

**THE IMPACT OF INTERNAL AUDIT ON SOUTH
AFRICAN LOCAL GOVERNMENT FOR THE
PERIOD 1994 - 2004**

BY

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DECLARATION

I declare that this dissertation is my own work, except where noted, and that it has not been submitted for a degree at any other university.

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CHAPTER 1 - AIM AND METHODOLOGY OF THE STUDY

1.1 INTRODUCTION

The problem statement, background and objectives will be defined in this chapter. It will also clarify the programme of investigation and explain the terminology.

1.2 BACKGROUND INFORMATION REGARDING THE PROBLEM

Since 1994 the South African government has launched many initiatives to ensure a major change from the old dispensation to one of democracy, openness, transparency and accountability. As part of these initiatives discussions were held by the National Treasury to ensure that maladministration and negligence were highlighted. The Standing Committee On Public Accounts (SCOPA) was formed in 1994 as a result of the Auditor General's (AG) reports on irregularities, non-compliance to regulations and general lack of accountability. Their purpose was to listen to the Auditor General and to recommend to parliament stricter actions against non-performing departments.

The Institute of Directors of South Africa also initiated the King Investigation in 1994 to show to the rest of the world that South Africans can be responsible and work according to good governance principles. King recommended the voluntarily establishment of internal audit functions. Government took note and decided to promulgate the compulsory establishment of internal audit functions. These internal audit functions were supposed to replace the old inspectorate and to bring a risk-based approach to the evaluation of business and controls. Since 1999 many internal audit functions have been established, sometimes with unqualified and inexperienced auditors. This resulted in high operating costs for municipalities. It should be asked whether all these expenses were justified and whether internal auditing in fact assisted in the improvement of control processes.

The Institute of Internal Auditors South Africa (IIA SA) is an association incorporated as a non-profit organisation under Section 21 of the Companies Act and is affiliated to the Institute of Internal Auditors Inc. (IIA Inc) as a national institute established in 1994. The IIA SA assists approximately 90 000 members in more than 100 countries with internal auditing, governance and internal control, IT audit, education and security matters.

The IIA also provides internal auditing practitioners, executive management, boards of directors and audit committees with standards, guidance and information on internal audit best practices.

The IIA defines internal auditing as an independent, objective assurance and consulting activity, designed to add value and improve an organisation's operation. It assists an organisation in accomplishing its objectives by providing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Auditor General's report for 2002/2003 states that the City of Cape Town's Internal Audit directorate performed a review of the recruiting of staff via labour brokers during the year. The Internal Audit Directorate submitted a report to the City Manager on 30 September 2003 highlighting significant control weaknesses in this area and containing various recommendations. In a letter dated 18 December 2003 the Director: Internal Audit indicated that business improvements to address internal control shortcomings identified in the report were undertaken by a task team that included the Expenditure, Internal Audit, Human Resources and Procurement Directorates.

The Auditor General's report further stated that eThekweni Municipality's internal audit function included both internal auditing and accounting duties. It was therefore considered that the independence of the internal audit section was

compromised and consequently their audit work could not be relied on for external audit reporting purposes. The audit committee of eThekweni Municipality had been in operation during the year and had actively monitored the internal audit function.

The Auditor General's report further stated that Buffalo City Municipality's internal audit component had not functioned optimally in terms of its required obligations. Internal Audit personnel continued to perform unrelated non-audit tasks, as allocated by management. Consequently, the organisational control environment and the follow-up of recommendations from this component were limited.

The problem of internal auditing is getting the balance right (Le Roux, 2002). Le Roux argues that if systems are weak, a lot of time is spent on consulting and most internal auditors do not have expertise in consulting skills. On the other hand, if systems are strong, time is spent on assurance - historically internal auditors' area of expertise.

The Committee of Sponsoring Organisations of the Treadway Commission (COSO) stresses that the objectives of internal control cannot always be achieved because there are threats to internal control resulting from possible management override or mistakes, unexpected shifts in government policy or programmes, changes in economic conditions, as well as competitor actions. The most important threats are management override, conflicts of interest, access to assets and form-over-substance (Ratliff et al., 1996:112-113).

This study aims to provide solutions to problems preventing internal auditing from being successful in line with the standards of the Institute of Internal Auditors. These solutions will assist South African Local Government in ensuring that future internal audit is efficient and effective.

1.3 PROBLEM STATEMENT

The following problem statement has been formulated from the developments mentioned above:

The impact of Internal Audit on South African Local Government for the period 1994 –2004

1.4 PURPOSE OF THE STUDY

This study will attempt to assess the effectiveness and efficiency of the internal audit function within Local Government for the period 1994 - 2004 and will recommend processes for improvement.

The study will further reflect on the changes that occurred regarding internal functions within Local Government, as well as on the factors that made the changes possible.

1.5 RELEVANCY OF THE STUDY

South Africa is seen as a shining example of an excellent democratic model in the developing world. The business sector globally, who are potential investors in South Africa, has praised and endorsed the South African economic policy as one that is desirable to create wealth for entrepreneurs.

The key challenge of the government is to demonstrate the willingness to root out corruption and fraud imbedded in all government businesses. The Internal Audit Department in Local Government is a very important vehicle that can assist management to address the problem of fraud and corruption.

Local Government as a public institution should lead the way and show the world, by demonstrating and taking actions which will send the message, that fraud and corruption have no place in South Africa.

This research will highlight the shortfalls and successes of approaches adopted by different Municipal Councils in respect of internal auditing. It will develop a model that can be adopted by Municipal Councils in South Africa to improve the performance of internal auditing in Local Government.

1.6 LIMITATIONS OF THE STUDY

The study will take place against the background of re-demarcation and restructuring that took place shortly after the June 1999 elections. The situation is not the same in all municipalities in South Africa. Some, especially the Metros, have completed their restructuring programmes, while others are still undergoing restructuring. Therefore, some municipalities still do not have effective internal audit functions.

1.7 RESEARCH METHODOLOGY

1.7.1 DATA COLLECTION

A combination of two methods will be used for the collection of data, namely literature review and surveys.

1.7.1.1 Literature Review

An extensive literature and document review will be conducted. This will involve a study of relevant journal articles, conference papers and Web-based documents.

1.7.1.2 Surveys

Surveys are methods of data collection in which information is gathered through interviews or questionnaires. In this study questionnaires and structured interviews will be used to collect information on the -

- understanding of internal audit by Local Government management; and
- approach and strategies employed by different municipalities in Internal Audit Departments.

1.7.2 DATA ANALYSIS

Both qualitative and quantitative data will be collected. Categories will be developed from the literature review for the qualitative analysis of data collected from interviews and questionnaires.

The dissertation will be arranged in a number of chapters and the following are chapters being proposed.

1.7.3 PROPOSED CHAPTERS IN THE DISSERTATION

Chapter 1: Aim and Methodology of the Study

Chapter 1 will provide background and general information regarding the study, including the objectives of the study, layout of the dissertation, definition of terms, description of methodologies and a brief outline of chapters. The scope of the research will be covered in this chapter.

Chapter 2: Literature Review on Internal Auditing

This chapter will introduce available current literature that will be used in the study to assist with the qualitative analysis of the collected data. It will provide an in-depth look at the literature review on internal auditing in order to gain insight in the relevancy of the material to the problem statement.

Chapter 3: The Composition of Local Government

This chapter will introduce available current literature that will be used in the study to assist with the qualitative analysis of the collected data. It will provide an in-depth look at the literature review on Local Government in order to gain insight in the relevancy of the material to the problem statement.

Chapter 4: Research Design and Methodology

In this chapter the research design and methodology will be discussed which will include the aim and objectives of the study, data gathering methods, data analysis and conclusions.

With a population of 284 local authorities in South Africa (6 metropolitans, 47 district municipalities, and 231 local municipalities) the approach of random quota sampling will be used. A sample size of 100 that will include 6 metropolitan and 94 from district and local municipalities will be taken in all nine provinces.

Chapter 5: Research Results and Interpretation

This chapter will be dedicated to research results of the collected quantitative and qualitative data. It will also include a presentation of the results in different forms, i.e. tables, graphs, explanations, etc.

Chapter 6: Conclusions and Recommendations

Chapter 6 will be dedicated to conclusions drawn from the research results. Suggestions and recommendations will be made to the Local Government sector.

CHAPTER 2 - LITERATURE REVIEW ON INTERNAL AUDITING

2.1 INTRODUCTION

Advancements in technology, improvement in service delivery processes and increase in volume of transactions brought along control-related problems to organisations as, in most instances, inferior controls coupled with inefficiencies, corruption and fraud led to municipalities failing their communities in terms of quality service delivery and optimum utilisation of resources.

The Public Finance Management Act (PFMA) directs the Accounting Officer of the department, trading entity or constitutional institutions to ensure that it has, and maintains, effective, efficient and transparent systems of financial and risk management and internal control. The PMFA requires the Accounting Officer to ensure that a system of internal auditing exists under the control and direction of an audit committee whilst complying with and operating in accordance with regulations and instructions.

This directive taken by the South African government has seen most municipalities setting up or in the process of setting up internal audit functions and therefore it will be interesting to step back and examine the history and role of internal auditing. It is therefore the aim of this chapter to define internal auditing with regard to its nature, role and how it can add value to the organisation. The chapter explores the evolution of internal auditing and explains the difference between internal auditing and external auditing functions. It also highlights some of the challenges that could emerge during the process of internal auditing, as well as how to establish a successful internal auditing function. The chapter furthermore explores how internal auditing can be utilised to assist in attaining good governance objectives.

2.2 OBJECTIVES AND SCOPE

In order to derive maximum benefit from the literature review, the objective will be to bring together various views held by different authors and professionals on the concept of internal auditing.

References were mainly restricted to publications by academics and professional organisations. A number of articles retrieved from the Internet were also used in the research.

The purpose of the literature and documentation review was not to attempt to include every possible point of view on the internal auditing concept, but rather to include various viewpoints and approaches to the concept of internal auditing.

2.3 DEFINITION OF INTERNAL AUDITING

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” (IIA, 2005)

Venables and Impey (1988:1) describe internal auditing as a function that management has chosen to establish as part of the process of monitoring performance to help achieve the operational targets and plans of the organisation. Independence of internal auditors means that auditors should be independent of the activities they audit. An auditing function needs to be free from interference in determining the scope of its work, performing its duties and communicating the results (ECIIA, 2005:28).

2.4 DIFFERENCE BETWEEN INTERNAL AND EXTERNAL AUDITING

Internal auditors differ from external auditors in that they are employees of the organisation they audit. External auditors perform audits just like internal auditors, but usually work for outside organisations, for example at external auditing firms. Some organisations outsource the function of internal auditing by employing outside consultants to perform internal auditing (Barlow et al., 1997:14).

2.5 EVOLUTION OF INTERNAL AUDITING

Internal auditing has its roots in external auditing. The main objective of external auditors is to express an opinion on the fair presentation of an organisation's financial statements, whilst the organisation's needs have been seen to be beyond the service provided by external auditors. Initially the relationship between the internal auditor and the auditee used to be of an adversarial nature. Currently relationships have improved to a level where auditing serves as a guide to improve operations whilst maintaining a cooperative working relationship with clients and auditees (Sawyer et al., 2003:4).

The focus of the internal auditing function has shifted from only examining financial statements to reviewing performance in all aspects of business, ranging from marketing to production activities, and from personnel to industrial relations. Internal auditors have embraced a participatory approach to auditing in order to facilitate the expansion of the scope of internal auditing. The complexities of modern business, coupled with economical development, that lead to high production volumes, demand that the organisation should know whether the financial systems employed could be relied upon for decision-making and whether the organisation's acquired assets are safeguarded. Given that the external auditing function could not give the needed assurance as to the performance of the organisation's financial systems and activities,

organisations had to establish internal auditing functions (Barlow et al., 1997: 19-20).

The evolution of modern internal auditing commenced in 1941 at the time when the Institute of Internal Auditors (IIA) was formed. Since the inception of the Institute of Internal Auditors the scope of internal auditing has expanded to include the appraisal of all operations of the enterprise (Sawyer et al., 2003:9-10). The evolution of internal auditing has seen the practice shifting from an accounting-oriented craft to a management-oriented profession. Internal auditing has also moved from attesting to the accuracy of financial matters to providing services that include the examination and appraisal of both controls and performance throughout public and private entities (McNamee & Georges, 1998:1). The participatory approach by internal auditors has been encouraged by the complex systems of individual businesses. This means that a partnership should exist that will ensure that managers assist the internal auditors in order to understand the nature of the business and its risk areas, and also to get commitment to the auditing process (Barlow et al., 1997:20). Organisational growth comes with increased volumes and complexity that impact on the operations, create managerial problems and put new pressure on higher-level management. New ways of responding to these pressures had to be sought by the managerial executives and it was quite natural that management recognized the possibility of better utilisation of the services of internal auditors. Over time these factors compelled the change in approach to the audit function (Brink & Witt, 1982:5).

Management observed internal auditors moving through the organization in various departments and in various geographical areas and seized the opportunity to ensure that the activities of the internal auditors should improve the value chain of the organisation with relatively little increase in cost. Simultaneously, the internal auditors took advantage of the existing opportunities and initiated new types of services. The character of the internal

auditor was therefore gradually transformed to become more management-oriented. Because the internal auditing function used to be accounting-oriented, this upward trend was first felt in the areas of accounting and financial control. It was subsequently extended to include the non-financial areas (McNamee & Georges, 1998:1).

In order to simplify the management of risk, it will be helpful to begin with a risk assessment of the organisation. The risk is measured in terms of likelihood and impact, where likelihood refers to management's estimate of the probability of an event occurring, for example in instances where a new competitor enters the market. Impact refers to the negative financial, strategic and operational consequences associated with an event, for example the cost of developing a new product line for a rapidly changing market (Engle, 2005:22). The growth of the economy in the United States after the First World War encouraged railroad executives to adopt an intensive internal audit programme because they needed assurances that their stationmasters across the country were handling receipts properly. This development of internal auditing can be attributed to the increased complexity and sophistication of business and government operations and the fact that growth limited management's ability to monitor its operations (Sawyer et al., 2003:9-10).

