issues. For these problems to be eradicated the OECD introduced and published best practices for SOEs and SOEs can perform well and account for all their work so as to become world-class competitive entities. In addition, shortage of intellectual dexterity may also result. Furthermore, this leads to the country being exposed to the temptations of wealth accumulation and the banality of politics. The solution to the problem of slow and bureaucratic government procedures and processes is establishment of SOEs in a country (OECD, 2005). If sound habits of running</p>

	<p>the business are adhered to by SOEs, this will result in improved service delivery, efficiency, good governance and lowered administrative expenditure (OECD, 2005) and the country will not be in a debilitating economic mess.</p>
<p><b>3. Lack of transparency</b></p>	<p>The shareholders of SOEs are not aware of the number of SOEs in Zimbabwe. This data requires that SOEs produce annual reports such as audited financial statements on how they have performed (with all performance indicators) and how set targets have been achieved (PWC, 2015). The Auditor-General (2018) reiterated the same sentiments in the audit report naming SOEs that did not submit financial statements for audit. Efforts to ensure that there is transparency can be seen if the annual report is tabled in the National Assembly since it is a public document.</p>
<p><b>4. Administrative arrangements of SOEs</b></p>	<p>Legal and policy documents, if not well done and prepared, are detrimental to SOEs. For example, in cases where the provisions of the Companies Act (Chapter 24:03) differ from the Public Entities Corporate Governance Act (Chapter 10:31) and from SOEs' constituents Acts, for example, in terms of uncertain, liability and fiduciary responsibility. The current Zimbabwean Companies Act is outdated and requires urgent review. The Zimbabwe Stock Exchange rules also need to suit financial and capital changes across the globe. A robust CG framework applicable to listed companies should be in place and it is the duty of the capital markets regulator, the Securities and Exchange</p>

	<p>Commission of Zimbabwe (SECZ).</p> <p>SOEs' contributions to GDP have been declining gradually due to a myriad of factors such as undeveloped infrastructure and shortage of technologies (Ministry of Finance, Mid-Term Fiscal Policy, 2015). Major challenges cited for this dismal performance are:</p> <ul style="list-style-type: none"> <li>• Non-compliance to good CG;</li> <li>• Corruption and cronyism has been a major problem in a number of SOEs in Zimbabwe. ZESA, NSSA, ZINARA and GMB, just to mention a few, have been under scrutiny because of corruption claims. If senior executives in SOEs are not subjected to checks and balances, they are bound to act as de facto owners of SOEs. Corruption and looting (dogged by allegations of corrupt activities where those given fiduciary responsibilities do not follow due processes);</li> <li>• Poor profit-making capabilities is part of SOEs growth. The lack of performance evaluation among SOEs means that they will continue having low profitability capabilities due to the fact that their return on equity (ROE) ratio is usually lower compared to the private firms;</li> <li>• Unequal competition between the state and non-state actors. Dominance of SOEs leads to unequal competition and low</li> </ul>
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	<p>efficiency in the market;</p> <ul style="list-style-type: none"> <li>• Huge debt overhang;</li> <li>• Under capitalisation (which partly result from blurred mandate, that is, economic versus social);</li> <li>• Poor debt recovery strategies;</li> <li>• Flight of skilled manpower and unsustainable salaries, allowances and benefit packages;</li> <li>• Poor state of infrastructure and equipment (antiquated equipment and un developed infrastructure);</li> <li>• In adequate fresh capital injection from the shareholder;</li> <li>• Lack of access to lines of credit;</li> <li>• Low capacity utilisation and market penetration;</li> <li>• High operating costs especially the way bills;</li> <li>• Debt legacy and high inter-SOEs debt;</li> <li>• Sanctions;</li> <li>• Political interference and in fighting in SOEs; and</li> <li>• Lack of political will to ensure accountability.</li> </ul> <p>The in ability of commercial SOEs to</p>
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	<p>generate profitable returns is a fiscal risk to the government, which comes in the form of explicit contingent liabilities as well as transfers from government to SOEs. Other challenges for SOEs fall under:</p>
<p><b>5. Performance management inadequacies</b></p>	<ul style="list-style-type: none"> <li>• Performance targets and indicators are not formally shared and discussed;</li> <li>• Absence of formal contract for the CEOs;</li> <li>• Basis for evaluation compromised;</li> <li>• Absence of formal performance agreement between responsible Minister and the Board;</li> <li>• Large turnover of leadership;</li> <li>• Excessive bureaucracy;</li> <li>• Poor management skills;</li> <li>• Poor human resources management;</li> <li>• Political interferences (especially from the executive office and from line ministries allow intervention directly in the commercial operation of SOEs);</li> <li>• Lack of strategies to turn around these SOEs;</li> <li>• Lack of leadership skills/lack of appropriate leadership;</li> </ul>

	<ul style="list-style-type: none"> <li>• Unethical decision making; and</li> </ul> <p>Blurred operational mandate</p>
<p><b>6. Governance challenges</b></p>	<ul style="list-style-type: none"> <li>• Performance management systems (performance management inadequacies, that is, absence of formal performance agreements, or performance contracts);</li> <li>• Lack of separation of ownership function and other Government functions (that is, lack of separation from the regulatory and commercial functions) as well separation of powers between management and board;</li> <li>• Approval process for budgets, plans and procurement (lack of clearly defined lines of responsibility and coordination among the multitude of state institutions involved in SOEs policy formation, implementation and oversight, that is, for procurement, board practices and budget proposals);</li> <li>• Lack of good governance structures (CG deficiencies resulting in breaches in CG, information communication technologies (ICTs), investments and human resources);</li> <li>• Management of risk and alignment to the strategy and</li> </ul>

	<p>vision of the state (lack of common/national agenda for SOEs);</p> <ul style="list-style-type: none"> <li>• Lack of commonly agreed priority areas and sectors for SOEs; and</li> <li>• Difficulties regarding the balancing of commercial and non-commercial objectives of SOEs.</li> </ul> <p>From an economic point of view, SOEs drag economic growth through increased subsidies and maintenance. One of the most challenges that have been recorded is that SOEs absorb more domestic credit and total investments, crowding out private investments and contributing to inefficiencies in the economy. Moreover, the financial burden exerted by SOEs to the fiscal and banking system threatens to generate inflationary pressure and macro-economic stability.</p>
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Source: Author’s own compilation (2019)

**2.10.7 Drivers of SOEs’ performance in Zimbabwe**

In any organisation, performance is measured depending on the organisation and management decisions. The criteria for measuring performance, according to Cheung et al. (2012); Kanyoma et al. (2013); and Omran (2001), the approach used depends on financial and financial measures for SOEs. The performance measures are as follows:

**2.10.7.1 Financial measures**

According to Drury (2008) financial measures are termed to be based on the past, however, they are relevant in the sense that some return-based measures show levels of risk inherent in carrying out business opportunities, shows how capital is employed and the extent of opportunity costs. Measures such as Return on assets ratio (ROA), Return on equity ratio (ROE) and Operating profit margin (OPM) are used

internationally. ROA measures how effectively an SOE can earn a return on its investments. ROE is a profitable ratio that measures how efficiently an SOE can use the money from shareholders to generate profits and to grow the company. OPM is a profitability ratio that measures what percentage of total revenues is made up by operating income. In addition, it measures how revenues are left over after all the variables or operating costs have been paid. Other measures can also be significant since some SOEs are classified as commercial, while others have a non-commercial objective. These include profitability measures such as:

- Return of assets, return of investment and margin-based measures;
- Efficiency (sales turnover, receivables turnover);
- Liquidity (current ratio, quick ratio); and
- Solvency (debt to asset ratio, debt to equity ratio).

#### **2.10.7.2 Non-financial measures**

According to Banker et al. (2000), non-financial measures tend to lead to good financial performance in future. Categories for non-financial measures for SOEs are comprising:

- Internal operational measures, for example, labour productivity, machine productivity and production volumes;
- Employment orientated measures, for example, employee satisfaction, employee turnover and employee development; and
- Customer orientated measures such as market share, customer retention and customer satisfaction.

#### **2.10.7.3 Integrated approaches**

Financial and non-financial measures are complementary to each other and have resulted in other integrated approaches to the performance of SOEs. Where social objectives are pitched against economic objectives, both the Balance Score Card and The Total Factor Productivity (TFP) are applicable and ideal in SOEs.

#### **2.10.7.4 Policy measures to improve SOEs' performance**

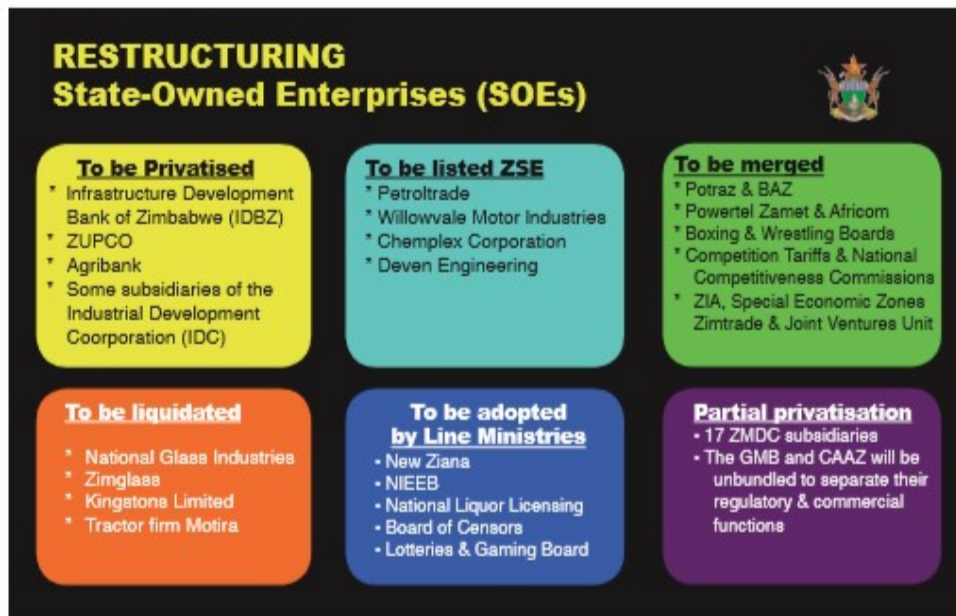
According to the World Bank (1995), policy makers need to consider the following to improve performance of SOEs:

- End subsidies and transfers. Fostering competition is fundamental to improving the performance of SOEs in potentially competitive markets. But competition can only be effective if government transfers and subsidies can be eliminated;

- Foster competition whenever possible to create incentives for improved performance. SOEs managers will only exert the effort needed to improve performance when they are pushed by competition;
- Eliminate access to soft credit. Cutting subsidies and transfers only results in hard budgets if access to soft credit is also eliminated;
- Only use performance contracts when they address underlying problems. Performance contracts only work if they convey clear signals for reform, provide rewards for improved performance, and curb governments' tendency to renege;
- Corruption and looting (dogged by allegations of corrupt activities whereby those given fiduciary responsibilities do not follow due processes);
- Corruption and looting (dogged by allegations of corrupt activities whereby those given fiduciary responsibilities do not follow due processes); and
- Corruption and looting (dogged by allegations of corrupt activities whereby those given fiduciary responsibilities do not follow due processes).

#### **2.10.8 SOEs reforms**

SOEs in Zimbabwe have been a cause for a concern on two fronts, that is, firstly, because they have been easy targets for corruption and, secondly, because they are critical to the economy and essential for economic growth. Zimbabwe needs cost containment in public sector expenditure because the way in which expenditure ballooned out of control was not a healthy way of driving economic growth. SOEs reforms will improve their performance and role in development. The Second Republic of Zimbabwe under the leadership of His Excellency (H.E.) Comrade Emmerson Dambudzo Mnangagwa has put measures to push the interests of SOEs forward for the benefit of the country. It is not corruption that put these SOEs into their current state; in fact, the real problem is the shareholder and governance models that enabled corruption. Rationalisation (not privatisation) of SOEs has become inevitable. While there is a growing concern that only privatisation can help salvage the ailing SOEs, this approach is seen by some scholars as handing crucial state infrastructure to the private hands which, in turn, driven by profits, would contribute to a decline in standard of living for the masses relying on the state. Many SOEs are restructuring (MOF,2019). This is depicted on Figure. 2.7, which shows SOEs that can either be disposed, liquidated, listed on the Zimbabwe Stock Exchange (ZSE), de-merged, privatised, partially privatised, restructured or form strategic partnerships and some that can become government departments depending on their individual circumstances of each SOE.



**Figure 2.7:** Restructuring SOEs  
 Source: 2020 Pre-Budget Strategy Paper (2019)

Long ago, it was difficult to reform SOEs due to the slow pace of implementing these reforms. The GoZ, through the State Enterprises Restructuring Agency (SERA), should have turnaround strategies to avoid a situation where SOEs continue hemorrhaging state resources. Guidelines to improve disclosures and reporting lines in SOEs in areas such as governance, turnaround strategies, financial performance, debt restructuring, revenue enhancement and cost containment are of cardinal importance for the survival of SOEs. Reforms of SOEs will enhance their vitality and control of state-owned economy in an overall way, which is ideal for the improvement of people’s living standards, as well as maintaining a good political situation of stability and unity (MOF, 2019). SOEs reforms will improve their performance and role in development. What is of cardinal importance is to have bold leadership and political will to move the process forward with full transparency. The government should look beyond political ideologies and debate the desired outcome of SOEs reforms. It is also important to alleviate political fears by declaring and gazetting strategic SOEs through the Public Finance Management Act (PFMA) and, ultimately, through an SOE Act. A list of SOEs and their reform progress is shown in Table 2.9

**Table 2.9: Progress on public enterprises reforms in Zimbabwe**

<b>Entity</b>	<b>Reform Progress</b>
<b>GMB</b>	The de-merger of the GMB into GMB strategic grain reserve and silo foods industries has been completed. silo now operational.
<b>NRZ &amp; ZISCO</b>	Negotiations with the strategic partners for NRZ and ZISCO are at an advanced stage.
<b>CSC</b>	A Concessioning Agreement was signed between CSC and Bousted Beef Limited of United Kingdom.
<b>CAAZ</b>	The Civil Aviation Amendment Act has now been enacted.
<b>IDC Subsidiaries</b>	Resumption of the IDCZ Developmental financing role, and immediate release of the ZWL\$30m seed capital allocated in the 2019 budget. Privatisation of the identified subsidiaries underway and two IDC subsidiaries have been liquidated.
<b>ZESA</b>	Cabinet has approved the re-bundling of all the ZESA subsidiaries into a vertically integrated single Board. Technical Committee is working on the implementation.
<b>ZIDA</b>	The One Stop Investment Services Center is operational as an interim arrangement. The ZIDA Bill is being considered by Parliament
<b>Tel-one &amp; Net-one</b>	To be privatised as a single package. The Technical Committees for Tel One and Net One have therefore been combined to ensure the privatisation of the two entities is undertaken as a single package as approved.
<b>Allied Timbers</b>	Partial privatisation roadmap approved by Cabinet on 19 February 2019
<b>ZMDC Subsidiaries</b>	Partial privatisation is underway, with the initial tender for 6 subsidiaries that had been undertaken in 2018 cancelled
<b>Agribank</b>	Process to appoint advisors for the following SEPs is underway.
<b>Petrotrade</b>	Process to appoint advisors for the following SEPs is underway
<b>ZIMPOST</b>	Process to appoint advisors for the following SEPs is underway

<b>National Indigenisation and Empowerment Board.</b>	Has been integrated into a department in the Ministry of Industry, Commerce and Enterprise Development.
<b>Board of Censors</b>	Has been departmentalised in the Ministry of Home Affairs and Cultural Heritage.
<b>National Library and Documentation Services</b>	Has been departmentalised under the Ministry of Primary and Secondary Education.
<b>National Liquor Licensing Authority</b>	Has been departmentalised under the Ministry of Local Government, Public Works and National Housing.

**Source:** Auditor General Observations (2019)

The next section below explores the theoretical framework of the study.

## 2.11 THEORETICAL FRAMEWORK

This section explores diverse theories within which the role of IAFs on performance of SOEs is located. This discussion is situated on the assumption that the phenomena of both SOE performance and internal auditing are socially constructed and should be located within vigorous, comprehensive theoretical spaces. In any study, concepts and theories are important because they act as lenses through which one can critically look at the subject (Sorensen, 2004). In the same vein, Simon and Goes (2011) note that the theoretical framework gives a well-supported rationale to conduct a study and assists the reader to comprehend the standpoint. This is an indication that no meaningful research can be carried out without making reference to a theoretical framework. This makes a theoretical framework to be viewed as the backbone of any research as it gives vital insights on theory upon which the research is based.

There are various theories that have shaped the role of IAFs in SOEs or the public sector such as the Agency Theory (AT), Equity Theory (ET), Institutional Theory (IT), Stakeholder Theory (ST) and the Transaction Cost Theory (TCT), among others. For this study, focus was on the AT, ST and IT theories owing to the intricate nature of entities selected for the study. A framework acts as a blueprint for the execution of the role of the IAFs. Clearly, the role of IAFs on SOEs performance are diverse and no solitary theory has been conclusively found to spell them out most effectively. Thus, this clear gap in the literature is not assisting the policy conundrum insofar as improving SOEs performance is concerned, hence this study. Relatively little research has been carried out on the role of IAFs on the performance of SOEs in Zimbabwe using a CG framework. Hence, the current study not only enhances the applicable theories, but also proffers recommendations to boost IAFs as well as good CG. The theoretical basis for the role of IAFs on performance of SOEs in the public sector in Zimbabwe needs incisive and comprehensive study. In the Zimbabwean context, the question of whether



AT, ST and IT have been reached in such a sequence is not known or it might have been reviewed sometimes ago. Notwithstanding its presumed impact, little research exists on the role of IAFs on the performance of SOEs in Zimbabwe using a CG framework. This research fills the gap in literature by evaluating the role of IAFs on performance of SOEs in Zimbabwe using the aforementioned theories. The theories pertinent to IAF and SOE performance reviewed in this study are AT, ST and IT. These are explored in the sections that follow.

## **2.12 Agency Theory**

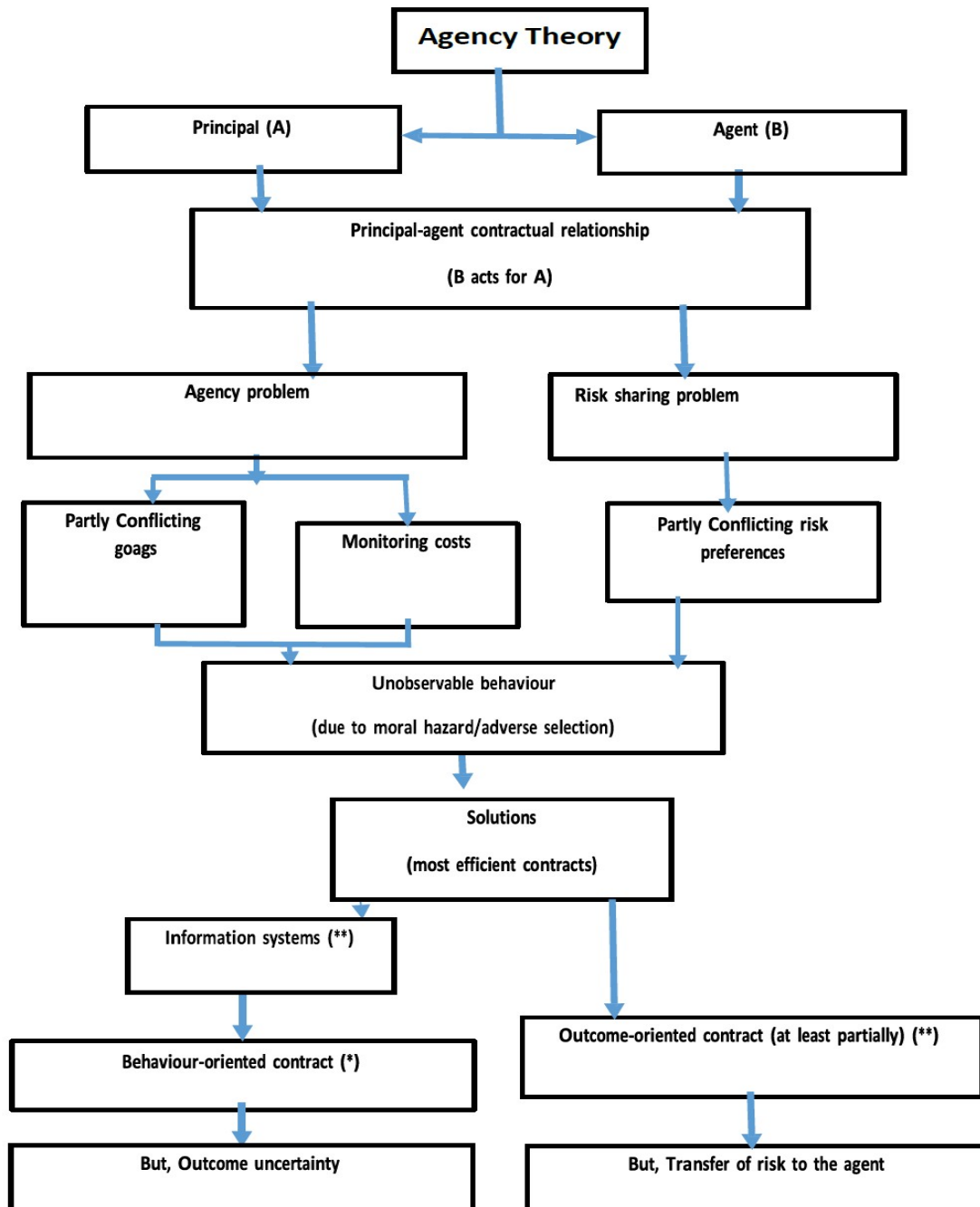
Various authors have written on the AT, most notably Alchian and Demsetz (1972), Mitnick (1973) and Jensen and Meckling (1976), among others. The relationship between the principal and the agent is a result of the writings of Mitnick, a seminal author (Mitnick, 1973) who later advanced his writings (Mitnick, 2006). The same theory was also developed by Alchian and Demsetz (1972) and was later again elaborated by Jensen and Meckling (1976).

### **2.12.2 The agency problem**

According to Eisenhardt (1989) agency problems may take place under the following circumstances:

- When principal and the agent's goals are incompatible; and
- When it is costly/hard for the principal to substantiate what the agent is doing.

The AT, ontologically, resulted from the fact that the principal trusts the agent and entrusts the agent with activities that are meant to yield some benefit to the principal (owner) (Coupet & McWilliams, 2017; Pouryousefi & Frooman, 2017; Bosse & Phillips, 2016; Dawson, Denford, Williams, Preston & Desouza, 2016; and Attila, 2012). According to Clarke (2004), the AT posits that principals of entities engage agents to do work for them. In this case, directors and managers are given duties by shareholders to do daily tasks as they are considered as shareholders' agents. In the case of SOEs in Zimbabwe, the State (government), the principal and shareholder, requires directors/managers to undertake tasks in various in the entities, hence the directors/managers become agents of the state. The government uses state power through the designated minister, who represents the shareholders, in appointing directors who run SOEs, with CEOs at the helm overseeing the day-to-day running of the SOEs. Figure 2.7 shows the agency relationship: (\*) denotes the agent's behaviour is known to the principal, while (\*\*) suggests the agent's actions are not known to the principal.



**Figure 2.7: The agent relationship**

Source: Eisenhardt (1988) and Eisenhardt (1989)

The relationship results in a nexus of contracts between those who own the resources (principals) and those who are given the responsibility of using and controlling the owners' resources (agents) (Jensen and Meckling, 1976). The main tenet of the AT is

that when the interests of shareholders or owners (principals) and senior management (agents) go in different directions, agents have the propensity to maximise their personal wealth to the detriment of principals. This results in “separation of ownership and control” (Eisenhardt, 1989). The other peril is when one assumes that the principals and the agents act rationally and will maximise profits through the contracting relationship. Adams (1994) surmises that a human element of greed takes place such that the agent wants to benefit from everything and, as a result, a self-fulfilling prophecy emerges that results in the agent not acting in the best interests of the principal. Capens (1985) as cited in Adams (1994) refers to this quandary as “moral hazard problem”. This theory suggests effects on the performance of SOEs in the country. Dawson et al. (2016) argue that several stakeholders have varied competing interests and this can be seen by the unwise awarding scanty resources to multiple and competing priorities. If the interests of the various stakeholders are not in line with the interests of the principals, they will be misallocation of scarce resources (Dawson et al., 2016).

Secondly, lack of information (information asymmetry) may take place since the agents are responsible for the day-to-day running of the business, which makes them gain more information about the entity than the principals. According to Adams (1994), information asymmetry unfavourably affects the ability of principals to effectively supervise agents and to make sure they are serving the interests of their master. This results in another agency problem, which is known as adverse selection. Adverse selection is a situation when principals are not able to ascertain whether actions taken by the managers (agents) are in the best interests of the organisation because when decisions are taken, information is not at the principals /owners’ disposal. Watts and Zimmerman (1986) assert that conflict of interest and asymmetry of information can be controlled through monitoring. Eisenhardt (1989) provides two options an entity can use to alleviate agency problems, namely:

- A contract that is based on the conduct of the agent should be prepared between the principal and the agent; and
- In order to monitor the conduct of the agent, the principal should be able to invest in information.

Monitoring is of central importance in avoiding agency problems in a business set up and, therefore, regarded as an agent cost (Eisenhardt, 1989). It is the prerogative of the principal to bear the agency costs. Christopher (2010) alludes that monitoring and controlling management activities are known as agency costs, which can be classified into four groups:

- **Monitoring expenditure by the principal**

This is a monitoring cost and the principal sets goals for the agent to achieve, while solutions to monitoring costs are offered by the principal. Expenditures such as those

incurred in observing, measuring and managing the conduct of the agent are borne when seeking to resolve issues to do with the agency problems and conflict of interest. The principal sustains monitoring costs such as that of external audit and IAFs. According to Cadbury (1992), these are monitoring systems put in place by the principal in order to ensure management does not deviate from stakeholders' interests.

- **Bonding expenditures by the agent**

Mechanisms such as having IAFs in place in an organisation so that agents do not perform what the principal has not authorised them to do results in bonding expenses. Adams (1994) postulates that since monitoring expenses have a strong effect on the salary of the agent, it is essential to reduce monitoring costs and their adverse effects on the agent's remuneration/salary so that the agent can suffer bonding costs by establishing IAFs in an entity.

- **Residual loss (residual cost) (Jensen and Meckling, 1976)**

Adams (1994) propounded that the principal may lose some welfare because of separation between the agent's decisions and ownership and control that augment the principal's interests. In such a case, the board or senior management (acting as the principal) can monitor and control the agents' (workers') conduct and actions through the establishment of IAFs to accomplish the organisation's objectives.

- **Initial costs for negotiating the terms of the contracts**

The costs emerge from management's opportunistic conduct, where an agent makes use of a competitive advantage in knowledge (Kieser & Ebers, 2006). These may be revealed in four conditions, thus: hidden attributes (adverse selection), hidden information/hidden knowledge (moral hazard), hidden actions (moral hazard) and hidden intentions (hold-up). These conditions are further explained as follows:

- (i) **Hidden attributes**

This normally happens when the contract is being formalised by the principal and the agent. In this instance, the principal may fail to acknowledge the existence of risks in selecting the agent. This results in *adverse selection*.

- (ii) **Hidden information or knowledge**

This indicates how the agent makes use of his /her know-how of the entity on a day-to-day basis and uses that stance to manipulate the whole system for personal gain. This results in *moral hazard*.

- (iii) **Hidden action**

This situation is created when the principal can only keep an eye on the end result of the agent's behaviour. However, the principal cannot identify the agent's actual contribution to the result and hence the agent uses his/her freedom of action to misguide the principal. Similar to hidden information, this scenario may result in *moral hazard*.

#### **(iv) Hidden intentions**

This implies that the principal may be misguided by the agent and may be taken advantage of by making decisions that can be used by the agent for blackmailing purposes. Hence, this situation is referred to as *hold-up*. AT suggests costs are incurred by principals and that have an effect on society as a whole, particularly in the public sector (SOEs), since these costs are incurred in trying to provide indispensable services (Bosse & Phillips, 2016) These costs may be crucial. However, they may be hard to precisely assess them (Bosse & Phillips, 2016).

Thirdly, is 'managerial opportunism'. This results in agency costs as opined by Jensen and Meckling (1976), a situation where agents have self-seeking motives and capitalise on their principals' information asymmetry to maximise their private wealth, which becomes costly to the principals/owners. The accentuation of the AT is to align the interests of the agents (senior management) with those of the principals (owners/shareholders) as well as to lessen the agency costs. Coupet and McWilliams (2017) and Bosse and Phillips (2016) surmise that the agent problem is shown by ineffectiveness rendered by those who are in management in SOEs. This results in failure to complete activities and organisational goals of the principal. Considering that SOEs are government entities, the agency problem postulates that inefficiency at the senior management level within these entities will result in not most desirable service delivery to the public (Coupet & McWilliams, 2017; Bosse & Phillips, 2016).

A fourth premise is when employees foil the attainment of the planned objectives of state departments by the ineffectively utilising resources (Coupet & McWilliams, 2017; Pouryousefi & Frooman, 2017; Bosse & Phillips, 2016). According to Coupet and McWilliams (2017), Taga (2017) and Dawson et al. (2016), employees may facilitate diseconomies of scale in terms of resources and that will have an effect on delivery of goods and services to the public. Pouryousefi and Frooman (2017) and Bosse and Phillips (2016) advance the fifth thought of the AT, which states that the resources of government departments, particularly SOEs, can be embezzled and unfairly taken for personal use by employees of these organisations. This results from creation of asymmetrical information by the agent such that losses go unnoticed by the principal. A scenario where resources are misappropriated gives an agent an unfair gain to the detriment of the principal who is supposed to enjoy the proceeds of his/her investments (Pouryousefi & Frooman; Bosse & Phillips, 2016). The sixth notion of AT, according to

Pouryousefi and Frooman (2017) and Bosse and Phillips (2016), is that of passive opposition. Passive opposition is a situation where the agent does not deny orders given by the principal, but the agents' actions, such as strikes and go-slows, adversely affect completion of the principal's intended intentions and a plan of action designed to achieve an overall aim (Pouryousefi & Frooman; Bosse & Phillips,2016).

The seventh supposition of AT is opined by Pouryousefi and Frooman (2017) and Bosse and Phillips (2016). It is about 'shirking'. This is a process where an employee avoids or neglects a duty or a responsibility, thereby creating crucial side effects or unfavourable conditions for the principal. Shirking can go unnoticed and can stop the execution of corrective actions due to asymmetrical information in the hands of principals (Pouryousefi & Frooman; Bosse & Phillips,2016).

### **2.12.3 Applicability of AT to this study**

AT is attributed to Jensen and Meckling (1976). Essentially, it is an attempt to introduce a set of well-developed concepts to explore the inter-relationship in businesses between the owners and agents to justify the need for auditing. It has featured widely in accounting and auditing literature (Messier et al., 2010; Droege & Spiller, 2009; Gray & Manson, 2008; Schroeder & Clark, 1995; Adams, 1994; Eisenhardt, 1989; Sherer & Kent, 1983; Tiessen & Waterhouse,1983). Recent researchers such as Hannafey and Vitulano (2013); Lopes (2011); Zu and Kaynak (2012); Basu and Lederer (2011) and Mahaney and Lederer (2011) have considered the AT as imperative. According to Motubatse (2016), AT emanated from economic theory and reveals the relationship between the principal and the agent. It is agreed that AT has got practical applicability to the public sector particularly SOEs (Coupet & McWilliams, 2017; Pouryousefi & Frooman, 2017; Bosse & Phillips, 2016; Clark, 2016; Dawson et al., 2016; Grizzle & Sloan, 2016; Ştefănescu et al., 2016; Attila, 2012). In principal-agent relationships, CEOs represent principals and give orders to junior management (agents), thus giving rise to agency costs because of information asymmetry. The board should comprise of outside and independent directors as suggested by AT and the chairman and the CEO should be different and unconnected (Daily & Dalton, 1992; Balta, 2008). AT states that the reason IAFs are established in organisations is to act as a signaling management function to boost the board's confidence in an entity's monitoring and control systems (Sarens, 2007; Adams, 1994). Examples of bonding costs include the cost for managers to report how they used the principal's resources and how they have managed the costs of the internal audit periodically. This is also noted when entities voluntarily compile accounting reports (Messier et al., 2010; Adams, 1994; Sherer and Kent, 1983; Jensen & Meckling, 1976).

Management establishes IAFs to indicate and show principals (board of directors) that the company is under control and to give confidence to superiors that enough

adherence to corporate governance processes, effective risk management and internal control systems is taking place (Sarens & Abdolmohammadi, 2011). According to Adams (1994), IAFs are used to lessen agency costs, that is, putting constructive and efficient cost-efficient contracting mechanisms between the principals (owners) and managers (agents). IAFs, in this case, act as an independent monitoring units and agents of the board in order to alleviate asymmetric passing on of information. In principal-agent conflict of interests, agents have a mandate to account to principals since they are entrusted with valuable organisational resources. This obligation is done in two ways: initially, by compiling financial reports on how the resources of the principal have been used and, secondly, by submitting these financial reports for scrutiny or audit on behalf of the owners (Spicer & Pegler, 1992).

Due to the inclusion of the monitoring system and the fact that the end result (SOE stability) is quantifiable, the researcher believes the contractual relationship between regulators and SOEs has unfolded into a combination of behaviour-based and outcome-based contracts as it has elements of both types of contracts. Eisenhardt (1989) developed Agency Theory, which considers that both outcome-based and behaviour-based contracts are enough in putting in order the interests of the agent and principal provided the latter has adequate information about the agent's behaviour. Firstly, Eisenhardt (1989) further notes that outcome uncertainty and information systems are positively related to behaviour-based contract and that conflicting goals between the owners and agents and outcome measurability are also relatively related positively to the outcome-based contract. In cases where there might be conflict of interest, management considers bonding costs and convinces shareholders that management will act in their best benefits. For a surge in accountability and enhanced satisfaction of shareholders, the establishment of IAFs is impetus since they decrease bonding costs in a business enterprise. According to Aoki (2001), IAFs are considered controlling methods because they are used to put in order the interests of the shareholder and the agent.

Secondly, the inter-corporate aspect of the AT exists and, in this case, the nexus between the principal (board) and management (agent) as well as between the management being the (principal), on the one hand, and subordinates (employees-workers) being the (agents), on the other hand. Such a scenario creates room for conflicts of interests and information asymmetry to be noticed easily. Therefore, IAFs should give assurance services to management (principal) in order to monitor and avoid employees' negative actions. An effective IAF diminishes agency problems in an organisation since agency problems exist between shareholders and top management, the board and management team as well as between managers and their subordinates. An AT framework is used in the current study to draw special attention to the essence of

the connection between shareholders, managers and auditors. In a corporate governance setting, positivist writers assert that agency relationship means a situation where shareholders as principals and owners of the entity assign the day-to-day duty of running the company to management (Eisenhardt, 1989).

Conflicting self-interest of shareholders (principal) and managers (agents) was initially stated by Adam Smith (1776) in the Wealth of Nations and further repeated by Jensen and Meckling (1976). Information asymmetries collectively result in agency problems (ICAEW, 2005 & Subramaniam, 2006). Monitoring and bonding costs respectively are two agency costs (Jensen & Meckling, 1976). Godfrey et al. (2003) opine that costs of auditing, management compensation plans, budgets and operating rules as well as fees to external auditors are known as monitoring costs. An organisation can save costs in audit fees if external auditors depend on the work of IAFs, notwithstanding deficiencies in the monitoring tasks as evidenced by the corporate scandals. Notably, corporate scandals were recently reported in SOEs such as NSSA, ZINARA, ZESA, just to mention a few (Auditor General, 2018). These cases indicate the incongruence in expectation of good governance and due professional care and diligence of directors, managers as well as auditors. Internal auditing is considered a bonding cost due to the fact that agents guard against malfeasance by doing checks and balances in appointing distinguished persons in entities (Jensen & Meckling, 1976). Oversight roles are given to internal auditors who are charged with good governance, risk management and internal controls processes unlike external auditors who serve to determine the veracity and fair view of the financial statements of the entity (Dittenhofer, 1997). Competent IAFs enable SOEs to reduce the extent of work done by external auditors.

IAFs answer questions on bias in decision making, particularly in SOEs (ICAEW, 2005) which are state controlled entities. IIA (2010b) and Bou-Raad (2000) propose that internal auditors, in consultation with top management, give value added services to the business enterprise. IAFs provide assurance services, advice and make recommendations to management in order to help them in business strategies instead of merely carrying out auditing work. Due to their expertise and professional background, IAFs come up with internal control, management control processes and risk management and hence this goes beyond their role as controllers and monitoring agents by giving organisations worth value information for decision making and more desirable internal control structure (Bou-Raad, 2000). Given the case of SOEs, internal auditors as agents need support of organisational members. Independence of IAFs is enhanced by the existence of an effective audit committee in SOEs, which decreases senior management interventions in the internal audit scope and performance. For example, issues to do with the employment and salaries of internal auditors can be enforced and determined by the audit committee as the ultimate authority for removal



and appointment of the CAE. In addition, another cardinal importance of organisational members' support takes place when top management urge all departments to complete recommendations made by internal auditors (Bou-Raad, 2000).

According to the AT, owners (shareholders and the general public for government) and managers of the entity (board of directors and parliament for the government) are different persons (Coetzee et al., 2012). The owners (principals) assign the responsibility of their business to managers (agents). The agents should report, using financial statements, to the owners. The IAF helps management by adding value and boosting the business entity's operations. The mere fact that an IAF is in existence within an entity adds value to the AT as it keeps personnel to their toes. If IAFs' roles are effective, this strengthens the theory even more. Therefore, IAFs play an important role in the AT (Coetzee et al., 2012).

Independence and expertise of management are considered the central features of a monitor from the agency perspective (Cohen et al., 2008; Cohen et al., 2002; Hermanson et al., 2012). According to Kinuu et al. (2012), IAFs lessens problems that can take place in an organisation where the principal (owners), stakeholders of the organisation and the agent (management) take on their designated roles within the managerial spheres of the entity. These IAFs are used to proffer solutions to agency problems such as agency costs and the enhancement of transparency in operations is done by the existence of IAFs in order to lead to better performance of SOEs.

Mihret et al. (2010) and Lenz and Hahn (2015) posit that shareholders should make sure that CG structures prevail at companies and should comprise audit committees, external auditors and internal auditors who can help management to believe in and follow the practices of laid down policies and as well as attain planned goals. The AT is applicable to this study because taxpayers give control to government officials with the desire that they will use the entrusted command with the directive assigned to them by taxpayers. IAFs are actively involved in making sure that taxpayers' money is wisely used for the planned purpose. In order to carry out their tasks, IAFs should be independent from management and have skills mix in order to carry out their work in a professional manner for the benefit of the public (Mihret et al., 2010; Lenz & Hahn, 2015). In order for managers in SOEs to work hard and carry out their duties adequately, they rely on vital functions such as IAFs, which are responsible for adding value and making sure that SOEs' mandates are being carried out. IAFs are established by SOEs in accordance with the PFM Act and they are entitled to work hard and without any hindrance and stick to their principals' ethos, thereby becoming effective. Leaders in organisations incur monitoring costs as referred to by Al Mamun et al. (2013) due to the appointment of auditors in SOEs. Public sector organisations should have

strong audit committees that are efficient and effective. IAFs have difficulties in monitoring the operations of management if the audit committee lacks competency, efficiency and effectiveness, which results in management having power and exerting influence over IAFs and the latter being unable to carry out their role of monitoring (Khaled & Mustafa, 2013).

SOEs are audited by the Auditor General (external auditor) and should comply to the CG Act and most of them have established IAFs for internal auditing purposes. Al Mamun et al. (2013); Khaled and Mustafa (2013) mention that an agency nexus is a contract that is undertaken by the management and leaders of institutions. If managers turn away from the tasks given by the leaders, SOEs should put CG processes, such as audit committees, external and internal auditors, who make it a reality that they do their work as per their leaders' expectations (Al Mamun et al., 2013; Vafaei & Christopher, 2014).

According to Enofe et al. (2013) the use of Agency Theory is important since having a strong and hardworking IAF is crucial in order for top management not to depart from doing the activities assigned in the anticipated way. A scenario where IAF is allowed to report to top management and not the audit committee creates a problem due to the fact that internal auditors are seen as agents of the board and audit committees and hence IAFs are tasked to assess the work of top management. Furthermore, the allegiance of internal auditors may rest with senior management, instead of the audit committee and the board because top management may take advantage of the fact that they superintend internal auditors' future salaries and positions. Such a situation will result in IAFs being biased. Internal auditors, being agents of the board and audit committees, should be able to do their work in a professional manner. Further, they are supposed to have the required level of education, expertise and experience in order to do their work in an expected manner (Enofe et al., 2013). These professional attributes if shown by the IAFs could result in the board and audit committee having confidence and respect in their internal audit units.

Agency interconnections is referred to as a contract between the owners of the entities and its senior management (Endaya & Hanefah, 2013). Therefore, the establishment of IAFs in SOEs will assist the entities in improving their performance and ensure that plans are carried out according to the plan of action laid down by the management (Adams, 1994). As put in this study, senior managers (agents) in the public sector give work to internal auditors who are responsible for the systems of internal control. This is done in order to meet the expectations of the principals (government) who draw attention to principles of CG such as transparency, confidence and accountability. Managers who control public resources act as stewards and are supposed to respond

to recommendations made by the IAFs. As internal auditors are known as an internal monitoring system, IAFs look for evaluation of the success of risk management, control and CG (Endaya & Hanefah, 2013). Additionally, IAFs make recommendations for the enhancement of risk management, internal control and corporate governance mechanism. Internal audit does not only end on rendering recommendations. It keeps an eye on whether management is constructively responding to the recommendations. Execution or acceptance by management to be liable for not conforming to their advice could be the response. It is in this context that the agency theory gives the foundation to spelling out the rationale and role of IAF. Information asymmetry and opportunism are the attributes of the principal-agent nexus (Bosse & Phillips, 2016).

Information asymmetry occurs in practice since the agent takes part in the daily operations of the organisation, which leads to acquiring greater information than the principal. When this happens, opportunistic practices may take place and the agents will end up not serving the interests of principals. As a result, there will be no execution of audit recommendations by public officials. This perspective is in consonance with perspectives of Kasigwa et al. (2013) and Kasigwa (2014). Agency Theory, in this field of study, helps in spelling out if the system of monitoring done by the IAF is a challenge or an enabling factor to the execution of internal audit roles and recommendations. Agency Theory could also spell out the governance systems of the IAF. Kasigwa (2014) pinpoints that Agency Theory provides a basis for a mechanism that can reduce eventualities linked to unsuccessful response to roles and recommendations of IAFs. Agency Theory is relevant for this study as preceding studies on IAFs roles and assurance have used this theory in providing attaining comprehension on internal cycle procedures (Haji & Anifowose, 2016; Yee, Sujan, James & Leung, 2017; Alzeban & Sawan, 2015; Endaya & Hanefah, 2016). By following this theory, the study had the opportunity for deep insight into internal audit and affairs that surrounding the execution of its roles and recommendations.

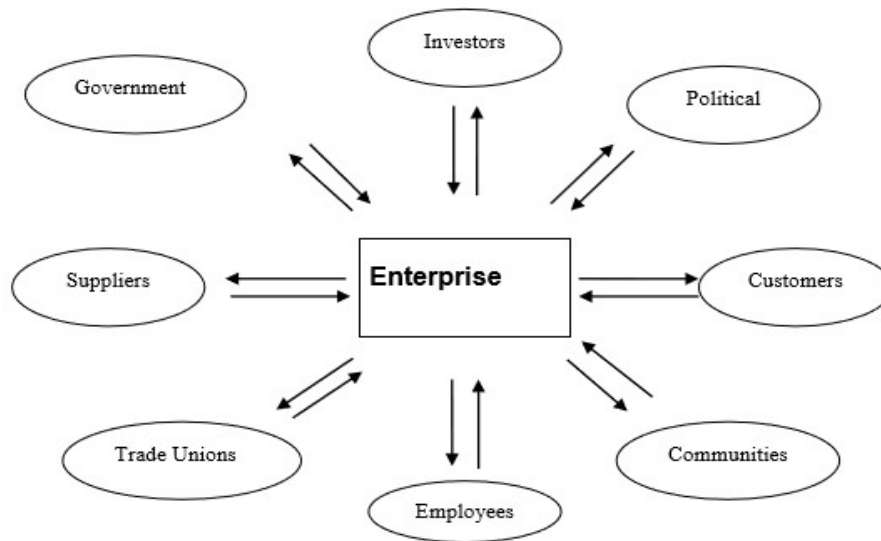
Khaled and Mustafa (2013) assert that the board, audit committee and the IAFs must be effective because if they are, they can easily do their duties of making ensuring managers carry out their tasks as anticipated by leaders of SOEs who, in a public sector context, are political office-bearers. Good communication in SOEs is crucial especially when information is relayed simply, clearly and in a worthwhile manner as well as giving room for mechanisms for feedback (Sambo & Webb, 2017). IAFs should be able to schedule their own audits and those of external auditors in SOEs in a system that would allow auditees to initially implement internal audit recommendations well in time before audits by external auditors. The next section discusses at the stakeholder theory.

## **2.13 Stakeholder Theory**

In a nascent country like Zimbabwe, Stakeholder Theory (ST), which champions the process of consulting with other stakeholders, is a constitutional and an indispensable remedy for efficiency and effective service delivery in SOEs. This is because stewards of SOEs have failed to act in the best interests of shareholders, besmirching reports of corruption, malfeasance, lack of accountability and transparency ceaselessly proliferate the public domain.

### **2.13.1 Background of the Stakeholder Theory**

Stakeholder Theory was well known in the management discipline in the 1970s before it was put forward by Freeman (1984), where great consideration of responsibility of stakeholders and organisational accountability was paid much attention. ST was initially propounded by Freeman (1994) who states that business entities should take into consideration the interests of all the groups they relate to and not just the interests of shareholders. ST, according to Freeman (1984), Donaldson and Preston (1995); Freeman (2010) and Miles (2012) point out that customers, employees, communities, government, suppliers, trade unions, and providers of finance are not shareholders of the organisation. However, they are termed stakeholders. Freeman and Reed (1983) also examined ST due to the increase in social participation of entities. In addition, Jo and Harjoto (2011) assert that within ST, its dictates are that the role of the business enterprise is to serve the interests of other non-investing stakeholders. A stakeholder is any category that is directly ascribed to the attainment of the entity's goals (Freeman, 1999). According to Clarkson (1995) and Carroll (1989), the theory states that employees, suppliers, shareholders and customers are classified as primary stakeholders, whereas the government, trade associations, political groups and communities are known as secondary stakeholders. Stakeholder theorists muse that managers in business entities have connections that they need to serve and fulfil. The system of inter-connected people consists of employees, business partners and suppliers as shown in Figure 2.8.



**Figure 2.8:** Stakeholder Theory inter-connections

Source: Adopted from Abdullah and Valentine (2009)

Porter (2009) states that the traditional view that managers should be accountable to shareholders only is no longer cardinal since managers are obliged to consider interests of all groups and stakeholders. A sense of responsibility and a vast array of accountability measures from management is called for due to the fact that any wrongdoing has serious effects on business enterprises in the economy of the nation and the society at large (Christopher, 2010). ST includes all non-shareholder stakeholders and takes the interests of all stakeholders into consideration, unlike the traditional view of the shareholder-oriented theory. This shift took place because of the global crisis and the financial corporate scandals that made it ideal not only to dwell on the AT, but also on ST (Brennan & Solomon, 2008; Collier, 2008). Accountability to shareholders only in organisations is no longer the aim and objective of many businesses. Business performance is now being increased when entities are accountable to their stakeholders and also accountable to society in general. Provision of social and economic resources is the responsibility of society to management in anticipation that management can use them with due care to produce outputs that can benefit not only the owners, but society at large. Companies can grow and survive due to efforts from all stakeholders not only from the financial resources of shareholders. ST includes the involvement of all groups' efforts (Parmar et al., 2010) and is considered by Christopher (2010) as a more inclusive theory than Agency Theory.

### **2.13.2 Criticisms of Stakeholder Theory**

Stakeholders may be illogical depending on how a decision should be made. The Critics of the theory aver that the way internal auditing challenges are solved is too narrow and shareholders are not the only ones who invest in an organisation. Firms are affected by the environment and various other stakeholders. The performance of SOEs as well as the role of IAFs is vital to the owners, government and society at large as the stakeholders always benefit in terms of the entities' performance when IAFs are well established. ST is wrong in one's opinion and misplaced as enunciated by Sternberg (1996), Turnbull (1997b) and Pound (1993). The authors surmise that accountability is not shown to be reasonable and it is contradictory in the business and in the dictates of CG since it lessens the effectiveness of wealth, agency and private property. However, ST principles state that all interested groups should be considered in the stakeholder model of an SOE. Therefore, the essentials of the theory are critical in examining the performance of SOEs. An entity should create wealth or value for its stakeholders by converting its stakes into goods and services. Scholars such as Blair (1995) note this important aspect, which is crucial in the evaluation of the performance of SOEs.

