



RISK-BASED INTERNAL AUDIT METHODOLOGY AT A RETAIL BUSINESS IN CAPE TOWN

by

MICHELLE ROBERTS

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Principal Supervisor: Mrs L.M. Botha

Co-Supervisor: Dr S. Le Roux

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ABSTRACT

In today's corporate environment, organisations are exposed to some level of risk, which can prevent them from achieving their goals and objectives if the risk materialise. Organisations put risk management processes in place to help them mitigate risks, which consequently assists in achieving their objectives. Internal audit functions can assist management in this process by using a risk-based approach, which could also eliminate inefficiencies in the audit process. However, an audit methodology needs to be followed for the internal audit function to be effective in this process. As a result, internal audit methodologies were developed to emphasise a risk-based approach. Risk-based internal auditing is an internal audit methodology that ensures alignment of the internal audit activities with the organisation's strategies, business objectives, associated risks, and risk management framework. Therefore, the risk-based internal auditing methodology is deemed necessary to ensure the effectiveness and efficiency of internal audit practice. The study focused on understanding the internal audit methodology followed at a retail business in Cape Town, as a case study. The study aimed to explore the role of risk-based internal auditing methodology as a driver of the effectiveness of the internal audit function. This was accomplished through conducting semi-structured interviews and online surveys with internal auditors, audit managers, and the CAE. This research study established the extent that risk-based internal auditing methodology contributes to the effectiveness of the internal audit function within the selected retail business. In addition, drivers of internal audit effectiveness were identified with a risk-based internal auditing approach considered as the most important by respondents, and 'internal audit function management support', as the least important. This research study additionally clarified the various factors affecting risk-based internal auditing, including its limitations. It is important to note that although limitations are linked to the RBIA approach, RBIA's impact on internal audit effectiveness and the benefits of the methodology surpass its limitations.

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ACRONYMS AND ABBREVIATIONS

CAE	Chief Audit Executive
CIIA	Chartered Institute of Internal Auditors
ERM	Enterprise Risk Management
GDP	Gross Domestic Product
IA	Internal Audit
IAF	Internal Audit Function (also referred to as internal audit activity or department)
IFC	Internal Financial Controls
IIA	Institute of Internal Auditors
IPPF	International Professional Practices Framework
ISPPIA	International Standards for the Professional Practice of Internal Auditing
KRI	Key Risk Indicator
RBIA	Risk-Based Internal Audit
RMF	Risk Management Framework
RMM	Risk Maturity Model

CHAPTER 1

INTRODUCTION TO THE STUDY

1.1 Overview of Chapter 1

The layout of Chapter 1 is graphically depicted in Figure 1.1, which also places the chapter in a setting of the entire research. This gives the reader a thorough understanding of how the various chapters work together to form a comprehensive document.

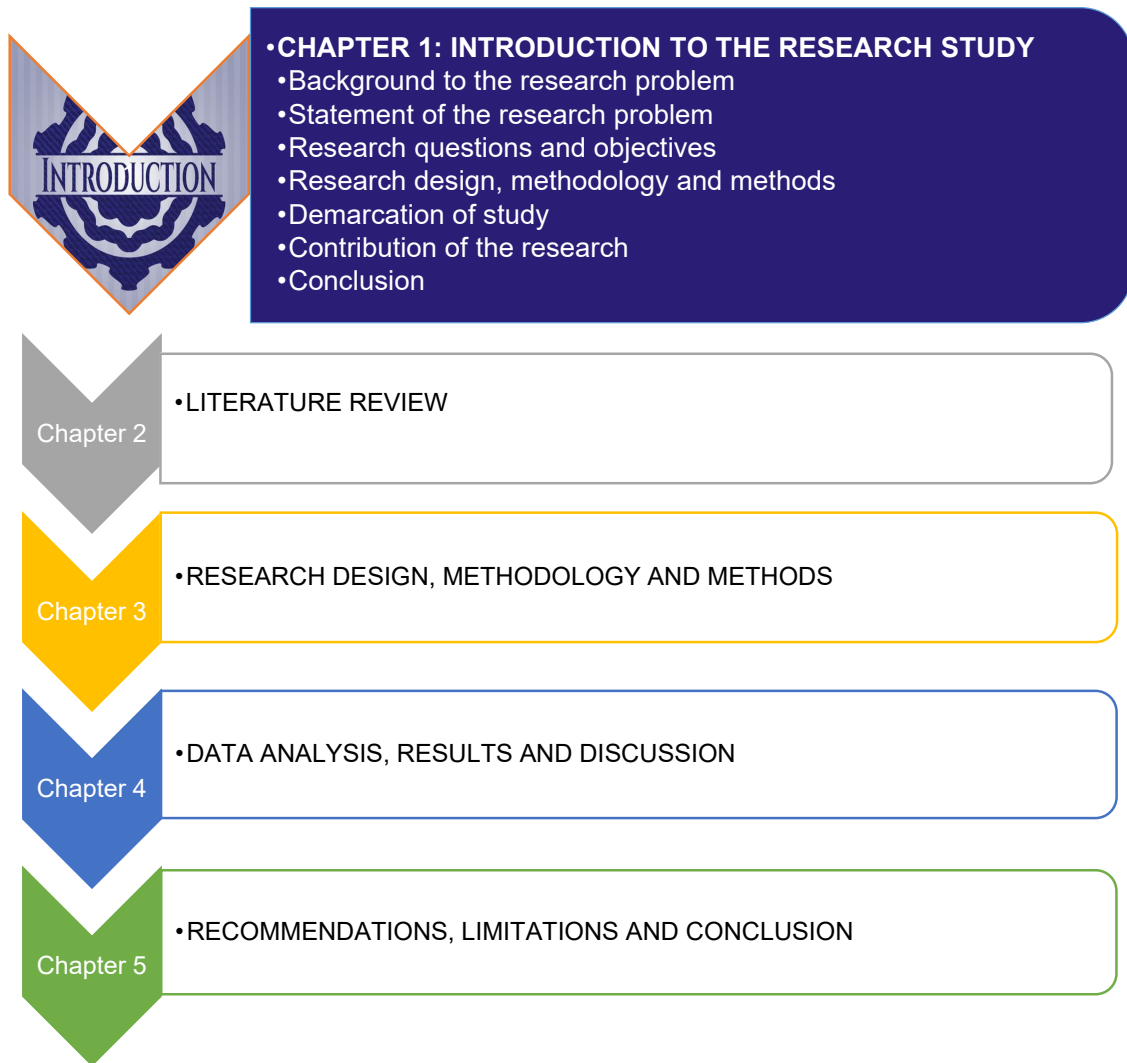


Figure 1.1: Graphical Illustration of Chapter 1

1.2 Background to the research problem

Risk has become a common factor in today's business world. Risks are inherent in every human activity and could result in acts of fraud, error, negligence, violations, technological failure, process deficiencies, acts of terrorists and vandalism, as well as natural disasters like floods and earthquakes, among others (Hussain & Shafi, 2014). Inherent risk is referred to as the likelihood of risk occurring that could cause harm to an organization prior to any preventative, corrective, or detective actions are taken (Coetzee, 2010). Risks are events that could prevent an organisation from reaching its objectives (Coetzee & Lubbe, 2014). Consequently, organisations implement processes to help them reach their objectives. Risk management refers to the processes put in place by management to actively identify, assess, and respond to risks within the organisation (Srinivas, 2019). Therefore, in today's corporate governance environment, as guided by the recommendations of the King IV Report on Corporate Governance in South Africa (King IV), a strong emphasis is placed on enterprise-wide risk management to support organisations in achieving their objectives (Institute of Directors South Africa [IoDSA], 2016). Internal audit functions (IAFs) can assist management in this process by assuring the effectiveness of enterprise risk management activities (Kontogeorgis, 2018). The IAF is referred to as a function that provides independent and objective assurance of a business' control activities, risk management, and governance processes (Kumar & Mohan, 2015; IIA, 2017; Nabulsi & Hani, 2018). However, an effective audit methodology needs to be followed for internal auditors to be effective in this process (PricewaterhouseCoopers [PwC], 2016).

Consequently, internal audit methodologies have developed and became more risk-focused (as opposed to compliance-based) to align with business risk management practices, ultimately to contribute to organisational objectives (Lenz & Hahn, 2015; Institute of Internal Auditors [IIA], 2017). Risk-based internal auditing (RBIA) is an internal audit methodology that ensures alignment of the internal audit activities with the organisation's strategies, business objectives, associated risks, and risk management framework (RMF) (IIA, 2017). Therefore, the RBIA methodology is deemed necessary to ensure the effectiveness and efficiency of internal audit practices (PwC, 2016). This has been confirmed by various professional and academic studies conducted within various industries (Koutoupis & Tsamis, 2009; Coetzee, 2016; Coetzee & Erasmus, 2017; Erasmus & Coetzee, 2018; Andreas, Panagiotis, Ioannis & Dimitrios, 2020). The professional literature suggests that an IAF's value-adding ability correlates to their RBIA plan's effectiveness (KPMG, 2018). Lenz and Hahn (2015), from an academic viewpoint, state that the IAF is effective when an RBIA methodology is used. Additionally, RBIA is associated with the effectiveness of the IAF in contributing to achieving business objectives by focussing audit activities on material risk areas (Lenz & Hahn, 2015).

PricewaterhouseCoopers (PwC, 2016) and Botha and Wilkinson (2019) found that an RBIA approach is also perceived to add value to business activities.

This research study aims to explore the role of RBIA methodology as a driver of the effectiveness of the IAF. Prior literature has recognised the difficulty in evaluating the effectiveness of the IAF (Lenz & Hahn, 2015). However, questions have been raised about whether the RBIA methodology can be indicative in evaluating the effectiveness of the IAF (Coetzee, 2010; Chambers & McDonald, 2013; Lenz & Hahn, 2015; Estes, 2017). Regardless of the studies that found that RBIA contributes to the effectiveness of the IAF, recently, in South Africa, the purpose and effectiveness of internal auditing have been questioned, specifically at retail companies (for example, Steinhoff), where corporate failures took place (Businessstech, 2019). This points to a need for research on the internal audit methodologies employed and the effectiveness of IAFs, especially at retail entities in South Africa.

The retail industry plays a vital role in the economy of South Africa (Malgas, Khatle & Mason, 2018). It creates employment and contributes to the country's Gross Domestic Product (GDP) (Statistics South Africa [Stats SA], 2020). In 2018, this industry contributed 61.5% to the total income of South Africa, 61.2% to employment, and 15.1% to GDP in 2019 (Stats SA, 2020). For the sake of clarity, a retail business refers to products and services sold in-store or online to customers for personal or household use (Hameli, 2018). The retail industry, like other industries, faces various risk factors that influence the effectiveness of their businesses. As this industry plays a significant part in the economy, stakeholders would be interested to know how to detect best and mitigate risks that their stores and other departments face in reaching their goals.

Therefore, effective IAFs within the retail industry can help the organisation reach this objective (IIA, 2017). Considering that RBIA has been identified as a valuable internal audit methodology in prior literature, it is necessary to consider the role of this audit methodology on the effectiveness of IAFs within the retail industry. Several prior studies addressed the role of RBIA methodology in organisations other than retail business (Koutoupis & Tsamis, 2009; Coetzee, 2016; Coetzee & Erasmus, 2017; Erasmus & Coetzee, 2018; Andreas *et al.*, 2020). As there is limited literature on the effect of RBIA on the IAF at retail businesses, especially in light of recent corporate failures at retail companies, a study on internal auditing in this sector could contribute to the existing body of knowledge. The retail industry, therefore, provides a unique setting to investigate the role of RBIA on the effectiveness of the IAF as a service to the business.

1.3 Statement of the research problem

Ineffective IAFs within the retail industry do not help the organisation reach its objectives, negatively affecting the business' risk management, governance, and control processes. In addition, recommendations given by the IAF to the business could be irrelevant and fraud, errors or mismanagement could go unnoticed, disregarding the purpose and benefit of the IAF. This has been seen in recent corporate failures in South Africa, where the effectiveness of the IAF has been questioned at retail companies such as Steinhoff (Businessstech, 2019). Prior literature has furthermore recognised the difficulty in evaluating the effectiveness of the IAF and the value of RBIA as a methodology to enable the IAF to achieve its objectives (Lenz & Hahn, 2015; Erasmus & Coetzee, 2018). It should, therefore, be considered if the RBIA serves as a driver of internal audit effectiveness in retail companies. Thus, the proposed study seeks to investigate the role of RBIA as a driver of the effectiveness of the IAF at a selected retail business in Cape Town to understand this phenomenon better.

1.4 Research questions and objectives

This research study aims to explore the role of RBIA methodology as a driver of the effectiveness of the IAF. This, in turn, could contribute towards aligning IAF activities with the business's strategic objectives.

1.4.1 The primary research question and objective

Stemming from the above, the primary research question of the study is:

To what extent does an RBIA methodology contribute to the effectiveness of the IAF within a retail business?

Therefore, the main research objective is to explore the role of an RBIA methodology as a driver of the effectiveness of the IAF at a selected retail business in Cape Town.

1.4.2 Research sub-questions and objectives

The research sub-questions that relate to the main research question are:

- How does the selected retail business evaluate internal audit effectiveness?
- How does the IAF implement RBIA to contribute to the business' risk management, governance and control processes?
- How does the IAF use RBIA for audit planning activities?
- To what extent does RBIA drive internal audit effectiveness within the selected retail business?

The secondary objectives of the study are:

- To determine how the retail business evaluates internal audit effectiveness.
- To determine to what extent and how RBIA is implemented.
- To determine how the IAF uses RBIA for audit planning activities.
- To determine to what extent RBIA drives internal audit effectiveness within the selected retail business.

1.5 Research design, paradigm, methodology and methods

The research design is an exploratory case study to explore the effectiveness of an IAF when an RBIA methodology is used. An exploratory case study design is appropriate for the study, as the researcher explores an industry (retail) relating to an RBIA methodology and its effect on an IAF's effectiveness (Kumar, 2012).

The study falls within the pragmatism research paradigm. This is because the study seeks to obtain data from employees concerning business practices that are relevant and currently taking place. A pragmatist research design is based on practical experiences and recognises that data can be interpreted in different ways (Dudovskiy, 2012). This paradigm is most suitable for the study as the research problem will be investigated from a practical and real-life case context at the IAF of a retail organisation. The study used a qualitative case study as its research approach of which semi-structured interviews were conducted first, followed by online questionnaires to support the interviews. Further information will be discussed in chapter 3.

1.6 Demarcation of the study

The study was conducted at a large retail business in Cape Town, South Africa and targeted only the CAE, audit managers, and internal auditors. Choosing this organisation was made possible by the fact that it is one of South Africa's largest retailers with a well-developed IAF. The researcher is also employed by the organisation, allowing for special access to participants and real-world situations.

1.7 Contribution of the research

Since the retail sector plays a critical role in the South African economy, this research sought to contribute to the existing body of knowledge regarding RBIA by explicitly exploring the use or adoption of RBIA in the context of a retail business. Unique access to the understanding of the real workings of an IAF was obtained. The data gathered can serve as a basis for theoretical insight into how IAFs practically implement RBIA and guide practitioners to improve and strengthen their audit methodology to increase audit effectiveness. In addition, the research can help IAFs better understand the importance of the audit methodologies in use.

Internal auditors at retailers can consider the role of RBIA in improving the IAF's effectiveness. Therefore, the study could improve how auditing is conducted in retail businesses, leading to improved IAF effectiveness. Lastly, the study could help internal auditors better understand their contribution to the business as an internal service provider and help retailers see the benefit of an IAF. In addition, prior studies have called for further investigation into the role of an RBIA methodology as a driver of an IAF's effectiveness (Coetzee, 2010; Coetzee & Lubbe, 2014; Lenz & Hahn, 2015; Cetin & Pamukcu, 2019) and the study attempts to answer that call.

1.8 Chapter summary

This chapter provided an overview of the study. The research problem statement, research questions, and objectives were introduced, along with the contribution of the research. This study aims to determine to what extent RBIA methodology contribute to the effectiveness of the IAF within a retail business. A summary of the methodological approach employed to address the research questions and fulfil the intended objectives was also provided in this chapter. This chapter further discussed the research design, paradigm, methodology and methods of the study. The research design is an exploratory case study to explore an IAF's effectiveness if an RBIA methodology is applied. The research paradigm of pragmatism applies to the study as the study aims to gather information from employees about current and relevant business practices. Additionally, this research study is a qualitative case study, where semi-structured interviews were the main source of data collection, which were supported by questionnaires. This allowed the researcher to obtain in depth understanding of the internal audit methodology used at the case study company. Only the CAE, audit managers, and internal auditors were approached as participants of the study, which was carried out at a large retail business in Cape Town, South Africa.

CHAPTER 2

LITERATURE REVIEW

2.1 Overview of Chapter 2

Figure 2.1 provides a graphic representation of the layout of Chapter 2. The illustration shows how chapter 2 is structured around the key concepts discussed in the literature review on risk-based internal audit.

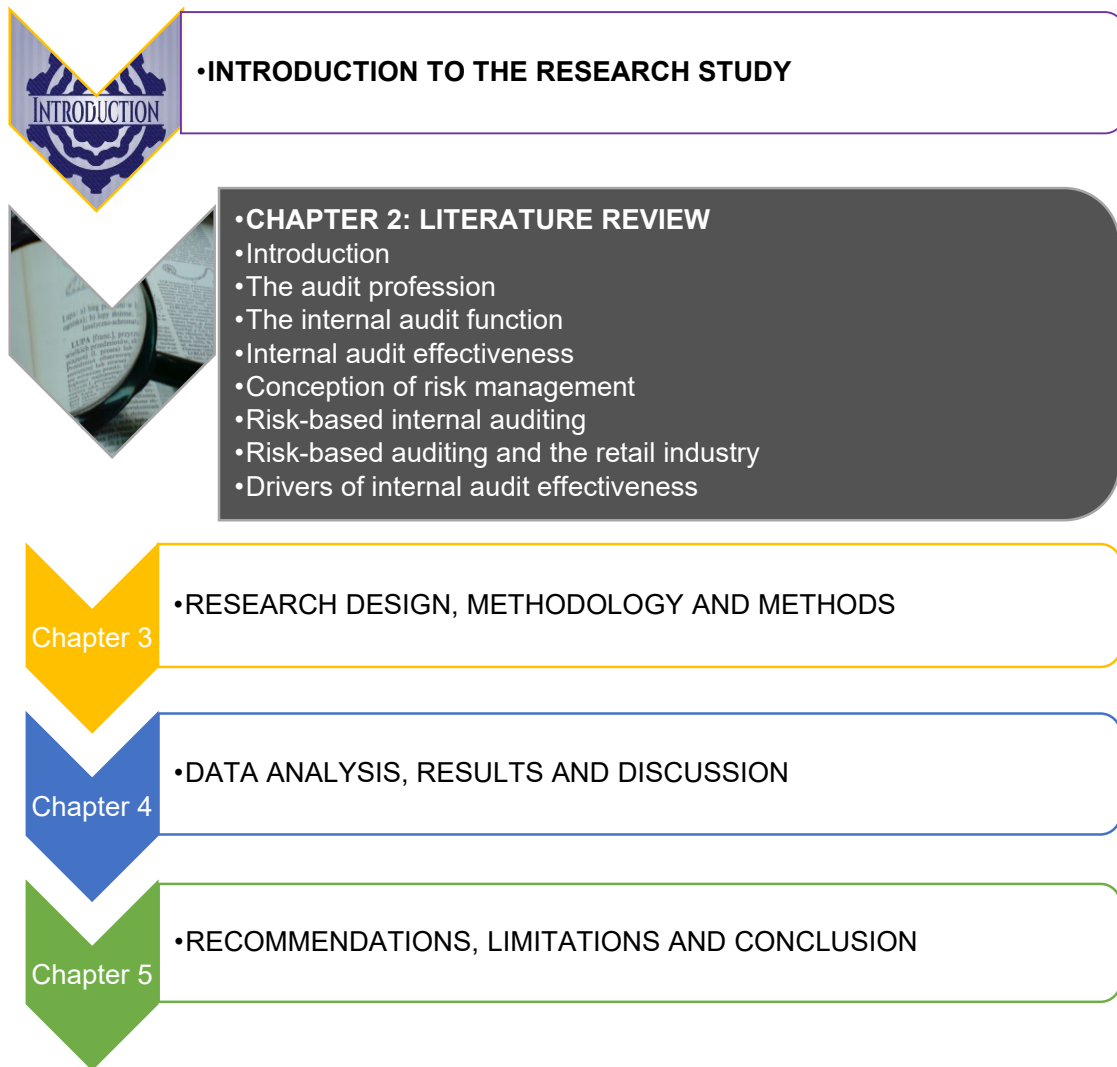


Figure 2.1: Graphical Illustration of Chapter 2

2.2 Introduction

In the corporate governance environment, as guided by the recommendations of King IV in South Africa, a strong emphasis is placed on enterprise-wide risk management to support organisations in achieving their goals and objectives (IoDSA, 2016). IAFs can assist management in this process by providing assurance on the effectiveness of risk management activities (Kontogeorgis, 2018). Consequently, internal audit methodologies have developed and become more risk-focused, aligning with business risk management practices and ultimately contributing to organisational goals and objectives (Lenz & Hahn, 2015; IIA, 2017). Therefore, an effective audit methodology needs to be followed for internal auditors to be effective in this process (PwC, 2016).

Internal auditing is defined by the Institute of Internal Auditing (IIA) as a department, division, team of consultants, or other practitioners that provide independent, objective assurance and consulting services designed to add value and improve an organisation's operations (IIA, 2017:23). Stakeholder theory could be helpful in understanding the role of the IAF within the organisation, as the IAF by definition aims to provide a value-adding service to the organisation as a whole including its stakeholders. It is therefore important to recognise that there are multiple organisational stakeholders that are interested or concerned about the effectiveness of the IAF. The way the IAF renders this service is influenced by the audit methodologies it employs and are consequently considered next.

The IIA's ISPPA requires of internal audit functions to follow a risk-based audit approach when providing assurance services. The RBIA methodology is an internal audit methodology that ensures alignment of the IAF and its activities with the organisation's strategies, business objectives, associated risks, and RMF (IIA, 2017; Heldifanny & Tobing, 2019). Therefore, the RBIA methodology is deemed necessary to ensure the effectiveness and efficiency of internal audit practices (PwC, 2016). This has been confirmed by various professional and academic studies conducted within various industries (Koutoupis & Tsamis, 2009; Coetzee, 2016; Coetzee & Erasmus, 2017; Erasmus & Coetzee, 2018; Heldifanny & Tobing, 2019; Andreas *et al.*, 2020). However, regardless of the studies that found that RBIA contributes to the effectiveness of the IAF, recently, in South Africa, the effectiveness of internal auditing has been questioned, specifically at retail companies (Businessstech, 2019). Moreover, the literature suggests that RBIA is associated with the effectiveness of the IAF in contributing to the achievement of business goals and objectives (Lenz & Hahn, 2015). However, questions have been raised about whether the RBIA methodology can be indicative in evaluating the effectiveness of the IAF (Coetzee, 2010; Chambers & McDonald, 2013; Lenz & Hahn, 2015; Estes, 2017; Heldifanny & Tobing, 2019). Prior literature has furthermore recognised the difficulty in evaluating the effectiveness of the IAF (Lenz & Hahn, 2015). This points to a need

for research on the internal audit methodologies employed and the effectiveness of IAFs, especially at retail entities in South Africa.

The need for an effective IAF within an organisation with limited resources available can be explained by resource dependency theory. According to Coetzee (2010), the resource dependency theory describes how to manage the use of resource reliance on external environments, which are made up of individuals and groups outside the department or organization, as well as access to scarce resources within the organization. As a result, the IAF (as a control function within the organization) must function in the most effective manner with the limited resources at its disposal. Consequently, it is important to understand how best the IAF can be positioned to be the most effective despite organisational constraints, hence the importance of understanding if RBIA drives IAF effectiveness.

This chapter examines the theoretical foundations of the RBIA methodology and how the IAF of a retail business is affected. The literature review begins with the audit profession, the IAF, and internal audit effectiveness. It follows with an overview of risk and risk management and its connection to the RBIA methodology. Thereafter, a broad overview of the literature related to the factors influencing IAF and its effectiveness factors is provided. Finally, this chapter reviews the drivers of internal audit effectiveness, focusing on the top and bottom drivers affecting the IAF and organisation.

2.3 The audit profession

2.3.1 The history of auditing

Auditing is categorised into two main types, namely internal and external auditing. For many years, internal audit engagements were conducted under the guidance of external auditors (Sawyer *et al.*, 2005). Furthermore, in 1999, the definition of internal auditing changed to shift the focus from accountability about past events to enhancing future outcomes (Coetzee & Erasmus, 2017). This change occurred to construct the internal auditor's role and help organisations operate effectively (Coetzee & Erasmus, 2017). The audit profession has consequently changed from an accounting-focused profession to a management-oriented profession (Sawyer *et al.*, 2005). Additionally, The IIA standards emphasise the concept of adding value (Lenz & Sarens, 2012). According to the IIA standards, internal auditing gives value to the organization (to its stakeholders) by providing objective and relevant assurance and contributing to the effectiveness and efficiency of governance, risk management, and control procedures (Lenz & Sarens, 2012).

2.3.2 Developments in the internal audit profession

The audit profession formally started during the initiation of the IIA in 1941 (Sawyer *et al.*, 2005; Griffiths, 2018). Internal auditing used to be linked to the external audit profession and

verification of the accuracy of financial matters was the profession's top priority (Botha & Wilkinson, 2019). The internal audit profession has developed in the past two decades and seeks to build beneficial working relationships with clients through value-added activities (Sawyer *et al.*, 2005). The focus of the external audit profession is on attesting to an organisation's financial matters, thus unintentionally overlooking other areas in the business that may be threatened. The internal audit profession has made a name for itself as a distinct discipline that focuses on much more than verifying financial matters' accuracy (Griffiths, 2018; Erlina *et al.*, 2020; Tamimi, 2021). The internal audit profession informs managers across the organisation that they need to carry out their responsibilities adequately.

Internal auditors play a critical role in organisational risk management, as an assurance provider (Griffiths, 2018; Andreas *et al.*, 2020; Erlina *et al.*, 2020; Lois *et al.*, 2021; Zatsarinnaya *et al.*, 2021; Zatsarinnaya *et al.*, 2021; Alazzabi, Mustafa & Karage, 2023). Consequently, internal audit methodologies have developed and have become more risk-focused (as opposed to compliance-based) to align with business risk management practices, ultimately contributing to organisational objectives (Lenz & Hahn, 2015; IIA, 2017; Andreas *et al.*, 2020; Lois *et al.*, 2021; Zatsarinnaya *et al.*, 2021). Internal auditing evolved from a compliance-oriented approach to a risk-based approach (Lois *et al.*, 2021).

A compliance audit is an independent assessment of an organisation's compliance with external laws, rules, and regulations, as well as internal requirements such as controls and policies and procedures (IIA, 2017). The implementation of RBIA expands beyond the scope of compliance audits (Lois *et al.*, 2021). Additionally, compliance-based audits may expose the organisation to greater risks since risks could be overlooked, thus resulting in high-risk areas not being addressed (PwC, 2016). Organisations thought they knew and could control their major risks, but business failures and challenges have shown that these problems are sometimes not fully understood (Griffiths, 2018). As a result, risk management has developed as ERM which assists in detecting risks at an early stage and results in a comprehensive view of risks (Coetzee, 2016; Srinivas, 2019). ERM has evolved to include the assessment of management's performance related to risk management (IIA, 2017; Griffiths, 2018). Internal audit is therefore closely related to assisting with the enhancement of an organization's ERM (Kumar & Mohan, 2015; IIA, 2017; Nabulsi & Hani, 2018). Therefore, the RBIA methodology is one of the most important developments in the IA profession, as it can potentially add significant value (Griffiths, 2018).

2.3.3 Hierarchical structures of an internal audit function

In most cases, the internal audit function consists of different levels of authority, flowing from the top level (Chief Audit Executive) to the base level (internal auditor). Internal audit structures ought to be distinctive between organisations and based on the organisation's needs and

value-adding proposition (Coetzee, 2016). The hierarchical structure of an IAF influences audit effectiveness (Drogalas, Karagiorgos & Arampatzis, 2015; Alqudah, Amran & Hassan, 2019; UI-Hameed, Mohammed, Shahar, Aljumah & Azizan, 2019; Onay, 2021). One of the main components that influence internal audit effectiveness is the size of the internal audit function (Coetzee & Erasmus, 2017; Alqudah *et al.*, 2019; Daniel, Salia, Fusheini & Adoboe-Mensah, 2021; Onay, 2021). Large audit departments tend to have a bigger hierarchical management structure; thus, auditors perform audit activities under the guidance of internal audit management (Alqudah *et al.*, 2019; Onay, 2021). Larger audit departments also have the capacity to rotate work on audit cycles between staff members for objectivity and conflict of interest to be avoided (Onay, 2021). Therefore, audit activities are performed consistently, which could result in increased effectiveness. On the other hand, small audit departments tend to have a smaller management structure (Alqudah *et al.*, 2019; Onay, 2021). Smaller audit management structures could allow auditors to apply knowledge and expertise during audit activities (Onay, 2021). This could increase audit effectiveness provided that the auditor is able to align their knowledge with the business' internal control processes, risks, and objectives. However, a smaller audit function could also negatively influence the effectiveness of audit activities due to time pressures and a lack of resources to complete the audit work (Alqudah *et al.*, 2019; Onay, 2021). A sufficient staff complement can allow more audit activities to be completed timeously and effectively. Consequently, a larger audit function has a higher probability of audit effectiveness than a smaller one (Alqudah *et al.*, 2019; Daniel *et al.*, 2021; Onay, 2021).

2.3.4 Internal auditing: inhouse versus outsourced internal audit service providers

Internal audit functions traditionally consist of an organisation's internal employees, which provides assurance on the control activity and operational effectiveness of the organisation (Kumar & Mohan, 2015; KPMG, 2018). In some instances, the internal audit function of an organisation has the need or advantage of requesting the services of an external consulting firm to supplement their resources to perform audit activities (Coetzee, du Bruyn, Fourie, Plant, Adams & Olivier, 2018). External consulting firms maintain elements such as professional competence, which is one of the fundamental factors that support and supplement the audit function when resources are lacking (UI-Hameed *et al.*, 2019). IAFs can be sourced in a variety of forms, including outsourced, in-house, and co-sourced (Coetzee *et al.*, 2018). Outsourced refers to audit activities performed by individuals who work part-time or as a consultant for the organisation on a particular project. In-house implies that all internal auditors work full-time for the organisation. Additionally, co-sourced is a combination of the above two types of sourcing (Coetzee *et al.*, 2018). Therefore, the IAFs consist of different forms to support and enhance an organisation's operational effectiveness and control activities.