2.6 NATURE OF INTERNAL AUDITING

In order for internal auditors to be objective, they should maintain an independent mental attitude when performing audits. Internal auditors are not to subordinate their judgement on audit matters to that of others. It should be clear that designing, installing and operating systems are not audit functions because performing such activities is presumed to impair audit objectivity (Sawyer et al., 2003:23). To ensure that independence is sustainable, the chief executive should report functionally to those responsible for governance, i.e. the audit committee, the board of directors or another appropriate body, and report

administratively to an appropriate senior level within the organisation. The regular review and approval of the internal audit charter and mandate by the audit committee will assist in ensuring that internal auditing remains independent (ECIIA, 2005:28). The Institute of Internal Auditors (IIA, Attribute Standard 1000) insists that there be a formally defined audit charter that is in line with IIA Standard and approved by the board. The audit reporting structure should be seen in the authority and status given to the audit function within the organisation while objectivity refers to the auditor's ability to be free of bias in making evaluation. The IIA Standards (Standard 110) require that the auditing function should be sufficient to permit the accomplishment of its responsibilities and that auditors should be objective in performing audits (Standard 120) (Barlow et al., 1997:1-13).

The nature of auditing is about appraisal that involves the evaluation of systems of internal control, and the processes, procedures and policies employed to meet the objectives and goals of the organisation. In instances where unit managers perform these evaluations and report the results themselves, auditors could be called upon to evaluate the quality of the reports and attest to their validity. The process of evaluation presupposes that the evaluator will have established performance standards against which to evaluate performance. For example, to evaluate unit performance the auditor should compare the actual performance against set performance standards. It should also be noted that to evaluate the quality of controls, the auditor must have performance standards against which to assess the quality of such controls (Barlow et al., 1997:13-14). The internal auditing department should have sufficient organisational status in order to accomplish its audit activities. The head of the internal audit function should have sufficient authority to promote independence and to ensure a broad audit coverage, adequate consideration of audit reports and appropriate action on audit recommendations (Sawyer et al., 2003:23). According to Venables and Impey (1998:38) there is a risk of objectivity being impaired if the internal auditor holds authority of responsibility for an activity he is required to audit. However,

when an auditor has been consulted and has expressed an audit opinion on proposed changes in control systems, his objectivity needn't be prejudiced when subsequently reviewing those systems. The role of internal audit is to assist management in the implementation of its risk-management programmes and activities. The internal audit function provides management with the assurance that they are effectively executing their risk-management responsibilities. In doing this the internal audit function narrows the distinction between risk management and governance. Internal audit has a responsibility to initiate a top-down review of the overall risk-management structure and to verify that the risk-management structure and processes are aligned; and in particular that the risk profile and appetite of the organisation are in sync (Molusi, 2004). Hornby (1989:1304) defines "sync" as synchronization that means to operate or move at the same time and at the same speed.

The director has a responsibility to sell the internal audit function in such a way that in the minds of top-level management it is perceived as a service adding value and in return top-level management will render much needed support. The nature of internal auditing includes a detailed verification of transactions and appraisals of all operations within the enterprise, as well as special studies. This positioning will lead to management's approval and will add value. The section on management of internal auditing departments in the Standards for the Professional Practice of Internal Auditing, contained in General Standard 500 of the IIA, adequately explains the responsibility of the director. The standards make it incumbent upon the director to take the responsibility or develop a charter for the department; to set goals, work schedules, staffing plans, financial budgets and activity reports; to draft written policies and procedures; and to maintain a quality assurance programme (Sawyer et al., 2003:886). Marais (2003) states that the purpose of quality control within internal auditing functions is to ensure that internal auditing functions add value by providing a quality service. Marais's research project that investigated the importance of quality control within internal auditing functions as prescribed by the standards and

guidelines of the internal auditing profession, concluded that quality control was not adequately applied within all internal auditing functions in South Africa. Marais concluded that compliance with the Internal Auditing Standards (implemented on 1 January 2002) should contribute to improving the situation. The internal auditors' professional body should motivate internal auditing functions to exercise quality control according to the internal auditing standards. This will uplift the image of the internal auditing profession and ensure the future existence of internal auditing functions.

The ability to shift the focus from the basic financial procedures allows space to tackle high-level problems that are the main premise upon which audit professionalism is based. This shift has made it possible to widen the scope of audit work and accommodate a variety of disciplines, including civil engineering, statistics, management, computing and quality assurance (Pickett & Viten, 1997:18).

Furthermore, an internal auditing department that incorporates enterprise risk management in its own audit planning will benefit from improvement of risk analysis and this will lead to the efficient use of resources (Walker et al., 2002: 11).

It is important for an internal auditor to have a more detailed knowledge of all aspects of the organisation's operations. This knowledge will assist the internal auditor in raising intelligent questions during the examination of transactions entered in the financial records. This means that internal auditors should be given an opportunity to occasionally observe and learn about all the production processes and the labour utilised up to the stage of the finished product (Bigg & Davies, 1973:3).

The Institute of Internal Auditors' code of ethics states that auditors are expected to uphold the principles of integrity, objectivity, confidentiality and competency.

By integrity the Institute of Internal Auditors refers to the performance of audit work in a manner consistent with honesty, diligence and responsibility, whilst observing the law and making disclosures as expected by the law and the profession. Furthermore, auditors will not knowingly be party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the organisation that they serve. By objectivity the Institute of Internal Auditors refers to the fact that auditors will not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment whilst mindful that such participation includes those activities or relationships that may be in conflict with the interest of the organisation. Furthermore, internal auditors will not accept anything that may impair or be presumed to impair their professional judgement. They will disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review. By confidentiality the Institute of Internal Auditors refers to internal auditors being prudent in the use and protection of information acquired in the course of their duties. They will not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation. By competency the Institute of Internal Auditors refers to internal auditors engaging themselves only in those services for which they have the necessary knowledge, skills and experience – they will perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing whilst continually improving their proficiency and the effectiveness and quality of their services (IIA, 2000: 1-3).

As internal control is integral to effective corporate governance and internal auditors are the major role players in the evaluation and reporting of the adequacy of controls, it is critical that the internal audit function reports directly to the audit committee and not to the Chief Financial Officer. Auditors normally report the results of their evaluations to their customers and provide independent opinions on the quality of the areas that they have evaluated. Opinions are usually reported in writing, although they may also be reported verbally. The

purpose is to provide feedback to customers on the results of the evaluations. The customers will then use this information to satisfy their need for assurance that standards are being met, or will be met (Barlow et al., 1997:14). The direct contact with the Chief Executive Officer, instead of the Chief Financial Officer as was historically the case, will assist in improving the effectiveness of the internal auditor (Pacini & Brody, 2005).

2.7 ROLE OF INTERNAL AUDITING

It is imperative that the internal audit function assists the organisation by ensuring that there is adherence to organisational procedures and policies, and accurate maintenance of financial records. Furthermore, organisations expect the internal audit function to also conduct fraud detection exercises. The internal auditor was initially viewed as playing a limited role of financial checker - more of a policeman than a coworker in the organisation (Brink & Witt, 1982:5).

The objective and scope of internal auditing include appraisal by internal auditors of the diverse operations and controls within an organisation to determine whether financial and operating information are accurate and reliable, risks to the enterprise are identified and minimized, external regulations and acceptable internal policies and procedures are followed, satisfactory operating criteria are met, resources are used efficiently and economically, and the organisation's objectives are effectively achieved. All these activities are aimed at assisting members of the organisation in the effective discharge of their responsibilities (Sawyer et al., 2003:21). Weaknesses in internal controls have often led to high profile frauds in which controls either did not exist, or were overridden in the perpetration of fraud. Effective internal audit functions have a responsibility to recognize fraud-related risks emanating from weaknesses in internal control and suggest corrective measures and improvements in internal controls (Pacini & Brody, 2005).

The transformation of the Canadian government (Ontario Province) internal audit division included setting out mandatory requirements for all government ministries and agencies and defining the internal audit division's roles and responsibilities. This included the chief internal auditor's authority as the internal auditor for the entire government and, separately, an auditor general who reported directly to the Ontario legislature providing external audits services. A government-wide audit committee of deputy ministers was established and tasked with improving accountability and controllership across the government's 70 000-member public service organizations. This audit committee helped to ensure that government risks were being addressed through a strong control environment that promoted an effective internal audit function across the government (Lapointe, 2004:65).

When the opportunity to override internal controls presents itself and is coupled with lucrative incentives to meet accounting objectives, senior management may engage in fraudulent financial reporting. In order to avoid this situation, corporate directors need to design a strong audit committee charter and perform on time all the functions that are specified in the charter. The duty of the audit committee members is to inquire into the adequacy of their corporation's internal controls, both in theory and in practice, and to take actions that will minimize the possibility that internal controls will be overridden by management, thereby resulting in undetected fraud (AICPA, 2005:2). The internal audit function performs its duties in accordance with a mandate that is set out in the audit charter approved by the board of directors and audit committee. Traditionally the auditor will usually focus on examining and evaluating the quality of the manager's controls and not those of the governing board. The mandate does not allow for auditors to audit the owner's control over the board, but instead the external auditors provide the owners with assurance that the governing board's controls are adequate to provide assurance that top managers will perform well. It is possible that an audit committee can instruct the internal audit function to examine and evaluate the quality of the governing board's controls. During the execution of this task the

internal audit function should conduct performance reviews, remuneration reviews, performance-linked reward systems, profit-sharing and share-participating schemes, other incentive schemes and disciplinary controls (Barlow et al., 1997:16).

An audit committee is a board or governing authority's subcommittee. It assists the authority in performing specific tasks related to internal control, risk and governance and also oversees the internal audit function. The committee meets regularly and reports to the authority (Lesejane, 2003). The transformation process of the audit division of the Canadian government (Ontario Province) brought along significant adjustments of importance for many of the audit groups. This shift towards risk management and a business consulting approach represented a cultural change not only for staff, but also for the audit clients. Once the clients recognised the value of internal auditing's revised approach, they welcomed the division's new repertoire of service (Lapointe, 2004:65).

The audit committee uses auditing as a control to get assurance that managers will achieve their performance objectives. Auditing examines the process and thereafter forms an opinion and gives assurance regarding the quality of a unit's control and/or the quality of the unit's actual performance. It is the responsibility of the governing board to take corrective action in the event of the unit performing poorly. The stakeholders' interests are catered for by the governing board that relies on managers to act in the best interest of the organisation – managers are the board's agents. The shareholders rely on the governing board to manage the agency's problem and the governing board can utilise the auditing function to manage this problem (Barlow et al., 1997:16).

Barlow et al. argue that effective auditing can add value to the organisation by improving the performance of its management activities and the quality of its managers. Auditing can be used to assist the unit managers in improving the effectiveness, efficiency and economy of their units. They continue to argue that

focusing on improving the effectiveness of activities adds more to organisational performance than focusing on improving the efficiency and economy of activities. They cite an example of an auditor auditing the canteen activity. "If he makes a suggestion that results in paying less for food, he'll save the organisation money in running the canteen activity. The canteen will be more economical and may save the organisation hundreds of rand every month. If, on the other hand, he makes suggestions that result in labour savings or less food wastage, he'll have made a greater contribution to the organisation's profitability. The canteen will be more efficient and may save thousands of rand every month. However, if he makes suggestions that result in the canteen providing a better quality service and, by that, allows it to demand higher prices and/or attract more customers, he'll make an even greater contribution. The canteen will be more effective and may make tens of thousands of rand in additional income. To contribute to organisational performance, auditors must have a thorough knowledge of the business. If the auditor doesn't understand the business, he may focus on the wrong areas or fail to provide meaningful recommendations for improvement to organisational performance." (1997:41)

In order to achieve a world-class internal auditing function, the service delivery model consisting of four components (customer needs, enablers, delivery process, monitoring and quality) should be implemented. All these components are linked directly to each other and if one component fails, they all fail. The first component, customer needs, refers to knowing who your customers are, what their needs are, servicing big customers as well as small ones, and effective marketing. The second component, enablers, should be an authority as defined in an internal audit charter. It must have a definitive vision and mission statement and the best people must be found, trained and retained. It must also obtain the most appropriate tools and have the right administration and support team. The third component is the delivery process which means formalising methodologies in line with the Standards for the Professional Practice of Internal Auditing (SPPIA), integrating assurance with risk management as well as governance,

using appropriate project-management techniques, not being afraid to use consultants and ensuring that reports are of the highest calibre and useful. The fourth component is that of monitoring and quality which refers to building in appropriate monitoring mechanisms, for example peer reviews, management information systems and time control reporting, research and learning from others, quality assurance reviews and believing in the concept of KEIZAN, the quest for zero defect (Hollyman, 2003). According to Slack et al. (2001: 489, 611) Keizan is a Japanese word meaning improvement. They furthermore explain that Keizan means improvement in personal, home, social and work life. Applying the Keizan concept to the workplace, means continuing improvement involving everyone, including managers and workers.

The technical ability acquired by managers during tertiary education does not automatically translate into managers being equipped with the knowledge and skills that will enable them to manage effectively. Also, manager-training programmes tend to focus on the human relations aspects of management. Human skills are important, but managers also need performance management skills, which will enable them to improve organisational performance in their areas of responsibility. Often when organisations are faced with this challenge, they rely on effective auditing that may result in improvement of the quality of the management process with regard to organisational performance (Barlow et al., 1997:41-42). The challenge faced by top management is to formulate a strategic plan and to use it as a control tool to improve organisational performance. Because of this challenge, top management view their activities as areas not to be scrutinised by auditors. In order to sustain internal auditing into the future, internal audit functions should ensure that risk, control and governance are audited in line with the needs of the audit committee and board of directors. Their audit plan should be risk-based, make a difference and give assurance to the board that audit activities are adding value (Payne, 2003).

The standards of generally accepted management practice (GAMP) are used to set the standards for auditors and can be developed by the auditors or managers, or both. Performing auditing by means of the Business Approach to Internal Auditing (BAIA) can assist in the development of GAMP within the organisation and auditors can assess the quality of a unit's control system by evaluating it against the standards of GAMP. By using GAMP, managers can manage risk themselves and this will reduce the role of auditors in taking corrective action, because unit managers monitor performance and implement corrective action when required (Barlow et al.,1997:42-43). Balkaran (2005) argues that all the stakeholders inside and outside of the organisation should view internal audit as a key pillar in the governance process. This status requires that internal auditors should perform in such a way that they add value to the organisation. Balkaran further states that a good auditor was traditionally measured on the basis of certification, and technical knowledge of the company and its industry. Their current status now demand that, in their performance, they should go beyond that and master interpersonal aptitude, cultural awareness and other soft skills if they are to be seen as adding value and in this way they will become truly high-powered professionals.

The current role of internal auditors is to ensure that the evaluation of the effectiveness of enterprise risk management is catered for and to recommend improvements. This role is confirmed by the Standards established by the Institute of Internal Auditors that specify that the scope of internal auditing should encompass risk management and control systems. This valuation should include evaluating the reliability of reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Internal auditors play a key role in assisting management and the board of directors or audit committee by examining, evaluating, reporting on, and recommending improvements to the adequacy and effectiveness of the entity's enterprise risk management (COSO 2004:88). Internal Audit Standards stipulate that auditing can be defined as a control that functions by examining and evaluating the effectiveness of other

controls within the organisation. It should also be noted that a control is any measure, system or device that provides assurance regarding the achievement of an activity's performance objectives (IIA, 2005).