In a similar way, an unmethodical endeavour to please all stakeholders' desires may, as proposed by ST, reduce good performance of SOEs because of their heterogeneous nature. While the principles of ST state that all the interests of stakeholders in an organisation should be valued significantly in order to gain the best performance in firms, it has been confirmed that such interest can be a problem to restore as stakeholders are different in character and have contrasting interests (Carney et al., 2011). This line of argument, according to Freeman (1994), is a straight criticism of ST, which posits that for entities to perform very well, especially SOEs, the Stakeholder Theory asserts that an entity should create value for all stakeholders and not just for the shareholders. Xu et al. (2001) note that poor performance of SOEs is normal due to more intense political intervention. Due to SOEs ownership structures, SOEs are susceptible to limitless political involvement that occurs with noticeable negative repercussions on their performance (Cuervo-Cazurra & Dau, 2009). According to Carney (1997), there are various conflicting demands on government officials who are acting as agents in administering public resources, with the result that the best interests of the public are not always provided. Carney suggests that, in this case, one solution is to give stakeholders more opportunities to state their opinion. Meanwhile, in the public sector, managers are accountable to the government and not directly to the public (tax payers or shareholders). This is analogous to the situation found in Zimbabwean SOEs.

### **2.13.3 Application of Stakeholder Theory to this study**

ST buttresses an inclusive approach to governance in that it focuses attention on a wide range of groups that have attraction to the entity. In order for the organisation to improve its performance, all stakeholders must work together. In this case, IAFs must make sure that management is accountable to all stakeholders, not only shareholders, by carrying out its detection and oversight roles. Internal auditing, as part of the stakeholders of SOEs, should make sure that employees responsible for procurement are under scrutiny so that they practice open bidding which is fair, transparent and assists to protect public funds (Auditor General, 2018). It is imperative to note that in such instances, both internal control audit reports and internal control self-evaluation reports should be availed in order to improve the protection of stakeholders' rights and interests. Giving reliable information to stakeholders enhances the image of the company and enables enterprises to attain a positive trend of steady and sustainable development by maintaining a positive reputation value.

The role of IAFs in the performance Zimbabwean SOEs is understood well within ST. Without audit, Messier et al. (2010) and Spicer and Pegler (1921) hold the view that managers are susceptible to mislead the owners and the stakeholders. According to Chow (1982), the audit function helps to proffer solutions to conflict of interests among managers, shareholders and other stakeholders. In addition, Molzer (2005) asserts that audit provides assurance that management's report is a true reflection of what is taking place during the period and also acts as an incentive to management to increase its performance. Accountability does not mean only producing reports. For accountability to be well pronounced, an independent effective monitoring system or audit is essential (Sherer & Kent, 1983). Accountability is an abstraction that is real only when audit is carried out and nothing else (Normanton, 1966). ST is more relevant in the case of SOEs because they are owned indirectly by the public, who are stakeholders. They have a 'stake' in the organization, rather than just a share. There is an interchange between the entity and stakeholders. SOEs more readily fit within the concept of ST in that the first commitment is to Zimbabwean society, rather than just to maximising profit. This is seen, for instance, in the state power entity ZESA Holdings, where tariffs are set by the government taking into account a balance between the needs of Zimbabwean society for electric power and the need to recoup the cost of production.

The Auditor General revealed that in 2017 that some funds were used without the approval of parliament and, in some cases, there were no supporting documents (Auditor General, 2018). This situation resulted in breach of the Public Finance Management Act. In order to bring back stakeholder confidence and credibility in SOEs programmes, IAFs should work closely with all stakeholders to remove corrupt groups of people and recover funds that were misused and abused. Poliment and Burke (2011)

agree that if an audit is carried out by an auditor who is independent, that audit is crucial and adds value to the public domain. If any auditor lacks independence, that is, whether genuine or perceived, it will have serious consequences for dependability of that audit. The audit profession must be strong and help the public to fully understand the independence of auditors and how the profession is improving society through peer reviews, improved methods, continuous professional education and disciplinary proceedings. In addition, it seems top management's thoughts have not been sought although they are considered to be important stakeholders of internal auditing. ST gives the audit committee, which is responsible for superintending internal auditing, information regarding the contribution of IAFs to risk management, internal control and governance processes, and if not, how these issues can be solved. Miles (2012) posits that in addition to the traditional shareholders of the organisation being considered as stakeholders, other parties such as primary stakeholders, secondary stakeholders and other stakeholders are included as far as ST is concerned. Preble (2005) and Paape et al. (2003) indicate that management, both top management and the audit committee, are the primary internal stakeholders of internal auditing in SOEs and, hence, play significant roles. ST caters for all the requirements of stakeholders at an organisation and it further holds that if the balance between all a business's stakeholders are attained, growth and survival of an entity is enhanced.

According to Freeman and McVea (2001), the Stakeholder Theory states that all direct and indirect interests of all the stakeholders and not only of the shareholders should be respected in organisations. ST only confirms the contractual promise to principals when agents only accept the interests of stakeholders. The Board Directors of SOEs should get information from management as well strategic stakeholders in order to avoid errors or distortions and bias (Turnbull, 1993; 1997a, 1997b, 1997c). This is so because there is an interconnection of stakeholders that have got an effect on the board and management. Distortions, bias and errors do affect business effectiveness other concomitant uprightness, for example, Zimbabwean SOEs, have been facing a host of problems and operating at a loss due to bad CG. The boards of SOEs should comprise members from various sectors and the chairperson of the board should have vast knowledge and experience in financial matters. This reveals the permeation of ST through the SOE sector. The imperatives of this theory are paramount in examining the performance of SOEs. Company goals can be easily achieved if all stakeholders are considered as of cardinal importance and that they are owed by the entity fiduciary duties in order to increase their interests. Deegan (2004) states that stakeholders should be given enough respect and it is the responsibility of management to increase the value of stakeholders by reducing the costs, improving employee contentment as well as supporting the society which provides the resources. This study was conducted on the premise and credence of Stakeholder Theory.



## **2.14 Institutional Theory**

The basic principle of this theory is that the institutional environment is socially constructed and affects individual behaviour. IT has varied approaches and it is considered as an amorphous complex of ideas related to each other. Internal auditing is an institutional practice that can be understood well within IT. The theory further encapsulates and explains the extant and power that underpin rules, beliefs, values and norms, and these are derived from external interactions. According to Fogarty (1996), IT assists to provide further explanation of how culture, politics, and social forces surrounding entities affect organisational structures and behaviour. Scott (2004) advocate that organisations, particularly SOEs in emerging markets, should abide by the rules and beliefs prevalent in their own environments (Meyer & Rowan, 1977) because institutional isomorphism can make an entity gain legitimacy (Suchman, 1995).

The organisation field, as stated by DiMaggio and Powell (1983), comprises crucial suppliers, competitors, resource and product consumers, and regulatory agencies. In order to attain homogeneity and compatibility, business enterprises have embraced structures, methods and business procedures due to the fact that decision makers obtain suitable answers to shift from what has not been approved. This homogenisation is referred to as isomorphism (DiMaggio & Powell, 1983). Covaleski and Dirsmith (1988) surmise that it is the prerogative of institutional isomorphism to note that for the survival of the entity, it has to comply with social norms of acceptable behaviour. An example of an institutional procedure is voluntary corporate reporting or disclosure. Another aspect of institutional theory, according to Deegan (2009), is that of decoupling. Decoupling means that even though managers come to realise a requirement to follow definite institutional methods that are publicly authorised and the appropriate formal processes, the real entity practices may be different. This distinction that results in pursuing profitability and enhancing shareholder value by managers instead of the obvious image is caused by corporate disclosure on social and environmental reporting due to the legitimisation of business strategies (Deegan, 2009). Whenever internal audit is outsourced and done in-house and as long as it serves the needs of the business enterprise, decoupling is taking place. IT complements other theories in motivating managers of SOEs on how the inclusion of audit committees and internal auditors answer to social and institutional anticipations of having good CG.

### **2.14.1 Criticism of the Institutional Theory**

Management has an obligation to control all the risks in and around a business entity in such a way that risks do not have a negative effect on the achievement of the business objectives in the foreseeable time since company stakeholders are usually risk neutral (Honore et al., 2015). Majority of the CG frameworks are voluntary, rather than being

legislated in the whole world. According to King III (2009), these are “comply and explain or else”, that is, a “one size fits all” approach, which is not always the case because organisations are different to a large extent. It is, therefore, not always the case that by mimicking other IAFs’ best practices, prosperous results will emerge. Several entities may indicate that their operations are in line with the anticipation of the external environment while, in fact, they are not doing so (Meyer & Rowan, 1997). This is exactly what is happening in SOEs, where there are laws and regulations that all are expected to comply with in carrying out their mandate yet, as per the Auditor General of Zimbabwe reports (Auditor General, 2018), it is evident such laws and regulations are admittedly not being followed by some SOEs. IT is made up of old institutional theory and new institutional theory. Old institutional Theory looks at the extremely small scale (micro-level) of an entity, while New Institutional Theory looks at the large scale (macro-level) of an organisation. However, the Institutional Theory has been found to have some faults by a number of scholars who say that the theory is an oversimplified perspective of an organisation (Christensen et al., 1997; Kraatz & Zajac, 1996; Selznick, 1996). Boons and Strannegard (2000), Carruthers (1995), Perrow (1985) and Scott (1995) surmise that the New Institutional Theory is concerned about the roles of actors, power and interest and disregards the potentialities of actors to impact and shape business enterprises, that is, it ignores power and politics in the institutionalisation process. The main shortcoming of IT is that the theory does not recognise a particular concept of power in the institutionalisation process discourse and does not only disregard the power, but Arena and Jeppesen (2010) and Lenz et al. (2018) assert that “the lack of compliance of internal auditing practices with the normative guidance may signal a dearth of professional identity” and argue that IIA may consider hardening the definition of IA so that IA’s distinct role can be identified and the recognition of internal auditing as a profession can be wider. Finally, mimetic isomorphism applies in the case where one IAF adopts an internal audit process that is used by other IAFs with the objective of enhancing its effectiveness.

#### **2.14.2 Application of Institutional Theory to this study**

Considering the aspect of legitimacy, the researcher postulates that SOEs are state-owned entities controlled by the government and command public attention that, for their existence and legitimacy, is of cardinal importance (Dowling & Pfeffer, 1975). Christopher, Sarens and Leung (2009) assert that contemporary corporate wrongdoing puts social pressures on entities in order to control their risks and ensure the 3 Es of organisational performance. The Board of Directors play a significant role in the structure and performance of the entity. To begin with, the Board of Directors in creating a relationship between the external environment and the business enterprise. Secondly, it helps IAFs to superintend management and administrative processes that will steer the performance of the entity. IAFs role in the performance of SOEs is to ensure that SOEs achieve legitimacy so as to show social suitability to mobilise resources

(Oliver,1991) and also ensure the entity's units operate in line with socially acceptable values, beliefs, rules and norms. This could be seen in the availability of an Internal Audit Charter (IAC) to stakeholders which guarantees IAFs will behave in a trustworthy as well as consistent manner with the charter. Adams (1994); Burnaby et al. (1994); Courtemanche (1986) and Hughes (2004) concede that the IAC is a legal basis for IAFs in carrying out their duties.

Applied to this study, IT is suitable as recommendations and findings on IAFs are executed in SOEs and the public sector, which are entities established by Acts of Parliament. The theory additionally argues that management of entities and monitoring elements regularly change to anticipations of a social nature (Di Maggio & Powell, 1983; Meyer & Rowan, 1977). In the same perspective, Suddaby (2015) asserts that any interference in entities requires organisations being seen as an extra or smaller a cage of perceptions that are historically shared. Institutional Theory illuminates how components of the entities and methods are defined through adaptation as a result of forces involving emic and etic sources, respectively, such as laws and regulations, or by the professions. Notwithstanding, a drawback of this theory is that institutions are logical, but this is not always the situation. Another disadvantage is that it supposes that entities may be coerced or pressurised because of the etic forces. Institutions could conform to meet regulations in order to access funds and as long as funds are availed they no longer capitulate to the forces (Suddaby, 2015).

IT contends that entities occasionally become involved in decoupling. Scholars such Al-Twajry, Brierley and Gwilliam (2003) welcomed the isomorphic view when they carried out a study on the development of IAFs in Saudi Arabia. The authors mention in their research they regard precise operations of IAFs are decoupled from anticipations of how they operate, as shown in the International Standards for the Professional Practice Framework (ISPPIA). The study deduced that in Saudi Arabia IAFs are not well developed. As that was not enough, the significance of IT in impacting organisations' behaviour concerning internal auditing is also buttressed by Arena and Azzone's (2007) survey of 364 Italian organisations. Therefore, IT is appropriate for internal audit-related research because it gives explanation of how institutional patterns, structures and practices are shaped through coercive, copied and normative isomorphism. This is in line with the objective of this study as it focuses on the role of IAFs in the performance of SOEs by employing a CG framework. The importance of IT lies in what organisations actually accomplish and what its structures suggest to the external environment it should accomplish (Kalbers & Fogarty, 1995).

Institutional Theory is applicable, considered and well-founded to internal research in the public sector, particularly in SOEs in both developing (Al-Twajry, Brierley &

Gwilliam, 2003; Mihret, Mula & James, 2012) and developed economies (Arena, Arnaboldi & Azzone, 2006). In Zimbabwean SOEs, the theory as part of the entity's phenomenon, comprises a domain that is made up internal audit practices. IT could maintain research (Mihret, James & Mula, 2012) in auditing in a developing economy such as Zimbabwe. Unlike other theories such as the Transaction Cost theories, which highlight issues to do with shareholder wealth maximisation, IT explores the business phenomenon without being restricted to specified goals of the entity.

According DiMaggio and Powell (1983), normative isomorphism is situated in the premise that organisational change is attained through the process of professionalism. This is realised through formal education and research-based products from reliable pundits, professional inter-connected structures that share science and technology as well as professional standards. There is a belief in the community that internal auditors have to possess appropriate knowledge of the profession gained from university and/or from professional entities. This belief may create pressure on the way an SOE enlists (recruits) its internal auditors. This system may be seen as a sign for the presence of normative isomorphism. According to DiMaggio and Powell (1983), mimetic isomorphism refers to the process of change reckoned internally by a business enterprise. Mimetic isomorphism takes place when entities become aware of IAFs influence in enhancement of organisational control and operational execution, which is important to it being followed. In Zimbabwe, particularly for SOEs, the mimetic pressures could take place when IAFs within an SOE that is not performing very well (unsuccessful) copies the practice of IAFs of a prosperous (successful) SOE. Mimicry refers to the imitation of the practices of similar entities in the same field (Mihret et al., 2010; Arena & Azzone, 2007; Arena et al., 2006; Al-Twajiry et al., 2003). Another likelihood is that internal auditors in an SOE may mimic the practice of internal audits of a leading entity in the same industry. The uncertainty condition in terms of best practice of internal audits will create mimetic isomorphism (Mihret et al., 2010; Arena & Azzone, 2007; Arena et al., 2006 & Al-Twajiry et al., 2003).

In the case of SOEs, the existence of coercive isomorphism may be shown by the pressure to comply with government laws and regulations in order to get legitimacy since SOEs are funded by the government. These regulations may give signs of the extent of coercive isomorphism in the practice of IAFs by SOEs. SOEs function as per the dictates of the Constitution of Zimbabwe as well as the PFMA. However, it is surprising that some SOEs are not complying with the laws and regulations of the country in carrying out their mandate as is evident in rampant corruption and malfeasance reports from the Auditor General's desk (Auditor General, 2018). Corruption is a scourge in SOEs and deep-seated in most public institutions. Most SOEs have nurtured a sophisticated corruption culture that has spread profoundly and

widely within their political veins beyond redemption. In this vein, it is of cardinal importance to map out coherent and synergistic strategies by making sure that IAFs are well resourced and well remunerated so that they can vehemently perform their tasks and also that robust rules, laws and regulations are put in place. It is the belief of institutional theorists that institutional environments such as governments can make sure formal structures such as IAFs are established in all SOEs and, thus, the reason this study was embedded in IT.

### **2.15 Conceptual framework**

This section is a discussion of the conceptual framework of the study. The discipline of internal auditing has not been discussed extensively and is at its infancy stage. The arguments and definitions developed in this chapter, gave the framework a better comprehension of how IAFs are viewed as key corporate governance role players and how their roles contribute to the enhancement of good corporate governance in SOEs and hence improve SOEs performance. This accentuates the need to comprehend the roles of IAFs in performance towards corporate governance in SOEs.

It is quite apparent, therefore, that further discussion of IAF as a whole is needed to give new and improved knowledge contribution in internal auditing, particularly in Africa. Again, it appears that literature has not inquired into the roles of IAFs in performance of SOEs using a corporate governance approach, and this study is meant to contribute in some way to close this gap. The study used the Agency Theory (see section 2.12 - 2.12.3), Stakeholder Theory (see section 2.13 - 2.13.2) and Institutional Theory (see section 2.14 - 2.14.2) as theoretical lens (Ittonen, 2010:3). The researcher used the three theoretical frameworks to explain the roles of IAFs and how the theories add value to the functioning of SOEs. The conceptual framework set forth the need to be aware of real limitations and challenges that hinder IAFs and SOEs efforts from attaining their objectives.

Furthermore, the role of IAFs, corporate governance and SOEs are reconnoitred so as to gain an understanding of how good CG in SOEs as well as the roles of IAFs can be attained. The literature review disclosed, the significance roles of IAFs, good CG and challenges by SOEs and IAFS. The review of literature also buttressed that for SOEs to be sustainable, IAFs should act as control and monitoring mechanisms so as to enhance good CG. The study deemed imperative to additionally inquire into how the IAFs roles are operationalised within SOEs in order to boost CG.

## 2.16 Conclusion

The evident deduction from this discussion is that auditing is a very important function in boosting accountability and absentee shareholders and stakeholders turn to the auditor, as a trusted independent party, to hold management to account, thus giving rise to the demand for auditing, particularly internal auditing. The chapter elucidates in the first section the important roles played by internal auditors and CG in SOEs. Furthermore, it alludes to espousing value-added roles of IAFs and that the roles of internal audits have changed over time, shifting focus between controls, compliance and value-added and consulting. Continuous professional development should be taken seriously by IAFs in their endeavours for effective contributions and career-long professional development in an enterprise. Deciphering what CG entails requires a strong understanding of CG and internal auditing as a cornerstone of CG. Therefore, understanding that internal auditing is a CG mosaic, the chapter reviewed the relevant literature on the role of IAFs in the performance of SOEs using a CG approach. The second section discussed profiling of SOEs in Zimbabwe where concepts such as formation of SOEs, their importance, history as well as various categories of SOEs were explored. The people of Zimbabwe should benefit from well-developed SOEs. SOEs provide public goods, limit private and foreign control as well as improve labour relations. The legal and regulatory frameworks of SOEs, their role, what SOEs are and reasons for their existence have also been examined. The Challenges faced by SOEs are multifarious and multidimensional, hence this study provides challenges from a general point of view. In some instances, challenges related to specific SOEs have been spelt out since some SOEs have their own specific problems. The context and challenges of SOEs are spelt out since the challenges differ from one SOE to another. Ways to ameliorate these challenges have also been outlined.

The third section looked at the theoretical framework of the study. It is apparent from the discussion throughout this chapter that the AT, ST and IT are indispensable and suitable theoretical frameworks that are well suited for the purposes of this study. This chapter discussed the theories underpinning the role of IAFs in the performance of SOEs. It was established that three theories, specifically, Agency Theory, Stakeholder Theory and Institutional Theory, were most appropriate to SOEs in Zimbabwe. It can, therefore, be concluded that the role of IAFs in SOEs is central to the AT, ST and IT. These theories also inform assumptions as to the adoption and contribution of internal auditing to SOEs' performance using a CG approach. Chapter Five discusses the research methodology employed in the study. The last section of the literature review looked at the conceptual framework. The next chapter gives the research methodology of the study.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Chapter two presented corporate governance and internal auditing, profiling of SOEs in Zimbabwe and the theoretical lens and conceptual framework of this study. The aim of this study was to examine the roles of Internal audit functions in Zimbabwe in the performance of SOEs and these roles can be boosted dictated the methodology for the study. The purpose of this chapter is therefore to indicate the research methodology in this study. The completion of the above aim called for a need to gain subjective perspectives of respondents on the roles of IAFs as a corporate governance mosaic in performance of SOEs, a chore that was feasible with qualitative interviews. Chapter three commences by presenting the research philosophy, research paradigm, research approach and the research design. Furthermore, a discussion of the sampling strategy used for choosing the participants making up the target group, scope of the research, unit of analysis, sample size, data collection methods and data analysis employed to address the research questions and objectives of this study are presented. The chapter elucidates how data was garnered in the study and the methodology which was used to analyse the data which was gathered through documents review and interviews. Verbatim quotes from the lived experiences of participants who have worked in SOEs and the emic point of views are given. ATLAS. ti was the software used to analyse the data. Recurrent and emergent themes were used to analyse the data. Recurring themes resulted from of ideas of both men and women interviewed and emergent themes became idiosyncratic perspectives, which were purposefully selected from men and women in various SOEs. Semi-structured interviews were conducted with different stakeholders employed at the SOEs who took part in the research. one set of interview schedule was prepared for the CAEs, SMs, BoDs, CEOs, ACs and SIAs. It also discusses justifications for using document reviews and interviews as research tools. Eventually, the ethical considerations, reliability and validity of the study are highlighted and the conclusion provided.

#### **3.2 Research Philosophy**

Research philosophy has been defined as the evolution of knowledge and the essence of that knowledge in connection to research (Saunders et al., 2012). The philosophical position or assumption of the researcher has an effect on the procedure in which the whole research process is being carried out. The variables embraced, the desired outcome, factors impacting the study and the connections not covered are the researcher's view of the study that the research philosophy focuses on (Saunders et al.,

2012). An evaluation of the philosophy espoused is vital to perceive the importance and possible disputes, assumptions on which research reports are accepted and recognised even when these are not stated clearly and in detail and, therefore, capable of looking into the appropriateness of the techniques that have been employed and soundness of conclusions arrived at (Walliman, 2009).

In any given study, researchers should comprehend the philosophical underpinnings that influence and guide the research process. Sampling, data collection and data analysis procedures are not the only approaches to social research. Approaches to social research are also rooted in:

- Ideas about the world and the nature of knowledge;
- These philosophical assumptions consist of a stance towards the nature of reality (Ontology), how the researcher knows what she/he knows (Epistemology), the roles of values in the research (Axiology), what is believed to be true (Doxology), particular traditions or ways of thinking (Praxeology) and the method used in the process (Methodology) (Tichapondwa, 2013 & Creswell, 2003).

The three crucial stances of the philosophical assumptions that affect the methodology of this study are ontology, epistemology and axiology approaches. Philosophical views assist the researcher to comprehend how knowledge is acquired. According to Meyers (2009), three important features of research are ontology (what can be considered as knowledge?), epistemology (how can that knowledge be acquired?) and axiology (what are the values of the researcher?). Three research philosophical assumptions, that is, ontological, epistemological and axiological which inform the approach and paradigm have been identified in this study as enunciated by Saunders, Lewis and Thornhill (2012). These three philosophical assumptions are explained in the sections that follow.

### **3.2.1 Ontological, epistemological and axiological research views**

When undertaking research of this nature, a researcher approaches the world with ideas put down, a framework (theory, ontology) that itemises a set of questions (epistemology) that he/she then delves into using certain methods (methodology, analysis). Ontology is the theory of the nature of reality and epistemology is a theory of gaining knowledge about reality (Meyers, 2009).

#### **3.2.1.1 Ontology (Constructivism)**

Denscombe (2010) defines ontology as the essence of social phenomena and the beliefs that researchers hold about the nature of social reality (Collis & Hussey, 2003; Creswell, 1998; Denzin & Lincoln, 1998). Saunders et al. (2009) further opine that ontology means the researcher's view of the essence of reality/being and is anxious



about the beliefs we create about the manner in which the world works. Two questions are dealt with as far as ontology is concerned, which are: whether reality is socially constructed and becomes a product of people's consciousness and should be treated subjectively or whether reality it is independent and should be treated objectively (Creswell, 1998; Eriksson & Kovalianen, 2008). Blaikie (cited by Grix, 2004:59) states that ontology refers to "the assertions and beliefs that are made about the essence of social reality, assertions about what exists, what it looks like, what units make it up and how these units connect with each other". Ontological perspectives are applicable to how a person looks at and/or creates a sense of the world and its milieu-the nature of his/her reality (objective versus subjective). Saunders et al. (2019) further opine that ontology refers to assumptions about the nature of reality.

From an ontological stance, a researcher should presume a position, depending on a belief, whether an objective reality (truth) exists or not. From an ontological point of view, the nature of reality in this study is ascribed to the subjectivist approach because the researcher and reality cannot be segregated; as a researcher reality is determined by the researcher's interpretation (Maree, 2010). Ansari, Panhwar and Mahesar (2016:134) define "ontology as the perception or view point regarding existence of men, society and the world in general on the one hand, and relationship among them on the other hand". Ontology is a position taken on the nature of reality and what can be known about it (Saunders et al., 2012). An ontological perspective is influenced by the idea of objectivism and subjectivism (Saunders et al., 2009). A researcher undertaking an objectivist ontological view is of the opinion that social organisations survive in reality outside social actors. Nevertheless, a researcher advocating for the subjectivist ontological stance thinks social phenomena stem from the interpretations and deeds of social actors (Saunders et al., 2009).

According to Guarino et al. (2009), the science of "being qua being" is considered to mean ontology by the Greek philosopher and scientist, Aristotle, which means that ontology is the study of the features that are affiliated to things because of their nature, even in a way that is not connected with their real being. Furthermore, Scotland (2012) avers that ontology has to do with an account of reality as it really is. Since the data was obtained from respondents within SOEs in Zimbabwe, the research study fell within both the social domain and within the interpretivism research paradigm. The researcher concentrated more on the role of IAFs in the performance of SOEs in Zimbabwe considering a CG approach using documentary review of the Auditor General's reports. The terminal result of doing this was to construct a model framework that would augment the role of the IAF as well as its effectiveness in SOEs. According to Lawson (2004), it is imperative to point out the philosophical worldview used in a given study due to the fact that the direction and clarity of the study is revealed and brought into

being. The reason why the ontology, that is, constructivism of this study was chosen is because of the researcher's confidence about the nature of reality on the matters of the role of IAFs on the performance of SOEs in Zimbabwe (Mills, Bonner & Francis, 2006).

Developing an IAF effectiveness framework on the role of IAFs was the all-embracing focus of this study. On that point, the philosophical world overview that was seen to be proper for this study was Constructivism as advocated by Kolbaek (2014) because it is rooted in the comprehension and generation of theory, and past events as well as societal construction. In this study, the researcher deeply reflected on the data gathered through semi-structured and in-depth interviews as well as from documentary reviews and succeeded in constructing a framework that envisages aggrandising the role of IAFs and their effectiveness in SOEs in Zimbabwe. Constructivism has drawbacks in that it fails to reach a satisfactory standard of both rationalist and reflective concerns and focus as well as issues relating to deep thoughts since it expects a central stance because it is inconsistent theoretically and has a multi-explanatory facet (Fiaz, 2014). In the contemporary study, paradoxically, Constructivism's multi-dimensionality stance is an advantage, rather than a disadvantage, as it allowed the researcher to deeply think of the genuineness and construction of an IAF effectiveness model framework in its entirety that is authentic to the existing state of affairs of the role of IAFs in the performance of SOEs in Zimbabwe.

### **3.2.1.2 Epistemology (Interpretivism)**

Denscombe (2010) opines that epistemology means the courses of action that humans generate their knowledge about the social world. According to Saunders et al. (2009), epistemology refers to the agreed on or suitable knowledge in a specific discipline of study or the researcher's perspective in respect of what amounts to acceptable knowledge. Epistemology refers to the assumptions about knowledge, what constitutes acceptable, valid and legitimate knowledge, and how we can communicate knowledge to others (Burrell & Morgan, 2016). Epistemology deals with the nature of knowledge and how it can be acquired (Saunders et al, 2012).

Within the epistemological philosophical view, the researcher gets know reality by comprehending actual-life circumstances from the view of insiders, rather than from the researcher's point of view. This means that the researcher does not determine what counts as knowledge, but is referenced from the participants in SOEs in Zimbabwe. Nieuwenhis (2010) further suggests that epistemology means how one gets to know reality (truth), if reality does exist. In addition, Hirschheim (1992) states that epistemology refers to the researcher's theory of knowledge, particularly how that knowledge is obtained and that is 'valid' knowledge. Epistemology is concerned with the process of how knowledge is derived (Bisman, 2010; Collis & Hussey, 2003; Denzin & Lincoln, 1998).

Creswell (2009:5) mentions four worldviews on which a study can be based; namely post/positivism, social constructivism also known as interpretivism, advocacy/participatory as well as pragmatism. Post/positive assumptions are more suitable for objective research while pragmatism is a realist view which suits mixed methods research (Creswell, 2014:36-40). The advocacy/participatory worldview was not adopted in this study due to its philosophical underpinnings of consorting with research respondents. While post/positivism pays particular attention to measuring behaviour objectively, interpretivism aims at making sense of the circumstances by assessing not only the behaviour but also intentions and sentiments (Creswell, 2014). Interpretivism takes place in a setting that is natural in nature, that is, it is naturalistic and does not take place in a laboratory set up (Cohen, Manion & Morrison, 2000). The researcher was assisted to comprehend the views of participants, that is, from the Board of Directors, CEOs, senior managers, CAEs, senior internal auditors and AC on the role of IAFs in SOEs in Zimbabwe (Thanh & Thanh, 2015) because interpretive researchers do not get their responses in an inflexible manner in their studies. For the current study, interpretivism came out as the acceptable epistemological stance as the participants are actually involved in the day-to-day running of SOEs. Consequently, the study used the qualitative methodology.

Interpretivism varies from positivism as it seeks to incorporate richness in the understandings collected rather endeavouring to give an unarguable and comprehensive laws that can be generalised and applicable to everybody notwithstanding of some crucial variables and factors (Myers, 2008; Saunders et al., 2012; & Bhattacharjee, 2012). In the same stance, Ponelis (2015) surmises that with interpretivism, appropriateness or quality is of cardinal importance, rather than concentrating on rigour, and it is also mainly interesting the way the data is made sense of in order to come out with the reality and attribute significance to it. Interpretivists make use of open-ended questions and a few respondents in their studies because they discuss matters under examination, unlike positivists who always start their studies with a supposition (Rowlands, 2005). The interpretive paradigm is anchored on the constructivist ontology and that is why it is completely relevant to the present study (Goldkuhl, 2012). It is by nature known and agreed that interpretive research is formed and strengthened on constructive ontologies and mainly utilise qualitative methods (Silverman, 2000; McQueen, 2002; Thomas, 2003; Willis, 2007; Nind & Todd, 2011). There is a lacuna of literature on the role IAFs in the performance of SOEs, which has influenced the researcher to dwell on the interpretive paradigmatic view that made use of an inductive approach and a case study research design.

According to the Stanford Encyclopedia of Philosophy (2015), epistemology means the study of knowledge and, as put in Greek, the words 'episteme' refers to knowledge and 'logos' means science. Scotland (2012) states that epistemology is how knowledge is generated, obtained and imparted. Crotty (1998) opines that the essence of knowledge and thought, that is, what it means to know is called epistemology. In addition, an impression of the manner knowledge is attained is referred to as epistemology, according to Mack (2010). The epistemological assumption is applicable to the connection that exists between a person and how he/she looks at the world and its settings (positivism versus interpretivism). Since the research sought to attain rich insights, the study was relative to interpretivism. There are many epistemological constructs, namely: objectivism, constructivism and subjectivism. According to Crotty (1998), objectivism's point of view is that reality, as it exists, is in an essential way important due to the fact that the truth and meaning reside within an object and is independent of human subjectivity. Vrasidas (2000) further states that an objectivist is of the opinion that by following the objective systems of science, there is one true and precise reality that we can come to know. The social world reality may be determined not depending on social actors as advocated by the objectivists and they examine it in a way alike to that of natural or physical scientists. Conversely, subjectivists assert that in a social world, humans, disparate from objects, give meaning to the surrounding phenomena; in an effort to traverse the social reality character, human involvement within the research study's boundaries is functional to establish the truth (Ansari et al. 2016).

Harre (2000) cited by Leeds-Hurwitz (2009) surmises that Constructivism is embedded in the concept that reality is socially constructed with the belief that what is rooted in the world is the outcome of human social and construction acts. This is the reason Constructivism is aligned to the philosophical stance of qualitative studies (Crotty, 1998). In this study of the role of IAFs in the performance of SOEs, human interpretations (particularly those of internal auditors and senior management of SOEs) are of cardinal importance. Interpretivism was the ontological stance used in this study and qualitative research approach was deemed the relevant epistemological method used.

### **3.2.1.3 Axiology**

Saunders et al. (2009) concede that axiology is a research philosophy branch that focuses on studying the acumen about values. In general, values in social science research direct our actions in life and also values influence the reliability of the research outcomes. Axiology means the researcher's views of the role of values in research (Saunders et al., 2009). Axiology explicates judgements about values (Saunders et al., 2012). The axiological view is that the human-infused dimensions around the role of internal audit functions have knowledge value (Tracy, 2013:61). Axiology is the role of

values and ethics. In circumstances where the researcher is independent of the data and keeps an objective perspective and research is undertaken in a value-free manner, it means a positivist epistemological stance is maintained. A researcher shows the significance of values in selecting the research philosophy as well as the method of data collection. In this case, the researcher interacted with the respondents and interviews and document analysis were considered as data collection methods. The following part gives an outline of the applicability of the philosophical stance to the study.

### **3.3 Research paradigm**

This study is rooted and guided by the interpretivism/constructivism research paradigm as the philosophical underpinning for the study. A research paradigm is an interpretive lens informed by a set of feelings and beliefs about the world and how it should be studied and comprehended (Guba,1990:17). As explained by Patel (2015), a research paradigm is a paradigm which consists of common beliefs and consensus that are shared between scientists on how hindrances should be handled and comprehended. Additionally, Creswell (2007) argues that a worldview and a primary set of beliefs that guide action is known as a research paradigm. According to Krauss (2005), research paradigms are philosophical underpinnings that steer the decision on whether to consider qualitative or quantitative research approach, and cognitive perception as of utmost importance in research, accepted by an individual or society as an understandable blueprint, model, or pattern of how things work in the world. A paradigm is defined by the epistemology, meaning 'how do we know what we know', the ontology, meaning 'the nature of reality' and axiology, meaning 'the values of the researcher' (Doyle et al., 2009; Harrits, 2011 & Ackermann, 2015). There are three important paradigms, namely: positivist (the quantitative paradigm), interpretivist (qualitative paradigm) and pragmatist (mixed methods paradigm) (Nieuwenhuis, 2010). It suffices to state that while constructivism philosophy gave a theoretical support for the study, the overarching research paradigm that informed this study was interpretivism.

#### **3.3.1 Interpretivism research paradigm**

From the three paradigms mentioned above, the researcher sees interpretivism as a research paradigm that looks for meaning revealed by actions of human. It is centred on human since it is a qualitative research philosophy that seeks to comprehend the world situation from the respondents' views. A comprehension of the context where any form of research is carried out is integral to the expounding of the data gathered is what the interpretivists believe in (Wills,2007). According to Mack (2009:9), the assumptions of interpretivism are of the ontological nature and they state that social reality is perceived by various individuals and these manifold individuals deduce a circumstance in numerous demeanours, making preparations for different views in elucidations and incident meaning. Manifold comprehension of individuals' world view is what is sought

by the interpretivist research paradigm (McMillan, 2015). It was kept that interpretivism is to a great extent subjective than being objective. With the interpretive paradigm, the important intend of the researcher is to obtain insights and in-depth information about the phenomenon. In this case, employing the quantitative method in this study which explain the world in numerical and measures is improbable to be ideal. Qualitative data was favoured by the study, giving a comprehensive explanation of a social construct as in opposition to a generalisation perspective espoused by the post-positivist researchers. Interpretivism paradigm was preferred in this study because it consents to numerous views from persons and has an inherent upper hand of being to a great extent inclusive. Specifics and extremely comprehensive account of social reality in a narrative form of analysis are explained by the interpretive researchers as underscored by Neuman (2011). To comprehend the social world of the role of IAFs towards CG in SOEs, rooted on the experiences and subjective meaning that persons attached to it, as an interpretive study, the study preferred to interrelate and have a conversation with the participants under study in order to attain the preset objectives of the research. Interpretivism is also called Constructivism or non-positivist paradigm. Constructivism paradigm is intimately connected to interpretivism. According to Tuli (2010), interpretivism paradigm is a paradigm emphasizes the idea that knowledge about reality is subjective to persons, while constructivism is the foundation theory by which subjective knowledge about the truth is formed by persons.

Interpretivists are of the view that human beings are not the same as physical phenomenon because they produce meanings and, therefore, natural sciences research is not similar to social sciences research (Saunders et al., 2019). The main drawback for interpretivists is to enter the social world of the research participants and comprehend that world from their point of view. Various strands of interpretivism put different prominence on how the practice is carried out. For example, **phenomenologists**, concentrate on respondents' lived experience and also study existence, that is, respondents' recollections and explanations of those experiences. **Hermeneuticists** consider the study of cultural artefacts such as symbols, texts, stories, and images. **Symbolic interactionists**, whose tradition is taken from pragmatist thinking and who see meaning as something that comes out of links between people, concentrate on observation and evaluation of social connections, for example, conversations, meetings, and teamwork (Saunders et al., 2019). In interpretivism approach, researchers progress from data to theory or explanation as well as from the specific to the general. Nevertheless, the paradigm has been arraigned by Phillips (1995), among others, for disregarding the effect of biological factors and social structure on actions taken by one individual person and its propensity to presume that all participants have the same likelihood of consideration.

Considering the ontological and epistemological stance aforementioned, this study adopted an interpretivist position, which was deemed most appropriate because the study seeks to gain rich insights and knowledge on the role of IAFs in the performance of SOEs in the Zimbabwean context. In order to derive meaning, the researcher subjectively interprets the data, which is mostly in text format (De Vos et al., 2011). The interpretivist researcher is different from the positivist, as Saunders and Tosey (2012) suggest because with the interpretivist, research is considered to be applicable and useful to the phenomenon during a period the investigation is being carried out.

The rationale for selecting the interpretive paradigm is that the researcher can get the knowledge of the subject matter by assessing the matter under investigation, can reach conclusions from its actual context, grounded on the subjective and shared meaning from the research participants. The subjective exactness is sought of what is transpiring in the public sector in Zimbabwe as far as the role of IAFs are concerned in SOEs so as to render recognition of and comprehension of their purpose, efforts and their plans in a meaningful way. It further shows that it is the respondents' views which are elicited to build insights about the role of IAFs (Creswell, 2014). As noted earlier, this study does not seek to prove a hypothesis or to render quantifications or to identify significance or causality, however, it views connections between context and action. Since the interpretive research depends on how recognise, comprehend the influence on the research and their experience, this in turn lessen and reduce bias. The main drawback for the interpretivist is comprehend and enter the social world of the research respondents and recognise that world from their point of view (Saunders et al., 2019). The interpretivist paradigm according to Motubatse (2016) use secondary data and content analysis and hence does not consider the positivist as of cardinal importance and hence the choice of the interpretivism paradigm.

### **3.3.2 Application of the philosophical stance to the study**

Since, in this study, the social constructionist/interpretivist approach is the ontological/epistemological stances, respectively, qualitative research is the fundamental epistemological method (Creswell et al., 2018). Ontologically, the role of IAFs in the current investigative study and documentary analysis and semi-structured interviews, which are research methodologies of a qualitative nature, speak volumes of the meanings attached to the role of IAFs in the performance of SOEs in Zimbabwe. This study adopted the interpretive philosophy as the researcher sought to illuminate and construe the role of internal audit functions on the performance of SOEs in Zimbabwe as well as the subjective viewpoints of SOEs and their ACs, SMs, BODs, CAEs, SIAs and CEOs with regard to the role of internal auditing. Despite the fact that comprehending the world of research subjects from their point of view is the challenge with interpretivism, post/positivism assumes singular true reality which Saunders et al. (2009) rejects as unfeasible. This made interpretivism adept for this particular study as it

is socially constructed (Tracy, 2013:41) in considering that the role of IAFs is interpreted differently by the study's respondents.

The fact that SOEs are important to the national economy and the value that is put on SOEs and the government on the role of IAFs in SOEs performance give grounds to the importance and desirability of the study of this phenomenon, which is its axiology. Creswell et al. (2018) posit that from an epistemological stance of interpretivism, social actors are the ones who give knowledge. It is against this backdrop that the study understood the role of the IAFs in the performance of SOEs using Agency, Stakeholder and the Institutional theories within the Zimbabwean context with respect to internal auditors as social actors of such practice. Having identified the suitable research paradigm for the study, the research approach is explained next.

### **3.4 Research approach/method**

According to Gray (2013), a science and philosophy behind all research and a kind of answer on how we are to know what we know is called research methodology. It has further been defined by Crotty (1998) as a system or undertaking lying behind the choice and use of specific procedures to achieve the desired result. According to Scotland (2012), methods are systems used to bring together and scrutinise data associated with specific research questions. There are several approaches to research. However, the fundamental ones are inductive (qualitative approach) and deductive approaches (Quantitative) with a third one known as abduction (mixed-method approach) (Saunders et al., 2019). The philosophy of the research which involve the values and assumptions that act as a motive for research and standards or the criteria used by the researcher for coming up with conclusions and expounding of data is called a research approach (Leedy & Omrod ,2012). There are three research approaches namely qualitative, quantitative and mixed methods approach (Maree,2007). This study employed the qualitative approach using inductive reasoning as outlined in the first section below (see 3.4.1).

#### **3.4.1 Qualitative research method**

Qualitative research method uses data that has not been quantified and non-numerical data, that is, data taken from written, typed, printed and spoken words as well as still or moving visual images that have not been quantified (Saunders et al., 2019). This research used qualitative method to appreciate the role of IAFs in the performance of SOEs in Zimbabwe. It is imperative to state that the study is related to the profession of internal auditing. This qualitative inquiry is foregrounded within Interpretivism and Constructivism because there is appreciation of people's conceptions, meanings, experiences and perceptions created, embedded and developed through people's interactions. Human links, actions of research participants, their subjectivity, meanings



and interpretations saw qualitative research method as the suitable method for this study.

Qualitative research approach uses inductive reasoning. Inductive reasoning is an approach moving from the specific to the general (Trochim,2006). In inductive reasoning, there is a gap in the logical argument between the conclusion and the premises noticed, the ending being judged to be supported by the observations rendered. If the research commences by gathering data to explain a phenomenon and one creates and builds theory (often in the form of a conceptual framework), in this case, the researcher will be using an inductive approach (Saunders et al., 2019). This study adopted the inductive reasoning which falls under qualitative research approach as a suitable research approach as advocated by Thomas (2006). It was used to design a framework where by AT, ST and IT were generated and built as theories embedded in the study. The Inductive reasoning approach was used to design a framework depending on the literature review and empirical findings on the role of IAFs in the performance of SOEs in Zimbabwe (Saunders et al., 2019). Inductive reasoning states that theory is built from facts, gives an easy and systematic set of procedures for examining qualitative data and hence it can produce accurate and important findings. This approach was found to be pertinent and suitable for this study given its nature. The justification of inductive reasoning which falls under the qualitative research approach are that:

- It doesnot imply disregarding theories when formulating research questions and objectives,
- It aims to generate meanings from the data set gathered in order to identify themes,
- It is based on learning from experience,
- It uses opened – ended questions and therefore it is process-oriented,
- Subjectivity meaning is given and
- It uses narrative description and constant comparison (Trochim,2006).

The limitation of inductive reasoning is that:

- It does not move back and forth between inductive and open-ended research settings to more hypothetical and deductive attempts to verify hypothesis.

This is different from quantitative research method whose central tenet is inferring, analysing and measuring causal relationships between variables at abstract levels (Creswell, 2018). Notwithstanding its advantages in presenting the correlation among variables, quantitative methodology does not give many insights about why actions happen in certain ways or causal connections. It is for these reasons the use of a qualitative research methodology is expected to fill these gaps. The epistemological and theoretical approaches that underpinned the methodology and methods in this study are

Interpretivism and Constructivism. The philosophical underpinning of the qualitative research approach is interpretivism. This is in line with the research approach adopted in this study.

There is a dearth of research on the role of IAFs in the performance of SOEs in Zimbabwe using the Agency, Stakeholder and Institutional theories. This study used the qualitative research methodology in order to fill the gap in internal auditing research. Although research in internal auditing is scarce, a few have been carried out using quantitative methodology. Its flexibility is ideal in order for the researcher to appreciate the essence of the dynamics of the phenomenon under examination, which cannot be achieved through a quantitative approach. A number of scholars undergird the advantages of the qualitative method. For instance, Creswell (2018) posits that the crux of qualitative methodology is that it is crucial in studying the purpose of human action and meaning because knowledge is taken from varied, constructed and interpreted views of research respondents. Qualitative research also leads to revision and generation of conceptual frameworks, new integration and serendipitous findings (Miles & Huberman, 1994). Words that can be put into stories or incidents have a meaningful flavour that is much convincing to the reader, who may be another researcher, a practitioner and a policy maker than summarised pages of numbers. The findings of the qualitative method have a condition of undeniability.

Interpretations of the role of IAFs is of importance for Zimbabwe in order to curb mis-governance within institutions, particularly in the public sector like in SOEs. The advantages of the qualitative method cannot gloss over the disadvantages, which need a lot of care. The mostly held criticism of qualitative research is that of the subjective position of the researcher that may jeopardise the state and truthfulness of the research. In this study, twenty (20) participants were used because they were knowledgeable about the subject under study. The widely known shortcoming is that of the small size of participants usually used in this type of research that has a propensity to generate unwillingness to expand findings to broad populations by other researchers (Creswell, 2014). The researcher was conscious of the gamut of problems to validity that could have impacts on the qualitative method. Consequently, data was gathered using interviews and written documents. Since the study used the corporate governance framework to investigate the role of internal auditing in SOEs in Zimbabwe, it focused on examining concepts of internal audit based on real-life examples of SOEs (Greener & Martelli, 2015). Further to this, Saldana et al. (2018) surmise that qualitative research method is vital because it assists scholars and practitioners to get a more desirable grasp of CG phenomenon.

### **3.4.1.1 Justification of the qualitative research approach**

This study was qualitative in nature for the following reasons:

- The study did not generalise the findings, however, the research settings, that is, information obtained from participants in five (5) SOEs such as POTRAZ, ZARNet, Telone, Telecel and TIMB gave genuine thick, rich and reliable explanations of events in the way as provided by participants interviewed from the aforementioned SOEs (Rudestam & Newton, 2007). The dependability of the phenomenon under the study was as a result of continuous re-reading of the fieldnotes and its interpretations from the respondents as well as from the review of literature and documentary review.
- This study used the researcher to garner the data during data gathering as a primary instrument (Punch, 2004; Seale, 2006). Relevant social skills were used by the researcher to obtain jurisdiction to do research from the five (5) SOEs such as POTRAZ, ZARNet, Telone, Telecel and TIMB and hence identification, selecting and interviewing the appropriate respondents was done.
- In this view, it means that data gathered in qualitative research, at the end gives findings that are not obtained through statistical means and quantifiable (Strauss & Corbin, 1990, in Mhlanga, 2008:67).
- The researcher in this study studied to a great extent, length, breadth and detail with no concealment of the chosen cases, events or matters considering that the researcher was not affected by categories of analysis which were preset (Silverman, 2006; Patton, 2002). Each case was looked through putting more attention on that case using semi-structured interviews and document analysis and twenty (20) respondents were interviewed and hence each respondent was entirely studied.

### **3.4.1.2 Limitations of the qualitative research approach**

- The main limitation of qualitative research approach is that the researcher lacked the know-how of using Atlas.ti version 8 software in analysing qualitative data. To alleviate this challenge, the researcher attended workshops at Cape Peninsula University of Technology facilitators which were organised by the Centre for postgraduate studies. The researcher also resorted to the hiring of an independent person who could delay in the analysis of data. The researcher kept on asking questions on aspects that were challenging.

The next section gives an outline of the quantitative research approach although it was not the approach used in this study.

### **3.4.2 Quantitative research method**

According to Creswell (2014), quantitative research is a means for testing objective theories by verifying the link among variables. This is where numbers are scrutinised using statistical procedures and the structure of the final written report comprises the introduction, literature and theory, methods, results, and discussion. The strength of this method is that large amount of numerical data can be generalised and analysed statistically. Further, it is an objective tool for gathering data. It also makes use of a questionnaire. Quantitative methodology was not used because this study does not give in-depth information about the research context and subjective meaning of actors' actions, which the reason the qualitative method was considered. Babbie and Mouton (2001) opine that quantitative method is mainly about numbers, while Aliaga and Gunderson (2000) note further that this method focuses mainly on collecting numerical data. Deductive reasoning falls under quantitative research approach. Deductive reasoning is mainly used in quantitative approaches. Deductive reasoning starts with the general and eventually the specific (Trochim, 2006). Deductive reasoning takes place when the end is obtained logically from a set of theory-derived premises, the ending being correct when all the premises are true (Ketokivi & Mantere, 2010). In theory development, if the study begins with theory and plan a research strategy to test the theory, the researcher will be considering a deductive approach. The relevance of deductive reasoning is that it gives an objectivity meaning, questions are pre-specified and it is outcome oriented and it adheres to statistical inference and estimation (Trochim,2006). The key limitation of deductive reasoning is that it does not explain, develop or change the theoretical framework before, during or after the research process (Trochim,2006). The next section looks at the description of the mixed research although it was not the approach which was used in this study.