2.3.5 Combined assurance

Another development which affected the internal audit profession and its aims, is combined assurance. Combined assurance is a relationship and support mechanism between internal auditors, external auditors, and other assurance providers. This approach is valuable for the effectiveness and enhancement of audit performance (UI-Hameed *et al.*, 2019). The King IV Report on Corporate Governance in South Africa (King IV) defines combined assurance as a model which integrates internal and external assurance services and functions to optimise an effective risk management and control environment (IoDSA, 2016). The combined assurance model was first introduced in the King III Report on Corporate Governance (King III); however, the King IV Report elaborates on the need for this concept to evolve to effectively exploit the combined assurance model (IoDSA, 2016). The King IV Code on best practices for corporate governance recommends that the audit committee should provide independent oversight to the organisation (IoDSA, 2016). The governing body is also responsible for effectively applying this model (IoDSA, 2016). The effective application of this model entails that the model is designed and implemented to incorporate and effectively cover significant risks and controls in the organisation (IoDSA, 2016). Thus, the IAF should be informed of their different expectations, which in this case includes combined assurance arrangements in the organisation. Therefore, the effective application of combined assurance is essential as it contributes to the organisation's risk and control activities (IoDSA, 2016).

2.4 The internal audit function

2.4.1 Definition of the internal audit activity

The Institute of Internal Auditing (IIA) defines internal auditing as a department, division, team of consultants, or other practitioners that provide independent, objective assurance and consulting services designed to add value and improve an organisation's operations (IIA, 2017:23). In addition, internal auditing can be described as an activity that assures the effectiveness of a business' control activities, risk management, and governance processes to achieve operational objectives (Kumar & Mohan, 2015; IIA, 2017; Nabulsi & Hani, 2018). The internal audit activity can also be defined as a department that monitors and evaluates an organisation's operational effectiveness (Umaralievich & Jurayevna, 2020).

2.4.2 The role of the internal audit activity

The internal audit activity, also referred to as the IAF or internal audit department, is seen as a service provider within an organisation and has been known to help improve risk management processes (Lenz & Hahn, 2015; Nabulsi & Hani, 2018; Çetin & Pamukcu, 2019). However, assisting with risk assurance is not the IAF's main focus. The IAF serves as a department that identifies threats and weaknesses during audit engagements, which in turn contributes to the assurance about effectiveness of the internal control system, risk

management and governance processes (Umaralievich & Jurayevna, 2020). The IAF provides independent support to management by evaluating a business's risk and control activities (Griffiths, 2018; Çetin & Pamukcu, 2019). The review of risk and control processes and the subsequent recommendations given by the IAF to management, contribute to the IAFs role as a provider of internal audit services (Estes, 2017; Erasmus & Coetzee, 2018; Griffiths, 2018). In respect of the role of internal audit, internal audit provides assurance services by objectively assessing evidence that provides findings and recommendations on a business's operations (IIA, 2017). The internal auditor determines the scope of an assurance engagement, prior to conducting the audit activity (IIA, 2017). Assurance services often involve three parties. These parties include the process owner (participants are directly involved with the business process being audited), internal audit (the persons performing the assessment), and the user (the participants using the assessment) (IIA, 2017).

Additionally, internal audit provides consulting services (IIA, 2017). Consulting services are advisory in nature and are typically only conducted when a request is communicated by a client (IIA, 2017). Consulting services often involve two parties and include the internal auditor (the participants offering advice), and the client (the participants seeking advice) (IIA, 2017). The IAF also provides consulting services related to risk management to the organisation (Coetzee, 2016; IIA, 2017; Erasmus & Coetzee, 2018). For the IAF to support the organisation's risk and control activities, it is expected to provide an effective service (Nabulsi & Hani, 2018). The role of the IAF can include services such as risk assurance services, consulting services, and championing combined assurance initiatives (Coetzee & Erasmus, 2017; Umaralievich & Jurayevna, 2020).

An IAF is a necessary service provider to assist in business risks and fraud and can decrease economic instability, which affects the entire business (Drogalas *et al.*, 2015). In addition, the role of the IAF positively affects the business' corporate governance practices (Lois, Drogalas, Nerantzidis, Georgiou & Gkampeta, 2021). The IAF is expected to execute tasks in accordance with the International Professional Practices Framework (IPPF), with emphasis placed on risk management among others (IIA, 2017; Klamut, 2018). In addition, the foundation and role of the IAF are to operate effectively to help the organisation meet its objectives (Coetzee & Erasmus, 2017; Estes, 2017; IIA, 2017; Klamut, 2018; Nabulsi & Hani, 2018; Lois *et al.*, 2021). One of the most important factors in meeting business objectives is minimising enterprise risk (Erasmus & Coetzee, 2018; Griffiths, 2018; Nabulsi & Hani, 2018; Ul-Hameed *et al.*, 2019). Therefore, the role of the IAF merely contributes to the internal control system and Enterprise Risk Management (ERM) of an organisation, but the responsibility of risk management and control processes remains with the management of an organisation (Lois *et al.*, 2021).

However, the role of the IAF is unclear, particularly in ERM, as it has been found that IA (Internal Audit) rarely participates in the ERM processes (Griffiths, 2018; Nabulsi & Hani, 2018; Coetzee, 2016). According to Coetzee (2016), many studies have found that it is unclear whether ERM affects the effectiveness of the IAF, specifically in the private sector. Thus, since the IAF contributes to risk management (Coetzee, 2016; Griffiths, 2018; Nabulsi & Hani, 2018), the audit committees should investigate how the IAF interacts with the organisation's risk management systems (Coetzee, 2016).

In this section the internal audit function, internal audit and its roles within the organisation was discussed. Internal audit's role in respect of assurance services and consulting services was also discussed. What has continuously been found in the literature about the internal audit profession as well as the literature on the IAF is the importance of internal audit effectiveness. Consequently, in the next section internal audit effectiveness is discussed, first the meaning of effectiveness in a broader context and then specifically what prior studies deem as internal audit effectiveness.

2.5 Internal audit effectiveness

2.5.1 Definition of effectiveness

Effectiveness is the ability to do something without wasting materials, time, or energy (Wilson, Wnuk, Silvander & Gorschek, 2018). "Effectiveness is the degree to which something is successful in producing a desired result" (Wilson *et al.*, 2018:267). Effectiveness can also be described as the state (quality, accuracy, and completeness) of the success of a specific outcome, or, in other words, objectives being met (Erasmus & Coetzee, 2018). This is an important construct especially for internal auditors, as the definition of internal auditing positions it as an activity which support an organisation in reaching its objectives.

2.5.2 Classifications of Internal audit effectiveness

Consequently, it is important to understand what effectiveness therefore mean in the context of internal auditing. Auditors add value by assisting in risk management processes that can be cost-effective for a business but can only be possible if the IAF is effective (Coetzee & Lubbe, 2014). The definition of IA leans towards emphasising IAF's effectiveness (Kumar & Mohan, 2015; Coetzee & Erasmus, 2017; IIA, 2017). The IIA also states that many legislations, policies, and procedures documents include the concept of IA effectiveness (IIA, 2017).

Therefore, IA effectiveness can benefit an organisation in numerous ways, such as increased reliability of control activities, operational effectiveness, and asset security (Kumar & Mohan, 2015). IA effectiveness contributes to an organisation's risk management, effective corporate management, and achieving goals and objectives (Cetin & Pamukcu, 2019). According to

KPMG (2018), IA can further help an organisation by contributing to IAF effectiveness through a process of:

- Developing audit programs via data analytics software;
- Help with the execution of automated tools to identify key risk indicators (KRIs);
- Help with the execution of the usage of dashboards to monitor the organisation's performance related to KRIs; and
- Help with developing automated data extraction and transformation techniques.

For the above to be effectively implemented by the IAF, the necessary understanding and expertise of an organisation's information management system are required (KPMG, 2018). Therefore, as illustrated internal audit effectiveness is an important construct to position the IAF within the organisation.

2.5.3 Measuring internal audit effectiveness

It is not only important for the IAF to aspire to effectiveness, but an evaluation of the IAF's effectiveness should also take place. All aspects that may influence audit effectiveness should be considered when measuring internal audit effectiveness (Drogalas *et al.*, 2015; Coetzee & Erasmus, 2017). IA is deemed to be a cornerstone of sound corporate governance. Consequently, if IA is effective, it can strengthen and improve corporate governance (Drogalas, *et al.*, 2015; Coetzee & Erasmus, 2017; Erasmus & Coetzee, 2018; Lois *et al.*, 2021).

CAEs of an organisation measure effectiveness of auditors by considering various attributes, namely integrity, relationship building, communication, continuous learning, and teamwork (Estes, 2017). However, it has been found that measuring IAF effectiveness is challenging, especially how and by whom it should be measured (Kumar & Mohan 2015; Erasmus & Coetzee, 2018). Some studies reveal that IA effectiveness is mostly measured through the perception of the CAE (Lenz & Hahn, 2015; Coetzee & Erasmus, 2017). This raises questions as to whether the results of measuring IA effectiveness are communicated to the employees on a lower hierarchical level, whether actions are taken to address the outcome of measuring IAF effectiveness, and whether the concept of measuring IA effectiveness adds value to the IAF and the business. Furthermore, several studies have revealed no similarities between how IA effectiveness is measured, and the methods used to do so (Drogalas *et al.*, 2015; Coetzee & Erasmus, 2017). Consequently, there has been a call for further research into measuring IA effectiveness (Lenz & Hahn, 2015; Coetzee & Erasmus, 2017; Erasmus & Coetzee, 2018; Çetin & Pamukcu, 2019).

2.6 Conception of risk management

2.6.1 An overview of risk management

Risk is an uncertain circumstance or probability of events exposed to danger, threat or loss in certain areas of an organisation (IIA, 2017; Srinivas, 2019) that could influence achieving an organisation's objectives (IIA, 2017). Risk has been deemed a threat to business operational success (Griffiths, 2018). Risk management is defined as a process that identifies, assesses, manages, and controls the likelihood of an event or circumstance in order to create confidence in the success of organizational goals, thus focussing on a standardised strategy set out by the organization. (IIA, 2017).

On the other hand, ERM is a more proactive and agile approach, and aligns with recognised standards. Examples of such standards include the Committee of Sponsoring Organisations (COSO) ERM Framework and ISO 31000. The COSO ERM is a recognized risk management framework that organisations employ to assist with managing risks, which focusses on strategic, operational, and reporting compliance. The components that make up the COSO ERM framework are the establishment of risk governance and culture, strategy and objective setting which leads to performance. Performance component of the framework includes the identification, assessment and prioritisation of risk as well as risk response implementation (Coetzee, 2010). Lastly, COSO ERM recognises the importance of review of ERM practices and information, communication and reporting regarding risk information and performance. The establishment of proper ERM processes within the organisation includes documentation of the organisation's approach in the form of a RMF (COSO, 2017). Moreover, a RMF is a document or template which guides an organisation in detecting and mitigating risks (Coetzee, 2016). The RMF consists of methodologies to guide risk ratings of various areas in the organisation. Thus, it needs to be unique for each organisation to meet its objectives and clearly defined and documented for a successful implementation of the ERM strategies to transpire (Coetzee, 2016).

ERM can be defined as a structured process or systematic, data-driven means of analysing and identifying areas of risks and controlling, managing, and subsequently mitigating those risks (Srinivas, 2019). ERM results in a comprehensive view of risks (Coetzee, 2016). ERM assists in detecting risks at an early stage, which could result in time and cost-saving measures in an organisation (Srinivas, 2019). ERM is crucial in all organisations (Coetzee, 2016; UI-Hameed *et al.*, 2019). However, it has been found that the implementation of ERM has been slow across various sectors, with the private sector being more proactive (Coetzee, 2016). Therefore, ERM is critical in all organisations to address risk proactively and effectively in a structured approach (Coetzee, 2016; Srinivas, 2019; UI-Hameed *et al.*, 2019).

2.6.2 Risk identification

Identifying risk is usually the initial stage of the risk management process in an organisation (Mody, 2018; Srinivas, 2019). As the identification process is informal and performed in various ways, such as interviews with the business stakeholders, past experiences, or applied knowledge, it can be challenging. However, once the risks have been identified, the subsequent steps to assess, monitor and control these risks, which form part of the risk management process, are continuous (Srinivas, 2019).

2.6.3 The use of the risk management process

Risk management and internal auditing are identified as being of growing importance and cornerstones in corporate governance codes and legislation (Coetzee, 2010; Drogalas *et al.*, 2015). For this reason, the role that the IAF plays in the risk management process of their organisation should constantly materialise (Coetzee, 2016). The IAF's role in risk management is to provide independent assurance on the implementation and strategy of ERM which subsequently assist in mitigating risk in an organisation (IIA, 2017). The IIA prescribes that a direct link between the IA plan of engagement and a documented risk assessment must be undertaken at least annually (IIA, 2017). The IAF should be able to provide additional insights on the current risk areas beyond the stakeholders' understanding of the topic of risks (KPMG, 2018).

The IAF operates more effectively if an existing RMF is in place (Coetzee, 2016; Zatsarinnaya, Mailyan, Prodanova, Sotnikova, Guskov & Kosnikova, 2021). An RMF is a necessity for the IAF to incorporate key risks into its audit activity during audit planning (Coetzee, 2016; Srinivas, 2019; Lois *et al.*, 2021). Furthermore, findings identified during audit activities should be communicated to risk management structures to ensure that risk registers are updated with the identified risks (Coetzee, 2016). Hence, the IAF should be aware of RMFs, which, in turn, should assist in managing risks threatening the organisation (Coetzee, 2016; Erasmus & Coetzee, 2018; Srinivas, 2019; Lois *et al.*, 2021). In addition, contributions by the IAF to risk management processes need further investigation (Coetzee, 2016).

2.6.4 Risk maturity levels

Risk is an important concept in today's organisations and is extensively discussed in the King Report on Corporate Governance, also known as the King Code, which indicates the importance of risk governance within a South African context. (IoDSA, 2016). Risk is considered a key factor in all organisations (Srinivas, 2019; Ul-Hameed *et al.*, 2019). As risk threatens the plans and goals of an organisation, assessing the level of the organisation's risk maturity level is important (Coetzee & Lubbe, 2014).

If internal auditors are involved in risk management, understanding the business's risk maturity level will improve, which in turn increases IAF effectiveness (KPMG, 2018). Risk maturity refers to a set of procedures for analysing and assessing the key elements of the risk management framework and comparing them to best practices to ascertain whether the risk management framework adopted and planned by the organisation has been followed (Coetzee & Lubbe, 2014). To determine an organisation's risk maturity level, a risk maturity assessment needs to be performed (Chartered Institute of Internal Auditors [CIIA], 2014). The risk maturity assessment involves understanding how the board and management identify, assess, manage, and monitor risks and is the first step of the RBIA process (CIIA, 2014).

Furthermore, the literature suggests various methods to determine an organisation's risk maturity level. A risk maturity model (RMM) can also be utilised to determine an organisation's risk maturity level. The RMM is a tool that assists in determining the level of risk management practices applied in an organisation (RIMS, 2006). The RMM tool categorises different levels of risk maturity in an organisation, ranking from level 1 to level 5. Level 1 indicates a basic or non-existing RMF, whereas level 5 indicates that an RMF is prominent and aligned with the organisation's standards (RIMS, 2006). Risk management maturity levels are distinctive between the private and public sectors (Coetzee, 2016). The private sector has been found to be more agile in implementing a formal RMF than the public sector (Coetzee, 2016). As a result, it is expected that the case study company considered in this study's dissertation would have been more risk mature with a well-developed RMF.

Nonetheless, there is a need for further research on whether risk maturity levels influence the role of the IAF (Coetzee & Lubbe, 2014; Coetzee, 2016; Čular, Vuko & Slapnicar, 2020).

2.7 Risk-based internal auditing

2.7.1 Definition of risk-based internal auditing

Risk-based internal auditing (RBIA) is a methodology utilised by IAFs, ensuring the alignment of internal audit activities to an organisation's strategies, business objectives, associated risks, and risk management (IIA, 2017). It is a methodology that links the RMF with the activities of the IAF to assure the board of effective risk management processes (Mody, 2018; Nabulsi & Hani, 2018; Zatsarinnaya *et al.*, 2021). RBIA involves assessing the extent of involvement of an organisation's board of directors and management relating to the level of risk involvement (Lois *et al.*, 2021). RBIA is also an approach or process used during audit activities that focus on addressing areas that pose the most prominent risks (Griffiths, 2018; Zatsarinnaya *et al.*, 2021).

2.7.2 Background of risk-based internal auditing

The IIA prescribes the IPPF for practising internal auditing. The IPPF consists of mandatory and recommended guidance prescribed by the IIA, which aims to clarify the standards required by the internal audit profession worldwide (IIA, 2017). The standards provide a framework to evaluate and promote a value-added audit service and performance to improve organisational operations and processes (IIA, 2017). The standards state the words “must” and “should” in relation to conformance to applying standards correctly (IIA, 2017). The word “must” relate to complete compliance with the standards, whereas the word “should” relate to partial compliance with the standards required by the internal audit profession (IIA, 2017). The IIA elaborates that the CAE “must” build a risk-based plan to decide the needs of an IA activity (IIA, 2017). Standard 2010.A1 prescribes that the CAE “must” institute an RBIA plan aligned with the organisation's goals and objectives (IIA, 2017). During planning, the CAE must understand the organisation's strategies, objectives, and identified risks (IIA, 2017; Mody, 2018). Furthermore, the CAE must consult with the organisation's senior management and board of directors to understand the risk management processes. As per standard 2010.A2, the CAE must connect with senior management and the board to understand and ensure alignment with the organisation's goals, key objectives, risk management, and control processes (IIA, 2017). In addition, the IIA requires an IAF to follow a risk-based audit approach to determine the organisational needs in meeting its objectives (IIA, 2017), as RBIA can enhance a business' profitability (Griffiths, 2018). The standards also prescribe that internal audit engagement must be built on a documented risk assessment (IIA, 2017). Furthermore, the nature of the internal audit engagement must be based on a risk-based approach (IIA, 2017). The risk-based audit approach effectively ensures best practices to identify internal control gaps and detect and mitigate risks threatening the organisation's operations, goals, and objectives. Therefore, the RBIA methodology is deemed necessary to ensure the effectiveness and efficiency of internal audit practices (Koutoupis & Tsamis, 2009; Coetzee, 2016; PWC, 2016, Coetzee & Erasmus, 2017; IIA, 2017; Erasmus & Coetzee, 2018; Andreas *et al.*, 2020; Erlina, Nasution, Yahya & Atmanegara, 2020).

2.7.3 The role of risk-based internal auditing

Many recent studies addressed the role of RBIA methodology in organisations other than retail business (Coetzee, 2016; Coetzee & Erasmus, 2017; Erasmus & Coetzee, 2018; Griffiths, 2018; Andreas *et al.*, 2020; Erlina *et al.*, 2020; Lois *et al.*, 2020; Zatsarinnaya *et al.*, 2021; Zatsarinnaya *et al.*, 2021; Alazzabi, Mustafa & Karage, 2023). RBIA methodology allows the IAF to provide assurance on the effectiveness of risk management, whereas the traditional or compliance-based audit methodology only provides assurance on the control environment and overlooks the organisation's risk aspect (Mody, 2018; Zatsarinnaya *et al.*, 2021). Additionally, a study conducted by Lois *et al.* (2021) yields that some organisations have changed their

focus from compliance processes to business risk. Focusing on a control-based audit methodology could derail the auditor's focus from the organisation's true objectives and high risks, as risks could be disregarded during audit activities (Zatsarinnaya *et al.*, 2021). RBIA aims to steer away from a narrow-focused audit approach to provide comprehensive coverage of key risk areas (Institute of Internal Auditors Australia [IIA-Australia], 2020). This approach does not restrict the scope of audit activity but allows flexibility to prove an effective quality audit project to the organisation (IIA-Australia, 2020).

Moreover, the role of RBIA helps to avoid surprises associated with risks and can protect the image and social responsibility of the business (Griffiths, 2018). As the phrase "risk management" is expressed in the definition of RBIA, it should be deemed an important concept during an RBIA activity (IIA, 2017). Additionally, one of the roles of RBIA is to assist in the effectiveness of the IAF (Erlina *et al.*, 2020). The success of the effectiveness and value-adding ability of the IAF rests on a sound and effective risk-based internal audit plan (KPMG, 2018; Lois *et al.*, 2021). Moreover, as risks constantly emerge in the organisation, the CAE should adjust the audit plan to detect and mitigate emerging risks (Estes, 2017; IIA, 2017; Mody, 2018) that could threaten the organisation (Coetzee & Lubbe, 2014). Subsequently, the IAF should be able to audit at the speed of risks emerging, thus contributing to the effectiveness of the IAF (Chambers, 2020). Internal audit's effectiveness and value-adding ability rely on its ability to use a risk-based audit approach (IIA, 2017; Griffiths, 2018; Cetin & Pamukcu, 2019). Adopting a risk-based audit approach helps address emerging risks, thus improving business processes and assisting in meeting an organisation's goals and objectives (Nabulsi & Hani, 2018; Lois *et al.*, 2021).

2.7.4 Limitations of risk-based internal auditing

Although the literature suggests that an RBIA methodology has many advantages, a few articles highlight the potential disadvantages of an RBIA methodology (Lenz, Sarens & Jeppesen, 2018; IIA-Australia, 2020). Potential disadvantages may include:

- Compliance may not be covered as the aim is only to cover high risks (IIA-Australia, 2020).
- It may be challenging to effectively utilise a risk-based audit methodology if auditors are not appropriately skilled or qualified (IIA-Australia, 2020).
- Important areas which may affect business objectives that are not linked with risks might be missed (IIA-Australia, 2020).
- Budget constraints relating to the limitation of visits whereby a location was flagged as high risk, but due to its costly travel nature, the site cannot be visited (Lenz *et al.*, 2018).

Numerous articles do not mention the limitations of RBIA, as most articles reference the benefits or effectiveness of RBIA (Sarens, Abdolmohammadi & Lenz, 2012; Coetzee & Lubbe, 2014; Coetzee & Erasmus, 2017; Lenz *et al.*, 2018; Mody, 2018; Çetin & Pamukcu, 2019; Erlina *et al.*, 2020; Lois, Drogalas, Karagiorgos & Tsikalakis, 2020; Umaralievich & Jurayevna, 2020).

2.7.5 Effectiveness of risk-based internal auditing

Organisations face increased risks because of the environment's rapid change, which must be professionally managed (Coetzee, 2016; Griffiths, 2018; Nabulsi & Hani, 2018; Tumwebaze *et al.*, 2022). If the IAF seems more focused on financial and compliance exercises rather than addressing high-risk areas, it could cause more risks to realise due to risks being overlooked (PwC, 2016).

The literature suggests that the IAF operates more effectively if an RBIA approach is used, which, in turn, should increase audit effectiveness (Sarens *et al.*, 2012; Coetzee & Lubbe, 2014; Coetzee & Erasmus, 2017; Lenz *et al.*, 2018; Mody, 2018; Çetin & Pamukcu, 2019; Erlina *et al.*, 2020; IIA-Australia, 2020; Umaralievich & Jurayevna, 2020; Lois *et al.*, 2021; Zatsarinnaya *et al.*, 2021). Andreas *et al.* (2020) concluded that an RBIA approach is essential for effective functioning IAFs in an organisation.

An RBIA approach contributes positively to the independence and objectivity of the organisation being audited (Klamut, 2018). The IAF serves as an independent and objective service provider to its organisation; thus, risk management in the organisation is systematically addressed and supported by the IAF (Lenz & Hahm, 2015; IIA, 2017; KPMG, 2018; Nabulsi & Hani, 2018; Cetin & Pamukcu, 2019). Because risks are thoroughly classified and reported, management's response to risk is effective in relation to the organisation's appetite for risk (Mody, 2018; Zatsarinnaya *et al.*, 2021). Therefore, when an RBIA is followed, internal audit activities and internal auditors are significantly connected with risk management processes (Drogalas & Siopi, 2017). A risk-driven approach is more effective than a procedure-driven one since the audit focuses on high-risk areas (Drogalas & Siopi, 2017; Cetin & Pamukcu, 2019; Zatsarinnaya *et al.*, 2021). Numerous audit activities are based on a risk-based approach (Umaralievich & Jurayevna, 2020; Zatsarinnaya *et al.*, 2021).

An RBIA contributes to mitigating substantial risk and increases the efficiency of audit engagements (Drogalas & Siopi, 2017; Cetin & Pamukcu, 2019; Andreas *et al.*, 2020; IIA-Australia, 2020; Lois *et al.*, 2021; Zatsarinnaya *et al.*, 2021). It is a powerful tool to ensure that the IAF remains effective (IIA-Australia, 2020). In addition, RBIA creates efficiency by increasing work performance and contributes to positive relationships with service providers (Lenz *et al.*, 2018; Çetin & Pamukcu, 2019). Ultimately, an RBIA methodology positively

contributes to an organisation's goals and objectives (Griffiths, 2018; IIA-Australia, 2020; Lois *et al.*, 2021; Zatsarinnaya *et al.*, 2021).

2.7.6 Risk-based internal audit engagements and process

An RBIA engagement ensures that an IA activity is aligned with the organisation's goals and that top risks are attended to (IIA, 2017). One of the objectives of an audit engagement is to establish the evaluation of risk management to contribute to the improvement thereof (IIA, 2017).

During the planning stage of an audit engagement, risk management must be considered by the IAF (IIA, 2017; Mody, 2018; Lois *et al.*, 2021; Zatsarinnaya *et al.*, 2021). During the fieldwork stage of the audit activity, the internal auditor must utilise their knowledge of risks gained through exposure to the risk management process (IIA, 2017; KPMG, 2018). The initiative of an effective risk-based audit engagement is to have a comprehensive view of the risks that threaten the organisation's goals (Cetin & Pamukcu, 2019; IIA-Australia, 2020). For the RBIA engagement to transpire, a formalised risk assessment must be documented annually (IIA, 2017). Therefore, an RBIA-driven approach focuses on high-risk areas (Drogalas & Siopi, 2017; Cetin & Pamukcu, 2019), which subsequently contributes to mitigating substantial risk and increases the efficiency of audit engagements (Cetin & Pamukcu, 2019).

Figure 2.2 provides an overview of the RBIA process derived from the Chartered IIA in the UK (CIIA, 2014):

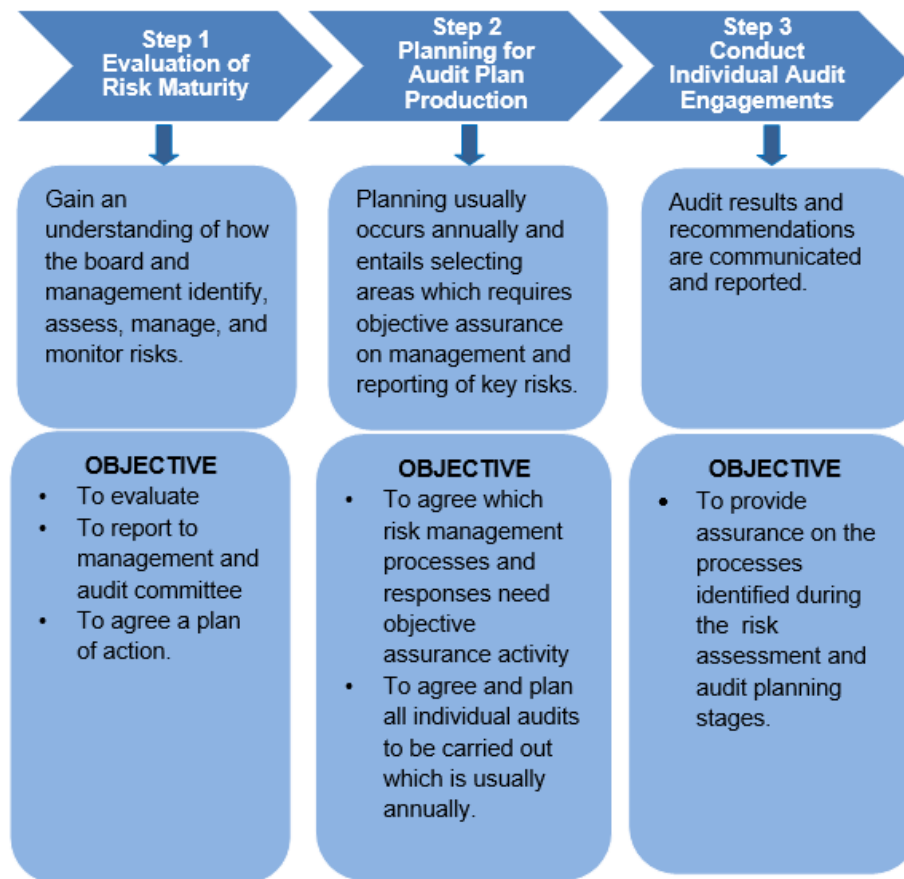


Figure 2.2: Risk-based internal audit process

Source: Adapted from Chartered Institute of Internal Auditors (2014)

STEP 1 – EVALUATION OF RISK MATURITY

The risk maturity assessment step is the first step of the RBIA methodology and involves understanding how the board and management identify, assess, manage, and monitor risks (CIIA, 2014). Risk maturity is measured by evaluating the organisation’s level of risk identification, assessment, management, and monitoring risks (CIIA, 2014). The RBIA process starts with the evaluation of risk maturity, which sets the basis for the subsequent steps (CIIA, 2014). RBIA is pertinently dependent on the organisation achieving a particular level of risk maturity (CIIA, 2014). This has a direct impact on the extent to which an RBIA methodology contributes to the effectiveness of the IAF within an organisation (CIIA, 2014).

Objective

The objective of this step is to evaluate, report to management and the audit committee, and agree on a plan of action.

Methods to achieve the above objective:

- a. Gain understanding
 - Determine what processes are in place to improve risk maturity, e.g., training, risk workshops, questionnaires, and interviews with risk managers.
 - Determine what the manager's take is on the risk register/risk matrix, e.g., is it extensive enough?
 - Determine whether management is satisfied with the management of risks and that risk owners are accountable and remedial actions are taken.
- b. Obtain supporting documentation
 - Obtain documentation that stipulates and guides details and processes related to the risk maturity level:
 - the objective is documented
 - risk matrix or scoring methods relating or inherent, residual and overall risk ratings
 - documented processes followed to identify and report risks
 - sources of information used
 - contact persons within or outside of the organisation
 - documented risk register
 - any documentation indicating ownership of risks
- c. Conclude on the assessment of risk maturity
 - Consequent to obtaining the above documentation, conclude the maturity level by categorising the level in the following stages:

- Risk-enabled
- Risk-managed
- Risk-defined
- Risk-aware
- Risk-naïve

d. Report conclusion to management and audit committee

- Formalise the conclusion by reporting a high-level risk management process.
- Formalise the conclusion by reporting a high-level risk maturity level noting that a risk maturity level categorised as risk-aware and risk naïve implies that the internal controls and the board's ability to assess it may be ineffective.
- In conjunction with management, discuss what actions are to be taken as a result of the assessed risk maturity level.

e. Take action by working with management

f. Decide on the audit strategy

- Management and the audit committee approve the audit strategy after the risk assessment.
- The selected audit strategy depends on the organisation's risk maturity level (risk-enabled, risk-managed, risk-defined, risk-aware, risk-naïve).