The King II report states that the board of directors is ultimately accountable and responsible for the performance and affairs of the company. Delegating authority to board committees or management does not mitigate the duties and responsibilities of the board and its directors or relieve them thereof. Furthermore, the board is responsible for ensuring that generally recognized risk management and internal control models and frameworks are used. This should maintain a sound system of risk management and internal control aimed at providing reasonable assurance regarding the achievement of organisational objectives, the effectiveness and efficiency of operations, the safeguarding of assets (including information, compliance with applicable laws, regulations and supervisory requirements), as well as the reliability of reporting. The King II report also refers to the status and role of the internal audit function and states that companies should have an effective internal audit function of which the purpose, authority and responsibility must be formally defined and which has the respect and co-operation of both the board and management (King II, 2002). All organisations exist in order to achieve their goals and objectives. The internal auditing function has an important role to play in this regard by examining and reporting on risk exposures and the organisation's risk-management efforts (McNamee & Georges, 1998:1). According to Cressey & Edwin (1978) individuals commit fraud when three distinct factors are present. The first factor is that of financial need that cannot be shared. Cressey & Edwin's study revealed that some perpetrators committed crimes only when they experienced financial need. The second factor is that of a perceived opportunity for illicit gains. The study revealed that perpetrators only committed crimes once the idea had crossed their minds. The third factor is the personal rationalisation of the act. The results of the study revealed that crimes were only committed when perpetrators did not think the acts were dishonest. Cressey & Edwin's theory led to a concept

known as the Fraud Triangle that constitutes perceived opportunity, pressure and rationalisation. "Fraud may be defined as the use of deception with the intention of obtaining an advantage, avoiding an obligation, or causing loss to another party. This most often occurs in the context of a relationship with a customer, client or colleague on an individual or organisational basis" (ACPO, 2005). As part of internal control, aimed at combating fraud, organisations should check professional credentials and confirm academic degrees of potential employees. Furthermore, it is necessary to perform a second reference check six months after the employee has commenced working for the organization, as well as to conduct a criminal background check on prospective employees. Internal auditors can assist the organisation in performing background checks to effectively execute this internal control procedure. Internal auditors can detect contract fraud that normally includes kickbacks, bribery or conflicts of interest among the organisation's employees during the review of company contracts and agreements (Pacini & Brody, 2005).

2.8 CHALLENGES IN INTERNAL AUDITING

According to Wollschlager (2004: 24) a common mistake during an internal audit is the selection of samples too large in relation to the available resources. Internal auditors often make the mistake of not staying within the scope of the audit. Wollschlager argues that, should conditions arise that compel the internal auditor to deviate from the scope of an audit, the audit should address a specific focus and be brought to completion in a timely manner. All other issues identified should be documented and followed up in an organised and prioritised manner. Barlow et al. (1997:14-15) highlight the fact management should regard the audit function as one that adds value to the organisation in order for it to exist and be supported. However, if management does not perceive the audit function to add value, it risks being closed down as a cost-saving measure. The Institute of Internal Auditors' Standards aims to give clarity with regard to the appropriate role of internal auditing and the Standards make it clear that internal auditors

should be objective about the activities they audit. This objectivity should be reflected by their position and authority within the entity. The Standards further emphasise the importance of organisational position and authority by highlighting the fact that the effectiveness of the internal auditor also relies on reporting to an individual who has sufficient authority to ensure appropriate audit coverage, consideration and response. The Standards insist that the selection and dismissal of the chief audit executive may only occur with the blessing of the board of directors or audit committee. The Standards emphasise the importance of access to the board or audit committee and the authority to follow up on findings and recommendations (COSO, 2004:88). Barlow et al. (1997:12), in support of the independence of the audit function, mention the fact that the financial manager will not allow the internal auditor reporting to him to include in his audit report evidence that he (the financial manager) does not meet his performance objectives because of deficiencies in the department's controls. The financial manager might disagree with the internal auditor because he does not want his dirty linen hanging out in public. The financial manager may block the audit report and perhaps secretly go about correcting the control deficiencies identified by the auditor. In order for the internal audit function to be effective, it should report to a properly constituted audit committee. The current and demanding auditor's role requires that he should be independent of the organisation's managers, including the Chief Executive Officer (CEO) or Managing Director (MD).

The improvement of controls over Information System Security is another challenge that management has to deal with as weaknesses in adequate control can lead to input, throughput or output tampering.

Input tampering occurs when false or fraudulent data is processed into the information system. Throughput tampering occurs when alterations are made to the computer programmes or codes. Output tampering occurs when data such as customer lists, merger plans or trade secrets are stolen from the system. The

information system environment requires that only legitimate users have access to the network and associated data via encrypted passwords. Internal auditors should therefore ensure that only legitimate users have access to the organisation's network and systems (Pacini & Brody, 2005). Auditing is normally a control over managers and also a control over controls. This view of the auditing concept supports the argument that the function must be independent of managers. Ideally, part of the responsibility of internal auditing should be to audit top managers' activities. The approach of auditing top managers' strategic management activities is one way in which an auditor can add value and contribute to improving the performance of an organisation. However, it should be noted that auditing top managers' activities is a hot issue facing the internal auditing profession today (Barlow et al., 1997:17).

Managers are responsible for, among others things, identifying, managing and controlling the risk of not achieving departmental goals, i.e. risk management. Part of the managers' responsibilities is to ensure the achievement of their performance objectives. Fraud is one threat that may prevent a unit manager from achieving his performance objectives. Therefore, managers must have a primary responsibility for the prevention and detection of fraud. Managers do not, however, regard this as their responsibility and they expect the auditor to be responsible for the prevention and detection of fraud. By developing managers' skills, this perception can be corrected (Barlow et al., 1997:37).

2.9 SUMMARY

The purpose of this chapter was to express the various views held by different authors and professionals on the concept of internal auditing. Internal auditing is a function that should be conducted in an objective and independent manner in order to add value and improve the organisations' operations.

Modern internal auditing is not only about examining financial statements, but also about reviewing performance in all aspects of business, ranging from marketing to production activities, and from personnel to industrial relations. Internal auditing has become an important component of the value chain in most organisations.

In order for internal auditors to be objective, they should maintain an independent mental attitude when performing audits. This means that designing, installing and operating systems are not audit functions, because performing such activities is presumed to impair audit objectivity. The structure of an organisation is important if the internal audit function is to remain independent. To achieve this, the chief executive should report functionally to those responsible for governance, i.e. the audit committee, the board of directors or another appropriate body; and administratively to an appropriate senior level within the organisation. The nature of auditing should involve the evaluation of systems of internal control and the processes, procedures and policies employed to meet the objectives and goals of the organisation. Whenever quality of controls is evaluated, the auditor must have performance standards against which to assess the quality of such controls. In order for the internal audit function to accomplish its audit objectives, it is important that the head of the internal audit function should have sufficient authority to promote independence and to ensure a broad audit coverage, adequate consideration of audit reports and appropriate action on audit recommendations.

Part of the role of the internal audit function is to provide management with the assurance that they are effectively executing their risk-management responsibilities and at the same time it narrows the distinction between risk management and governance. Internal audit initiates a top-down review of the overall risk-management structure and verifies that the risk-management structure and processes are aligned and there is synergy between the risk profile and its environment (appetite).

The director has the mandate to develop a charter for the department; to set goals, work schedules, staffing plans, financial budgets and activity reports; to draft written policies and procedures; to develop the department's human resources; to coordinate with the external auditors; and to maintain a quality assurance programme.

The internal audit function is more risk-oriented and consultative in nature and as a result auditors can bring to the enterprise risk-management arena valuable knowledge and insights that can help the enterprise risk-management initiative to run more smoothly and effectively.

In order for the internal auditor to raise intelligent questions during the examination of transactions entered in the financial records, he/she must have a more detailed knowledge of all aspects of the organisation's operations.

All internal auditors are required to uphold the principles of integrity, objectivity, confidentiality and competency in line with the Institute of Internal Auditors' Code of Ethics.

The internal audit function should also conduct fraud detection exercises. The objective and scope of internal audit includes appraisal of the diverse operations and controls within an organisation to determine whether financial and operating information is accurate and reliable, risks to the enterprise are identified and minimized, external regulations and acceptable internal policies and procedures are followed, satisfactory operating criteria are met, resources are used efficiently and economically, and the organisation's objectives are effectively achieved.

In order for the internal audit functions to be effective, they should be adequately resourced. This will assist in executing their responsibility of recognizing fraud-related risks emanating from weaknesses in internal control and suggesting corrective measures and improvements to internal controls

The duty of the audit committee members is to inquire into the adequacy of their corporation's internal controls in practice and to take actions that will minimize the possibility that internal controls are overridden by management, which may result in undetected fraud.

The mandate does not allow for auditors to audit the owner's controls over the board, but instead the external auditors provide the owner with assurance that the governing board's controls are adequate to provide assurance that top managers will perform well.

A good auditor should not be measured on the basis of certification or technical knowledge of the company and its industry. They must go beyond that and master the interpersonal aptitude, cultural awareness and other soft skills if they are to be regarded as adding value to an organization and in this way they will become truly high-powered professionals.

Companies should have an effective internal audit function of which the purpose, authority and responsibility must be formally defined and which must have the respect and co-operation of both the board and management.

In order for the audit function to exist and be supported by management, it needs to be seen as adding value to the organisation. However, should management not regard the audit function as one that add value, it risks being closed down as a cost-saving measure.

The selection or dismissal of the chief audit executive should only occur with the blessing of the board of directors or audit committee. The approach of auditing top managers' strategic management activities is one way in which an auditor can add value and contribute to improving the performance of organisation.

CHAPTER 3 - THE COMPOSITION OF LOCAL GOVERNMENT

3.1 INTRODUCTION

The aim of this chapter is to show the legislation within which municipalities operate starting with the old dispensation and thereafter moving to the new dispensation. The chapter will discuss how the municipality should function within the legal framework to achieve its objective of service delivery to the community.

3.2 OBJECTIVE AND SCOPE

The objective of this chapter is to show the applicable legislation on local government during the previous and in the new dispensation.

References are limited to publications by authors and presentations made by practitioners on local government and related legislation during the previous and in the new dispensation.

3.3 LEGISLATION PRIOR TO 1994

The three acts that convey powers to the provincial councils to legislate on municipal institutions, divisional councils and similar institutions are The South Africa Act of 1909, the Republic of South Africa Constitutional, 1961 (Act 31 of 1961) and its successor, and the Provincial Government, 1961 (Act 32 of 1961) (Craythorne, 1993: 5-6). An act is a decree or law made by a legislative body, for example the Act of Parliament (Hornby, 1989:11). Power is the right an institution or a person has to make decisions or to take actions in order to execute or discharge a responsibility (Gildenhuys, 1997: 74). Cloete (1997:12-13) states that prior to 1994 the South African central government had shown little interest in municipal affairs and contributed nothing to the development of local government and administration systems appropriate for urban areas. Cloete further highlights the fact that the local government legislation passed by Parliament before the

Republic of South Africa Constitutional Act, 1983 (Act 110 of 1983), addressed specific issues affecting individual municipalities on matters of a local nature, for example a law would be passed relating to the extension of an area in Durban or to Church Square in Pretoria, or relating to African urban areas and to local financial affairs. The legislation passed before the Republic of South Africa Constitutional Act, 1983 (Act 10 of 1983), resulted in provincial councils of each of the four provinces passing ordinances that developed own systems of local government and administration for Coloureds, Indians and Whites. The passing of provincial ordinances introduced a system with no significant differences among the four provinces. The government and administration of the municipal affairs of Africans were treated differently – they were dealt with in terms of acts passed by Parliament and were entrusted to the provincial authorities only from 1 October 1986. Ismail et al., (1997:2) define local government as that level of government that is commonly defined as a decentralized, representative institution with general and specific powers devolved to it by a higher tier of government (central or provincial) within a geographically defined area.

3.4 TRICAMERAL PARLIAMENT AND FINANCIAL REQUIREMENTS

The reform process by the apartheid government aimed at bringing about separate systems of local government for Coloureds, Indians and Whites commenced with the creation of the Department of Constitutional Development and Planning in August 1982 (Cloete, 1997:13).

The financial year for White local authorities, as prescribed by the Provincial Ordinance, extended from 1 July in one year to 30 June of the following year, which was the same as that of Black local authorities prescribed in the Financial Regulations for Towns Councils and for Regional Services Councils. Legal requirements for the capital budgets for the Cape and Natal provinces were specific to the effect that a capital expenditure budget was to have been adopted by no later than 30 June of each year. Contrary to this, the Ordinances applicable

to the Transvaal, Orange Free State and Natal provided for the establishment of various capital funds, as well as stipulations as to how the money in those funds had to be spent. In the case of Black local authorities, section 44 (1) of Act 102 of 1982 required each council to annually draw up and submit to the Administrator a statement of estimated revenue and expenditure for the succeeding financial year. However, the contents of section 3 of the Financial Regulations for Town Councils prescribed a capital budget divided into four categories, namely immovable fixed assets; machinery and equipment; furniture and equipment; and vehicles (Craythorne, 1993: 335). A local authority is an organisation consisting of elected and appointed officials, operating within a specific geographical area with the aim of providing services to its local community. This type of authority has a relatively well-defined area of jurisdiction and local populace. The local authority has a right to govern on its own initiative, but is subject to constitutional provisions, as well as central and provincial legislation (Ismail et al., 1997:2). Legal requirements for the operating budgets of the Cape and Natal demanded that every council had to compile estimates of revenue and expenditure, adopt them and levy a rate or rates for the following financial year not later than 30 June of the current year. Natal was required to have the revenue and expenditure estimates compiled for special and trading undertaking accounts. The Cape Province was required to ensure that the mayor, the town clerk and the treasurer sign the adopted estimates and to have them forwarded within 30 days of their adoption to the provincial secretary who could call for further information. Furthermore, these estimates were to be made available for inspection by the public.