### **3.4.3 Mixed method research**

According to Morse and Niehaus (2009), research cannot be described by a single method hence the reason mixed method is used in research. The use of both qualitative and quantitative methods of research refers to the mixed method (Creswell, 2018). This is where both non-numerical and numerical data is used to answer the research questions. As a result, mixed method was deemed unsuitable for this study. This method gives a better comprehension of the phenomenon under inquiry since the drawbacks of each method can be covered by the advantages of the other method. Another approach that has elements of a surprising fact at the start is known as abductive reasoning: it is also known as retrodution and important in research if the research philosophy is critical realism, that is, the historical aspect of the research is mostly highlighted (Ketokivi & Mantere,2010). In addition to these approaches, when one gathers data to explore a phenomenon, pinout themes and explore patterns to create a new or improve an existing theory in that can be tested eventually through

extra data collection, then the researcher will be using an abductive approach (Saunders et al., 2019). Abductive reasoning falls under the mixed research approach. The relevance of abductive reasoning are that it can explain, develop or change the theoretical framework before, during and after the research, it consists of a pragmatic approach research as well as that it moves back and forth between inductive and open-ended research settings to more hypothetical and deductive attempts to verify hypotheses (Trochim,2006). The limitations of abductive reasoning are that it is not subjective and it does not use narrative descriptions only. Table 3.1 gives the characteristics and differences between quantitative, qualitative and mixed methods.

**Table 3.1: Quantitative, mixed and qualitative methods**

<b>Quantitative methods</b>	<b>Mixed methods</b>	<b>Qualitative methods</b>
Pre-determined	Both predetermined and emerging methods	Emerging methods
Instrumental-based questions	Both open-and closed-ended questions	Open-ended questions
Performance data, attitude data, observational data, and census data.	Multiple forms of data drawing on all possibilities.	Interview data, observation data, document data and audiovisual data.
Statistical analysis	Statistical and text analysis	Text and image analysis
Statistical interpretation.	Across databases interpretation.	Themes, patterns interpretation.

**Source:** Creswell et al. (2018)

The use of data-collection methods that yields detailed comprehension about a phenomenon under study makes the qualitative research approach the most appropriate, enabling the researcher to explore and experience insights of different individuals (Patton, 2003) which is attributed to the detailed understanding and holistic nature of the phenomena being studied (Bryman, 2012 & Patton, 2003). The qualitative method is important in this study because the researcher can describe, uncover and comprehend what lies behind any phenomenon, in this case the roles of IAFs in the performance of SOEs in Zimbabwe (Rubin & Babbie, 2011; Creswell, 2014). The qualitative methodology suits an interpretive worldview and the contemporary study seeks to interpret a phenomenon (Denzin & Lincoln, 2005). The qualitative approach was selected depending on the research problem, objectives and the theoretical gaps uncovered in literature. Qualitative methods are chosen for their capacity to give a circumstantial analysis of change (Kohlbacher, 2006). Hammarberg, Kirkman and de Lacy (2016) assert that the qualitative approach is used to answer to questions about experience, that is, meaning and perspective from the respondents' view. Qualitative approach gives the opportunity for considerable pliability to garner data.

The pliability of qualitative methods (Ritchie & Lewis, 2003) helps in improving comprehension of the role of internal auditing phenomenon in Zimbabwe. In this study, qualitative research methodology was significant because the researcher was engrossed in thought with the quest to comprehend a particular phenomenon, in this case, the role of IAFs in the performance of SOEs in great detail, an approach takes its point of departure from the insider view or emic view, as opposed to the etic view (outsider view), in quantitative research (Merriam, 1998). The next section gives an outline of the research design chosen in this study.

### **3.5 Research strategy/design**

It is defined as a type of inquiry where approaches that proffer in a research study a definite course for procedures such as qualitative, quantitative and mixed methods are considered as of cardinal importance (Creswell et al., 2018). A research strategy is how the researcher plans how to answer research questions (Saunders et al., 2019). It is also defined by Denzin and Lincoln (2018) as the methodological connection between the researcher's philosophy and ensuing possibility of methods to analyse and collect data. Various strategies are mainly connected with quantitative, qualitative and mixed methods research designs as well as particular research philosophy and also with deductive, inductive and abduction approaches. Various strategies such as experiment, survey, archival and documentary research, case study, ethnography, action research, grounded theory and narrative inquiry are found and used in research. The case study was found appropriate for this study because SOEs are identified as cases where the role of IAFs should be examined to ascertain their performance (Saunders et al., 2019).

#### **3.5.1 Case study**

A researcher can carry out an in-depth inquiry of a pursuit, occasion, a plan of action, a procedure, or a single human being or human beings in a specified locality, entity, group, unit, or industry (Farquhar, 2012). Yin (2014) is of the view that a case study pays attention to a solitary case or in numerous cases. In this study, attention was paid to a sole case, that is, SOEs in Harare. Crowe et al. (2011); Creswell, 2013; Denzin and Lincoln (2011), as cited in Hyatt et al. (2014) agree that case study research designs are prominent in all disciplines such as accounting, internal auditing, management and business studies. The aforementioned point of view, is in line with the type of study, which is in the field of internal auditing and explains why case study is the relevant research design. However, case studies can be too long to look through, comprehend and examine (Denzin & Lincoln, 1994). In order to counter this, it is crucial that the locality and the circumstances of the research study be specific and demarcated (Stake, 1995). In this preceding study, attention was paid on the role of internal auditing in the performance of SOEs in Zimbabwe, by employing a CG framework.

Blumberg et al. (2011) define a unity of analysis as the level at which research is carried out and the objects which are researched. The IAF, in this case, is the unit of analysis which is there to comprehend how the role of internal auditing is shaped by the Agency, Stakeholder and Institutional theories. The case under study was conducted in public SOEs in Zimbabwe. Since the Auditor General has reported several cases of misappropriation of funds, government resources and corruption during the years 2013-2018, it is important for to single out the case of SOEs in Zimbabwe for the purposes of this study. Moreover, there is a dearth of studies on the role of internal auditing in the performance of SOEs within an AT, ST and IT in the Zimbabwean SOEs context. Thus, all these reasons contributed to the choice of SOEs for a case study. SOEs play an important role as a source of income for government and the public in the Zimbabwean economic context. According to Creswell et al. (2018), a case study is a design used to ask for more information in various fields such as evaluation, where in-depth assessment of a case comes into being through the efforts of the researcher such as a programme, event, activity, process, or one or more individuals. A case study is an in-depth inquiry into a phenomenon or a topic within its real-life setting (Yin, 2018). Table 3.2 shows the various research strategies within quantitative, qualitative and mixed methodologies.

**Table 3.2: Alternative research designs**

<b>Quantitative</b>	<b>Qualitative</b>	<b>Mixed methods</b>
Experimental designs	Narrative research	Convergent
Non-experimental designs, such as surveys	Phenomenology	Explanatory sequential
Longitudinal designs	Grounded theory	Exploratory sequential
	Ethnographies	Complex designs with embedded core designs
	<b>Case study</b>	

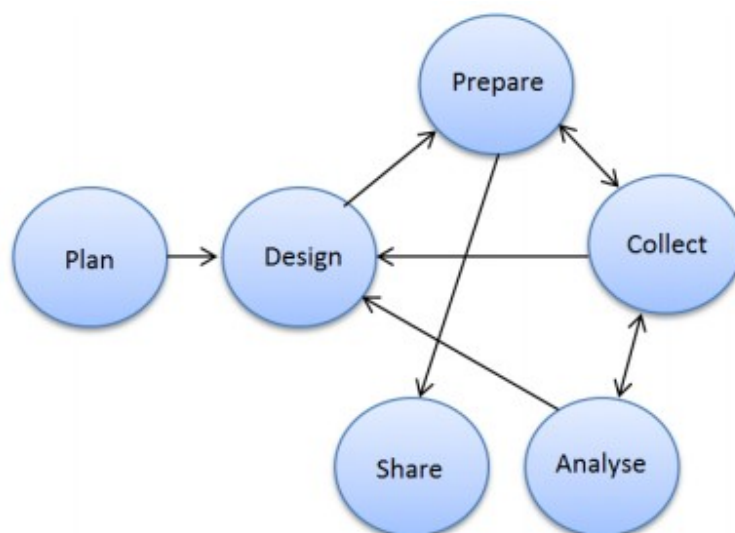
Source: Creswell et al. (2018)

A case study strategy was seen as the most appropriate for this study. This is so because of the strength it has such as that of conducting and examining data within the context of its use. A case study makes it possible to dig deep and gain understanding about one or a few issues of IAFs relating to the Agency, Stakeholder and Institutional theories when there is limited knowledge available because of limited research in the area (Yin, 2009). Lee and Saunders (2017) distinguish between research designs for 'orthodox cases' and 'emergent cases'. An approach that is rigorously defined and highly structured before the research begins, with the intent that it will be pursued in a linear way is called an **orthodox case study** and usually embedded within the realist

philosophical assumptions (Saunders et al., 2019). An **emergent case study** strategy includes a researcher strategically selecting a case study environment within which research will be carried out, but enables the attention of the researcher to come out through collaboration in this setting (including various stages of data collection and analysis) and with relevant literature and is usually underpinned by the interpretivist-constructivist philosophy (Saunders et al., 2019). Yin (2018) figures out that case studies may be used not only for exploratory, but also for descriptive and explanatory studies. An explanatory case study builds and verifies an explanation and uses a deductive approach. Interpretivist researchers are mainly motivated by developing richly detailed and nuanced descriptions of their case study research (Ridder et al., 2014). They further refine, extend, generate theory, analyse data, identify themes and patterns in these data and work inductively (Ridder et al., 2014).

A case study has a limited scope for generalisation of findings and is further criticised because of misunderstandings about its ability to produce generalisable, reliable and theoretical contributions to knowledge. A case study was used to investigate the role of internal auditing in the performance of SOEs (Yin, 2014). One of the weaknesses of the case study is that its findings do not automatically have universal applicability and various themes taking place throughout the interviews could still be used in the identical environment (Yin, 2014). Yin's view (2009) is that a case study research design is relevant when the researcher has no control over the precise behavioural events that relate to the phenomenon under study and when attention of the study is on contemporary, rather than past events. In so doing, an in-depth investigation and analysis of the real-life roles of IAFs of public sector entities (over which the researcher has no control), recognises that a case study research design would give the best chance to attain the research objectives.

Figure 3.1 shows the case study research process.





**Figure 3.1:** The case study research process.

Source: Yin (2014)

Yin (2014) concedes that the case study results can be generalised for theory, and not for the population. Some of the disadvantages are that data collected is mainly concerned with the case being investigated; there is risk of bias in a case study that can affect both the findings and conclusions; it can be lengthy because of the narrative form of information, which can lessen the interest of the reader; it is concerned with human interpretations (particularly internal auditors); there may be problems of internal validity because there is no control to the research variables and it is subjective and its findings may not be generalised to other departments or spheres within the government.

### **3.5.1.1 Justification for using the case study research design**

A case study research strategy/ design was imperative in that:

- It allowed in-depth interviews to be carried and analysis to be done between complicated roles of IAFs towards CG in SOEs as well as how these were seen by the participants. The researcher was given the room to differentiate and contradict the role of IAFs towards CG in SOEs in Zimbabwe because the case study research design is context-bound (Yin,2009). In this case, the case study enabled the researcher to classify specified roles of IAFs to particular contexts and SOEs names
- The case study research design assisted the researcher to get an understanding of the roles of IAFs in performance of SOEs using a CG approach in Zimbabwe from the perceptions of SOEs personnel who were knowledgeable about the subject under study.
- Case studies assist very much in discussing frameworks particularly in this case where the researcher endeavoured to develop an IAF effectiveness model appropriate for Zimbabwe and other emerging economies.
- The case study contributes to the building of theory and in this case, when there is theory building, it means scant literature is available and known about the subject under study and hence the case study becomes relevant in such situation (Gill & Johnson, 2002:157). There is a dearth of information on the roles of IAFs towards CG in SOEs, the challenges of IAFS and SOEs and the measures to ameliorate these challenges are yet to be discussed. The researcher was therefore, permitted bring about new knowledge on the roles of IAFs in SOEs as mentioned above.

### **3.5.1.2 Limitations of the case study research design**

The use of the case study research design in this study was not immune to limitations. Therefore, the limitations of the case study research design are stated as follows:

- It is arduous to generalise the findings of the case study to other circumstances since the case study is specific-bound (Yin, 2008).
- According to Thomas and Nelson (2001), the case study has got a disadvantage of replicability in that there is no means and formula of reproducing the analytical thought processes of the researcher.

In an attempt to solve the deficiencies of the case study research design, the researcher had to use descriptive and narrative reports of the actual phenomenon by considering aspects of note taking as well as devices such as audio- recorders in order to hear what was said by people and to also document the respondents' behaviour (Maree, 2007).

### **3.6 Scope of the research**

This research was carried out in organisations who are in the telecommunication or the information communication and technology and the agriculture sectors in Zimbabwe. There are various sectors of the economy or SOEs in Zimbabwe such as agriculture, healthy, manufacturing and energy. However, these sectors are not included in this research. The selected five SOEs were POTRAZ, Telone, Telecel, Net one and TIMB. The reasons for choosing the above SOEs are:

- No substantial research has been carried out in the telecommunication sectors and the agriculture sector in Harare on the roles of IAFs towards CG in SOEs and this means there is a gap and this is what this study attempts to fill.
- The telecommunication and the agriculture sectors are the backbone of Zimbabwe and they produce more revenue for the growth of the economy.
- The sector has been in the spotlight for years due to a plethora of misgovernance in SOEs, hence the study will help to bring about transparency and accountability in both the agriculture and the telecommunication sectors.

### **3.7 Unit of analysis.**

The five SOEs in Zimbabwe were chosen and these formed part of the study such as:

- POTRAZ (the regulator)
- Telone
- Telecel
- Net one
- TIMB

The unit of analysis within each of the above SOEs are considered as part of the unit of analysis. In social science research, the object of research need to be defined and

hence this is the unit of analysis, that is, the unit about which data is garnered (Babie, 2004:189). Unit of analysis can be individuals or social groups. In this study, the unit of analysis were top management, senior auditors, board of directors and audit committees in Harare province, Zimbabwe, who had experience and knowledge about the subject matter to be studied. Both women and men were selected in this study because they shared the same experience as were also working in the identified SOEs. The study endeavoured to examine the roles of IAFs to CG in SOEs. Information pertaining to unit of analysis is reflected in section 3.7.1 below.

### **3.8 Population and Sampling**

A population, according to Wiid and Diggins (2013), is a total group of organisations and people (social artifacts) from which the researcher anticipates to get the required data or from whom the data is required. A population can also be a totality from the selected representation to be considered for the inquiry (Creswell, 2014). It is a whole set of people or objects, or an extracted sample under a particular study. Saunders et al. (2019) define a population as a full set of elements or cases from which a sample is taken. The study population involves the garnering of all essentials which are of utmost significance to the researcher (Howitt & Cramer, 2011).

In addition, a research population comprises all components in the group on which the research focuses, including all the items that are of utmost importance (Denscombe, 2014). Mertens (2010) concedes that a population is a class or people, or items to which the outcome of the research are applied by the researcher. A target population, according to Quinlan (2011), refers to all the organisations, units or items and individuals applicable to the research study and also comprises of groups, individuals, entities, documents and campaigns. Cooper and Schindler (2011) assert that a target population is the entire components on which some inferences are made by the researcher. The actual population of intrigue to the research that comprises of measured attributes is called target population, according to Cooper and Schindler (2014) and Zikmund et al. (2013). Furthermore, a target population is defined by Neuman (2014) as a conclusive clearly identified big category of numerous instances of persons or things from which a sample can be drawn.

A total of 107 SOEs existed during the data garnering period and this was the targeted population (Auditor General, 2016). However, for the purpose of this study, only five (5) SOEs were purposively sampled which was guided by the type of SOEs found in Zimbabwe. The participants for this study included SMs, BoDs, CEOs, CAEs, ACs and SIAs who were targeted from each of the sampled SOEs. ACs, BoDs, CEOs, CAEs and SMs provided data for the qualitative research study. Twenty participants (n=20) participated comprising of 2 audit committees, 2 board of directors, 5 senior managers,

5 chief audit executives, 2 chief executive officers and 4 senior internal auditors. These numbers were not preset but represented the numbers of those who were available during the time of the study. The inclusion criteria for the participants were those aforementioned participants who have the jurisdiction to execute the IAF's recommendations. These respondents formed the population of this study and were considered knowledgeable on the topic dealt with.

In this study, the selected participants were 20 people, both female and male staff members at senior management levels, including internal auditors in the selected SOEs in Zimbabwe. In order to avoid disturbances, the entire participants were interviewed at their places of work. As the current study aimed to gain in-depth knowledge, it was imperative to consider participants with the most appropriate information for interviews. This gave a genuine picture of the entity with regards to the constructs under study (Saunders, Lewis & Thornhill, 2009). The justification for this was that by purposely targeting BoDs, ACs, SIAs, CEOs, CAEs and SMs, the study would get the most meaningful data on the role of IAFs. These chosen participants were viewed as the great people to give information needed in order to accomplish the objectives of the current study. These targeted sample participants should be well-versed with CG systems in SOEs and should see CG from an internal audit angle. A target population, according to Saunders et al. (2019), is a subset of the population. This is referred to as the target population and frequently a part of a large population, which is the focal point of the study. In this preceding study, the target population comprises of workers at the SOEs, who were pinpointed as those persons who took part in the study and provided relevant answers to research questions in order for the research findings to be arrived at. In addition to the aforementioned information, a target population in this research comprises employees of the five chosen SOEs located in Harare.

### **3.8.1 Sample size**

According to Saunders et al. (2019), a sample is a subgroup or part of the large population. Participants in this study included people who were part of top management in SOEs as well as internal auditors. In choosing the sample size for the current qualitative research approach, the researcher used a non-probability sampling technique. Non-probability sampling techniques involved convenience and purposive sampling. Participants who were interviewed were chosen due to the fact that they were more convenient, easily reachable and had given their consent to be part of the research study. In addition, non-probability technique is a preferred approach to case study research. For the current study using a qualitative research approach, the sample consisted of 2 ACs, 5 senior managers, 2 members of the Board of Directors, including chairpersons, 5 CAEs, 2 CEOs and 4 senior internal auditors, thus making a sum of 20 interviewees. For this study, 20 participants were selected using purposive sampling

and interviewed. By studying a sample, the results of the research are generalised to the target population by the researcher (Banerjee & Chaudhury, 2010).

The sample size was big in as far as qualitative research is concerned. Gratton and Jones (2010) suggest that three or four interviews can be a relevant size, largely because of monetary and time limitations convoluted in a study such as this one. Nevertheless, Gratton and Jones (2010) propose that if a researcher does not get to a saturation level in the gathering of data, numerous interviews can be completed as is feasible in the confines of the considered monetary and time limitations. For the current qualitative study, sampling did not come to an end until a point saturation was attained. Data saturation point is when a researcher no longer gets for the first time any attitudes, notions, feelings, targets, sentiments, among others when collecting data (Quinlan, Babin, Griffin & Zikmund, 2015).

Creswell (2014) suggests that between 5 and 25 interviews are considered relevant for research of a qualitative nature. Whilst this sample can be considered small, it was effective for the purpose of the study. On the contrary, Van der Merwe (2003) asserts that in spite of the quantity of the interviews conducted, the size of the sample should be sufficiently big in order to lessen bias and sampling error, respectively. Key informants were chosen using purposive sampling and these were people who had expert knowledge of SOEs in Zimbabwe and how IAFs execute their duties. The study sampled employees in managerial, supervisory, and directorship levels. They were in the positions of implementing audit recommendations and also responding to audit queries. Therefore, they gave important and appropriate inputs and insights into this study. Table 3.3 reflects the list and aggregate of participants in the study.

**Table 3.3: List and aggregate of respondents**

<b>List of respondents</b>	<b>Aggregate of respondents</b>
Audit committee members	2
Senior managers	5
Board of directors	2
Chief audit executives	5
Senior internal auditors	4
Chief executive officers.	2
<b>TOTAL.</b>	20

Source: Author's own compilation (2019)

### **3.8.2 Sampling frame**

A representation of the components of the target population is known as a sampling frame, according to Saunders et al. (2009). It can also be defined as a record that comprises the directions of pinpointing the target population. The sampling frame was a list of staff generated from the payroll of the five SOEs purposively selected for the study as well as current and entire record of all the SOEs in Harare, as indicated on the State Enterprises Restructuring Agency (SERA) website. Saunders et al. (2019) define a sampling frame as a whole record of all cases in the population from which a probability sample is drawn.

### **3.8.3 Sampling method/ technique**

Sampling techniques are categorised into probability and non-probability sampling. In this study non-probability sampling was used since the study used the qualitative approach.

#### **3.8.3.1 Probability sampling**

Probability sampling techniques are simple random, systematic random, stratified random and cluster random sampling. Probability sampling (representative sampling) is usually linked to survey and experimental research strategies where there is a requirement for the researcher to render statistical inferences from the sample about a population in order to answer research questions and meet the objectives (Saunders et al., 2019). These were discarded for this study. Probability sampling is also known as representative sampling. Examples of probability sampling are simple random systematic, stratified, and cluster sampling. Probability sampling shows features of the population from which probability sampling was chosen and gives the greatest dependable and well-founded outcomes (Babbie, 2001; Bhattacharjee, 2012). Nevertheless, probability sampling is not relevant in semi-structured in-depth interviews, which are deeply rooted in cultural and social matters and, thus, deemed unsuitable for this study.

#### **3.8.3.2 Non-probability sampling**

Non-probability sampling (non-random sampling) is an umbrella name for various sampling techniques with subjective judgement such as quota, purposive (judgemental), volunteer (snowball) and haphazard (convenience) sampling and hence an in-depth semi-structured interview that looks at the small number of cases should be selected for a specific study (Dooley, 1995). In the current study, the researcher made use of non-probability sampling. According to Wilson (2010), the method of choosing respondents without having the know-how of selecting respondents due to the fact the researcher is not aware of the size of the population or what the population is made up of is defined as a non-probability sampling technique. The justification is that; the chosen sample has

got the attributes desired by the researcher during the investigation. Certain characteristics such as position held as well as the educational background warrant one to be purposively selected in an investigation. The limitation is that purposive sampling can be biased and that it is not about the representativeness of the population.

The researcher in purposive sampling can explore the role of IAFs and gain appropriate or theoretical insights and it also gives information-rich case study (Babbie et al., 2010). A researcher's judgement is considered significantly when selecting a sample in purposive sampling. That is the reason it is known as judgemental sampling. In purposive sampling, participants who are selected are well acquainted with the data the researcher needs. This is in tandem with Bryman and Burgess (1994) and Macmillan and Schumacher (2010), who remark that the main participants are chosen because of their standing, preceding experience, qualifications and merits that give them room to have particular knowledge the researcher needs. Significantly, Johnson and Christensen (2012) state that the researcher needs to consider choosing respondents that will meet the exact motive of the study, while factoring in cost and time limitations.

For the purpose of this study, purposive sampling was found to be suitable. With purposive sampling, the researcher uses judgement to choose cases that best enabled meeting of the research objectives and answering the research questions (Saunders et al., 2019). Purposive sampling is defined as the non-probability method in which choosing the cases that comprise the sample is made by the researcher's judgement and this is normally done based on criticality, extremes, heterogeneity (maximum variation), homogeneity (maximum similarity) (Saunders et al., 2019). Purposive sampling enables one to collect data on the role of IAFs in the performance of SOEs in Zimbabwe as well as to explain the key themes that can be observed (Patton, 2015). This technique was ideal because an appropriate sample of SOEs' employees that formed part of managers, supervisors, directors and CEOs were selected with the intention of getting 'rich data' (Creswell et al., 2014). For the purpose of getting understandings into the role of internal auditing phenomenon in an interpretivist paradigm the researcher purposefully chose 20 participants that strengthened the comprehension of the subject (Onwuegbuzie & Leech 2007:242). The importance of purposive sampling in primary data collection resides in choosing "information-rich" respondents for in-depth analysis related to the role of internal auditing views being studied (Richardson, 2009).

Purposive sampling is referred to as the deliberate incorporation of subjects in research, and as a technique to give justification for the generation of explanatory frameworks through including rich sources of data (Gerrish & Lacey, 2010). Public sector entities such as SOEs in Zimbabwe are mandated by law to form or have internal audit

departments and to be audited by the Auditor General of Zimbabwe. In this case, purposive sampling was used to point out and select 'information-rich' cases for the most effective use of scarce resources by pinpointing and singling out individuals or groups that are knowledgeable and have expertise about or with a phenomenon of interest such as SOEs and the subject of the role of internal auditing (Engel & Schutt, 2009). However, this sampling technique cannot be deemed to statistically be representative of the population targeted and can be extremely subjected to bias by the researcher, that is, where judgements are not built on clearly identified criteria resulting in no good or poor judgements (Saunders et al., 2019). The next section explores the methods of data collection.

### **3.9 Data collection methods**

Data was collected using primary and secondary sources. For primary sources, the study used semi-structured interviews and for secondary sources, document analysis was deemed necessary. Interviews were ideal because they met the timeframe, needs and limitations of the study. The interviews with all the five selected SOEs, that is, POTRAZ, Net one, Tel one, Telecel and TIMB were conducted from 14 October 2019 to 15 December 2019.

#### **3.9.1 Interviews**

An interview is a purposeful interaction between two or more people, during which the interviewer asks succinct and unquestionable questions and listens attentively to the interviewee talking (Saunders et al., 2019). There are different types of interviews such as structured, unstructured and semi-structured interviews.

- Structured interviews are carried out when the researcher questions each respondent the similar set of questions in the clear similar order (including probes), so as to make sure consistent and comparable data is gathered (Patton, 2002). According to Fox and Burkard (2009), these interviews comprise closed-ended questions. Alshengeeti (2014) opines that they require yes/no type of answers. The strength of this type of interview is that there is uniformity in respondents' responses. However, there is a limitation in uncovering participants' rich and unique experiences, particularly that which is out of the boundary of the interview questions.
- Unstructured interviews are non-standardised and this is when the interviewer gives room for free responses and this are followed by answers that the interviewer is happy to hear. According to Alshengeeti (2014) these interviews are flexible and open-ended and there is freedom between the interviewer and the interviewee in terms of organising, planning and implementing the interview questions and content.
- Semi-structured interviews entails presenting comparatively open-ended questions to respondents in order to ascertain their understandings and interpretations of a



specific subject matter by the interviewer and this can give room for the interviewer to deviate from the study guide, both in questions and answers. (Saunders et al., 2012). They fall under non-standardised interviews.

Semi-structured interviews are used when studying a phenomenon on which there is little knowledge; they are flexible and the interviewer can probe and expand responses from the interviewee (Leedy & Ormrod, 2013). Each theme is also explored with these kinds of interviews (Saunders et al., 2019). This study made use of semi-structured interviews to collect primary data, where 20 respondents who are knowledgeable in the subject matter under discussion were selected from SOEs' management such as Telone, Telecel, POTRAZ, TIMB and Net one. The interviews were of a face-to-face nature and recorded on a voice recorder for confirmation purposes and guided by the semi-structured schedule. The respondents were able to give honest responses because the interview questions were open-ended. Semi-structured interviewing was chosen as the primary method of collecting data because it was considered as the main appropriate research tool for the study. Interviews were conducted with CAEs, CEOs, directors, senior internal auditors, AO and others since the interviewees were in decision making positions and could be responsible for all organisational activities. Interviews were carried out with individual participants. The rationale behind this was to make the discussions manageable. All the discussions were facilitated by the researcher and research assistants.

Although interviews have advantages, they also have disadvantages such as that they are time consuming, costly and the researcher may not be in a position to observe the physical and emotional state of the respondent as well as that interviewer bias is a danger that requires to be minimised (Adhabi & Anozie, 2017). A semi-structured interview is when two people verbally interchange where one person, the interviewer, tries to elicit information, even though the interviewer is the one who prepares a number of questions well in advance. Semi-structured interviews unfold in a conversational manner offering participants the chance to explore issues they feel are vital (Longhurst, 2009). Semi-structured interviews allow the researcher to follow his or her own thoughts and probing techniques are allowed (Cooper & Schindler, 2011). Semi-structured interviews were suitable for the study because its aim is to explore and investigate. It is the participant's history and experience that dictated which topics were important in the various interviews. Semi-structured interviews are crucial as they help to give exact information data that the researcher is looking for in the study. All respondents were willing and responsive to take part in the interview sessions, which signifies that the chosen method of data collection proved to be highly effective.

### 3.9.2 Document analysis

In order to enhance the reliability of the research findings and to support the interview data, documents such as internal audit plans, Auditor General reports, internal audit programmes and internal audit reports were obtained and examined. Documents, according to Leedy and Ormrod (2013), give the researcher rich and valuable source of data. Document analysis in research is a way of obtaining data through assessing existing documents, both digital and printed (Bowen, 2009). Document analysis has the following advantages: when carrying out document analysis, this can happen without soliciting information from other sources, that is, independently done. It is less expensive, reduces chances of researcher effect; information in these documents is independently verifiable (Saunders et al., 2009). Document analysis further allows a larger sample, one can track change over time, contains spontaneous data, documents can be of good quality and detailed, enhances to access information that would be difficult to get through interviews and it can give a behind-the-scenes look at the programme that may not be directly observable (Bowen, 2009). Furthermore, document analysis elicits a high degree of accuracy because documents are not kept with the knowledge that they would one day be checked for research purposes. Document analysis, however, has limitations such as not having enough details, difficulties in retrievability and biased selectivity (Yin, 2014). Considering the quality of being efficient and cost efficiently specifically, document analysis gives favour that understandably exceed its disadvantages. Table 3.4 indicates the data collection methods used for this study.

**Table 3.4: Data collection methods used in the research**

<b>Data collection type</b>	<b>Advantages</b>	<b>Limitations</b>
Documents	<ul style="list-style-type: none"> <li>• Stable - can be reviewed repeatedly</li> <li>• Unobtrusive – not created as a result of the case study</li> <li>• Exact – contains exact names, references, and details of an event</li> <li>• Broad coverage – long span of time, many events, and many settings</li> <li>• As written evidence,</li> </ul>	<ul style="list-style-type: none"> <li>• Retrievability – can be low</li> <li>• Biased selectivity, if collection is incomplete</li> <li>• Reporting bias – reflects (unknown) bias of author</li> <li>• Access – may be deliberately blocked</li> <li>• Documents may not be authentic or accurate.</li> </ul>

		it saves a researcher the time and expense of transcribing.	
		<b>The actions taken at the site:</b> Collecting internal data from the company website, such as annual reports of the company; gathering company information from external sources, such as online newspapers; and compiling a list of relevant law, government regulations and regulations from online sources, such as regulations.	
Interviews (Semi-structured).		<ul style="list-style-type: none"> <li>• Targeted – focuses directly on case study topic.</li> <li>• Insightful – provides perceived causal inferences.</li> <li>• Useful when participants can be directly observed.</li> <li>• Participants can provide historical information.</li> </ul>	<ul style="list-style-type: none"> <li>• Bias due to poorly constructed questions.</li> <li>• Response bias.</li> <li>• Inaccuracies due to poor recall.</li> <li>• Reflexivity – interviewee gives what interviewer wants to hear.</li> </ul>
		<b>The actions taken at the site:</b> Performing interviews with all levels of senior internal auditors and CAEs in the internal audit department, CEOs, BoDs, ACs and senior management in SOEs.	

Source: Creswell et al. (2018)

### **3.10 Data collection instruments**

An interview guide with semi-structured interview questions was prepared for SIAs, CEOs, SMs, ACs, BoDs and CAEs within SOEs. Document review guides used were reports from the Auditor General which were analysed from 2013 to 2018. Interview guides were prepared based on the research objectives and previous literature on the role of IAFs. A semi-structured interview schedule, which comprised open-ended questions, was used to guide the researcher during the interviewing process (Saunders et al., 2019). A technique is a tool used to gather information data from the sample population (Abawi, 2013). This study used semi-structured interview and document review guides. The discussion/interview guide with open-ended questions enabled the researcher to collect data from respondents easily. To harmonise data capture and reduce bias, senior managers, CEOs and internal auditors were interviewed using identical questions. Digital audio recorders and tape recorded semi-structured interviews augmented the theoretical tools. In addition, documentary review guides were imperative, that is, both internal and external audit reports for the identified SOEs were reviewed.

#### **3.10.1 Preparing for field data gathering**

Before data was gathered, due diligence and preparations were done with the help of four research assistants. CPUT provided the researcher with an ethics clearance certificate (number FOBREC 672, see Appendix A). This was to indicate that in this particular research, ethical standards and respect was given and shown to respondents, hence less risk was posed to respondents. Various SOEs and the Auditor General who consented for the research gave permission letters (see Appendix B) as well as room to view policies, Acts and many online documents. Permission to gather data was sought from senior management and venues for interviews and dates were sorted out, which is in line with what Robson (2000) and Bhattacharjee (2012) advocate for, that clearly defined preparation is required and it is also time consuming. As part of the interview, well-prepared interview guides were availed, research assistants trained and given roles such as that of shedding more light on the questions, the importance of adhering to ethical matters as well as note taking. In addition, the researcher ensured that the research assistants helped the participants by elucidating some of the questions as well making sure that sufficient notepads and ballpoint pens were available for use in gathering data. According to Grill et al. (2008) and Bhattacharjee (2012), confidentiality and anonymity are of cardinal importance when dealing with respondents. Consequently, this study adhered to these principles so that participants would candid in providing feedback.

### **3.10.2 Field data gathering**

Data gathering evolved after ideal preparations were done (see section 3.9.1.). Documents were scrutinised and these gave important information for the study. Boardrooms and respondents' offices were used to carry out interviews because these were free from noise and other disturbances. This is in tandem with the view of Grill et al. (2008) who state that interviews should be carried out in areas where there are no distractions. Participants signed the consent forms and agreed that the interviews were voluntary and that they understood the study. The purposively selected respondents were interviewed by the researcher, while research assistants assisted where note taking was necessary. Permission was again sought to do so since some participants were not comfortable with the use of the tape recorder as they did not want to be recorded. This is in line with Dunne (1995) who states that note-taking is an easy, quick and efficient way of consolidating data. The strengths of note-taking are that participants' feedback is taken note of and recorded alongside a suitable question, data written on the notebook is safe and also that the notebook does not intimidate respondents, which saves time when reports are compiled (Dunne, 1995; Saunders et al., 2009). Due to the aforementioned advantages, the researcher was determined to make use of note-taking as system of putting down information from interviews. Soon after accomplishing each interview, whilst the researcher's mind was still fresh with details, the complete report was compiled. The next section explores data analysis for this study.

### **3.11 Data analysis**

Eventually, data obtained were processed and analysed. According to Bezuidenhout, Davis and Du Plooy-Cilliers (2014), the process of bringing sanity, structure and meaning to the vast data is called qualitative data analysis and common factors such as reduction, organisation, interpretation and substantiation of data are considered significantly. Interviews were audio-recorded and transcribed. Furthermore, SOEs were rated on the basis of results of secondary data such as their audited financial reports from the Auditor General of Zimbabwe and various instruments, supported by the theories introduced in the literature review, which were deemed appropriate. Data was analysed using thematic content analysis, that is, analysis was done according to themes and perspectives by using ATLAS.ti. The method of thematic analysis as suggested by Braun and Clarke (2006) was used this study. The researcher was involved in the analysis of data and sought assistance from an independent expert. This involved creating categories of information using emerging and predetermined codes, and linking these categories to position them within the context informed by the literature review (Creswell, 2009). The researcher familiarised himself with the data by means of thorough reading and re-reading and summarised and categorised it into emerging themes to facilitate data interpretation. Recorded interviews were transcribed

to enable content analysis of the statements of individual responses and to arrive at key messages after compressing the data according to the major themes emerging from the respondents' statements (Fossey et al., 2002). Table 3.5 below reflects the data collection and analysis method.

**Table 3.5: Data collection and analysis methods.**

Data collection	Method of analysis	Processes and tools of analysis
Interviews (semi-structured interviews)	Open coding	Semi-structured interviews were analysed for qualitative data using thematic analysis (Atlas .ti software version 8).
Documentary reviews	Open coding	Qualitative analysis was done thematic content analysis using (Atlas.ti software version 8

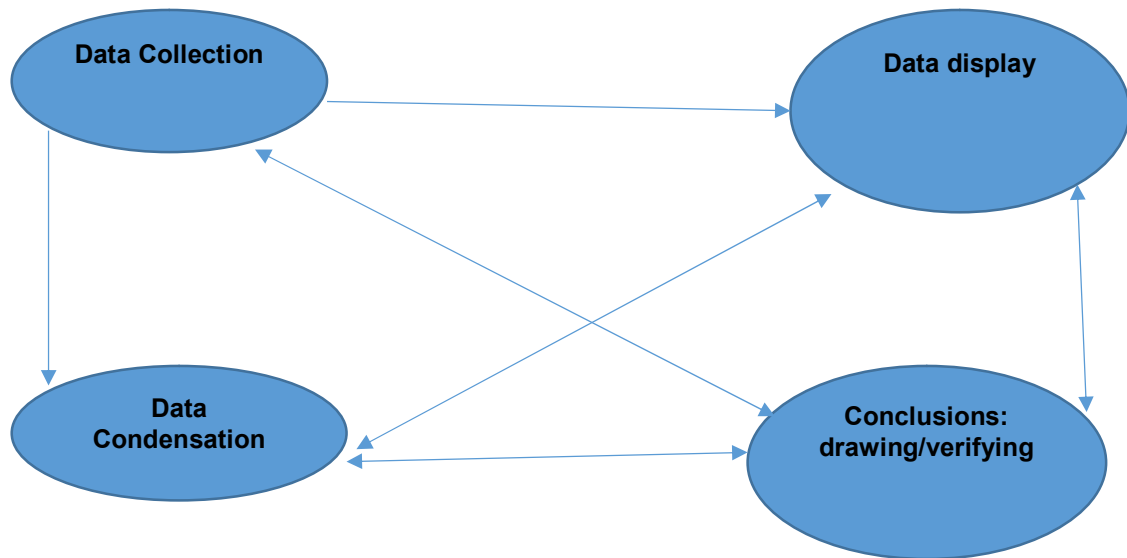
Source: Author's own compilation (2020)

### 3.11.1 Qualitative data analysis

Data was analysed using qualitative data analysis, which is not the same as quantitative data analysis. Qualitative data analysis is different in the sense that in quantitative data analysis, numerical data using statistical methods such as aggregating and counting are used to analyse data. With qualitative data, words, longer texts, and images that are still or moving are used to analyse data (Miles et al., 2013).

In addition, qualitative data analysis looks at texts such as written documents, written observations or transcribed interviews using a number of methods, including content analysis, global analysis, narrative analysis, discourse analysis, grounded analysis, conventional analysis, ethno methodological analysis or a hybrid of different kinds of analyses (Henning et al., 2004). Qualitative data analysis comprises summarising, coding and making themes (condensation of data); graphs, charts, extended text and networks (the conclusions and display of data); finding out and examining the display and coming up with conclusions (Miles et al., 2013). Figure 3.2 shows that qualitative

data analysis is an interwoven and iterative process as outlined by the processes shown and that it is not linear.



**Figure 3.2:** An interactive model of the components of data analysis

Source: Miles et al. (2013)

### 3.11.2 Background information

In order for the researcher to get an understanding of the role of the IAF in the performance of SOEs, precincts that are strategic to the economy were considered imperative and ideas of ACs, CAEs, CEOs, Boards and senior managers were taken into consideration. Regarding the functions of internal audit pursuits, many of the SOEs had in-house IAFs with the exception of one, which had no IAF at all, hence its IAF is out-sourced periodically. In some cases, even those SOEs with an in-house IAF had a tendency of co-sourcing to deal with some areas that are exceptional such as information technology auditing.

### 3.11.3 Analysis of data in ATLAS.ti

Computer-assisted qualitative analysis of data (text, audio and video) is done by ATLAS.ti (Lewis, 2006) and the software helps in managing and organising data as well as initial analyses of data using searches, auto-coding and network perspectives (Friese, 2019). The present study by the researcher made use of thematic content analysis and was directed by ATLAS.ti version 8 to classify terms taken from the reviewed literature in a wordlist and word cloud. The ontological and epistemological

views of the study put together with the crystallisation system, analysis of data was done qualitatively, in tandem with the positionality of the researcher. Dey (1993) describes qualitative data analysis in detailed form regarding its meaning, which is closely linked to a specified context through its action and language. This is, however, different from quantitative data, which may appear very powerful because it deals with numbers. However, these numbers if they are not based on meaningful conceptualisations, mean little.

Furthermore, Dey (1993) is of the view that in qualitative data analysis, data collected is produced by the researcher, that is, the data selection and data collection techniques and transcribing of data through note taking and tape recordings are done by the researcher. Analysing data refers to a process of breaking the data into bits and pieces, or merely breaking it down, which is referred to by Miles and Huberman (1994) as coding and Dey (1993) as categorising. The key purpose of analysing data is that of describing the data, objects or events to which the data relates. In addition to describing the data, predictions, explanations and interpretations are required hereby, answering the how, why and what through data analysis, that is, going beyond description to a stage where data is transformed into something it was not before. In the current study, data was analysed using a computer aided software called ATLAS.ti version 8.

Firstly, the data was loaded into ATLAS.ti program and thereafter open coding was done in order to put the data into categories of participants often known as “code families” when using the context of ATLAS.ti. Secondly, axial coding was done, which helped to link the themes and sub-themes to the specified “code families”. This process was done at the same time as reading through the transcripts repeatedly. Axial coding gave the chance to code anything thought to be crucial from primary documents that were loaded into ATLAS.ti.

ATLAS. ti was used to set apart data into stakeholder groups, putting codes in seclusion or isolation and later matching the various statements that developed (Saldaña, 2015). This stage identified well with the codes as well as group codes by making use of network diagrams, which the researcher reflected in an effort to answer the research questions. In the analysis of data, pseudonyms, in most cases, were used to make sure participants’ personalities remained anonymous and to show the participants’ confidence in the study as names of the respondents were not shown (Vanclay, Baines & Taylor, 2013).

During this process, coding was done in a single file, that is, line by line, from the transcripts and descriptive coding was ideal because all the phrases that were crucial regarding the role of the IAFs were coded. Due to the fact that descriptive coding was done, Invivo coding was used in order to honour the voices of respondents as well as



capture phrases or descriptions of respondents without making any changes. After completion of data coding, themes and sub-themes could no longer be noticed in the transcripts. This resulted in considering saturation of data coding as of utmost importance because it helps by aligning and shaping the data coding in accordance with best practices found in the reviewed literature and explored in Chapters 2 and 3. In the present study, the data gathered from interviews was examined by using thematic analysis. This inductive data analysis approach was used to identify patterns, themes and categories in the data (Patton, 2002). This process, according to Smit (2002), is ongoing, emerging and iterative or non-linear and was followed. After using inductive analysis, which led to the formulation of themes and categories, the confirmation stage of qualitative data analysis, that is, deduction was done. Deduction is where the appropriateness and authenticity of inductive analysis is verified and considered by examining the deviation scenarios of data that cannot be part of the developed themes in a study and do not fit in (Patton, 2002).

The recorded semi-structured interviews in this study underwent ad verbatim transcription, which resulted in the data being read and reread in order to take note of themes and sub-themes as well as meanings in the respondents' answers that could be both implicit and explicit. The themes already identified in the data were related to the responses from the categories of respondents. Sub-themes were related to those that emerged in Chapter 2, that is, the reviewed literature. Themes and sub-themes identified in the data are shown in Table 6.8, while categories of respondents are indicated in Figure 6.7.

#### **3.11.4 Phases of ATLAS.ti. thematic content analysis**

Transcripts of interviews were transferred to ATLAS.ti for initial, second- and third-stage data analysis, which resulted in generation of concepts and themes. An iterative and cyclical system to data analysis that was going to be difficult to complete through word processing or spreadsheet applications was made easy for coding by the use of ATLAS.ti. It was as a result of using ATLAS.ti that made it possible to render chains of various codes and connection of quotations in order to generate networks, which was of utmost importance to the third stage in the coding process. The network diagrams helped with the process of coding at the third stage and represented visual qualitative data. Patterns, concepts and themes came out from the network diagrams and, at the same time, mapping of co-occurring codes was identified in the data. Epistemologically, the current research study is embedded within a constructivist approach and the inductive approach was selected following thematic content analysis, as suggested by Braun and Clarke (2006). Each step in the analysis of data needs to be translated by the researcher into the attributes it corresponds in the software (Woolf & Silver, 2017). Table 3.6 reflects the phases of ATLAS.ti thematic content analysis.

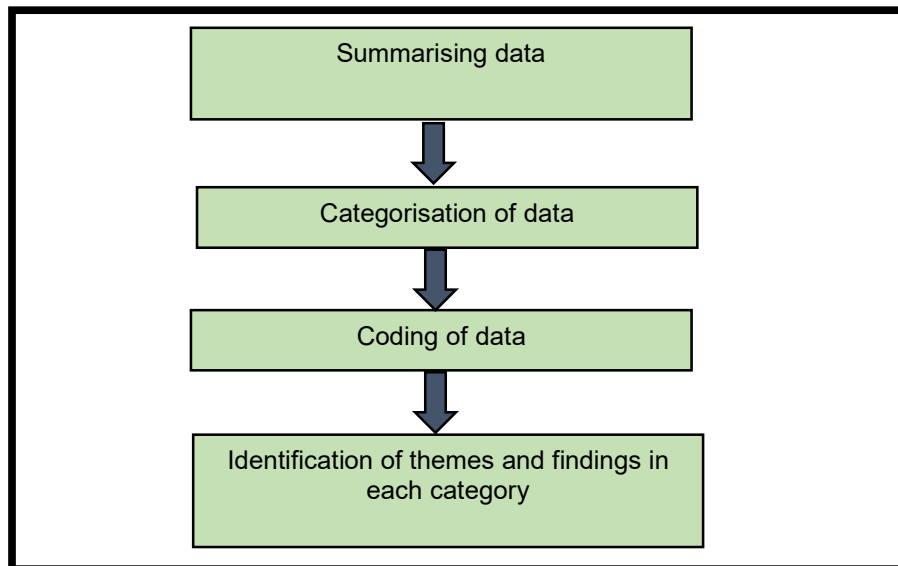
**Table 3.6: Phases of ATLAS.ti content analysis**

Phases of the thematic content analysis	Steps in Atlas Ti
<b>First phase: Pre-analysis</b>	<ul style="list-style-type: none"> <li>• Generating the project.</li> <li>• Additional documents added.</li> <li>• Putting documents together into documents groups.</li> <li>• Compiling initial memos on the complete research aim as well as research questions.</li> </ul>
<b>Second phase: Material exploration</b>	<ul style="list-style-type: none"> <li>• Reading the data and choosing segments of data and making quotations.</li> <li>• Generating and putting in codes.</li> <li>• Memos writing and commenting.</li> <li>• Putting codes together as well memos.</li> </ul>
<b>Third phase: Interpretation</b>	<ul style="list-style-type: none"> <li>• Discussing the data coded using varied tools of analysis.</li> <li>• Interconnecting quotations, codes, and memos on the level which is conceptual.</li> <li>• Continuous memo writing.</li> <li>• Creating networks point of views.</li> <li>• Extraction of reports.</li> </ul>

Source: Author's own compilation(2019)

Qualitative data analysis is of cardinal importance in qualitative research, especially using the case study strategy. After data collection, the researcher had to familiarise himself with the data by reading and re-reading in order to check for regularities, patterns and commonalities. Before the data was analysed, texts from both interviews and field notes were typed and put in a word-processing document (Cohen et al., 2007). The coding process was made easy by the researcher who reviewed the literature review chapters and had discussions with experts and peers. In addition, by re-reading the transcripts, possession of field notes and continuously checking the audio recordings, the colossal picture via patterns selection and linking of themes was done. The coding of the data was verified by an independent expert in qualitative research

who was also skilled in the use of ATLAS.ti. The expert was from another field of study, that is, entrepreneurship studies and there was no examination of the literature on which the current study is based. Figure 3.3 shows procedures in the analysis of interview data.