- Organisations categorised as risk-aware and risk-naïve will not be able to implement RBIA immediately; audit planning is based on key systems or business units.
- Organisations categorised as risk-enabled and risk-managed RBIA means that the organisation's risk register was fully considered during audit planning.

STEP 2 – PLANNING FOR AUDIT PLAN PRODUCTION

The production of the audit plan is the second step during RBIA (CIIA, 2014). Planning usually occurs annually and entails selecting areas that require objective assurance on management and reporting of key risks (CIIA, 2014). This step includes the audit committee advising on the assurance requirements (CIIA, 2014). Management also utilises a risk register for audit planning purposes (CIIA, 2014). Thereafter, the audit plan is executed to commence individual audit assignments (CIIA, 2014).

Objective

This step aims to agree on which risk management processes and responses need objective assurance activities. Additionally, the objective is to agree on and plan all individual audits to be carried out annually.

Methods to achieve the above objectives:

- Identify which risk management processes and responses need objective assurance. If the response was given as a high inherent risk, the higher the priority should be.
- Categorise or group the risks, for example, by business unit, functions or systems, or objectives.
- Link the risks to individual audit assignments.
- Formalise or draw up the audit plan with detailed audit scoping.
- The audit plan should inform management and the audit committee of risks the assurance activity will not cover.
- Discuss the audit plan with management and the audit committee on which approval should be given.
- Discuss the audit plan with management and the audit committee by providing details of the RM processes and responses where assurance will be provided.
- Discuss the audit plan with management and the audit committee by providing details where assurance will not be provided.

STEP 3 – CONDUCT INDIVIDUALISED AUDIT ENGAGEMENTS

Conducting individualised audit engagements involves communication and reporting of audit results and recommendations (CIIA, 2014).

Objective

The objective of this step is to ensure that the assurance provided relates to:

- Checking that management has managed inherent and residual risks
- Action is taken where there is a misalignment between residual risk and risk appetite
- Management is monitoring responses and actions effectively
- Management is monitoring that risks are correctly classified and reported

Methods to achieve the above objectives:

- Understand and establish the result of the risk assessment and audit planning stage to carry out an effective audit scope.
- Assess the area being audited to establish the resources and expertise required.
- Scrutinise the risks identified by management.
- Conclude the individual audits by either confirming or doubting the organisation's initial assessment of the risk maturity level, which could result in a change in the initial assessment.
- Testing of monitoring controls to confirm if controls are implemented by management to ensure that the RMF is operating effectively.
- Verify the testing by performing walkthroughs and obtaining evidence that responses to risks are effective.
- Document results related to risks, responses to risks, the assurance provided, and the verification of the testing.
- Assess the evaluation of the risk registers done by management, which needs to lead to findings on management's determination of residual risk ratings.
- Report and discuss findings with management to reinforce their responsibility to take remedial actions.

The RBIA process allows IAFs to assure the board that controls in place to manage inherent risks, are operating effectively (CIIA, 2014). It also allows the IAF to be linked with the organisation's overall RMF. If the organisation does not have a strong RMF, they are not in a position to utilise RBIA to its fullest extent (CIIA, 2014). In addition, RBIA strengthens the

board's and management's capacity to assume responsibility for managing risk in their organisation (CIIA, 2014; Lois et al., 2021). It focuses on auditing risk management, not the risks themselves (CIIA, 2014).

2.8 Risk-based internal auditing and the retail industry

2.8.1 Definition of a retail business

Retail business refers to products and services sold in-store or online to customers for personal or household use (Hameli, 2018).

2.8.2 The role of the retail industry

The retail industry plays a vital role in the economy of South Africa (Malgas *et al.*, 2018). Since 2015, retail trade sales have increased consistently by 3% in December 2021 (Stats SA, 2021; Teuteberg, 2021). There has also been a steady increase of 2.9% in 2021 from quarter three to quarter four (Stats SA, 2021). The biggest increase was reported by retailers such as Spar, The Foschini Group, Woolworths, Mr Price, and Shoprite (Teuteberg, 2021). Figure 2.3 graphically depicts an increase in revenue for most of the retailers in South Africa:

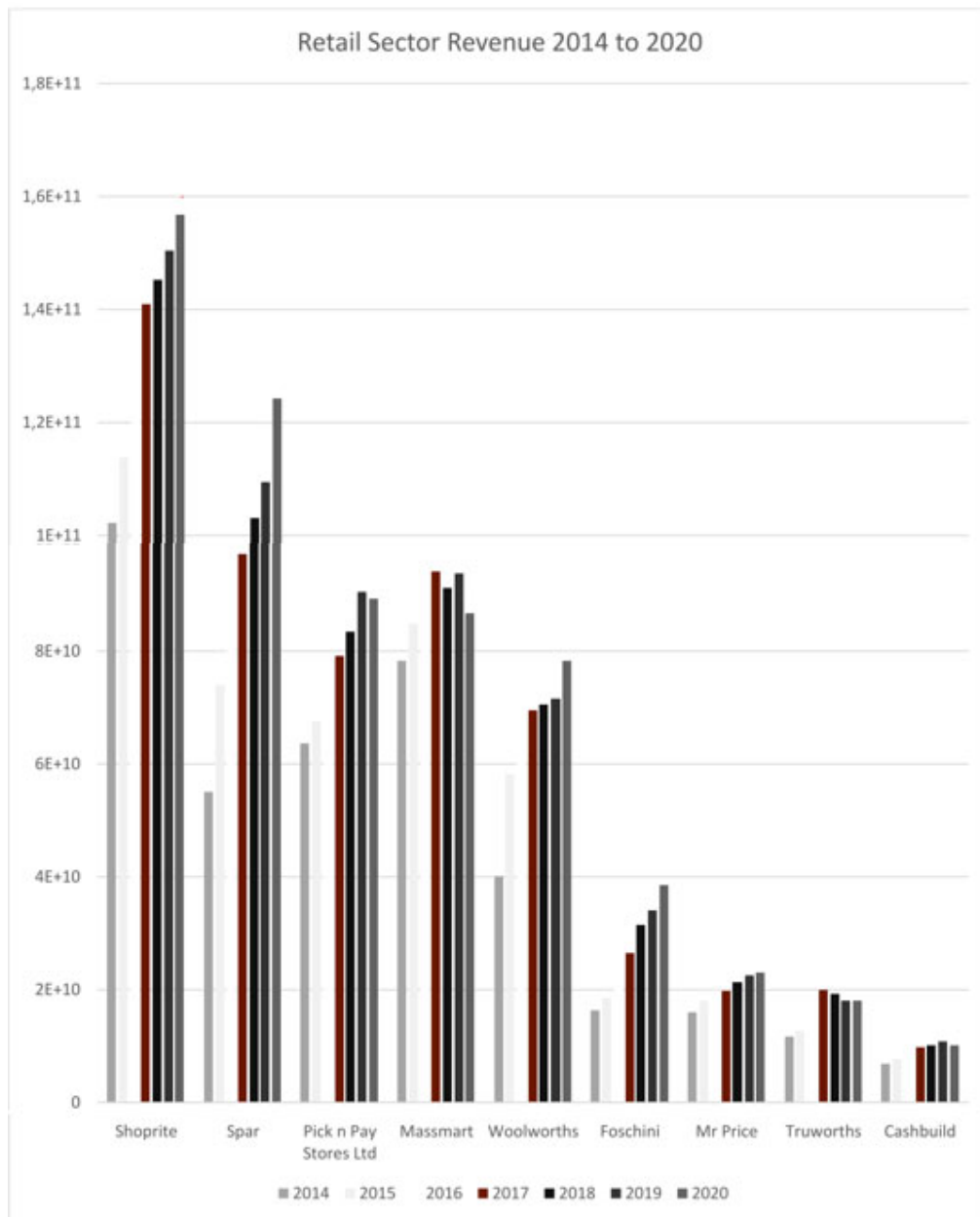


Figure 2.3: Retail sector revenue 2014 - 2020

Source: Adapted from Teuteberg (2021:7)

The retail industry has been found to contribute significantly to the economy of South Africa (Malgas *et al.*, 2018). It creates employment and contributes to the country's GDP (Stats SA, 2020). The sales of products within a retail business drive the spending of consumers, which, in turn, contributes to the country's GDP (Malgas *et al.*, 2018). In 2018, this industry contributed 61.5% to the total income of South Africa, 61.2% to employment, 15.1% to the GDP in 2019, and about 21% of the total workforce (Wholesale and Retail SETA [W&RSETA], 2014; Stats SA, 2020). The retail industry, like other industries, faces various risk factors that influence the

effectiveness of their businesses. As this industry plays a significant part in the economy (Malgas *et al.*, 2018), stakeholders would be interested to know how to best detect and mitigate risks their stores and other departments face in reaching their goals.

2.8.3 The implementation of risk-based internal audit in the retail industry

The retail industry has grown in the last decade, and so too have risks that are inherent to the retail industry (Lebaron & Lister, 2015). Auditing was initially introduced in the retail industry to monitor and evaluate organisational risk management (Lebaron & Lister, 2015). Therefore, the top risks of an organisation should strategically be aligned with the internal audit plan (Estes, 2017). Therefore, the IAF of a retail business must apply effective audit procedures, which contribute to monitoring and managing of risks in their organisation (Lebaron & Lister, 2015).

As previously mentioned, the role of internal audit has grown in the last decade, allowing retail businesses to track, measure, address, and strengthen corporate accountability (Lebaron & Lister, 2015). These retailers are declaring a positive linkage between audit and corporate sustainability, whereby the IAF has significantly contributed to business objectives (Lebaron & Lister, 2015).

Audit activities produce standardised assurance on business risks and processes in the retail industry (Lebaron & Lister, 2015). Additionally, assurance, findings, and recommendations given by the IAF play a significant role in shaping decision-making by the management of a retail business, which in turn assists the business growth, effective operation and risk processes (Lebaron & Lister, 2015). In the retail industry, emerging risks are highly considered and managed; therefore, the IAF of retail businesses are implementing a risk-based audit activity (Lebaron & Lister, 2015). Risk-based auditing is a growing mechanism and mediates inherent risks of an organisation. According to Coetzee (2010), inherent risk is the possibility that a risk will materialise and cause harm to an organisation before any preventative, corrective, or investigative measures are implemented. Thus, RBIA needs to be adopted by retailers (Lebaron & Lister, 2015; Mody, 2018; Zatsarinnaya *et al.*, 2021). In addition, some reasons for the implementation of a risk-based internal audit approach include (Ideagen, 2022):

- Enhance compliance with risk
- A better understanding of risk levels
- Effective use of audit resources
- Better contribution to business objectives
- Opportunity to utilise IT software for increased audit productivity and effectiveness

The implementation of RBIA is expected to significantly affect the identification of risk, which ultimately contributes to IAFs' effectiveness (Zatsarinnaya *et al.*, 2021). Furthermore, implementing RBIA ensures the timely identification and mitigation of emerging risks (Lois *et al.*, 2021). However, the above-mentioned statements are unclear in the retail industry. Further research into the effectiveness of an IAF in the retail industry should be considered as the retail industry has grown in the last decade, resulting in increased risks (Lebaron & Lister, 2015). Prior studies on RBIA focused on the banking industry (Koutoupis & Tsamis, 2009), shipping (Andreas *et al.*, 2020), and the public sector (Coetzee, 2016; Coetzee & Erasmus, 2017; Erasmus & Coetzee, 2018; Zatsarinnaya *et al.*, 2021). Consequently, more knowledge is needed on the effect of RBIA and how RBIA is implemented, specifically in the retail industry.

2.9 Drivers of internal audit effectiveness

Questions have been raised in the literature on what drives IAF effectiveness (Chambers & McDonald, 2013; Drogalas *et al.*, 2015; Lenz & Hahn, 2015; Coetzee & Erasmus, 2017; Estes, 2017; Ramsarghey & Hardman, 2020). Research into the drivers of IAF effectiveness raised some concerns with multinational corporations, private and public sectors, in a variety of industries, including financial services, manufacturing, defence, and retail (Chambers & McDonald, 2013; Drogalas *et al.*, 2015; Coetzee & Erasmus, 2017; Estes, 2017; Ramsarghey & Hardman, 2020). These studies highlighted questions and concerns during literature reviews, interviews, and surveys with various stakeholders in the organisations. Literature from Chambers and McDonald (2013) stated that those technical skills alone are no longer sufficient for the IAF to be effective and raised concerns about what drives IAF effectiveness. To be effective as an IAF, one must possess a broad range of abilities (Lenz & Hahn, 2015). Coetzee and Erasmus (2017) discovered in their study of the public sector that they were rarely able to identify the precise or comparable drivers and measures for internal audit effectiveness. Drogalas *et al.* (2015) affirmed that the quality of internal audits, team competence, independence from management, and management support are all important factors determining internal audit effectiveness. However, although these drivers serve as crucial IAF indicators for effectiveness, the mechanisms behind IA effectiveness remain unclear.

In addition, further research into the drivers of effectiveness, specifically RBIA, is needed (Drogalas *et al.*, 2015; Coetzee & Erasmus, 2017). However, in previous literature, several drivers have been identified and considered as the common variables for drivers of IA effectiveness. Table 2.1 provides an overview of the drivers of internal audit effectiveness. The table indicates which articles point out the most drivers of IA effectiveness and ranks the drivers from high (top driver of IA effectiveness) to low (lowest driver of IA effectiveness). The ranking was established by counting the number of times an author cited each driver. The items in the table highlight that most articles identify RBIA as the top driver of IA effectiveness. The

research also shows that the lowest drivers of IA effectiveness are identified as measuring objectives, memberships with professional bodies, and quality of audit activities. Lastly, the table lists all articles' authors highlighting the most drivers of IA effectiveness.

Table 2.1: Drivers of internal audit effectiveness

Author	Year	RBIA approach	Value-adding ability within IAF	Competence of IAF	Professional relationships between key stakeholders and IAF	Independent support during audit cycles	Contribution and knowledge of risk management within the business	Aligned expectations between IAF and key stakeholders	Compliance with Internal Audit Standards	Memberships with professional bodies	Quality of audit activities	Total number of article
Lois <i>et al.</i>	2021	√										1
Zatsarinnaya <i>et al</i>	2021	√										1
Umaralievich & Jurayevna	2020	√						√				2
Institute of Internal Auditors Australia	2020	√										1
Erlina <i>et al</i>	2020	√										1
Çetin & Pamukcu	2019	√										1
Botha & Wilkinson	2019		√									1
UI-Hameed <i>et al</i>	2019			√	√							2
Erasmus & Coetzee	2018		√		√			√				3
Griffiths	2018		√									1

Mody	2018	√										1
KPMG	2018			√			√					2
Klamut	2018					√						1
Lenz, Sarens & Jeppesen	2018	√										1
Coetzee & Erasmus	2017	√		√		√						3
Estes	2017				√							1
IIA	2017							☒				1
Coetzee	2016				√		√	√				3
Drogalas, Karagiorgos & Arampatzis	2015		√	√		√				√	√	5
Lenz & Hahn	2015								√			1
Coetzee & Lubbe	2014	√										1
Chambers & McDonald	2013						√					1
Sarens, Abdolmohammadi & Lenz	2012	√										1
TOTAL		11	4	4	4	3	3	3	2	1	1	

The drivers of IA effectiveness displayed in Table 2.1 are discussed in detail :

2.9.1 Risk-based internal audit approach

Risk-based internal audit (RBIA) has been identified in the literature as the most common recognised driver of IA effectiveness. Many positive aspects are linked to RBIA, such as:

- Assisting in managing high risks (Drogalas & Siopi, 2017; Andreas *et al.*, 2020; IIA-Australia, 2020; Lois *et al.*, 2021; Zatsarinnaya *et al.*, 2021)
- Assisting in a highly focused audit activity resulting in utilising resources effectively (Lenz *et al.*, 2018)
- Increasing work performance (Çetin & Pamukcu, 2019)
- Contributing to positive relationships with service providers (Çetin & Pamukcu, 2019)
- Contributing to the business objectives (Griffiths, 2018; IIA-Australia, 2020; Lois *et al.*, 2021)

Since the 1990s, IA has aimed to add greater value to its organisation (Griffiths, 2018). Additionally, internal auditing has changed from the old compliance-based auditing to an advanced strategy and advisory-based auditing, which is beneficial for meeting business objectives (Estes, 2017; Mody, 2018). IAF should create a common ground with management by discussing objectives to identify the threats associated with achieving their objectives (Griffiths, 2018). IAFs executing an RBIA approach have been found to add value to business activities (PwC, 2016; Griffiths, 2018; Zatsarinnaya *et al.*, 2021). An IAF that adopts an RBIA approach is perceived as value-adding to an organisation (Griffiths, 2018; Botha & Wilkinson, 2019; Zatsarinnaya *et al.*, 2021).

The literature suggests that the IAF operates more effectively if an RBIA approach is used, which, in turn, should increase audit effectiveness (Sarens *et al.*, 2012; Coetzee & Lubbe, 2014; Coetzee & Erasmus, 2017; Lenz *et al.*, 2018; Mody, 2018; Çetin & Pamukcu, 2019; Erlina *et al.*, 2020; IIA-Australia, 2020; Umaralievich & Jurayevna, 2020; Lois *et al.*, 2021; Zatsarinnaya *et al.*, 2021).

2.9.2 Value-adding ability within the internal audit function

The value-adding ability has been identified as one of the top drivers of IA effectiveness. The focus of auditing, and especially internal auditing, has shifted to focusing more on adding value and contributing to achieving organisational objectives (Drogalas *et al.*, 2015; Griffiths, 2018). IA effectiveness is affected by the ability of the IAF to add value (Botha & Wilkinson, 2019).

Review of risks and control processes, and the implementation of recommendations given by the IAF, contribute to the value-adding ability of the IAF (Erasmus & Coetzee, 2018).

2.9.3 Competence of the internal audit function

The competence of the IAF has been identified as one of the top drivers of the IAF. Competence has been identified to add significant value in measuring IA effectiveness (Drogalas *et al.*, 2015; Coetzee & Erasmus, 2017). The competence of an IAF is positively associated with its effectiveness (Drogalas *et al.*, 2015; Ul-Hameed *et al.*, 2019). It is a key element of IA effectiveness (Ul-Hameed *et al.*, 2019). Apart from competence levels, an IAF's competencies predominantly rest on understanding how the business operates, the quality of an internal audit, independence of IA, management support, and staff turnover (Drogalas *et al.*, 2015; Coetzee & Erasmus, 2017). Technical competence and continuous learning are closely and positively related to the competence of the IAF (Drogalas *et al.*, 2015). In addition, leadership styles contribute to IA competence (Mas, Oreste & Barac, 2018; Ul-Hameed *et al.*, 2019). Mas *et al.* (2018) further stated that the CAE's leadership styles highly influence perceived IA competence characteristics. Formal or informal communication between an audit team influences the competence levels of an IAF (Drogalas *et al.*, 2015). Therefore, the way a team operates can influence the competence levels of the IAF (Drogalas *et al.*, 2015). Similarly, competence levels can also be affected by the CAEs of an IAF. A study conducted by Coetzee and Erasmus (2017), which relates to a CAE's competence measure, has been concluded and is summarised in Figure 2.4.

Competency measure	Criteria	Weight ^a
Academic qualification	≥ 4-year qualification	2
	< 4-year qualification	1
Professional qualification	Internationally recognized professional qualification	2
	South African recognized professional qualification	1
IIA membership		1
Internal audit experience	>15 years	3
	5–15 years	2
	2–5 years	1
Maximum total		8

Figure 2.4: Chief Audit Executive's competency measure

Source: Adapted from Coetzee and Erasmus (2017:242)

Figure 2.4 highlights that CAEs with internal audit experience add the most weight to measuring competency levels. On the contrary, CAEs holding a qualification or IIA membership add the least weight to measuring competency levels. Although there is no specific method to measure IA effectiveness (Drogalas *et al.*, 2015; Coetzee & Erasmus, 2017), the characteristics listed above could be most appropriate for determining IA effectiveness (Coetzee & Erasmus (2017).

The competency of the IAF plays a crucial role in determining and measuring a business's true level of functioning of adequate controls (Erasmus & Coetzee, 2018; UI-Hameed *et al.*, 2019). Moreover, an IA team's skill set and professional knowledge are considered a variable for IA effectiveness (KPMG, 2018; UI-Hameed *et al.*, 2019; Zatsarinnaya *et al.*, 2021). It is a requirement for most organisations to employ an IA team that accompanies a professional qualification and an essential level of preferred knowledge (UI-Hameed *et al.*, 2019). Professional knowledge of a team is an essential element that results in increased performance of an organisation (KPMG, 2018; UI-Hameed *et al.*, 2019).

2.9.4 Professional relationships between the internal audit function and key stakeholders

Professional relationships between the IAF and key stakeholders are considered one of the top drivers for IA effectiveness. Relationships between internal audit and management are important within a business (Erasmus & Coetzee, 2018). Additionally, for IAF to build positive relationships with business stakeholders, the IAF also is required to be involved and knowledgeable of the business' risk management processes (Chambers & McDonald, 2013).

For IA to be effective and for an organisation to achieve its objectives, IA requires positive support from top management (Drogalas *et al.*, 2015; Lenz *et al.*, 2018; UI-Hameed *et al.*, 2019; Zatsarinnaya *et al.*, 2021). Management support is one of the main drivers for IA effectiveness (Drogalas *et al.*, 2015) and increases audit effectiveness (UI-Hameed *et al.*, 2019). Management support has a material effect on IA effectiveness and can strengthen the performance of IA activities (UI-Hameed *et al.*, 2019). In addition, for IA to be effective, one of the top strategies of IA is to align expectations with key stakeholders (IIA, 2017). Internal and external relationships are important for the functioning of an internal audit department (Drogalas *et al.*, 2015; UI-Hameed *et al.*, 2019).

However, there is a misalignment between the IAF and organisational stakeholders on what is expected of the IAF (Coetzee, 2016; PwC, 2016; Erasmus & Coetzee, 2018). There is a contradiction between the top management of an organisation and what drives IA effectiveness (Coetzee & Erasmus, 2017). The expectations gap between stakeholders and the IAF is widening and in conflict (Coetzee, 2016; Erasmus & Coetzee, 2018). The priorities of the CAE of a business and audit committee's expectations are not aligned (Coetzee, 2016).

Key stakeholders strongly depend on the IAF (Nabulsi & Hani, 2018). Thus, the IAF should be aware of the expectations of its stakeholders (Coetzee, 2016). IAF should create a common ground with management by discussing objectives to identify the threats associated with achieving their objectives (Griffiths, 2018). These two parties (top management of the organisation and the IAF) are important to the effective functioning of the IAF, therefore, their expectations need to be aligned (Drogalas *et al.*, 2015; Lenz & Hahn, 2015; Coetzee, 2016; PwC, 2016; Erasmus & Coetzee, 2018; Ul-Hameed *et al.*, 2019).

2.9.5 Independent support during audit cycles

Independent support during audit cycles is an important driver of IA effectiveness (Drogalas *et al.*, 2015; Coetzee & Erasmus, 2017). The independence of an IAF is a contributing factor to IA effectiveness (Drogalas *et al.*, 2015). An example of independent support is the audit committee, which oversees business processes and internal controls and supports an organisation's risk management structure (Drogalas *et al.*, 2015; Coetzee, 2016). The audit committee is a segment of the RBIA process when reporting on an organisation's risk management process and risk maturity level. The RBIA process entails that the IAF needs to report to the audit committee regarding the risk assessment and risk maturity level of the organisation. After the approval step of the RBIA process, the audit committee approves the audit strategy and advises on the assurance requirements of the organisation. The involvement of the audit committee, which is a group of highly qualified and experienced individuals, guides the IAF to provide assurance in areas that threaten the organisation. This ultimately supports the effectiveness and independence of the IAF. Therefore, technical competence carried out by the audit committee increases IA effectiveness (Ul-Hameed *et al.*, 2019). Moreover, a study conducted by Drogalas *et al.* (2015) yields that the audit committee's involvement influences audit effectiveness. The results also show that when the audit committee is involved in IA activities, IA effectiveness increases (Drogalas *et al.*, 2015; Ul-Hameed *et al.*, 2019; Lois *et al.*, 2021).

2.9.6 Contribution and knowledge of risk management within the business

Contribution and knowledge of risk management were identified as a driver of IA effectiveness. It has been acknowledged as one of the seven attributes of highly effective internal auditors in an article published by the CEO/President and Executive Director of the IIA (Chambers & McDonald, 2013). Risk management is crucial in an organisation as it assists in detecting risks at an early stage (Coetzee, 2016). Risk management in an organisation plays a prominent role in the IAF (Lenz & Hahn, 2015; Coetzee, 2016; Griffiths, 2018; KPMG, 2018; Srinivas, 2019) and should be a priority on the highest level of management of an organisation in both private and public sectors (Coetzee, 2016). Thus, risk management in the organisation should systematically be addressed and supported by the IAF (Lenz & Hahn, 2015; IIA, 2017; KPMG,

2018). For IAF to be effective, the IAF needs to be involved and knowledgeable of the business' risk management processes (Chambers & McDonald, 2013).

Internal audit effectiveness can be driven by the level of knowledge of the organisation's RMF (Coetzee, 2016; KPMG, 2018). Understanding the risk management process, the ability to independently assess the risk management process, and the competence to identify and mitigate risks are drivers of IA effectiveness (KPMG, 2018).

2.9.7 Aligned expectations between internal audit function and key stakeholders

Aligned expectations between IAF and key stakeholders are important to the effective functioning of the IAF. Stakeholder expectations need to be aligned for the IAF to be effective and contribute to the organisation's objectives (Coetzee, 2016; PwC, 2016; Erasmus & Coetzee, 2018). IA should create a common ground with management by discussing objectives to identify the threats associated with achieving their objectives (Griffiths, 2018). The alignment of business objectives between the IAF and key stakeholders ultimately leads to the effective functioning of the IAF (Coetzee, 2016; IIA, 2017; Erasmus & Coetzee, 2018).

2.9.8 Compliance with internal audit standards

Compliance with Internal Audit Standards drives internal audit effectiveness (Umaralievich & Jurayevna, 2020). This allows the IAF to comprehensively view the IA activity as processes, laws, and regulations guide IA activities. Audits conducted in compliance with formal standards improve the effectiveness of the IAF (Umaralievich & Jurayevna, 2020).

2.9.9 Memberships with professional bodies

The IIA is a professional body widely associated with the internal audit profession and the drivers of this profession (Drogalas *et al.*, 2015). The IIA was established in 1941, is globally recognised, and consists of 210 000 members (Theiia.org., 2022). The IIA offers training, career opportunities, standards and guidance, research, and certification (Theiia.org., 2022). Their mission is to guide the global IA profession (IIA, 2022). In addition, the purpose of the IIA is to help organisations and their members to reach their objectives (Drogalas *et al.*, 2015). The benefits of the IIA stipulate that membership provides opportunities to network for its members, safeguard the profession's interests, and present the profession by using stakeholder management programs (IIA, 2022). The above mission, purpose, and benefits of the IIA inherently increase the audit effectiveness of the organisation with which its members are linked.

2.9.10 Quality of audit activities

In a nutshell, the quality of audit activities related to its planning, fieldwork and reporting stage, has been found to correlate positively with the effectiveness of internal audits (Drogalas *et al.*, 2015).

2.10 Chapter summary

This chapter started with an overview of auditing in the context of its history, developments, and function. This overview was provided in the interest of establishing its connection with risk management and the RBIA methodology. Thereafter, the concept of RBIA was explained, and the engagements and processes to be followed when conducting an RBIA activity were concentrated on. The implementation of RBIA, particularly in the retail industry, was then covered.

This chapter further covered the effect of RBIA on the effectiveness of the IAF. It highlighted the key factors that affect internal audit effectiveness based on a review of the main drivers of internal audit effectiveness in different articles. The top drivers affecting internal audit effectiveness were listed, and an outline was provided to describe why these factors were found to be most prevalent.

The following chapter, Chapter 3, describes the methodology employed in the study to accomplish its goals and answer its research questions.

CHAPTER 3

RESEARCH DESIGN, METHODOLOGY AND METHODS

3.1 Overview of Chapter 3

The layout of Chapter 3 is depicted graphically in Figure 3.1, illustrating how the research design, methodology and method are structured within the chapter.

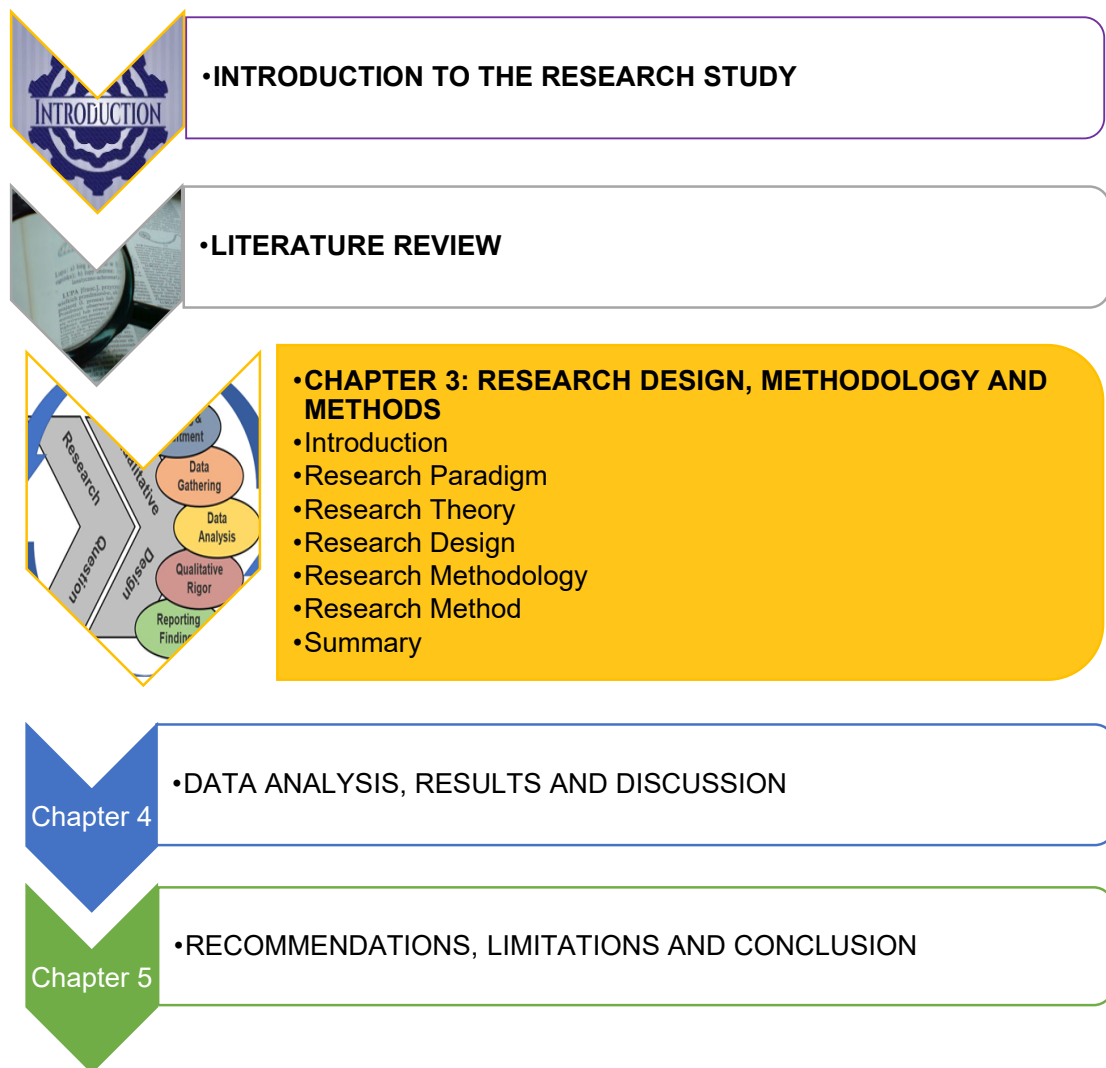


Figure 3.1: Graphical Illustration of Chapter 3

3.2 Introduction

This chapter describes the design, methodology, and methods employed to collect data to answer the study's research questions and to achieve the primary research objective of the study, which is to explore the role of an RBIA methodology as a driver of the effectiveness of

the IAF at a large retail business in Cape Town. Derived from the primary research objective, this chapter proposes to discuss how the research was conducted to achieve the secondary research objectives of the study. These are to determine how the retail business evaluates internal audit effectiveness, to what extent and how RBIA is implemented, how the IAF uses RBIA for audit planning activities, and to what extent RBIA drives internal audit effectiveness within the selected retail business.