In the Transvaal the responsibility of compiling the estimates rested with the management committee and in the absence of a management committee, the statutory finance committee was responsible. Section 44 of Act 102 of 1982 required that each Black local authority draw up and submit to the Administrator a statement of its estimated revenue and expenditure in respect of the following financial year. Section 44 (3) of Act 102 of 1982 required that the Administrator

consider the statements submitted to him and authorise the local authority to apply the amount determined by him or, after consultation with the local authority, either authorise it to apply a lower or higher amount, or refuse to authorise any amount for any programme, subprogramme or project during the financial year to which the statement relates (Craythorne, 1993: 350). Authority is defined as the right someone has to command someone else to do something; also how, where and when to do it. A person or institution possessing this authority to command someone else is regarded as the higher or highest authority. It also means that a person or an institution with authority has the right to take decisions and to undertake actions independently (Gildenhuys, 1997: 73).

The Republic of South Africa Constitutional Act, 1983 (Act 110 of 1983), introduced a tricameral parliament that made provision for limited power-sharing for Coloureds and Indians. Under this tricameral parliamentary system Whites, Coloureds and Indians had their separate parliamentary chambers. The respective chambers had the power to decide exclusively on own affairs, i.e. matters of common concern. However, the voting representation of the three houses was such that the dominant party, the White chamber, retained overall control over general affairs, which included strategic functions such as macroeconomic policy, defence and labour (Cameron, 1999:78). The tricameral system provided for classification of matters to be dealt with by Parliament and the state departments into two groups. The first was general affairs (including municipal affairs for Africans) that were to be legislated on in unison by the three Houses of Parliament and administered by the state departments and other public institutions. The second was own affairs of Coloureds, Indians and Whites that had to be legislated on by each of the relevant Houses of Parliament (House of Representatives for Coloureds, House of Delegates for Indians, and House of Assembly for Whites) and administered by state departments that constituted the administrations of the Houses – one administration for each House (Cloete, 1997:13). According to the policy of “separate development” (generally known as the apartheid policy) four parts of the Republic of South Africa became

independent territories - Transkei (1963), Bophuthatswana (1977), Venda (1979) and Ciskei (1981). However, those four territories (TBVC states) did not develop their own distinctive municipal government and administrative systems. There were six self-governing territories (Gazankulu, KwaNdebele, KaNgwane, KwaZulu, Lebowa and Qwaqwa) that also did not develop their own systems of local government and administration. The Republic of South Africa Constitutional Act, 1983 (Act 110 of 1983), was based on the principle of ethnic federalism which means that power-sharing was applied on the basis of democratic representation of separate ethnic groups as opposed to democratic representation on the basis of territorial divisions, as in the case of a federal state (Cloete, 1997:14).

3.5 LEVIES DURING THE PERIOD OF THE TRICAMERAL PARLIAMENT

Craythorne (1993:355) states that the Provincial Ordinances of Natal and the Cape required that a notice be published in the press stating the rate levy for the following year and that the notice had to inform the public that the abstract of the estimates (Cape) or the estimates (Natal) would lie for inspection at the municipal offices. Craythorne further states that the Provincial Ordinance of the Orange Free State required that the estimates of revenue and expenditure be considered no later than 31 May in each year and ratified (inclusive of the town rate levied) no later than 30 June of that year, while in the Transvaal the estimates had to be compiled and presented to the council before the end of the current financial year, i.e. not later than 30 June, and each council could levy a rate or rates on ratable property.

Table 3.1: Different rates levied by the provinces in terms of the different ordinances

	Cape	Natal	Transvaal	Orange Free State
General rate	Levied	Levied	Levied	Not leviable
Town rate	Not leviable	Not leviable	Not leviable	Levied
Extraordinary rate	Levied	Not leviable	Not leviable	Not leviable
Health rate	Levied	Not leviable	Not leviable	Not leviable
Water rate	Not leviable	Levied	Not leviable	Levied
Sewerage rate	Not leviable	Levied	Not leviable	Not leviable
Special rate	Levied	Not leviable	Levied	Levied
Sanitary rate	Not leviable	Not leviable	Levied	Levied
Local rate	Levied	Not leviable	Not leviable	Levied

Source: Craythorne (1993:355-356).

It should be noted that Black local authorities, due to the apartheid system with regard to the status of Black persons, did not levy rates on immovable property, but received their income from fees and charges (Craythorne, 1993: 355-356). The different provincial legislations, as may be seen in the erstwhile Cape (Ordinance 17 of 1938), erstwhile Natal (Ordinance 25 of 1974), erstwhile Transvaal (Ordinance 17 of 1939) and the erstwhile Orange Free State (Ordinance 8 of 1962), stipulated the different rates which the councils could levy and the conditions attached thereto. The general rate as levied by the Cape, Natal and Transvaal was similar to the town rate as levied by the Orange Free State. The extraordinary rate was the rate that the Administrator could determine and direct the council to levy on all ratable property or a class of property. The health rate was the rate that the municipal or divisional council could levy to cover its share of expenditure in connection with public health (Cloete, 1997:122-124).

A water rate was meant to cover the interest and other charges for loans and administration costs in respect of the public supply of water. The same revenue from the water rate could be used to meet the deficit for a particular financial year

in connection with water supply, but it was not to exceed one half-cent per rand (Cape). Furthermore, in the Orange Free State the water rate covered the supply of water to the inhabitants of the municipality and the water rate was levied on the same basis as the town rate. The sewerage rate levied by Natal was aimed at meeting the interest and other charges for loans and the cost of administration in connection with the sewerage schemes.

A special rate was the rate intended to meet the costs of any work or undertaking of special benefit to a portion of the municipal area. This rate was not supposed to exceed 1,75 cents per rand and it had to be advertised and approved by the Administrator (Cape). For a special rate to be levied in the Transvaal, the majority of the whole council had to vote in favour thereof and the Administrator's approval had to be obtained. This special rate in the Transvaal was levied on the site value of land to meet extraordinary or abnormal expenditure for a particular area where the rateable value of property was so low that the rates levied would have been insufficient to meet actual or estimated expenditure. In the Orange Free State a special rate was used in instances where a town was unable to pay its debt. In this situation the Administrator would appoint a person known as a personal representative to consult with the council or its town clerk. When he was satisfied that the council's debts could not be paid from its current revenue, he would, with the Administration's approval, have a special rate imposed on all rateable property in the municipal area. The Transvaal and the Orange Free State levied a sanitary rate, but in the Orange Free State it was not to exceed 0,53 cents per rand of the total municipal valuation of all immovable properties within the municipal area. The local area rate was a rate levied by divisional councils on proclaimed local areas to cover the cost of services supplied to those areas. Although the divisional councils were later abolished, The Local Government Ordinance 18 of 1976 (Cape) proclaimed that divisional councils be retained and their administrations assigned to the relevant ministers responsible for own affairs local government. As a result, the Cape could still levy the local area rate. In the Orange Free State a local rate was to be levied by local boards

and bodies such as village councils and health committees who had rating powers transferred to them. The other sources of revenue for the councils were fees or charges for the use of sports fields, swimming baths or other amenities, market or abattoir charges, or charges for electricity, water and some health services such as sewerage or refuse removal. The councils received subsidies and grants directly from the central government or through provincial administration. The government contribution would take the form of an outright grant or subsidies in line with the estimated budget for public health and libraries, or for a particular service such as a resort or nature reserve, or for certain classes of road or fire services. License fees for vehicles or businesses are another source of revenue for municipalities (Craythorne, 1993: 360).

3.6 ADMINISTRATION DURING THE PREVIOUS DISPENSATION

Each province had legislation on municipal administration, including audit; the applicable legislation being the Local Authorities (Audit) Ordinance, 1938 (Ordinance 17 of 1938) (Cape), the Local Government Ordinance, 1939 (Ordinance 17 of 1939) (Transvaal), the Local Government Ordinance, 1962 (Ordinance 8 of 1962) (Orange Free State) and the Local Authorities Ordinance, 1974 (Ordinance 25 of 1974) (Natal). Parliament also passed the Auditor-General Act, 1989 (Act 52 of 1989). The relevant Provincial Ordinances stated the duties of the auditors of municipal accounts and the provincial administrators and relevant ministers made the regulations regarding the auditing of the accounting records and financial statements. The Ordinances required that the reports of the external auditors be submitted to the local authority. In Natal and the Orange Free State the public was notified in the press that the auditor's reports were open for inspection. In the Cape Province it was required that the minutes of the council meeting where the auditor's report was discussed be made available within 14 days to the editor of at least one English and one Afrikaans newspaper circulating in the municipal area. In addition, the auditor's reports had to be submitted to the administrator or the director-general of the

province. It was to be expected that the members of the public, municipal councils, the provincial authorities, the state departments, as well as the ministers, would use the results of the auditing of local authorities' accounts for control purposes and to enforce public accountability (Cloete, 1997:119-120).

Accountability means being ultimately held responsible to account for the success or failure in the assigned area of operation and control. It is therefore expected that someone held responsible for discharging certain actions or duties and making decisions in respect thereof, must eventually account to a higher authority for the results of such actions and decisions (Gildenhuys, 1997: 74). The provisions in the Provincial Ordinances required that every local authority would undergo an audit of its financial records and transactions either by the Auditor-General or an auditor appointed by him. The Provincial Ordinance in the Cape stated that the Auditor-General would decide whether the audit should be complete or continuous and it invariably became more likely to be continuous in the larger municipal councils. According to section 43 of Act 102 of Black local authorities, the accounting records and financial statements of a local authority were to be audited by the Auditor-General with effect from the financial year starting 1 July 1988. The details of the audit for the accounts of Black local authorities were outlined in the financial regulations applying to Town Councils. Section 13 A (2), in so far as regional services councils were concerned, required that the books, statements, accounts and balance sheets of Regional Services Councils be audited by the Auditor-General (Craythorne, 1993: 373-374).

Craythorne (1993: 373-374) states that the Provincial Ordinances in all provinces and in the Black Local Authorities Act stipulated that the auditor had a general duty to certify the accounts after examining all relevant books, accounts and records, and to submit a report with an abstract of accounts. The details contained in the Provincial Ordinances of the Cape and the Orange Free State and the financial regulations applying to town councils for Black local authorities required the auditor to examine whether financial statements, books, accounts,

records of receipt, custody or issue of moneys, securities, as well as other property of the council, were kept. The auditor had to satisfy himself that all reasonable precautions had been taken to safeguard the proper collection of and accounting for moneys due to the council and that all laws relating to the collection and payments of moneys to and by the council had been adhered to and that all expenditure was supported by sufficient vouchers, authority and proof of payment. In addition, the Provincial Ordinance of the Orange Free State required the auditor to satisfy himself that the title deeds and securities of the council were in order, as well as that provision had been made for the redemption of loans and the depreciation of assets. The Black Local Authorities Act on the other hand required the auditor to satisfy himself that proper provision had been made for the redemption of any money borrowed by the council and to carry out a survey of the internal verification and control of the council's financial statements.

Provincial legislation and the Black Local Authorities Act, 1982 (Act 102 of 1982), also required the auditor to submit a report. In all provinces the report went to the provincial auditor, but in instances where an outside auditor was appointed, the report had to be submitted to the provincial secretary. Furthermore, in the Transvaal the report went to the local government auditor and to the council if an outside auditor was appointed, while in Natal the report went to the Administrator and the council. The audit report on a Black local authority went to the administrator and the chief executive officer of that local authority. The Ordinances further required that, in the Cape, the report and abstract of accounts had to be submitted to the council for examination and settlement. In the Transvaal the town clerk had to submit the copies of the report to the mayor and the finance or management committee, after which the report had to be considered by the committee concerned and the council (Craythorne, 1993: 374). The Provincial Ordinance required that, in the Orange Free State, the report be considered by the council who would give their comments to the provincial secretary. In Natal it was required that the council's finance committee consider

the report within 45 days and decide on the action to be taken with regard to irregularities mentioned in the report. Within 21 days of that meeting, the council would inform the Administrator of the action it proposed to take. All provinces would ensure that the council made arrangements, during varying periods as specified in the Ordinances, for the public inspection of the auditor's report and the abstract of accounts (Craythorne, 1993: 374). Most municipal councils, irrespective of the size of the municipality, did not rely solely on the external audit to reveal discrepancies, losses, inadequate methods of record-keeping, unauthorised or improper expenditure, theft or fraud by employees. These councils had an internal auditor and staff, usually as a branch or division of the treasurer's department, who conducted a continuous audit of the council's transactions and also assisted line officials by giving advice and recommendations on methods and procedures. **Section 42 of the Financial Regulations for Town Councils** applying to Black local authorities placed a duty on each council to ensure that the system of internal checking and control was instituted by the treasurer to exercise control over the funds and other property of the council (Craythorne, 1993:379). This means that from 1983 up to 10 May 1994 there were four systems of local authorities in all provinces (for Africans, Coloureds, Indians and Whites). However, in practice the local government and administrative systems for the provinces and the population groups did not differ radically from each other (Cloete, 1997:13).

3.7 LEGISLATION IN THE NEW DISPENSATION

The Republic of South Africa underwent fundamental constitutional transformation in terms of the provisions of The Republic of South Africa Constitutional Act, 1993 (Act 200 of 1993). Act 200 of 1993 came into effect on 10 May 1994 and was repealed by The Republic of South Africa Constitutional Act, 1996 (Act 108 of 1996), which came into effect on 18 December 1996.

The Constitution of 1996 contains a number of overall directives for all South Africans and public institutions as described immediately below. Where necessary reference will be made to earlier constitutions. The Republic of South Africa Constitutional Act, 1993 (Act 200 of 1993), states the following:

“4 (1). This Constitution shall be the supreme law of the Republic and any law or Act inconsistent with its provisions shall, unless otherwise provided expressly or by necessary implication in this Constitution, be of no force and effect to the extent of the inconsistency. This Constitution shall bind all legislative, executive and judicial organs of state at all levels of government. This Constitution is the supreme law of the republic; law or conduct inconsistent with it is invalid, and the obligations imposed by it must be fulfilled”. (Cloete, 1997:14). Chapter 7 (sections 151 to 164) of The Republic of South Africa Constitutional Act (Act 108 of 1996), under the heading Local Government, contains provisions for municipal institutions headed by legislatures known as municipal councils consisting of elected members. Sections 151 and 153 of the Constitution contain the provisions with regard to the status of municipalities, objectives of local government and developmental duties of municipalities. Subsection 154 (1), under the heading municipalities in co-operative government, states that national and provincial governments must by means of legislation support and strengthen the capacity of municipalities to manage their own affairs, exercise their powers and perform their functions. Subsection 154 (2) contains provisions with regard to the drafting of national or provincial legislation that affects the status, institutions, powers or functions of local government and that has to be published for public comment before it is introduced to Parliament or a provincial legislature, in a manner that allows organised local government, municipalities and other interested persons an opportunity to make representations with regard to the draft legislation. (Cloete, 1997:23-24). Section 155 of the Constitutional Act of 1996 classifies municipalities into three categories and stipulates that national legislation must define these different types of municipalities that may be established within each category (Gildenhuys, 1997:21). Section 156 of the Constitutional Act of 1996 deals with the powers and functions of municipalities

and stipulates that a municipality has executive authority and has the right to administer local government matters (Cloete, 1997:23-24).