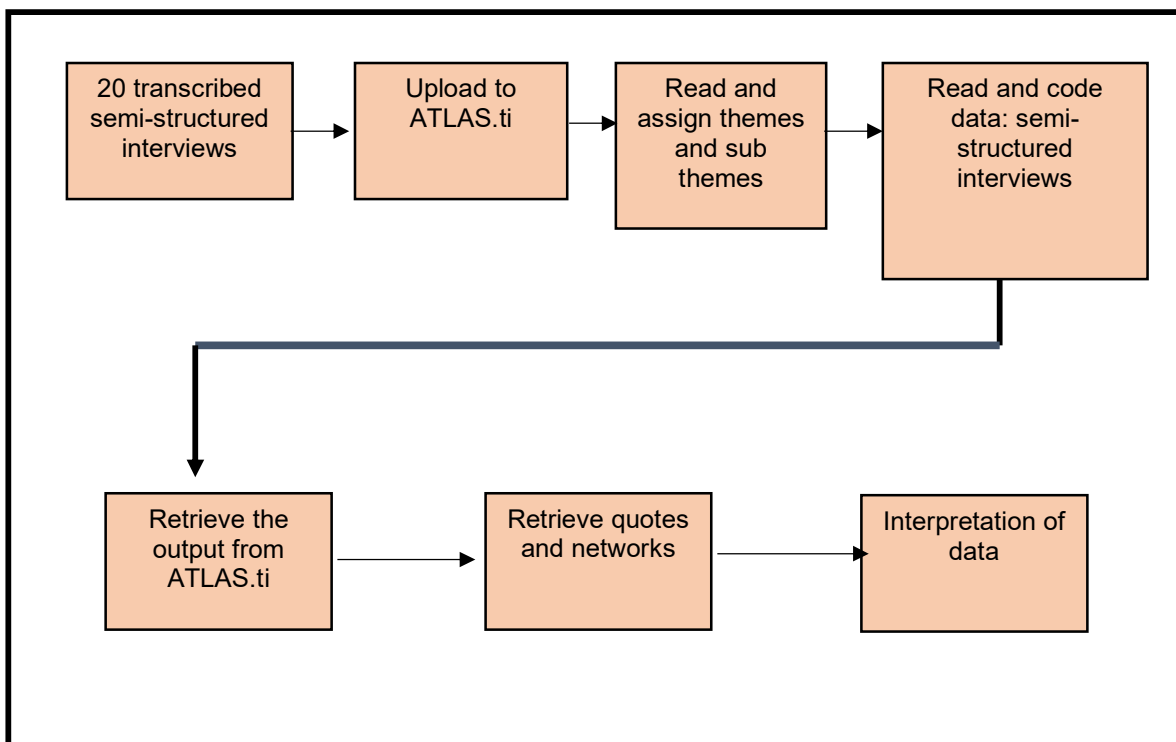


**Figure 3.3:** The procedures in the analysis of interview data

Source: Adapted from Myers (2009); Harding (2013)

In order to give confirmable and dependable research, the researcher took note of his original interpretation and used the trustworthiness given by a co-coder (second coder). This stance is corroborated by the seminal article of Barbour (2001:1116). Barbour (2001:1116) propounds that consensus discussions between autonomous coder and researcher are a solid basis for qualitative research. The researcher and second coder reached a consensus on a theoretical code book and data were coded in this point of view (The codes and quotations are availed on request to the researcher). A system of putting raw data into a standardised form is defined as coding by Babbie (2013) and Saldaña (2009). A professional person took part in transcribing the data into text format from digital or audio recordings so as to make it easy to read and analyse as well ensure that accuracy and completeness of the data transcribed is assured. A permanent electronic back-up medium was used to save recordings of a digital nature. Further to that, comprehensive handwritten notes were compared with the ad verbatim transcribed texts scripts. Transcription was important in order to avoid loss of data and distortion of data. Ability to select accurate words, phrases and pieces of data became a vital part of the analysis of data in that it made classification and categorisation as well as ordering the units of meaning easy. For the sake of content checking, mapping,

connecting themes and patterns, networking many themes and patterns and in order to write and annotate outcomes of the analysis, data collected during the current study was analysed using ATLAS.ti version 8 software program (Ratcliff, 2012 & Saldaña, 2009) and subsequently interpreted. Thematic content analysis was used to delineate the data according to thematic patterns as well as assign codes to the themes (Alhojailan, 2012). To reduce forgetting the information, field notes were written within 24 hours and in order to identify aspects that required assessment further, the taped data was transcribed (Creswell & Plano Clark, 2011). In order to make sure there was accuracy and completeness of the collected data, all the interviews carried out were recorded using a digital recorder. Figure 3.4 reflects an overview of data analysis.



**Figure 3.4:** An overview of data analysis

Source: Adapted from Wildschut (2014)

### 3.12 Data coding using ATLAS.ti version 8

For qualitative data to be useful in any research, it has to be coded the same way it was done in this study (Gay et al., 2006) by the researcher with the assistance of an independent expert. The process where data is broken down, conceptualised and put back together into new ways is termed qualitative data coding by De Vos et al. (2005).

In this current study done by the researcher, the researcher coded the data using open, axial, selective, and InVivo as advocated by Corbin and Straus (2008). These types of coding of data are described in the sections that follow.

### **3.12.1 Open coding**

The researcher began with open coding by developing categories to put the data into sets. A comparative method was then constantly applied by shifting between collection of data and analysis of data (Leedy & Ormrod, 2015). This was done in order to safeguard against researcher bias by ceaselessly “testing concepts from the data that is recent” (Charmaz, 2006, cited in Corbin & Strauss, 2008). Codes were named and labelled and thereafter themes were created from the data. The other name for open coding is initial coding (Saldaña, 2009). ‘Initial coding’ signifies the first stage of identifying and categorising the data that is in the form of texts into codes. When the data is broken down and put into discrete parts and then examined and compared in order to scrutinise for similarities and differences within the data, and questioned with “what, where, how, when and how”, this is what is referred to as open coding.

Initial coding assisted the researcher in this study to make sure that from the transcribed text, segments of text or quotations were labelled. The resultant text data was due to the quotations and segments of text that was extracted from the ad verbatim responses of respondents. Given the case of using ATLAS.ti program as was done in this study, open coding is where the main words are used in creating applicable codes for the first time, where the researcher “clicked” segments or quotations of text and identified the main words, which resulted in the creation of more codes of quotations or segments of text (Saldaña, 2009). Open coding, in other words, assisted the researcher in identifying themes and sub-themes as more codes were created as required when analysing data using ATLAS.ti version 8 software.

Open coding is where the researcher names and categorises the phenomenon by making sure that the data is examined closely. Categorising is where concepts are grouped at more abstract or higher levels. Coding means breaking down of data, data conceptualisation and putting it in new ways (Strauss & Corbin, 1990). In this study, data was coded line by line, as suggested by Strauss and Corbin (1998) and although it is known this consumes a lot of time, it is most generative. Categories are normally generated fast at the beginning of the research. Coding can be in different forms, that is, it may be carried out by perusing the whole document, or by sentence or paragraph depending on individual preferences. Memoing was also vital in this study. When analysing data, memoing is essential because it is a process of recording what one is learning from the data, which takes the form of reflective notes. Memos can be differentiated into code memos, theoretical memos and operational memos. These

memos were imperative in this study and they are useful when one is using ATLAS.ti, such that code memos are related to open coding, whilst theoretical memos are linked to axial and selective coding (Punch, 1998).

### **3.12.2 Axial coding**

Axial coding is an addendum of open or initial coding as propounded by Saldaña (2009). Charmaz, as cited in Saldaña (2009) states that axial coding is normally used to connect categories of respondents on previously pointed out themes and sub-themes. The link between the categories of respondents, themes and sub-themes was created using axial coding and were manually linked to one another because ATLAS.ti does not pinpoint the theoretical connection between the codes and recording in ATLAS.ti was then done later. The process is referred to by Smit (2002) as linking of codes. When the researcher categorised and identified the themes with the respondents' feedback, for example, axial codes existed. Axial coding interconnections were set during the analysis and interpretation of the data in this chapter of the study where themes and sub-themes were linked together. During the second stage, known as axial coding, memos and codes were used to set up interconnections between the different categories of data. Themes were generated into comprehensive patterns that were juxtaposed with existing literature and respondents' experiences.

Categories were identified with their sub-categories, resulting in formation of more accurate categories, hence explanations of the phenomenon were made complete. In coding of data, a category can stand for the phenomenon. That is, for example, an event, an issue or a problem that participants define as being of utmost importance (Strauss & Corbin, 1998). Axial coding considers the connection and intersection of categories. It is the texts that can give a hint whether categories are linked or not, hence the interconnection of categories takes place on a conceptual level and not on a descriptive level. As far axial coding is concerned, two levels of analysis took place in the study, that is, based on the precise words that were used by respondents as well as through the researcher's conceptualisation of the words. The interconnection between categories may be hidden or implicit and subtle, hence it is of cardinal importance to use some paradigm or scheme to deal with and sort out upcoming relationships.

### **3.12.3 Selective coding**

Thematically, clustering of codes into categories is done by using the family manager function in ATLAS.ti, which is helpful for selective coding. Discussion of the story line involving the related literature was done systematically and selective coding was used to point out the interconnected codes (Strauss & Corbin, in Saldaña, 2009). The coded

themes were corroborated with the literature using selective coding. Selective coding is also known as theoretical coding as far as Saldaña (2009) is concerned. Selective coding was used to make a network perspective. Selective coding is a method of choosing one, principal key category and linking the other categories to it (Strauss & Corbin, 1998). Furthermore, selective coding signifies the system of integration as well as the process of refining categories. In this study, by using ATLAS.ti, the researcher was able to generate code families as well as rename codes, in other words, redefine codes. Theoretical memos, which are linked to axial and selective coding, were also ideal in this study since the memos assisted the researcher to interpret, think and make decisions during data analysis (Punch, 1998). Memos are of cardinal importance when using ATLAS.ti version 8 software program. Clarification was sought on why and how the categories were interconnected to each other. Selective coding was used to generate a storyline that clarified the role of the IAFs in the performance of SOEs. Eventually, the data was analysed and conclusions were verified and drawn.

#### **3.12.4 In Vivo coding**

In Vivo coding is apposite for all qualitative research that pay tribute and designate the voices of respondents as very important (Saldaña, 2009). ATLAS.ti version 8 was used to generate ad verbatim transcriptions of the words of the respondents. Trustworthiness of the effort is indicated in the report showing coded data and in the body of the present chapter. Having used open, axial, selective, and InVivo coding, ATLAS.ti was used to code the data. An excerpt can be coded if it is relevant to several codes more than once. ATLAS.ti denotes the ability of the selected method to be easily modified in that it gives room for the researcher to code and decode the excerpt as well as name and rename the codes and the quotations or text segments (Patton, 2002; Smit, 2002).

#### **3.13 Content analysis of interviews steps using ATLAS.ti Version 8**

The researcher scrutinised a number of analytical methods (Saldaña, 2009; Friese, 2014) and adhered to Braun and Clarke (2014) as indicated in the steps that follow and as arranged by ATLAS.ti version 8 software. Intensifying rigour, integrating and managing data and demonstrating transparency of analysis was done by using ATLAS.ti version 8 (Tummons, 2014; Leech & Onwuegbuzie, 2007). After interview data was put into ATLAS.ti, the independent expert assisted in the second stage of coding by ensuring the data was secure through interweaving the data with theoretical views that undergirded the research. It required open-coding, an act of combining into groups, classifying and recording accurately themes that emerged as pointed out by Nayar and Stanley (2015). Steps recommended by Braun and Clarke (2014) were followed after the researcher and independent expert deliberated and agreed made when they were reviewing the quotations and codes. The steps taken were as follows:

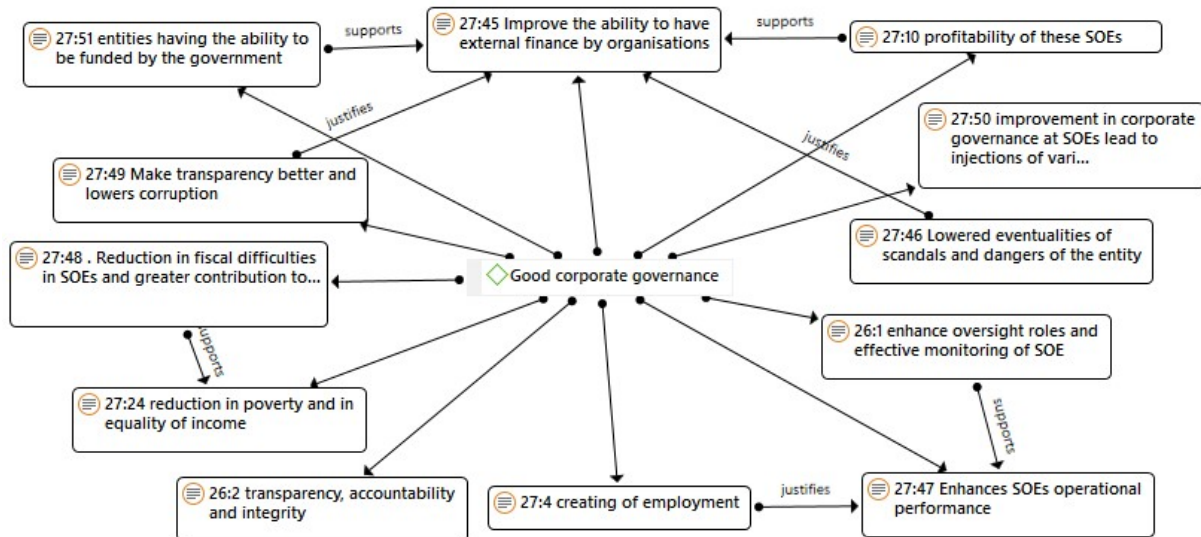
- The project was generated in ATLAS.ti version software as it is known to be user-friendly. The researcher, with the help of the independent expert, made it a point that the documents used were respondent identity-free.
- All the primary data (transcripts) was transferred to ATLAS.ti version 8 software program. The process of getting precise text in the data sets (interview transcripts) was done.
- Group codes or categories were made, as directed by the objectives of the research. The codes, which were grouped or the categories, were given names and coded using a combination of both deduction and induction as enunciated by Cho and Lee (2014). Hossein's (2015) "directed content analysis" was used in the execution of interim coding.
- The data was of significance in guiding the researcher to generate open codes on respective themes (Friese, 2014).
- The transcripts were frequently read and started with pertinent concepts (deductive analysis). However, the researcher was flexible such that there was allowance for emerging of new concepts (inductive analysis) (Yin, 2011). This was done with the intention of taking exceptional heed to distinguishing themes that assisted to explicate the role of IAFs phenomenon, as directed by Hossein (2015).
- The codes were put together as being complementary with the data and prefixes made. This is the level when critical decisions were made without depending on the software (Friese, 2014). The data was frequently read (Collins & Mulligan, 2014), occurrences inquired into, differing evidence explored and explanations of a competing nature considered. Afterwards, the literature was relooked to come up with interpretations in the colossal theoretical circumstance as propounded by Meadows, Verdi and Crabtree (2003). During this time, the researcher relooked at the bad and the good codes, thereby reaching resolutions after consideration concerning categories and sub-categories in order to reduce the probability of getting a small number of items (Collins & Mulligan, 2014).
- Data was directed by the research objectives and analysed. At this level, the data was repeatedly scrutinised specifically to examine links with the research questions. Subsequently, analysis was done and the findings and interpretation written down. Analysis ceaselessly took place and there was revision of interim codes. At the same time, codes that were the same came out and recent (new) codes increased the data.

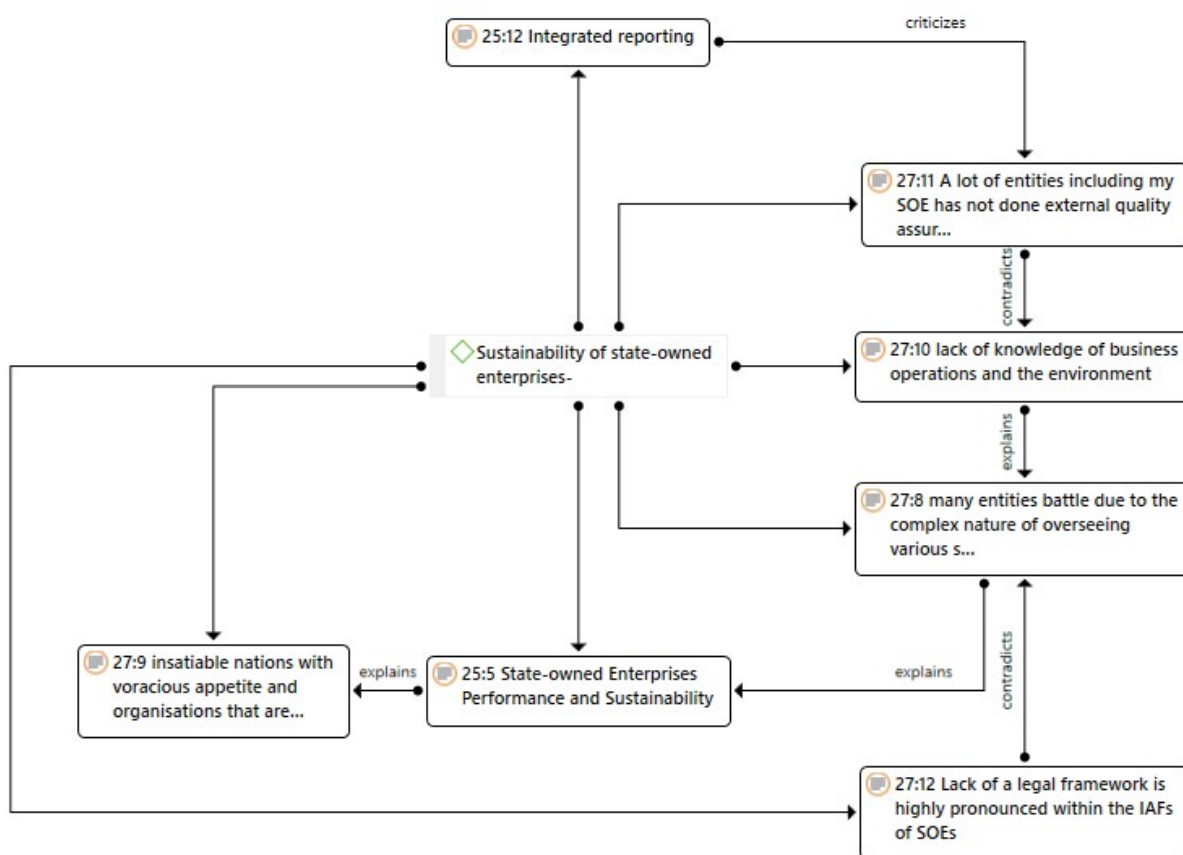
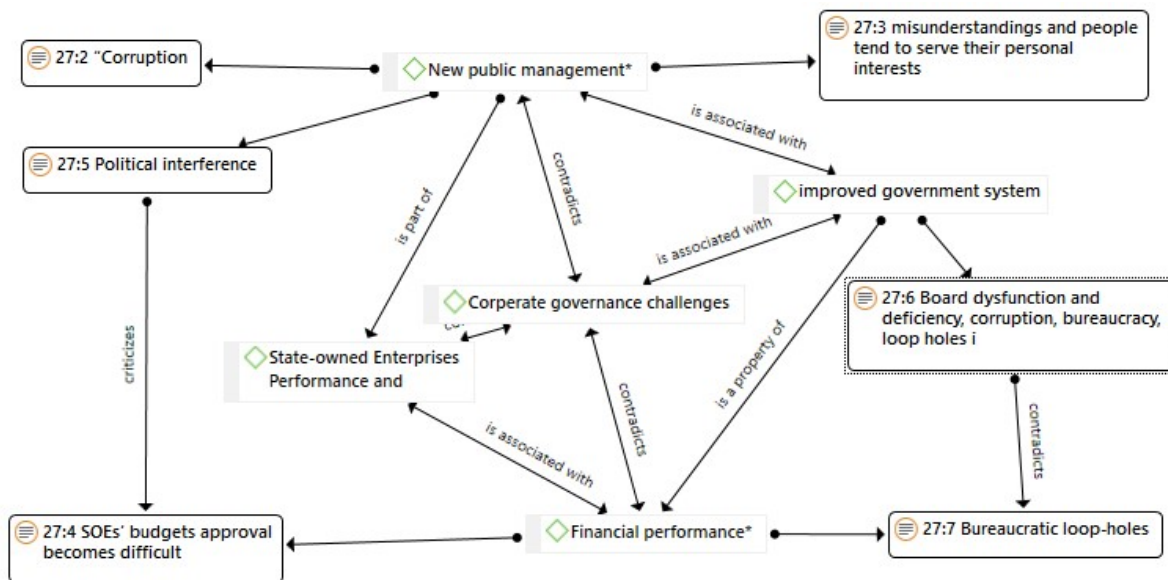
Crystallisation of the document review and interview analysis was done in order to attain accomplishment, rather than attain confirmation (Tobin & Bergley, 2004). This gave the opportunity for profound comprehension of the role of IAFs as a phenomenon inside the qualitative interpretive paradigm (Stewart, Gapp, & Harwood, 2017). Data was

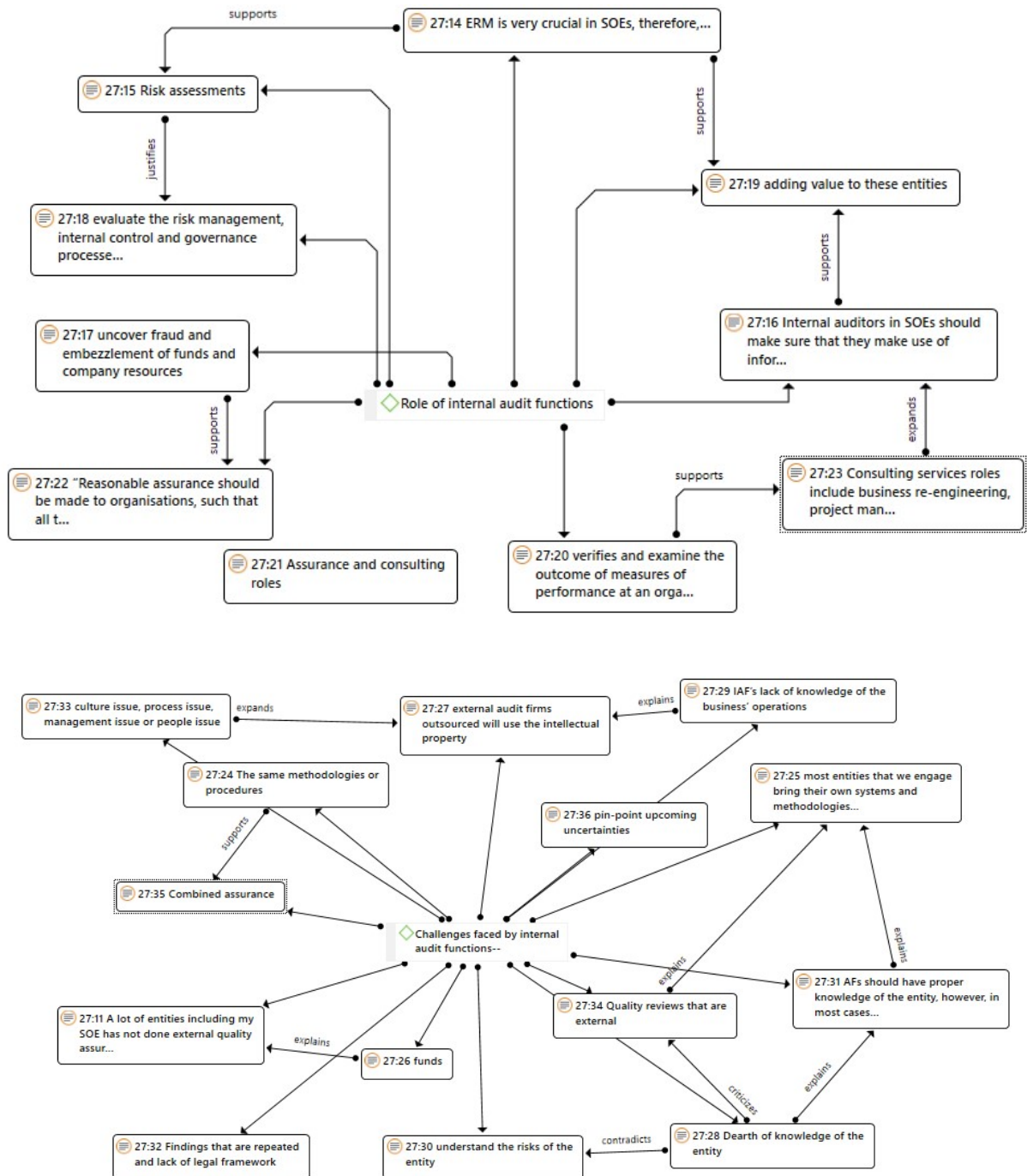


presented in two ways, that is, first as text with varied degrees of attributes and disposition and, secondly, as well as well-prepared and developed networks in ATLAS.ti or tables reflecting themes that emerged as propounded by Miles et al. (2014). Data was presented in the form of tables and networks created and transferred from ATLAS.ti version 8 and themes that came out from the transcripts summarised (see Table 4.5).

Methodical and comprehensive analysis of the collected data was done in order to comprehend its meaning as well as create new knowledge (Thorne, 2000). The identification and documentation of patterns that emerged from the data noted (Braun & Clarke, 2006). Data interconnections, differences and similarities in the methodologies, systems, methods and procedures chosen on the role of IAFs were analysed and interpreted. A conclusion was arrived at and themes identified. A deductive selection of themes based on the thematic system using ATLAS.ti, depending on the word cloud, was employed (Braun, Clarke & Terry, 2014). Familiarisation, generation of initial codes, and theme search were three steps followed, as proposed by Braun, Clarke and Terry (2014), as a way of conducting analysis of data thematically. The following part of the study reflect the outcomes and discussion of the findings emanating from semi-structured interviews in tandem with the research objectives. The initial nodes, as generated by the ATLAS.ti qualitative data analysis software, produced a thematic developed networks (see Figure 3.5) below and, at the same time, thematic analysis also produced a table summarising themes and sub-themes as shown in Table 4.5.



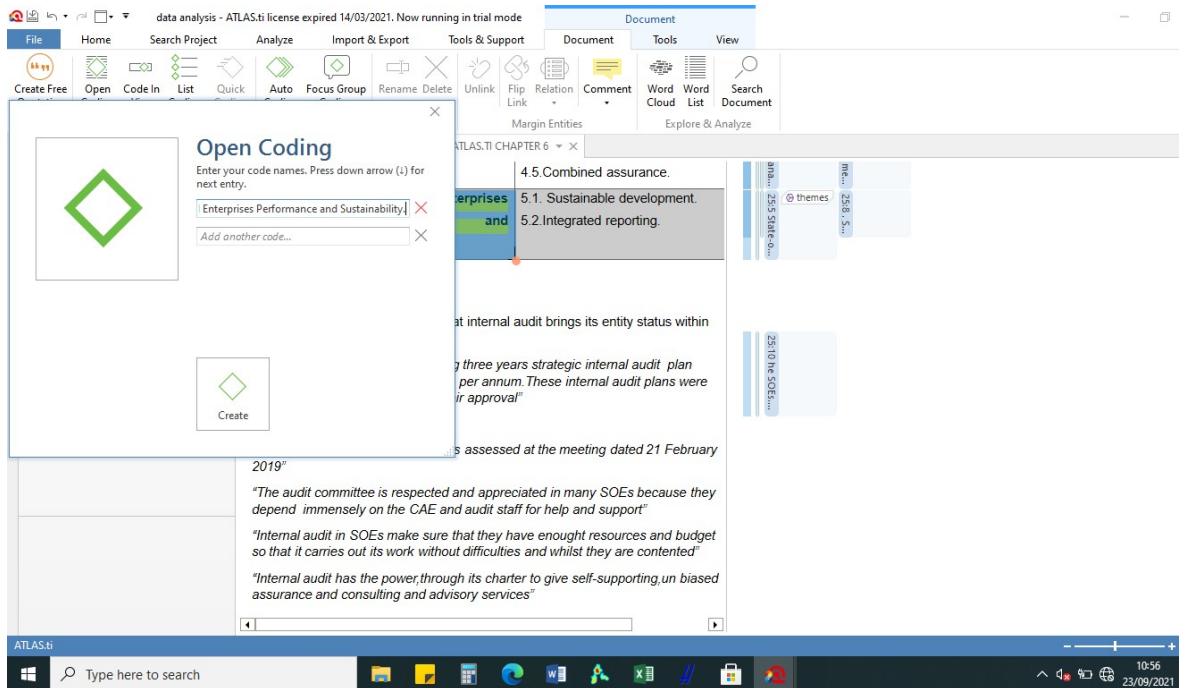


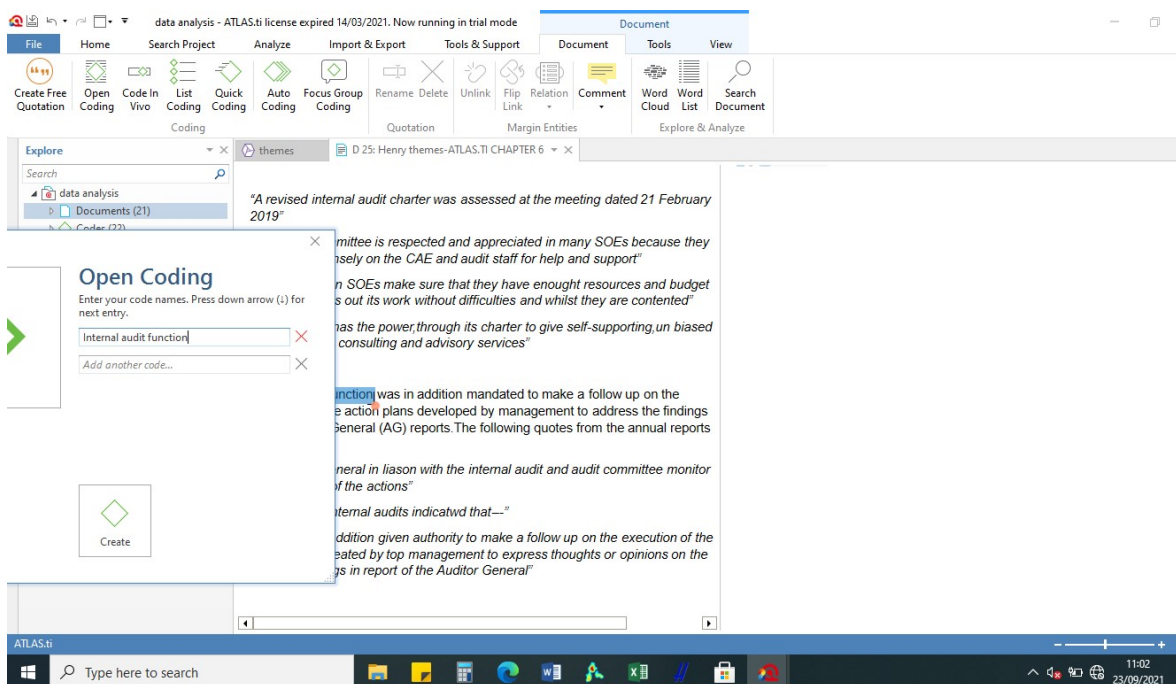
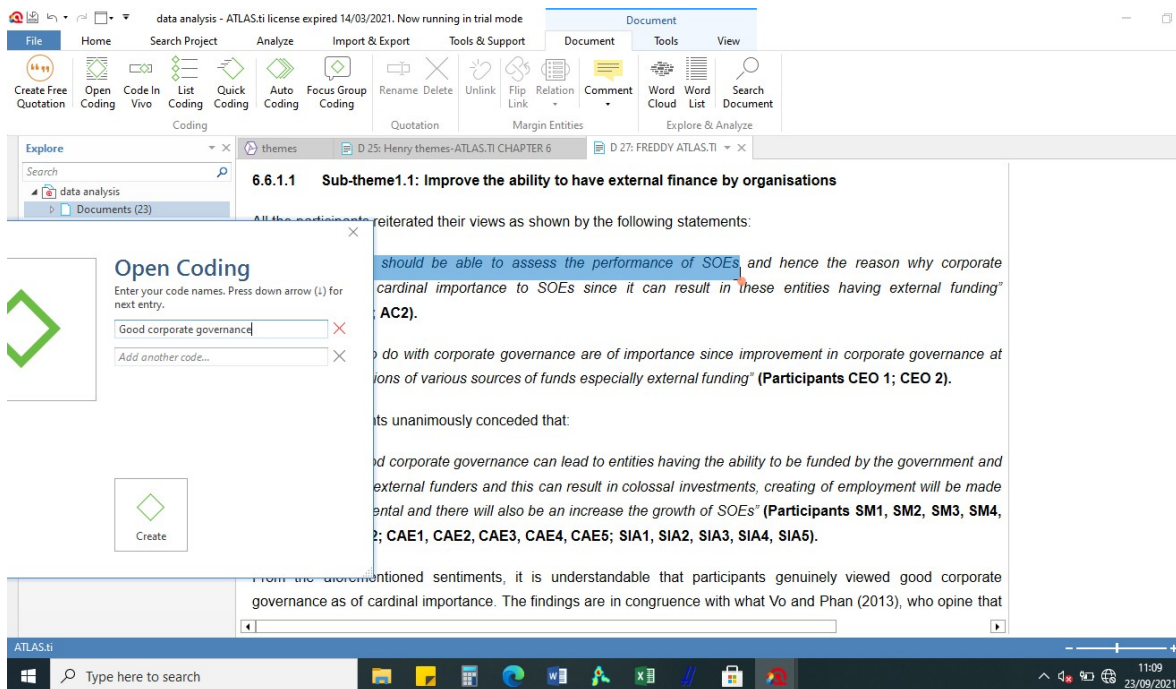


**Figure 3.5:** Screenshots of thematic developed networks from interview documents in Atlas.ti.

Source: Author's own compilation (2021)

The audio-recorded interviews were transcribed and uploaded onto the software. The transcripts were carefully and thoroughly compared during the analysis to ensure that the emerging themes inductively generated from the data were valid and dependable. Figure 3.6 below reflects a screenshot of the generated codes and quotations transcribed interview documents in Atlas.ti





**Figure 3.6.** Screenshot of the generated codes and quotation from transcribed interview documents in Atlas.ti.  
Source: Author's own compilation (2021)

### **3.14 Validity and reliability**

According to Creswell et al. (2019), validity in qualitative research means that the researcher looks at the correctness of the findings by engaging certain approaches, whereas qualitative reliability shows that the researcher's procedure is homogeneous across non-identical researchers and amid disparate projects. The data used by the researcher involved academic and professional literature, hence analysis of data contained evidence from various sources in a way that indicated inter-connection of enhancement and evidence of validity. Document analysis also added as a source of data and increased validity. In order to boost reliability in this study, a clear research design and research methodology were built and adopted by the researcher in order to provide high reliability (Yin, 2013). To give support to information from interviews, documentary evidence was used as an additional source in order to intensify the reliability of the interviews data.

### **3.15 Ethical considerations**

In carrying out this study, several ethical considerations were considered to be imperative. Permission to carry out the study was given by the various SOEs such as Potraz (the regulator), Telecel, Telone, Zarnet, Net one and TIMB. The Auditor general also gave the permission to carry out the research since it is the independent auditor for all government institutions including SOEs. This was made easier through their line ministries such as the Ministry of Information Communication Technology and Postal and Courier Services (MICTPCS), Ministry of Agriculture and Ministry of Industry and Commerce, among others. The use of the digital recording devices for interviews also ensured accuracy and reliability of the findings. Member checking increased truthfulness of the findings. Participation was voluntary and informed consent was sought from participants. Confidentiality and anonymity of participants in the final study report were assured. An ethics clearance certificate (number FOBREC 672) was obtained from the Cape Peninsula University of Technology (CPUT) in order to carry out research. Ethical considerations do not decrease the validity and reliability of the research. However, ethical considerations are ideal in order to emphasise situational problems within the entire research (Edwards & Skinner, 2009). Ethics refers to standards, guidelines and principles to be followed by the researcher when carrying out research (Engel & Schutt, 2013). The following ethical considerations were upheld in this study:

- Keeping confidentiality and anonymity of participants, that is, no information or documents for public consumption and ensuring that confidentiality is of cardinal importance;

- Informing participants of the advantages of the study, that is, SOEs top management were informed of the purpose of the study, as well as the anticipated utility;
- Seeking informed consent: senior SOEs managers were apprised that participation in the study was of a voluntary nature and that they were under no obligation with which they are uncomfortable. Participants were told they could withdraw from the study at any point they so wish (Stern, 2015);
- Debriefing: SOEs top executive were given room to get the results of the research as well as to make follow-up. If the choice was selected by the participants, the research participant was asked to give the contact details (Resnick, 2015).

### **3.16 Conclusion**

This chapter described the comprehensive research philosophy used in the study which comprised ontological, epistemological and axiology suppositions. It answered questions of why the philosophical assumptions, research paradigm of interpretivism and qualitative approach were adopted. It has also looked at the population, research design (case study), sample frame, sampling techniques, unit of analysis, data collection methods and techniques. The chapter shows the scope and sample of the study carried out in five chosen SOEs in Harare province. The inductive approach was alluded to in this chapter. Deep understanding and meanings through social constructivist or interpretive paradigm on the role of internal in the performance of SOEs in Zimbabwe was attained by employing the CG framework, deemed suitable in this research. Furthermore, in order to understand the nature of the data, a synopsis of data analysis was discussed in the chapter in terms of how the data was analysed. Thematic content analysis, using ATLAS. ti. Software version 8, was used in analysing the qualitative data. Document reviews, literature sources were made and interviews were coded inductively and themes formulated using ATLAS.ti version 8 software by following Braun and Clarke (2006). Validity and reliability of data and the justification for the research design, interpretivism and the purposive sampling techniques is explored. The next chapter four shows the presentation of the results.

## **CHAPTER FOUR**

### **DATA PRESENTATION, INTERPRETATION AND DISCUSSION OF RESULTS**

#### **4.1 Introduction**

The previous chapter focused on research design and research methodology for this study. This chapter four presents and explores the research findings. This chapter gives the presentation, interpretation and discussion of results from the interviews and documentary reviews so that the research objectives can be answered and also building towards the contribution to the body of knowledge brought by this current study. As clearly expressed in the preceding chapters, one purpose of this study was to examine the role of the IAF in the performance of the SOEs underpinned by the Stakeholder, Institutional and Agency theories. The key purpose of this chapter is to present the results of data collected from the 20 study participants who accomplished all the interview guides and from documentary review. Numbers were allocated (1-11) and as codes in analysing the data to represent parts, that is, the CEO and other stakeholder. Further, numbers 12-20 were allocated to internal auditors. Participants' numbers are used throughout the presentation of findings to maintain anonymity. Prominent themes were derived from the qualitative data and used in organising sub-headings for better comprehension. In this chapter, the data collected and processed to yield results are presented and analysed for appropriateness to the research questions and objectives. The chapter is structured as follows: background information, formulation of themes from analysis of interviews data with CEOs and other stakeholders, analysis of interviews information with internal auditors, documentary analysis. The ultimate part presents the conclusion of the chapter on the presentation of findings.

#### **4.2 Qualitative approach**

##### **4.2.1 Demographics**

The demographics details of respondents in this study are presented in the sections and relevant tables that follow. The profile of respondents includes the age, gender, participants' years of experience and the highest academic qualifications. Twenty people were interviewed. In spite of the fact that the study did espouse the qualitative research design and methodology, it is important to underline Silverman's (2005) comment that there is no rationale why qualitative researchers should not, where suitable, use quantitative measures. Percentages and frequencies are used where it is considered proper.



## 4.2.2 Response rate

As alluded in Chapter three, the study used the interpretivism paradigm and employed a qualitative research approach as well as a case study design. The response rate of 100 percent was achieved from the purposively sampled participants since the participants were willing to take part in the study. Fifty percent (50%) of responses, in most studies, is ideal to be representative of the sample size set for a study (Amin, 2005). Therefore, the response rate in this study was seen as comparatively more desirable than the Amin's study prescribes. This means that the response rate of 100% from the interviews was more than sufficient for the qualitative part of the study. An interview is defined by Corbin and Strauss (2008:68) as a conversation between two people initiated by the interviewer to acquire information relevant to a study and the interviewer focuses on the content specified by the research objectives. Document review was used to collect secondary data on a number of AG reports. It should be noted that the results of interviews and document reviews were relied on to develop a model of IAF effectiveness in Chapter five of this study that could be used to ensure the role of IAF is enhanced and is of cardinal importance in SOEs. Table 4.1. below indicates the response rate.

Table 4.1: Response rate for the study participants [n=20]

Instrument	Planned	Actual	Percentage(%)	Shortfall(%)	Total(%)
Interviews	20	20	100	0	100
Total	20	20	100	0	100

Source: Author's own compilation (2020)

Table 4.1. indicates that all the 20 interviews were successfully responded to, showing a response rate of 100%.

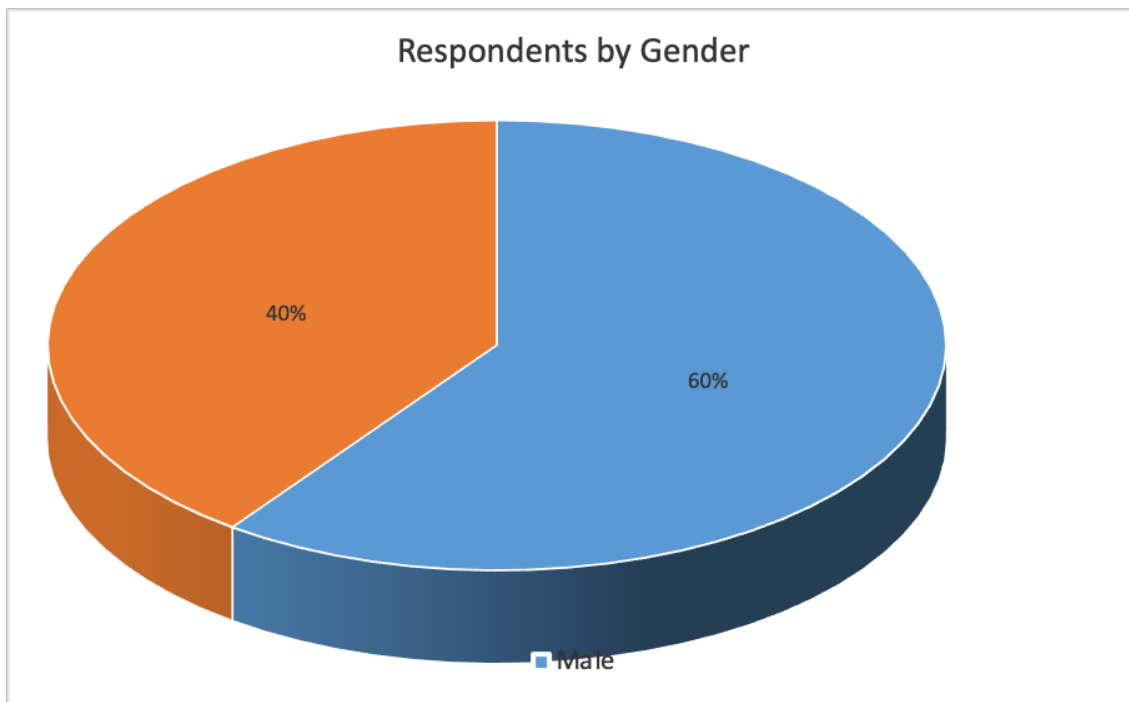
## 4.2.3 Demographic information of participants

The presentation and interpretation of the demographic profile of the study sample is very important because it enables the researcher to have an overall mental and physical picture of the sample (Kasekende, 2014). The initial section of the interview guides consisted of ten questions that were designed to draw out views about the demographic profile of respondents. It comprised items seeking data on job titles, years of experience, highest academic qualifications, gender, age and professional designation. In this section, age, gender, years of experience and highest academic qualifications are of cardinal importance and are illustrated below. This is vital in valuing highly understandings and, at the same time, connecting the concepts under the study. In

tandem with a similar argument, Purdie et al. (2002) posit that profiling research respondents is achieved by establishing their demographic features, which may comprise age, gender, respondents' years of experience and highest academic qualifications. In social sciences research, personal features of respondents have an influence on participants' responses about the problem (Purdie et al.,2002). Therefore, demographic features of Section A of the interview guide included gender, age group, level of education and respondents' years of experience, as shown in Tables and figures below for the 20 respondents, which were verified, presented and used to make conclusions in this study.

#### 4.2.3.1 Gender of the researcher's respondents

The statistics for gender of the respondents comprised 60% males and 40% females as shown in Figure 4.1.



**Figure 4.1:** Pie-chart showing respondents by gender [n=20]

Source: Author's own compilation (2020)

Figure 4.1 signifies that males represent 60% (n=12), while females constitute 40% (n=8), a reflection that the profile of sampled participants in the study consisted of both males and females in SOEs. It indicates that SOEs have more male employees at the top than female ones, thus, reflecting gender imbalance in the composition of staff in

those SOEs under study. A gender balance is imperative in SOEs in Zimbabwe in order to promote equality in the working place. This vital gender balance phenomenon is of cardinal importance and of a strategic worth to SOEs when it comes to the recruitment and selection so that more females can also be recruited and selected.

#### 4.2.3.2 Respondents' years of experience

Respondents' years of experience were presented statistically to show the number of years' individuals have been working in SOEs, which are shown in Table 4.2

**Table 4.2: Respondents' years of experience [n=20]**

Years of experience.	Number of Respondents	Frequency	Percentage(%)
0-5 years	4	4	20
6-10 years	3	7	15
11-15 years	5	12	25
16+ years	8	20	40
Total	20	20	100

Source: Author's own compilation (2020)

Table 4.2 states the number of years of participants, obtained from participants. Table 4.2 reflects these outcomes obtained that shows the level of experience, which could be a contributing factor in comprehending why challenges faced by both the IAFs and SOEs, are not being mitigated sufficiently. Participants have reflected, as per Table 4.2, that towards the end of October 2019, professional employees with 16+ years' experience are the great eminent class employed in SOEs, with 40% (n=8), followed by staff employed between 11-15 years' experience in SOEs, with 25% (n=5). Employees with between 0-5 years' experience in SOEs, with 20% (n=4) of participants and lastly employees with lowest number of years of experience in SOEs, with 15% (n=4). The study indicates that a high number of respondents (that is, 8 respondents) had substantial experience working in SOEs since the number of years of experience the participants had show accuracy and trustworthiness of the data collected for the study since it was collected from knowledgeable individuals. From the above outcomes, it is fairly noticed that SOEs are made up of staff with an adequate amount of experience. More people should also be recruited in SOEs in order for them to gain experience in order to increase the viability of SOEs.

#### 4.2.3.3 Respondents' age

The statistics for the age group of the respondents are presented in Table 4.3.

**Table 4.3: Respondents by age group [n=20]**

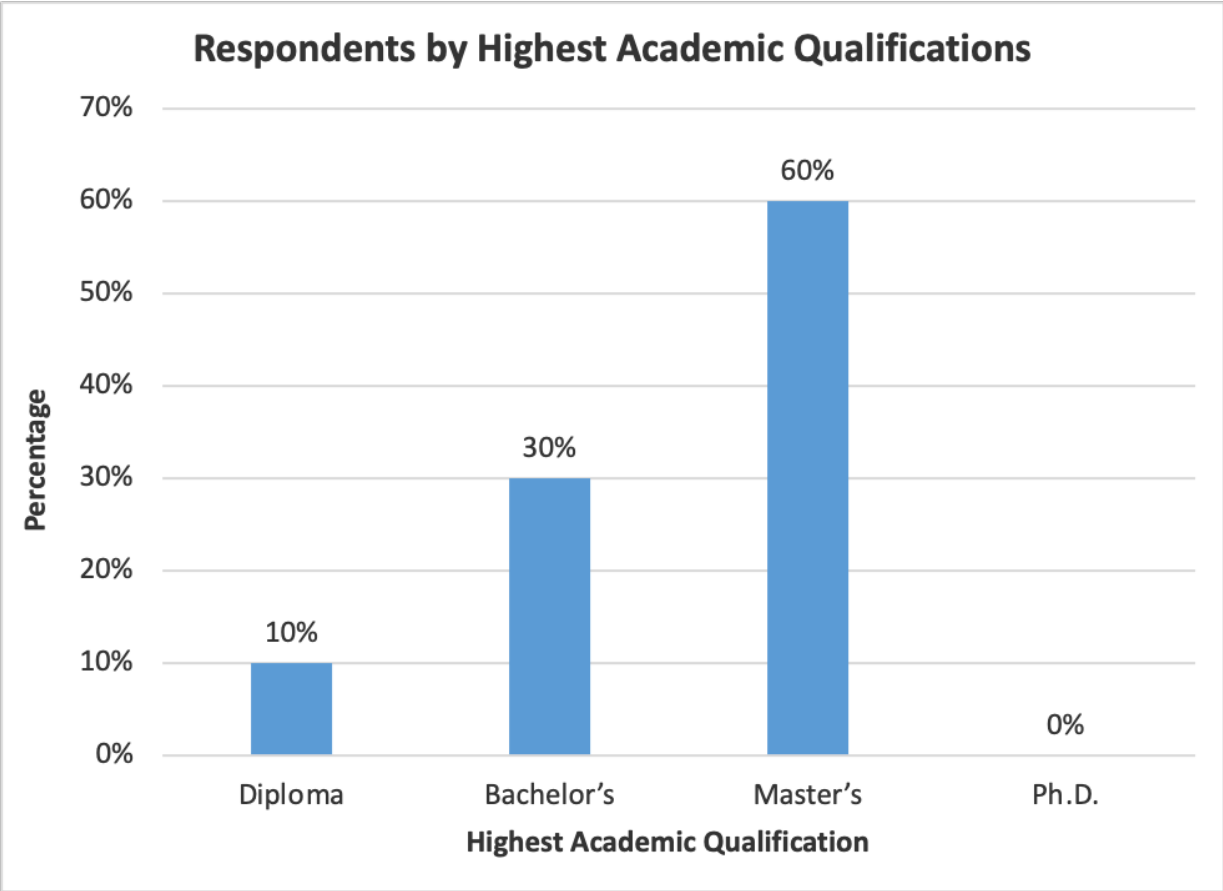
Age of Respondents	Number of Respondents	Cumulative Frequency	Percentage(%)
18-25 years	0	0	0
26-30 years	2	2	10
31-40 years	6	8	30
41 and above	12	20	60
Total	20	20	100

Source: Author's own compilation (2020)

Table 4.3 illustrates the age group of the respondents so that the appropriateness of the age can be analysed in terms of their understandings of the role of the IAF. Table 4.3 indicates that there were no respondents under the age of 25 years; 10% [n=2] were aged between 26 and 30 years; 30% (n=6) represented the 31-40 age group; and 60% (n=12) of the participants were 41 years of age and above. As indicated in Table 4.3, the most predominant age that responded to the interview questions was 41 and above representing, 60%, followed by 31-40, representing 30% and 26-30, representing 10%. This signifies that many of participants were between the age of 41 and above. These are the majority of employees who are still physically and mentally competent whom SOEs employ for top managerial positions and auditing. From the sample analysis of the age groups, this can be of use in the sense that it reflects the level of experience and also exposure of working in SOEs.