This chapter commences with the research paradigm and theories, which provide a framework of assumptions and concepts on which the research study was based. The study falls within the pragmatism research paradigm and the stakeholder and resource dependency theories together with the professional guidance on RBIA (CIIA, 2014) provided a theoretical frame for the interpretation of the data collected. The chapter further details the research design, which provides the main plan of how data were collected, and the type of data collected. The research design is a single case study with an empirical approach in which primary data were collected. The research design is followed by a view of the research methodology, which provides the process followed to collect the data. Thereafter, the research method outlines the tools used to answer the research questions. Purposive and convenience sample methods were used to select participants to participate in the semi-structured interviews with internal auditors, audit management, and the CAE of the IAF of a retail business in Cape Town. This chapter concludes with an outline of the importance of the ethical considerations of the study. This includes considerations related to the trustworthiness of the study.

3.2 Research paradigm

The study falls within the pragmatism research paradigm. This is because the study seeks to obtain data from employees concerning business practices that are relevant and currently taking place. A brief overview of different paradigms is discussed to help the reader understand why pragmatism is employed. The positivistic research paradigm is an outcome of objectivist philosophy, which believes that theories need to be empirically tested and provide reasonable justification to be true (Ryan, 2019; Junjie & Yingxin, 2022). On the other end, the interpretivistic paradigm strongly emphasises obtaining experience and considering many interpretations of specific social circumstances. Thus, understanding the individual and their perspective of their environment is important (Ryan, 2019; Junjie & Yingxin, 2022). A pragmatist research design is based on practical experiences and recognises that data can be interpreted in different ways (Dudovskiy, 2012). This paradigm is most suitable for the study as the research problem will be investigated from a practical and real-life case context at the IAF of a retail organisation. Additionally, the pragmatism research paradigm is suitable as it allows the research question to be treated as an important factor during the research. This design employs the research questions to be explored inductively and deductively, objectively,

and subjectively, qualitatively, and quantitatively. Unlike the positivistic and interpretivistic research paradigms, the pragmatism research design increases the opportunity to enable and develop a holistic analysis of the research problem and questions (Dudovskiy, 2012).

3.3 Research theory

The study is framed and informed by the stakeholder and resource dependency theories. The work of Freeman initiated the development of the stakeholder theory, a concept that has been around since 1984 (Mainardes, Alves & Raposo, 2011). During the design phase of the theory's model, the classic capitalist organisational production model played a prominent role in this design (Mainardes *et al.*, 2011). In this model, the company is solely tied to four groups: suppliers, employees, shareholders, and clients, with the client being the recipients of the products or services the company produce. According to the stakeholder theory, any group or person who has the potential to affect or be affected by how an organisation performs must be taken into account when considering business objectives and functioning (Christopher, 2019; Mahajan, Lim, Sareen, Kumar, Panwar, 2023). The stakeholder theory defines a different kind of strategic management as a reaction to escalating competitiveness and business operations (Mainardes *et al.*, 2011). The stakeholder theory has gained prominence because of public interest, increased media coverage, and addressing corporate governance issues (Mainardes *et al.*, 2011; Harrison, Freeman & de Abreu, 2015). It considers individuals' influences, interests, and needs that may impact the organisation's policies, procedures, and operations (Mainardes *et al.*, 2011; Harrison *et al.*, 2015). Applying the stakeholder theory in the context of internal auditing is crucial because internal auditing must be continually aware of its stakeholders' expectations to add value objectively and confidently to an organization's goals (Coetzee, 2016).

Furthermore, the study was mainly informed by resource dependency theory. Resource dependency theory describes how an organisation's behaviour is affected by its limited external resources (Pfeffer & Salancik, 2009). Resource dependency, therefore, considers the appropriate response when an organisation is not self-sufficient due to limited financial and material resources (Mainardes *et al.*, 2011). Coetzee (2010) explains that resource dependency theory details how access to limited resources within the organisation and the utilisation of dependence on external environments, which are made up of people and groups outside the organisation, needs to be managed. Consequently, the IAF (as a control function within the organisation) needs to operate with limited resources available to them. Consideration, therefore, needs to be given during the audit process on how the IAF can execute its core functions most effectively. However, at the same time, the IAF can also assist the organisational management with the effective and efficient employment of such limited resources by providing internal auditing services. RBIA is seen as a tool with which the IAF

can effectively execute its duties within the context of limited organisational resources. Since the study recognises the need to explain how RBIA results in effective resource usage within the organisation, the resource dependency theory was deemed suitable for the study.

3.4 Research design

3.4.1 Data collection design

The research design is an exploratory single case study to explore the effectiveness of an IAF when an RBIA methodology is used to address the research questions (see Figure 3.2). Exploratory research is done under the presumption that little is known about some important aspects of a study (Dul & Huk, 2015:50). Descriptive research, which merely describes or characterises the subject at hand, contrasts with explanatory research, which aims to explain why specific phenomena work as they do (Laher, Fynn & Kramer, 2019). Therefore, the study's exploratory nature allows the researcher to gain an in-depth understanding of the workings of an IAF operating within a particular industry, namely retail. Furthermore, a single case study design is also appropriate as it has the potential to present a holistic, systematic interpretation of the prescribed data being measured (Yin, 2003). According to Yin (2003:23), "the single case study can represent a significant contribution to knowledge and theory building". Thus, an exploratory single case study design is appropriate for the study, as the researcher explores an industry (retail) where there is a lack of literature relating to the role of RBIA methodology as a driver of the IAF's effectiveness (Kumar, 2012). The exploratory nature of the study is also supported by the limited knowledge available regarding the actual implementation of RBIA by internal auditors in real-life auditing scenarios.

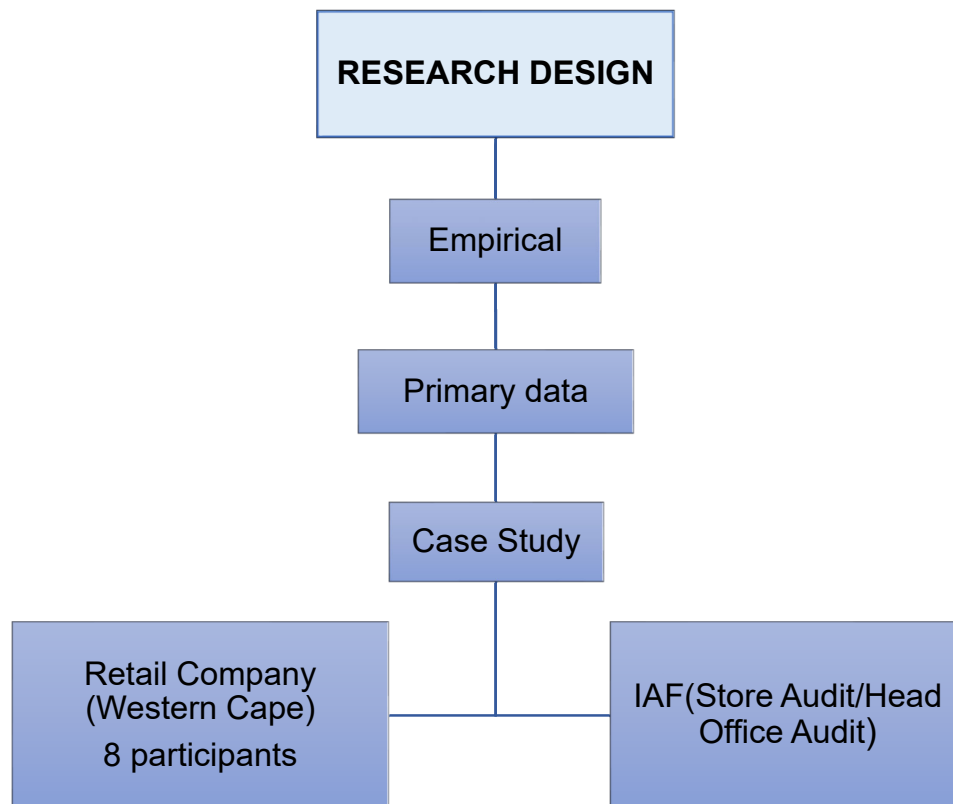


Figure 3.2: Research design (Author Compiled)

3.4.2 Case company profile

The case study was conducted at a retail company in Cape Town with stores spreading across Africa. This retailer was selected because it is one of the leading retailers in Africa. It consists of more than 4 000 stores represented in many countries. A single case study focused on participants in the internal audit department. Participants comprised internal auditors, audit managers, and the CAE of the IAF at the selected retail company. Conducting a case study at this organisation has many advantages, as the researcher is employed at the organisation and can obtain unique access to participants and real-life scenarios.

3.4.3 Data collection procedure

This research is empirical as data were collected by performing interviews and distributing online questionnaires (see Figure 3.2). Semi-structured interviews were conducted where one-on-one online meetings were held with each participant via online meeting application software. During the interview process, the participants were posed with questions that addressed the research problem. Questions were posed in a manner that was clear for participants to understand and grasp. The researcher also remained independent from the responses and refrained from commenting during responses given by participants. Additionally, participants' risks of facing legal repercussions for divulging private information

were assured. By notifying participants of their anonymity regarding their identity and organisation before beginning the data gathering process, risks of legal injury were demonstrated. Participants were made aware that the information they submitted would only be used for study. Respondents were free to leave this research project whenever they chose to do so without being discriminated against.

Furthermore, the transcript function in the online meeting application software was enabled throughout the interview, allowing the software to record each word spoken. This transcript function allowed the researcher to extract responses and ensure that transcript information was accurate and not overlooked. Participants were quoted verbatim from the online meeting application software transcript extracts. This increased the trustworthiness of the interview transcripts used for data analysis purposes and also allowed the participants to respond openly and honestly. In support of the main source of data (semi-structured interviews), further data were gathered from participants using a questionnaire drawn up by the researcher concerning the research problem. During the questionnaire and interview process, an objective approach was taken concerning collecting empirical data. The researcher uploaded online questionnaires to Microsoft Forms. Participants were notified via email to complete the questionnaire. Participants could respond independently with a reasonable time limit of approximately one month to complete the questionnaire. Moreover, Ethics clearance was provided by the Cape Peninsula University of Technology's (CPUT) Research Ethics Committee, thus alleviating the risk of plagiarism, following informed consent received from all participants (see Appendix A).

3.4.4 Research population

The study's findings are not generalisable due to the study's limited sample size of nine participants and use of a single case study. Data were gleaned from employees in the internal audit function of a large retail company. The population was limited to internal auditors, audit management and the CAE within the IAF of the organisation. Since the researcher works in the IAF of the targeted retail company where data were collected, the organisation and participants were easy to select and contact. Therefore, analysis, findings, and conclusions were based on the entire population, as all IAF staff agreed to participate in this research study.

3.5 Research methodology

3.5.1 Qualitative methodology

The research methodology employed in this research is a qualitative case study. Qualitative method is suitable for the study as qualitative research reflects a holistic, unstructured, and non-numeric interpretation of the information collected. In contrast, quantitative research

collects numerical data that provides a structured summary of the collected information (Ponelis, 2015).

Qualitative research (semi-structured interviews) was employed because the researcher and the participant could communicate one-on-one (see Figure 3.3). As a result of the one-on-one communication, the interviews accommodated the data collection process clearly and understandably. Where responses were unclear, the researcher was able to get immediate clarity from the participant by making the participant aware of ambiguous or doubtful phrases. In addition, where questions were unclear, the researcher immediately clarified the question by rephrasing or explaining the question. Additionally, open-ended questions were posed to the participants to include useful information and avoid yes-no responses. Open-ended questions also attained detailed responses; thus, feedback was contextual (Kumar, 2012). Thus, the trustworthiness of the qualitative data was ensured. Trustworthiness of the qualitative data occurs when the researcher verifies the credibility, transferability, dependability and confirmability of the participant's account (Nowell, Norris, White & Moules, 2017). To confirm the credibility of the qualitative data, the transcript function of the online meeting application software was enabled throughout the interview, allowing the software to record each word spoken. Dependability of the qualitative data was ensured by coding the data in the ATLAS.ti software. Coding qualitative data enables for a rigorous examination of all information provided by participants (Van Den Berg & Struweg, 2017). In addition, dependability in qualitative data means that the use of computers and software provide a reliable interview process because interviews with participants may be recorded and transcribed and are clearly documented (Farooq & De Villiers, 2017). Again, the researcher ensured trustworthiness(credibility, dependability and confirmability), by examining the interview transcripts on a regular basis and comparing these to the voice recordings taken during the interviews. To further elaborate on trustworthiness, credibility of the participants analysis, findings, and conclusions was ensured, since the researcher works in the IAF of the targeted retail company where data were collected. Thus, the researcher can attest that the data was valid. Because the researcher is employed in the internal audit space of the targeted business, respondents were easily contacted. However, the researcher committed to presenting findings that are neutral, free from bias, ensuring confirmability. Furthermore, the study's findings are thought to be transferable to the setting of industries other than retail. Furthermore, data was acquired from an internal audit function of a retail organisation, demonstrating dependability, since findings could be established despite changes in the research setting.

In support of the main source of data (semi-structured interviews), the researcher additionally collected data via a Likert scale/yes-no type online questionnaire (see Figure 3.3). Questionnaires were used to understand the common responses and perceptions noted by

participants. The questionnaires provide a confirmatory component to the semi-structured interviews with participants, which supports the semi-structured interviews. Thus, the interviews were the main data-gathering instrument but supported by the questionnaire.

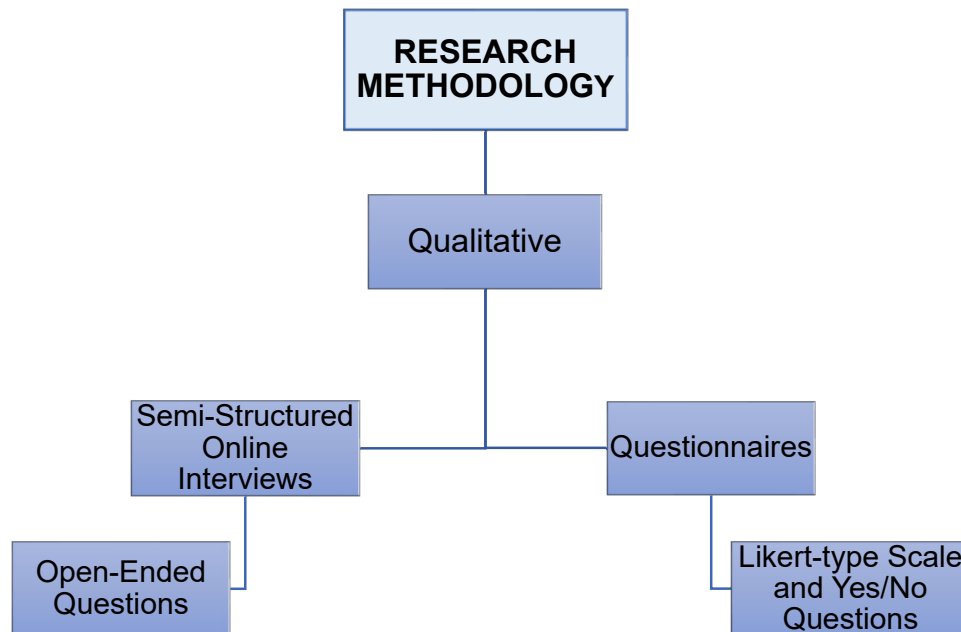


Figure 3.3: Research methodology (Author Compiled)

3.6 Research method

3.6.1 Sample method

The research method employed is a qualitative method through which semi-structured interviews were conducted, followed by online surveys in support of the interviews. Semi-structured interviews and surveys were used to gather data from internal auditors, audit management, and the CAE of the IAF. The sample comprised eight participants for the semi-structured interviews, and nine participants for the survey data gathering, all of whom were part of the IAF of a large retail business in Cape Town.

A mix of purposive and convenience sample methods was used to select the research participants. These sampling methods are considered to be the most appropriate for this research study as the representatives were selected by the researcher from a targeted research populace according to pre-set attributes to participate in the study to collect rich data (purposive sampling), and because of the proposed systematic selection of participants who will be easy to reach for the researcher to address the identified research problem (convenience sampling). Purposive sampling was employed because it was based on the

research judgement on who can provide the best information to achieve the purpose and objective of the study (Kumar, 2012). In addition, convenience sampling was employed because the researcher based her study on the convenience of reaching or accessing participants or sources for the study (Kumar, 2012). Participants were convenient to reach as the researcher is employed in the internal audit space of a retail business. The researcher committed to avoiding conflict of interest by acting ethically and being free from bias.

3.6.2 Pilot testing

Before data were collected from participants, the survey was pilot tested by a specialist statistician, two academics, and a member of the public (an internal auditor at a private organisation) to ensure that all questions were clear, reasonable, unambiguous, and impartial. The pilot testing aimed to ensure that the questionnaire was user-friendly, easily accessible and that questions were designed to be answered adequately and efficiently. Additionally, interview questions were reviewed in-depth by an experienced researcher to confirm validity and accuracy of the questions. The feedback received from the piloting of the survey was acknowledged and used to make amendments to fortify content validity, face validity, and construct validity.

3.6.3 Data collection using online questionnaires

The researcher conducted surveys and collected data by distributing online questionnaires via Microsoft Forms (see Figure 3.4). The survey questions comprised open and closed-ended, multiple-choice, and predominantly Likert scale questions. Likert scale questions were adopted to allow participants to rate their responses on a 5-point scale, ranging from disagree to strongly agree (Kumar, 2012). The research adopted an online survey to achieve an agile approach in the questionnaire completion and analysis process. The online survey allowed the researcher to view participant answers immediately, resulting in increased data gathering and analysis productivity. Furthermore, online surveys also permit system users to download responses in a format that can be easily analysed and uploaded into data analysis tools used for research purposes.

After piloting the questionnaire, reliability was assured by gleaning truthful/factual data and recording it accurately. After the pilot testing process, questionnaires were loaded on Microsoft Forms, and participants were notified via email to complete the questionnaire. Questionnaires were completed to ensure that the interview findings were supported and to confirm the perceptions of participants. Participants were given reasonable time (one week) to complete the questionnaire. The researcher regularly checked the questionnaires' completion status to keep track of the progress. The questionnaire process lasted two weeks, from September to October 2022. All the participants completed the questionnaires, providing a holistic, systematic interpretation of the data. Therefore, the interpretation of the data could be viewed

and utilised comprehensively. After completing the online questionnaires, The analysis was limited to descriptive statistics due to the small population. Inferential statistics could, therefore, not be conducted. However, this is not seen as a limitation, as the study's objectives were to explore the current application of RBIA within a particular organisation and not to make inferences regarding a greater population group. The data analysis was, therefore, sufficient and aligned with the objectives of the study.

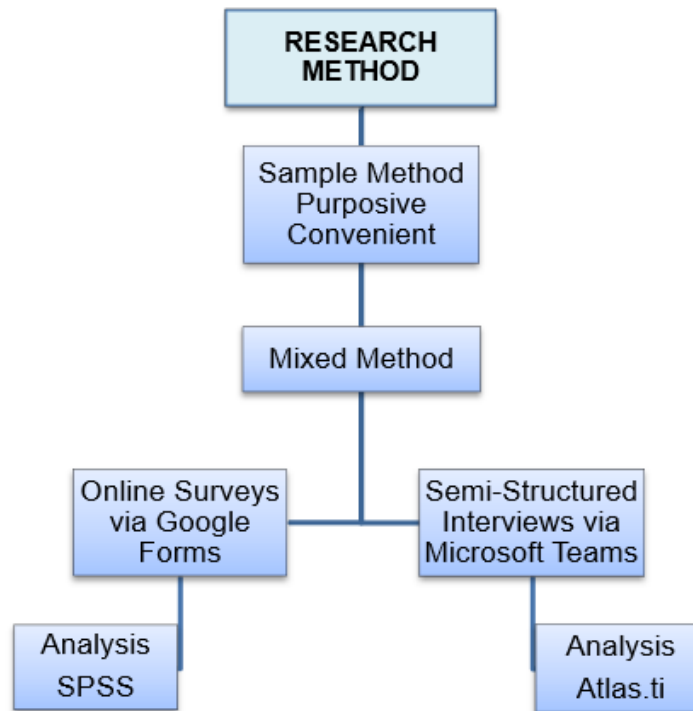


Figure 3.4: Research method (Author Compiled)

3.6.4 Data collection using semi-structured interviews

Semi-structured interviews allowed the researcher and the participant to communicate one-on-one. Before the interview was conducted, an interview protocol was prepared to guide the semi-structured interview process with the participants. An interview is deemed suitable as it leads to in-depth discussions, avoiding ambiguity and unclear conversations (Coetzee & Lubbe, 2014). One-on-one meetings were held with each participant via an online meeting application software. During the online meeting application software interview, the transcript function in Microsoft Teams was enabled, allowing the software to record each word spoken during the interview. This transcript function allowed the researcher to extract responses and ensure that transcript information was accurate and not overlooked. Transcripts were checked to ensure accuracy of the information. This resulted in the transcript information being reliable for analysis purposes. During the interview, the participants were posed with questions addressing the research problem. The questionnaire process was concluded in two weeks, during September and October 2022. After the completion of the interview process, the

researcher analysed the data using qualitative data analysis software. Interviews were transcribed via an online meeting application software and coded by making use of ATLAS.ti software. Inductive and deductive reasoning behind the coding in the ATLAS.ti software was used. Inductive coding is a code/theme formed from the data collected, whereas deductive coding is a predetermined code given by the researcher to the collected data (Williams & Moser, 2019). Inductive and deductive coding were used to provide a thorough, objective view of the codes presented throughout the data. Trustworthiness of the qualitative research findings were ensured by fully documenting the interview approach, utilising an interview protocol, following a structured approach to code interview data in ATLAS.ti software and through data triangulation (survey results supported interview results).

3.6.5 Ethical considerations

Ethical considerations were an essential aspect of the study. Ethics was carefully considered regarding participant consent. Participants who consented to participate in the study supplied signed consent letters after being asked via email for permission to be interviewed and to complete the questionnaire. Participants completed interviews and questionnaires after approval by the CAE of the selected retail business where the research was conducted. The names of the participants and the organisation in the study are kept anonymous. It is important to note that the researcher was employed at the organisation during the data collection process, however, data was gathered objectively and without bias toward the participants. In addition, CPUT's Ethics Committee approved the research (see Appendix A).

3.7 Chapter summary

In this chapter, the qualitative research method, the research paradigm was covered along with the semi-structured interview process. In addition to outlining the study's sample group selection process, it also addressed the data collection processes. The study's participants included all of the auditors involved in the internal audit department of a retail company. To provide a more insightful viewpoint on the research area, the study population was discussed. Additionally, this chapter included a discussion of the preparation and execution of the semi-structured interviews, which included a survey component.

After that, the research paradigm, which is identified with the pragmatism research paradigm, was expanded upon to illuminate the rationale behind its application. The chapter continues with a description of the theory. The purpose of elaborating on the research's theories was to give context to what the researcher observed during the study. This chapter's conclusion outlined the approach employed to gather data to clarify how data were collected to respond to the study's research questions. To ensure a seamless and effective deployment of the data collection process, the pilot testing procedure was provided. This chapter's final section

discusses ethical considerations to elaborate on the significance of participant anonymity, as well as the organisation and compliance with the institution's ethical process.

The following chapter presents the data analysis, findings, and discussion from this qualitative case study. The data gathered from the semi-structured interviews, supported by the questionnaire data were analysed, and then compared the results with the literature review to address the research questions.

CHAPTER 4

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Overview of Chapter 4

The layout of Chapter 4 is illustrated graphically in Figure 4.1, which highlights important points of how the data obtained is summarized and relationships and trends connected to RBIA are demonstrated.

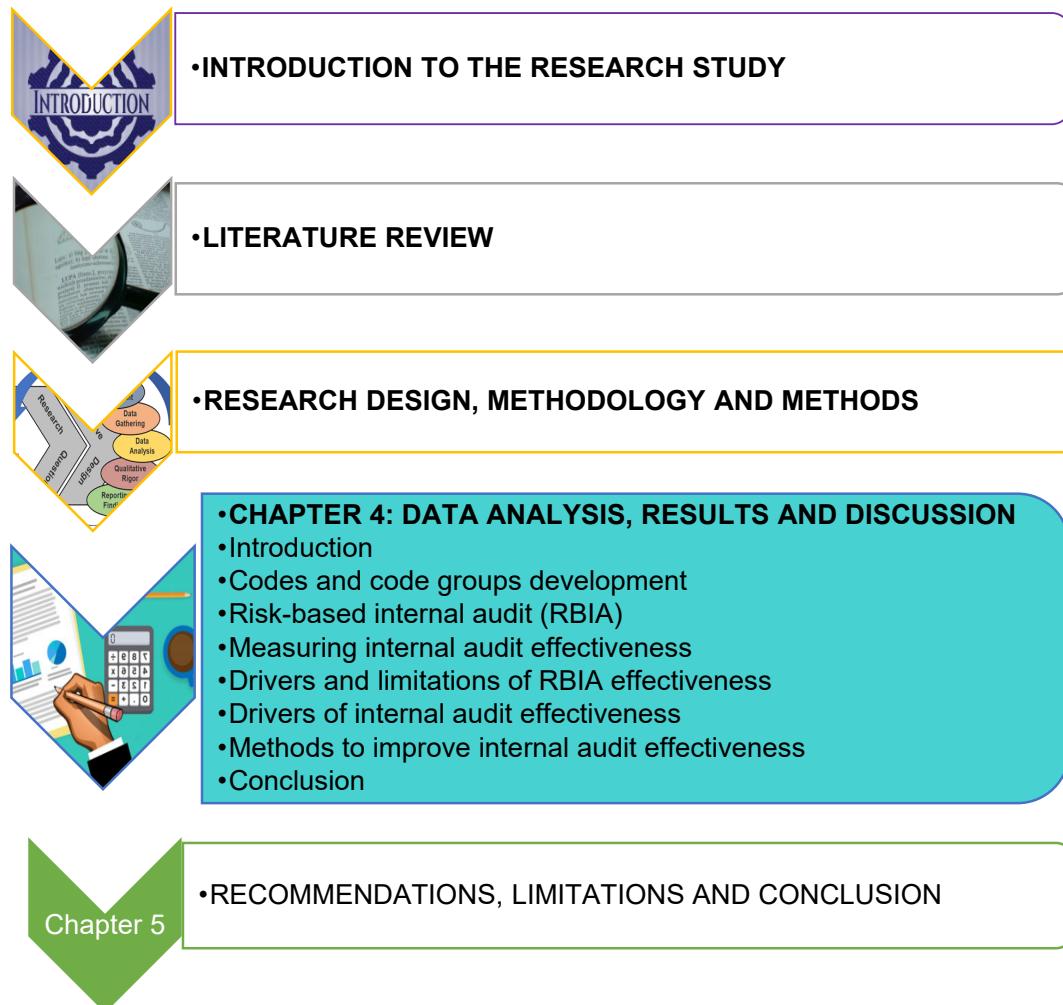


Figure 4.1: Graphical Illustration of Chapter 4

4.2 Introduction

The researcher conducted in-depth semi-structured interviews with eight industry participants involved in the IAF of the retail business under investigation. Additionally, the researcher collected data by distributing a questionnaire to the same participants in the IAF. The questionnaire data support the semi-structured interview data, which is the primary source of

data. In-depth information about the perspectives, beliefs, and experiences of key IAF stakeholders regarding the RBIA methodology in the retail industry is provided in this chapter.

Moreover, all of the responses were based on the opinions, perceptions, and experiences of those working in a retail business's IAF. Participants are referred to as Participant 1 through Participant 8 to preserve a degree of anonymity but provide differentiation among participants. The creation of codes (themes) derived from the semi-structured interviews is highlighted and followed by Table 4.2, showing the codes and code groups obtained using the ATLAS.ti software. In addition, this chapter discusses the similarities, inconsistencies, and key findings from the semi-structured interviews, online questionnaire, and literature review. At the start of each topic, triangulation is depicted in table form and applied to address the study's research questions and objectives. To support the findings and manual coding performed in ATLAS.ti, a further level of text analysis was added by performing sentiment analysis on the interview text for each question. The sentiment analysis was performed using LIWC-22 software and the dictionary, developed specifically to analyse finance-related text (Loughran & McDonald, 2011). The sentiment analysis was not the main form of data analysis, but it strengthened the interpretation of the interviews and contributed to the triangulation of the data. The sentiment/tone of participant answers was rated for its level in the following tone categories: uncertainty, positive, negative, litigious, weak modal, strong modal, and constraining.

Table 4.1 List of participants from whom data were collected via questionnaires. It is important to display the participants' experience and ages to validate the findings, given these factors may have influenced participants' responses.

Table 4.1: Questionnaire participants

<u>Experience</u>	Auditor	Senior Auditor	Audit Manager	CAE
1 – 5 yrs	3	1	0	1
>10 yrs	0	2	2	0
<u>Age group</u>				
20 - 30	1	0	0	0
31 - 40	0	2	1	0
41 - 50	2	0	1	1
50 and older	0	1	0	0

4.3 Codes and code groups development

During the data analysis process, individual codes were allocated to the pertinent sections of the interview transcripts. Individual codes that shared a common theme were then grouped under a code group (theme), as seen in Table 4.2 . The code names identified through this process are the key topics discussed in this chapter.