On 22 March 1993 the Local Government Negotiating Forum (LGNF) was established as a bilateral forum between a statutory delegation consisting of representatives of the central, provincial and organised local government on the one hand and Sanco (South African National Civic Organisation: The non-statutory delegation) on the other. The end product of the negotiations was the [Local Government Transition Act, 1993](#) (Cloete, 1995: 4-5). There are three spheres of government, namely the national, provincial and local sphere established in line with the Constitution of the Republic of South Africa. Each sphere of government is distinctive, yet interdependent and interrelated (The Republic of South Africa Constitutional Act, 1996 (Act 108 of 1996) - Section 40[1]).

Municipalities exist within the local sphere of government. Each municipality has a municipal council that has legislative and executive authority. Municipalities govern the local government affairs of their communities on their own initiative, but are subject to national and provincial legislation. The degree of autonomy of municipalities is therefore limited by these restrictive measures. The municipalities that fail to effectively administer the affairs entrusted to them, will be subjected to national and provincial control. This implies that real autonomy will have to be earned (Sections 100 and 139 of the Constitution). According to Section 214 of the Constitution, municipalities are entitled to an equitable share of national revenue, while section 215 concerns the drafting of budgets and section 229 deals with municipal fiscal powers and functions (Zybrands, 2003:3).

3.7.1 MUNICIPAL STRUCTURES ACT

As directed by the Constitution, the [Local Government: Municipal Structures Act, 1998](#), contains criteria for determining when an area must have a Category A

municipality (metropolitan municipalities) and when a municipality falls into categories B (local municipalities) or C (district areas or municipalities). The Act also determines that Category A municipalities can only be established in metropolitan areas. This Act provides for the establishment of municipalities in accordance with the requirements relating to categories and types of municipalities, as well as establishes criteria for determining the category of municipalities to be established in an area. It also provides for the definition of the types of municipalities that may be established within each category and also for an appropriate division of functions and powers between categories of municipalities. Furthermore, it regulates the internal systems, structures and office-bearers of municipalities and also makes provision for appropriate electoral systems. The preamble to the Local Government Municipal Structures Act states that, because municipalities in our country have been involved in a protracted, difficult and challenging process in which great strides have been made in the democratisation of local government and municipalities, they now need to embark on the final phase in the local government transition process to be transformed in line with the vision of democratic and developmental local government. The Act has paved a way for uniform local government structures and administration in South Africa.

The Demarcation Board as constituted in terms of The Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998), reduced the number of municipalities from 834 to 284 classified as either category A, B and C. Six municipalities fall in the category of Metropolitan Councils, also referred to as Unicitys or Megacities. Forty-seven municipalities fall in the category of District Councils and two hundred and thirty-one in the category Local Councils. The Act provides criteria and procedures for the determination of municipal boundaries by an independent authority.

The metropolitan councils are municipalities with exclusive legislative and executive authority in their areas of jurisdiction. They are the City of

Johannesburg, Ekurhuleni, Tshwane, eThekweni Municipality, Nelson Mandela Metropolitan Municipality and the City of Cape Town. In the metropolitan areas there is a choice of two types of executive systems, namely the mayoral executive system where executive authority is vested in the mayor, and the collective executive committee system where these powers are vested in the executive committee. The district councils are cross-boundary, which means that they extend over different provinces. The local council shares legislative and executive powers with the district council in which it falls (The Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998)). The Demarcation Act is closely linked to the Municipal Structures Act, 1998 (Act 117 of 1998), as, for example, the criteria that the Demarcation Board uses to determine whether an area should be categorised as a category A, B or C are contained in the Municipal Structures Act.

3.7.2 POWERS OF MUNICIPALITIES

Local government has been given a dynamic role. Local Governments are no longer just instruments of service delivery, but have also been assigned a key role as agents of local economic development. The relationship between the three spheres of government is outlined in chapter three of the Constitution, which requires Parliament to establish structures and institutions to promote and facilitate intergovernmental relations. In accordance with the Constitution and the Organised Local Government Act, 1997 (Act 52 of 1997), organised local government may designate up to 10 part-time representatives to represent municipalities and participate in proceedings of the National Council of Provinces (NCOP). The largest increases in national government's 2002 budget were in transfers to the local sphere, rising by 26% a year from 2001/02 to 2004/05. Total allocations increased from R6,6 billion in 2001/02 to R8,8 billion in 2002/03, and to R12 billion in 2003/04 and R13,2 billion in 2004/05. Allocations for local government infrastructure transfers increased from R3,4 billion in 2002/03 to R4,6 billion in 2004/05. This represents an average annual increase of 27%

between 2001/02 and 2004/05. As part of the local government equitable share, R822 million for free basic services and R300 million for free basic electricity/energy was made available to municipalities. The project concerning free basic services started on 1 July 2003. Free basic water was introduced from 1 July 2001 (SALGA, 2005).

3.8 ADMINISTRATION IN THE NEW DISPENSATION

The Local Government: Municipal Finance Management Act, 2003 (Act 56 Of 2003) (MFMA), states that the Municipal Manager is the accounting officer for the municipality and is responsible for managing the finances. The Act also states that the duties of the other officials of the municipality include ensuring that a system of financial management and internal control is established. They are furthermore responsible for the effective, efficient, economical and transparent use of other resources. It is also expected of the officials to take effective steps to prevent any unauthorised or irregular expenditure, under collection of revenue due, and to be responsible for managing the safeguarding of assets and the management of liabilities. (Dave Boucher, 2005). The Local Government: Municipal Finance Management Act (MFMA) ensures the existence of sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government. It also establishes treasury norms and standards for the local sphere of government.

The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), establishes a framework for planning, performance management systems, effective use of resources and organisational change in a business context. It also establishes a system for municipalities to report on their performance and gives residents an opportunity to compare this performance with others. The Municipal Systems Act provides for the corporatisation of services, as well as the establishment of utilities for service delivery. It also allows for the formation of partnerships with other service providers and the adoption of a credit control

policy by municipalities that will make provision for the termination of services in the event of non-payment. In terms of this Act municipalities are empowered to pass bylaws to implement the credit control policy. The Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004), is a national law that regulates the power of municipalities to value and rate the immovable properties located within their boundaries. Municipalities derive their powers to levy rates from Section 229 (1) of the Constitution of the Republic of South Africa.

3.9 SUMMARY

During the period prior to 1994 municipalities existed in line with The South Africa Act of 1909, The Republic of South Africa Constitutional Act, 1961 (Act 31 of 1961), and The Provincial Government Act, 1961 (Act 32 of 1961). During this period the South African central government showed little interest in municipal affairs and contributed nothing to the development of local government and administration systems that were appropriate for urban areas. The local government legislation addressed specific matters affecting individual municipalities on matters of a local nature, including passing laws relating to the extension of an area in Durban, Church Square in Pretoria and matters relating to African urban areas and local financial affairs. The provincial councils of each of the four provinces passed ordinances that developed own systems of local government and administration for Coloureds, Indians and Whites. The government and administration of the municipal affairs of Africans were treated differently and dealt with in terms of acts passed by Parliament.

The tricameral parliament introduced by the apartheid government brought about separate systems of local government for Coloureds, Indians and Whites. There were inconsistencies with regard to the operating budgets of the different municipalities. Natal was required to have the revenue and expenditure estimates compiled for special and trading undertaking accounts. The Cape Province was required to ensure that the mayor, the town clerk and the treasurer

sign the adopted estimates and forward them, within 30 days of their adoption, to the provincial secretary who could call for further information. In the Transvaal the responsibility of compiling the estimates rested with the statutory finance committee. Black local authorities had to draw up and submit to the Administrator a statement of their estimated revenue and expenditure for consideration in respect of the following financial year.

According to the policy of “separate development” (generally known as the apartheid policy) four parts of the Republic of South Africa became independent territories, i.e. the Transkei (1963), Bophuthatswana (1977), Venda (1979) and the Ciskei (1981). These four territories (TBVC states) and the six self-governing territories (Gazankulu, KwaNdebele, KaNgwane, KwaZulu, Lebowa and Qwaqwa) did not develop their own distinctive municipal government and administrative systems.

There were inconsistencies amongst various municipalities with regard to levies during the time of the tricameral parliament. Natal and the Cape Province published a notice in the press stating the rate levy for the following year and informed the public that an abstract of the estimates or the estimates would lie for inspection at the municipal offices. The Orange Free State required that the estimates of revenue and expenditure be considered no later than 31 May of each year and that they be ratified, inclusive of the town rate levied, not later than 30 June of that year, while in the Transvaal the estimates had to be compiled and presented to the council before the end of the financial year, i.e. not later than 30 June, and each council could levy a rate or rates on ratable property. The Black local authorities, due to the status of Black persons according to the apartheid system, did not levy rates on immovable property, but received their income from fees and charges. The different provincial legislations in the Cape, Natal, Transvaal and Orange Free State stipulated the different rates that the councils could levy and the conditions applicable thereto.

Each province operated in line with its own Ordinance. The different Ordinances stated the duties of the auditors of municipal accounts, and the provincial administrators and the relevant ministers made the regulations regarding the auditing of accounting records and financial statements. There were inconsistencies in the handling of the reports in the different provinces. In Natal and the Orange Free State the public was notified in the press that the auditor's reports were open for inspection. In the Cape Province it was required that the minutes of the council meeting where the auditor's report was discussed be made available within 14 days to the editor of at least one English and one Afrikaans newspaper circulating in the municipal area.

There were also inconsistencies with regard to the role of auditors between White, Coloured and Indian affairs on the one hand and Black Local Authorities on the other. In all provinces the auditor had a general duty to certify the accounts after examining all relevant books, accounts and records, and to submit a report with an abstract of the accounts. In the Orange Free State the auditor had to be satisfied that the title deeds and securities of the council were in order, as well as that provision had been made for the redemption of loans and the depreciation of assets. The Black Local Authorities Act on the other hand required that the auditor be satisfied that proper provision had been made for the redemption of any money borrowed by the council and that he had carried out a survey of the internal verification and control of the council's financial statements. In all the provinces the report went to the provincial auditor, but in instances where an outside auditor was appointed, the report had to be submitted to the provincial secretary. The audit report on a Black local authority went to the administrator and the chief executive officer of that local authority. The ordinances further required that in the Cape Province the report and abstract of accounts be submitted to the council for examination and settlement. In the Transvaal the town clerk had to submit the copies of the report to the mayor and the finance or management committee, after which the report had to be considered by the committee concerned and the council. The Provincial

Ordinance of the Orange Free State required that the council consider the report and give their comments to the provincial secretary. In Natal it was required that the council's finance committee consider the report within 45 days and decide on the action to be taken regarding all irregularities mentioned in the report. Within 21 days of that meeting the council would inform the Administrator of the action it proposed to take.

In the new dispensation the Republic of South Africa underwent fundamental constitutional transformation in terms of the provisions of the Republic of South Africa Constitutional Act, 1993 (Act 200 of 1993). This Act came into effect on 10 May 1994 and was repealed by the Republic of South Africa Constitutional Act, 1996 (Act 108 of 1996), which came into effect on 18 December 1996.

The Constitution is the supreme law of the Republic and any law or act inconsistent with its provisions shall be of no force and effect to the extent of the inconsistency. Section 155 of the 1996 Constitution divides all municipalities in South Africa into three categories and stipulates that national legislation must define the different types of municipalities that may be established within each category. Section 156 of the Constitution deals with the powers and functions of municipalities and stipulates that a municipality has executive authority and has the right to administer local government matters.

Municipalities exist within the local sphere of government. Each municipality has a municipal council with legislative and executive authority. Municipalities govern the local government affairs of their communities on their own initiative, but are subject to national and provincial legislation. The degree of autonomy of municipalities is therefore limited by these restrictive measures. The municipalities that fail to effectively administer the affairs entrusted to them will be subjected to national and provincial control.

The Local Government: Municipal Structures Act, 1998, contains criteria for determining when an area is a category A (metropolitan and larger municipalities), a category B (local municipalities) or a category C (district areas or municipalities) municipality. The Act also determines that category A municipalities can only be established in metropolitan areas. It defines the types of municipalities that may be established within each category and also makes provision for an appropriate division of functions and powers between categories of municipalities. Furthermore, it regulates the internal systems, structures and office-bearers of municipalities and makes provision for appropriate electoral systems. The Act has paved the way for uniform local government structures and administration in South Africa. By 2004 South Africa had six municipalities falling into the category Metropolitan Councils (the Cities of Johannesburg, Ekurhuleni and Tshwane, the eThekweni Municipality, the Nelson Mandela Metropolitan Municipality and the City of Cape Town), forty-seven into the category District Councils and two hundred and thirty-one into the category Local Councils. The local councils share legislative and executive powers with the district councils under which they fall.

By 2004 municipalities were no longer just instruments of service delivery, but were also assigned a key role as agents of local economic development.

All the municipalities are administered by The Local Government Municipal Finance Management Act (MFMA) that ensures the existence of sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government.

The Municipal Systems Act contains a framework for planning, performance management systems, effective use of resources and organisational change in a business context. The powers of all municipalities with regard to the regulations are contained in the Municipal Rates act.

By 2004 one set of legislation had been established that brought along uniform approaches to the management of municipalities for the equal benefit of all stakeholders.

CHAPTER 4 - RESEARCH DESIGN AND METHODOLOGY

4.1 INTRODUCTION

This chapter will deal with the sample frame, research design, questionnaire development, data collection and analysis. The research focused on the impact of internal audit on South African Local Government for the period 1994 to 2004.

4.2 SAMPLE FRAME AND BIAS CONTROL

Sampling refers to the act of selecting a sample of a population in order to draw conclusions regarding the entire population. Sampling can be divided into two major categories, namely non-probability sampling and probability sampling. According to Leedy (1997:204-205), in non-probability sampling the researcher has no way of guaranteeing that each element in the population will be represented. In probability sampling the researcher can specify in advance that each segment of the population will be represented in the sample.