#### 4.2.3.4 Respondents' highest academic qualifications [n=20]

The respondents were asked to indicate their highest qualifications achieved. Figure 4.2 show what respondents have acquired, that is, whether a Diploma, Bachelor's, Master's or Ph.D. degree.



**Figure 4.2:** Respondents' highest academic qualifications [n=20]

Source: Author's own compilation (2020)

In connection with academic qualifications, Figure 4.2 indicates that all participants (60% + 30% + 10% = 100%) had, at least, an academic qualification, ranging from a Diploma to a Master's degree. This shows the level of literacy of the participants who responded to the questions and enhances the validity and reliability of the data collected. Most commonly, all the people who participated had the minimum anticipated qualification of a diploma. A glance Figure 4.2 indicates that majority of participants working in the various SOEs (90%) have acquired a tertiary qualification. Regarding respondents' highest academic qualifications, a majority of participants (60%) had accomplished a Master's degree, whereas the other 40% was distributed between Diploma and Bachelor degree holders. Only 10% indicated that they had achieved a Diploma as their highest qualification. With Bachelor's degree, 30% of the participants indicated it as their highest qualification. Not a single person amongst the participants [n=0] indicated that they had obtained a Doctor of Philosophy (Ph.D.) degree. In some SOEs where the respondents were interviewed, the researcher found that there is

professional proficiency amongst the workers in all their areas of responsibilities. Proficiency and experience will improve performance as well as effectiveness and efficiency of the SOEs concerned. This is in tandem with the dictates of the ISPPIA, the IPPF framework, COSO framework and King 4 report on CG.

### 4.3 An overview of the participants

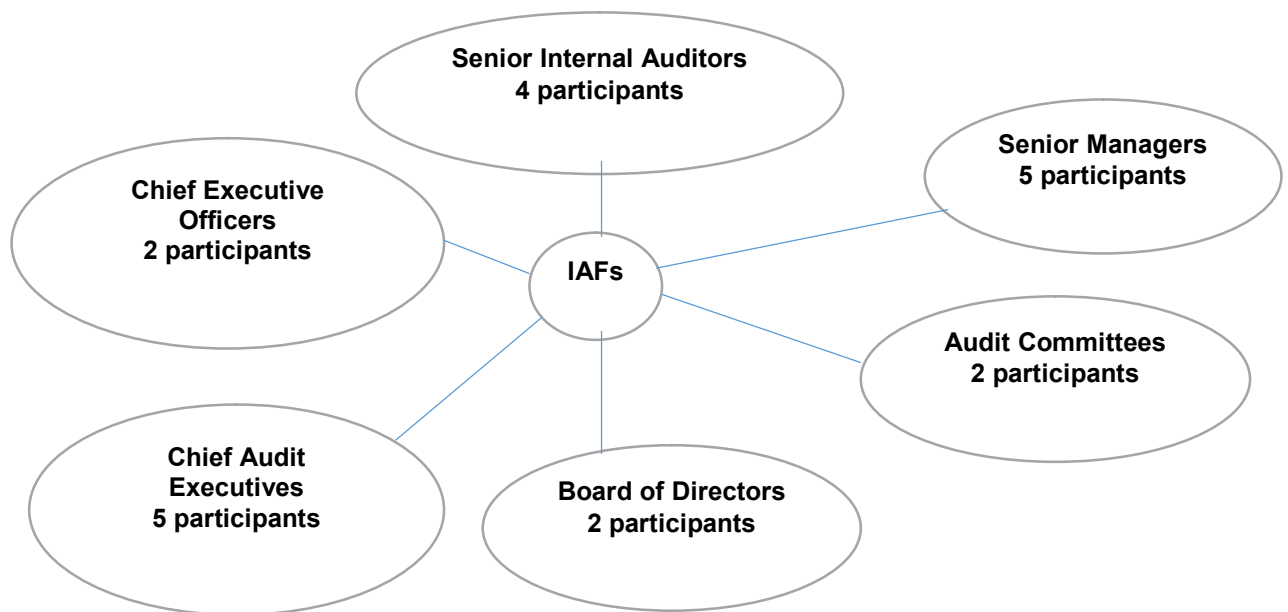
Ansari et al. (2016) state that every respondent in research, as a human being, becomes a complex system of oneself and is made up of varied and intertwined elements. In this way, participants come up with or carry with them an unusual combination of interconnections, stories and experiences. Table 6.6 depicts the various categories of respondents involved in the research that investigated the role of the IAF in the performance of the SOEs, which allowed for novel insight into the complex nature of this endeavour.

**Table 4.4: Respondents who participated in the study**

Participants	Number of Participants	Codes
Audit Committees	2	AC1, AC2.
Senior Managers	5	SM1, SM2, SM3, SM4, SM5.
Board of Directors	2	BoD1, BoD2.
Chief Audit Executives	5	CAE1, CAE2, CAE3, CAE4, CAE5.
Senior Internal Auditors	4	SIA1, SIA2, SIA3, SIA4.
Chief Executive Officers	2	CEO1, CEO2.

Source: Author's own compilation (2020)

The information in Table 4.4. was changed into Figure 4.3 to provide a 360-degree snapshot of the IAF, the 20 respondents and the 6 sub-systems that make up the role of the IAF in the study.



**Figure 4.3:** Investigation of the role of the internal audit functions (IAFs)

Source: Author's own compilation (2020)

#### 4.4 THEMES

The interview questions were divided into two sections: general and in-depth. Background information of the participants was covered in general questions, while information pertaining to detailed crux of SOEs in the study was looked at in the in-depth section. The key themes that came out of the data from the interviews were: 1. Good corporate governance; 2. Corporate governance challenges; 3. Role of internal audit function; 4. Challenges faced by internal audit function; and 5. Sustainability of State-owned enterprises. The five themes are explored fully here. These themes are embedded within the sub-themes obtained from the data inductively. The themes and sub-themes were taken from the semi-structured interviews which formed the basis from which these sub-themes and themes were established and generated. Reoccurring matters from the data were grouped into themes and that guided the writing up of the findings (Guest, Macqueen & Namey, 2012). Detailed findings are reported in consonance with the themes and sub-themes. The themes formulated out of the research objectives and questions were analysed, interpreted and discussed in the following section, as illustrated in Table 4.5. Detailed findings are reported in accordance with the themes reflected in Table 4.5.

**Table 4.5: Themes and sub-themes**

Number	Themes	Sub-themes
1	<b>Good corporate governance</b>	<p>1.1. Improve the ability to have external finance by organisations.</p> <p>1.2. Lowered eventualities of scandals and dangers of the entity.</p> <p>1.3. Enhances SOEs operational performance.</p> <p>1.4. Reduction in fiscal difficulties in SOEs and greater contribution to the budget by paying dividends which are higher.</p> <p>1.5. Make transparency better and lowers corruption.</p>
2	<b>Corporate governance challenges</b>	<p>2.1. Many owners (principals).</p> <p>2.2. Many goals and objectives which are frequently competing.</p> <p>2.3. Becoming protected from competition.</p> <p>2.4. Political leadership management styles.</p> <p>2.5. Reduced accountability and transparency levels.</p>
3	<b>Role of internal audit function.</b>	<p>3.1. Evaluation of the risk management, internal control and corporate governance processes.</p> <p>3.2. Value-add assurance role.</p> <p>3.3. Assurance and consulting roles.</p>



		3.4. Detection, insight, foresight, oversight, deterrence roles.
<b>4</b>	<b>Challenges faced by internal audit functions</b>	4.1. Dearth of knowledge of the entity. 4.2. The same methodologies/procedures. 4.3. Findings that are repeated and lack of legal framework. 4.4. Quality reviews that are external. 4.5. Combined assurance.
<b>5</b>	<b>Sustainability of state-owned enterprises</b>	5.1. Sustainable development. 5.2. Integrated reporting.

Source: Author's own compilation (2020).

#### **4.4.1 Theme 1: Good corporate governance**

According to Claessens and Yurtoglu (2012), many governments in developed economies and emerging markets are taking proper means in order to proffer solutions to corporate governance challenges so as to: (1) increase and make stronger the transparency and accountability of SOEs; (2) to supply financial and other services and give important infrastructure in a cost-effective and well and proper way; (3) lower the fiscal danger and fiscal eventualities respectively of SOEs and, at the same time, enhance their ability to gain access to external funding through capital markets; and (4) improve the whole economy and SOEs, respectively, in terms of competitiveness. Good CG positively impacts organisations, be they private, public or state entities. These benefits are outlined below as sub-themes.

##### **4.4.1.1 Sub-theme1.1: Improve the ability to have external finance by organisations**

All the participants reiterated their views as shown by the following statements:

*“The Government should be able to assess the performance of SOEs and hence the reason why corporate governance is of cardinal importance to SOEs since it can result in these entities having external funding” (Participants AC2).*

*“We think issues to do with corporate governance are of importance since improvement in corporate governance at SOEs lead to injections of various sources of funds especially external funding” (Participant CEO 1).*

All other respondents unanimously conceded that:

*“Importance of good corporate governance can lead to entities having the ability to be funded by the government and even accessing to external funders and this can result in colossal investments, creating of employment will be made easier and fundamental and there will also be an increase the growth of SOEs” (Participant SM1).*

From the aforementioned sentiments, it is understandable that participants genuinely viewed good corporate governance as of cardinal importance. The findings are in congruence with what Vo and Phan (2013), who opine that for emerging economies, good corporate governance is ideal for increasing foreign direct investment. Claessens and Yurtoglu (2012) concur with this view by stating that good corporate governance results in the SOEs getting external funding if they are well and properly run, leading to creation of employment, increase in SOEs’ growth as well as increase in investments. In the next section, lowered eventualities of scandals and dangers of the entity are explored.

#### **4.4.1.2 Sub-theme 1.2: Lowered eventualities of scandals and dangers of the entity**

A CAE in one of the SOEs who took part in this study intimated that:

*“Good corporate governance results in SOEs creating a good rapport with the key stakeholders of these organisations and hence there is improvement in terms of labour and social interconnections respectively” (Participant CAE1).*

Two SIAs asserted that:

*“Good corporate governance if well practiced in many SOEs will result in the entities having a competitive advantage and also the profitability of these SOEs will be increased, that is, if there are no less issues to do with dangers of risks and corporate scandals” (Participant SIA1).*

*“There is a lot of scandals in SOEs and the criminal abuse of office by public officials, that is top management including managers, CEOs, BODs and line ministers. However, with good corporate governance all these scandals are things of the past” (Participant SIA2).*

Another senior manager held that:

*“SOEs improves national security of the country if they are well run because they support the economy in growth and country stability as well in the creation of employment among others as well as the attaining of vision 2030. In this case, the Government should encourage SOEs to comply to good corporate governance in order*

*for this entities to contribute meaningfully to the economy so as to make sure eventualities such as corporate scandals are reduced” (Participants SM5).*

Participant **CEO1** stated that:

*“Good corporate governance should enhance oversight roles and effective monitoring of SOEs by the management and the board as well as giving incentives so that management and the board can give attention to goals which are in tandem with the interests of the entity as well as the Government, who is the shareholder”.*

These findings are in tandem with the views of Claessens and Yurtoglu (2012) in which they highlight that there are colossal social and economic costs as a result of corporate catastrophes, stumbles and scandals if good corporate governance is not followed and taken seriously. In addition, organisations need to controlled, directed and governed with the respect to the environment as well as society, as attested by Veldman, Gregor and Morrow (2016). This is so because difficulties in society cannot be proffered with solutions without seeking contributions from entities or by solitary regulatory principles (Veldman et al., 2016). Good corporate governance makes the rationalisation of senior management and risk monitoring possible, ensure there is integrity in financial reports, makes senior management think strategically and gives interested groups strong reputation both inside and outside of the entity (Pandya, 2011). In the next section, enhancing of SOEs operational performance is discussed.

#### **4.4.1.3 Sub-theme 1.3: Enhances SOEs operational performance**

One senior internal auditor posited that:

*“For the SOEs to work and perform very well combined efforts is the order of the day, that is, there is need for transparency, accountability and integrity, strong legal and regulatory, efforts by senior managers and employees, proper financial and non-financial information disclosure as well as strong board of directors” (Participant SIA3).*

This finding is in line with the views of Andres, Guasch and Azumendi (2011) who posit that good corporate governance boosts the operational performance of SOEs. This could also factor in issues to do with a strong board and management, financial and non-financial disclosures, integrity of company employees, a well-set system of performance management of the organisation as well as being transparent and accountable. There should be cabinet approval as well as approval of the President for the appointment of board members, especially if OEs are of great importance. Approval of the cabinet is sought where the Constitution requires certain SOEs to seek cabinet approval as well as if they have a certain threshold of assets and if they are also of

great concern. In the next section, reduction in fiscal difficulties in SOEs and their contribution to the budget by paying higher dividends is examined.

#### **4.4.1.4 Sub-theme 1.4: Reduction in fiscal difficulties in SOEs and greater contribution to the budget by paying dividends which are higher**

A senior manager interviewed indicated that:

*“SOEs who follow good corporate governance principles perform very well and contribute meaningful to the treasury or the country’s fiscus” (Participant SM2).*

One member of the BODs alluded that:

*“SOEs who are well controlled, governed and directed can compete with the private sector in the distribution of resources to expenditures which are of a social nature. Fiscal eventualities are also lowered and good governance strengthens transparency of uncertain obligations of the SOEs” (Participant BOD2).*

These findings are in tandem with the results of Claessens and Yurtoglu’s (2012) study, which asserted that well governed, controlled and directed SOEs contribute to dividends per annum and these dividends could become greater by 1 percent of gross domestic product (GDP). In this case, increase in GDP will help to lower the budget deficit. Lowering of fiscal risks and improvement in terms of transparency of the liabilities with are contingent in nature of SOEs result when there is good corporate governance (Claessens & Yurtoglu,2012). Making transparency better and lowering corruption is explored in the next section.

#### **4.4.1.5 Sub-theme 1.5: Make transparency better and lowers corruption**

Many sentiments from interviewees about corruption in Zimbabwe, particularly in the public sector and in SOEs, were prevalent and always prefaced with concrete information shared by the participants.

The AC participants posited that:

*“Corruption is becoming more and more in Zimbabwean SOEs. Corruption is indeed egregious and worrying.” (Participants AC1).*

The SM asserted that:

*“Corruption starts from the shop floor employee in SOEs up to top management and vice-versa. Corruption is becoming endemic these days in Zimbabwean SOEs and should be navigated at all costs” (Participant SM4).*

The CAE participant intimated that:

*“Wanton looting of resources of a public nature which resulted in the Government losing millions and millions of dollars resulted in manifestation of corruption in SOEs. Insufficient laws, regulations and not strong supervision methods result in rampant corrupt tendencies” (Participant CAE2).*

A CEO participant concurred that:

*“The unprecedented enactment of the Public Entities Corporate Governance Act in Zimbabwe was done in order to avoid corruption in SOEs. Good corporate governance gives rise to a reduction in poverty and in equality of income as well as helping in addressing matters such as the protection of the environment” (Participant CEO2).*

One of the BODs concluded poignantly that:

*“Corruption is so cancerous and should be curbed together with fraud. The Government of Zimbabwe is trying to deal with these malpractices through the promulgation of legislations that put in place organisations like Zimbabwe Anti-Corruption Commission (ZACC). Educating the whole populace about the dangers of these activities and how they will impact on the economy is imperative in this case” (Participant BOD1).*

These views are shared with the thoughts of Claessens and Yurtoglu (2012) who indicate that corruption impacts adversely on the economic and financial affairs of SOEs, resulting in unfair allocation of limited government resources, chasing away investor confidence, which adversely impacts on the strength of monetary and valuations of entities, hence corruption remains cancerous in SOEs. Transparency, accountability and openness should be scrupulously paid attention to in SOEs in emerging economies in order to stay away from corrupt tendencies by employees of SOEs. Good corporate governance should be responsive to societal, community and individual needs, if goods and services are to be supplied and distributed equitably in SOES (Kanyane, 2010). Organisations that practice good corporate governance systems, with both accountability systems and integrity are better positioned, are transparent and have reduced corrupt tendencies (Claessens & Yurtoglu,2012). Theme 1 presented aspects pertaining to good corporate governance and views from numerous participants. The second theme that came out of this study revolved around

corporate governance challenges or merely poor corporate governance and will be explored next.

#### **4.4.2 Theme 2: Corporate governance challenges**

Many SOEs in Zimbabwe are not performing very well because they do not focus much on best practices standards of corporate governance. Some SOEs are plagued with a plethora of challenges, hence the enactment of the new Companies and Business Entities Act Chapter 24:31 and the Public Entities Corporate Governance Act Chapter 10:31 has led to of some of the SOEs being bundled as a way of striving to save them. The second theme that emerged from the study looked at corporate governance challenges, which is discussed next.

##### **4.4.2.1 Sub-theme 2.1: Many owners (principals)**

Many SOEs should practice good corporate governance principles because failure to do results in their experiencing barriers to its effectiveness. SOEs have been beleaguered by innumerable problems of corporate governance in the past and contemporarily. The following quotations were extracted from the participants interviewed.

Participant **SM 3** shared her sentiment:

*“I want to be honest with you, we do not have clear ownership roles in most SOEs in Zimbabwe. Today, the Ministry of Finance (MOF) plays a big role and tomorrow, the principals become the other state agencies and the line ministries and this end up in misunderstandings and people tend to serve their personal interests”.*

The above views concurred with **Participant CAE3** that:

*“If ownership roles are not defined, engagement and firing of the CEO, having a say on the SOEs’ budgets approval becomes difficult as to whose responsibility is it. In that case the state will be seen carrying out the obligations of the board, that is, to engage, approve the budget and fire the CEO”.*

A CAE respondent further asserted that:

*“It is the responsibility of the board to appoint the CEO and also to fire him as well its jurisdiction of approving the budget” (Participant CAE4).*

Consequently, one deeply unhappy senior internal auditor responded:

*“In SOEs, different obligations and parameters of operations and politics of succession hinders the way boards should carry out their duties. Leadership conflicts in such instances as the operation of the boards should be avoided at all costs, that is, the CEO must not be seen mingling as the chairperson of the boards or vice-versa” (Participant SIA4).*

These results are in consonance with research conducted by the World Bank (2014) which found that there is no real or absolute owner(s) of most SOEs in most emerging economies and governments use line ministries, other state agencies as well as the MOF to act as owners in carrying out all the duties. This leads to SOEs’ results being compromised because government’s function as owners, regulators and policy makers, leaving the entities exposed as the governments try to pursue their short-term political agendas. From the above statements, it is clear that only SOEs that are not operating in the dictates of good corporate governance have problems with their reporting lines, hence SOEs must have clear reporting lines and principals so as to enhance transparency and accountability as reported in sub-theme 1. In the next section, the sub-theme of many goals and objectives that are frequently competing is explored.

#### **4.4.2.2 Sub-theme 2.2: Many goals and objectives which are frequently competing**

The sentiments shared by a CAE is encapsulated in the following quotation:

*“Because of SOEs’ competing goals, corruption becomes rampant in state entities and it is an adversary to a desirable public management system and hence it should be eradicated. Corruption impedes socio-economic development and hence it becomes a melanoma in SOEs and the country at large” (Participant CAE 5).*

The AC further indicated that:

*“SOEs should serve the interests of the public by way of creating employment for the citizen of the country. They should offer good and services at affordable prices and they must meet the dictates of the public sector purposes as well as social goals” (Participant AC1).*

One CEO retorted that:

*“SOEs should be run profitably if the Government reward us abundantly. Political interference is not called for in running these SOEs” (Participant CEO 1).*

A SM differed from the sentiments expressed by CEO1, saying that:

*“Yes, I acknowledge that too much involvement of the government retards the smooth running of the SOEs, however, the government has an obligation to serve such as the public and the national growth of the economy. If the government does not intervene, the CEOs and BODs will run these entities as their private property and agency costs will result. It is the obligation of the government to make sure SOEs are run professionally and oblige to the dictates of the constitution. The CEOs should be innovative, aggressive and must be a turn-around strategist” (Participant SM 5).*

From the above statements, it is clear that only SOEs that are not operating in a clearly defined environment with no rules, policies and regulations to adhere to, have numerous competing goals and these views agree with OECD (2012); World Bank (2014); and Claessens and Yurtoglu (2012). Those SOEs that seem not to have focus further give room for the government to intervene and direct the operations as some objectives of these SOEs may explicitly and implicitly, however, be vital in their regular habit or custom (World Bank, 2014). In the next section, protection from competition as a sub-theme is discussed and elucidated.

#### **4.4.2.3 Sub-theme 2.3: Protection from competition**

SOEs have various goals and objectives to fulfil, as opposed to their counterparts in the private sector, these goals and objectives must be fulfilled. One senior manager posited that:

*“SOEs are more advantaged than the private companies but they still face challenges, may be it is because they are used to the support they get from the state such as guarantees, subsidies, bank credit, special tax or customs rate and procurement contracts, among others as part of their preferential obligation” (Participant SM 4).*

Another respondent such as **BoD 1** unanimously agreed that:

*“Political interference, board dysfunction and deficiency, corruption, bureaucracy, loop holes in internal control systems, non-compliance to rules and regulations and funding challenges, provision of subsidies by the government, procurement practices of a preferential nature locally, a dearth of harsh regulations and transparent have led to the private sector muse that SOEs should be made to adhere to good corporate governance and transparency purposes, in order to not to succumb to poor governance processes”.*



The findings are in line with the results of the study done by the World Bank (2014) which found that in spite of the fact that SOEs have more than one objective, they do not function the same as the private sector. SOEs have easy access to subsidies, guarantees, procurement contracts, bank credit, special tax or customs rates. This leads them to not competing with other participants in the market. Owing to their non-competitive stance SOEs in the public sector should adhere to strengthened transparency methods and corporate governance processes. The effect of political leadership management styles is the focus of the next section.

#### **4.4.2.4 Sub-theme 2.4: Political leadership management styles**

In order to avoid challenges in corporate governance, management and boards should not be politicised to ensure the smooth running of these state enterprises (World Bank, 2014). Four basic functions of the board are: accountability; supervision of executives' activities; strategy formulation; and policy making. From these functions, accountability and supervision are roles concerned with conformance, whereas strategy formulation and policy making are related to performance. The following statements illustrate the management styles that are in existence in SOEs and that there is organisational politics in the running of SOEs.

One CAE participant agreed that:

*“Most board of directors in SOEs have undergone through scrutiny by the parliamentary committees which they fall under. The board is anticipated to take into consideration both the owners' needs as well as societal interests such as social corporate responsibilities. SOEs have problems such as that of dealing with transformation obstacles, business not performing well, as well as increasing costs of operations which result in failure to comply with the principles of good governance” (Participant CAE1).*

Participants in the senior management category promulgated that:

*“The proliferation of corruption in SOEs is due to poor corporate governance which result when these SOEs are politicised and hence these have side-effects on the confidence of the investor as well as reducing transparency purposes” (Participant SM 1).*

*“The organisation's value is reduced and there is hindrance of confidence of the investor and the SOEs' performance since there is increase in cost of capital” (Participant SM 2).*

*“Bureaucratic loop-holes leads to the aggravation corruption and result in barriers to effective governance in the public sector and hence the solution is put in place E-Government methods to substantially get rid of these bottlenecks” (Participant SM3).*

*“What I know is that provision of leadership which is ethical is provided by the board. There are also weak monitoring and evaluation of board members as part of corporate governance challenges. The board should be directing the SOE to agree to good governance, to become attentive and responsive with the aid of such committees as the remuneration, nomination, audit, sustainability and risk committees” (Participant SM 4).*

*“I want to put the point straight here that all SOEs are not corrupt, it is political interference and bringing on board the board of directors who are in competent, that is, without financial and technical skills and experience respectively, however, they are appointed on political grounds and how close they are to the responsible line minister of the identified line ministry of the given SOE” (Participant SM5).*

Most senior internal auditors enunciated that:

*“Financial leadership to entities is one of the main functions of the board in order to avoid haemorrhaging SOEs financially, resulting in results needing a careful thought. The CEO’s part should not be that of stopping at looking at ways of supporting the board in this attempt” (Participant SIA1).*

*“Board members and senior management have been authorising payments without supporting documents to contractors and payments which are irregular have been received by the boards without payment of taxes taking place due to the fact that are operating in polarised and politicised entities” (Participant SIA2).*

*“Most boards and senior management violate procurement and tender systems and this culture of vitiating system of tenders and purchasing results because one has political muscles behind him” (Participant SIA3).*

*“The Economic, Social and Governance (ESG) method is of cardinal importance in SOEs. Management and the board should support the principal enablers of growth in the long run such as societal and consumer trends, talent utilisation, the environment and corporate governance. Most SOEs board members and senior management could get private mileage and home telephones allowances and these were processed through dubious means to skip payment of taxation there by going against the Income Tax Act. In most SOEs in Zimbabwe, there is a lot of unhappiness and pointing out of faults to the CEOs and the board in regard to their performance since most of them do*

*not have proper qualifications, financial and technical skills and experience to run the SOEs” (Participant SIA 4).*

The above sentiments from senior internal auditors resonate with those of one of the ACs:

*“Tax liabilities for most boards in SOEs were paid by SOEs entities without the consent of the line ministry minister for the SOEs and also their huge bills for their mobile telephone allowed were not being taxed. Insider dealing can be promoted due to poor corporate governance” (Participant AC 1).*

The findings indicate that political management styles do exist in SOEs and that there is organisational politics in the day-to-day operations of SOEs. Payment of contractors without supporting documents, rendering irregular payments, avoiding paying taxes and having boards tax liabilities paid without the approval of the line ministry minister (who is a political appointee) leads to adverse corporate governance (Auditor General of Zimbabwe, 2018). Meddling politically is a result of the muddle SOEs come across in striving to reach the best balance between commercial and social factors. SOEs are established in order to contribute immensely to development of the economy (Armstrong, 2015). There is lack of knowledge by the board in significant jurisdictions such as audit and risk management in most SOEs and competent people are difficult to find, that is, those who hold qualifications in auditing and risk management at the highest level and board committee levels are nascent. In the next section, reduced accountability and transparency levels is the sub-theme is discussed.

#### **4.4.2.5 Sub-theme 2.5: Reduced accountability and transparency levels**

Following the Enron scandal, the United States of America used punitive measures in bringing about the desired level of governance of many organisations. The government promulgated the Sarbanes Oxley Act (SOX) of 2002 as a way of making entities comply with standards of corporate governance. Many governments in emerging markets have ensured that standards and international best practices are highlighted and enforced in CG in order to keep the level of corruption under control in state entities.

A participant in the senior management category stated that:

*“In hindsight, it is deduced that internal auditors fail to advise the boards in SOEs because boards and management create their own CG grey bases such that in times of transgressions the internal auditor finds it tough to stop them” (Participant SM 1).*

One member in the Internal audit department highlighted that:

*“In SOEs, IAFs should be accountable, this is also shown by internal auditors’ reporting structure whereby they report administratively to management (CEO) and functionally to the board through the AC. Public audits and parliamentary reviews are done but follow up actions leave much to be desired” (Participant SIA1).*

Two CEOs in SOEs stated that:

*“A predicate of accountability and transparency in SOEs is corporate governance. Social outcomes and policy implementation are affected by a lacuna of transparency since it is a debilitating obstacle” (Participant CEO1).*

*“Shareholders of SOEs should know what is transpiring through their line ministers in entities as well as knowing specific roles of management and boards of directors is imperative in this regard” (Participant CEO 2).*

The findings are in line with OECD (2014), which surmises that stakeholders of entities should know events taking place in their enterprises as well as the board of directors and senior managers’ responsibilities and roles since these are accountable to the members of the public. Suffice to say that this will increase the level of transparency and accountability in SOEs, rather than decrease. There is a paucity of defined performance monitoring systems for board of directors and CEOs in SOEs to enhance performance, accountability and transparency of these entities. Corruption has increased, there is limited accountability levels, debt that can adversely affect the financial system is hidden, and a dearth of transparency and its disclosure can weaken the performance monitoring agenda of SOEs. Furthermore, as lamented by Wan Abdullah, Percy & Stewart (2015), compliance to CG by stakeholders is highly pronounced and of significance to entities. Very few SOEs made reference to the fact that internal audit units underwent a quality assurance review on its IAF, which contributes to the fact that its IAF was accountable for the quality of its work by submitting itself to an independent quality review. This would build public confidence in the credibility of the work done by internal auditors. The next section discusses Theme 3.

#### **4.4.3 Theme 3: Role of internal audit function**

According to Grant Thornton (2014), management has the duty to oversee all operational systems within an entity. Therefore, it is important to have an effective IAF with clearly defined roles and responsibilities since stakeholders expect management to accomplish set objectives. Theme 2 presented CG challenges. The third theme that came out in this study revolved around valuation of risk management, internal control and corporate governance processes as the role of the IAF and is explored next.

#### **4.4.3.1 Sub-theme 3.1: Evaluation of the risk management, internal control and corporate governance processes**

Risk management, internal control and corporate governance processes are key points and the mandate of IAFs in any business. According to Asare (2009), risk management, internal control and governance systems comprise methods and systems put in place to enhance the accomplishment of the firm's objectives. In addition, it includes the risk assessment aspect, internal and external reporting reliability and systems of accountability, compliance with proper and defined laws and regulations as well as ethical and behavioural standards made for the public sector and its employees.

Respondents made remarks on CG that:

*“Competent leadership, competent employees, management support, compliance with professional audit standards, the better improvements in the governance systems role of IAF” (Participant BoD1).*

*“To us, the role IAFs is to make sure that procedures and systems of CG are taken into consideration. In SOEs if the objectives and plans are established and accomplished then one can talk of having completed the CG systems” (Participant CAE1).*

In theoretical aspects, the IIA (2006) agrees with these results in that the IAF can give an independent, objective evaluation of the veracity of an entity's governance stance and its effectiveness given that there is compliance with professional audit standards, management support, competent employees and leadership. The findings are in tandem with sentiments asserted by Asare (2009) that IAFs assist to boost governance systems in organisations by concentrating on how values are put in place to ensure efficient control and management of the public sector and this requires transparency in these organisations. Consequently, Standard 2130 (IIA, 2010) states that IAF should access and make appropriate recommendations for boosting CG systems. IAFs consider governance as of cardinal importance (Coetzee, du Bruyn, Fourie & Plant, 2012b). This is also stipulated in Standard 2110. Internal auditors make recommendations to boost the performance of SOEs and act as independent assurance partners in CG processes. Therefore, the notion that an IAF provides a credible corporate governance mechanism is well supported in the literature (Eulerich, Theis, Velte & Stiglbauer, 2013; Paape et al. 2003). In the current study, it is posited that for the IAF in the public sector to be a credible corporate governance mechanism, some of its dimensions have to be in line with those of an IAF in the private sector, even though the two environments adopt different perspectives.

As far as internal control processes in organisations are concerned, one AC averred that:

*“The availability of employees who are competent, proper adherence to professional audit standards and having adequate funding, the better control function of IAFs in the public sector” (Participant AC2).*

Views averred by one of the BoDs are epitomised below:

*“When the IAF manages to unearth corrupt tendencies in SOEs as well as reducing this corruption which is virulent and ubiquitous in nature. This corruption which could be common as a result of buying capital assets and issues to do with flouting of tender procedures in SOEs in order to avert fraud and abuse of public funds, thus when one can say the role of IAF as control function has been pronounced significantly” (Participant BoD1).*

The findings are in line with Pickett (2005); Coetzee et al. (2010) and Jackson and Chapman (2012) who posit that control activities are actions executed by role players to manage risk. Various control activities exist such as segregation of incompatible functions, proper authorisation of transactions, independent review of performance, isolation of responsibilities, proper access control (physical and logical), comparisons and reconciliations and good document design (Pickett, 2005; Coetzee et al., 2010 & Jackson & Chapman, 2012). According to Marks (2013), risks that are found in organisations' information systems, operational and governance processes have resulted in IAFs evaluating these controls. Lack of internal controls is indubitably an obstacle to operations of SOEs as well as their growth.

Consequently, a participant agreed unanimously that:

*“ERM is very crucial in SOEs, therefore, internal auditors who are able to comply with professional audit standards, the better they are in boosting and enhancing risk management performance in the public sector” (Participant AC2).*

Furthermore, another CEO retorted that:

*“Risk assessments is very important in SOEs. Having good risk Management systems in entities is beneficial and worthy it” (Participant CEO2).*

The findings are incongruent with what the IIA (2010) states that it is the duty of the IAF to assess risk exposures pertaining to the operations, governance and information systems in regard to the veracity and integrity of financial and operational information, effectiveness and efficiency of programmes and operations, compliance with laws,

regulations, policies, procedures and contracts as well as safeguarding of assets. Most of the participants indicated that all procedures listed under 'risk assessment' are 'effective'. This could be due to an increased awareness of the risk management process and pressure exerted by boards and audit committees on internal auditors, as the strategic risk management process is considered to be one of the top five primary responsibilities of internal auditors (IIA, 2010). It is also considered to be a great challenge for audit committees in future (COSO, 2010; KPMG, 2010; Steffee, 2010). IAFs would also be wise to build time into the audit plan for potential ad hoc issues. According to Standard 2120, IAFs enhance the risk aspect of entities by evaluating the effectiveness of these systems. ERM dwells on all risks within departments or all facets of the entity. In-house IAFs' contribution to risk assessment, risk management and risk communication are of cardinal importance in SOEs than contributions rendered by their outsourced IAFs.

A senior manager responded by saying that:

*“Internal auditors in SOEs should make sure that they make use of information technology since these days most of the evidence found in audits is only available and solely found in electronic format. By so doing internal auditors can be able to pin-point the risks that may affect the entity in attaining its objectives” (Participant SM2).*

These remarks resonate with Coetzee's (2010) view that a more efficient and constant audit method is required so that the IAF can ceaselessly increase value in an organisation in finding out uncertainties that may cause harm to the entity which may try to gain and accomplish its objectives. Consequently, the Institute of Internal Auditors (IIA) in its new International Standard for the Professional Practice of Internal Auditing (ISPPIA), that is, Standard 1220.A2, namely: *Due professional care*, reiterates that internal auditors should make sure that they use tools that are technology based in order to carry out their duties efficiently and effectively (IIA, 2016c). The pressure created by entities and their interested groups (stakeholders) who insist on an efficient and effective audit coverage (IIA, 2014; PWC, 2014; PwC, 2015; Tusek, 2015) makes it ideal for the IAFs to carry out and achieve its mandate. These pressures can only be achieved as long as IAFs use technology-based tools to carry out their duties and functions (Motubatse, Van Staden, Steyn & Erasmus, 2015).

One of the board of directors said that:

*“Internal auditors should always be in a correct position in order to pin-point the risks and problems that normal results in corporate scandals in SOEs. In most cases, we anticipate the Chief Audit Executive (CAE) to be heard and respected and also to display his wit, intellect and competency in these entities in order to be able to uncover*

*fraud and embezzlement of funds and company resources. This role can only be achieved if the IAF is independent by way of the reporting system it will be following, that is, IAF should functionally or operationally report to the Audit committee (AC) or the board and administratively to the Chief Executive Officer (CEO). It is also important for the IAF to work hand and gloves with management and the board and in so doing the IAF becomes respected very well” (Participant BoD 1).*

This finding goes hand-in-hand with the notion that independence of the IAF and its objective function is strengthened by numerous contributory factors, the solely significant one being the way the IAF reports, that is, its line of reporting. Reports given by other role players are of cardinal importance (IoDSA, 2002; KPMG, 2005; ECIIA, 2005; Crowe, 2006; Marx, 2008 & IoDSA, 2009) and the IIA (2006) made sure that the CAE should operationally or functionally report to the audit committee and also report administratively to the CEO. This also substantiates what was revealed in the literature review. In the next section, the value-added assurance role of the IAF is discussed.

#### **4.4.3.2 Sub-theme 3.2: Value-add assurance role**

It is crucial to note that CAEs, ACs and the IAF anticipate genuine assurance tasks that are supposed to be performed by internal auditors. PwC (2012) notes that IAF must accomplish its role of auditing financial control and compliance, giving advice on controls and organisational risks as well giving assurance. This is line with the meaning of an IAF by the ISPPIA, which states that the IAF should add value and enhance an entity’s operations by helping the enterprise to accomplish its objectives, assessing and boosting the effectiveness of the business’s risk management, control and governance systems (IIA-Global, 2013).

One participant interviewed noted that:

*“I muse that IAF’s role is to add value to SOEs and nothing else. By so doing their presence as internal auditors should be felt and their contributions should be meaningful in order to evaluate the risk management, internal control and governance processes of the SOEs since these SOEs contribute significantly to the economy in various dimensions” (Participant CEO1).*

Concurring with the same notion that IAFs should add value significantly to the organisation, one of the key participants in top management positions reasoned that:

*“IAFs are eyes and ears of management and the board and therefore, their contributions should be significantly felt by SOEs in terms of risk management, internal*



*controls and corporate governance processes as well as adding value to these entities” (Participant SM5).*

The following statements are examples of how the IAF is part of the risk management, internal control and governance processes in adding value to SOEs as well as its role in auditing of the predetermined objectives of the entity:

*“The SOE has set up an IAF, which carries out constant and continuous examination of well-arranged control mechanisms processes” (Participant CEO2).*

*“The organisation is superintended its compliance systems in regard to the SOE’s risk management methods and systems by the audit committee, and evaluate and examine the sufficient of the framework of risk management in tandem with the casualties the organisation may encounter at any given time. The internal audit activity helps the audit committee to spearhead its functions of playing the role of oversight” (Participant SIA1).*

*“The IAF verifies and examine the outcome of measures of performance at an organisation” (Participant AC1).*

These findings are in tandem with what has been stressed by several researchers such as Ramamoorti & Weidenmeier, 2004; Burnaby, Hass & Abdolmohammadi, 2006; D’Onza, Paape & Sarens, 2006; Hass et al., 2006, Sarens, 2007; Christopher et al., 2009; IIA, 2009a; Campbell, 2010; Coetzee et al., 2012; IIA, 2013 and Jones, 2013. It is vital that management of a unit, its AC and the IAF hold the same anticipations considering the assurance functions an IAF should carry out. According to PWC (2012), the IAF should also meet its traditional tasks of internal auditing, and also give advice on risks and controls thoroughly and in addition give traditional assurance with deep understanding and operational views so that it can be viewed as an important contributing partner, thus adding to the confidence of stakeholders. These expressed sentiments are in tandem with the ISPPIA in the definition of IAF, which considers that an IAF should add value and enhance an entity’s operations in order to help the enterprise to achieve its objectives by examining and enhancing the effectiveness of the organisation’s risk management, control and governance processes (IIA-Global, 2013). Staff training, experience and continuous professional education are ideal for internal audit employees in order to enhance the IAF (Davies & Aston, 2011). In the next section, assurance and consulting roles as a sub-theme are explored.

#### **4.4.3.3 Sub-theme 3.3: Assurance and consulting roles**

Unlike external auditors, internal auditors are employees of the entities they work for and carry out audits, advisory, consulting and assurance roles. An IAF is the cornerstone of CG. As such, it helps management in bonding and monitoring framework. However, it is crucial to mention the function of IAF which is double, that is, they help management in terms of consulting and efficiency as well as help the AC with matters to do with monitoring, resulting in conflicts of interests (Messier, 2010).

One participant in the IAF agreed that:

*“Reasonable assurance should be made to organisations, such that all the objectives and goals planned are carried out as intended leading to the service delivery of goods and services to the public” (Participant CAE2).*

*“Consulting services roles include business re-engineering, project management and information technology development (IT)” (Participant SIA3).*

These findings are in line with what has been aired by Chambers (2014) that internal auditors should do more of assurance roles on the board’s behalf. In addition, Sobel (2011) asserts that CAEs should be proactive in getting and developing the right skills within the IAFs so as to satisfy these responsibilities more effectively and efficiently. Lenz and Sarens (2012) state that currently, the role of internal audit is unclear and lacks a well-defined stakeholder. Stewart and Subramaniam (2010) and Selim et al. (2003) opine that IAFs play a dual role in the business enterprise in that they provide assurance and consulting roles to management. IAFs make sure the controls rendered in the entity are efficiently and effectively operating in order to detect fraud, error and also material misstatements in terms of the compilation of final accounts. In the next part, detection, insight, foresight, oversight and deterrence roles of the IAFs are discussed.

#### **4.4.3.4 Sub-theme 3.4: Detection, Insight, Foresight, Oversight, Deterrence roles.**

The IAF must perform various roles such as detection, insight, oversight, foresight and deterrence. The sentiments shared by senior managers and board of directors were, more or less, lamentations:

A single SM argued that:

*“The IAF is not carried out its work to the satisfaction of the stakeholders in these SOEs, that is, there is failure by the internal auditors to deliver their own commitment. They do not perform according to the dictates of the IIA” (Participant SM1).*

Similar thoughts were expressed by one member of the BoDs who said:

*“We expect the IAF to bring into attention to management on emerging challenges before they become crises. They internal auditors should help us to evaluate programs and policies if they are working. IAFs should minimise conditions resulting in corruption, right people to be recruited with specialised skills in order to add value, make sure entities do what they are supposed to do as well detecting illegal, improper, inefficient and fraudulent acts” (Participant BoD 1).*

In summarising the findings on this theme, it is noted that participants expressed various views on their comprehension of detection, insight, deterrence, foresight and oversight roles. The findings correspond with the internal audit activity (IAA) on public sector auditing (2006) and Khoury (2011) that oversight roles help IAFs to monitor whether SOEs are doing what they are supposed to be doing and by pin-pointing unlawful, fraudulent and inconsistent acts, as well as making vivid decisions on criminal prosecutions and disciplinary tendencies, IAFs will be playing detection roles. IAFs are seen to be playing insight roles in SOEs if they can identify programmes and policies that are working and not at a given period. Making trends and pin-pointing crises before they come out results in internal auditors playing foresight roles and also identifying and lowering incidents of corruption are some of the deterrence roles played by the IAF. The next theme focuses on challenges faced by IAFs and is explored next.

#### **4.4.4 Theme 4: Challenges faced by internal audit function**

Academic literature on public sector internal audit is scant, but evolving (Barac & Van Staden 2014; Erasmus & Fourie, 2014; Motubatse, 2014; Plant, 2014; Steyn, 2014; Coetzee, 2014 & Van Gansberghe, 2005) and, therefore, it is crucial to identify and appreciate the challenges facing IAFs in SOEs in Zimbabwe. Challenges experienced by the IAFs in SOEs are related to a dearth of knowledge of the entity; the same methodologies/procedures; findings that are repeated; quality reviews that are external and combined assurance. As the fourth theme, a possible, yet unexplored, nexus between the role of IAFs and challenges faced by the IAF emerged strongly as an issue that was raised by a number of participants in the study. This is reflected on in the next section.

#### **4.4.4.1 Sub-theme 4.1: The same methodologies or procedures**

In one of the SOEs that was part of the current study, in various situations, the IAF is outsourced from external audit firms, but the files are kept manually and the auditing systems is manually carried out. In this case, one respondent suggested the use of electronic working paper system and in that case all documentation will be possessed by the particular SOE in their computer system than the manually system which can be easily tampered with. In this case, productivity is enhanced and there is standardisation of auditing systems.

One CAE opined that:

*“I am of the opinion of developing an audit methodology for [my SOE]: most entities that we engage bring their own systems and methodologies. I want all the external audit firms that we outsource to use our system and methodologies since this has advantages to our organisation” (Participant CAE1).*

Another participant further mentioned that:

*“I hope by the end of the financial period if funds are availed to our unity, the audit management system will be acquired and start functioning than keeping on using the manual system which is difficult to use and time consuming. This is also very important due to the fact the external audit firms outsourced will use the intellectual property and everything which is be in the hands of the entity” (Participant CAE 2).*

The above findings concur with Cohen and Sayag (2014) who explain that in order for the IAF to carry out their tasks effectively, they should be independent from the auditee and its management, that is, IAFs should be free to conduct an investigation, express opinions and to make recommendations without pressure from senior managers (Mafale, 2014). Different methodologies will enhance the functions of the IAF as well as the use of electronic working paper system. The next section deals with a dearth of knowledge of the entity as a sub-theme.

#### **4.4.4.2 Sub-theme 4.2: Dearth of knowledge of the entity**

The IAF’s lack of knowledge of the business’ operations, that is, the environment in which it operates, was seen as an important challenge by participants. The response below summarises the opinions of top management about the IAF’s challenges.

One CEO succinctly said that:

*“IAFs should have experience in working in these SOEs so that they can know the business better. Internal auditors can ask several questions in order to understand the risks of the entity and they could jot them down as if it were their findings” (Participant CEO1).*

Another CEO quickly pointed out that:

*“IAFs should have proper knowledge of the entity, however, in most cases you would find that all the internal auditors will be new at the organisation. IAFs will all be recognised highly in SOEs since they always add value and they can question when things are not taking place as intended” (Participant CEO2).*

These findings are in tandem with PwC (2010) and Tabuena (2012) who state that owing to the nature of the role of the IAF, it does not necessarily have to comprehend everything about the operations of the entity and the environment in which it functions, that is, with its technical knowledge and competencies it should still be able to make recommendations and offer advice on areas that may have an impact on the business’s risk. The IAF in the SOEs should be able to learn about the business operations and environment by reviewing the organisational systems, risk assessments, and operational strategies (Alktani & Ghareeb, 2014; Diamond, 2002; Coetzee, Mihret et al., 2014; Coetzee, Mihret & Yismaw, 2007 & Van Gansberghe, 2005). As a solution to lack of knowledge of the business, the IAF should be able to amicably talk to people/auditees concerned and be apprised about these processes in order to ensure they understand and become better acquainted with knowledge of the entity as well as the business environment. The next part covers findings that are repeated and lack of legal framework as a sub-theme.

#### **4.4.4.3 Sub-theme 4.3: Findings that are repeated and lack of legal framework**

Repeated findings and lack of a legal framework is another obstacle being faced by SOEs IAFs. One of the CAE aired his views about the ceaselessly re-occurring audit findings.

One CAE commented on the issue of recurring audit findings by saying that:

*“One can observe that from the preceding years till to date, the findings are the same and last solution to embed the problems so that SOEs pay attention to matters of strategic value than operational affairs are of cardinal importance. The root causes should be identified and rectified to avoid repeated findings. Lack of a legal framework is highly pronounced within the IAFs of SOEs. The root cause as to why we have these repeated findings should be traced, so as to find out whether it is as a result of a culture*

*issue, process issue, management issue or people issue so that solutions can be proffered in order to avoid repeated findings in SOEs again” (Participant CAE1).*

This statement goes hand-in-hand with sentiments aired by Mafale (2014) that internal the audit legal framework is a broad system of rules that govern and regulate the IAF. It is a combination of auditing standards, guidelines and audit manual followed in the process of carrying out the internal audit work, for example, the internal audit charter. The CAEs in SOEs should eradicate repeated findings as a way of enhancing SOEs performances. In the next part, quality reviews that are external as a sub-theme is discussed.

#### **4.4.4.4 Sub-theme 4.4: Quality reviews that are external**

Standard 1300 of the IIA, for the quality assurance improvement programme and the professional programme of internal auditing, requires the IAF to put in place a quality assurance and improvement programme that encompasses all elements of the IAF, which should comprise all the evaluations or judgements that are internal and external (IIA, 2012). In particular, the external evaluation should be carried out, at least, once for a period of five years (IIA, 2012).

The following quotation from one of the AC highlights that his SOE has not been following Standard 1300, hence no quality evaluation has been carried out.

The AC lamented that:

*“My SOE did peer review only and has not followed Standard 1300 as it is a requirement that most entities should do external evaluations. A lot of entities including my SOE has not done external quality assurance and most of them have not put in place a quality assurance and improvement programme” (Participant AC1).*

In the next section, combined assurance as a sub-theme is going to be explored.

#### **4.4.4.5 Sub-theme 4.5: Combined assurance**

King III report principle 3.5 saw the introduction of combined assurance as of cardinal importance in terms of corporate governance. In this case, it is envisaged that IAFs should be seen advocating for this as well as spearheading the programme, that is, execution of the combined assurance (IoD, 2009). SOEs that were not considered to be strategic are having problems in executing combined assurance, which could prove to be a challenge for the IAF as SOEs that were involved in the strategic sector are part of

the combined assurance procedures in their various entities (IoD, 2009). Sentiments shared by the AC participant are encapsulated in the following quotation:

*“Other providers of assurance should work together with the internal auditor in providing combined assurance. SOEs have not yet reached that level and therefore, it is critical that the IAF should be able to pin-point upcoming uncertainties, thus playing an imperative function for pristine SOEs as thriving entities” (Participant AC2).*

In the next section, the last theme, that is, sustainability of SOEs is discussed.