Table 4.2: Codes and code groups

Code group:	Individual codes:
RBIA and risk management	<ul style="list-style-type: none"> • The current RBIA methodology • Planning for an audit activity • Performing a risk-based audit • Changes in the audit profession • Combined assurance as part of the RBIA approach • Managing risk through a combined assurance function • Enterprise risk maturity level
Measuring internal audit effectiveness	<ul style="list-style-type: none"> • Measuring the effectiveness of internal audit by the audit committee • Measuring the effectiveness of internal audit through feedback from business stakeholders • Measuring the effectiveness of internal audit through individual performance discussions • Measuring the effectiveness of internal audit through identifying risks and controls • Measuring the effectiveness of internal audit through execution of annual audit plan
Drivers and limitations of RBIA effectiveness	<ul style="list-style-type: none"> • Effectiveness of a risk-based audit resulting from key risk focus • Effectiveness of a risk-based audit resulting from risk mitigation • Effectiveness of an RBIA resulting from timely reporting • Effectiveness of a risk-based audit resulting from support provided to business stakeholders • Effectiveness of an RBIA resulting from timesaving • Limitations of an RBIA
Drivers of internal audit effectiveness	<ul style="list-style-type: none"> • Drivers of internal audit effectiveness
Methods to improve internal audit effectiveness	<ul style="list-style-type: none"> • Methods to improve internal audit effectiveness

4.4 Risk-based internal audit

The codes, code groups, research questions, and objectives addressed pertaining to the RBIA methodology and risk management are shown in Table 4.3.

Table 4.3: Codes, research questions and research objectives

Code Group	Individual Codes	Research Question Addressed	Research Addressed	Objective
RBIA and risk management	The current RBIA methodology	How does the IAF implement RBIA to contribute to the business' risk management, governance, and control processes?	To determine to what extent and how RBIA is implemented. To determine how the IAF uses RBIA for audit planning activities.	
	Planning for an audit activity			
	Performing a risk-based audit			
	Changes in the audit profession	How does the IAF use RBIA for audit planning activities?		
	Combined Assurance as part of the RBIA approach			
	Managing risk through a combined assurance function			
	Enterprise risk maturity level			

4.4.1 The current risk-based internal audit methodology

In the interviews, the researcher needed to ask participants directly about the current auditing methodology employed in their organisation. During the semi-structured interviews, determining the current RBIA methodology was first focused on as the following questions were supported by and built upon the current RBIA methodology. The question was also posed first because it might have had an impact on the remaining questions if the researcher hadn't been aware of the existing auditing methodology in use. Not posing this question first, could have led to the participants being unable to react to some of the remaining questions, which may have led to the interview's termination, or the exclusion of some crucial questions related to RBIA. Therefore, finding out which internal auditing methodology is currently used in the IAF was essential.

During the interview process conducted with participants, the question that was posed was: "To what extent do you believe your IAF is following a risk-based audit approach?" Several participants appeared unsure if the department followed a risk-based approach. The researcher concluded that participants could indeed be unsure since it appeared as though they were unable to affirm with certainty whether a risk-based audit approach was used in their organisation.

Participant 1 stated: "I think it will be a very basic understanding. I wouldn't be able to give a detail of how it's done."

Another participant (Participant 7) with extensive experience in the department, believes that the approach is not fully risk based. The participant claimed: "Yes and no, meaning, based on past experience, we always used to follow a risk-based approach."

According to Participant 3, the department is only employing a portion of the risk-based audit methodology because internal compliance is presently its main concern.

OK, so our organisation, I would imagine, is they following a partial risk-based approach because the biggest drive is actually more of a compliance approach with that we have to comply that attestation. That's the main purpose at the moment.

In contrast, some participants opined that the RBIA methodology is fully utilised in the department, stating:

Participant 2:

It definitely is following a RBIA approach, and the reason why I say that is because currently, we are very much focused on financial risk and financial controls, so that definitely does and leads towards risk-based auditing.

Participant 4: "I do believe that we are following a risk-based approach."

Participant 5: "OK, well within my space, we follow a 100% risk-based approach."

Participant 6: "I believe it's embedded, that's we live and breathe risk, so it's definitely fully risk-based."

Participant 8: "Yes, yes. Everything that we do basically is risk-based."

4.4.1.1 Survey results

Table 4.4 shows the RBIA implementation survey results on a 5-point Likert scale ranging from disagree to strongly agree.

Table 4.4: Risk-based internal audit implementation survey results

RISK-BASED INTERNAL AUDIT (RBIA) METHODOLOGY	Strongly disagree/ Disagree	Neutral	Agree	Strongly agree
The Risk-Based Internal Audit methodology...				
has been adopted at my organisation	0	0	4	5
has been implemented during annual audit planning through the selection of areas that requires assurance	0	0	5	5
has been implemented during the audit reporting stage	2	0	3	4

The questionnaire results indicate that some participants believe the RBIA approach is followed. Some respondents strongly agree that this approach has been adopted in their organisation. All the participants believe this approach is followed during the planning stage of an audit activity. The questionnaire results also show that some respondents believe it has been adopted but disagree that the approach has been implemented during the reporting stage of the audit activity.

4.4.1.2 Key findings

According to the sentiment analysis shown in Figure 4.2, Participant 1 and 3 appear uncertain about the current risk-based audit methodology employed in their organisation (a higher score indicates a higher level of uncertainty). An interesting observation is that Participants 4, 5 and 8 revealed a lower uncertainty score. The researcher noted that these participants all form part of the store audit space as opposed to the head office audit space in the organisation. This may suggest that the internal audit function is not entirely aligned, which could adversely impact the effectiveness of the internal audit department.

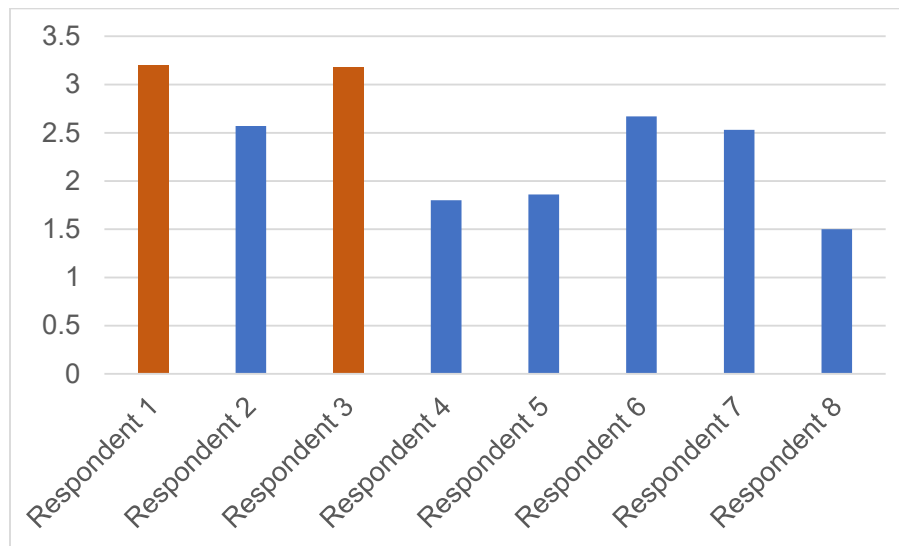


Figure 4.2: Participants' uncertainty scores

Some participants seemed somewhat unsure of the current RBIA methodology employed in their organisation. During the interview process, when the question was posed on what current risk-based audit methodology is employed in their organisation, the following phrases appeared: “I think”, “partial risk-based approach”, and “yes and no”. These words and phrases support the assertion that participants are unsure whether this methodology is being used. On the contrary, the majority of the participants believe that an RBIA methodology is followed in their organisation as per the questionnaire. It was also interesting to note that the participants with the shortest duration in the department appear to be more certain. The participants who have been with the department the longest, have extensive experience and hold senior positions appear to be more uncertain.

It was noted that the survey results and some interview responses yielded similar results. The survey results yielded that a high number of respondents agreed that a risk-based audit methodology is followed, and the interview responses yielded that the majority of participants believed that a risk-based audit methodology is followed, with some respondents expressing uncertainty in their response. However, it was fascinating to note that according to the sentiment analysis, the uncertainty level appears high among the responses. The uncertainty in the participants' responses may indicate that this organisation does not fully utilize or implement an RBIA methodology.

Regarding the literature review, the findings and sentiment analysis show similar outcomes to those found in the literature review. According to the literature study, there is uncertainty about the concept of RBIA in the retail industry (Lebaron & Lister, 2015). The literature review demonstrates that the area of RBIA is ambiguous in the retail industry, as prior studies mostly

concentrated on sectors other than the retail industry, such as the banking industry (Koutoupis & Tsamis, 2009), shipping (Andreas *et al.*, 2020), and the public sector (Coetzee, 2016; Coetzee & Erasmus, 2017; Erasmus & Coetzee, 2018; Zatsarinnaya *et al.*, 2021).

During the analysis of the key findings of this study, the resource dependency theory was used as an interpretive lens. The theory of resource dependency discusses how certain behaviour is affected by its limited resources (Pfeffer & Salancik, 2009). The resource dependency theory details that access to limited resources within the organisation should be effectively managed (Coetzee, 2010).

4.4.2 Planning conducted by the IAF

While exploring the major codes during the analysis of the interview transcripts, it was noteworthy to see the term “planning” emerging from most participants. Participants frequently used the term “planning” when referring to risk-based internal audit activity. Interestingly, the planning phase of a risk-based audit activity forms a substantial portion of the methodology when describing the steps to follow an RBIA process derived from the CIIA (CIIA, 2014). It is part of the second step in the RBIA activity and is stated as “planning for audit activity” (CIIA, 2014:9). The interview findings also indicate if an RBIA methodology is completely utilised in the department, as well as whether internal auditors and audit department management are aware of what an RBIA methodology entails. In addition, in line with the literature review, it was found that further research is required on how this approach is used, particularly in the retail industry (Lebaron & Lister, 2015). As a result, the risk-based approach in the retail industry was recognised as a gap in the literature (Lebaron & Lister, 2015). Therefore, this question was crucial because of the implications regarding how well an RBIA methodology is understood and applied.

When posing the question, “Explain the Risk-based Internal Audit (RBIA) process followed at your organisation in broad steps”, participants believed that the planning phase of an RBIA entails different aspects. Participant 1 commented that risk needs to be considered during the planning stage of an individual risk-based audit.

Participant 1 stated:

With this risk-based approach, everything starts with the risk, and it ends with the risk. I'm making an example like how we start our records with what is the risk that you are trying to mitigate? Does the control that is in place mitigate that risk? So, I would say when performing a risk-based audit, you start with the risk; it ends with the risk. I mean by that, you would check in your planning phase.

Another participant (Participant 4) mentioned that a risk-based audit commences with highlighting the risk first, and this is the initial phase of a risk-based audit.

An example is if we go into the multiple gift card loads, we are able to actually, once we start drilling down, we are able to highlight or pick up more risks that are involved or shown within the businesses, and we've been able to therefore counteract fraud within the stores.

Participant 5 stated:

So we would go and see what those particular risks are. And then from there, we would follow the next step of the planning for the particular space that we're going to audit.

Participant 6 referred to the annual audit plan when the question was posed. The participant stated that the annual planning of a risk-based audit involves continuous engagements with the business stakeholders to identify risks in the business.

And with continuous engagement of business, we become aware of, let's say, new emerging risks. And based on the information that you gathered through these engagements, we're able to continuously adapt our internal audit plan. We are able to respond very quickly where we do need to perform specific assurance activities, and information to emerging risks as well. Our internal audit plan per se is based on engagement and risk workshops that have been held by the enterprise risk management department. And engagement with key stakeholders such as the executive and non-executive directors. And even though the plan is then prepared initially, it's also adapted where it's needed because of ever-changing requirements.

4.4.2.1 Survey results

Table 4.5 shows the RBIA planning survey results on a 5-point Likert scale ranging from strongly disagree to strongly agree.

Table 4.5: Risk-based internal audit (planning) survey results

RISK-BASED INTERNAL AUDIT (RBIA) METHODOLOGY	Strongly disagree/ Disagree	Neutral	Agree	Strongly agree
The Risk-Based Internal Audit methodology...				
has been implemented during annual audit planning through the selection of areas that require assurance	0	0	5	4

The majority of respondents agreed that the risk-based audit technique had been applied throughout the planning stage of annual audits.

4.4.2.2 Key findings

The participants expressed confidence in implementing a risk-based audit methodology at the annual audit planning stage. The interview responses and the survey's findings demonstrate this, as the outcomes are consistent. Additionally, it's interesting to note that no direct questions on the annual audit planning phase were asked during the interview process. The

question that was asked was, “Explain the Risk-based Internal Audit (RBIA) process followed at your organisation in broad steps.” Although the planning step of a risk-based audit methodology was not directly questioned, participants were inevitably drawn to the planning phase. This indicates that the participants are confident that a risk-based approach is used when planning for audit activities. When participants expressed the planning phase of a risk-based audit methodology, they referred to the planning stage as “highlighting the risks”, “everything starts with the risk”, “see what those particular risks are”. Participants believe that the planning stage involves identifying or highlighting risks.

The literature review identifies a similar element connected to the risk-based audit's planning stage. The CIIA indicates that the planning phase of an RBIA takes place once a year and comprises choosing areas that want objective assurance on management and reporting of important risks (CIIA, 2014).

Participants were reluctant to mention the initial stage of a risk-based audit methodology stated above. The initial phase, the first step of the RBIA approach, is “evaluating risk maturity”. Evaluating an organisation's risk maturity involves understanding how the board and management identify, assess, manage, and monitor risks. When outlining the first step of the RBIA process, a significant portion of the literature review mentions the evaluation of the risk maturity of an organisation. Because of this, the researcher questioned if participants truly comprehend the initial phase of a risk-based audit methodology. If the proper phases are not followed, effectively performing a risk-based audit could be difficult.

However, it is questionable whether all participants comprehend the initial phase of a risk-based audit methodology, as one participant mentions ongoing communication with business stakeholders. At this stage, the stakeholder theory was important to consider as this theory implies that the achievement of a function's objectives can be affected by business stakeholders. (Erasmus & Coetzee, 2018). Participant 6 stated: “And with continuous engagement of business, we become aware of, let's say, new emerging risks. And based on the information that you gathered through these engagements, we're able to continuously adapt our internal audit plan.” This ambiguity necessitates investigating the appropriate steps when employing a risk-based audit methodology.

As was previously stated, when asked to “Explain the Risk-based Internal Audit (RBIA) process followed at your organisation in broad steps,” participants were reluctant to provide all stages of conducting an RBIA. Thus, the researcher acknowledged that if the question regarding the process of an RBIA had been phrased differently, the responses might have been significantly different, which could have allowed for a confident assessment of whether the proper steps are taken when applying a risk-based audit methodology in the retail industry.

4.4.3 Performing a risk-based audit

In connection with the interviews, participants were asked to explain the RBIA process followed at their organisation. Participants were asked to explain the steps taken when performing a risk-based audit. This question was also posed to test participants' comprehension of what a risk-based audit entails without leading them. The question also addresses the research objective "to determine to what extent and how RBIA is implemented." The purpose of this interview question was to determine with certainty whether the participants' organisation uses an RBIA methodology.

Regarding the steps taken by their organisation's risk-based audit process, participants seemed to respond in various ways.

Participant 1 stated:

So basically, how to perform the audit once it has been identified, so how we do it at just broadly so, I think all audits for me are the same whether it's risk-based or it's not risk-based, you follow the audit steps, which is the planning, the execution, right and the reporting and the follow-up process, those four things but with this risk-based approach, everything starts with the risk, and it ends with the risk. I'm making an example like how we start our records with what is the risk that you are trying to mitigate. Does the control that is in place mitigate that risk? So I would say when performing a risk-based audit, you check, you start with the risk. The audit starts with the risk. It ends with the risk.

Participant 2 indicated that the first step is to meet with the key stakeholders to determine the area's strategic objectives, identify the key risks and controls, and finally, document the information. Then, the major risks that need to be mitigated are determined.

So the start is to meet with key stakeholders and to get their input as to what is the department or the business unit's strategic objectives. And then, from there, the approach is to identify key risks. And then from there, identifying the key controls that mitigate those risks and involved in that process is process documentation, flow charts, documenting flow charts to understand your process and from there identifying the key controls that would mitigate those key risks. In a nutshell, that is what we do.

Participant 3 responded:

I think the main approach would be to actually, first of all, go to the areas to identify, so the pre-set areas for attestation purposes where you will then actually go into those areas to define the areas within those subsets to say what's the key risks within, for instance, merchandise creditors and then you will go to see what is the key controls for those key risks and you'll spend the majority of your time on it, so, you basically, you are guided in the area.

Participant 4 elaborated on utilising data analytics during the RBIA process. The participant emphasised that data analytics is the main component during the planning stage of a risk-based audit. The participant stated:

So, since going on this journey, we've actually crossed over very much to data analytics which then, with intelligent logic or fuzzy logic, I should rather call it fuzzy logic that we've applied. And what I mean with fuzzy logic is, is being able to re-evaluate that logic over a period of time to see if it actually does highlight the risks that we are concentrating on, the key risk indicators we have been able to utilize that data to actually highlight exceptions, which is more pertinent to the business in terms of the operational side than what it is by going into a store and sitting there for days on end.

Participant 4 also noted:

We are able to highlight or pick up more risks that are involved or shown within the businesses, and we've been able to therefore counteract on fraud within the stores, those kinds of things as well. So, from their perspective, it's been a better approach.

Participant 5 stated:

OK, perfect. Alright, so OK, so I'm just going to take one of my most recent projects that I've done. So, what we do is we consult the risk portal for all the risks for the relevant, either strategic or is it operational; in my space, it's operational stores. So, we would approach, we would consult in that in that space to the portal to see what risks have been included in the portal for the company in that specific space and then further to that, we also go to the combined assurance model document that we use to see if there are any other particular risks there that I haven't been captured on the portal. And then also we look at operational risks. So, we would go and see what those particular risks are.

Another participant (participant 8) mentioned:

We look at, for instance, like point of sale, we look at cash sale refunds, we look at voids, amount of voids, amount of cash sale refunds. So, when I go into stores, basically, I physically go and view those, let's say, for instance, I'm auditing, for instance, cash sale refund. I will go into that stores to check are they following that process, which means, like, if an example, I can tell you like. Let's say you have a look at cash sale refunds. I look at making sure that the supporting documentation why the cash sale refund was done. I will look at the proper signatures. I'll look at things like they're not sharing passwords or not sharing their username with each other.

Different responses related to performing a risk-based audit were given. Participants 1 to 3 highlighted the stages of conducting a risk-based audit, while other participants emphasised data analytics (Participant 4) and identifying risks (Participants 5 and 8). The findings of this topic are discussed.

4.4.3.1 Survey results

Table 4.6 shows the RBIA (performing) survey results on a 5-point Likert scale ranging from disagree to strongly agree.

Table 4.6: Risk-based internal audit (performing) survey results

RISK-BASED INTERNAL AUDIT (RBIA) METHODOLOGY	Strongly disagree/ Disagree	Neutral	Agree	Strongly agree
The Risk-Based Internal Audit methodology...				
has been adopted at my organisation	0	0	4	5
has been implemented during annual audit planning through the selection of areas which requires assurance	0	0	5	4
has been implemented during the audit reporting stage	2	0	3	4

As mentioned in the section above, Table 4.6 shows that some respondents believe the RBIA approach is used. Some responders firmly concur that their organisation has adopted this strategy. Additionally, the majority of respondents concurred that the risk-based audit technique had been used during audit planning. Table 4.6 also reveals that some respondents disagree with the statement that the approach was used at the audit activity's reporting stage, even though they think it has been fully adopted.

4.4.3.2 Key findings

The sentiment analysis scores indicate that the tone among the participants for this question appears to differ. Figure 4.3 shows that Participant 1 has the highest score of 5.7, while Participant 2 has the lowest score, which means that their scores differ considerably.

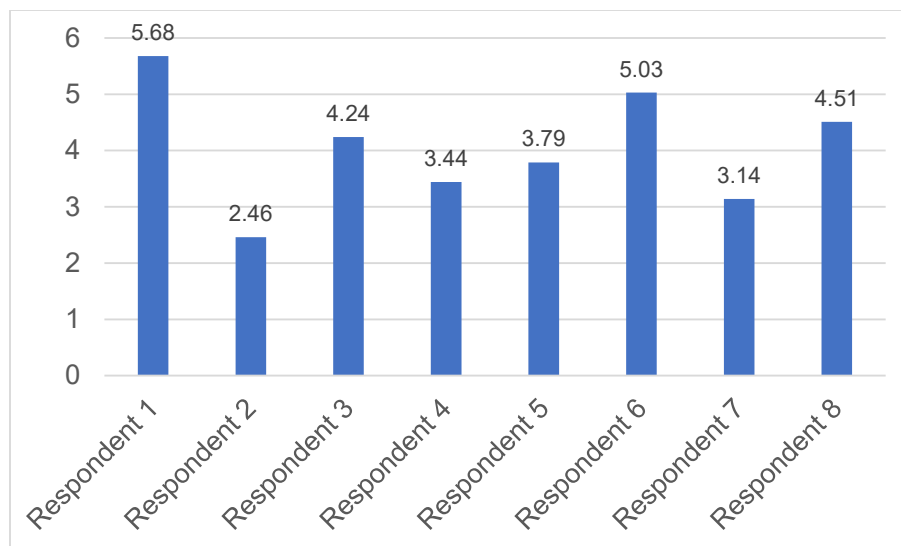


Figure 4.3: Participants' sentiment analysis differ scores

The following comparison table (see Table 4.7) was also possible because Participants 1 to 3 focused on the steps involved in carrying out a risk-based audit. However, while Participants 1 to 3 focused more on the stages of conducting a risk-based audit, others emphasised identifying key risks. In relation to Participants 1 to 3, the findings of the interviews show that the participants have varying opinions about the steps taken to perform a risk-based audit. To provide additional context, the table shows their viewpoints' diversity.

Table 4.7: Performing a risk-based audit

Steps for a risk-based audit	Participant 1	Participant 2	Participant 3	Literature review (CIIA, 2014)
Step 1	Planning	Meet with stakeholders	Identify key risks	Evaluation of risk maturity
Step 2	Execution	Identification of the key risks/controls	Execution	Planning for audit production
Step 3	Reporting	Documentation of the information	Identify key controls for those key risks	Conduct individualised audits

Participants 1 and 2 stated that the second step of carrying out a risk-based audit entails the “execution” stage of the audit activity, indicating that opinions differ in all steps other than step 2. Also, it’s interesting to note that when discussing the RBIA steps, Participant 1 omits the word “risk.” This indicates that some participants could not widely understand the risk-based audit strategy. Identification of key risks and controls are mentioned by two participants in Table 4.7. Identifying key risks is essential to a risk-based audit, as indicated in the literature review covered in the “RBIA engagements and process” section. However, surely this is one of the steps of a risk-based audit, according to responses from some participants. Participants are confident that one of the necessary steps is to identify risk. Even though they explained this stage in terms of various risk-based audit approach phases, it is also notable that it at least receives attention. According to Participant 1, identifying risks is a component of Step 2. However, according to Participant 3, it is a component of Step 3. On the contrary, other participants did not discuss the steps for a risk-based audit.

Regarding the literature review, the risk-based audit processes are projected differently. In addition, it was challenging to compare the findings of the participants to those of the literature review since, as was mentioned several times, the participants' justifications for doing risk-based audits varied. As a result, there was no direct comparison between the literature review (CIIA) and the participants on appropriately performing a risk-based audit. According to CIIA (2014), the steps include evaluation or risk maturity, planning for audit activity, and conducting individual audits (execution). Notably, the first stage of conducting an RBIA, namely “evaluating risk maturity,” was not mentioned by the participants. The aforementioned discrepancies can mean that a risk-based audit is either not followed at all or is only partially executed within the organisation.

However, it is noteworthy and crucial to highlight that identifying risk is a part of the first step (evaluation of risk maturity) in the literature review. It is stated by the CIIA (2014) in the

literature review that Step 1 (evaluation of risk maturity) is described as “gaining an understanding of how the board and management identify, assess, manage, and monitor risks.” However, one should keep in mind that the first phase of the risk-based audit activity is only to understand how the board and management identify, assess, manage, and monitor risks, not just to identify the risks. Additionally, it is interesting that Participants 2 and 4 indicated that interacting with business stakeholders is crucial to conduct a risk-based audit. This may suggest that some participants carry out Step 1 (assessment of risk maturity) while interacting with stakeholders.

One can draw numerous conclusions on whether the organisation is utilising a risk-based approach by contrasting the semi-structured interviews, survey results, and literature research. When comparing the semi-structured interviews, survey results, and literature research in relation to performing a risk-based audit, the results are contradictory. The different responses from the semi-structured interviews indicate that participants do not agree regarding the concept of performing a risk-based audit. The survey results derived from the same group of participants, however, reveal that many participants believe that RBIA has been adopted and implemented in their organisation. However, the literature review discusses an alternative risk-based audit method. Thus, whether the RBIA methodology has been fully applied in the organisation cannot be confidently determined. This supports the adoption of the stakeholder theory which explains that when evaluating operations of a department, any group or individual that could influence or be influenced by how an organization performs, is important (Christopher, 2019; Mahajan, Lim, Sareen, Kumar, Panwar, 2023). When evaluating whether RBIA is utilised, participants' responses were the only means of determining the outcome. Thus, the use of the stakeholder theory was important to determine whether the RBIA methodology has been fully applied.

4.4.4 Changes in the audit profession

The question regarding changes in the audit profession was not directly posed to participants during the semi-structured interviews. The theme “changes in the audit profession” emerged as a result of inductively coding the survey data using the ATLAS.ti application. It can also be useful for the study because the researcher can compare the literature review and participants' opinions on this topic. The exclusion of this topic means no significant conclusions could be drawn from comparing the literature review and survey participant data in the retail industry study.

Regarding the changes in the audit profession, participants' responses appeared to lean towards compliance audits, internal financial controls (IFCs) and data. In addition, the theme is brief because only four codes were found as a result of the inductive coding.

Responses were stated as follows:

Participant 3:

The biggest drive is actually more of a compliance approach with that we have to comply that attestation. That's the main purpose at the moment. I feel at the moment because our main focus is the compliance of the attestation requirements.

Participant 5:

We also focusing on IFC audits. So, it's just a change in or shifting in focus priority at the moment, but risk by surprise has always been in, in this company, and we have followed that approach for a while. So, it's just now with different product is coming up. It's just split between IFC and the risk-based type audit. So not in that extent like we would used to follow in like two years or three years ago. It's just now moved towards more focus on IFC than there is based audit. So, it's internal financial control. So, the focus is then to have signed off on your key indicators internal financial controls. Yeah, IFC controls your financial controls needs to sign off so that all the audits and stuff are focused on the IFC stuff rather than the risk base now.

Participant 8:

We would basically look at data. So, I'm not talking about, like ...remember on month ends we do process reviews. We would basically look at data. When we crash data, we look at for instance like point of sale, we look at cash sale refunds, we look at voids, amount of voids, amount of cash sale refunds. So, when I go into stores basically, I physically go and view those let's say for instance I'm auditing for instance Cash sale refund I will go into that stores to check are they following that process, which means like if an example I can tell you like. Let's say you have a look at cash sale refunds, I look at making sure that the supporting documentation, why the cash sale refund was done. I will look at the proper signatures. I'll look at things like they're not sharing passwords or not sharing their username with each other.

4.4.4.1 Key findings

The study discovered that the audit profession had undergone modifications that have changed audits toward compliance, IFC, and data-related audits. Their comments from the semi-structured interviews indicate that there were changes in the audit profession, even if it is unclear what caused the shift or what changed. One participant mentioned that the change shifted the audit toward one based on compliance, another participant discussed a shift toward IFC audits, and the final participant discussed a shift toward data-based audits.

Notably, none of these participants brought up a change to an internal audit methodology that is risk-based. These responses imply a risk-based audit approach in the above section, "performing a risk-based audit", but they fail to mention whether it is currently being applied in this section. Instead, they state they are now doing compliance-based, IFC, and data-related audits. Since participants claim that the current audit types are distinct from a risk-based audit

methodology, this creates yet another area of doubt about whether they are using a risk-based audit methodology. This makes it unclear which audit methodology is being used.

4.4.5 Combined assurance as part of the risk-based internal audit approach

The topic of combined assurance as a part of the risk-based approach was not related to a direct question posed to participants during the semi-structured interview process. The ATLAS.ti application was used to inductively code the survey data, and as a result, the concept “combined assurance as part of the risk-based approach” was developed. The King IV Report describes combined assurance as a system that combines internal and external assurance services and functions to promote an adequate environment for risk management and control (IoDSA, 2016).

The participants expressed the following opinions:

Participant 2:

I would say because, in our space, internal audit and risk management is actually part of the group combined assurance function. We are very fortunate to work closely with the risk management department. That's the benefit of reporting to group combined assurance function.

Another participant (Participant 1) mentioned: “So the risk-based approach is where if we have an organisation like our own. Obviously, we have like a couple of departments in our organisation.”

Participant 3:

So I think it's a whole combined assurance department we are supposed to, and we've now started setting it up and maintaining a risk register for the business as a whole where it was a lot more acting in silos in the past. We are now trying to connect all the audit testing and the controls with the overall company risk assessment that is done by both management and the risk management department within.

Participant 4:

I think the approach that we have put together since we've joined the combined assurance is that we are following a risk-based approach, and you can see that in the, how can I put it, in the put together of the team basically and how each team interlinks in terms of managing risk within the business. So, you would have your BPC; you would have your risk management department; you would have your internal audit and that.

Participant 7: “Now we work very closely with them now. I think previously we were like bit of silos, but now obviously under the whole combined assurance, we work closely.”

Many participants mentioned the combined assurance function in their organisation during the interview process. The combined assurance function seems to be a new function of which the internal audit department is part. Apart from the internal audit department, the participants mentioned that the combined assurance function consists of other internal departments, such

as the risk department. It is a function within this retail business that consists of various internal departments aimed at providing assurance to the business as a whole.

4.4.5.1 Key findings

The researcher noted that the participants appear to be excited about this new function (combined assurance) in their organisation. One participant specifically requested that the researcher record this feature in the study: “So, you can definitely mention combined assurance”. The fact that many participants (7) mentioned this reveals how enthusiastic they were about it. It also expresses their confidence in this function and their ability to assure the entire organisation. They believe that by systematically identifying risks through the combined assurance function, they can successfully assure the business because they operate under one umbrella. The internal audit department can confidently attest that this function provides assurance by addressing risks identified by the risk department because they collaborate closely under the umbrella of the integrated (combined) assurance function. The internal audit department, which collaborates closely with the risk department, is then informed of the risks identified by the risk department. Some participants confirmed this. They declared the following:

- There is alignment with the risk management department has full visibility of strategic and operational risks.
- Now we work very closely with them now. I think previously we were like bit of silos, but now obviously under the whole combined assurance we work closely.
- I would say because in our space, internal audit add risk management is actually part of the group combined assurance function. We are very fortunate to work closely with the risk management department. That's the benefit of reporting to group combined assurance function.

Moreover, participants said that the combined assurance function enables them to follow a risk-based approach. They believe a risk-based approach is used because of the close interaction with the risk management department.