For the purposes of this study, with a population of 284 local authorities in South Africa (6 metropolitans, 47 district municipalities and 231 local municipalities), the approach of random quota sampling was used. Questionnaires were sent to participants via e-mail or fax, and the municipalities of the Western Cape, Eastern Cape, KwaZulu-Natal, North West, Limpopo, Mpumalanga and Gauteng were visited. Of the 100 municipalities chosen for the purposes of this study, 57 completed the questionnaires in full. The City Managers or heads of finance of the remaining 42 municipalities informed the researcher telephonically that they could not complete the questionnaire and two reasons were cited. The first reason was that the audit function did not exist at the local municipality, but at the district municipality. The second was that internal audit function did not exist at either the district municipality or the local municipality. This resulted in a 57% response rate. The sample was representative of all the municipalities in South Africa. The questionnaires were sent to all nine provinces, i.e. Western Cape,

Eastern Cape, Northern Cape, KwaZulu-Natal, Free State, North West, Lipompo, Mpumalanga and Gauteng. Every attempt was made to reduce bias. Responses were received from all six metropolitans and from district and local municipalities in all nine provinces. The questionnaire was structured to avoid bias. It was also short (7 minutes) to avoid the participants from becoming bored and tired (see Appendix A).

4.3 RESEARCH DESIGN

There are various types of research designs such as exploratory, descriptive and casual. Casual research is used to obtain evidence in cause and effect relationships. It is useful in determining the nature of the fundamental relationship between the casual factor and the effect to be predicted. The objective of descriptive research is to describe a phenomenon. It assumes the researcher has prior knowledge about the problem, therefore the information needed is clearly defined. The primary purpose of exploratory research is to provide insights and create an understanding of the problem confronting the researcher – this is the research method used in this study. The area of investigation in this survey is new, and new research questions will be generated (Fowler, 1995). The researcher chose to personally administer a questionnaire with the intention of improving the response rates. In some instances personal contact was made with the potential respondents in an effort to encourage replies.

4.3.1 GUIDELINES FOR CONSTRUCTION OF THE QUESTIONNAIRE

The design of a questionnaire goes through various stages before completion and not necessarily in any particular order. The following are the various stages:

4.3.1.1 *Structure of the questionnaire*

Questionnaires contain three types of measurement questions (Cooper & Schindler: 337). Firstly, it contains administrative questions that typically identify the respondent. Secondly, classification questions allowing respondents' answers to be grouped. Thirdly, target questions that address the investigative questions of the study. Target questions may be structured (closed questions) or unstructured (open questions).

4.3.1.2 *Question content*

Cooper and Schindler (1998:328-331) developed key issues to guide the instrument designer in selecting appropriate question content:

- a) Purposeful versus interesting. The function of each question will be challenged. Often, more can be learnt from fewer questions. Interesting questions will be forfeited for questions that are purposeful. The indicator will be whether the question contributes significantly to answering the research question.
- b) Incomplete and unfocused. Questions are inadequate if they do not provide the information needed to interpret responses fully. Questions should reveal all we need to know.
- c) Multiple questions. These are questions that can be divided into two or more questions. Multiple questions will be included in this study.
- d) Precision. The indicator would be whether the questions ask precisely what we want and need to know.
- e) Time for thought. In the case of this study, respondents will not be asked for information that they need to seek outside of themselves.
- f) Participation at the expense of accuracy. Sometimes respondents answer a question for the sake of completeness. To avoid this, filter questions will be asked.

- g) Presumed knowledge. As the heads of the internal audit function within a municipality will complete the questionnaire, it will be presumed that they have a basic understanding of internal auditing - some to a greater extent than others. It is advisable to define key concepts to avoid any misinterpretation.
- h) Objectivity. The ability of respondents to answer adequately is often distorted by questions with contents that tend to be biased by what is included or omitted. Every attempt will be made to review objectivity and to ask questions in a neutral manner.
- i) Sensitive information. The questionnaire will not be sensitive in nature.

The questionnaire was designed by taking all the above factors into account (Appendix A).

4.4 DATA SOURCES

Information can be classified as primary and secondary (Cooper & Schindler 1998:256). Primary data was collected in an effort to answer the research questions. Primary research is the process of obtaining information directly from the primary source of information. In this study the secondary sources are studies conducted by others for their own purposes. Investigation of published information has provided the basis of the study. The secondary review was confined mainly to literature sources on the initial stages of internal auditing and the latest approach to internal auditing.

4.5 METHODOLOGY

Questionnaires were sent to individual municipalities by fax and e-mail to obtain primary data. The instrument was pre-tested on a small sample of 6 and, based on the results of the pre-test, the length of the questionnaire was reduced and refined.

4.6 ADMINISTRATION OF QUESTIONNAIRES

The researcher personally sent the e-mails and faxes. The researcher made telephonic arrangements and visited the municipalities in Mpumalanga, North West, Limpopo and Gauteng. The aim of the visits was to explain the purpose of the research and encourage the municipalities to complete the questionnaires. Municipalities in the remaining five provinces were contacted telephonically and encouraged to complete the questionnaires that had been sent to them by e-mail or fax. The participants informed the researcher that it took an average of seven minutes to complete the questionnaire.

4.7 RELIABILITY AND VALIDITY

Reliability means consistency. In the event of someone else doing the same survey with the same people at the same time, the results should be consistent (Cooper & Schindler, 1998:171). The questionnaire was simple and unambiguous to promote reliability.

Validity refers to the measuring instrument being sound and effective. It refers to the extent to which the research measures what it is supposed to measure. The method used must be both valid and reliable as a means for collecting data.

4.8 DATA ANALYSIS TECHNIQUES

The data was coded and entered into the computer for analysis. The SPSS Version 13 programme, a statistical tool, was used in this study. Frequency tables were used to determine the percentage of the sample that agreed or disagreed with a certain variable and to measure the spread or variability of the responses. Cross tabulations were also used to compare the prevailing conditions of the two periods, i.e. the period prior to 1994 and the end of 2004.

4.9 SUMMARY

The sample size was set at 100 and 57 completed questionnaires were returned, representing 57% of the selected sample. Every attempt was made to reduce bias. Data was collected by means of a written questionnaire that was administered personally by the researcher. Data was checked to ensure integrity and was analysed by using the SPSS Version 13 programme. The analysis will be presented in the next chapter.

CHAPTER 5 - RESEARCH RESULTS AND INTERPRETATION

5.1 INTRODUCTION

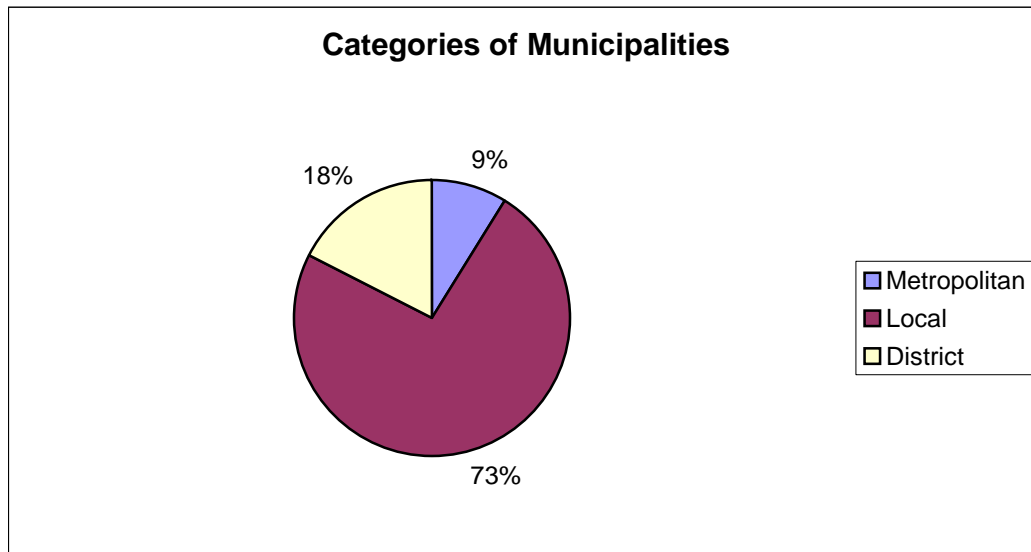
The questionnaires were distributed via fax and e-mail. Respondents completed the questionnaires and returned them in the same manner. A spreadsheet was developed on Excel software to capture the data from the completed questionnaires. Once the data was entered into the computer, an audit exercise was performed to verify the data on the spreadsheet against the questionnaires. The data was then processed by means of the SPSS Version 13 programme.

There were 57 responses. The total number of 57 responses was equated to 100%. Each question had two or more choices and the respondents were expected to choose one of the answers. The same categories of answers were allocated percentages to indicate the size and variation of common responses.

5.2 CATEGORIES OF MUNICIPALITIES AND LOCATION

From the total of 57 respondents, 6 (10.5%) were metropolitans, 10 (17.5%) were district municipalities and 41 were (71.9%) local municipalities.

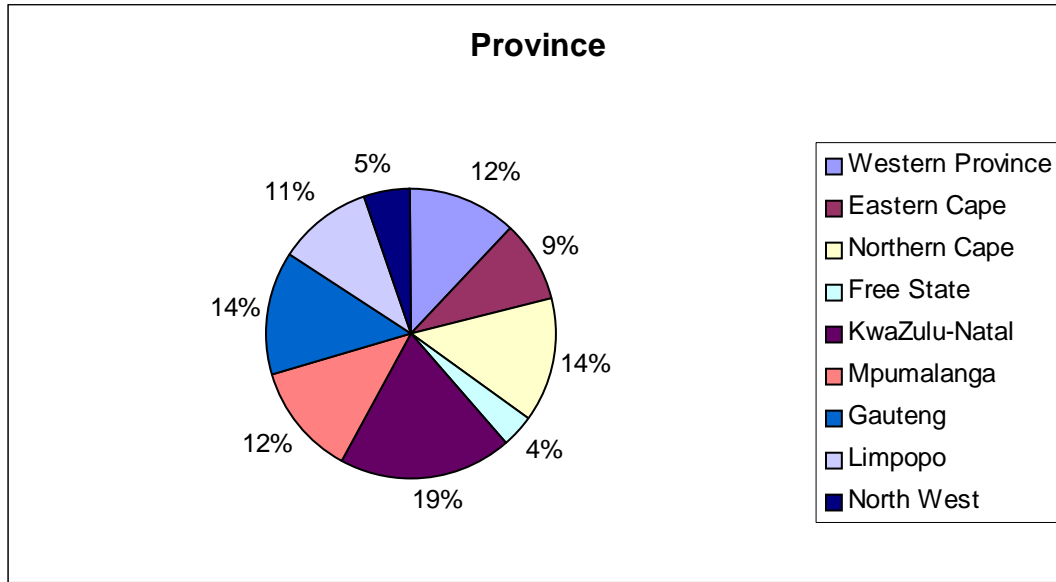
Figure 5.1: Categories of Municipalities



Source: Own calculations

The highest number of responses, 11, was received from KwaZulu-Natal, representing 19.3% of the total of 57 respondents. This was followed by 8 responses from both the Northern Cape and Gauteng, representing 14%. Western Province and Mpumalanga both returned 7 responses, representing 12.3% and Limpopo returned 6 responses, representing 10.5%. 5 responses were received from the Eastern Cape, representing 8.8%, 3 from North West representing 5.3% and only 2 responses were received from the Free State, representing 3.5%.

Figure 5.2: Responses according to Province

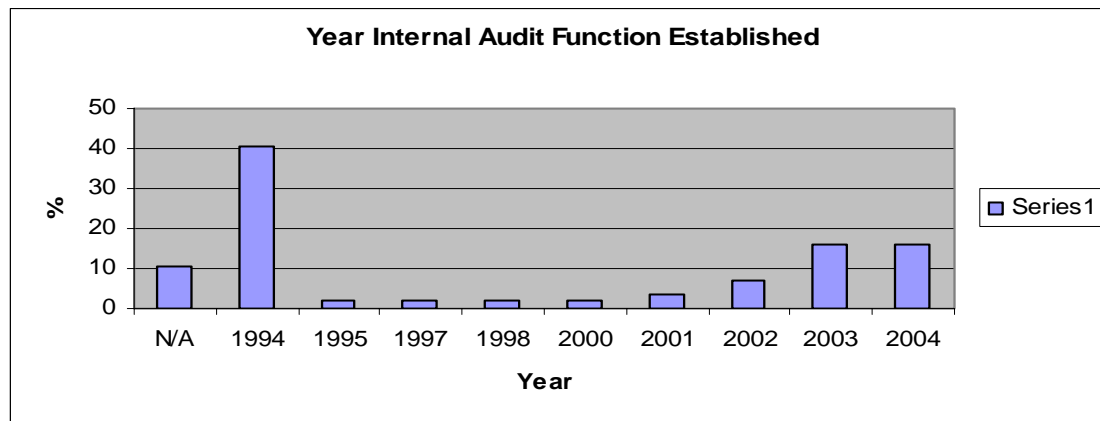


Source: Own calculations

5.3 YEAR IN WHICH INTERNAL AUDIT FUNCTION WAS ESTABLISHED

It is interesting to note that 6 of the 57 municipalities that responded do not have an internal audit function, i.e. 10.5%. 23 had established internal audit functions by 1994, i.e. 40.4%. From 1995 to 2004 only one internal audit function was established per year, representing 1.8%. From 2001 to 2004 the number of internal audit functions established increased slightly: in 2001 two were established (3.5%), in 2002 four were established (7%) and in 2003 and 2004 nine were established (15.8%). The majority of internal audit functions established from 1994 to 2004, i.e. 68.5%, represent the change that took place over the 10-year period.

Figure 5.3: Year in which Internal Audit Function was established



Source: Own calculations

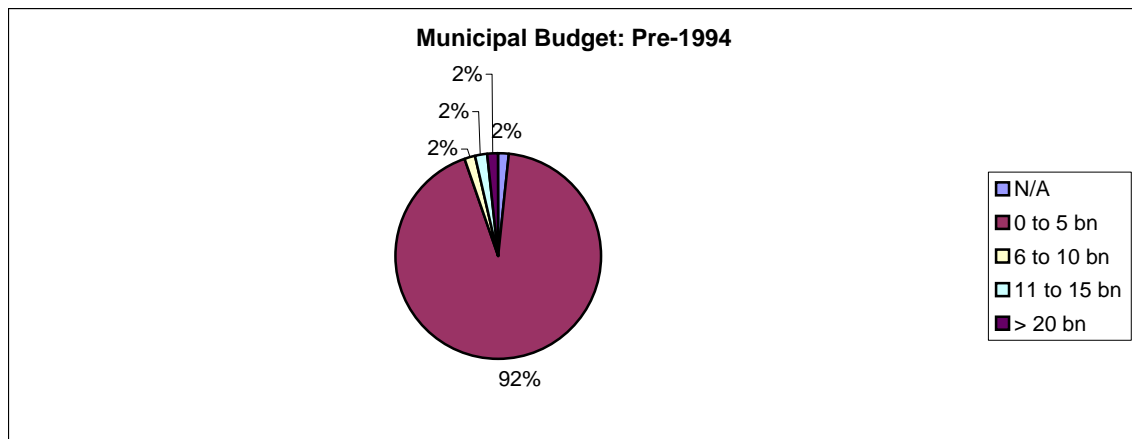
5.4 MUNICIPAL AND INTERNAL AUDIT FUNCTION BUDGETS

It was important to ask the respondents about the budgets of their municipalities in order to determine how much of the budget was allocated for the internal audit function. The data for the period prior to 1994 indicates that one respondent (1.8%) did not supply the information about the budget – the reason may be that the financing activities of some of the local municipalities occur at district level as indicated by a few respondents under the section for comments in the questionnaire. The majority of respondents, 53 (93%), had budgets of up to R5-billion. In the three remaining categories budgets ranged from R6- to R10-million, R11- to R15-billion and R20-billion upwards. Each of these categories had only one municipality (1.8%) as the recipient of the budget.