#### **4.4.5 Theme 5: Sustainability of state-owned enterprises**

Sustainability of SOEs was frequently acknowledged and referred to by participants. This constitutes the fifth and final theme to be explored in this chapter. The experiences of participants on the role of IAFs, viewpoints and concerns provide a more nuanced and intricate comprehension of the role of IAFs in performance of SOEs in the Zimbabwean context, while illuminating numerous factors surrounding the CG approach. These being considered, one is left with no option than to reiterate the complexity of the problem, which is camouflaged by CG challenges. According to Kiron et al. (2015), many entities battle due to the complex nature of overseeing various sustainability-related matters to coordinate their sustainability. A best practice business strategy is to leverage challenges of sustainability into increased revenue, profitability and competitive advantage. Success of SOEs depends on placing sustainability at the epicentre of business models (Fernando, 2012). The planet is encountering constraints because of insatiable nations with voracious appetite and organisations that are exhausting global resources at an unprecedented rate (KPMG, 2012). Nowadays, sustainability, particularly of SOEs, is considered a crucial organisational goal (Epstein & Roy, 2003; Pfeffer, 2010). Ceaseless improvement and obtaining a positive cash flow is defined as sustainability. It can also be stated as the management and coordination of environmental, social and economic factors that ensure a responsible, moral and on-going success. An analysis of the sentiments by Epstein and Roy (2003) as well as by Pfeffer (2010) on sustainability indicates that the participants perceived IAF's lack of knowledge of business operations and the environment in which the department operates as a significant challenge. However, owing to the nature of the role of the IAF, it does not necessarily have to understand everything about the business operations and environment: with its technical knowledge and competencies it should still be able to make recommendations and offer advice on areas that may have an impact on business risk. The IAF should actually be able to learn about business operations and environment by reviewing organisational systems, risk assessment and strategies. In the following sections, sub-themes are discussed.

#### 4.4.5.1 Sub-theme 5.1: Sustainable development.

Sustainability is crucial in entities particularly SOEs. From the interviews carried out, an issue of sustainability of SOEs came out. As a result, there was unanimity among all participants that sustainability is crucial in SOEs. One CAE participant aired views on sustainable development by saying that:

*“Sustainability of SOEs should now be in the DNA of SOEs directors and therefore standards of CG entails directors of SOEs to consider sustainability reporting seriously”* **(Participant CAE3).**

One participant in the senior management **(Participant SM1)** group argued that:

*“Good corporate governance entails organisations to pay attention to sustainable development matters. Sustainable development comprises of three inter-connected and anchoring pillars which are economic development, environmental protection and social development”.*

In the same way, one member of the board of directors opined that:

*“A company is sustainable when it continues to exist the rest of its life and when its viability is pronounced and continue to contribute meaningful to the economy and the growth of the industry”.* **(Participant BoD1).**

These findings are similar to what has been proposed by Lamberton (2005) and Schaltegger et al. (2016) that a company must not curtail its operations and must keep on operating and being sustainable. It must be viable and should have the ability to contribute positively to the economy and industrial growth. In order to meet sustainable development for the current and future generation, directors of SOEs should keep a balance of attaining societal obligations and legitimate anticipation and the need to make profits. To ensure long-term sustainability and growth of an organisation, it is vital for top management (comprising owner-managers and professional managers) to be able to identify and reconcile the diverse stakeholders' interests by recognising organisational obligations to wider and more ethically concerned constituencies (Simmons, 2004). This view is consistent with that of Carroll and Buchholtz (2014) who posit that to be responsible corporate citizens, organisations must pursue both profit and social responsibilities. When the route is unsustainable due to profit losses, it prompts bailouts by the state, which burdens its already overstretched fiscus. If corporate and social motives are not properly balanced, there is the potential for capital loss due to political interests and social responsibilities at play superseding profit and



corporate investment targets (SOEs Policy Dialogue Report, 2012). The next section deals with the sub-theme on integrated reporting as the last sub-theme of the study.

#### **4.4.5.2 Sub-theme 5.2: Integrated reporting**

The Zimbabwe National Code on CG (Zim Code) has set provisions on sustainable development and also incorporates integrated sustainable reporting standards. SOEs should create employment and also try and alleviate poverty. SOEs can advance in transparency and accountability matters through timely reporting and quality auditing of performance. This should go beyond financial reporting to integrated reporting with SOEs being role models for good reporting systems and could advance building trust and integrity between the community and government. According to Singh et al. (2020), risk managers should be able to take note of sustainability factors in their risk management process in SOEs thereby dealing with sustainability matters at the risk mitigation stage. Emphasising on the matter of sustainability, one participant in the internal audit unit said that:

*“Our country has both the private and public sectors and therefore, corruption and poor CG are the key hindrances of sustainability in the business world. Wanton greediness and the need for self-enrichment at all costs are the root causes of corruption. For sustainable economic development, good CG and zero tolerance to corruption is ideal in the private and public sectors respectively. Private sector players are viable conduits to siphon public funds as most of these have been exposed in most SOEs” (Participant SIA2).*

One AC pointed out that:

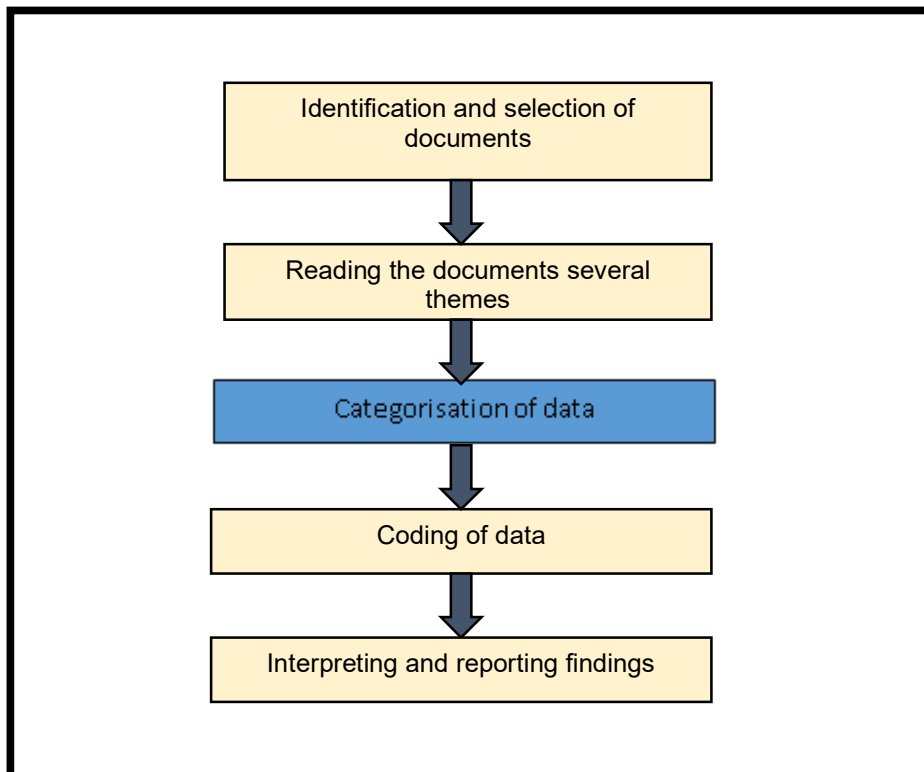
*“The SOEs should always make an integrated reporting of financial information and matters to do with social and economic environmental impact, and recommends that the AC involves an external service provider to acquire the material aspects of sustainable reporting” (Participant AC2).*

These findings are in agreement with Wang, Wart and Lebrede’s (2014) line of thoughts, who suggested that leaders for sustainability must promote a range of economic, environmental, and social systems over a period specified by actors including members of the board, shareholders, legislators and the public who have interest in the welfare of the community. However, it can be argued that there is uncertainty in balancing financial earnings and profits with sustainability. It is noted that from the various strategic documents, SOEs display a sense of responsibility and commitment to sustainability, with less action being taken to live up to the anticipation of the shareholders and the public. Several transgressions reported to have been

observed from these entities indicate that some of them are not financially viable and stable. The next section briefly analyses documentary reviews of the Auditor General of Zimbabwe's annual reports for SOEs.

#### 4.5 Documentary analysis

Documentary reviews of annual audit reports compiled by the Auditor General were reviewed. The audited financial reports were uploaded into the ATLAS.ti and coded using concept-driven and data-driven systems. The researcher came up with themes central to the research objectives and created categories (Braun & Clarke, 2014:58). The analysis was to pay attention to the roles of the IAFs, which depended on what would have appeared in the Auditor General (AG) reports. According to Schreier (2012), specified research questions guide the coding frame. For instance, using the concept-driven coding frame, the area to pay attention to is the roles of IAFs, which means the key categories in this coding frame become roles and the code that was given in the AG reports has become expected roles of IAFs. This has resulted in identification of segments or any statement of text in the AG reports which show the role of IAF as the code example or descriptor. Figure 4.4 shows the procedures involved in document analysis.



**Figure 4.4:** The procedure in document analysis

Source: Adapted from Bowen (2009)

When data is collected to address the research questions mentioned in the study, Ackermann (2015) and Schreier (2012) described the approach of generating codes as Concept-driven or deductive reasoning. However, texts or segments were also used to depict the roles of the IAFs in the AG reports using the data-driven coding scheme (Ackermann, 2015), that is, AG reports were scanned using ATLAS.ti and then the data was inductively coded. For the term IAF, the terms such as activity, department, or unit were used. In this way, the role of IAF as stated in the AG report was found. From the analysis rendered by the researcher, findings and observations were made from the AG reports and these are shown on Table 4.6.

**Table 4.6: Observations from the AG reports on roles of IAFs**

Number	Observations.
1	The IAFs and ACs did not practice their oversight duties in order to make sure that internal controls were monitored and executed.
2	Lack of capacity and budgets constraints further affected the functioning of the IAF to carry out their audits in a manner as codified by the IIA in such cases as the supervision, reviews and training could not take place as anticipated and therefore, the oversight role has been compromised.
3	As indicated by the AG reports, at some SOEs, effective and well-resourced IAFs have helped to enhance the internal controls and have had a positive impact on audit outcomes. The main reason for the lack of positive effect was failure by management to address internal audit findings.
4	IAFs were not fully capacitated with skilled and experienced staff. Although IAFs existed in most SOEs, the control environment will be compromised if their findings are ignored and not considered as a serious matter, which lowers the level of assurance that can be put on financial information and the control environment.
5	Some SOEs had ACs and well-structured and established IAFs, however, some ACs and IAFs were not making favourable impact on the audit outcome and were not practising their oversight roles.
6	Oversight bodies such IAFs do not pay enough attention to the execution and enablement, enforcement and monitoring of compliance with legislation. As a result, SOEs ceaselessly incur irregular expenditure and suffer from a poor culture of internal control with inadequate emphasis placed on the prevention and rectification. Irregular expenditures in SOEs cannot be attributed to any identified person and this anomaly should be rectified by identifying the person who could have done the anomaly so that we can tell if the person was accountable for that spending or irregular expenditure.

7	There is a dearth of oversight roles in most SOEs and this leads to lack of adequate progress.
8	The top executive and leadership of SOEs and those charged with oversight and governance functions should work towards enhancing the main controls, addressing the root causes and making sure that there is an improvement in the six key risk areas, thereby giving assurance on the quality of the financial statements and performance reports as well as compliance with legislation.

Source: Auditor General Reports (2013-2019)

The findings addressed one the objective of the study. The oversight role was found to be the dominating role of IAFs in all SOEs as far as the AG reports were concerned. All other roles, as recommended by the IIA standards and in the literature, such as deterrence, detection, foresight and insight, were found to be less emphasised and, in most instances, not mentioned. Superintending of the IAFs must be done by a well-trained and educated individual and managed by an AC of good standing. It is vital that IAFs ceaselessly monitor and report on the commitments made by management of SOEs. By so doing, the IAFs will fulfil the significant function of giving oversight on work performed by those in authority, which is not the case now. Robust oversight of reporting on the objectives of IAFs and AC should be rendered so that the IAFs can add value as well as ensure they are functional. IAFs should guide management. A functioning IAF should play various roles, as discussed in the literature review of this study. However, it has been highlighted that the AG reports value or consider the oversight role as the main and most vital role to be played by IAFs in SOEs. It should be indicated that the literature suggests that oversight, deterrence, detection, insight and foresight are roles played by IAFs. It would be interesting to determine how the AG would like to see other roles played by IAFs in SOEs since it emphasises more on the oversight role than any other, as recommended by the literature.

#### 4.6 Conclusions

The chapter commenced by reporting on the response rate. Thereafter, participants' demographic information was analysed. Information on respondents' age, gender, level of education and the respondents' years of experience were discussed. A discussion of the results of the study was done according to the research objectives. Themes and sub-themes on the roles of IAFs were discussed. The results, ultimately, indicate that if the IAF is well-resourced and supported, improvement in the performance of SOEs is high. IAFs are the cornerstone of CG and, therefore, they do play oversight roles in SOEs. From all the findings, deductions and analyses were made. It was noted that there are specific roles required of and anticipated from the IAF. Contributions were made by CEOs, senior managers, ACs, senior internal auditors, CAEs and board of

directors who are still working in SOEs through interview guides and from the AG reports through document analysis. Chapter five, the final, presents the summary, conclusions and recommendations.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

#### 5.1 Introduction

In the preceding chapter, data presentation, interpretation and discussion of results were the focus. The current chapter presents the summary of findings, implications, contribution to existing knowledge, recommendations for future study, limitations, conclusions and recommendations. The crux of the study concentrated on the role of internal auditing in the performance of SOEs using a CG approach. This chapter gives thoughts on the contributions made by the research to the field of internal auditing. The main research objective looked into the role of internal auditing as well as developing a practical framework or model for effective IAFs in SOEs in Zimbabwe. The study collected data using semi-structured in-depth interviews and document analysis. The qualitative research method was used in this study and data was analysed using Atlas.ti software. In order to determine the extent to which the research questions were answered, the findings of each of the themes were juxtaposed with the research questions.

In this chapter, the primary research questions and objectives as well as secondary research questions and objectives are revisited in order to come up with the final conclusions and to make recommendations that are feasible. Eventually, a framework is proposed for the IAF effectiveness as the contribution of this study research to assist to ameliorate and/or proffer solutions to the research problem identified. The importance roles of IAFs in entities, corporate governance systems and sustainability and performance of SOEs are of cardinal importance in the current research. Notwithstanding the importance of the IAFs in entities, the IAF still encounters a dearth of research as signalled by many researchers such as those who commend a rise in research to overcome the obstacle (Al-Twajjry et al., 2003; Yee et al., 2008; Arena & Azzone, 2009; Cohen & Sayag, 2010; Radasi & Barac, 2015). This research contributes to address this recommendation. The outcome of the research showed that internal auditing is a must-have either as a department within the entity (in-house function) or as an out-sourced function, but it cannot be disregarded completely. This view that out-sourcing the IAF is of utmost importance to auditees as well as audit institutions is buttressed by Inua and Abinga (2015).

The foundation of this research was founded on the understanding that SOEs in the economy are not performing very well and always rescued by the government in the form of bailouts, leading to draining the fiscus. The outcomes of the research indicate that improvement of corporate governance systems can take place in SOEs if only they

establish IAFs. This perspective is commended by various researchers who previously quantitatively researched on IAFs and organisational governance such as Hermanson and Rittenberg (2003), Kaaragiorgos (2010) and Zaman and Sarens (2013). IAFs can assist the board and management to enhance quality, integrity and keep an eye on unscrupulous pursuits in an entity via consultancy and assurance systems. This, according to Cohen et al. (2004), gives internal auditing its impetus as a CG mosaic.

The current chapter commences with an overview of the research followed by a summary of key findings and depicts how these findings have met the research objectives of the study (incorporating a contribution to the existing body of knowledge, as expected of a doctoral research study (Isaac et al., 1992 & Thomas, 2015). Furthermore, certain conclusions and recommendations that correspond are reflected in this chapter and these are obtained from the outcomes of the qualitative method of data analysis. Conclusions and recommendations are obtained from the research objectives and the final decision from the study outcomes. According to Oster (2017), a conclusion depends on all the data collected and analysed in order to draw contributing factors and inferences. The chapter further reflects the main contributions of the study to the existing body of knowledge, limitations of the study findings, implications of the study findings. Suggestions for further or future investigation precede the final conclusions of the study.

## **5.2 Summary of Main / major findings of the study.**

Generally, the crucial findings are those that are connected straight to the aim and objectives of the study as well as those which are related to the research questions. As elucidated previously, the aim of the study was to examine and identify improvements in the current roles of internal auditing in Zimbabwe mainly regarding the performance of SOEs. Data was analysed using ATLAS.ti and semi-structured in-depth interviews and documentary analysis were used to collect data. IAFs have several roles such as oversight, detection, deterrence, foresight, insight, assurance and consulting roles as indicated by the findings from this study. The study found that IAFs in SOEs also face several challenges as reported by the respondents. Five key themes emerged from analysing the findings of the research, namely: good CG, CG challenges, roles of IAFs, challenges faced by the IAFs and sustainability of SOEs. Based on information and data analysed in Chapter Six, the summary of the key findings are given in the next section in tandem with the initial focus of the study. This study contributes to the existing literature on internal auditing and challenges faced by the IAFs. A new dimension is added to the study by the provision of the framework that shows factors contributing to the effectiveness of the IAFs in executing their roles in SOEs.

### 5.2.1 Good corporate governance

Good governance is a predicate of transparency and accountability in SOEs and several other areas of social and economic context as governed by the state. At the moment, the state is interested in good governance and SOEs have been put in the spotlight. The finding reveals that improvement in CG results in enhanced accountability, compliance with requirements pertaining to disclosure and improved audit results (Gao & Kling, 2012). Governance aspects such as internal audit, risk management and the AC, among others, have played a great role in boosting the strength of CG in the Zimbabwean public sector, thereby impacting positively on the audit results. The major findings of the study indicated that most participants acknowledged the positive influence of good governance in the day-to-day operations of the entities. The study findings showed that in times of economic woes, CG is imperative, albeit it is not the root cause of the crisis in that it helps in the recovery of the economy by being a crucial support of accountability and transparency, hence it becomes a necessary part of value-adding entrepreneurship (Kirkpatrick, 2009).

The outcomes of the study revealed that IIA guidance, compliance of IAFs with the IIA standards as well as internal auditors with professional certifications can boost the internal auditor when taking part in CG matters. Thus, the study showed that CG is being talked about daily because of the aftermath of corporate failures and corruption, which is endemic as well as the demand and need for professionalism and transparency in SOEs (Martin et al, 2011, Windsor, 2014; Pagano & Immordino, 2012). Additionally, another important dimension was recommended by Zuckweiler and Rosacker (2014) that students in schools of business be inculcated in the comprehension of the CG mosaic. This could happen by including CG into their curriculum in order to prepare them adequately for the business world. All the hindrances affecting the wrongdoing that impinges on sustainability and performance are served if good CG mechanism prevails since integrity and anti-corruption aspects are promoted.

Decision making process is supported by good practices of CG, which can result in the equitable allocation of resources in organisations and in the country (Bojanic, 2012). Furthermore, the respondents also pointed out that good governance enhances the performance of the company as well as that the entity can easily access capital, particularly in developing countries; this finding is in consonance with IFC (2014). CG should ameliorate agency problems and be able to eradicate eventualities in SOEs in Zimbabwe. The finding shows that IAFs with good knowledge of CG impact positively on SOEs' performance. However, those IAFs with poor knowledge of CG results in organisations being dysfunctional. Respondents in this study conceded that good CG increases foreign direct investment in developing economies, a finding that concurs with the results of Vo and Phan's (2013) study. This study looks at the role of IAFs in the



performance of SOEs using a CG approach. The aspect of CG was extensively covered in Chapter Three as well as in Chapter Six where CG was considered a theme through the analysis of data. CG was qualitatively assessed using deep interview methods and it was concluded that: i) SOEs were affected and supported by the institutional governance of the country, ii) the application of active shareholding results in the success of an entity and not the ownership issues, iii) CG structure should be restructured in terms of its framework, the state's shareholding policy, its implementation, and other matters.

The fact that SOEs are companies makes it a requirement that they must practise good CG. This means that SOEs should not always depend on bailouts from Treasury; they must function competitively so as to become viable. It was concluded that the government and SOEs should consider good CG as an asset rather than a hurdle with the expectation that this will result in the development and growth of SOEs. IAF is a function that is important in corporate governance of entities, thereby superintending risks of the organisation, assessing as well as examining control mechanisms (Paape et al., 2003; Carcello et al., 2005; Saren, 2009; Soh & Martinov-Bennie, 2011). Interestingly, considering the economic perspective, the study reveals that CG is anticipated to use favourable economic resources among various projects by designing contracts that are proper and economising transaction costs. CG, from a social perspective is anticipated to make sure the interests of individuals, entities and society that are controversial can be balanced. Eventually, from a perspective that is ethical, CG looks at ways of finding a balance that is moral between maximisation of profit and values that are ethical. The finding that CG looks at the balance that is moral concurs with Mallin (2011), who concluded that CG is part of the mechanisms which link the board, shareholders, management and other stakeholders of the organisation in order for organisational goals to be met: i) systemic control methods that are internal, ii) relationships between the organisation, management, board, shareholders and stakeholders, iii) means so that the organisation is managed in tandem with the interest of shareholders or stakeholders, iv) flow of information and accountability. Consequently, it is important to understand those value perceptions that precipitate the completeness of good CG in SOEs, coupled with the inimitability of qualified AG audit reports from the AG's office in Zimbabwean SOEs. CG is a modern subject for policy makers, academics, would-be investors and researchers. CG has been seen by others as an important solution for SOEs, others have attributed the crisis of 2007-2008 to paucity in CG of SOEs in the public sector. Indispensably, this accentuates the importance of CG to the performance of SOEs.

## 5.2.2 Corporate governance challenges

CG challenges are not insurmountable and this study has observed an array of SOEs CG problems. These include, but are not limited to, many principals, boards that are politicised, corruption, maladministration, conflicting goals and objectives, undercapitalisation and poor debt recovery, among others (Claessens & Yurtoglu, 2012 & World Bank, 2014). However, these challenges result in sustainable development of SOEs being hampered. Weak internal auditing systems and pitiable levels of disclosure and transparency result in poor CG. Poor auditing standards, lack of transparency, poor internal control methods and disclosure lead to CG challenges in SOEs. Therefore, policies should be put in place in order for SOEs to be viable. The findings on SOEs' CG challenges are important and their benefits significant as indicated by views of the study participants, which shows that the study is consistent with the outcomes of other researchers, notably (Claessens & Yurtoglu, 2012; World Bank, 2014 & OECD, 2014b) that concur that the challenges being faced by SOEs play a critical role in informing government policies on SOEs, such as having the PECO Act (Chapter 10:31) and State Enterprises Restructuring Agency (SERA) that oversee the operations of SOEs and the Corporate Governance Unit (CGU), which is located in the Office of the President and Cabinet (OPC). The CGU is responsible for gathering information from the public sector related to CG matters, oversight of public entities in collaboration with line ministries and compliance with the provisions of the Act, coordination and oversight of the induction of the board and training programmes. The afore-mentioned findings are in tandem with studies carried by Rajagopalan and Zhang (2008) and Okpara and Wynn (2011), who opine that failure by SOEs in emerging economies to accept the global corporate governance best practice is worrisome.

Additionally, widespread high-profile corrupt collapses and illegal activities promulgated by top officers in SOEs were specified as serious barriers in breaking up good CG systems in the varied SOEs. This perspective was corroborated by Weylandt (2016) and Coetzee (2018) who contend that the SOE sector is overspread with corrupt and fraudulent vices and further stipulate that collapses have also been noted in entities such as NSSA, NETONE, ZINARA, NRZ and others and encourage the board and senior management of these entities to deter wrongdoings and allow good CG mechanisms to be put in place (Auditor General, 2018). Conformance to the CG codes and execution of the current laws and regulations should be reinforced for non-compliant SOEs. Appointment of board members who have the right qualifications, experience and skills is important in SOEs. Consequently, in order for SOEs to survive in complicated and in circumstances where competition is very high, dedicated and motivated BoDs, CEOs, management and employees are the way to take for SOEs to be intact. Boards should be strong in order to support sound governance. Furthermore,

boards members should be restricted to serving on not more than two boards at any given interval because taking part in various boards can compromise boards members' contributions and efforts.

Most respondents conceded that poor CG in SOEs result from the board not authorising most of the contracts, overpayments of contracts by senior executives in SOEs without proof for the contract variation approval, SOEs were prejudiced of colossal sums of money due to payments that were made without the approval of the board. Research findings indicated that good CG is violated and breached in some SOEs when top management chair different boards of the entity, thus failing to execute the managerial mandate. It is, therefore, imperative that independent members be appointed to boards in order to avoid conflict of interests. An independent board chair is needed in most SOEs in order for proper governance to be exercised so as to have functioning SOEs. It is vital, according to Dickinson (2016), that board positions be given to qualified people to ameliorate governance obstacles in SOEs. Wrongdoings such as tribalism, affiliations to parties and nepotism should be avoided by all means possible and merit should guide when recruiting and promoting personnel.

It should be noted that from the challenges cited by respondents that government's wider policy is all encompassing as far as addressing the challenges that have been cited (Auditor General, 2018). Feedback from the SOEs indicates that government often finds out the factors resulting in SOEs having challenges and finds ways of motivating SOEs to grow and become productive. The general discourse from the study posits that matters related to SOEs support as well as CG support have been playing a critical role with regard to seriously looking at the needs and wants of SOEs.

SOEs are bedevilled by a myriad of challenges that include poor debt management which affects service delivery, leading to a nosedive in revenues. Loss-making SOEs should be examined for sustainability purposes in order for going-concern matters to be addressed as well as restructuring their balance sheets. This has resulted from gross abuse of these entities by bosses, leading to the moaning of the government (Auditor General, 2018). The finding reflected that the thread that caused the failure of SOEs was that executives were too much powerful without deference to the board of directors and, as a result, the board of directors were not strong enough to manage or control their management. Some scholars saw the board as wrong in that they considered political interference in influential decisions in their entities that concurs with what was said by Kanyane and Sausi (2015) that political interference is too much in many SOEs and that numerous boards are appointed because they serve an identified political party. Armstrong (2015) also notes that political interference that muddles makes SOEs to have difficulties in reaching the best balance between social and commercial goals. The study revealed that the performance of the board and most CEOs in Zimbabwean

SOEs is criticised by many and there is a lot of dissatisfaction among the populace. The SOEs have violated principles of good CG by disregarding compliance with the Companies Act, the PFMA, PECG Act (Chapter 10:31), Constitution of Zimbabwe, Amendment number 20 of 2013, and Treasury Instructions.

Of paramount importance is that SOEs' challenges are being addressed through the PECG Act (Chapter 10:31), which was enacted in 2018 as more SOEs are re-engineering in order to enhance their growth. The PECGA is a very important piece of legislation that has been ceaselessly used to make sure the growth of SOEs in the economy is successful or enhanced. In this case, alignment of the laws is necessary in order to satisfy the always different needs of the various SOEs. The OECD (2014b) concludes that SOEs' challenges assist the government to design policies and allow the policies' delivery to help SOEs and ensure their sustainability. Under normal situations, government policy on SOEs is anticipated to interfere and do away with CG barriers in the public sector. Thus, it was concluded that CG challenges of SOEs were important in reminding the government about policies relating to SOEs. As revealed, the findings show that the government, as the shareholder of SOEs, has been timeously and immediately failing to review policies that are imperative in the growth of SOEs. With the know-how that the participants had on CG challenges of SOEs, one could anticipate that the review of policies is often done in order to better re-engineer the SOEs.

For organisations to attain their intended objectives, they require a kind of management that is well-versed in the financial area as envisaged by the previous research by Tarasovich and Lyons (2015). A dearth of ethical values by management leads to irregular acts, maladministration and corruption in organisations (Ricketts & Ricketts, 2011; Disoloane, 2012 & Madonsela, 2013). Thus, by implication, a culture of effective and efficient service provision can be attained by boosting the technical expertise of management so as to meet the economic growth target, which results in functioning SOEs. It is imperative to note from the results of this study that good leadership and management support impact significantly on accountability and strategies of the public sector and this is in line with Adams (2017) and Kats et al. (2015). In this regard, SOEs should enforce compliance and oversight in order to improve their security architecture and competitively contribute to the development of the Zimbabwean economy. Responses from the study participants indicated that there is still a colossal gap between SOEs' CG challenges and these can be applied seriously in order to inform the government's policy review. CG challenges in SOEs include many goals and objectives that are often competing, many principals, politicised boards and management, lowered transparency and accountability, and corruption and protection from competition, as acknowledged by innumerable participants. In consonance with this, policy makers conceded that CG challenges faced by SOEs require general review of the policy in order to lessen their dangerous or hopeless situation. CG challenges informed

government policy, as shown by the outcomes of the study, hence a lot is supposed to be done in proffering solutions through government to the CG challenges of SOEs.

It was importantly noted that notwithstanding SOEs' CG challenges, frantic efforts should be made by the government in order to offer solutions. In order to stop this enigma, the government, as owner, should recruit proper and fit directors by following a process with a sound due diligence. Whilst proper boards that are competent, knowledgeable and skilled have been appointed, an arm's-length approach to issues to do with SOEs should be adopted by the government in order to insulate SOEs from political patronage.

### **5.2.3 Roles of internal audit function**

Internal auditing evaluates areas where CG can be buttressed as well as taking corrective actions in instances where these are supposed to be taken and hence an improvement in confidence of the public result as far as CG is concerned. Without doubt, IAF is inextricably connected with governance, given its role within the entity, and should therefore, be able to respond effectively to the entire regulatory requirements. An increased entire perspective of the CG and the alignment of the activities and internal audit skills in order to gauge, improve and oversee the CG capability of the organisation is met by the IAF. Research findings showed that IAFs assess and meaningful contribute to the superintendence and enhancement of risk management, control, and governance (Lin et al., 2011; Udeh & Nwadiolor, 2016 & The Chartered Institute of Internal Auditors, 2017) as well as emphasising more in internal auditing's value adding aspect to an entity (Sarens, 2009; Arena & Azone, 2009; Suleiman & Dandago, 2014 & IIA, 2017). Respondents agreed the IAF is seen to be contributing to CG due to the internal auditing's connection with other cornerstones or players of CG such as management, AC, external auditors, among others, and the same nexus has been chronicled by Cohen et al. (2004) as a "CG mosaic". The above corroborates the findings of Sarens et al. (2012). It was also evident from the findings that respondents conceded that the significance of internal auditing in CG depends on the IAF's role as the internal solitary monitoring system that is found to be operating on a daily basis at an organisation (Prawitt et al., 2009; Soh & Martinov-Bennie, 2011). This results in the implication that IAF is seen as the eyes and ears of management (Reynolds & Aggarwal, 2011). This, therefore, means that by having this role, IAF is located well in SOEs as an indispensable element of the CG mosaic (Carcello, Hermanson & Ye, 2011; Gramling et al., 2004; Soh & Martinov-Bennie, 2011). Therefore, the impression that an IAF gives a tenable corporate governance system is well buttressed in the review of the literature (Eulerich, Theis, Velte & Stiglbauer, 2013; Paape et al., 2003). Internal auditing is one of the cornerstones of CG that assists the principals of SOEs to conquer the information asymmetry. As stated in the Agency Theory, a stumbling block

can be forced into practice by the other agents (management) so that an eye is kept in order to make certain the effectiveness of the costs, as propounded by Swinkels (2012).

The findings insinuate that procedures for the assessment of the performance of the IAF have not developed simultaneously with its roles. It is rather difficult to evaluate the magnitude of how the IAF is satisfying the demands and anticipations of the stakeholders in SOEs. In this regard, quality assurance and improvement program is called for (QAIP) (Standard 1300) is called for and this is ideal since it is meant to give an evaluation on the degree of IAF's abidance with the IIA standards (IIA, 2017). Sarens et al. (2012) found that an IAF owning a vital role is notably and categorically analogous with the extant of quality assurance and improvement program. Aside from Standard 1300, the significance of conformance with standards is also underscored in Standard 2060, which stressed that the CAE should incorporate, in his reports to management and the Board of Directors (BoD), an evaluation of the degree of IAF conformity with the code of ethics and IIA standards (IIA, 2017). Therefore, internal auditing does not carry out monitoring and advising function solely for the boards responsible for the entity, furthermore, the IAF is also mandated to supervise the prior defence lines, since these lines of defence are supporters of management and the AC and assist them to accomplish their oversight roles (Anderson & Daugherty, 2012; Deloitte, 2011 & Sarens et al., 2009).

The study revealed that IAFs should adjust to the changing orders of the entity, for example, in SOEs as surmised by Radasi and Barac (2015). IAFs are a value-adding process that is crucial because it can unearth and stop fraud in SOEs (Burnaby, Howe & Muehlmann, 2009; IIA, 2010; Abbott, Parker & Peter, 2012; Halbouni, 2015). It is also noted by Halbouni (2015) that it is not the prerogative of IAFs to oversee fraud prevention programmes. However, it is of cardinal importance and imperative that internal auditors assist in the identification of fraud risks in SOEs. Internal auditors undertake reviews of individual systems and processes and, consequently, make recommendations to head of public sector entities on how internal controls could be improved. Internal auditors are seen to be instrumental in carrying out value-for-money (VFM) audits, which include audit of economy, effectiveness and efficiency of spending plans or SOEs expenditure.

The research findings indicated that most of the SOEs have IAFs and a few intend to have one in the ensuing years. It is a government requirement through legislative frameworks such as the PFMA and the Constitution of Zimbabwe, Amendment Number 20 of 2013, that all SOEs establish internal auditing units. In spite of the fact that IAFs are not established in some SOEs buttresses our study's research findings, one interesting finding needs to be accentuated. It was found that middle level managers viewed IAFs as units which are supposed to be mandatory in SOEs whereas other

executives in SOEs viewed the function strongly in terms of business partnership. Reinforcing CG practices of entities was among the important means proffered by various regulatory arrangements in an attempt to decrease corporate collapse among SOEs. IAFs are a vital component of governance and have a fundamental influence on good governance (Badara & Saidin, 2014 & Vafaei & Christopher, 2014). It was also found out that respondents tended to agree that IAF is a cornerstone of the CG mosaic. This finding concurs with Allen et al. (2013) who suggest that IAFs are main pillars of CG that can guard against improprieties. It is of utmost importance that, in order for SOEs to adhere to good corporate governance, they must fully be in conformity with the regulations and rules that govern the function itself. The opinions of audited financial statements of SOEs should shift from a disclaimer into a qualified since these have been unstable for quite a number of years. Although SOEs have made progress, which is exceptional in sorting out their qualification matters from a disclaimer status to sound auditing, they have challenges in dealing with qualifications pertaining to Irregular Fruitless and Wasteful Expenditure (Auditor General, 2018). Thus, SOEs should be obligated to successfully control their expenditure as well as enhance their collection of revenue model across all revenue streams in order for them to be successful and improve the growth of the economy in the near future.

In line with the research aim, this theme is used to access views of internal auditors regarding its role in CG processes in SOEs. All the respondents reported that IAFs perform various roles in their organisations such as risk management and ameliorating strategies, maintenance of internal control system, safeguarding of assets and supporting of the AC. One respondent in the internal audit unit opined that IAF gives assurance to the board that information technology is adequate and safe to drive the organisation. Most respondents were of the view that CG is a major driving mechanism for the changing role of the IAF. Conversely, most respondents gave the following as factors contributing to the smooth operation of IAFs: technological improvements; segregation of duties; AC support; qualified audit personnel, and proper procedures and documentation. In a few SOEs, most participants cited key achievements such as reduction in fraud, costs, and qualified reports as a result of strengthened internal controls. Other notable trends in achievement included significant improvements in CG systems, improved risk management and control processes, demystifying the IAF as a policy entity and getting cooperation from other departments and members of staff.

#### **5.2.4 Internal audit function challenges**

IAFs in SOEs are of cardinal importance and seen as cornerstones of the CG mosaic. The findings from this study lend credence to the contributions of the function to CG systems. In the light of this, it is high time researchers look at the implications of the study findings in terms of the challenges the profession of internal auditing as well as

practitioners' encounters in line with expanding roles IAFs undertake in CG areas (ISPPIA, 2016). The findings further show that some SOEs' IAFs are supposed to address up-coming eventualities, whilst the technical specialists augment the in-house functions, hence they give an understanding of initiatives that are of strategic value to the SOEs. Considering these findings, it is germane that respondents show trust in and dependence on the internal audit function.

Many challenges in SOEs should avoid a passive IAF. However, it should enhance CG within SOEs. It was stated by the participants that IAFs still encounter independence challenges and need a lot of knowledge and insights of their organisations and professional skills in order to assist in enhancing CG and boost the performance of SOEs. In this case, it is important for the IAF and its entities to pay attention to good CG. The study found that if directives from the IAFs are not taken seriously, operational challenges within enterprises will result and their contribution to CG will be lowered. Of cardinal importance to this present study is the fact that research participants found that stern methods of stopping people from flouting directives of the IAFs are lacking and have repercussions in that the central control of the function over the various units' activities are undermined. It was also evident from the findings that respondents conceded that failure by IAFs to report their findings in time result in their competence and effectiveness being doubted as far as the protection of public resources in SOEs is concerned as well as in boosting CG. This is in line in with Bunget and David-Sobolevschi (2009)'s findings. The research findings showed that there is scarcity of resources and financial support to SOEs' IAFs in order for them to carry out their work, which lowers the ability of the internal audit department to the various units in SOEs effectively for CG purposes. This finding is notably supported by Christopher (2010), who alludes that many IAFs are affected by constraints such as limited resources and financial support or obligations and these can block the achievement of CG in SOEs' IAFs.

Most respondents indicated that most challenges facing IAFs in SOEs relate to an insufficient number of audit staff (Ngwenya & Kakunda, 2014; Motubatse et al., 2015). Other key challenges being faced are management reluctance or failure to implement suggested recommendations on noted weaknesses on a timely basis. ACs in SOEs should address training needs of audit employees in the audit of computerised environments (for example, information system security) and play a more proactive role in strengthening IAFs. Hindrances in IAFs should be initially assessed before concluding on the effectiveness level of IAFs to CG in enterprises. Barriers faced by IAFs may be as a result of inefficiencies in policy and execution challenges which, if left unattended, will ceaselessly hinder the effectiveness of IAFs' contributions rendered to CG (Ngwenya & Kakunda, 2014; Motubatse et al., 2015). One of the functions of the IAFs is to ensure there is correctness and promptness of financial records and



reporting. Due to the fact that any delay affects the function of IAF to CG, the results show that many respondents conceded that problems in accessing to financial records from some departments under SOEs cause challenges to the IAF.

However, IAFs in SOEs encounter clearly defined challenges as opined by the study respondents, namely: lack of independence and restricted access and lack of funding; dearth of knowledge of the business; audit findings that are repeated and lack of a legal framework; scarcity of competent staff and leadership, and dearth of management support. The findings indicated many challenges faced by the IAF in SOEs, including lack of independence, restricted access to some areas of operations of SOEs, lack of management, incompetent leadership and inadequate funding, which are in line with Agumas's (2015) findings. Findings such as incompetent leadership can be solved through the emphasis of continuous professional development programmes that may result in the SOEs incurring some costs though, which is in consonance with the findings by Bota-Avram et al. (2009). The study revealed that SOEs have reduced levels of support from the management, audit staff who are qualified and low levels of the entity's independence and this corroborated by Ebaid's (2011) findings. Lack of competent internal auditors result in IAFs failing to function effectively (Erasmus et al., 2014). In addition, lack of understanding the knowledge of the business in which internal auditors work and poor management support for internal audit were some of the challenges of IAFs as shown by the participants in the study (Motubatse et al., 2015).

Although these findings should be thought about carefully in anticipation of and in preparation for limitations of the study reported earlier considering that case studies collect data from a small number of respondents, the findings give an understanding in a very important unexplored area. The findings of the current study indicate that most of the CAEs of SOEs who participated in this study report to the ACs on functional grounds. It is in accordance with best practice and the IIA standards (Christopher, Sarens & Leung, 2009). The CAEs respondents further expressed confidence that the IAFs should have insight into their work environment and sufficient knowledge about their business, acquire additional skills and enough resources and a good budget in order for the function to fulfil requirements in the near future.

If, for example, the scope of internal audit is limited or that the recommendations of IAFs are not executed, internal auditors will be less eager in carrying out their mandate for the foreseeable future. Furthermore, the skillsets of internal auditors will be thwarted if employees of the internal audit units are not helped in progressing with their professional careers. The respondents agreed that if internal auditors' skillsets are broadened, they will be able to add value to SOEs and it becomes easier for the IAFs to be accepted by stakeholders of the IAFs. This finding concurs with that of Mihret and

Grant (2017). All the CAEs during their internal auditing experience mentioned challenges of the IAF in different stages such as:

#### **5.2.4.1 Challenges faced during the establishment of the internal audit unit**

- Limited support from management;
- Shortage of funding; and
- Dearth of legal framework to operate within.

#### **5.2.4.2 Hindrances encountered during recruitment process**

- Poor remuneration packages (Khoury, 2011);
- Selection and recruitment process takes time; and
- Employees are considered for employment without internal auditing or qualifications in auditing.

#### **5.2.4.3 Limitations encountered during implementation of audit**

- Limited management support (Ahmad et al., 2009);
- Failure to get support from members of staff; and
- dearth of prowess.

#### **5.2.4.4 Deficiencies faced during audit planning**

- Limited insights by internal auditors of what risk assessment is;
- Seldom cooperation by the auditees; and
- Scarcity of resources to implement the internal audit plan.

#### **5.2.4.5 Barriers encountered during reporting of the audit findings**

- Failure to timeously implement recommendations;
- Lack of effort by management to timeously respond on the draft report; and
- Lack of the desire to implement the recommendations at all.

#### **5.2.4.6 Challenges encountered during follow ups of internal audit recommendations**

- Failure by the auditees in giving reasons why recommendations have not been executed.

#### **5.2.4.7 Additional challenges encountered**

- ACs who are ineffective due to the fact they are either appointed not basing on merit but through nomination or through political appointment;
- Paucity of knowledge of CG principle;
- Having unstructured IAFs which have problems in responding to the needs of SOEs;
- Paucity of straight forward legal framework to lead IAF in the public sector of Zimbabwe;
- Absence of consistency in carrying out tasks of internal audit across SOEs; and
- Deficiency of IAFs quality assessments.

IAFs are considered to have been failures during the corporate scandals in UK and USA (Chambers & Odar, 2015). It is, therefore, imperative to find remedies and one such remedy is to buttress the risk management unit of the IAFs (Chambers & Odar, 2015). Entities that collapsed in the 2000s had challenges, as was encapsulated by Lenz and Sarens (2012) and some of the challenges were also indicated by the participants as elucidated in the current study.

#### **5.2.5 Sustainability of state-owned enterprises**

SOEs can enhance their accountability and transparency by having quality audits of SOEs' performance as well as through producing reports that are timely. This should go beyond financial reporting to integrated reporting with SOEs acting as role models for reporting mechanisms. The study has noted from various strategic documents that SOEs reflect a sense of commitment and responsibility to sustainability with limited action involved in living up to the anticipation of the public. Respondents have noted with concern that there are various transgressions that have been observed from these entities, which indicate that most of them are not stable and financially viable. It is imperative that in order to enhance sustainability, leaders of SOEs promote economic, environmental, and social systems over a period defined by the board, shareholders, legislators and the public who have much interest in society's welfare. The fact that leaders of SOEs promote economic, environmental, and social systems in order to enhance sustainability is in consonance with the findings of Wang, Wart and Lebrede (2014).

A finding which is of cardinal importance is that in the context of the entity, some SOEs have adhered to sustainability and integrated reporting. However, for SOEs to show that they have integrated reporting systems, they should deal with and include the environment, state and society. The fact that SOEs should deal with and include the

environment, state and society in order to show that they have an integrated reporting system concurs with Huang (2013) and Hosoda (2018) who avers that CG support the interests of stakeholders by controlling their connections with their identifiable and concerned environments. However, SOEs could conform with other policy instruments, namely: The Companies and Business Entities Act (Chapter 24:31), the PFMA, and the PECO Act, which apply to SOEs and comply to good CG principles such as fairness, accountability, transparency and responsibility. Most CAEs indicated that most SOEs omit sustainability disclosures in their annual reports. The disclosure on sustainability in annual reports leaves much to be desired. However, a few SOEs added a statement that reflected that SOEs will remain sustainable (Auditor General, 2016). This means that boards and management of SOEs in Zimbabwe do not comprehend sustainability as a concept, or if they do, the disclosure on how SOEs address sustainability is not up to good standard, hence deadlines for annual reports for SOEs should be set. Failure to submit annual reports is against the requirements of the PECO ACT (Chapter 10:31). SOEs are required to submit annual reports six months after the end of year, which is not taking place in most SOEs in Zimbabwe as Motinga (2004) and Sherbourne (2014) confirm.

In order to make sure sustainability is advanced, it is recommended that stakeholders understand the systems, limitations, strategies and motivators that would result in sustainability. The results revealed that sustainable SOEs support initiatives that bring about great positives in re-engineering the growth of SOEs as it significantly aids businesses and their owners in the execution of their responsibilities in the SOE sector. With such support, it would be anticipated that almost everyone would find the zeal to re-engineer the SOEs for sustainable development. Thus, the study indicates that there is a sturdy nexus between SOE sustainable support initiatives and re-engineering the growth of SOEs. If more support is given to SOEs, their growth and sustainability will be enhanced. For sharing a similar culture throughout the entire entity, CG commitment to sustainability is of vital importance. Consequently, sustainability remains at an embryonic stage and vital in CG matters (De Graaf & Stoelhorst, 2013; Schembera, 2012). Hence, sustainability, in this context, is the continuous improvement and having a cash flow that is positive. It is an organisational goal to endure sustainability of SOEs (Epstein & Roy, 2003; Pfeffer, 2010). Integrated sustainability reporting is crucial in SOEs and integrated sustainable reporting standards should be incorporated in SOEs. For sustainable economic development, good CG and zero tolerance of corruption is ideal in the public sector. The results of the study confirm that notwithstanding the tasks of the IAF, which are challenging, connected with uncontrollable obstacles, bothering CG mechanisms, sustainability and performance of SOEs, IAF is up to now a significant CG mosaic. It endeavours to support CG systems, sustainability and enhance the performance of SOEs so that they can achieve their objective in the country.

### **5.3 Achievement of research aims, objectives and questions**

It is ideal to ascertain whether the aim of the study and the objectives have been achieved as well as whether the research question has been answered in a concluding chapter. The research problem of any study can only be ameliorated and solutions proffered only if the primary research question (see section 1.6.1.) is answered and the primary research objective (see section 1.5.2.) is formulated. Therefore, to achieve and answer the primary research question and the primary research objective, the aggregate of five research questions were answered, while a sum of five research objectives were formulated (see section 1.6.2. & 1.5.2.). The **aim** of the study was as follows: to examine and identify improvements on the current roles of internal auditing in Zimbabwe, mainly on the performance of SOEs.

The research questions were as follows:

#### **Primary research question**

- What are the roles played by internal auditing in the performance of SOEs in Zimbabwe?

#### **Secondary research questions**

- What are the duties and responsibilities of IAF on Zimbabwean SOEs' performance?
- How do IAFs view the challenges they face within CG practices of SOEs in Zimbabwe?
- What CG interventions are necessary to improve the performance and sustainability of SOEs in Zimbabwe?
- What IAF model framework can be developed to guide the role of internal auditing in performance of SOEs in Zimbabwe?

Given these research questions, the primary research objective of this study was:

- To examine the role of internal auditing as well as develop a practical model framework for effective IAFs in SOEs in Zimbabwe.

The five research objectives in this study assisted in achieving the aim of the study and in also addressing the identified research problem. The objectives were highlighted as follows:

- Objective 1: to determine the duties and responsibilities of IAF on Zimbabwean SOEs' performance;
- Objective 2: to elicit views of IAFs on the challenges they face within CG practices of SOEs in Zimbabwe;
- Objective 3: to propose CG interventions necessary to improve the performance and sustainability of SOEs in Zimbabwe; and
- Objective 4: to propose a model framework to guide IAF effectiveness and its relationship with CG practices and SOEs' performance.

Table 5.1 below shows how the research objectives were attained.