In response to the above statements, the study discovered that even though participants confidently vouch that they assure the business by effectively addressing risks under the combined assurance banner, it cannot confidently be confirmed if a risk-based methodology is followed through the combined assurance function, as stated by some participants. In relation to the literature review, the CIIA (2014) states that the first step of performing a risk-based audit is to evaluate the risk maturity of the organisation. It is unclear whether this step is confidently adhered to by the combined assurance function. However, more clarity on this step will be discussed later in this chapter (see Section 4.4.7) when the researcher addresses the risk maturity level of the organisation. Also, one of the subquestions of the study, “RBIA contributes to the business’ risk management, governance and control processes”, is

addressed to some extent as we can conclude that the combined assurance function contributes to the business' risk management, governance and control processes.

Moreover, the literature review indicates that the King IV Report describes combined assurance as integrating internal and external assurance services and functions (IoDSA, 2016). In contrast, the participants understand the term "combined assurance" as a department that consists of various internal functions to promote an adequate environment for risk management and control processes. It should be noted that the participant's understanding of the term "combined assurance" does not match up with the literature. Therefore, because this question was not directly posed to the participants, there is still some ambiguity regarding the usage and role of this function in the organisation's risk management, governance, and control processes. Additionally, this function is still relatively new within the business, as noted by some participants. Thus, this could indicate that the combined assurance function still needs time to develop.

4.4.6 Managing risks through the combined assurance function

Managing risks through the combined assurance function emerged as a theme during the interview. The researcher posed the question: "Explain how and to what extent the internal audit department makes use of a risk management framework and risk register for audit planning and scoping purposes?" The researcher constructed this theme inductively while coding on ATLAS.ti. As discussed in the previous topic, we may learn how risks are managed through the combined assurance function from the participants' comments because it is a relatively new and interesting function in this retail business. Additionally, we should also determine the degree to which the RBIA methodology is applied as stated by participants:

Participant 1:

We are in the same space. There is that door; if you want to ask questions or you have any questions about risk, you can ask them. "That's why they made us combined assurance in my mind so that we can all collaborate and work as one because we all are there to provide assurance, I think, but we don't exercise those functions.

Participant 1 further stated:

Not sure of risk management process. It is isolated. "I wouldn't. Uh, I wouldn't say we don't use the risk framework as such, or we don't bring it into audit as much because that type of work or that part of audit. I feel like it's isolated from the rest of the juniors or the auditors. ...The enterprise risk management framework is not really integrated with our work. ... That's all I can say. It's not visible, and it could be that we are not informed how the scope comes about and how that audit planning comes about, and what elements do they focus on or what elements do they bring into before we get in and work, but it's not visible". We've started using the enterprise risk management when we were planning the initial audits just now when UM, I know, I know now you're independent, but can I speak? OK, OK, cool. Like we started using the first time I saw our team actually collaborating with risk on the framework was earlier this year.

Participant 2:

Our audit function actually makes use of a SharePoint solution. Umm, or the risk portal and the risk manager actually ensure that based on the results that come from a risk workshop with business, umm, that those risks all loaded into that portal and then we as internal audit will always start off our audit objects with the risks, umm, the relevant risks that we extract from that tool. It is quite umm formalised in our department.

Participant 3:

Now started setting it up and maintaining a risk register for the business as a whole where it was a lot more acting in silos in the past. We now trying to connect all the audit testing and the controls with the overall company risk assessment that is done by both management and the risk management department within.

Participant 6:

So the current data practical way is the engagement with the risk management department. Or it's so at the moment it's information sharing both ways we integrate and form an integral part of the development of this centralised risk register, so it's practical hands-on engagement. So, for the moment, we are aligning, and it's still a work in progress with the centralised risk register. But the ultimate goal, while we're busy updating the risk register at the moment of a brand-new system that was created that allows us to have a central risk repository, we've uploaded already most file internal audit risk control matrices into that portal as they call it which will then ensure that we only work on one set of risks at all times, but it is a work in progress where it's not embedded yet completely. we're busy updating the risk register at the moment.

Participant 5:

Yes, we were very close with them. So if anything needs to be updated or anything is if there's anything that we can feed through to them and also from their perspective if we wanna touch base on any particular area within the business that we busy with we are in touch with them on a continuous basis.

Participant 7:

So I think I mentioned that when you do your annual audit planning, you would have used that the risk registers, that's obviously that you've got your strategic risk registers that's been completed by your board and your either stakeholder and which we will also use to see what's the areas of concern which is the risk that's being highlighted the top risks so that we will definitely bring in to do your planning.

4.4.6.1 Survey results

In relation to the questionnaire, Table 4.8 provides an overview of the respondents' perspectives on ERM. Direct yes-or-no questions were asked of respondents in this area to encourage them to be straightforward in their responses.

Table 4.8: Enterprise risk management survey results

ENTERPRISE RISK MANAGEMENT	No	Not sure	Yes
The internal audit function...			
Gives assurance on risk management processes	2	0	7
Gives assurance that risks are correctly evaluated in the business	2	0	7

Evaluates the reporting of key risks by the business	0	1	8
Reviews how the business manages key risks	0	0	9
Comprehensively reports on risks	1	0	8
Coach management in the business in responding to risks	2	2	5

The researcher also considered that an internal audit department would find it simple to respond to questions about their organisation's risk management because risk should be the department's focal point (Coetzee, 2016). The results depict that the respondents believe they give assurance on how risk is managed in the organisation. The results show that most respondents think they can guarantee stakeholders regarding how risk is managed in the organisation. However, we can also note that a few respondents indicated "no" and "not sure" to the question related to coaching management in the business to respond to risks. Although a very small number of respondents do not firmly accord with this statement, the statement is nonetheless strongly agreed upon by more than half of the respondents. Table 4.9 is an extension of the questionnaire regarding risk management in the organisation; however, in this section, RBIA is linked to risk management.

Table 4.9: Enterprise risk management survey results (continued)

ENTERPRISE RISK MANAGEMENT/RISK-BASED INTERNAL AUDIT METHODOLOGY	Strongly disagree/ Disagree	Neutral	Agree	Strongly agree
The risk-based internal audit methodology...				
adds value to risk management in my organisation	0	0	6	3
requires effective audit planning	0	0	6	2
only focuses on high-risk areas of the organisation	4	0	4	1
assists in detecting high-risk areas of the organisation	0	0	5	4
assists in mitigating high-risk areas within the organisation	1	0	6	2
ignores low risks within the organisation	8	0	0	1
is in line with the Institute of Internal Auditor 's definition, which is to evaluate the effectiveness of risk management, control, and governance processes	0	0	5	4
assists in compliance with regulations pertaining to operations, consumer protection and competition	0	0	5	4
assists in detecting irregularities/fraudulent activities within the organisation	1	0	4	4
assists in preventing data breaches and digital theft	1	0	5	3

INTERNAL AUDIT ACTIVITIES	Strongly disagree/ Disagree	Neutral	Agree	Strongly agree
The internal audit department provides objective and relevant assurance	0	1	6	2
The internal audit department contributes to the effectiveness of governance	0	0	7	2
The internal audit department contributes to the improvement of risk management processes	0	0	6	3
Internal audit activities add value to the organisation and its stakeholders	0	0	4	5
The internal audit department assists with mitigating risks in the retail industry	0	1	6	2
Emerging risks are continuously monitored and incorporated into audit activities	0	0	7	2
The internal audit department contributes to the improvement of control processes	0	0	4	5
Internal audit reports are clear and uncomplicated	0	3	3	3

Regarding the survey process, the researcher and the respondents assumed that when respondents answered the above questions, they implied that their organisation implemented the RBIA methodology. The survey's questions summarise the respondents' attitudes and perceptions of risk management, irregularity, governance, and control processes inside their organisation. They considered RBIA and audit activities when they responded to the questions. The majority of respondents said that RBIA enables effective ERM activities. They agreed with the statements, although it is important to highlight that they did not strongly agree with the statements.

4.4.6.2 Key findings

The study found that the combined assurance function manages risk within this retail business. The internal audit department, which is a component of the combined assurance function, collaborates with the risk management department, which is also a component of the combined assurance function, to evaluate risks. Together, under the combined assurance umbrella, these departments manage risks, irregularity, governance, and control processes. The risk management department mainly communicates with business stakeholders to discuss current and emerging risks and maintains a centralised risk register with the discussion results. The combined assurance function, including the internal audit department, uses the centralised risk register to assure the business of these risks and processes. During the interview and survey processes, the participants indicated that through the combined assurance function, a risk-based internal audit methodology is inherited because of this function. They believed they used an RBIA methodology because of how this function was built.

In response to the semi-structured interviews, the RMF is relatively new and is continually being developed. Participants also expressed that the new combined assurance function is not aligned yet. Moreover, the various departments within the combined assurance function are not adequately collaborating. The departments still operate in silos, with limited meaningful contact between them.

Apart from the function not being fully aligned, participants expressed that using the centralised risk register, which the risk management department manages, is also not fully embedded. This can also be confirmed when we focus on Participant 7, who elaborates on using the risk register by referring to past activities.

In the aforementioned, the researcher identified a few findings. First off, this implies that risk management within the organisation is still in its development stage. Due to its early-stage development, it implies that risk management might be ineffective. Secondly, this could imply that a risk-based approach is not fully utilised. The section mentioned previously in the study, “performing a risk-based audit”, also expressed the uncertainty of not employing a risk-based approach. A risk-based approach could also be considered ineffective if the risk management process is ineffective. Moreover, governance, control, and irregularity management processes may be counterproductive.

In comparing the responses of the semi-structured interviews to the responses of the questionnaire, risk management is addressed in different capacities. Risk management and the RBIA methodology during the interview seem to concern some participants as they elaborated that the process is still a work in progress and not fully aligned and embedded. The RBIA methodology and risk management appear to be under control and working well during

the survey process. The fact that the majority of participants do not strongly concur with the claims may indicate that risk management and RBIA are somewhat effective. In comparing the data collection outcome to the literature review, the literature informs us of the following:

- The IAF should maintain involvement in the organisation's risk management process (Estes, 2017).
- The IAF's role in risk management is to offer independent assurance of the program's implementation and overall plan (IIA, 2017).
- The IIA requires at least yearly completion of a documented risk assessment directly related to the internal audit plan of engagement (IIA, 2017).
- The IAF needs to offer additional insight into the existing risk areas that go beyond what stakeholders understand about risks (KPMG, 2018).

The literature continues to demonstrate that the IAF functions more effectively in the presence of an RMF (Coetzee, 2016; Zatsarinnaya *et al.*, 2021). However, the literature also demonstrates that further investigation into the IAF's contributions to risk management is necessary (Coetzee, 2016).

According to the interview findings, it was found that the IAF should provide assurance to the business that risks are managed effectively and timeously. The interview findings further state that risk management is conducted through collaboration with various assurance departments, including the risk management department. Risk is also managed through a risk register maintained by the risk management department after interacting with the business stakeholders. The outcome also reveals that the internal audit department stays informed of current and emerging risks through collaboration with the risk management department. These statements are evident in some participants' perceptions and thoughts of risk management in their organisation. Interestingly, the researcher discovered that risk management and RBIA are both vague constructs and open to additional discussion in the literature and data analysis outcomes, which calls for further research.

Furthermore, the outcome in the literature and data collection reveals the same purpose of risk management: to provide assurance of the organisation's RMF. This is seen favourably since it could show that the organisation is headed in the appropriate direction. Prospects for the IAF and the organisation as a whole are favourable because risk management is still evolving within the organisation. It could, however, negatively impact the effectiveness of the IAF and the organisation as a whole if progress is not achieved in appropriately integrating the risk management process.

4.4.7 Enterprise risk maturity level

Participants were directly asked about their current level of risk maturity during the semi-structured interviews. It was asked to encourage a more forthright response during the interview process. It was not posed in the survey as the interview responses would have provided sufficient information to evaluate the organisation's risk maturity level. The question was asked because the researcher needed to know the organisation's risk maturity level as it would show whether or not an RBIA approach is implemented. As the CIIA (2014) suggested, evaluating risk maturity is the first step in performing a risk-based audit activity. Knowing the enterprise risk maturity level was essential to assess the level of risk management and the audit methodology used in the organisation.

As part of the interview process with participants, the following question was posed: "How and why would you rate your organisation's risk maturity level ranking from level 1 to level 5, with level 1 indicating basic or non-existing ERM practices and level 5 indicating that ERM is prominent, aligned, and embedded within all the organisation's processes?"

Participants appeared consistent in their responses to the current enterprise risk maturity level. Participants scored their enterprise's risk maturity level between 3 and 4. They were also asked why they would rate it as such and expressed the following thoughts:

Participant 1:

I would give it a 4. Why I'm saying I would give it a 4 is because when I assisted risk, I've assisted. I've had the opportunity and the lab to assist the risk management department, so they did have a lot of meetings with the business in terms of identifying risks with the business and working hand in hand with the business. And that, for me, makes me believe that, umm, risks are embedded.

Participant 2:

I'm optimistic in saying 4. Umm, I do believe that a lot of effort went in and a lot of progress has been made, and I say a 4, not a 5 because I think there's still a bit of work from the organisation side, not from our internal audit or risk management side Umm, I think leaps and bounds has been achieved and internally so it's just up to the business to actually take it to the next level. Will they engage continuously with risk management? So that's definitely something that we are striving towards.

Participant 5: "I'd say 4 to be safer, but there is work to be done. We're not perfect as yet, so I would definitely say a 4."

Participant 7:

Yeah, I would. I would say basically 3. I think we have made a lot of improvement but it's not there yet. It's not embedded in all the processes and departments in the organisations. I think it's actually going on 4 now basically. So I would rate it 3 now, yeah, 3 now, but going hopefully to 4 maturity level.

4.4.7.1 Key findings

The participants gave their company's maturity levels a high rating. They scored between levels 3 and 4 with an average score of 3.5. The researcher noted that the lowest ratings came from internal auditors, mainly focusing on the store audit side of the organisation.

One participant (Participant 4), focussing mostly on store audits, stated:

Umm, no. I would rate it 2.5 from my experience because remember, I work with first line and second line mostly. And your first line being store management second line being field management and I also work with operations on that as well, but I think that understanding doesn't always pull through from first or from operations right through to store management. So what they consider is a risk store management, and even employees in stores don't see as a risk.

Because not all levels of the business stakeholders were aware of the risks, the participants gave the risk maturity level a rating of 2.5 out of 5. Another participant stated: "That would probably be, yeah, I'll probably give you the 3." Nonetheless, consistency was fairly evident in the responses of most responders. A consistent theme was the emphasis placed on the fact that much work must be done and that the risk maturity level is still in development and needs to be improved.

In the literature review, evaluating the organisation's level of risk maturity is vital because risk poses a threat to its plans and objectives. According to the literature, level 1 denotes a minimal or non-existent RMF, whereas level 5 denotes a prominent RMF compliant with the organisation's criteria (RIMS, 2006). We can confidently state that the level of risk maturity for this retail business meets the requirements outlined in the literature review. Further studies may be necessary to determine whether risk maturity levels affect the effectiveness of the IAF.

4.5 Measuring internal audit effectiveness

Table 4.10 displays the topic "measuring IA effectiveness". It depicts the specific codes/themes as well as the research questions and objective of the study.

Table 4.10: Codes, code groups, research question and research objectives

Code Group	Individual Codes	Research Question and Objective Addressed
Measuring internal audit effectiveness	Measuring the effectiveness of internal audit by the audit committee	<p>Research question: How does the selected retail business evaluate internal audit effectiveness?</p> <p>Research objective: To determine how the retail business evaluates internal audit effectiveness.</p>
	Measuring the effectiveness of internal audit through feedback from business stakeholders	
	Measuring the effectiveness of internal audit through individual performance discussions	
	Measuring the effectiveness of internal audit through identifying risks and controls	
	Measuring the effectiveness of internal audit through execution of annual audit plan	

Measuring IA effectiveness is an integral part of the study as it addresses one of the research sub-questions and objectives stipulated in Table 4.10. Prior studies have found that IA effectiveness is mostly measured using the CAE’s perception, which considers qualities including teamwork, communication, relationship-building, and integrity (Lenz & Hahn, 2015; Coetzee & Erasmus, 2017; Estes, 2017). This part, which is divided into various themes of measuring IA effectiveness, could clarify how to measure IA effectiveness and whether it is consistent with what was found in the literature. After all the themes have been covered, the consistency of the literature review and survey results will be addressed in the findings section (see Section 4.6.7).

During the semi-structured interview, the questions posed to participants were: “How is IA effectiveness measured at your organisation or department? Provide some examples of performance measures used?” and “How often does the audit committee monitor the internal audit department’s performance and effectiveness?” In addition, when the individual codes were created, which derived from the interview process to address the aforementioned research sub-question and objective, the researcher kept the following concepts in mind:

- To what extent does a risk-based internal audit (RBIA) add to the effectiveness of the IAF?

- Is risk management, which is part of the RBIA methodology, a measurement tool for the IAF?
- How is IA effectiveness measured in this retail business?

The explanations of some themes and actual quotes from interviewees are provided.

4.5.1 Measuring the effectiveness of internal audit by the audit committee

Most participants mentioned that IA effectiveness is measured by the audit committee. The participants discussed what factors the audit committee considers when measuring the effectiveness of internal audits and how frequently it is measured. In general, participants agreed that the audit committee considers the performance of the IAF quarterly, and they specifically evaluate the extent to which the audit plan has been completed by comparing planned audits vs audit execution. Here are a few comments:

Participant 1:

Uh, I think we should be assessed annually by the committee on how far are we with our plan. What have we achieved? What stuff has not been achieved? You kind of know that they will be discussing the audit plan there. They will be checking on how far are we on our plan. But as I'm saying, we not really engaged in those conversations. But you know it's something that happens.

Participant 3:

I'm not exactly sure, what happens is that I think it might be quarterly. I think it's a quarterly meeting, but I know that the CFO is a representative of the board or committee who meets with head of combined assurance on a two-weekly basis.

Participant 4:

It's every quarter. Yeah. That said, Board Risk Committee meetings and the Board Audit Committee meetings. And we all have to, we all submit our work, what we've accomplished that quarter, we have to submit, and it does get looked at the numbers that we've completed and of course, the effectiveness that we've added to the organisation.

Participant 6:

The audit committee meets every, well, three times a year. Uh, the performance is measured. I would imagine at this point every, let's say, continuously; however, a formal assessment is performed at least once a year. So, I would say our performances are measured in line with the rest of the organisation, so there's annual performance appraisals performed. And the audit committee does have input via the executive director such as the CFO.

Participant 7:

I think it's a continuously reviewing and obviously with a continuous reviewing but also the big one is like your annually making sure you know what we are saying on the plan is approved by the Audit Committee and the Board, making sure that we are on the right track and covering the right area.

4.5.2 Measuring the effectiveness of internal audit through feedback from business stakeholders

The feedback from business stakeholders was the second most-mentioned theme that emerged from the interviews regarding measuring IA effectiveness. The participants claimed that the input they get from business stakeholders serves as a measurement of their effectiveness. Participants expressed the following opinions:

Participant 2:

And then on a project, on the deliverables that's actually delivered, I would say if the business finds the feedback that we give, how can I say, the objective opinions that we give, useful in their decision making, that's definitely, uh, a big, big measure for the department.

Participant 4: "I think the engagement that we have with stakeholders, so on a quarterly basis, we meet with heads of operations, we meet with management teams."

Participant 6:

I think that it's getting that buy-in from the audit committee, the board, you've stakeholders and saying, all these risks are being covered, and the controls are covered and adequately and effectively. So it's more like adding value aspect.

Participant 7: "Getting this like a stakeholder buy-in being involved in those decision-making them ask you for advice, you know getting your support, getting your buy-in."

Participant 8:

What? Well, clearly, clearly, we also have the like we say in the meetings, the process review meetings with the relevant process managers and obviously, they give us feedback, which obviously tells us that whatever work it is we doing, if it's effective, or is it helping them, they will always tell us, like from the process reviews. Maybe like they picked up fraud from the stuff we mentioned, so that's I think basically it's how we are measuring our effectiveness. It's also the participation from the, from the operations side of the business.

4.5.3 Measuring the effectiveness of internal audit through individual performance discussions

The effectiveness of IA is also measured through individual performance discussions between auditors and audit management. Two participants discussed this, as shown in the following quotes:

Participant 1:

Like I know the performance measures that would be like the individual ones where we are assessed as internal auditors in the team, like where you have your performance development discussion and ABC.

Participant 2:

So it would be the more formalized bi-annual performance meetings and the documentation thereof Umm, and the sign-off of the formal document, umm, would fit in there where one actually starts off with a new financial year, umm, discussing what the department's strategic objectives are and then actually breaking it down into each team member. Umm.

Because Every member plays a significant role in achieving those objectives as a whole. So definitely, each financial year starts off like that.

4.5.4 Measuring the effectiveness of internal audit by identifying risks and controls

Another measure for evaluating the effectiveness of IA is the capacity to identify risks and control deficiencies.

Participant 3 stated:

Measuring against how much risk was identified or and the controls that mitigate the risk at against what the external audit is or management has identified in their lines of review and controls.

Participant 6 stated:

And then, a measure that's not necessarily formal in our KPIs, but what do you expect with the ability to sign and remediate control deficiencies, it's again it's, it's a bit of a balancing act because your audit function is not responsible to get the findings or remedial actions resolved, but to facilitate the process, so it's better for a yeah, a bit of a grey area on how do you measure that specifically because auditing does not actually have control over whether these are being mitigated, but does play facilitation role.

4.5.5 Measuring the effectiveness of internal audit through the execution of the annual audit plan

Another method of evaluating IA effectiveness is to analyse how well the annual audit plan is carried out. In this instance, a participant expressed their opinion that the annual audit plan's success counts as a measurement in their particular area. This theme is fairly brief; however, the ability to execute the IA's audit plan was mentioned by one participant, who is a member of the IAF's hierarchical structure's top level. The participant expressed that it is one of the key measurements whether they are able to complete their annual internal audit plan. Participant 6: "The key measure is whether we're able to complete our internal audit plan."

4.5.6 Survey results

Table 4.11 shows the measuring of IA effectiveness survey results on a 5-point Likert scale ranging from disagree to strongly agree. The survey results demonstrate that this organisation's ability to assess the IAF's effectiveness is not at the required level.

Table 4.11: Measuring internal audit effectiveness survey results

MEASURING INTERNAL AUDIT EFFECTIVENESS	Strongly disagree/ Disagree	Neutral	Agree	Strongly agree
Internal Audit effectiveness is measured by comparing completed vs planned audits	3	1	3	2
Internal Audit effectiveness is measured by assessing the number of recommendations given/audits completed	7	0	1	1
Internal Audit effectiveness is measured by external assessors performing quality assurance reviews on audit activities	2	1	4	2
Internal audit reports are issued in a timely and agile manner	0	5	3	1
Internal audit effectiveness is evaluated by the key business stakeholders	0	3	5	1
Internal Audit effectiveness is measured by assessing conformance to policy and standards	1	5	1	2
Internal Audit effectiveness is evaluated and monitored by management in the department	1	1	5	1

A large number of participants disagreed with some statements regarding how to measure the effectiveness of IA. In addition, a few participants agreed with the statements, and a few others had a neutral response. It is, therefore, possible that there is potential for improvement in measuring IA effectiveness, given the respondents' degree of reaction.

4.5.7 Key findings

According to the findings of the interviews on measuring internal audit effectiveness, some participants were unsure and found it challenging to respond to how their performance is measured. Undoubtedly, some participants had limited access to information related to performance measures used in their function and organisation. They stated, "I'm not sure about if they were assessing the entire team like how effective the internal audit activity is as a whole." Another participant simply said, "It's a difficult one". A further participant stated, "It's a bit

difficult". They are also unsure of the frequency of measuring IA effectiveness in their organisation. The majority of responders were uncertain if this is a quarterly occurrence. A few participants said it happens annually, but they were not sure of this. Because they were unsure of how and the frequency of their performance measures, it may be assumed that they are uncertain of the effectiveness of their performance. The notion of IA effectiveness may not be confidently validated if its effectiveness is not tested.

However, other participants claimed that their IAF is ineffective due to a number of factors. The factors mentioned by these participants include that risks are not identified timeously, measuring IA effectiveness is not formalised, no performance measures are in place, and measuring IA effectiveness is based on the number of audits completed, which is a flawed method to measure IA effectiveness, as mentioned by Participant 7.

The following are some quotes from participants who support these factors.

Participant 3:

We've been since this year where we exceeded the overs and under or almost did, which is not a good sign because we should have identified those issues prior to the external auditors coming in.

Participant 6: "A measure that's not necessarily formal in our KPIs."

Participant 7: "I don't really believe in typically in, you know, the number of audits that you get out all the number of findings that you raise."

Participant 5: "I don't know if it has taken place as we're supposed to. But I'm not aware of it at this point in time I've never been part of it in this organisation."

Therefore, the findings of the interviews on how to measure internal audit effectiveness indicate that several participants were unsure and found it challenging to say how their individual performance and the performance of the IAF are measured.

The survey results suggest that more work needs to be done in this area of measuring IA effectiveness. Too many participants disagreed with certain claims about how to measure IA's effectiveness. In addition, a small number of participants agreed with the statements regarding how to measure IA performance but more participants had a neutral opinion. Given the participants' level of response, there is possible room for improvement in the measure of IA effectiveness.

In comparing the findings from the survey and interview, it is evident that both results show consistency in the participants' opinions of measuring IA effectiveness. The interview findings indicate that they were unsure and found it difficult to react. This is supported by the survey results, which exhibit a comparable pattern of behaviour. It is safe to argue that assessing IA

performance in this retail company might be lacking because the consistency in the interview and survey findings provide confirmation.

In comparing the findings of the study to the literature review, there are some instances where the data collection results and the literature review are consistent. The consistency is around the uncertainty on how and by whom it should be measured and the challenging aspect of measuring IA effectiveness. On the contrary, inconsistencies are also noted between the results and the literature review. According to certain studies, the effectiveness of IA is primarily evaluated in terms of characteristics like integrity, fostering relationships, communication, ongoing learning, and teamwork (Estes, 2017). Other studies tell us that effectiveness should be measured by the CAE of the organisation (Lenz & Hahn, 2015; Coetzee & Erasmus, 2017), but there is still ambiguity around this. Some queries were raised in the literature on the process around IA effectiveness. The queries raised were as such: Are employees at lower levels of the hierarchy informed of the outcomes of measuring IA effectiveness? Are steps being taken to address the outcome of the IAF effectiveness measurement? Does the idea of measuring IA effectiveness benefit the IAF and the organisation? An inconsistent aspect noted is that the findings of the study yield that IA effectiveness is mostly measured by the audit committee and not by the CAE as stipulated in the literature review (Lenz & Hahn, 2015; Coetzee & Erasmus, 2017). Another inconsistent aspect is that, in the literature, IA effectiveness is measured by considering integrity, fostering relationships, communication, ongoing learning, and teamwork (Estes, 2017). On the other hand, the study's questionnaire findings yield that IA effectiveness could be measured through business stakeholder feedback, individual performance discussions, risk and control analysis, and annual audit plan execution. Therefore, when comparing the results from the study to the findings from the literature review, there are certain cases where they are consistent and others where they are not when measuring the effectiveness of the IAF.

4.6 Drivers and limitations of risk-based internal audit effectiveness

Table 4.12 displays the topic "drivers of IA effectiveness". It depicts the specific codes/themes as well as the research questions and objective of the study.

Table 4.12: Drivers and limitations of risk-based internal audit effectiveness: Codes, Research Questions, Research Objectives

Code Group	Individual Codes	Research Question and Objective Addressed
Drivers and limitations of RBIA effectiveness	Effectiveness of a risk-based audit resulting from key risk focus	<p>Research primary question:</p> <p>To what extent does an RBIA methodology contribute to the effectiveness of the IAF within a retail business?</p> <p>Research primary objective:</p> <p>To explore the role of an RBIA methodology as a driver of the effectiveness of the IAF at a large retail business in Cape Town.</p>
	Effectiveness of a risk-based audit resulting from risk mitigation	
	Effective of an RBIA resulting from timely reporting	
	Effectiveness of a risk-based audit resulting from support provided to business stakeholders	
	Effectiveness of an RBIA resulting from timesaving	
	Limitations of an RBIA	

This portion of the study is crucial since it significantly adds to the primary research question. Addressing this research question and objective could substantially contribute to the study's problem statement.

The questions posed to participants during the interview process were as follows:

- “How does the RBIA approach assist in a more effective and efficient audit activity?”
- “How does the RBIA approach help mitigate risks in the business?”
- “What are the limitations related to an RBIA approach?”

Neglecting these questions or omitting this section could negatively affect this research study's standard, completeness, and prime objective. Thus, by asking participants multiple triangulation questions and incorporating questions into the questionnaire process, much emphasis was placed on this section.

According to the semi-structured interview outcome, the RBIA methodology assists in the effectiveness of the IAF and the organisation. According to the findings of the interviews, participants seem to believe that the RBIA methodology helps the organisation to be effective in many different areas. Participants mentioned the areas that RBIA assists in: the RBIA methodology is effective through its management and mitigation of key risks, support to business stakeholders, and effective audit activity. Herewith are some insights into participants' opinions regarding the contribution of the RBIA methodology to the IAF and the organisation's effectiveness.

4.6.1 Effectiveness of a risk-based internal audit resulting from key risk focus

According to participants during the interview process, the RBIA methodology adds to the effectiveness of the IAF and the organisation because it focuses on key business risk areas. The participants' most commonly quoted factor among the five categories in which RBIA offers assistance is the emphasis on organisational key risks. They think that RBIA makes the biggest contribution to risk management compared to other business areas. Considering the quotes from the responders:

Participant 1:

So that approach is kind of it doesn't limit the audit plan, but it draws down to the most important areas. That would, if the risk were to hit that area, that business would fail." I believe it helps because we identify risks that are current now, we test those, and then that's how we see how they mitigated or are they not mitigated.

Participant 2:

So what to focus on really is depending on what is key and what are the key risks and focusing on those. With limited resources, limited budget, and limited time, one has to focus on the key areas.

Participant 3:

But then, once you're in the area, you are guided by the risk-based approach. So, you're not just doing this a lot of times in external audits where you just take a sample from each and every line item that's material. You will actually look at the key risks within the area. I would say that the main help is to focus on the key risks and not on all risks.

Participant 4:

I think you concentrate more on the key risks that are pertinent to your field than what you go in blind into a certain area and don't know what you're really looking for.

Participant 6:

It stays relevant because we respond to risks that are front of mind or of the various stakeholder. So, our plan is not cast in stone, which means that if I did have certain activities planned, either due to new risks that emerged needing attention or we refine that initial plan. So just recapping again, the risk-based auditing approach keeps us relevant, and if a plan is created 12 months ahead, there are changes, and if you're not in a position to adapt to the risk, uh landscape changing, then the activity you performed becomes irrelevant. So, because of our continuous engagement, we're able to respond quickly to specific risk exposures.

Participant 7:

And also, I think very much data-driven and at can identify risk more than just a normal type of audits. So yeah, so there's a lot of advantages, and I think it's prevention and control as well because it's a prevention tool as well because you will identify the areas that you know that gives you any early warning that it's a red flag area.