The data for the period ending 2004 indicates that one respondent (1.8%) did not supply the information about the budget. The majority of respondents (52), which represent 91.2%, had budgets of up to R5-billion. The budget of one municipality (1.8%) was within the range of R6- to R10-billion. The budget of two municipalities fell within the range of R11- to R15-billion and the remaining municipality had a budget ranging from R16- to R20-billion. The data regarding

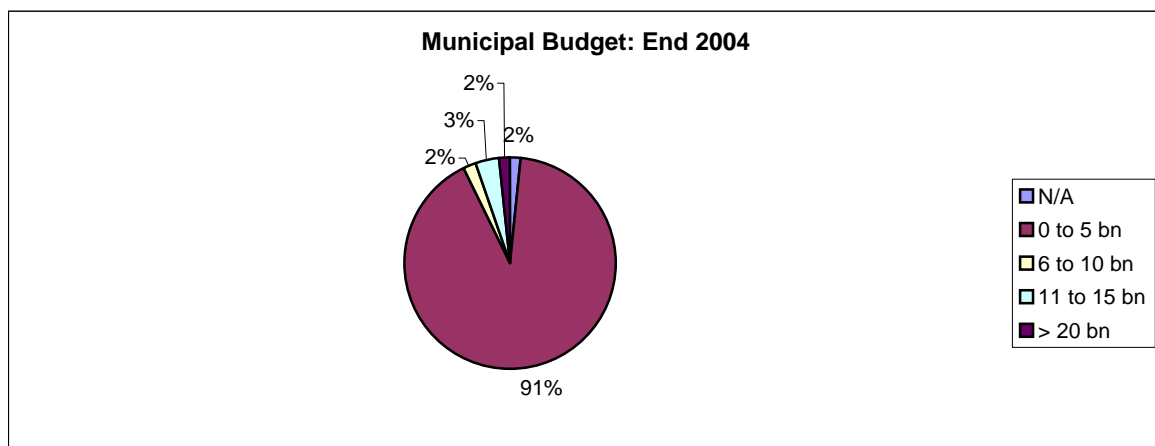
the allocation of the municipal budget for the period ending 2004 indicates a small change when compared to the data of pre-1994. Prior to 1994 only one municipality had a budget ranging from R11- to R15-billion and during the period ending 2004 two municipalities had budgets in this category. The number increased slightly from 1.8% to 3.6% during the period ending 2004, representing a change that took place over the 10-year period.

Figure 5.4: Municipal Budget: Pre-1994



Source: Own calculations

Figure 5.5: Municipal Budget: End 2004

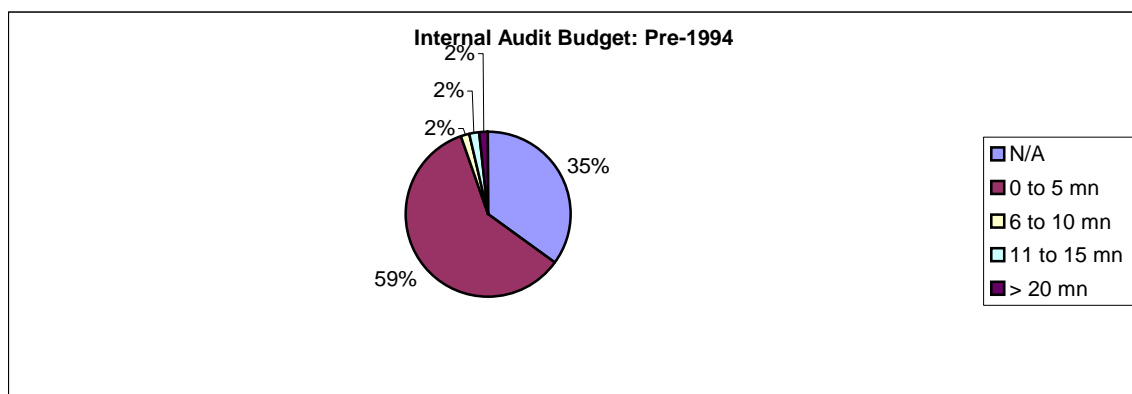


Source: Own calculations

Prior to 1994, 20 of the 57 municipalities (35.1%) did not have a budget for the internal audit function. This confirms the earlier finding that 10.5% of the 57 municipalities did not have an internal audit function and 40.4% had established the internal audit function by 1994. It was found that 34 municipalities (59.6%) had a budget of up to R5-million, two municipalities (1.8%) had budgets within the range of R6- to R10-million, two municipalities (1.8%) had budgets within the range of R11- to R15-million, and two municipalities (1.8%) had budgets within the range of R16- to R20-million.

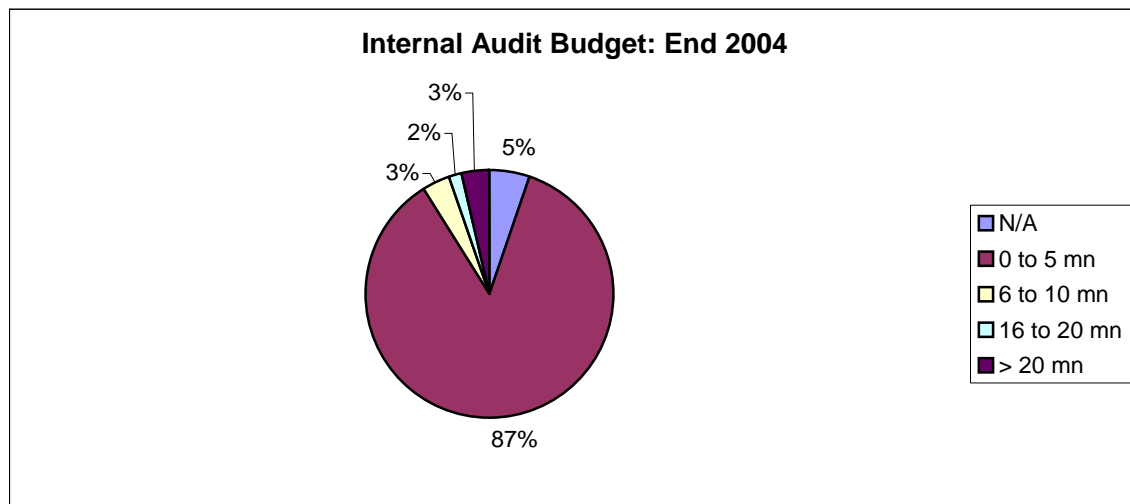
By 2004 the number of municipalities that did not have an allocated budget for the internal audit function had decreased to 3, which represent 5.3%. 49 municipalities (86%) had budgets of up to R5-million; the budgets of 2 municipalities (3.5%) ranged from R6- to R10-million; one municipality (1.8%) had a budget ranging from R11- to R15-million; and 2 municipalities (3.5%) had budgets ranging from R16- to R20-million. The number of internal audit functions within municipalities with budgets of up to R15-million increased significantly from 59.6% to 86%, which represents a change that took place over the 10-year period.

Figure 5.6: Internal Audit Budget: Pre-1994



Source: Own calculations

Figure 5.7: Internal Audit Budget: End 2004



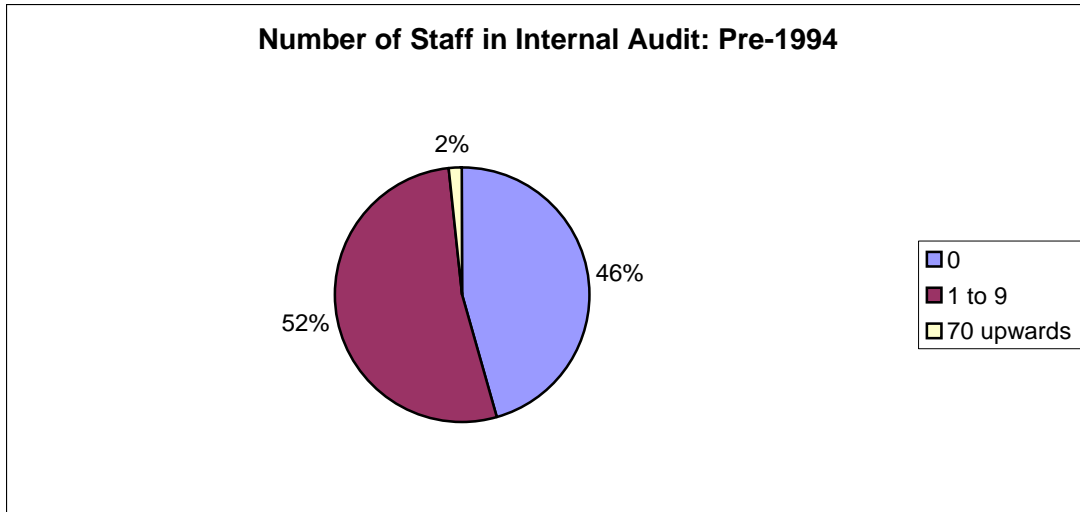
Source: Own calculations

5.5 NUMBER OF STAFF IN INTERNAL AUDIT FUNCTION

Prior to 1994, 26 of the 57 municipalities (45.6%) did not have internal audit staff. This is probably due to the fact that 10.5% of the municipalities did not have internal audit functions and 40.4% had only established internal audit functions by 1994 (as indicated by Question 3 of the questionnaire). The number of internal audit staff in 30 municipalities, which represent 52.6%, ranges from 1 to 9. Only one municipality (1.8%) had an internal audit staff of 70 or more.

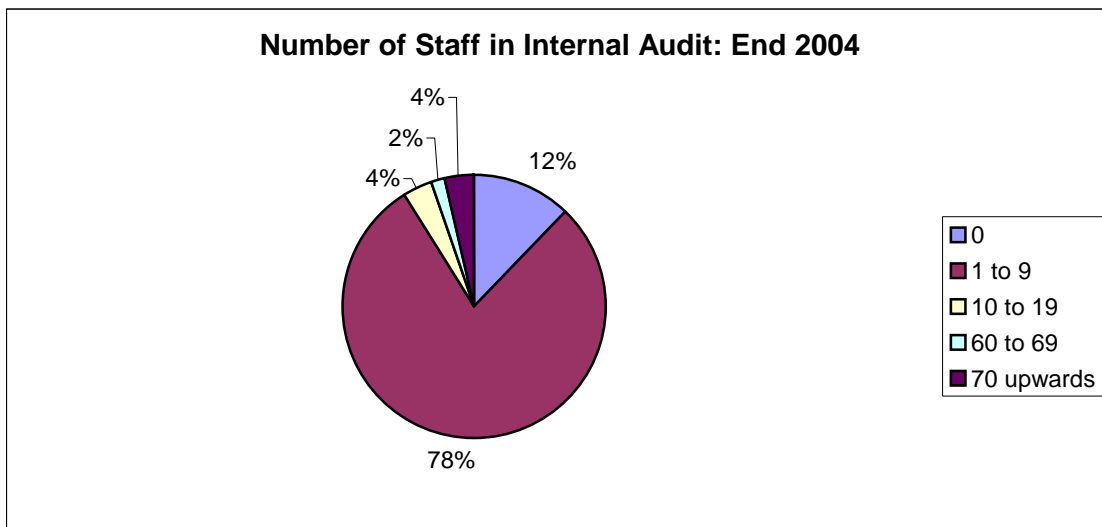
By the end of 2004 the number of municipalities that did not have internal audit staff had decreased to 7, which represent 12.3%. This shows that by the end of 2004 the majority of municipalities had viewed the internal audit function as an important component in their operations. The number of municipalities that had internal audit staff ranging from 1 to 9, increased to 45 (78.9%). The number of internal audit staff of 2 municipalities ranged between 10 and 19, which represent 3.5%. One municipality (1.8%) had an internal audit staff of more than 70. The number of municipalities with an internal audit staff ranging between 1 and 9 increased significantly from 52.6% to 78.9%, which represents a change that took place over the 10-year period.

Figure 5.8: Number of Staff in Internal Audit: Pre-1994



Source: Own calculations

Figure 5.9: Number of Staff in Internal Audit: End 2004



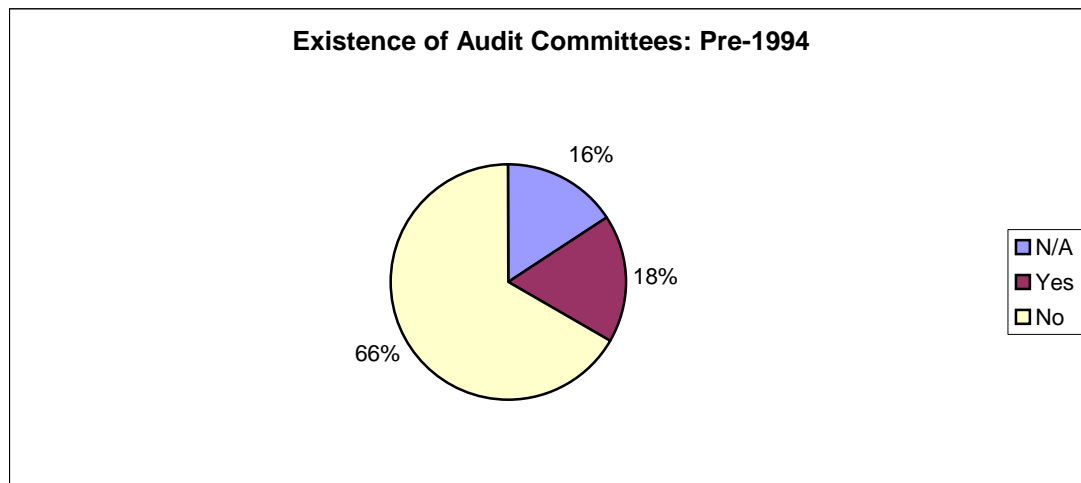
Source: Own calculations

5.6 EXISTENCE OF AUDIT COMMITTEES

9 of the 57 municipalities (15.8%) did not provide information on whether audit committees existed prior to 1994. The researcher was informed telephonically that people who were employed at that time were no longer with the municipalities and that the current officials were not informed as to whether audit committees existed or not. 10 of the 57 municipalities (17.5%) had audit committees and 38 municipalities (66.7%) did not have audit committees. This can probably be attributed to the fact that 40.4% of the 57 municipalities had established an internal audit function by 1994 and 10.5% did not have internal audit function as determined by Question 3 of the questionnaire.