**Table 5.1: Attainment of research objectives**

Objectives	Results	Positioning in the current study
Objective 1: to determine the duties and responsibilities of IAF on Zimbabwean SOEs' performance.	This objective was attained in Chapters 2 and 4 of the study where it was indicated that IAFs are the cornerstones of CG. The participants in Chapter 6 confirmed that oversight, insight, foresight, detection and deterrence are roles played by the IAFs. The chapter showed that the roles of IAFs in SOEs are supported by regulatory frameworks comprising the PFMA, Treasury Instructions, PECG Act and the Constitution of the Republic of Zimbabwe. The frameworks enable the IAF to attain its objectives set for SOEs. Strategic objectives should be achieved in SOEs, hence IAFs should assist and advise the executive and management to pay	Chapters 2 and 4 Pages 34-36; 37-46; 165-189; 203-205.

	attention to the strategic objectives of the company.	
Objective 2: to elicit views of IAFs on the challenges they face within CG practices of SOEs in Zimbabwe.	Within corporate governance circles, IAFs face challenges in SOEs among them are: lack of independence to carry out their mandate and as well as lack of funding to carry out their tasks and restricted access. These challenges were elucidated in Chapter 2 on the literature review as well as that they were highlighted by the respondents through interviews carried out in data analysis in Chapter 4. Dearth of knowledge of the entity, findings that are repeated and lack of a legal framework, scarcity of competent staff and leadership as well as dearth of management support for the IAFs are the main challenges the IAF faced.	Chapters 2 and 4. Pages 50-53;165-189;193-194;205-209.
Objective 3: to propose CG interventions necessary to improve the performance and sustainability of SOEs in Zimbabwe.	Chapter 2 and 4 elucidated the information that if CG is followed profoundly can result in companies performing very well as well as achieving their set objectives. Principles of turnaround strategies as advocated by Anders (2012) such as a change in top management,	Chapters 2 and 4 Pages 18; 23; 80-83; 189-192; 209-210.

	redefining the entity, variations in important policies, restructuring, and planning for the future by means of expansion and modernisation as well as strengthening Research and Development (R&D) are some of the interventions to be carried out in SOEs for them to boost their performance.	
Objective 4: to propose a model framework to guide IAF effectiveness and its relationship between CG practices and SOEs' performances.	Chapter 5 indicates an IAF effectiveness model which if used properly by the SOEs, they will significantly benefit. Chapter 5 aimed at recommending the IAF effectiveness model to be used by internal auditors in SOEs. The framework contributions is characterised by the findings as a result of the gathered data, which has been examined in the preceding chapters, as well as from the review of literature throughout the study.	Chapter 5 Pages 216-228.

**Source:** Author's own compilation (2020)

**5.4 Limitations of the study**

The present study is not without limitations. It was carried out whilst the researcher was supervised by a qualified and experienced supervisor. However, potential limitations exist in this study. In interpreting the study's findings, the reader should take cognisance of these limitations. Notwithstanding these limitations, the researcher made an effort to ensure the research objectives were accomplished and the research questions answered. It should be considered that the presented IAF effectiveness model only



indicates a part of the entire system and excludes connection between the board of directors and other governance bodies. Every study has its own limitations and these should be considered as of cardinal importance by researchers in future (Uher & Visalberghi, 2016).

#### **5.4.1 Generalisability**

The study was carried out in only one industrial sector (SOEs) and in one country, Zimbabwe. For this reason, the outcomes cannot be generalised. The outcomes of this study, therefore, cannot be generalised to entities in the private sector and to other economies. Future studies could consider addressing this limitation by including the entire local government sector in Zimbabwe and other developing countries. Comparisons could also be made and lessons learnt drawn to inform practice. The main limitation of the study lies in its inability to include more public entities across Zimbabwe. This was a study focusing on SOEs. The study could have covered more institutions in the public sector so as to provide a more broad-based analysis. However, time and resource constraints brought about this limitation.

#### **5.4.2 Small sample size**

The study used a small sample chosen from Zimbabwean SOEs, which limited the research findings. It is recommended to extend the study to other African countries in order to add more value. The number of respondents could be improved in the next study and probability sampling could be used to allow for more representative findings in the near future.

#### **5.4.3 Methodological limitation**

A methodological limitation was that the data reported in this study was obtained through interviewing participants and document analysis of the AG annual reports, which might have potentially have resulted in response bias and social desirability bias. The interview guide instrument was carefully worded and subjected to thorough scrutiny and contained assurance of the anonymity of respondents in order to ameliorate these biases. Even though interviewing typically does not allow generalisability of findings, the main findings emanating from the interviews are relevant to most SOEs in Zimbabwe.

Interviews were transcribed ad verbatim and as the quality of the audio was poor, it made capturing problematic and follow ups took a lot of time. More importantly, it should be noted that the sample of respondents was limited to a specific subset of former and present employees of SOEs under investigation. On a methodological stance, this study used the qualitative approach, a case study as a research design as well as purposive

sampling technique. It is submitted that the adoption of a variety approach, with various configurations, may have resulted in varied findings from those emanating from this study. The limitations, taken in their entirety, are part of the acknowledged, assumed parameters of this study within this special constellation of limitations.

#### **5.4.4 Sensitiveness of the study**

Internal auditors are enjoined to observe confidentiality of information. It is possible that participants may be unwilling to give information provide data in the areas of CG and internal auditing where they have made findings, even though anonymity of their identities and confidentiality of data provided was assured through non-identification in interview guides and the interviews and document analysis was done by the researcher. Some participants were reluctant to provide data fearing that it would be used to intimidate them or print a negative picture about their SOEs. The researcher handled the problem by producing an introduction letter from the university and assuring them that any data provided would be treated confidentially and used purely for academic purposes. It is in the light of these limitations that the study findings must be interpreted. Replication of this kind of study in other regions of Zimbabwe and Sub-Saharan Africa may be useful in substantiating the findings obtained in this investigation. These limitations create room for further research. The next section shows avenues for future research.

### **5.5 Contribution to existing knowledge**

This study makes vital contribution to the work of researchers, academics, practitioners as well as policy makers. The researcher presents, in summary, submissions to the “real-life” context and the afore-mentioned gaps identified. According to Gill and Dolan (2015), it is the prerogative of a doctoral study to contribute a new aspect, view or new idea on existing knowledge, and to the professional practice and/or to the body of academic literature. The study presents an IAF effectiveness framework in order to boost the anticipation of the role of IAFs and its effectiveness in SOEs, thereby extending the existing body of knowledge. This study contributed immensely to theory, policy and practice as highlighted in the sections that follow.

#### **5.5.1 Contribution to theory**

Previous research on internal auditing is scant. This dearth of research is ascribed to the fact that, as an academic discipline, internal auditing is still in its infancy and, therefore, it is still an unexplored research area (Sarens, 2009), particularly from a Zimbabwean viewpoint (De Jager, 2014). This study attempts to fill the gap in the literature because of the limited research done in the field, the limited guidance offered

by the IIA, IIAZ, and the IIA in other regions. This study, therefore, contributes to the literature by offering insights with particular focus on Zimbabwe. Therefore, a lot of research on the role of the IAF should be done and this will make vivid contributions to the literature on internal auditing. This benchmark study makes an original and valuable contribution to the existing body of knowledge on the role of IAF, corporate governance in general and SOEs, in particular.

The study has contributed to research design and methodology for internal auditing studies and can be used as a benchmark for the collection of data. In this regard, the study used Atlas.ti software to perform qualitative analysis (coding), which assisted in quantifying and interpreting the outcomes. In addition, the study managed to answer the “how” questions through an interpretive case study. This is so because there is a lacuna of qualitative research in examining internal audit affairs. Internal audit research and accountancy research, in general, is very much geared towards positivism. This could help in the better comprehension of certain matters when different research paradigms are employed. The fact that this study adopted a qualitative case study approach and considered opinions of many levels of internal auditors and used many sources for data collection provided to the findings. An IAF effectiveness model/framework has been developed for the first time in a study within a Zimbabwean perspective. Future studies could use this framework and if it is well received in SOEs, the framework could assist internal auditors in carrying out their work.

This study widens the existing literature connected to IAF. Preceding studies looked at literature on IAF using a deductive approach (for example, archival or survey). This study used the inductive approach (for example, semi-structured, in-depth interviews) to gather ACs, CEOs, CAEs, board of directors, senior management and internal auditors’ views on the role of the IAF using a corporate governance approach. The outcomes of this study give a better understanding of the challenges of the IAF in SOEs. Unlike preceding studies that immensely depended on the Agency Theory to explore the role of IAF using a corporate governance approach in an entity, this study was embedded within three key theories, namely: Agency Theory, Stakeholder Theory and Institutional Theory to inform the role, function and practices of the IAF in Zimbabwe. The findings of this study provide a firm base for future reference for IAF-significant connected research not only for Zimbabwe, but for other developing economies with the similar economic and political backgrounds. This study has an influence on the emerging literature on IAFs, particularly in the Sub-Saharan African region.

### **5.5.2 Contribution to policy**

The issues of this study surrounding the execution of the reason behind the establishment of IAF in Zimbabwe is emphasised to policy makers. Policy makers

should put in place systems to see the worthiness of the IAFs in SOEs and ensure that in-house IAFs are well resourced and also qualified and competent. The findings suggest that regulators, that is, government agencies such as Public Accountants Auditors Board (PAAB) and external auditors, should monitor the work of out-sourced IAF and their performance. Policy makers should ensure that an IAF performance evaluation framework is issued that will set evaluation criteria or parameters that are basic and these should be in connection with the IIAZ.

### **5.5.3 Contribution to practice**

The study has contributed to the existing body of knowledge in the area of public sector auditing by analysing SOEs in Zimbabwe. It could be used in local and global studies to compare the practice of internal auditing in public sectors. The study also adds substantially to the current body of knowledge; limited research has been done on IAF within SOEs. The study on the role of IAF in the performance of SOEs using a corporate governance approach could beneficially inform executive and middle management of SOEs on how IAF can assist them to overcome challenges they face in their complex operating environments. Similarly, internal auditors in SOEs could benefit by benchmarking their roles and responsibilities against those reported in the study. The study contributes to academic discussion on the role of internal auditing in corporate governance (Gramling et al., 2004; Leung et al., 2004; Sarens et al., 2012; Regoliosi and d'Eri, 2014; Mihret & Grant, 2017) and gives praise in the area of internal auditing professionalisation to other researchers' work in the same field of study (Arena & Azzone, 2007; Nagy & Cenker, 2007; Abdolmohammadi, 2009; Lenz & Sarens, 2011; Lenz & Sarens, 2012; Arena & Jeppesen, 2010).

The outcomes of this study might be used by other IAFs as a benchmark for other entities and sectors to determine how IAFs can add value and become effective. The outcomes of this study could be used to help IAFs to add the required value within their SOEs and perform more effectively. By adopting the framework suggested in the study, IAFs (Chapter 5) could perform the expected functions within SOEs and justify their existence to those in authority. This study, thus, contributes to the limited existing body of knowledge regarding the role of IAFs within SOEs in Zimbabwe and it is suggested that using the developed framework could provide guidance on how IAFs in SOEs can become effective and value-adding.

The comprehension of governance affairs by internal auditors and the AC will enable internal auditors, AC and top management to lessen their misunderstandings and address allegations of competing for demands such as IAF resources (Abbott, Parker & Peters, 2010). At the professional body level, this study gives an understanding of how internal auditors uncover how a professional body (such as the IIAZ) could play an

important role in supporting many stakeholders, comprising its members (individual or corporate), other corporate governance stakeholders (for example, the AC, CAEs and senior management) and policy makers/regulators.

The nexus between the IIAZ and its stakeholders will ensure that the IIAZ's programmes and events are supported. For example, certified internal auditor (CIA) professional examinations, professional training and updating its material for training as part of its continuous education programmes. In this case, internal auditors' skills will be improved and help the global efforts of the IIA Global to further develop and update the Standards for the Professional Practice of Internal Auditing (SPPIA). Eventually, this will improve the profile of the internal audit profession and give confidence to stakeholders of the value contributed by the IAF. The researcher contends that while the contributions made in this study have been inductively derived from empirical and theoretical experiences in the context of Zimbabwe, they could practically be used by practitioners, managers, internal auditors and politicians of other emerging economies.

#### **5.5.4 A PROPOSED IAF EFFECTIVENESS MODEL**

One of the principal objectives of this study was to propose a framework for the effectiveness of IAFs roles. It has been observed in the study that even though governmental bodies and SOEs, in particular, have formed internal audit units, they frequently face CG challenges as well as qualified audit reports from the Auditor General. This chapter contributes to the literature by developing a distinct and well-designed proposed model framework as reflected in Figure 5.1. Furthermore, the study found that a dearth of well-defined roles of IAFs can lead them to being ineffective and that will result in SOEs performing poorly due to mis-governance. IAFs should be well motivated and anticipated to make use of their competence to help SOEs to increase their growth and performance. The literature reviewed, contributions from participants through semi-structured in-depth interviews as well as documentary reviews assisted in the development of the proposed model framework as highlighted shown in Figure 5.1. It is expected that the proposed framework will assist to lessen adverse findings in reports compiled by internal auditors. Establishing and setting up of a model framework in a firm could be a prolonged and strenuous exercise that might experience a degree of defiance. It is of utmost importance to note that the proposed model framework is not meant to be prescriptive; rather, it is to help public sector entities, particularly SOEs, to integrate the roles of IAFs since it is one of the cornerstones of CG.

#### **5.5.4.1 Proposed model framework for internal audit effectiveness of SOEs**

Unavailability of an appropriate framework that could be used to evaluate the role of IAFs in the performance of SOEs using a CG approach in Zimbabwe made it necessary for such a framework to be developed. A qualitative research method was considered to be of cardinal importance in developing this framework. From the outset, it is important to elucidate the reasons for developing it. Management could use the framework for the day-to-day running of their SOEs and also it could be of paramount importance to auditors, both internal and external auditors. No research framework has been developed for SOEs in Zimbabwe which results in the effective practice of the IAF. This model could be depended on as a guide for studies of a similar nature in the near future. Figure 5.1 illustrates the IAF effectiveness framework for SOEs. The model is made up of external enabling factors, internal enabling factors as well as internal audit practice

## IAF EFFECTIVENESS.

### 5.2.1. External enabling factors.

#### 5.2.1.1. IAF entity readiness.

Quality and quantity should be met by the IAFs. Qualified, skilled and experienced should be met as there is increasing need for professional to fill in internal auditing posts in SOEs.

#### 5.2.1.2. Rules and Regulations.

Existence of rules that must be complied with and that can boost the effectiveness of the IAFs, as well as giving support for the enhancement of good corporate governance must be followed and enforced.

#### 5.2.1.3. IIAZ's Role.

The IIAZ should be seen taking a proactive role rather than a reactive role thereby supporting the establishment of internal auditing units in Zimbabwe. The IIAZ should make sure all internal auditors and others are educated and made aware of matters to do with risk, governance, practice standards that are ethical and good environments control. Internal auditors as professionals should be reminded of the threats that can make sure internal audit professionals become motivated and aware in order to buttress proficiency, whilst dealing with the obstacles the economy will be facing.

#### 5.2.1.4. Government's role on SOEs performance.

The government should espouse a centralised SOEs ownership model and avoid using the current decentralised ownership model for SOEs in such a way as to eradicate irregularities in CG in order to boost the performance of SOEs. The government should like a vendetta against malfeasance, malpractice and corruption in SOEs so that their performance can be enhanced. Execution of the new ownership model will be one of the main SOEs reforms to be executed.

### 5.2.2. Internal enabling factors.

#### 5.2.2.1. Support from the Audit Committee.

The AC should maintain the IAF entity's independence and exercise oversight roles. The AC should be effective in order for them to support the IAF. The AC should be independent, have expertise in financial skills and control over IAFs.

#### 5.2.2.2. Support of the Entity and from management.

Management support is vital for IAFs in terms of availing resources as well as adequate funding. The tone at the top and culture of the entity should be positive in SOEs as well as the integrity of top executives so that IAFs can be effective.

#### 5.2.2.3. IAF Audit Employees(In-house).

IAFs should be resourced well, in terms, of budgets and staffing and should be in-house in order to be effective. IAFs should be independent, competent, show signs of meritocracy, pragmatism and honesty. CAEs should be educated and be professional persons so that they advise IAFs and management effectively.

#### 5.2.2.4. Internal Audit Resources (Out-sourced).

IAFs should be timely deliver audit reports which are of good quality. IAFs need to be sufficiently resourced with competent, skilled and experienced internal auditors having IT skills, soft skills as well as technical skills.

#### 5.2.2.5. Good corporate governance.

IAF's role in governance is vital in giving assurance which is objective and giving an understanding into the efficiency and effectiveness of risk management, control and governance processes. Having knowledge of governance result in IAFs being effective.

### 5.2.3. Internal Audit Processes.

#### 5.2.3.1. Internal Audit Planning.

An entity should have an internal audit plan prepared which is immersed in an approach with risk based audit.

#### 5.2.3.2. Execution.

Activities of IAFs such as controls, risk management, CG processes, value-added services and consultancy will improve the effectiveness of the IAFs as well as enhancing SOEs performance. IAFs should have enough mindset and should avoid conflict of interests. IAF should execute their duties in SOEs diligently, and to be viewed as effective, they are not wholly anticipated to conform to the role which is "theoretical".

#### 5.2.3.3. Evaluation.

An IAF performance framework should be provided by regulators so as make sure IAFs' performance is assessed in order to ascertain whether they are being effective in SOEs. Governance objectives of the AC which can examine the effectiveness of the IAFs should make sure mechanisms are discovered and recognised.

#### 5.2.3.4. Findings and Recommendations.

An audit action monitoring committee should be developed that could assist the AO to allocate accountability in order to ensure quick execution of the IAF and the Auditor General recommendations and findings. For IAFs to be effective, the CAEs should be able to challenge management with the audit findings. Audit action monitoring committee should be led by the AO on behalf of the AC and monitors formally the progress of the execution of both the IAF's and AG's reporting and recommendations and this could add value to IAF effectiveness.

## **Figure 5.1:** Internal audit effectiveness model framework for SOEs

Source: Author's own compilation (2020)

The model is anticipated by the researcher to help IAFs' effectiveness in SOEs and the entire public sector. It is also expected that SOEs that have not yet established IAFs (as envisaged by this study that a few SOEs do not have IAFs) will make use of it and see the significance of the framework once they have established or formed IAFs. Thus, the objective of having a framework is to contribute to the existing knowledge on the subject of internal auditing and literature on the state of SOEs and the entire public sector. In addition, the validity of this model might trigger internal auditing scholars to develop interest in testing the model in developing and developed economies in the near future.

The research led to the development of a model framework for Zimbabwe's SOE sector on IAF effectiveness. The model framework is mostly rooted on the literature, which is connected closely to emerging economies as well as evidence empirically amassed during the collection of data. This framework is sturdy in quintessence because of the view point considered when the model was developed, which is merging the literature and practices of internal auditing in Zimbabwe. The basis of this clearly defined framework is to make sure that if followed properly, it will boost the role of IAFs so that they become effective in Zimbabwe and other emerging economies.

The proposed framework (Objective 4) is presented in detail in Figure 5.1. The stages of the model framework are explored with reference to Zimbabwe in the sections that follow, as given in Figure 5.1.

### **5.5.5 Stage 1: External enabling factors**

The first component reflects the external enabling factors that have an impact on the effectiveness of IAF in SOEs in Zimbabwe. Under the external enabling factors, rules and regulations, IAF entity readiness and the IIAZ's roles are explored.

#### **5.5.5.1 IAF entity readiness**

SOEs should have effective IAFs who are competent, skilled, experienced and qualified internal audit professionals to meet the demand of SOEs. Many SOEs have outsourced IAFs, instead of having in-house IAFs. During the interviews, ACs and CAEs respondents came up with two key matters, namely: shortage of human resources and the quality of IA service providers, as issues that hinder IAF effectiveness. The IIAZ should work hand-in-hand with relevant parties, for example, tertiary institutions, to buttress the profile and image of the IAF.

##### **5.5.5.1.1 Human resources shortages**

In order to boost the image and profile of IAF, the IIAZ should work together with industry players and institutions of higher learning. Competent and qualified IAFs are difficult to come by and retain in SOEs, which affects the way IAFs operate. There are a few experienced internal auditors in IT in SOEs to do systems work. IAFs have inherent problems, as highlighted by internal auditors and CAEs themselves, that may render them ineffective in SOEs, which are: the job being boring; loneliness; familiarity; stress as well as prestige attached to the job. The industry could fail to recruit and retain young professionals because of the nature of the job and the prestige attached to internal audit professionals.



#### **5.5.5.1.2 Quality of internal service providers**

The regulators should monitor and give a basis IAF performance assessment guide for the IAFs in SOEs to be used for the evaluation of the IAF performance more methodologically and effectively. SOEs can out-source the IAF due to a lacuna of qualified internal audit professionals so as to make sure that there is conformance to the mandatory IAF ruling. Regulators should monitor and regulate the internal audit industry and issue a “quality review framework” so that the monitoring body could review the “policies and procedures”, instead of the work, of the IAF if out-sourced. Some SOEs do not have inter-and intra-units’ support. For the IAF to be effective, regulators (internal audit service providers) should explicitly set a minimum standard of measurement to ensure monitoring across all SOEs is done by the AC systematically.

#### **5.5.5.2 Rules and regulations**

Rules and regulations in Zimbabwean SOEs have resulted in IAFs being established. This means that Zimbabwe is a regulated nation. The IAF’s role was changed, that is, the IAF is important not only to the AC, but also to management. Role ambiguity is cleared if the IAF reports to the AC as well as the entity’s independence of the IAF is enhanced (Lenz & Sarens, 2012; Abbott, Parker & Peters, 2010). The entity, through the board, should establish an IAF that reports to the AC, according to CG principles.

##### **5.5.5.2.1 Mandatory IAF establishment**

It is required, according to the PFMA, Companies Act, the PECG Act and the Constitution of Zimbabwe, that all SOEs have IAFs. IAFs play a significant role in supporting the AC to fulfill CG obligations. Regulators have mandated the establishment of IAFs. All the respondents confirmed the mandatory IAF ruling as a necessary move by regulators in order to enhance the effectiveness of IAFs as well as ensure sustainability and performance of SOEs.

##### **5.5.5.2.2 Direct reporting to the AC**

The fact that the IAF reports functionally to the AC of the board of directors and administratively to the accounting officer (CEO) gives room for independence, hence effectiveness is strengthened. This is important because it benefits both the AC and the IAF. According to the IIA’s guide, all matters to do with hiring, firing, performance appraisal and remuneration package should be the task of the AC in SOEs. However, in most SOEs in Zimbabwe, performance appraisal, increment and remuneration of the CAE are still decided by the top management (IIA, 2013a). The AC should control IAF resources and direct reporting to the AC by the CAE strengthens the entity’s independence and the effectiveness of the IAF in executing its tasks.

##### **5.5.5.3 IIAZ’s roles**

The IIAZ has a strong impact on the effectiveness of IAF in Zimbabwe. The IIAZ is a chapter of IIA Global. Quality monitoring, training and professional guidance should be carried out by the IIAZ since it is the only professional body of internal auditing. The IIA Global is important in making sure the internal audit profession is developed in Zimbabwe. Its support is extended to regulators and CG stakeholders such as internal auditors, senior management and the AC. The IIAZ supports professionally through provision of professional guidance (for example, IPPF and other professional pronouncements),

professional certification or examination, continuing education and training, collaboration with the policy makers in the development of corporate governance rules and codes, and IAF quality monitoring. The business community should be supported by the IIAZ.

#### **5.5.5.3.1 The IIA's professional guidance**

Many internal auditors in SOEs are not well-versed with the IPPF provisions as alluded to by many ACs and CAEs participants in the study. Implications such as having many internal auditors appointed who have limited knowledge of the IPPF results in difficulties in recognising the role and function of the IAF as a CG mosaic. Respondents such as the AC encouraged the IIAZ to have a proactive role by joining with stakeholders, particularly the AC, who are responsible for directly supervising the IAF. The IIAZ has to make sure its presence is heightened professionally and support the effectiveness of the IAF. As a professional body, the IIAZ should support the business community, rather than being active solely in organising revenue-generating activities (for example, seminars, training programmes and conferences).

#### **5.5.5.3.2 The IIAZ as a monitoring agent**

IAFs should be monitored to ensure they follow suitable guidelines in executing their tasks. If properly guided IAFs can be effective in SOEs. The IIAZ monitors internal auditors who are its members, considering them for certification and professional membership. In order to keep the quality and standard of the IAF, the internal audit industry is supposed to be regulated and monitored.

#### **5.5.5.4 Government's role on SOEs' performance**

Currently in Zimbabwe, the government has a decentralised SOE ownership model, where the shareholding function of the government is superintended by various government line ministries. Decentralised ownership model has various deficiencies such as the irregularities in CG systems, political intervention by line ministers and holds up and/or changes of the course of action on approved SOEs reforms because of personal involvement by some line ministries and, generally, feeble and unassertive superintending function (Balbuena, 2014). Furthermore, line ministries do not have sufficient resources to superintend these SOEs and board members are not trained adequately and have failed to reinforce good CG practices. In a centralised ownership model, the solitary government establishment plays the role of a shareholder in all the entities managed by the government. A paradigm shift from the decentralised ownership model to the centralised ownership model will improve the performance of SOEs. Centralised ownership model should insulate SOEs from maladministration and wrong doing, including intervention by line ministries, which is the key disadvantage for their straight-forward operation (Balbuena,2014). A centralised ownership model is where decision making is done by one body that does shareholding in all organisations and these are directed and managed by the government. If expeditiously executed, a centralised ownership model will improve the performance of SOEs. This model framework is ideal, if adopted, because whenever there is a cabinet reshuffle, changes in the board or management looms, which disrupts the straight-forward functioning of SOEs, hence the reason this study encourages government to quickly make use of the centralised ownership model for SOEs in the country since it is the main policy impetus for the government. Taking cognisance of the rule of law, accountability and transparency, Rotberg (2014) and Balbuena (2014) assert that boosted governance systems in SOEs could enhance the SOEs' performance, thereby

improving social welfare and economic results in the economy, and could be correct even in the case of Zimbabwe.

### **5.5.6 Stage 2: Internal enabling factors**

Internal enabling factors are the second component within the jurisdiction of SOEs and comprises support from the AC, support of the entity and from management, internal audit employees (in-house), internal audit resources (outsourced) and good CG. Most SOEs do out-source their IAFs, hence this have been included as an internal enabling factor after many interviewed senior management respondents conceded that SOEs outsource because in-house IAFs are not skilled in specialised audit like IT audits and also because some SOEs have not yet established IAFs albeit it is a statutory requirement, according to the PFMA.

#### **5.5.6.1 Support from the AC**

In Zimbabwe, the AC does the monitoring role of the IAF. IAF effectiveness can only be augmented and supported by an effective AC. Independence, competency, precise industry experience, business acumen could, in addition, strengthen the effectiveness of the IAF. IAF evaluates and uncovers system deficiencies. An assertive chair of the AC could give steady support to the IAF, resulting in the IAF acting objectively, adding value to SOEs and, consequently, boosting their effectiveness. The AC must exercise control and authority over IAF resources in order for the IAF to become effective. For the IAF to be effective, it must have direct access or unrestricted access to any information regarding SOEs. AC support comes in many different, through the AC's open support and recognition of top management's presence, and through close rapport with the IAF (that is, through private meetings outside standard working hours). Without AC support and empowerment, the IAF cannot function effectively. The AC support could be via private meetings, rapport, open support in front of top management. An effective AC is one of the key CG stakeholders that can augment the effectiveness of the IAF (Alzeban, 2015; Barua, Rama & Sharma, 2010). Lastly, IAF should give assurance to the AC in matters to do with internal control, governance, compliance, financial reporting, integrity and fraud detection (Ege, 2015; Abbott, Parker & Peters, 2010; Beasley, Carcello, Hermanson & Neal, 2009).

#### **5.5.6.2 Support of the entity and from management**

Commitment of top management to CG and clarity of the IAF's organisational support are significant in supporting the effectiveness of the IAF. In order for the IAF to be effective, board of directors' support and management support are of cardinal importance. An entity such as the SOE that supports CG is envisaged to give room for the IAF to carry out its monitoring function without problems. With the support of the entity and from management, two constructs were deduced from the interview with participants, namely: status of the IAF/hierarchy of the organisation and support from management in the current study.

##### **5.5.6.2.1 Hierarchy of the entity/IAF status**

Poor performance of the IAF is a result of a lacuna of clarity in the status of the entity (Lenz & Sarens, 2012). Standard 1110, which stands for the independence of the organisation, states that CAEs report to the highest level in entities so that they can fulfil their obligations as well as enhance organisational independence (IIA, 2013a). For IAF to be effective in conducting its internal auditing activities, it requires coordination and support from all staff (middle- and lower-level management) as well as top

management within the company. Integrity in entities by top management is crucial in SOEs and is seen as a compass of how CG of an entity is heading.

#### **5.5.6.2.2 Top management support**

According to Badara and Saidin (2012), management support is of paramount importance for the effectiveness of the IAF in carrying out its tasks as well as in making sure management is aware of its activities and conclusions they could have reached. The interviews carried out confirmed that management should act with good CG practices in order to set a good example for subordinates. Top management is the key enforcer of good CG of entities such as SOEs. Some study (Baharud-dine et al., 2014) found that dearth of management approval, support, and encouragement results in failure of the internal audit processes. As noted by Lenz (2015), the nexus between CAEs and senior management is a valuable determinant of the effectiveness of IAF. Top management could be supportive of IAF if they have sustainability of SOEs in mind.

#### **5.5.6.3 Internal audit employees (in-house)**

In-house internal audit staff are crucial in SOEs. In order for the IAF to carry out its work effectively, it must be well resourced with adequate staffing, computer software and competent staff. Most SOEs interviewed have established IAFs. However, they out-source for specialised skills such as IT audit. IAF is one of the main CG players in protecting the governance of organisations. However, the fact that IAFs are present is not enough because in order to attain the defined results of the entity, the quality of the IAF is of cardinal importance (Abbott, Parker & Peters 2012; Carcello, Hermanson & Zhongxia, 2011). A well-resourced internal audit department is crucial in supporting the smooth operation of the IAF (Anderson, Christ, Johnstone & Rittenberg, 2012). Staff size, a well-resourced internal audit unit and a competent staff are ideal in SOEs (Anderson, Christ, Johnstone & Rittenberg, 2012). Two constructs are explored as follows.

##### **5.5.6.3.1 Investment in IAF**

Investment in IAF can have a strong impact on IAF effectiveness. The scope of IAF should not be restricted by budgetary constraints. It is paramount for the scope of the IAF to be extensive enough in order to equip top management and the AC with the necessary level of assurance in connection with the risk and controls environments of the SOEs. According to a study carried out by Anderson, Christ, Johnstone, and Rittenberg (2012), the IAF 's size is oppositely connected to the percentage of Certified Internal Auditors (CIAs) on the team of the internal audit staff as well as to the extent of out-sourced compliance activities and assurance.

##### **5.5.6.3.2 Internal audit attributes (in-house IAF)**

In order for the effectiveness of the IAF to be pronounced, attributes which are core and specific are of cardinal importance. Competency, proficiency and independent and objectivity are core attributes and specific attributes that relates to the CAE and internal audit employees. In considering the main attributes, it is vital to consider Attributes Standards with particular attention given to Attribute Standard 1100 (independence and objectivity) and Attribute Standard 1200 (proficiency and due professional care) (IIA, 2013). Independence and objectivity and proficiency and competency are used as determinants of IAF effectiveness in a lot of academic literature (Abbott, Daugherty, Parker & Peters, 2016; Christ, Masli, Sharp & Wood, 2015; Pizzini, Lin & Ziegenfuss, 2014; Abbott, Parker & Peters,

2012; Dominic & Nonna, 2011; Lin, Pizzini, Vargus, & Bardhan, 2011; Prawitt, Sharp & Wood, 2011; Stewart & Subramaniam, 2010; Arena & Azzone, 2009; Christopher, Sarens & Leung, 2009; Prawitt, Smith & Wood, 2009; Goodwin & Yeo, 2001).

Independence and objectivity support IAF effectiveness. It is the personality and integrity of the internal auditor as an individual which can make him/her to become effective. An internal auditor should consider tough audit queries and challenging audit findings so as to be judged whether he/she has objectively discharged his/her role. For the internal auditor to be effective, elements such as experience, qualification, competency and proficiency are imperative (Alzeban & Gwilliam, 2012; Vijayakumar & Nagaraja, 2012; Unegbu & Kida, 2011; Ahmad et al., 2009). Industry appropriate qualifications and experience as well as professional qualifications such as CIA, Certified Public Accountant (CPA), Chartered Institute of Management Accountant (CIMA), Association of Certified Chartered Accountant (ACCA) and others are ideal for effectiveness of the IAF in SOEs. CAEs in organisations should be assertive, objective as well as have people management skills, seniority and leadership, soft skill set (such as interpersonal skills, persuasion and negotiation skills). Seniority in the status of the entity, their qualifications, professional standing and industry status is imperative in enhancing the CAE's effectiveness. Good communication skills facilitate the IAF's effectiveness in SOEs, that is, communication in report writing and presentation of ideas.

#### **5.5.6.4 Internal audit resources (outsourced)**

Interviews carried out showed that IAFs are out-sourced in IT audits and various consultancy activities within SOEs. SOEs do out-source the IAF for various reasons such as human resources management, constraints in terms of budgets, independence and specialised skills such as IT audits.

#### **5.5.6.5 Good corporate governance**

IAF is a key cornerstone of CG (Bame-Aldred, Brandon, Messier, Rittenberg & Stefaniak, 2013; Anderson, Christ, Johnstone & Rittenberg, 2012). For the function to be effective, it must have good know-how of CG and be able to see that organisations practice good CG. The IAF buttresses the entity's controls, operations and processes through the provision of consulting services (Arena & Azzone, 2009; Rittenberg & Anderson, 2006). It is contended that the IAF could help senior management in generating cost savings and achieving their operational goals (Abbott, Parker & Peters, 2010). Steady support is provided by the IAF to other stakeholders of CG because the IAF has expertise in controls, risk management and governance process of the company. IAFs can respond to all regulatory requirements effectively because they are inextricably connected to CG, given their roles in SOEs. CG was perceived in the study by Leung, Cooper and Perera (2011) as not being highly ranked across the structure of accountability. In normal cases, the CAEs are anticipated to submit their main audit reports on a regular basis, which cover internal control, risk management and compliance. On an ad hoc basis, the reports should cover CG and financial reporting (Leung, Cooper & Perera, 2011).

#### **5.5.7 Stage 3: Internal audit processes**

The third component of the model framework comprises internal audit planning, execution, evaluation and findings, reporting and recommendations as highlighted in the sections that follow.

### **5.5.7.1 Internal audit planning**

Planning is a very important aspect as far as effectiveness of the IAF is concerned. Before the beginning of any engagement, internal audit planning is vital because it assists in making sure tasks of internal auditing are organised so as to attain the worthy objectives and goals of the entity (IIA, 2013a). An internal audit charter, which reflects the purpose, authority and responsibility, is also needed to show the reference terms of the activities of the IAF. Similarly, a risk-based internal audit plan is of cardinal importance (IIA, 2013a). The internal audit plan, after being made by the CAE, has to be presented to the AC for consideration and approval and, at this stage, top management should be significantly involved. The internal audit plan is prepared at the beginning of the financial year. However, for IAF to be effective, it is supposed to be able to adjust to the business environment so that it can be mandated to deviate from their plan and carry out ad hoc assignments for the benefit of the organization, as may be instructed by the AC and senior management.

### **5.5.7.2 Execution**

IAF could meet the function's monitoring objectives through identifying internal audit activities such as controls, risk management, and governance processes, value-added services, consultancy and strategic and the entity's risks in order to enhance the systems or deficiencies in operational control (PwC, 2009). The role of the IAF in risk management is to make sure that important risks such as financial, business and operational are controlled (that is, identified, mitigated and monitored). Internal audit activities should be founded on risk-based audit approach as risks are in every aspect of governance (IIA, 2013) and risk management (IIA, 2013b) activities (for example, investigations of fraud, party related transaction reviews) are given less attention by in-house IAFs, which merely see risk-based control audit such as operational control audit and compliance audit as more important than others. The AC who supervises the IAF expects the function to carry out more value-added services (risk management process coordination, investigation of fraud, consultancy, related party transaction review) and costs of the in-house IAF are fixed unless there are some claims of overtime. Out-sourced IAF, conversely, is mandated most importantly to pay attention to risk-based control audit and due to the clear gap in scope, the fee of the out-sourced IAF is decided by its engagement scope. IAF can only facilitate the process of risk management by collating information pertaining to risks from the different departments or operational units (that is, risk-owners) and reporting issues to do with the profiling of risk, charting the way forward as well as ways of ameliorating them to the AC (IIA, 2013b).

### **5.5.7.3 Evaluation**

An effective IAF is supposed to support the AC to adhere to the dictates of CG. An IAF performance framework is ideal to evaluate the effectiveness of the IAF that can meet the monitoring objectives of the AC. Most ACs use subjective benchmarks when evaluating the performance of the IAF and these includes: the internal audit reports quality (for example, the audit work's depth and breadth, report by exception, remedial plan advisory for control deficiencies, written presentation clarity), the report's timeliness (for example, time of turnaround), and skills of oral presentation during the review by peers (review by the auditees) and meetings by the AC.

#### **5.5.7.4 Findings, reporting and recommendations**

Genuine findings without consequences to the organisation should be made by the IAF so that they can be valued highly in SOEs. Reports of internal audits should be profound and concrete so that all company deficiencies are exposed for the purpose of putting the entity in good CG position. The findings should show aspects of risk assessment processes. Recommendations made to improve the operations of the entity are genuinely considered by management and the board, especially coming from competent and qualified IAF team.

### **5.6 Recommendations**

The discerning analysis carried out on the qualitative data identified themes and concepts that existed in a subtle form, but presented some viable responses to the existing dichotomy and contradictions. The researcher feels it is pertinent to make some recommendations that might be of interest to stakeholders in the public sector (SOEs) in Zimbabwe. Recommendations were made for SOEs, policy makers and academics in Zimbabwe from the preceding chapters' research findings and discussions. The main recommendations are extracted from thematic discussions and findings that emanate from the research questions. Following this pattern, the study provides a repertoire of recommendations that emerged in the sections that follow.

#### **5.6.1 Recommendations on IAFs' challenges in SOEs**

In various parts of this study, it has been emphasised that IAF challenges affect the operations of SOEs. Therefore, management needs to critically inform government as the shareholder of SOEs in order to be able to finance internal audit operations by allocating resources equitably as well as providing training, thereby equipping internal auditors with skills they can use to carry out their work in SOEs. Regulatory frameworks and IIA Standards as well as policies on recruitment of internal auditors should be adhered to.

#### **5.6.2 Recommendations on SOEs' corporate governance challenges**

Systems and structures should be put in place to stem haemorrhages and ensure that universally acknowledged and practical principles of accountability, responsibility and transparency are operational, but what is evidently absent is envisaged consequent and congruent action informed by the stellar work done by the AG to bring wrongdoers /culprits to book (Auditor General, 2018). SOEs encounter several obstacles in their service delivery endeavours, while doing business in the PFMA environment, which is not flexible due to additional regulations where the government bails them out through government/taxpayer funding and without anticipation of profit making. Current financial management and governance dangers encountered by entities in the public sector should be included in the revised PFMA in order for mitigative procedures to be incorporated (Bronstein & Oliver, 2011; Kanyane & Sausi, 2015).

The relevant ministry superintending SOEs needs to direct, promote, and explain to SOEs how policies can engineer their growth and resolve their challenges. It is further recommended that SOEs' rationalisation is vital as it will allow them to get necessary support to enhance their sustainability and

growth, and a chance to proffer solutions to their challenges over time since a monitoring system will be provided for SOEs.

### **5.6.3 Recommendations on sustainability of SOEs**

There is need to develop corporate leaders who are knowledgeable or conscious and who can be confident that the entities are at the junction of the three important dimensions for sustainable development, that is, the economy, society and environment. For all business transactions entered into by the SOEs, a transactional advisor/advisors should be appointed to look into all the contracts that the SOE(s) enter into with service providers to as to ensure SOEs are not prejudiced. Government should practise transparent and consistent reporting, expand gender diversity and reduce political interference in the operations of SOEs. The government should reset, reposition and even re-purpose SOEs. SOEs' councils need to be established to advise the government on the way forward within SOEs. Separation of roles should be encouraged between the government and management boards of SOEs. Effective separation of roles is ideal because it makes SOEs to effectively operate. It is recommended that entities accelerate internal auditing training budgets and build capacity, particularly for information systems audit, so that knowledge of information technology, and information technology auditing could be the current general direction that drive the working of the IAF in SOEs.

### **5.6.4 Recommendations for IAFs and the audit committees**

IAFs should play all their roles and be able to address needs of the AC as well as use their internal audit resources efficiently. What is expected in terms of internal control, risk management, corporate governance and compliance should be maintained between the CAE and the AC, and this is kept intact through ceaseless dialogue. An independent, objective, adequately resourced and competently staffed IAF should be established by the board of management in order to give the AC and management on-going evaluation of the entity's control, risk management and corporate governance systems. If there is no IAF in an SOE, the board is mandated to make it known in the entity's annual report why the IAF is not in existence. It is recommended that all employees in the IAF should comprehend government and public sector strategy and risks related to it. The IAF should pay attention to government jurisdiction of service delivery by aligning its work or plans. Such an alignment would assist the IAF to appreciate the vision, mission, and strategies implicit in the public sector. By considering the mandate of service delivery enunciated by the government, a holistic review of the entity's operations or functions and the environment of the public sector would be obtained by the IAF as well as the risks connected to the strategy of the government such as, strategic, operational, financial and compliance risks (PWC, 2015). For the IAF to develop an audit plan that would consider effective service delivery, these recommendations should be taken seriously. The study raises to a higher position the debate on the role of IAFs in the performance of SOEs using CG approach on Zimbabwean SOEs from the rhetoric of the public to deeper insights of the main challenges where attention is warranted.

Organisations should have mechanisms to alienate auditing from accounting, and reconfigure internal auditors from being external auditors to strategic thinkers and should, therefore, build capacity



development in areas of performance or operational audits. There is no representation of IAF at senior management level because heads of internal audit are viewed as falling under the middle-level management, that is, one level under the director level. And yet head of the internal audit should be at executive levels with a master's or Ph.D. and given a title such as the CAE or Director Internal Audit and to be part of senior management level, followed by the audit manager, senior internal auditor, internal auditor and, eventually, the audit assistant. To the AC, the PFMA holds that AC are crucial instruments in CG of every entity, including SOEs. Accountability and service delivery has received much attention and hence a strong emphasis on CG is made. The AC plays a connection role between management, and internal and external audits. However, based on the findings of this study, it is understood and clearly stated that ACs in some SOEs are either non-existent or not performing their anticipated oversight roles, thereby making the functions of the IAFs to become weak. It is recommended that ACs should be established in all SOEs and all responsibilities fulfilled, as shown in the King IV report and the PFMA.

In order to guide internal auditing work and protect internal auditing employees, there is a need to formalise and formulate an internal auditing policy. A robust policy for the IAF should be developed by the CAE. The study further recommended the formulation of a regulatory framework to regulate the IAF in SOEs in Zimbabwe, which is the public sector. All IAFs should commence fulfilling all roles expected of them, including, oversight, detection, deterrence, insight and foresight. All SOEs should ensure that there is a functioning audit committee that supports the functioning of internal auditing. To ensure an effective IAF, senior SOEs' management must understand the importance of the IAF and take it seriously. Further, supervision of the IAF must be performed by well-trained officers managed by a properly functioning audit committee. SOEs should consider collaborating with local universities and training colleges to assist them with specific scarce skills. All members of the IAF should possess sufficient competence and knowledge of relevant the legislation to perform their daily functions. This could be obtained through regular training and compliance with continuous professional development (CPD) requirements. IAFs need to work on raising awareness of internal auditing in the public sector by establishing specific marketing plans. IAFs should sell the concept that they exist to provide support to management by providing reasonable assurance that the departmental objectives will be achieved and that they are not in departments to police management. These plans, however, must be accompanied by improved internal audit service delivery and introduction of a quality assurance programme. It is recommended that independence of the entity should continue to be there through keeping precise and exact reporting lines. Internal auditors should be competent and skilled through engaging in continuous professional training and taking audit employees who are qualified. IAFs' roles should be supported and viewed significantly through being contended by the value adding roles of their activities and through timely execution of their recommendations and audit findings. For internal auditors to painstakingly execute procedures of internal audit, they should be motivated by the management of entities.

Standard 2050, *Coordination* (IIA, 2012) anticipates the head of IAFs to coordinate events of IAFs and disseminate information with all internal and external providers who provide consulting and assurance services in order to ensure there is proper audit and assurance coverage as well as to lower efforts of duplication (IIA, 2012). Formal audit action monitoring processes should be put in place in SOEs so as for management to make a commitment to responding quickly to IAFs' recommendations. IAFs do not

provide absolute assurance. However, according to the ISPPA, they provide reasonable assurance. In this case, some transgressions or irregularities, for example, fraud and corruption, may not be unearthed by the IAF. Eventualities that may result in fraud, malfeasance and corruption in SOEs, should be paid more attention such as attention given to objectives of SOEs that are of a strategic nature. By so doing, the IAF should be well positioned to raise its grievances and these are supposed to be seriously considered by the board of directors of SOEs. IAFs of professional standing with sturdy steady leadership skills are required in SOEs so that they are able to challenge the failure to conform to the principles of CG taking place in SOEs by the board of directors.

#### **5.6.5 Recommendations for Institute of Internal Auditors of Zimbabwe**

It is recommended that the Institute of Internal Auditors of Zimbabwe (IIAZ) run training workshops and fund research to be carried out on the role of IAFs and run programmes that are spread throughout the year. Guidance should be created for internal audit disclosure in public reports for the SOEs in the public sector. These guidelines should be of such a nature as to increase public confidence by requiring disclosure of important aspects of internal audit work.

#### **5.6.6 Recommendations for the Public Accounts Committee**

The Parliamentary Committee on Public Accounts Committee (PAC) is of the view that there is a need for the Speaker of the National Assembly to force ministers superintending ministries within which SOEs fall to table audit reports of SOEs they superintend or manage, and to examine carefully. Failure to submit the forensic audit reports of SOEs to parliament, as required by the law, is contrary to the Constitution of Zimbabwe and the law. Strong, strict and severe actions against should be taken against defaulting ministers. If these audit reports are not tabled before the house, it is a violation of the Constitution and the Audit Act.

#### **5.6.7 Recommendations on government policies/regulations**

In order to lower uncertainty in terms of policy and create a completely supportive enterprise environment, especially for SOEs in order for Zimbabwe to get the much needed investment and economic growth, a lenient regulatory framework forms a significant dimension of the general approach. The country must steadily shift from drafting plans to tangible execution in ways that firmly enhance confidence of investors and also make a visible difference to the lives of ordinary citizens. Rationalisation of SOEs is of cardinal importance. There is a need for rationalisation of SOEs to be taken seriously. In this case, SOEs that are strategic to the development of the country should be identified and supported. Political evolution, markets, advancements in technology may be some changes in operations that may be a function of an SOE to continue to be strategic. The scrutiny of SOEs should be done ceaselessly and repeatedly so that they can stay in their strategic position for a long time and unlike non-strategic SOEs that should go through precise and exacting parliamentary process. For rationalisation of SOEs to be effective, the government has set up a budget. The technical team chosen for the rationalisation process should be accountable to the Treasury and the SOE council or committee and the President of the Republic of Zimbabwe should chair the proposed SOE council/committee. This will assist to avoid a less considered fire-sale of state assets and enhance

transparency and accountability, thereby instilling stakeholders with confidence. Collaboration with development agencies in Zimbabwe is of cardinal importance, for example, collaboration between the World Bank and the African Development Bank in order to encourage government authorities to pass legislation that enables internal audit to become a vibrant component of good CG at both the national and corporate levels.

In view of the findings and conclusions itemised in this study, it is recommended that government departments in general and SOEs, in particular, in considering the annual audit plans, auditor profiles, training interventions, internal audit guidance documents, take cognisance of the perceived gap between the current and anticipated levels of contributions by IAFs, per individual activity listed. It is recommended that the process of risk management and results of risk assessments in SOEs be appropriately disclosed. The state, as a shareholder, should assist by making ensuring that these entities see-through trade secrets, the board must account by communicating the market material risk factors in a transparent manner. A Presidential SOEs' Review Committee to review the role of SOEs should be established. Political heads such as ministers should just play oversight roles and visit SOEs regularly without appointment to see what is happening there. Unannounced visits by ministers or parent ministry directors should be frequent.

There is a strong view that a need exists for singular overarching SOEs legislation based not only on legislative reform, but also on the practical application of having to deal with the dynamics on the ground. For example, the Companies Act stipulates clearly that shareholders appoint the board and the board subsequently appoints the CEO, but this is a problem for SOEs because cabinet approves the CEO's appointment, thus rendering the decision of the board pointless. The Companies Act, praised for its contexts in governing from the smallest to the largest companies, is welcome, but unfortunately, the playing fields are still unlevelled as all entities operate under different Acts exposed to different treatments. However, there is a caution that uniformity is not necessarily the answer to resolve the confusion. While it is critical to review the legislation, it is not a panacea to cure all the ills suffered by SOEs. Another hurdle faced by SOEs is that private companies enjoy operating in the competitive environment of the Companies Act. However, SOEs find it tough to compete with these private companies as they have to operate within the PFMA environment, which appears to be inflexible. The competitive advantage of SOEs remains frustrated by the stringent standard operating protocols of the PFMA.

#### **5.6.8 Recommendations for state-owned enterprises**

The board of directors should always be put in place in order to align with good CG practice and the board is appointed by the minister to oversee the administration of SOEs. Line ministries should make a judgement and examine board members as encapsulated in their performance contracts and board members who are not adding value to the turnaround strategy plan of the entity should be relieved of their duties. The board and management should make sure that the main drivers of long-term growth such as utilisation of talent, innovation, society and consumer trends, the environment and CG are upheld. Top management should support and make sure IAFs in SOEs are resourced, thus setting the tone at the top. By making sure that the CAE is an executive post as well as assuring them that they are involved at strategic and the highest level of the enterprise and sternly and effectively consider

their recommendations, the role of the IAF in CG is boosted. Internal auditors function as monitoring tools for management, hence it is crucial that management monitors executed controls to find out whether they are working as planned.