It is important to note that the above quotes on how the RBIA methodology adds to the effectiveness of managing key risk areas in the business are only a few of the numerous quotes made by participants.

4.6.2 Effectiveness of a risk-based internal audit resulting from risk mitigation

The RBIA approach, in accordance with the responses to the interviews, contributes to the effectiveness of the IAF and the organisation by helping to mitigate business risk. Mitigating business risks was one of the most common responses pertaining to RBIA. Participants stated the following:

Participant 4:

In terms of mitigation and the fast pace that the store environment is working in, you are able to from looking at what do you call it the RBIA, so the best way that I can say that is you'd be able to pick up trails within the various trading divisions. So, for instance, another easy example would be if you are, for instance, seeing outstanding acknowledgements. You can actually pinpoint it to a specific area. And if there's lots of discrepancies happening there, you can actually point the operational teams into that and say we have noticed that there's a lot of late acknowledgements happening here, plus discrepancies, and it's across all trading divisions.

Participant 5: "The business would go back and mitigate and remediate whatever has been put on the table, and that's what's been put forward in our report."

Participant 7:

Oh well, you identify them and make sure that it's the controls is adequate and effective to mitigate those risks. So, I think that's what I say with the, it's prevention basically. Yeah. So, it gives you, what's the word now, umm instead of, you know, people come and say, oh, there's a risk in this area, you will already be covering that risk because you have added the risk-based approach. It's like your people will be really involved in that area, and like I said, it's very much data-driven."

Participant 1:

With this approach, our audits are not like once in a while, we identify risks that are happening now, and we see what are the mitigating controls that are there now and whether there are any gaps.

4.6.3 Effectiveness of a risk-based internal audit resulting from timely reporting

Participants noted during the interview process that RBIA increases the effectiveness of the IAF by assisting with the timely reporting of audit activities. According to them, timely reporting entails providing effective recommendations and identifying real-time factual issues affecting the business. A few responses are quoted .

Participant 1:

It gives us the opportunity or to be part of the business to report timely and not to report three months down the line. And us to give recommendations where we see gaps. So that's how it helps in a timely manner.

Participant 5: "Doing a reporting on those relevant areas of categories of risks you meet with your stakeholders, you explain, and you give feedback, and you give your factual information."

Participant 6: "By responding quickly, it allows the business to put in mitigation or rectify deficiencies so the mitigation can be realised."

4.6.4 Effectiveness of a risk-based internal audit resulting from timesaving

As previously mentioned, the RBIA helps with timely reporting and the time-saving aspects of the actual audit activity. Participants highlighted during the interview process that RBIA assists in carrying out an effective audit process, including planning, fieldwork, reporting and follow-up. The following are statements on the time-saving aspect of RBIA.

Participant 1: "I think it assists in not really wasting time in areas that are not really high-risk areas."

Participant 7:

And also, I think very much data-driven and it can identify risk more than just a normal type of audits. So yeah, so there's a lot of advantages, and I think it's prevention and control as well because it's a prevention tool as well because you will identify the areas that you know that gives you an early warning that it's a red flag area.

Participant 4:

So, since going on this journey, we've actually crossed over very much to data analytics, which then with intelligent logic or fuzzy logic, I should rather call it fuzzy logic that we've applied. And what I mean with fuzzy logic is, is being able to re-evaluate that logic over a period of time to see if it actually does highlight the risks that we are concentrating on, the key risk indicators we have been able to utilize that data to actually highlight exceptions, which is more pertinent to the business in terms of the operational side than what it is by going into a store and sitting there for days on end.

4.6.5 Effectiveness of a risk-based internal audit resulting from support provided to business stakeholders

During the interview process, participants noted that their support provided to business stakeholders is due to the effectiveness of RBIA. RBIA supports business stakeholders, such as guidance and one-on-one interactions with them.

Participant 7 noted:

So you know providing that support, and that's why we get that buy-in from the stakeholder and the board as well." Another participant (Participant 8) verified: "We need to make sure that they are obviously following procedures and things like that. So that's just a guideline. "So obviously, with the relevant role players, we will take it further to the operations department. We will have chats, and they will obviously need to come up, or we will give them maybe an idea of what we think should happen."

4.6.6 Limitations of a risk-based internal audit

The previous sections highlighted that RBIA is effective and improves the effectiveness of the IAF and the organisation. However, although RBIA has an element of effectiveness, there are also limitations associated with RBIA. During the interview process, some participants highlighted four limitations. Firstly, they highlighted that RBIA could lead them to overlook some organisational risk areas. Secondly, the potential impact of personal scepticism on the effectiveness of their audit activity was underlined. Thirdly, they highlighted that the RBIA is limited by the level of competence and skills in the IAF. Finally, the engagement with business stakeholders could be ineffective as the engagement involves discussions around high-risk areas only. Thus, a comprehensive discussion cannot take place. As highlighted by participants, these four limitations were the only ones identified during the interview process.

The first limitation described above, which has to do with overlooking high-risk areas in the organisation, was the one that was most frequently noted. Participant 3 stated:

You might lose a bit of the net that you're throwing, so you know, throwing the net over the whole dam, but they might be a little corner that you're not thinking there might be a risk, but then you completely missing out on that. And then, there is a significant issue, but it was never defined or identified as a key risk area. So maybe overlooking some areas.

Another participant (Participant 5) mentioned:

There could be certain risks that you could miss. I'm thinking practical now. So, although we follow a risk-based approach within my space, so what we've picked up is that in the credit space, and that's not something that we really audit, but in the credit space, there's no controls in place for reconciliations of the new account cards. So once again, not in my space, but it's, I think somethings could be missed because that's not listed in the operational store space, but that's sort of a limitation for me.

Participant 8 noted:

I always look and see where I would maybe detect fraud or something that I've discovered is because we are also limited with time, umm, we tend to go into the stores, and we just follow the normal stuff that we're supposed to focus on when we going to as to what our program tells us to look at. So yeah, and this is quite a bit more stuff that we are basically overlooking. But that can also be, in the long term, a very high risk to the business.

Participants emphasised that a limitation of RBIA could result from overlooking other key risk factors in the organisation.

The second limitation to discuss is the limitation that results from personal scepticism. Some participants underlined the potential impact of personal scepticism on the effectiveness of audit activities. Participants said personal judgement could get in the way of identifying high risks as people's perceptions of high risks differ. Participant 1 stated:

It would be a matter of judgment, like human judgment. I think that would be some type of a limitation because if I were to say this is not high risk and then someone else believes it's a high risk, I wouldn't test it because I think it's not high risk. That would, I think, be human judgment.

Participant 2 elaborated:

I think the limitations would be internal. And by that, I mean people are quite set in their ways, and they change their mindsets and the way of working. Umm, it is actually the difficult part. Because as auditing, we want to, you know, leave no stone unturned, and we want to report everything we see basically. But with pure risk-based internal auditing, you have to always focus on what is key.

Participant 7 added: "I don't know. But I must admit, maybe it's more judgement."

Another limitation of RBIA, as mentioned by participants, relates to the competence level in the IAF. Two participants addressed this.

One participant (Participant 7) mentioned the lack of competence in the IAF could limit the effectiveness of RBIA:

And in complex, I think it can be complex because it's high-risk areas and people coming in, you know, junior staff. So, you might need a bit more expertise and experience in some of these areas. Then you just put a junior staff member on it because of this high-risk area, and it could be a bit complex, I think." The other participant (Participant 3) elaborated: "I think the only risk, and it's not that significant risk, if you've got qualified people doing the work with enough experience and technical knowledge, it could be that because there's a lot of subjectivity to it.

Finally, as mentioned by one participant, another limitation is in connection with the engagement with business stakeholders. The participant stated that the engagement with business stakeholders is not fully transparent, as certain risks that are being overlooked are not communicated to them. Participant 4 said:

The biggest thing I think is your engagement with stakeholders. If that engagement isn't 100% transparent, you could miss certain risks that are actually very pertinent to the business, but you haven't actually addressed them correctly.

4.6.7 Survey results

Table 4.13 shows the drivers of IA effectiveness survey results on a 5-point Likert scale ranging from strongly disagree to strongly agree.

Table 4.13: Drivers of internal audit effectiveness survey results

RISK-BASED INTERNAL AUDITING (RBIA) AS A DRIVER OF INTERNAL AUDIT/ORGANISATIONAL EFFECTIVENESS.	Strongly disagree/ Disagree	Neutral	Agree	Strongly agree
RBIA influences the independence and objectivity of the internal audit function	3	1	4	1
RBIA influences contributions and knowledge of risk management within the business	0	1	6	2
RBIA influences aligned expectations between IAF and key stakeholders/auditees	0	1	5	3
RBIA influences the support from internal audit management	2	2	3	2
RBIA influences the ability of the IAF to add value to the organisation	0	0	5	4
RBIA influences the competence (knowledge and experience) of IAF's team members	1	1	5	2
RBIA influences professional relationships between key stakeholders/auditees and IAF	1	2	4	2
RBIA influences compliance with Internal Audit Standards	0	2	5	2
RBIA influences the quality of audit activities/processes monitored through a quality assurance and improvement plan	1	1	6	1
RBIA assists in the mitigation of irregularities within the organisation	1	0	4	4
RBIA affects the scope of audit coverage	0	0	7	2
RBIA adds value to my organisation	0	0	6	3
RBIA adds value to risk management in my organisation	0	0	6	3

RBIA adds value to compliance with internal audit standards	1	0	5	3
RBIA adds value to audit activities at my organisation	0	0	5	4
RBIA increases internal audit effectiveness	0	0	6	3
RBIA increases internal audit efficiency	1	0	4	4
RBIA increases the number of audits completed per year	6	0	2	1

The survey's findings show a favourable trend to RBIA's effectiveness on the IAF and the organisation. When choosing their responses during the survey procedure, a significant number of participants tended to lean toward the agree and strongly agree alternatives. It could demonstrate how RBIA strongly impacts some parts of the IAF and the organisation. The table reveals that most respondents concurred that RBIA influences a number of desirable characteristics expected of the IAF, including independence, contribution to risk management, quality of audit activities, and relationships with business stakeholders. More information about RBIA's effectiveness is provided in the following section.

4.6.8 Key findings

In the interview findings, the researcher discovered that participants' quotes on how the RBIA methodology adds to the effectiveness of managing key risk areas in the business are only a few of the numerous quotes that support the RBIA's usefulness in improving risk management. Participants quoted many aspects that support how RBIA assist in the focus of key risk areas in the business. As previously mentioned, this is the factor that participants most frequently highlighted. However, one participant (Participant 2) mentioned that the RBIA approach itself would not actually mitigate any risk because the IAF can only advise and not implement controls. Another member of the team (Participant 3) was of the opinion that RBIA does assist in mitigating risks. The participant stated:

I would say your time will be focused more on mitigating or identifying what's mitigating, the key risks. So, it will also then give you the opportunity to spend the majority of your time on those areas that's the biggest risk.

It is interesting to note that these two participants differ in their opinion on whether RBIA assists in mitigating risks within the business. Since most participants mentioned RBIA's usefulness in managing risks when asked, the study may serve as proof of that claim. However, the

mitigating aspect of managing key risks is a grey area that requires more research. It was discovered that the researcher might have resolved any ambiguity by asking directly whether RBIA helps mitigate key business risks. Thus, it should have been a question posed to participants during the interview.

It was also found that the second most mentioned aspect of RBIA's effectiveness is the timely reporting element of audit activity. When asked how RBIA assists the IAF, participants confidently mentioned timely reporting. This may be a sign that RBIA supports the IAF and the organisation favourably in another area, namely the timely reporting of internal audit activity. Furthermore, only a small number of participants mentioned the effectiveness of RBIA's link to time savings and support provided to business stakeholders. In addition, one participant (Participant 1) mentioned that RBIA saves time during an audit activity. However, when they provided an example of the time-saving element, they could only illustrate this in their past job function and not in their current environment. The participant stated:

I think it assists in not really wasting time in areas that are not really high-risk areas. So, I think when I was still an intern, you would audit everything in an area, whether risk is key, whether risk is key or non-key, whether that risk is high or low, you just audit because there's this risk, there's this control. You go to the audit. Those audits take a lot of time, like an audit can take two months. But with like the risk-based audit, you identify which risks are high, which risk would impact us highly, then you audit those risks. So, I would say it's kind of, it makes the audit more efficient.

Moreover, it was interesting to note that two participants mentioned the phrase "sleepless nights" They mentioned that their support to the business as an IAF assists business stakeholders with assurance that risks and controls are being managed accordingly. Two participants stated:

Participant 7:

Because obviously, you look at the areas that you know that it's a priority now, it's in the, you know, everyone knows about this area, you looking at those areas that's giving people sleepless nights. So you know, providing that support and that that's why we get that buy-in from the stakeholder and the board as well.

Participant 5:

And you can see that in your stakeholders, the way they reach out to you the way they interact with you. They you know they come to you as a department because they feel you're the one department that can drive the process that can help reduce the risk and for them to be to "sleep more sound at night", like one of them has said in the past.

In the aforementioned findings, sufficient proof suggests that RBIA could increase the effectiveness of the IAF and the organisation. This might lead to an organisation achieving its goals and objectives, which would favourably impact the business's risk management, governance, and control processes.

However, we must note the RBIA's limitations that participants brought up. Participants highlighted limitations that may affect RBIA, such as the potential to overlook some key risk

areas, personal scepticism, competence level, and engagement with business stakeholders. Overlooking some key risks was the biggest limitation mentioned by participants. Following was the limitation of an individual's personal scepticism. People's views of high risks may vary, according to the participants, which could make it difficult to detect high risks. The other minor limitations mentioned by participants were the competence levels of the individuals in the IAF and engagements with business stakeholders. These two limitations didn't seem overly stringent as very few participants elaborated on this limitation. Although these limitations were mentioned, it is important to keep in mind that RBIA's effectiveness elements surpass its limitations due to the participants' responses on both the effectiveness and limitations elements. This is yet another indication that RBIA positively impacts the IAF and organisation because it may help the latter achieve its goals and objectives.

In the survey's findings, RBIA unquestionably improves the effectiveness of the IAF and the organisation. As mentioned, the survey's results point to a pattern supporting RBIA's effectiveness. However, there was one factor with which most participants disagreed. As seen in the survey table, the factor states, "RBIA increases the number of audits completed per year". This is interesting to note as one of the participants brought up the same issue during the interview process. Participant 7 stated, "I don't really believe in typically in, you know, the number of audits that you get out". It seems that RBIA does not affect the number of audits completed by the IAF.

Regarding the comparison of the findings of the effectiveness of RBIA from the interview findings and literature review, the effectiveness elements of RBIA are shown in Table 4.14.

Table 4.14: Effectiveness of risk-based internal audit

Interview findings	Literature review
Key risk focus	Risk management (Drogalas & Siopi, 2017; Andreas <i>et al.</i> , 2020; IIA-Australia, 2020; Lois <i>et al.</i> , 2021; Zatsarinnaya <i>et al.</i> , 2021).
Risk mitigation	Mitigating substantial risk (Cetin & Pamukcu, 2019).
Timely reporting	Highly focused audit/increasing work performance (Lenz <i>et al.</i> , 2018).
Timesaving on internal audit activities	Utilising resources effectively/creates efficiency (Çetin & Pamukcu, 2019).
Support provided to business stakeholders	Positive relationships with business stakeholders (Çetin & Pamukcu, 2019).
Contributes to an organisation's goals and objectives	Positively impacts the organisation's goals and objectives (Griffiths, 2018; IIA-Australia, 2020; Lois <i>et al.</i> , 2021).

According to the interview findings and the literature review's "Effectiveness of RBIA" section (see Section 2.7.5), it is unquestionably consistent. The consistency of the results suggests again that RBIA has a beneficial effect on the IAF and organisation.

Moreover, it is also essential to pay attention to RBIA's limitations. Table 4.15 compares the limitations of RBIA discovered from the interview findings and literature review.

Table 4.15: Limitations of risk-based internal audit

Interview findings	Literature review
<i>Personal scepticism</i>	<i>Compliance audit coverage (IIA-Australia, 2020)</i>
Competence levels of auditors	Lack of skilled or qualified auditors (IIA-Australia, 2020)
Overlooking some risk factors	Risks might be missed (IIA-Australia, 2020)
<i>Ineffective engagements with business stakeholders</i>	<i>Budget constraints (Lenz et al., 2018)</i>

Inconsistencies exist in the interview findings and the literature research for half of RBIA's limitations, as shown by the italic wording in Table 4.15. As indicated in Table 4.15, the inconsistent variables include personal scepticism, ineffective engagement with business stakeholders, compliance audit coverage, and budget constraints. However, the budget constraints factor was mentioned under a section related to RBIA but unrelated to the limitations of RBIA. Participant 2 said, "*With limited resources, limited budget, limited time, one has to focus on the key areas.*" Thus, budget constraints may, in some cases, constitute a reasonable limitation of RBIA. The contradictory factors, though, can indicate that these constraints aren't valid limitations. On the other hand, we should also note that half of the limitations are present in both the interview findings and the literature review. These consistent limitations are the competence level of auditors/lack of skilled or qualified auditors, overlooking some risk factors/risks. These consistent indicators may suggest that these limitations are legitimate. Thus, RBIA's effectiveness elements outweigh its limitations due to participant responses.

4.7 Drivers of internal audit effectiveness

Table 4.16 displays the topic “drivers of IA effectiveness”. It depicts the specific codes/themes as well as the research questions and objective of the study.

Table 4.16: Drivers of internal audit effectiveness: Codes, code groups, research questions, and research objectives

Code Group	Individual Code	Research Question and Objective Addressed
Drivers of internal audit effectiveness	Drivers of internal audit effectiveness	<p>Research question: To what extent does RBIA drive internal audit effectiveness within the selected retail business?</p> <p>Research objective: To determine to what extent RBIA drives internal audit effectiveness within the selected retail business.</p>

The study's problem statement reads:

“An ineffective IAF will not help the organisation reach its objectives, resulting in a negative effect on the business’ risk management, governance, and control processes.”

It was essential for the researcher to ask interview subjects directly about the factors that influence internal audit effectiveness. Participants in the semi-structured interviews were asked: “To what extent do you believe that the Internal Audit Department adds value to the organisation as a whole, and how can this be improved, if necessary?” Additionally, this question aimed to determine whether RBIA or other factors are the primary drivers of internal audit effectiveness. It is important to note that participants were not specifically asked if RBIA influences internal audit effectiveness. This was done to avoid getting yes-or-no responses from the participants and to allow them to openly express their opinions regarding the factors that influence internal audit effectiveness. The researcher also needed to determine participants’ opinions on the extent of RBIA's contribution to effective internal auditing and whether RBIA will be mentioned. The questionnaire also included a few questions about the drivers influencing internal audit effectiveness, which was necessary to respond to the sub-question and objective described above.

Participants to the interview identified six factors that may influence the effectiveness of the internal audit. The following information pertains to the drivers of internal audit effectiveness that participants stated. It is presented in a way that places the drivers in a specific hierarchy. The percentage shown in Figure 4.4 depicts how frequently participants brought up the drivers.



Figure 4.4: Drivers of internal audit effectiveness – Interviews

According to the information reflected in Figure 4.4, most participants selected “collaboration with stakeholders” as the top driver influencing internal audit effectiveness. The following are a few statements from participants on this:

Participant 5:

The way they reach out to you the way they interact with you. They, you know, they come to you as a department because they feel you're the one department that can drive the process that can help reduce the risk and for them to 'sleep more sound at night' like one of them has said in the past.

Participant 7:

Yeah, I think we are a business partner to the business. If you say that, you know we are advisors to the stakeholders, and I think they involved us in a lot of decision-making and bringing us in and asking for advice, looking at processes, looking at, you know, risk and controls of stuff that's not working on. So, I think we are very well received in the business.

In contrast, the drivers with the lowest influence on audit effectiveness are “competence levels of team members” and “a risk-based internal audit approach”. These two drivers of internal audit effectiveness were only stated once when the question was posed to interviewees.

4.7.1 Survey results

During the questionnaire process, participants were asked, “In your opinion, which are the top five drivers of internal audit effectiveness?” Participants were given a list of ten drivers and asked to select their preferred top five drivers. The ten drivers of internal audit effectiveness were derived from the literature review as the most frequently mentioned drivers across 23 articles. The results of the literature review’s top drivers are discussed in Section 4.7.2. In addition, participants were asked to list additional drivers not part of the list provided by the

researcher. The question stated, “Please provide any other drivers of internal audit effectiveness.”

The top five drivers of internal audit effectiveness, as determined by the participants, are shown in Figure 4.5. The additional drivers, as provided by the participants, are displayed in Figure 4.6.

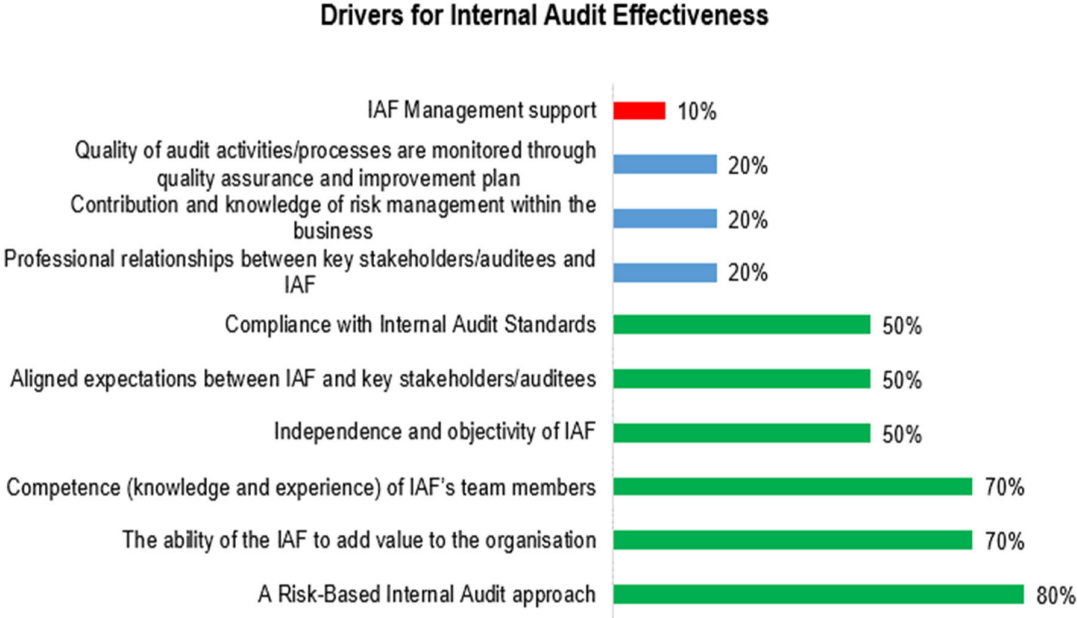


Figure 4.5: Drivers of internal audit effectiveness – Survey

Figure 4.5 reflects that participants' top choice for an internal audit effectiveness driver was “a risk-based audit approach”. This is followed by two other top drivers also shown as significant on the graph: “the ability of the IAF to add value to the organisation” and “competence of IAF’s team members”. The least preferred driver was “IAF management support”.

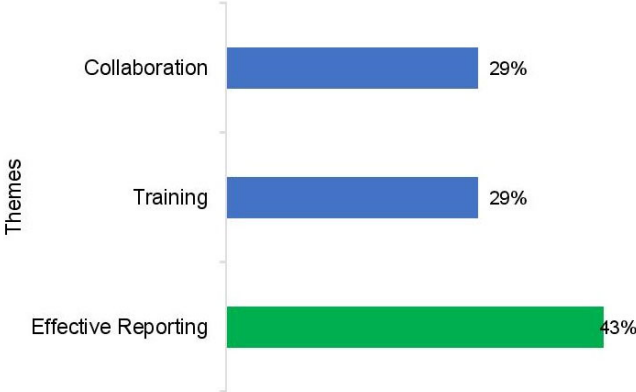


Figure 4.6: Additional drivers of internal audit effectiveness

Figure 4.6 depicts the additional internal audit effectiveness drivers reported by participants. Participants were required (optionally) to document additional drivers of internal audit effectiveness. The most frequently noted driver was “effective reporting”.

4.7.2 Key findings

Based on the interview findings, collaboration with stakeholders was shown to be the top driver in determining internal audit effectiveness. Internal auditors work with business stakeholders by communicating frequently, offering assistance, and giving advice when necessary. However, the factors that had the least impact on an audit's effectiveness were “competence levels of the internal audit team members” and “a risk-based internal audit approach”. It is interesting to note that the factor with the most negligible influence on the effectiveness of internal audit was identified as an RBIA approach. The reason this is notable is that it was possible to conclude that a risk-based audit methodology benefits the IAF and the organisation considerably (see Section 4.6), which focused on the “Drivers and limitations of risk-based internal audit effectiveness”. Thus, it was anticipated that this driver would be located closer to the top drivers or in the middle of the graph, but it was not.

In the survey results, the most critical factor influencing the effectiveness of internal audits was identified as the RBIA approach. According to the literature review, RBIA was also highlighted as the top driver (see Table 2.1). It is sufficient evidence that RBIA is the leading driver of internal audit effectiveness since it is highlighted in 23 articles and the data collection findings. The fact that RBIA is the leading driver for internal audit effectiveness may be viewed as a concern for two reasons. Firstly, this organisation might not have fully adopted an RBIA methodology as discussed in Section 4.4.1, The current RBIA approach, and Section 4.4.3, Performing a risk-based audit.

Secondly, the IAF has the capacity to become more effective. The organisation might not have adopted an RBIA methodology, yet participants consider an RBIA the primary driver influencing internal effectiveness, as seen in the survey results and the literature that support this perspective. This suggests that the IAF of this organisation has the potential to improve its effectiveness.

4.8 Methods to improve internal audit effectiveness

This section covers suggestions made by participants regarding ways to improve IA effectiveness, for organisations who want to increase their IA effectiveness in the retail industry.

As much as measuring IA effectiveness is an important aspect of the study, it was worthwhile to note the participant's thoughts on how IA effectiveness can be improved. The question posed to participants was, "Is there anything that you can think of that can be improved on?" The researcher posed this question because it could be helpful to businesses in the retail industry that wish to gain a sense of possible improvement factors provided by participants at one of the leading South African retailers. Therefore, recording participants' opinions in this regard might be beneficial. Participants stated:

Participant 1:

The auditees will wait for us to send our follow-up. That's the one thing I wish we could improve if we are noting maybe ten exceptions in one month or continuously for three months and we see that they're still there, we should be making recommendations as to how are they correcting those issues and how are they ensuring that we don't pick up the same issues again.

Participant 4:

And I think, though, that we could do better follow-up in terms of ensuring that the remediation is, that it's exact, that it's been done accordingly. And I think at times the internal audit department is very thinly spread, and as such, you don't always get to every follow-up action that needs to be reviewed, if I can put it that way.

In summarising these quotes on ways to improve IA effectiveness, the two participants expressed their opinion on improving recommendations made by the IAF during their audit activity. They stated that the IAF could better manage risks and control gaps identified during audit activities. They claimed that improving their recommendations and follow-up procedures could boost internal audit effectiveness because time will be lost on irrelevant concerns unless the emphasis is shifted to a more effective remedial action activity.

On the other hand, the next group of participants varied on how IA effectiveness could be improved. They made the following claims:

Participant 5:

Skilling on technical and you know data skills. I think there's an area that not all of us deal with it, but it's very interesting, and I think we should all be upskilled. So, I think for digitalization and going that way, and management has really driven this process, and so we've come a long way, but these, there's still work to be done. So, I would say upskilling on getting more tech-savvy definitely.

Participant 8:

And I think because the world is moving to the technology space, we all just moving also along with the technology which we are supposed to have. And I think the way we can improve on this is just to give more training. And I think continuous training and continued development, especially for us as auditors to improve.

Participant 7: "There might be still areas that we can improve in, you know. Yeah. There's always, like I said, how do you know manual stuff? Doing more automated stuff."

As a conclusion to the quotes from the participants above about improving IA effectiveness, their suggestions tend to recommend a more technologically advanced audit activity and environment. They emphasised that because the world is more technologically driven, the IAF should boost personnel training in this area. To increase IA effectiveness, the IAF should continue to advance its technological skills.

4.9 Chapter summary

This chapter provided the data analysis from the semi-structured interviews and questionnaires, as well as a discussion of the research results to address the research questions. A comparison is made between the study's data analysis and the discussion from the literature review. The chapter emphasises the key findings regarding participants' understanding of an RBIA methodology at a retail business in Cape Town.

Firstly, this chapter outlines responses related to the RBIA methodology. It highlights the use of the RBIA methodology employed in the organisation. Although some participants agreed that a risk-based audit methodology was followed, other participants seemed unsure. In the questionnaire and semi-structured interviews, participants provided varying viewpoints. The survey findings show that participants believe an RBIA methodology is being used. On the other hand, the findings of the interviews show that some participants are unsure whether an RBIA methodology is being utilised. Additionally, the stages of conducting a risk-based audit as described by participants differed from what is discussed in the literature. Participants failed to note the first stage of a risk-based audit and provided a variety of explanations for how to carry out a risk-based audit in contrast with the literature. As a result, it is unclear to what extent the organisation is implementing the RBIA methodology internally.

Secondly, responses on the drivers and limitations of RBIA were discussed. Various participants suggested that RBIA adds to the effectiveness of the IAF and the organisation as it focuses on risks, increases work efficiency, promotes interactions between stakeholders, and positively impacts business goals and objectives. However, a few participants believed that there are limitations linked to RBIA. These limitations include the auditors' level of expertise, lack of training or qualifications, and potential for overlooking certain risk factors while performing a risk-based audit activity. Nevertheless, from the interviews, it can be concluded that RBIA's effectiveness elements outweigh its limitations.

Finally, the conclusion to this chapter outlines IA effectiveness and the drivers affecting the IAF. According to interview findings, collaboration with stakeholders is the primary factor influencing internal audit effectiveness. However, "competence levels of the internal audit team members" and "a risk-based internal audit approach" were the factors that had the least effect on IAF's effectiveness. It was interesting to note that a risk-based strategy for internal audit

was found to be the factor that had the least impact on the effectiveness of the latter. The reason this is noteworthy is that it was possible to conclude that an organisation and the IAF would both greatly benefit from a risk-based audit approach. On the other hand, in the survey results, the most important factor influencing the effectiveness of internal audits was identified as the RBIA approach. When compared to survey and interview findings, RBIA's effect yields different conclusions. The findings of this chapter concluded that even though the organisation may not have comprehensively implemented an RBIA methodology, participants believe that it is the main factor affecting internal audit effectiveness, as evidenced by the survey results and the literature review.

The next chapter provides a high-level summary of the study's major findings, recommendations for applying them, and the limitations of the RBIA methodology at a retail business in Cape Town.

CHAPTER 5

RECOMMENDATIONS, LIMITATIONS AND CONCLUSION

5.1 Overview of Chapter 5

Figure 5.1, which also displays the chapter in a setting of the whole research's recommendations, limitations, and conclusion, graphically illustrates the structure of Chapter 5. This enables the reader to comprehend the precise methods that have been suggested to address the impact and significance of the key findings.

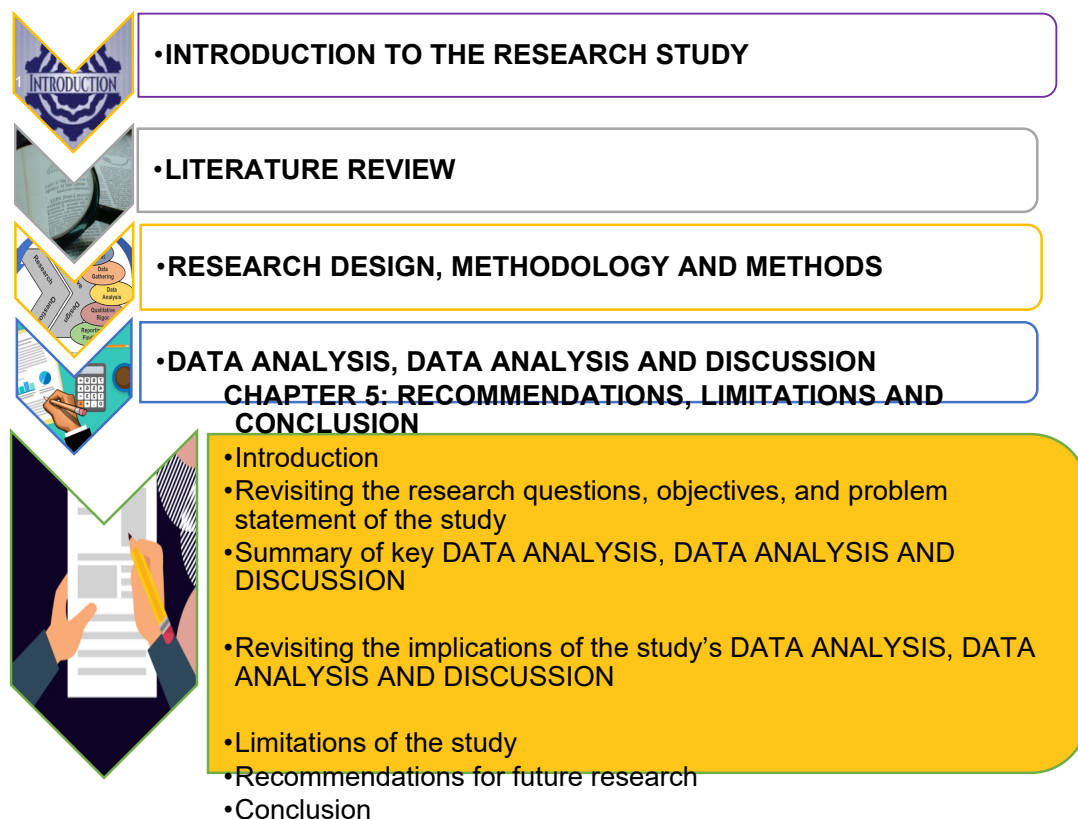


Figure 5.1: Graphical Illustration of Chapter 5

5.2 Introduction

The study began by identifying the problem and gaps in the literature regarding RBIA methodology. Literature on risk management, RBIA, and IAF effectiveness was reviewed to identify current developments and improvements in these areas. Furthermore, as part of the

study's qualitative approach, participants who are all a part of the IAF of one of the top retailers in South Africa were interviewed utilising a semi-structured interview format. Participants also completed an online questionnaire as part of the study's quantitative approach. The semi-structured interview data were the main source of data collection, which were supported by the questionnaire data collection. Since the study is a single case study conducted at a retail business, the qualitative methodology (semi-structured interviews), supported by the quantitative methodology (online survey), were deemed the most suitable methods for addressing the research questions and achieving the objectives of this investigation. The results were analysed and presented in the context of the interview findings and survey results, followed by a comparison between participants' reactions and the literature review of the study. This final chapter revisits the research questions, objectives, and problem statement, summarises the study's key findings, and discusses how they have influenced RBIA and IAFs' knowledge and practice. It acknowledges the study's limitations and concludes with recommendations for future research.

5.3 Revisiting the research questions, objectives, and problem statement of the study

Although current literature provides insight into RBIA methodology and the IAF's effectiveness, there is still uncertainty about whether an RBIA methodology influences the effectiveness of the IAF. In addition, there is a lack of literature in the retail industry relating to the role of RBIA methodology as a driver of IAFs' effectiveness. Prior literature has recognised the difficulty in evaluating the effectiveness of the IAF and the value of RBIA as a methodology to enable the IAF to achieve its objectives. Stemming from the above, this was the study's primary research question: "To what extent does an RBIA methodology contribute to the effectiveness of the IAF within a retail business?" From the primary research question, the sub-questions developed. These were stated as follows:

- How does the selected retail business evaluate internal audit effectiveness?
- How does the IAF implement RBIA to contribute to the business' risk management, governance and control processes?
- How does the IAF use RBIA for audit planning activities?
- To what extent does RBIA drive internal audit effectiveness within the selected retail business?

Also connected to the research questions were the research objectives. The primary research objective was: "To explore the role of an RBIA methodology as a driver of effectiveness of the IAF at a large retail business in Cape Town." Additionally, the secondary objectives were:

- To determine how retail businesses evaluate internal audit effectiveness.

- To determine to what extent and how RBIA is implemented.
- To determine how the IAF uses RBIA for audit planning activities.
- To determine to what extent RBIA drives internal audit effectiveness within the selected retail business.

The research questions were designed to explore these questions and objectives to determine the role of an RBIA methodology as a driver of the effectiveness of the IAF. Due to this reason, the qualitative methodology approach was used in this research study. The qualitative research methodology involved semi-structured interviews with eight key stakeholders in the IAF of a retail business in Cape Town. The interviews were conducted via an online meeting application software, whereafter the transcripts of these interviews were compiled, and themes inductively and deductively coded using the ATLAS.ti application. The quantitative research methodology involved collecting data by distributing a questionnaire via Microsoft Forms to the same group of participants in the IAF.

5.4 Summary of key findings

Sections 5.4.1– 5.4.7 summarise the study's key findings.

5.4.1 Audit activities and assurance provided by internal audit may not be risk-based

When using an RBIA methodology, there are prescribed steps involved to conduct a risk-based audit activity accurately and completely. The findings of the study reveal inconsistencies between the participants' responses and the steps required to perform an RBIA activity. It is found that even though the awareness of the significant impact that RBIA has on the IAF and the organisation, carrying out this approach is not evident. In addition, according to the results, it was found that uncertainty in the responses of performing a risk-based audit was apparent. The literature review also contained uncertainty and ambiguity, particularly concerning the retail industry. For this reason, it is recommended that more investigation into the retail industry's use of the RBIA methodology is needed. It is also recommended that retail organisations follow the RBIA guidance provided by the IIA to improve their audit methodology.

5.4.2 The implementation of risk-based internal audit methodology

One of the key components of the audit function is to monitor the management of risks within an organisation. The independent assurance provided by the IAF plays a role in improving risk management, governance, and control processes. Adopting an RBIA approach assists management in managing the organisation's current and emerging risks, improving the governance and control environment. In addition, the implementation of RBIA significantly influences the effectiveness of the IAF. Furthermore, the assurance, conclusions, and suggestions made by the IAF have a substantial impact on how the management of an

organisation makes decisions, which in turn helps the firm grow and function effectively. Since RBIA is a growing mechanism that assists in mitigating inherent risks, it should be implemented.

In the study, the participants were confident about implementing a risk-based audit methodology. However, only one step of the required RBIA activities, step two (“planning for audit plan production”), displayed confidence. An accurate and complete implementation of an RBIA methodology involves the first step: “evaluating risk maturity”. Participants rarely mentioned the first step of the risk-based audit approach. Thus, it is not certain whether participants truly comprehend the initial phase of implementing a risk-based audit methodology. Due to these considerations, it is recommended that effective and agile strategies for implementing a risk-based audit activity should be highly considered and managed to accurately assist with enhancing risk management, governance, and control processes in the business.

5.4.3 Changes in the audit profession with focal points on internal financial controls, compliance, and data-driven activities

The study found that the audit profession’s current focus with the retail industry is on internal financial controls (IFC), compliance, and data-related audits. Participants’ comments stemming from the semi-structured interviews show that the audit profession underwent adjustments, although it is unclear what caused the shift or what changed. Notably, none of the participants mentioned that the RBIA is currently being applied. This creates yet another area of doubt about whether an RBIA approach has been fully implemented. Since the study highlights the significance of the effective implementation of an RBIA methodology, as it has a significant effect on the effectiveness of the IAF, it is recommended that awareness-raising initiatives should be implemented and maintained to ascertain the level of the RBIA methodology implementation in the organisation.

5.4.4 The risk-based internal audit approach promotes a combined assurance model

The IIA defines internal auditing as a department, division, team of consultants, or other practitioners that provide independent, objective assurance and consulting services designed to add value and improve an organisation’s operations. As the word “assurance” forms part of the definition of the IAF, it should be considered a fundamental component of the IAF. The IIA demonstrates that the combined assurance model is designed to optimise a reliable environment for risk management and control processes. In addition, the King IV Report elaborates on the need for this model to evolve. Thus, the effective application of combined assurance is essential as it contributes to the organisation’s risk management and control activities.

Furthermore, the study found that successful assurance can be provided to the business by systematically identifying risks through the combined assurance function. Additionally, the study revealed that the combined assurance model entails the collaboration of various departments within or outside the organisation. However, it is revealed that the understanding of a combined assurance model is not consistent between the literature review and the participants' perspective as presented in the study's findings. The study's findings evidence that this function is still relatively new; thus, this could indicate that the combined assurance functions still need time to develop. As the combined assurance concept is not completely understood and implemented, it is recommended that more research be done to understand the full scope of the combined assurance approach's influence on the RBIA methodology.

5.4.5 The effectiveness of the IAF is evaluated using a variety of organisational elements

The effectiveness of IA is measured through elements, namely feedback from business stakeholders, communication, ongoing learning, the ability to identify risks and controls, execution of an annual audit plan, and many more. The awareness of an IAF's effectiveness and performance level is made possible by measuring IA effectiveness. This enables the IAF to enhance standards of performance where they are needed. However, the study finds measuring IAF effectiveness challenging, especially how and by whom it should be measured. As seen in both primary and secondary data collection results, the study makes it rather apparent that determining IA effectiveness is challenging and ambiguous. Moreover, the study's interview and survey results yielded inconsistent responses. Therefore, it is recommended that further research is performed on various organisations and industries to establish the best technique to measure IA effectiveness.

5.4.6 Risk-based internal audit contributes to the internal audit function and the organisation through a range of components

According to the study's findings, numerous factors are involved in how RBIA supports the IAF. The study reveals that RBIA strongly impacts some parts of the IAF and the organisation. RBIA contributes to managing key risk areas, highly focused audits, saving time during an audit activity, utilising resources effectively, supporting business stakeholders, and many more. According to the interview and the literature review of the study, the results consistently suggest that RBIA has a beneficial effect on the IAF and the organisation. Through the IAF, RBIA positively contributes to the organisation's goals and objectives.

Although the study concludes that RBIA adds value to the IAF and the organisation, it is important to pay attention to the limitations of RBIA identified in the study. According to the findings, it is interesting that only two of RBIA's limitations are consistent across the primary and secondary data. The two consistent limitations associated with RBIA include the possibility

of overlooking some risks and a lack of skilled or qualified auditors that may prevent the successful execution of RBIA. Additionally, the study finds inconsistencies related to RBIA's limitations in the primary and secondary data collection results. The inconsistent variables found in the study are personal scepticism, ineffective engagement with business stakeholders, compliance audit coverage, and budget constraints. However, the secondary findings of the study reveal that there are not many limitations, but more benefits related to RBIA, as indicated in Chapter 4, Section 4.6. Therefore, it is noteworthy that the findings add to the body of knowledge about the factors and limitations that influence RBIA's connection to the IAF and the organisation.

5.4.7 Internal audit function effectiveness is driven by a variety of factors in an organisation

Many factors influence the effectiveness of the IAF. Some factors revealed in the study, among many others, include an RBIA approach, the competence of the internal audit team, and the quality of internal audit activity. In the data survey results, the top driver influencing the effectiveness of internal audits was identified as the RBIA approach. An RBIA approach as the top driver is supported by the findings of the study's literature review and in relation to the effectiveness drivers of IA. Concerns were expressed by global firms in the public and private sectors from a range of industries, including financial services, manufacturing, defence, and retail, about a lack of research on the factors that influence IAF effectiveness, particularly RBIA. Consequently, it is recommended that emphasis be given to a wide range of commercial and public sector businesses in a strategic assessment of the factors that determine the effectiveness of IA.

5.5 Revisiting the implications of the study's findings

IAFs in the retail industry of South Africa may benefit from the study in determining best practices for internal audit methodology usage and effectiveness of the IAF. Summarising the findings, implications were included in sections where necessary. The implications highlighted how the results might be affected if certain sections and questions were omitted. Highlighting implications justifies the importance of an appropriate internal audit methodology and effective IAF. It provides a thorough insight into the value of adopting an appropriate internal audit methodology to have an effective IAF that will improve a business' risk management, governance, and control processes.

5.6 Limitations of the study

The study is a case study limited to a large retail business in Cape Town, South Africa; therefore, other businesses were excluded. The study, therefore, does not imply that results will be generalisable to all South African retail businesses or other industries. However, the

study is thought to serve as an exploration into the topic for consideration by other researchers as well as for the improvement of RBIA in practice.

A further limitation is that various other attributes could affect the effectiveness of the IAF other than attributes included in the study. The attributes, also referred to as drivers of internal audit effectiveness, were based on the study's literature review (secondary data) and the data collection results (primary data). Some attributes/drivers affecting internal audit effectiveness included in the study were an RBIA approach, value-adding ability, competence levels of the IAF, and many more. Therefore, it is assumed that additional attributes or drivers of internal audit effectiveness that are not covered in the study are available for further research.

Another limitation of the study is that questions may be thought of as leading responses in a specific way, which could indicate a slight bias in that direction. However, this should be accepted in the study as all questions were planned and drafted to address the research questions and objections of the study.

5.7 Recommendations for future research

Stemming from the limitation related to the single case study, it is suggested that the findings in this research be further studied across several locations, IAFs, and industries. Another key group of participants across various locations and industries could have provided different responses, leading to further insights into the role of RBIA methodology. Also, internal audit stakeholders outside the IAF could be considered participants in future studies.

Due to the limitations associated with the drivers of internal audit effectiveness, this research promotes future investigation into additional drivers that may affect the success of an IAF and an organisation as a whole. Further studies may enable a wider range of internal audit effectiveness drivers to be weighed to identify the most appropriate drivers that benefit the IAF and the organisation.

Additionally, the data collection results and literature review revealed a need for further investigation into implementing and using an RBIA approach, particularly in the retail industry. Additional internal audit methodologies could be investigated to give a comparative overview of how internal audit methodologies compare to RBIA methodologies in terms of their impact on the IAF and the organisation.

Furthermore, the literature review also maintains that additional research into the IAF's contributions to risk management is required. As risk management forms a significant part of performing an RBIA activity, it is recommended that further studies be conducted in this area to contribute to the determining factors of the effectiveness of an IAF and the organisation.

Additionally, the data analysed from interviews suggest that more research is required on “combined assurance.” In the organisation, combined assurance seemed to be in its early stages. Although it was not a question posed to participants during the interview process, 7 of participants brought up the subject and seemed enthusiastic about it as well. Further study on this topic may benefit the retail industry, as the phrase “combined assurance” is becoming increasingly prevalent within organisations.

The study determined to what extent an RBIA is implemented in the retail business. However, further research is required due to the uncertainty and ambiguity in participants' responses during the secondary data collection process. Thus, further research in this area could benefit retail businesses in finding the best strategy to implement and use an RBIA approach.

5.8 Conclusion

The study identified participants' perspectives, experiences, and opinions on the RBIA approach at a retail business in Cape Town through the qualitative method approach (semi-structured interviews), which were supported by the online questionnaires . According to participants' viewpoints, the RBIA approach significantly impacts how IAFs should operate. Participants had the same reaction to risk management within their function. Risk management is critical in their daily operation.

Positively, the study can conclude that the RBIA approach significantly contributes to the effectiveness of the IAF. The study can also conclude that the RBIA approach is the top driver for internal audit effectiveness, as evidenced by the survey results and literature review of the study. In addition to improving the IAF's effectiveness, RBIA also inherently enhances several other aspects of the IAF and organisation, namely, focusing on key risks, risk mitigation, agile audit activities, and supporting business stakeholders.

However, although participants appeared uncertain and inconsistent in providing some answers, participants expressed some negative aspects of RBIA, such as limitations, the inadequate use of RBIA, and the lack of implementation of RBIA. The progress of RBIA in this regard is not stagnant. According to the study's findings, the IAF and the organisation are making investments to accelerate the RBIA approach in their function and enhance the current risk management strategies, and they are progressing rapidly. It is important to note that although negative aspects are linked to the RBIA approach, RBIA's effectiveness elements surpass its ineffective elements on the IAF and organisation.

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APPENDICES

APPENDIX A: CPUT ETHICAL CLEARANCE



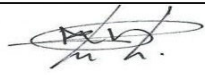
P.O. Box 1906 | Bellville 7535
Symphony Road Bellville 7535
South Africa
Tel: +27 21 4603291
Email: fbmsethics@cput.ac.za

Office of the Chairperson Research Ethics Committee	FACULTY: BUSINESS AND MANAGEMENT SCIENCES
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The Faculty's Research Ethics Committee (FREC) on **9 December 2021**, ethics **APPROVAL** was granted to **Michelle Roberts (214010287)** for a research activity for **Masters in Internal Auditing** at the Cape Peninsula University of Technology.

Title of project:	Risk-based internal audit methodology at a retail business in Cape Town Researcher (s): Ms Lise Botha / Dr Suzaan le Roux
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Decision: **APPROVED**

 Signed: Chairperson: Research Ethics Committee	18 March 2022 Date
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The proposed research may now commence with the provisions that:

1. The researcher(s) will ensure that the research project adheres to the values and principles expressed in the CPUT Policy on Research Ethics.
2. Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study requires that the researcher stops the study and immediately informs the chairperson of the relevant Faculty Ethics Committee.
3. The researcher(s) will conduct the study according to the methods and procedures set out in the approved application.
4. Any changes that can affect the study-related risks for the research participants, particularly in terms of assurances made with regards to the protection of participants' privacy and the confidentiality of the data, should be reported to the Committee in writing accompanied by a progress report.
5. The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines, and scientific standards relevant to the specific field of study. Adherence to the following South African legislation is important, notably compliance with the Bill of Rights as provided for in the Constitution of the Republic of South Africa, 1996 (the Constitution) and where applicable: Protection of Personal Information Act, no 4 of 2013; Children's act no 38 of 2005 and the National Health Act, no 61 of 2003 and/or other legislations that is relevant.
6. Only de-identified research data may be used for secondary research purposes in future on condition that the research objectives are similar to those of the original research. Secondary use of identifiable human research data requires additional ethics clearance.
7. No field work activities may continue after two (2) years for Masters and Doctorate research project from the date of issue of the Ethics Certificate. Submission of a completed research ethics progress report (REC 6) will constitute an application for renewal of Ethics Research Committee approval.

Clearance Certificate No | 2022 FBMSREC 007

APPENDIX B: INTERVIEW QUESTIONS

RESEARCHER DETAILS	
Name:	Michelle
Surname:	Roberts
E-mail:	Michelle.roberts983@gmail.com
Contact number:	0718587161

SUPERVISOR(S) DETAILS	
Name:	Lise
Surname:	Botha
E-mail:	BothaL@cput.ac.za
CO-SUPERVISOR DETAILS	
Name:	Suzaan
Surname:	Le Roux
E-mail:	Lerouxsu@cput.ac.za

RESEARCH TITLE
Risk-based internal audit methodology at a retail business in Cape Town
PROBLEM STATEMENT
An ineffective Internal Audit Function (IAF) will not help the organisation reach its objectives, resulting in a negative effect on the business' risk management, governance, and control processes. In addition, recommendations given by the IAF to the business could be irrelevant and fraudulent activities could go unnoticed, therefore disregarding the purpose and benefit of the IAF to the business. This has been seen in recent corporate failures in South Africa where the effectiveness of the IAF has been questioned at retail companies such as Steinhoff (BusinessTech, 2019). Prior literature has furthermore recognised the difficulty in evaluating effectiveness of the IAF, as well as the value of RBIA as a methodology to enable the IAF achieve its objectives (Lenz & Hahn, 2015; Erasmus & Coetzee, 2018). It should therefore be considered if RBIA serves as a driver of internal audit effectiveness in retail companies. Thus, the proposed study seeks to investigate the effectiveness of IAFs at a selected retail business in Cape Town.
PRIMARY OBJECTIVE OF THIS RESEARCH STUDY
The primary research objective of the study is to explore the role of a risk-based internal audit methodology as a driver of effectiveness of the IAF at a large retail business in Cape Town.
ETHICAL CONSIDERATIONS
Please note that ALL information provided by any interviewee will be kept strictly confidential and that the anonymity of the respondent is guaranteed. The information provided will strictly be used for research purposes only. The participation of the interviewee is completely voluntary in nature and, as such, the respondent may withdraw from this research study at any time he/she should wish to do so without being discriminated against.
I confirm that I have given my consent to take part in this research study
Yes <input type="checkbox"/> No <input type="checkbox"/>

SECTION A: DEMOGRAPHICAL INFORMATION

1. How long have you been in this position? (in years)

_____ years

2. What is your position in the business? (Tick the most appropriate answer.)

Internal Auditor Audit Manager Head of Department (CAE)

SECTION B: PLEASE STATE YOUR OPINION REGARDING THE BELOW QUESTIONS:

1. To what extent do you believe your internal audit function/department is following a risk-based audit approach?

2. Explain the Risk-based Internal Audit (RBIA) process followed at your organisation, in broad steps?

3. How does the RBIA approach assist in a more effective and efficient audit activity?

4. How does the RBIA approach help mitigate risks in the business?

5. What are the limitations related to a Risk-based internal audit approach?

6. How is IA effectiveness measured at your organisation or department? Provide some examples of performance measures used.

7. Explain how and to what extent the internal audit department make use of a risk management framework and risk register for audit planning and scoping purposes?

8. How often is internal audit department's performance and effectiveness monitored by the audit committee?

9. To what extent does the Internal Audit department work closely with a separate risk management department?

10. How and why would you rate your organisations risk maturity level ranking from level 1 to level 5, with level 1 indicating basic or non-existing enterprise risk management (ERM) practices, and level 5 indicating that ERM is prominent, aligned and embedded within all the organisation's processes.

11. To what extent do you believe that the Internal Audit Department adds value to the organisation as a whole? And how can this be improved, if necessary?

APPENDIX C: ONLINE SURVEY

RESEARCH SURVEY (ONLINE QUESTIONNAIRE)

RESEARCHER DETAILS	
Name:	Michelle
Surname:	Roberts
E-mail:	Michelle.roberts983@gmail.com
Contact number:	0718587161
SUPERVISOR(S) DETAILS	
Name:	Lise
Surname:	Botha
E-mail:	BothaL@cput.ac.za
CO-SUPERVISOR DETAILS	
Name:	Suzaan
Surname:	Le Roux
E-mail:	Lerouxsu@cput.ac.za

RESEARCH TITLE
Risk-based internal audit methodology at a retail business in Cape Town
PROBLEM STATEMENT
An ineffective Internal Audit Function (IAF) will not help the organisation reach its objectives, resulting in a negative effect on the business' risk management, governance, and control processes. In addition, recommendations given by the IAF to the business could be irrelevant and fraudulent activities could go unnoticed, therefore disregarding the purpose and benefit of the IAF to the business. This has been seen in recent corporate failures in South Africa where the effectiveness of the IAF has been questioned at retail companies such as Steinhoff (Businessstech, 2019). Prior literature has furthermore recognised the difficulty in evaluating effectiveness of the IAF, as well as the value of RBIA as a methodology to enable the IAF achieve its objectives (Lenz & Hahn, 2015; Erasmus & Coetzee, 2018). It should therefore be considered if RBIA serves as a driver of internal audit effectiveness in retail companies. Thus, the proposed study seeks to investigate the effectiveness of IAFs at a selected retail business in Cape Town.
PRIMARY OBJECTIVE OF THIS RESEARCH STUDY
The primary research objective of the study is to explore the role of a risk-based internal audit methodology as a driver of effectiveness of the IAF at a large retail business in Cape Town.
ETHICAL CONSIDERATIONS
Please note that ALL information provided by any respondent will be kept strictly confidential and that the anonymity of the respondent is guaranteed. The information provided will strictly be used for research purposes only. The disclosures of respondent's identities will not be identifiable in the published work. The participation of respondents is completely voluntary in nature and, as such, the respondent may withdraw from this research study at any time he/she should wish to do so without being discriminated against.
HOW TO COMPLETE THIS SURVEY
This survey comprises of closed-ended questions which require the respondent to fill in a numeric digit and/or mark an "x" in the most appropriate box. Clear instructions for each question are given under each section. If at any time the respondent does not understand the question, please feel free to contact the researcher and/or supervisor through the contact information indicated on the front page of this survey.
I confirm that I have given my consent to take part in this research study
Yes <input type="checkbox"/> No <input type="checkbox"/>

SECTION A: DEMOGRAPHICAL INFORMATION

1. What is your position in the business? (Tick the most appropriate answer.)

Internal Auditor Senior Internal Auditor Audit Manager Head of Audit (CAE)

2. How long have you been in this position? (in years)

_____ years

SECTION B: RISK-BASED INTERNAL AUDIT (RBIA) APPROACH

Please advise how you would rate the following statements, based upon your experience with Risk Based Internal Audit (RBIA): The Risk-Based Internal Audit (RBIA) approach...	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. has been adopted in my organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. increases internal audit efficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. increases the number of audits completed per year	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. increases internal audit effectiveness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. requires effective audit planning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. only focusses on high-risk areas of the organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. assists in detecting high risk areas of the organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. assists in mitigating high risk areas within the organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. assists in detecting irregularities/fraudulent activities within the organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. ignores low risks within the organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. is in line with Institute of Internal Auditor 's definition, which is to evaluate the effectiveness of risk management, control, and governance processes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. assists in compliance with regulations pertaining to operations, consumer protection and competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. assists in preventing data breaches and digital theft	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. assists in mitigation of irregularities within the organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. affects the scope of audit coverage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. adds value to my organisation					
17. adds value to risk management in my organisation					
18. adds value to compliance with internal audit standards					
19. adds value to audit activities at my organisation					

SECTION C: ENTERPRISE RISK MANAGEMENT

The Internal Audit Function....	Yes	No
1. Gives assurance on risk management processes	<input type="checkbox"/>	<input type="checkbox"/>
2. Gives assurance that risks are correctly evaluated in the business	<input type="checkbox"/>	<input type="checkbox"/>
3. Reviews how the business manages key risks	<input type="checkbox"/>	<input type="checkbox"/>
4. Evaluates the reporting of key risks by the business	<input type="checkbox"/>	<input type="checkbox"/>
5. Coach management in the business in responding to risks	<input type="checkbox"/>	<input type="checkbox"/>
6. Comprehensively reports on risks	<input type="checkbox"/>	<input type="checkbox"/>

SECTION D: INTERNAL AUDIT ACTIVITIES

Please advise how you would rate the following statements:	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. Internal audit activities add value to the organisation and its stakeholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The internal audit department provides objective and relevant assurance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The internal audit department contributes to the effectiveness of governance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The internal audit department contributes to improvement of risk management processes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The internal audit departments' knowledge of enterprise risk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

management increases audit effectiveness					
6. The internal audit department contributes to improvement of control processes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. The internal audit department assists with mitigating risks in the retail industry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Emerging risks are continuously monitored and incorporated in audit activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. The internal audit department provides significant recommendations to the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Internal audit reports are clear and uncomplicated	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Internal audit reports are issued in a timely and agile manner	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Internal audit effectiveness is evaluated by the key business stakeholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. Internal Audit effectiveness is evaluated and monitored by management in the department	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION E: EMPLOYEE RELATIONS		
Please advise how you would rate the following statements related to employee relations:	Yes	No
1. Good communication is maintained between the internal audit department and other business stakeholders		<input type="checkbox"/>
2. The RBIA approach allows for internal auditors to feel engaged	<input type="checkbox"/>	<input type="checkbox"/>
3. The internal audit department allows me to contribute to internal audit strategic objectives	<input type="checkbox"/>	<input type="checkbox"/>
4. The internal audit department allows me to contribute to the team	<input type="checkbox"/>	<input type="checkbox"/>
5. I can state opinions related to the audit process	<input type="checkbox"/>	<input type="checkbox"/>
6. I can make changes to the internal audit process	<input type="checkbox"/>	<input type="checkbox"/>
7. Employees are valued in the internal audit department	<input type="checkbox"/>	<input type="checkbox"/>
8. Good communication is maintained between the internal audit department and other business stakeholders	<input type="checkbox"/>	<input type="checkbox"/>

SECTION F: DRIVERS OF IA EFFECTIVENESS CONTINUED, SELECT 5	
In your opinion, which are the top 5 drivers for Internal Audit effectiveness?	
1. A Risk-Based Internal Audit approach	<input type="checkbox"/>
2. The ability of the IAF to add value to the organisation	<input type="checkbox"/>
3. Competence (knowledge and experience) of IAF's team members	<input type="checkbox"/>
4. Professional relationships between key stakeholders/auditees and IAF	<input type="checkbox"/>
5. Independence and objectivity of IAF	<input type="checkbox"/>
6. Contribution and knowledge of risk management within the business	<input type="checkbox"/>
7. Aligned expectations between IAF and key stakeholders/auditees	<input type="checkbox"/>
8. IAF Management support	<input type="checkbox"/>
9. Compliance with Internal Audit Standards	<input type="checkbox"/>
10. Quality of audit activities/processes are monitored/ are reviewed	<input type="checkbox"/>

SECTION G: THANK YOU (VOLUNTARY)	
Thank you for your time and effort in completing this survey for the benefit of academic research in the field of Internal Auditing.	
Details below refer to the respondent:	
Name:	
Surname:	
E-mail:	
Would you like e-mail feedback of the study?	
Yes <input type="checkbox"/> No <input type="checkbox"/>	

APPENDIX D: GRAMMARIAN LETTER

22 Krag Street
Napier
7270
Overberg
Western Cape

10 June 2023

LANGUAGE & TECHNICAL EDITING

Cheryl M. Thomson

RISK-BASED INTERNAL AUDIT METHODOLOGY AT A RETAIL BUSINESS IN CAPE TOWN

Principal Supervisor: Mrs L.M. Botha

Co-Supervisor: Dr S. Le Roux

This is to confirm that I, Cheryl Thomson, executed the language and technical edit of the above-titled Masters dissertation of **Michelle Roberts**, student number **214010287**, at the CAPE PENINSULA UNIVERSITY OF TECHNOLOGY in preparation for submission of this dissertation for assessment.

Yours faithfully



CHERYL M. THOMSON

Email: cherylthomson2@gmail.com

Cell: **0826859545**