Establishment of councils of good governance as well as anti-corruption commissions to advise on anti-corruption policy is ideal for SOEs. In addition, forensic audit departments should be created in government departments, including SOEs, in order to enhance the internal auditors' work in improving the internal control systems' effectiveness. Forensic audit reports on institutions of government should be known and made available to the relevant legislative bodies at all government levels, as well as the general public through the internet and media in order to make sure such reports play a role as a deterrent to fraudulent activities in Zimbabwean SOEs. The composition of the board in SOEs is crucial. Board members of SOEs should be knowledgeable in areas of finance, operations, and management considering that these boards are influential in the operations and success of SOEs. Participants in this study indicated that the boards and management should make use of a lot of incentives programmes. Poor financial performance of SOEs is attributed to devoid of motivation of managers of SOEs (Pham, 2011). Thus, it is recommended SOEs put aside funds for incentive programmes.

SOEs should be able to produce and publish periodic audited financial statements and those that play laxity should be compelled and penalties imposed because financial statements safeguard matters of internal control. Audited financial statements safeguard shareholders in order to ensure that entities are genuinely presenting their financial positions (Skinner & Srinivasan, 2012). Governance risk accelerates where there is no audited financial information (Odainky & Simpson, 2012). Important reports for monitoring are audited financial statements (Chappell, 2014). The significance of the financial statements is clear and the absence of audited financial statements makes it difficult for the owners of the organisation, and potential investors to know how the business is performing. Audited financial statements provide stakeholders and potential investors objective knowledge about events of the entity (Etieyibo, 2013; Peecher et al., 2013). It is also recommended that board members' appointment not merely consider the scrutinisation of expertise, technical knowledge and skills members bring to the SOEs, but what they put into the development and consolidation of strong CG processes as well as their moral right or wrong (ethical reputations).

## **5.7 Areas for further research**

The current study plants the seeds of a theory that may result in suggestions for further research. In Zimbabwe, studies related to CG and internal auditing are somewhat scant and have neglected SOEs, which provides an opportunity to conduct further studies to evaluate the dynamics of CG in SOEs. It is imperative to make further efforts to discuss the role of IAFs using a CG approach from economic and sociological theories that may add to the existing body of knowledge. Various avenues are discussed hereafter.

### 5.7.1 Research paradigm

The current study used an interpretivist paradigm to examine matters pertaining to the role of the IAF using a CG approach. It also used an inductive approach to better understand the agency connection of internal auditors in their organisations. Other paradigms like the critical realism and interpretivist approach may give a different dimension to explain the nexus between the IAF and CG. Such paradigms may necessitate the use of case studies to gauge the performance of the IAF by conducting in-depth interviews and gathering data through other means with respondents that could include ACs, CAEs and top management.

### 5.7.2 Internal auditing theory

CG theories should be used in carrying out internal auditing studies. There is a lack of theory as far as internal auditing is concerned and future research should develop a verified theory of internal auditing that could consider theories such as the Transaction Cost Theory, Accountability Theory, Stewardship Theory and the Theory of Performance. This will result in an integrated approach to the practice of internal auditing. An integrated approach to internal auditing may necessitate future research into the current International Professional Practice Framework (IPPF) and inclusion of sub-frameworks to support the IPPF. Other areas of cardinal importance to look at are:

- To refine the actual and potential impact of internal auditing on CG by examining case studies of internal audit work in practice;
- The role of IAF in the performance of the entity with a focus on the private sector in order to depict real situations across the sectors;
- The challenges that are affecting IAFs in both the public and private sectors;
- Study the nexus between the use of technology and effectiveness of the IAFs;
- The effectiveness and contribution of internal auditing in promoting good CG practices for organisations listed on the Zimbabwean Stock Exchange (ZSE), Non-Governmental Organisations (NGOs) and private entities. This will enable conclusive and comprehensive conclusions to be made about the role of internal auditing in enhancing good CG practices.
- To study the effects of the overall CG context on internal auditing effectiveness;
- To examine how internal auditors should be educated and trained so that they have the desired business acumen and insights to most effectively quantify the status of combined assurance within SOEs, and examine the level and effectiveness of cooperation between IAFs and risks functions in SOEs;
- To investigate motivators of the reliance placed by external auditors on IAFs (internal, out-sourced and co-sourced) in the combined assurance model in the private and public sectors;
- The future role of the IAF with regard to policy-making in the public sector;
- The role of the IAF in providing assurance and consulting services in the public sector; and
- The role of the IAF in public service delivery.

Discussing these matters could contribute substantially to the literature on both internal auditing and CG. It would be of great interest if future studies could look at matters of managers' motives for complying with CG.

## **5.8 Implications of the study**

As far as the findings of this study are concerned, the IAF plays a vital role in CG in SOEs. The IAF should be independent, protected from victimisation and harm as well as have a voice in SOEs since it is one of the cornerstones of CG. This gives vital implications for the system of CG in general and internal auditing, in particular. The current study has shown that IAFs can give various roles to SOEs, such as consulting and assurance, among others, so that they can continue to be relevant and able to fulfil the needs and anticipations of interested groups (stakeholders) (Deloitte, 2011; Druckman, 2013; PwC, 2013 & IIA, 2013c). Several implications of the findings of this study such as policy, practical, theoretical, academic and managerial are highlighted.

### **5.8.1 Managerial implications**

Various vital managerial implications have been offered by the findings of this study. Initially, the role of IAFs in supporting CG results in the performance of SOEs. This is so because SOEs should continue being crucial to national growth and for service delivery. The model framework illustrated in Chapter Eight (see section 8.1) reflects essential steps that should be taken for a company to be viable and perform well through the use of IAFs. Senior managers should consider internal auditors, especially the CAE, at corporate levels and in all senior management meetings and decision-making purposes. Management should make sure the IAF is sufficiently resourced and has an adequate budget in place throughout the financial year.

### **5.8.2 Theoretical implications**

The current study has added new knowledge on internal auditing in Zimbabwe and Sub-Saharan Africa. While many studies have looked at internal auditing solely using the Agency Theory as the main underpinning theory (Shamsuddin et al., 2015), this study additionally reviewed other theories such as Institutional Theory and Stakeholder Theory, in addition to the Agency Theory as relevant to the study. In-house internal auditors are recognised and identified as a valued senior management team within the structure of CG.

### **5.8.3 Implications for research methodology**

The research approach used in this study, that is, the qualitative methodology, gives more understanding on IAF performance that could not have been achieved by the quantitative method alone. Interviews conducted with senior management, CEOs, CAEs, board of directors, senior internal auditors and ACs, both current and those who have left SOEs, yielded valuable data that substantiated their background and experience of working in SOEs for a long time.

#### **5.8.4 Practical implications**

At both professional and practical levels, gaps in CG and internal auditing have been noticed during the study and there is a need for proactive ways to dwell more on the role of the IAFs as well as increase CG systems in SOEs, which should be done in order to strengthen their performance. This has vital implications for the IIAZ and IAFs, as reflected in the sub-sections that follow.

##### **5.8.4.1 For internal audit functions**

IAFs have a strong bearing on CG. Effectiveness of IAFs positively influences CG findings as espoused by Gramling and Hermanson (2009) and Sarens (2009) to the effect that the significance of internal audit reports and frequent actions based on audit recommendations on CG are pertinent. Better evaluation of CG can be obtained when there is a competent, experienced, skilled internal auditor who can mix well with the AC through reviewing the various stages of the internal audit process. ACs need to hear significant audit findings so that they can be kept informed and audit findings such as conflict resolution, irregularities or corrupt tendencies, inefficiency and ineffectiveness of systems such as information retrieval and dissemination are of cardinal importance. In addition, audit reports should contain vital findings and reflect actions senior management has made. The study findings have implications for internal auditors who hope to increase the efficiency of their work. CG mechanisms such as boards of directors and AC, which could use the findings of this study to respond better to their responsibilities pertaining to internal audit and regulators could also benefit by strengthening areas with substantial influence on internal audit's contribution to CG.

##### **5.8.4.2 For the Institute of Internal Auditors of Zimbabwe**

Guidance should be created for internal audit disclosure in public reports for the SOEs. These guidelines should be of such a nature as to strengthen disclosure of crucial aspects of internal audit's work.

##### **5.8.4.3 For the government**

From a practical point of view, the study findings give feedback to government, that is, policy makers, on the need for policies that enhance and support the connection between the IAF and AC members, who should be gurus in auditing, accounting and finance.

#### **5.8.5 Policy Implications**

The study has significant implications for government and public sector bodies. Policy implications are reflected in the following sub-sections.

### **5.8.5.1 For the government or policy makers**

It is a government directive that all SOEs should have IAFs, as promulgated by the PFMA and it is obligatory for the better management of fraud and embezzlement of funds and resources by officials in the public sector. The ACs' expertise of having financial background and reviews made on the work of internal auditors are vital in making sure that IAFs are effective. Audit findings could be reported by using all or some of the CG framework dimensions such as legal framework/corporate policies, information and transparency, improvements in management, and accountability. The internal audit report would reflect a complete view of areas being managed well and areas where deficiencies in internal control or business practices are prevalent. Policy makers in Zimbabwean SOEs would find the findings of the study very crucial as they show factors that can boost IAFs' roles and its effectiveness. The study is expected to alert policy makers to the importance of enhancing CG effectiveness as well as to give substantial proof on the need for IAF as a crucial part of effective internal controls.

For policy makers like the GoZ, SOEs should come up with strong policies in order to manage risks and make sure that there are effective internal controls for better accountability, but to enhance accountability in these SOEs, embracing good CG practices is essential. The findings of the study also give legitimacy to the IAF and offer policy makers vital data required to increase government power to enforce the establishment of IAFs in all governmental entities and to practitioners of internal audit in the public sector to ask for proper training and appropriate remuneration to enable them to work competently based on the IIA's code of ethics.

### **5.8.5.2 For the public sector and professional and accounting bodies**

Firstly, it adds new knowledge and insights and makes sure relevant bodies become aware of the significance of the increase in regulation (both governmental and professional) of the activities of internal audit in emerging economies since internal auditors are employees of SOEs and more affected by auditor independence threats and objectivity than their colleagues (external auditors) as external bodies. Secondly, it highlights the need for emerging countries' accounting professional bodies to strengthen their monitoring focus on the activities of internal auditing in order to boost and rely on the key obligations of the IAFs. Thirdly, for public sector bodies, the findings of the study could be considered as strong proof for them to establish IAFs, internal audit units or departments and for SOEs to hire competent audit officials (those with higher qualifications such as master's or Ph. D holders in internal auditing for executive posts as well as those who are strong in IT auditing and Certified Internal Auditors (CIA). Supervision and monitoring of IAFs is vital (IIA, 2011), especially in ensuring compliance with the IIA's requirements in Zimbabwe, especially the independent aspect of the IAF and the establishment of ACs on boards which are important in order to enforce the role of IAFs for effective CG in SOEs.

### **5.8.5.3 For academics**

The implications for the academic front are that, firstly, contribution is made to literature that exists on the role of IAF in enhancing CG in SOEs, particularly in the context of developing economies.



Regarding the SOEs, the findings of the study have academic implications in that the outcomes of the study suggest that IAF is more vital for accountability and CG. This study documents additional proof to Bananuka et al. (2018) on the positive nexus between accountability and CG.

#### **5.8.5.4 Implications for professional practice**

This study examined the role of internal auditors in the performance of Zimbabwean SOEs using a CG approach. However, the study findings may make other organisations to be in a position of developing and maintaining a strengthened IAF governance structure. The present study points out to government to possible areas of CG processes in Zimbabwean SOEs where attention is warranted.

#### **5.8.5.5 Implications for social change**

Well looked after and managed SOEs are essential in boosting economic development (Thomas, 2012). Dysfunctional boards, challenges in managerial and technical aspects coupled with a dearth of suitable monitoring impact directly on the performance of SOEs (Simpson, 2014). Thus, the entity's performance and profitability is enhanced by the adoption of sound CG principles (Odainkey & Simpson, 2012).

### **5.9 Conclusion**

The role of IAFs in the performance of SOEs using a CG approach was looked at in this study. Chapter 5 presented the findings, conclusion and recommendations as they radiate from the discussion and clearly defined findings of the study. The study explored the role of internal auditing as a CG mosaic among SOEs in Zimbabwe. The study findings indicated that in SOEs, IAFs play several key roles such as oversight, foresight, deterrence, insight, and detection as well as value-added services, consultancy and advisory roles. Notwithstanding all these contributions by the IAFs in SOEs, IAFs are faced with challenges such as lack of independence, restricted access and lack of funding, dearth of knowledge of the entity, repeated findings and lack of legal framework, scarcity of competent staff and leadership, and lack of management support. There is reluctance by management and the board (AC) to support IAFs although they seem to know and comprehend the benefits of supporting IAFs. The study was based on semi-structured in-depth interviews among senior managers, ACs, senior internal auditors, CEOs, CAEs, and BoDs who are former and current employees of SOEs and well as from documentary reviews of annual audits report from the Auditor General. By scrutinising and analysing AG reports, oversight roles were identified as the main role of the IAF. However, through the extant academic literature and interviews carried out, it emerged that oversight, detection, deterrence, insight and foresight are roles of IAF in CG practices. It is further asserted that management support is important in SOEs (Zulkifli Baharuddin, 2014 & Sayag, 2010). The chapter takes everything into account from Chapter One to Chapter Four. This was followed by summary of key findings. The study showed that for the performance of SOEs, IAFs are crucial and are the cornerstones of CG. The chapter presented the implications of the study, contribution to existing knowledge, limitations of the study findings in addition to the recommendations to SOEs, policy makers and government officials in Zimbabwe. The chapter closed by giving pointers to future investigation of the role of IAF in SOEs. The study showed that CG is strengthened by the IAF in order to make sure the SOEs succeed through

risk-based audits that can give assurance and understanding on processes and structures. IAFs should be seen expanding in areas such as non-financial measures, risk governance, culture and behaviour, and sustainability. As arrays of eventualities as a result of new technology, geopolitics, cybersecurity, and disruptive innovation are addressed, an IAF that is agile and vibrant is an indispensable resource in supporting CG.

The data obtained from this study enabled the researcher to come up with the proposed model framework. After making all the recommendations and suggestions for future studies, a model framework was eventually presented. The focal parameter of this study was to examine the role of IAFs and propose a model framework for effectiveness of IAFs, which SOEs in Zimbabwe and other emerging countries can use. It is understandable from the study that a course of action to favourably execute IAF effectiveness model will make the internal auditing roles become effective, contributing to CG and leading to the performance of SOEs, which is not an overnight journey.

### **5.10 Personal reflection**

When I began my doctoral journey I was bright eyed and bushy tailed. It was a long dreamt goal that had finally come to fruition. The programme is a milestone in my short academic career of three years since it vindicates my status in joining the post-doctoral journey in the near future. The PhD enhanced my theoretical concepts in internal auditing, corporate governance, SOEs, administration and development. The research questions have been posed and answered and all that is left for me to do is to express my gratitude to the men and women in senior positions at POTRAZ, TIMB, Telone, Telecel and Net one who have participated in this study. Their willingness to share their personal experiences of working in reputable SOEs and the insights they shared with me made it possible to obtain information on their hopes and understanding of the role of IAFs towards corporate governance in SOEs as well as the challenges faced by SOEs in Zimbabwe in general and ways of ameliorating them. This has provided insight into some of the pertinent matters that these women and men grappled with as they run SOEs as well as the challenges they face in making SOEs viable in an emerging economy. Throughout my PhD as a researcher, from the conception of the problem to its conclusion, I was constantly challenged by what I deem to be a very worthwhile task. I was privileged to interact with 20 unique individuals, for example, director generals, managing directors, chief executive officers, chief audit executives etc who allowed me to hear and share their personal experiences in running SOEs. I have found that their experience was an emotional and mammoth task. While conceding that the role of IAF and corporate governance has not been researched widely in Africa and Zimbabwe in general. The role of IAFs and corporate governance become a complex phenomenon that cries for further investigation, I would like to note that this study has enriched my experience and broadened my comprehension of corporate governance, the role of IAFS and SOEs. My hope is that readers will find this study/thesis imperative.

Good corporate governance procedures are absolutely crucial in the changing environment in which entities operate, both in the public and private sectors. Numerous factors have influenced and still are influencing the need for additional or enhanced guidance for management on how to manage an entity such as SOEs more effectively, such as, amongst others, the increase in corporate scandals and stakeholders demanding accountability and transparency. The business environment is trying to address this need by developing more robust applicable legislation and guidelines, for example, in

Zimbabwe, the enactment of the Public Entities and Corporate Governance Act [Chapter 10:31]. In examining the role of internal auditing in boosting good corporate governance practices in the SOEs sector in Zimbabwe, focusing on performance and in providing guidance on how to strengthen the role of internal auditing in corporate governance, not only does this seminal work add value to the ongoing debate in this area of scholarship but it also addresses the knowledge gap. This thesis, therefore, is a timely contribution to a burgeoning area of academic inquiry. A PhD has not only equipped me with expert knowledge in my field but will expose me to a wide range of opportunities both academic and non-academic. This study contributes to knowledge by building a model which is a development in the field research of this area. Other researchers will be able to use this model in future in other sectors or countries, to enhance the results of the current study, as explained in the model (Figure 5.1). Studies could build on the current model in this study (Figure 5.1) and use it as a model elsewhere, to discover points of difference or similarity. Alternatively, it could be tested through empirical studies at an appropriate scale. The researcher hopes that additional studies in this area will be undertaken and reported. These studies will contribute to an enhanced awareness of the value-added roles by IAF to contribute in achieving organisational objectives. The study's contributions and areas for future research spelt out in this study will inform postdoctoral work.

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## APPENDICES

### Appendix A: Ethical clearance



P.O. Box 1908 • Bellville 7535 South Africa • Tel: +27 21 4803291 • Email: fbmsethloc@oput.ac.za  
Symphony Road Bellville 7535

Office of the Chairperson  
Research Ethics Committee

Faculty: **BUSINESS AND MANAGEMENT SCIENCES**

At a meeting of the Faculty's Research Ethics Committee on 11 June 2019, Ethics Approval was granted to Henry Mukono (218342861) for research activities of D Com: Internal Auditing at Cape Peninsula University of Technology.

Title of dissertation/thesis/project:

ROLE OF INTERNAL AUDITING FUNCTION ON  
PERFORMANCE OF STATE-OWNED ENTERPRISES IN  
ZIMBABWE: THE CORPORATE GOVERNANCE  
FRAMEWORK

Lead Researcher/Supervisor: Prof J Dubhlela

Comments:

Decision: **Approved**

A handwritten signature in black ink, appearing to be "J. Dubhlela", written over a horizontal line.

Signed: Chairperson: Research Ethics Committee

13 June 2019

Date

Clearance Certificate No | FOBREC672

**Appendix B: Permission to carry out research-MICTPCS.**

**MINISTRY OF  
INFORMATION COMMUNICATION TECHNOLOGY, POSTAL & COURIER SERVICES**

TELEPHONE: +263-4-795802,  
708408, 706330  
FAX: +263-4-705539



**Zimbabwe**

**INFORMATION COMMUNICATION  
TECHNOLOGY, POSTAL & COURIER SERVICES  
PRIVATE BAG CY419, CAUSEWAY  
7<sup>TH</sup> FLOOR, BANK CHAMBERS BUILDING  
76 SAMORA MACHEL AVE  
HARARE**

24 February 2019

Mr. Mukono Henry (218342861)

**Cape Peninsula University of Technology  
Cape Town, South Africa**

**RE: CONSENT TO UNDERTAKE RESEARCH**

---

The above subject matter refers.

We acknowledge receipt of your request to undertake a Doctoral academic research in some of our organisations.

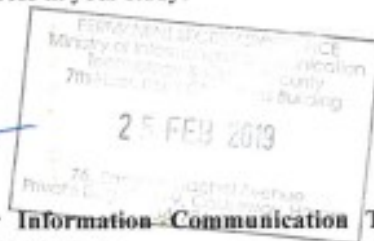
We wish to advise that authority is granted for you to undertake that research and wish to state that the information you will obtain will be for academic purposes only.

We wish you every success in your study.

A handwritten signature in blue ink, appearing to read 'S.C. Chigwamba'.


S.C. Chigwamba.

**Acting Secretary for Information & Communication Technology, Postal & Courier  
Services: Republic of Zimbabwe**



Appendix C: Permission to carry out research- Auditor General of Zimbabwe

All communication should be addressed to:  
The Auditor-General  
P. O. Box CY 143, Causeway, Harare  
Telephone 263-04-793611/3/4, 762817/8/20-23  
Telegrams: AUDTOR  
Fax: 706070  
E-mail: oag@audtgen.gov.zw  
Website: www.audtgen.gov.zw



**OFFICE OF THE AUDITOR-GENERAL**  
5th Floor, Burroughs House,  
48 George Sileudika Avenue,  
Harare

Ref: **AUD.4.3.2**

February 22,  
2019

**Mr H. Makono**  
Faculty of Business and Management Sciences  
School of Accounting  
Department of Internal Auditing  
Financial Information Systems  
Keizersgracht and Tennant Street  
P O Box 652  
Zonnebloem  
**CAPE TOWN**  
**SOUTH AFRICA**


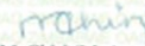
Dear Sir

**RE : APPLICATION FOR PERMISSION TO CARRYOUT RESEARCH**

I refer to your request to obtain permission to conduct a research in State-Owned Enterprises.

I would like to advise that permission to do so is granted by the individual enterprises as they are legal entities in their own rights who determine their own operations. My Office provides only external audit services. However, my Office can assist you by availing you with my annual audit reports on the State-Owned Enterprises. Another Office that can assist you is the Office of the President and Cabinet through its Corporate Governance Unit which is headed by Mr W.L. Manungo, the former Secretary for the Ministry of Finance and Economic Development. They oversee corporate governance issues and policies in state enterprises.

Yours faithfully



**M. Chiri (Mrs)**  
**AUDITOR-GENERAL**

## Appendix D: Permission to carry out research- POTRAZ.

### Postal & Telecommunications Regulatory Authority of Zimbabwe



Creating a level playing field

1008 Performance Close  
Mt. Pleasant Business Park  
P.O. Box MP 843  
Mt. Pleasant  
Harare  
ZIMBABWE  
Tel number: +263 242 333032  
Fax number: +263 242 333041  
Email: [the.regulator@potraz.gov.zw](mailto:the.regulator@potraz.gov.zw)  
Website: [www.potraz.gov.zw](http://www.potraz.gov.zw)

Our Ref: BC/tkm/874/19

4 June 2019

Cape Peninsula University of Technology  
Faculty of Business & Management Sciences  
Keizersgracht and Tennant Street  
P.O. Box 652  
Zonnebloem  
Capetown

**Attention: Mr H. Mukono**

Dear Sir,


**RE: APPLICATION FOR PERMISSION TO CARRY OUT DOCTORATE RESEARCH AT POTRAZ**

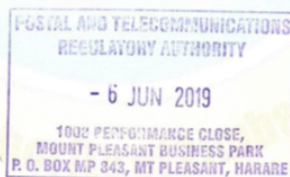
We acknowledge receipt of your letter on the above matter.

We are pleased to advise you that the Authority is ready to assist in your research. We therefore wait to hear from you on the way forward.

Please do not hesitate to contact the undersigned should you require further details.

Yours faithfully

  
Dr G.K. Machergete  
**DIRECTOR GENERAL**



## Appendix E: Permission to carry out research-TELECEL.



29 May 2019

**The Permanent Secretary**  
Ministry of ICT, Postal and Courier Services  
7<sup>th</sup> Floor Bank Chambers  
76 Samora Machel Avenue  
**Harare**

Attention: Engineer S. Kundishora

Dear Sir,

**RE: APPLICATION TO CARRYOUT RESEARCH: MR HENRY MUKONO,  
MINISTRY OF ICT, POSTAL AND COURIER SERVICES**

---

**We refer to the above matter and to your letter of the 20<sup>th</sup> of May 2019;**

We acknowledge the request for the research by Mr. Mukono and wish to advise that we are amenable to same. We will provide the necessary assistance as may be required for the success of his studies.

Thanking you

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Angelhne Vere', written over a horizontal line.

Angelhne Vere  
Chief Executive Officer

## Appendix F: Permission to carry out research -Letter of Consent.



20<sup>th</sup> April 2019

To whom it may concern

Dear Respondent

The importance of time cannot be overemphasized. At the same time, sharing time and space with someone is very enriching, rewarding and fulfilling. My name is **Henry Mukono**, and I am currently working on a research project for a doctorate degree in the field of Internal Auditing under the School of Accounting at the Cape Peninsula University of Technology. I am seeking your permission to share approximately 10-15 minutes of your valuable time during my questionnaire-based interviews. Granted, such permission will enable the student to carry out surveys across the sector for the project entitled, 'The role of internal auditing on performance of State-Owned Enterprises in Zimbabwe: Employing the corporate governance framework'.

The research project is intended to investigate the role of internal auditing on the performance of State-Owned Enterprises in Zimbabwe by employing a corporate governance framework. The main objective of the research project is to examine the role of internal auditing on performance of State-Owned Enterprises in Zimbabwe by using a corporate governance framework.

I pledge, that all the data will be aggregated, that collected information will be treated with the strictest confidence; and that you are under no obligation to participate. All the data obtained will be used for research purposes only. The final report will not include any identifying information of your organisation. Should you have any queries, do not hesitate to contact me or my research supervisor. Your participation in the research project will be most appreciated. I kindly request that you provide your signature in the appended signature space below to show your consent

<i>Position/Office of Respondent</i>	<i>Signature</i>	<i>Date/Date stamp</i>

Yours sincerely

.....

Henry Mukono. Tel: +263 773 724 536. Supervisor; Prof Job Dubhlela Tel: +2783 9855 136.



## Appendix G: Interview Guide



### Introduction.

My name is **Henry Mukono**, a Doctor of Commerce in internal auditing candidate with CPU. I am conducting a study entitled, '**The role of internal auditing on performance of state-owned enterprises in Zimbabwe: Employing the corporate governance framework**'. It will be appreciated if you can find time to respond to these questions. Your responses to the questions will be kept private and confidential.

### Instructions.

The interview will begin once the interviewer has taken the interviewee through the consent form and the form signed by the interviewee.

### SECTION A. BIOGRAPHY

Please cross the applicable boxes

1. How old are you this year? Please use table below to indicate your age range

18 – 25 years	26-30 years	31 – 40 years	41- above
---------------	-------------	---------------	-----------

2. What is your gender?

Female	Male
--------	------

3. What department are you employed in?

<b>Human Resources</b>	<b>Finance</b>	<b>Auditing</b>	<b>Other</b>
------------------------	----------------	-----------------	--------------

If other, please specify .....

4. What is your position in the organisation?

Accountant.	Internal Audit Executive	Internal Auditor	Chief Executive Officer.	Other
-------------	--------------------------	------------------	--------------------------	-------

If other, please state in space below .....

5. What are the organisational functions are you involved in? Indicate below.

Strategy formulation	Auditing	Hiring	Other – please explain
----------------------	----------	--------	------------------------

6. How long have you been in your current position? [including other places]

0 - 5 years	6 – 10 years	11 – 15 years	16 – more years
-------------	--------------	---------------	-----------------

7. Have you been through any training and development in your field of work?

No	Sometimes	Fairly regularly	Always
----	-----------	------------------	--------

8. Have you ever been promoted in the Internal Audit department?

No, I haven't	No, just extra duties	Yes, once	Yes twice or more
---------------	-----------------------	-----------	-------------------

9. What is your highest educational qualification?

National Diploma	Higher National Diploma	Degree	Masters	PhD
------------------	-------------------------	--------	---------	-----

If other, please specify-----

10. How many people report to you in your position?

0 – 5,	6 – 10,	11 – 15	16 – 20	21 – 30 +	None
--------	---------	---------	---------	-----------	------

**SECTION B: GENERAL QUESTIONS.**

1. How can IAF contribute to improving SOEs performance and what are their roles in SOEs in Zimbabwe?

2. How and why does management interfere in IAF and what role does IAF play when an entity obtains a loan?

3. How do you observe IAF independency in your SOE in Zimbabwe?

4. How does entity risk exposure affect IAF and when does IAF benefit from the financial performance?

5. How does IAF staff composition and why the size of the IAF does affect the scope of work?

6. How do you observe the relationship between IA and IA auditees and how does top management support the IAF?

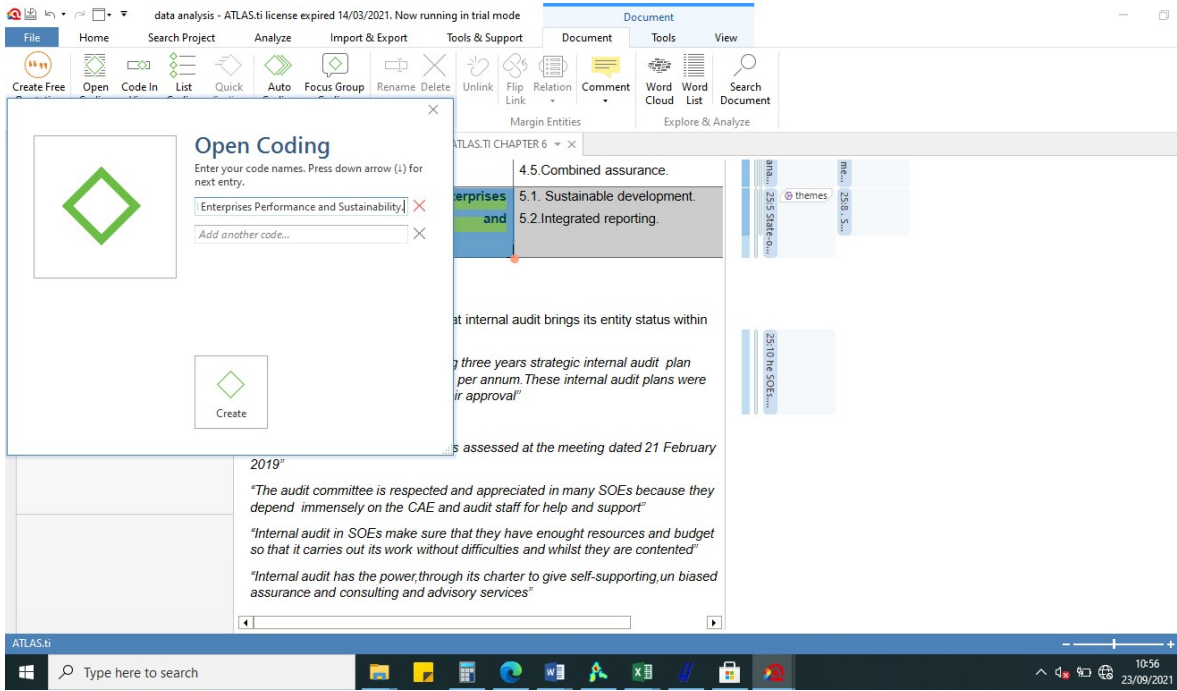
7. How does the External Auditor evaluate IA scope of work?

8. Why and how often does top management interact with IAF in your organisation?

9. How does the Audit Committee interact with IAF in your organisation in Zimbabwe?
10. How and what roles does the Government of Zimbabwe play in the IAF? Why?
11. What and how do professional bodies contribute to IAF in Zimbabwe?
12. How did the organisation's IAF develop and what challenges do IAF face in your organisation in Zimbabwe?
13. Several researchers have confirmed that efficient use of resources, industry regulations, and government pressure on performance positively impact on SOE sustainability. Are these not happening within SOEs in the country? If so why are there so many challenges?
14. What is your view on having Internal Audit function in all the SOEs? And how can Internal Audit Function (IAF) contribute to improving SOE performance in the country?
15. What interventions can be put in place to improve the performance of SOEs in the country?
16. The Zimbabwe government seems not interested in the privatisation of the SOEs in spite of the challenges in the sector – What is your view on this?
17. What are the current levels of performance of SOEs and the common success and failure factors affecting SOEs in Zimbabwe?
18. What are the governance challenges facing SOEs in Zimbabwe?
19. Should board members be allowed to serve on more than one other SOE boards in Zimbabwe? and what are the possible implications of that arrangement?
20. Many fraud & corrupt practices have been reported in the local media. Are there appropriate mechanisms in place in dealing with such malpractices?
21. Researchers, in general, have reported political interference is contributing to SOE challenges. How far is this true in Zimbabwe?

**Thank you once again for your co-operation during this interview. Your time and efforts are deeply appreciated. If you have any comments, please do make the comments.**

# Appendix H: Screenshots of generated codes in Atlas.ti



data analysis - ATLAS.ti license expired 14/03/2021. Now running in trial mode

Document: D 25: Henry themes-ATLAS.TI CHAPTER 6

6.6.1.1 Sub-theme1.1: Improve the ability to have external finance by organisations

reiterated their views as shown by the following statements:

*should be able to assess the performance of SOEs and hence the reason why corporate cardinal importance to SOEs since it can result in these entities having external funding" (AC2).*

*do with corporate governance are of importance since improvement in corporate governance at ions of various sources of funds especially external funding" (Participants CEO 1; CEO 2).*

ts unanimously conceded that:

*rd corporate governance can lead to entities having the ability to be funded by the government and external funders and this can result in colossal investments, creating of employment will be made ental and there will also be an increase the growth of SOEs" (Participants SM1, SM2, SM3, SM4, ; CAE1, CAE2, CAE3, CAE4, CAE5; SIA1, SIA2, SIA3, SIA4, SIA5).*

from the aforementioned sentiments, it is understandable that participants genuinely viewed good corporate governance as of cardinal importance. The findings are in congruence with what Vo and Phan (2013), who opine that

Open Coding

Enter your code names. Press down arrow (↓) for next entry.

Good corporate governance

Add another code...

Create

ATLAS.ti

Type here to search

11:09 23/09/2021

data analysis - ATLAS.ti license expired 14/03/2021. Now running in trial mode

Document: D 25: Henry themes-ATLAS.TI CHAPTER 6

"A revised internal audit charter was assessed at the meeting dated 21 February 2019"

mittee is respected and appreciated in many SOEs because they rely on the CAE and audit staff for help and support"

in SOEs make sure that they have enough resources and budget to carry out its work without difficulties and whilst they are contented"

has the power,through its charter to give self-supporting,un biased consulting and advisory services"

unction) was in addition mandated to make a follow up on the action plans developed by management to address the findings of the Auditor General (AG) reports.The following quotes from the annual reports

neral in liason with the internal audit and audit committee monitor the actions"

ternal audits indicatwd that---

ddition given authority to make a follow up on the execution of the action plans developed by top management to express thoughts or opinions on the findings in report of the Auditor General"

Open Coding

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Internal audit function

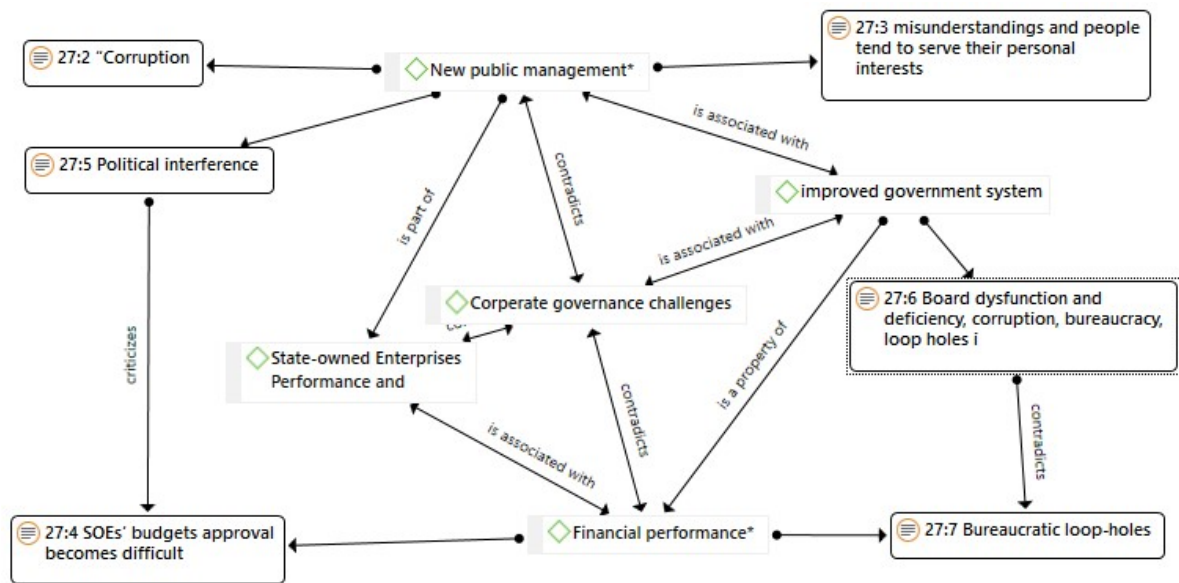
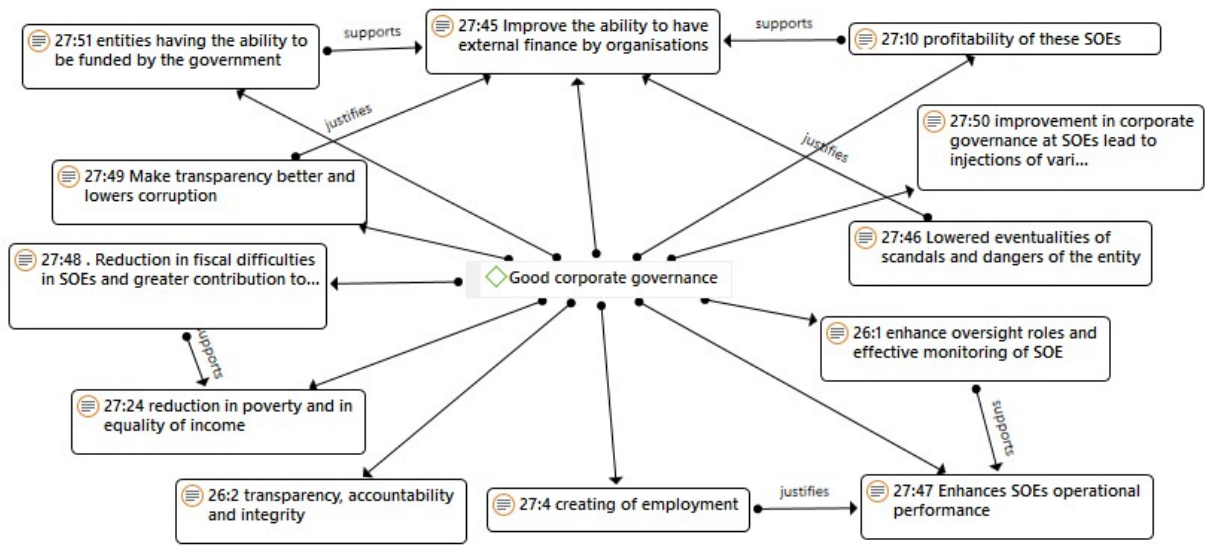
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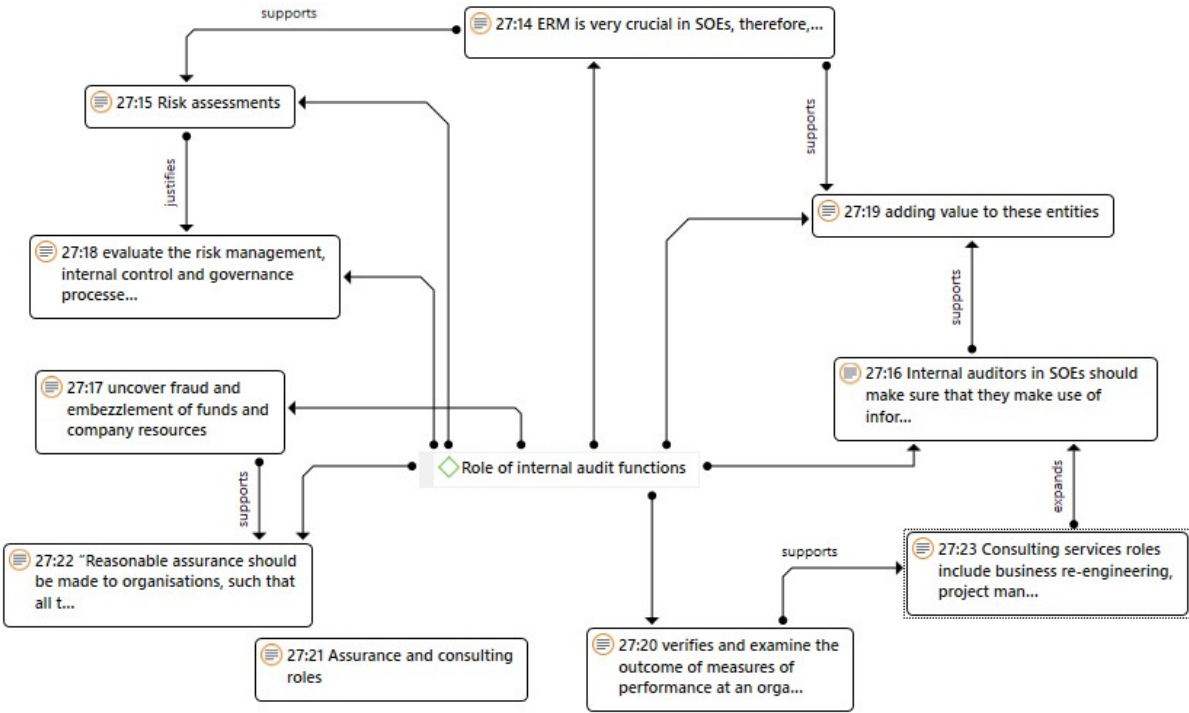
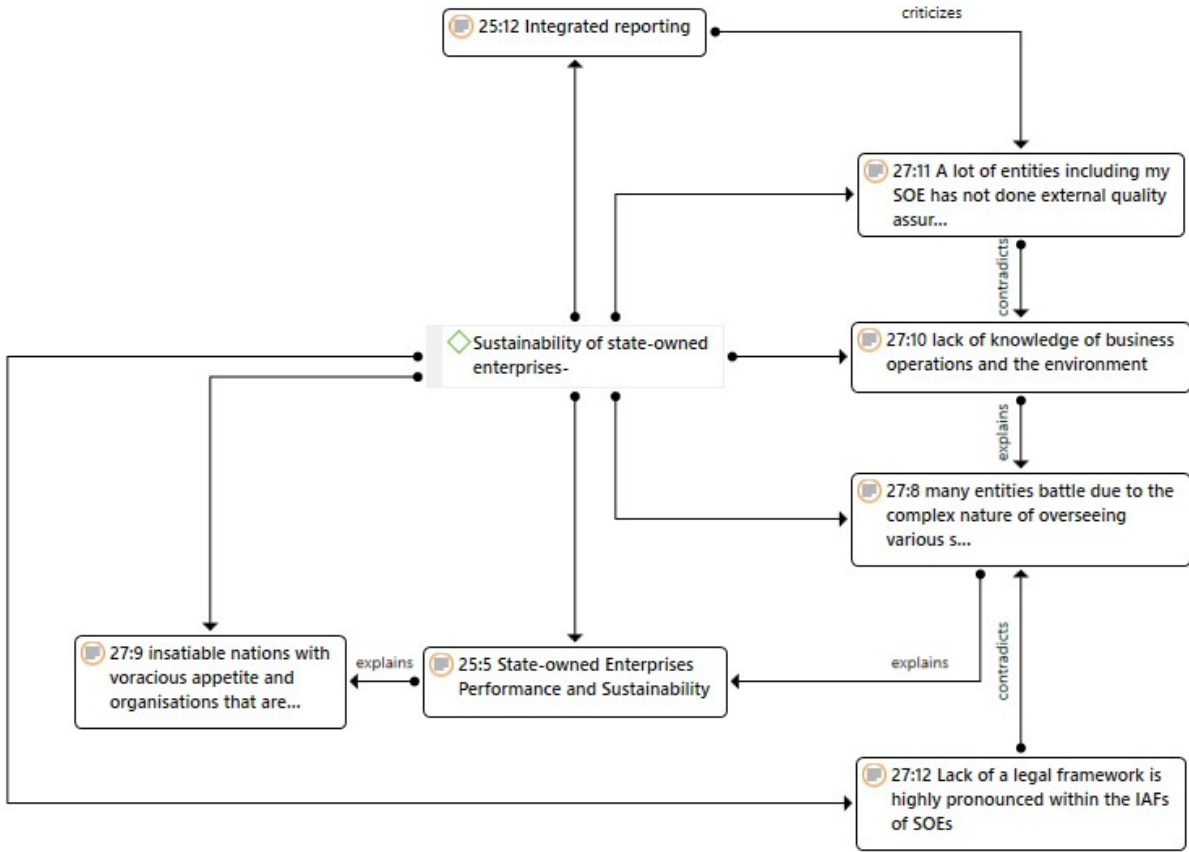
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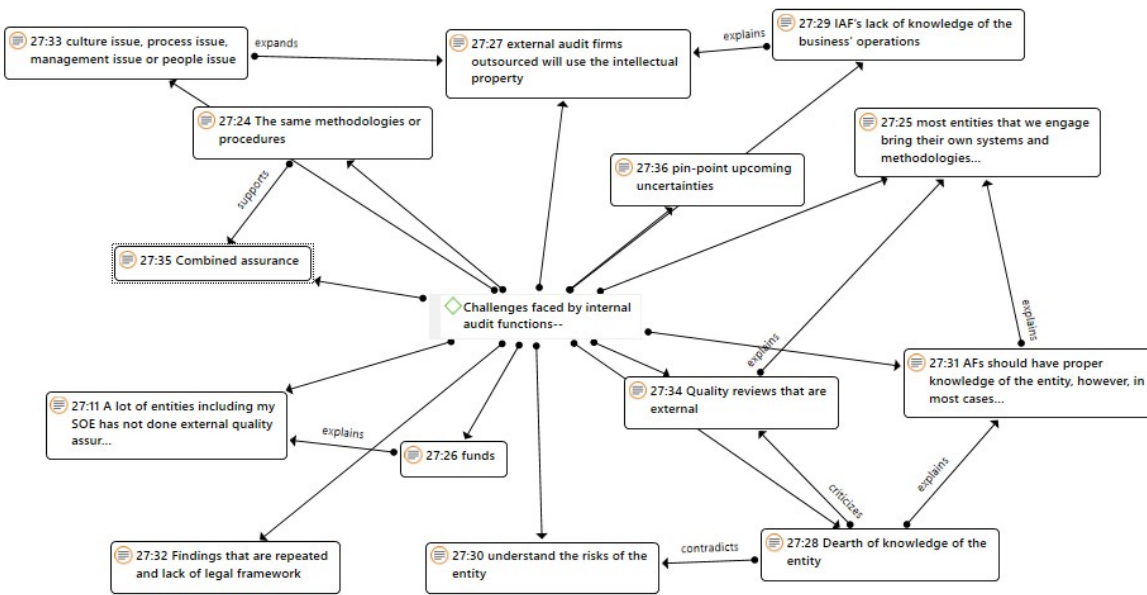
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## Appendix I: Language editing certificate.

SD Dombo University of Business and Integrated Development Studies  
Faculty of Public Policy and Governance  
Post Office Box WA64  
Upper West Region  
Ghana

June 14 2021

TO WHOM IT MAY CONCERN

### **Language and technical editing of Henry Mukono's doctoral thesis**

This is to confirm that I, Professor Maurice Oscar Dassah, have edited the doctoral thesis of Henry Mukono entitled 'The role of internal auditing function in performance of state-owned enterprises in Zimbabwe: a corporate governance framework'.

I hold an Honours degree in English (University of Ghana, Legon-Accra) and Master of Linguistics (University of Stellenbosch) with wide experience in teaching English Language and Communication as well as academic writing at two South Africa universities from 1992 to 2011, including holding the position of Language Coordinator in the Faculty of Informatics and Design at Cape Peninsula University of Technology (CPUT) for six and a half years.

For more than twelve years, I have been supervising postgraduate students and examining dissertations/theses for various universities as well as reviewing articles submitted to journals for publication and conferences on the strength of my being both a content subject and language/writing specialist.

My mandate being to edit Mr Mukono's thesis, I read it thoroughly, at least, twice and recommended language and technical changes aimed at improving its quality. In this regard, to the best of my ability, I pointed out problematic aspects of language and style for the student to rectify that would make the thesis conform to the basic conventions of scholarly writing.

Regarding technical requirements, specifically in-text citations and referencing, on both my first and second readings (before giving first feedback and after looking at revisions made and giving additional feedback), I pointed out sources cited that have not been acknowledged as well as those appearing in the list of references that have not been cited at all in the thesis. In this respect, I drew the candidate's attention to the requirements of Harvard method of referencing, CPUT's official stylesheet, contained in Dr Elizabeth Aswegen's 'Quick guide to Harvard bibliographic citation, and emphasised the importance of adhering religiously to this guide. Further, after both readings, I provided clear guidance on how identified issues can be addressed.

Regarding content, I have not, in any way, changed the substance of the thesis, as this is beyond my mandate, except recommend changes to language to enhance clarity.

Should there be a need to verify the authenticity of this letter, please contact me directly by email ([dassabie@yahoo.co.uk](mailto:dassabie@yahoo.co.uk)).

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Dassah', written over a horizontal line.

Prof Maurice Oscar Dassah