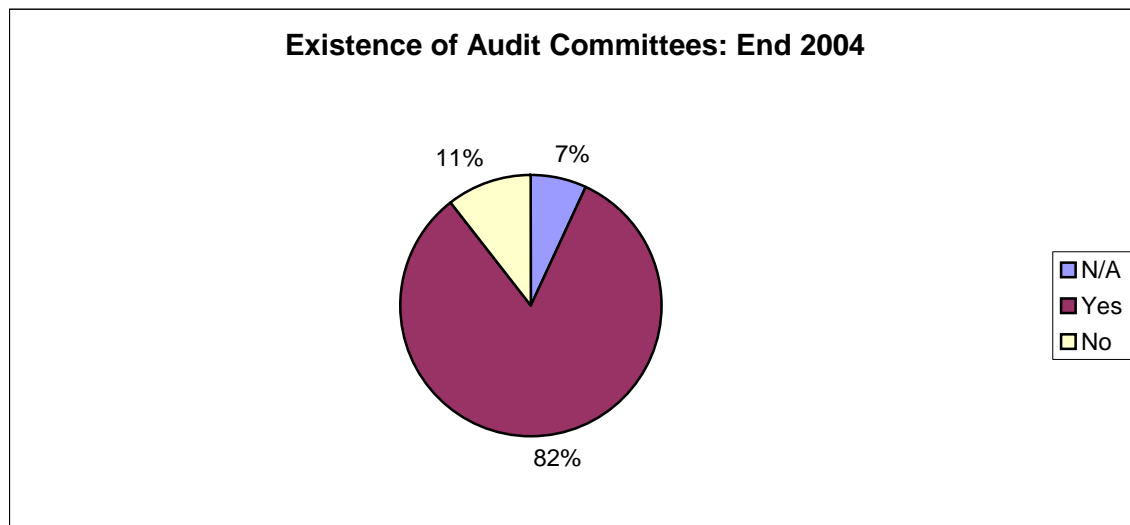
4 municipalities (7%) did not provide information on whether audit committees existed or not by the end of 2004. The number of municipalities that had audit committees increased to 47 (82.5%). This shows that internal audit functions were moving towards becoming independent. The number of municipalities that did not have audit committees had decreased to 6 (10.5%). The number of municipalities with audit committees increased significantly from 17.5% to 82.5%, which represents a change that took place over the 10-year period.

Figure 5.10: Existence of Audit Committee: Pre-1994



Source: Own calculations

Figure 5.11: Existence of Audit Committees: End 2004



Source: Own calculations

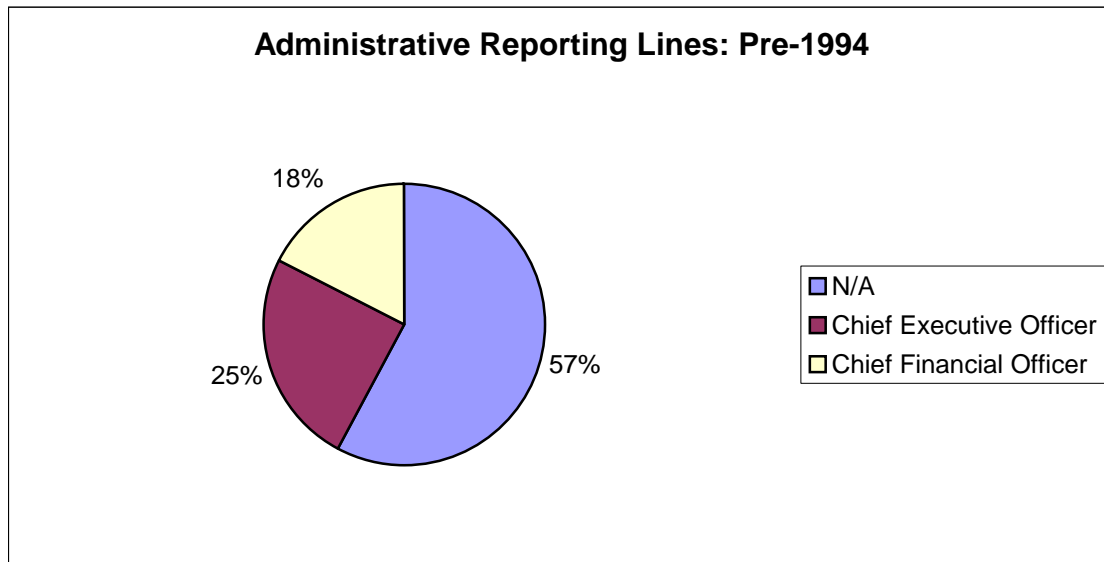
5.7 ADMINISTRATIVE REPORTING LINES

33 of the 57 respondents (57.9%) did not know to which authority their audit function reported prior to 1994. They informed the researcher telephonically that the people employed during that period were no longer at the municipalities and that the current officials were not informed as to how the internal audit function was operated then. 14 of 57 municipalities (24.6%) reported administratively to the Chief Executive Officer and 10 (17.5%) reported to the Chief Financial Officer.

The number of municipalities that did not know to which authority they reported administratively by the end of 2004 decreased to 5 (8.8%). The number of municipalities reporting administratively to the Chief Executive Officer by the end of 2004 increased to 50 (87.7%) and the number of municipalities reporting administratively to the Chief Financial Officer decreased to 2 (3.5%). This means that the internal audit function reported to an individual with sufficient authority to ensure the effectiveness of internal audit and appropriate audit coverage, consideration and response. The number of municipalities where the internal

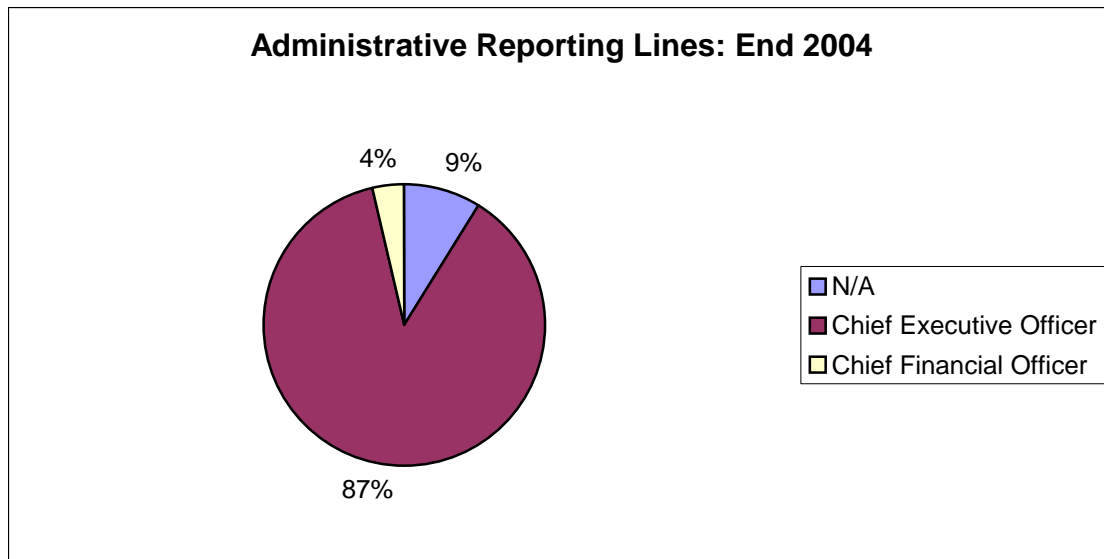
audit function reported administratively to the Chief Executive Officer increased significantly from 17.5% to 87.7%, which represents a change that took place over the 10-year period.

Figure 5.12: Administrative Reporting Lines: Pre-1994



Source: Own calculations

Figure 5.13: Administrative Reporting Lines: End 2004



Source: Own calculations

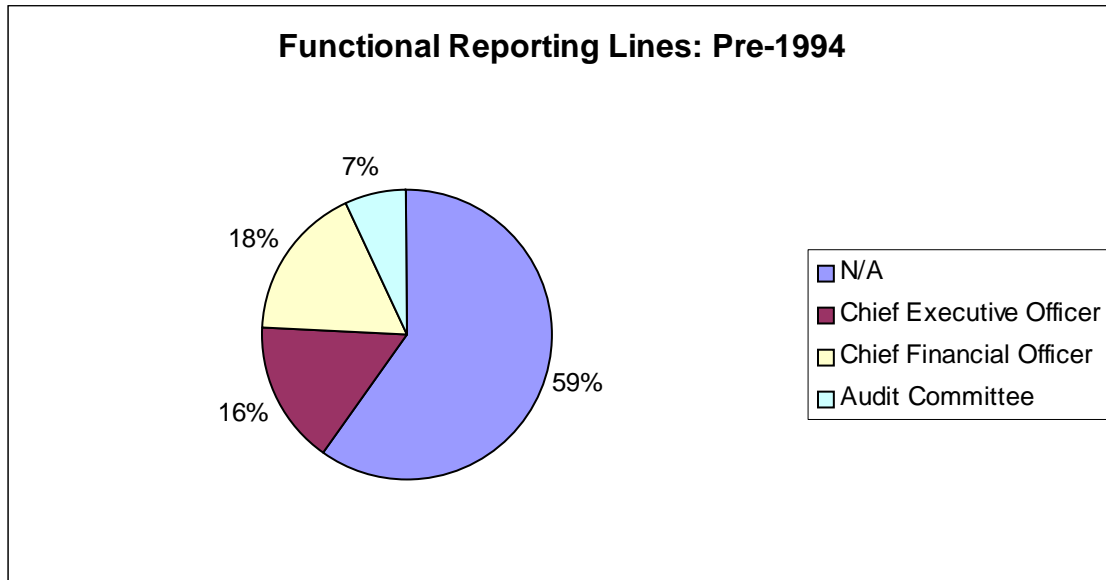
5.8 FUNCTIONAL REPORTING LINES

34 of the 57 respondents (59.6%) did not know to which authority their audit function reported prior to 1994. They informed the researcher telephonically that the people employed during that period were no longer at the municipalities and that the current officials were not informed as to how the internal audit function was operated then. 9 of the 57 municipalities (15.8%) reported functionally to the Chief Executive Officer, 10 (17.5%) reported to the Chief Financial Officer and 4 (7%) reported to the audit committee.

The number of municipalities that did not know to which authority they reported functionally by the end of 2004 decreased to 5 (8.8%). The number of municipalities reporting functionally to the Chief Executive Officer by the end of 2004 increased to 15 (26.3%), the number of municipalities reporting functionally to the Chief Financial Officer decreased to 3 (5.3%) percent and the number of municipalities reporting to an audit committee increased to 34 (59.6%). This means that the internal audit function was becoming more independent because it reported one of the components responsible for good corporate governance, namely an audit committee.

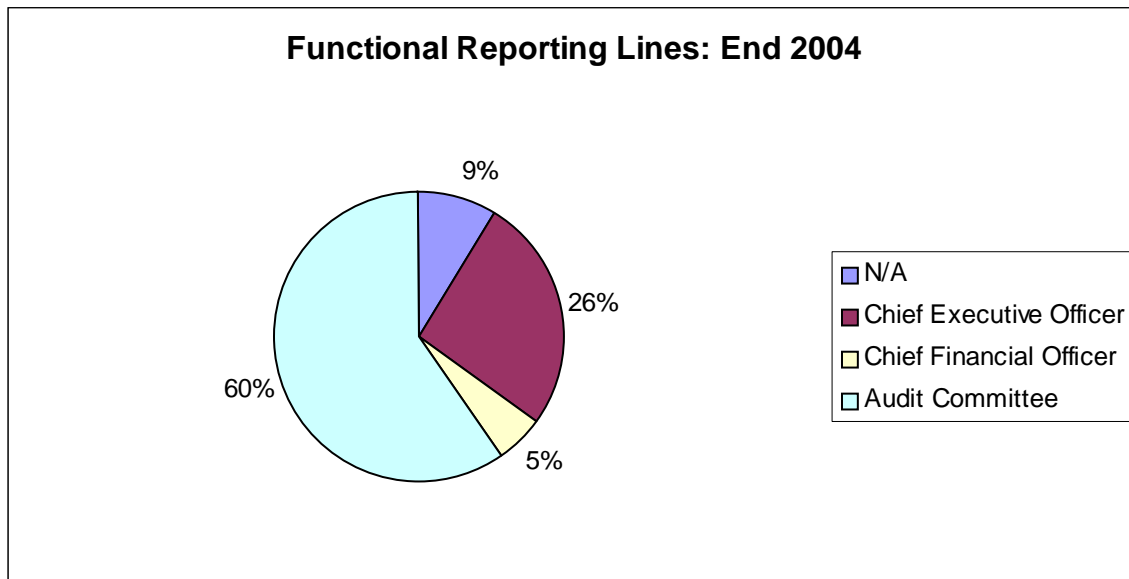
The number of municipalities where the internal audit function reported functionally to an audit committee increased significantly from 7% to 59.6%, which represents a change that took place over the 10-year period.

Figure 5.14: Functional Reporting Lines: Pre-1994



Source: Own calculations

Figure 5.15: Functional Reporting Lines: End 2004



Source: Own calculations

5.9 MEMBERSHIP OF AUDIT COMMITTEE

Prior to 1994, 45 of the 57 respondents (78.9%) had no external members in their audit committees. The other 12 municipalities (21.1%) had 1 external member.

By the end of 2004 the situation had not changed in 13 municipalities, which means there were still no external members in their audit committees. The number of municipalities with 1 external member increased to 44 (77.2%).

Prior to 1994, 51 of the 57 respondents (89.5%) did not have councillors as members of their audit committees. 5 municipalities (8.8%) had 1 councillor as a member of their audit committees and 1 municipality (1.8%) had 2 councillors as members of the audit committee.

By the end of 2004, 49 municipalities (70.2%) did not have councillors as members of their audit committees. This can probably be attributed to the Municipal Finance Management Act that came into effect in 2004, prohibiting councillors to be members of the audit committee. 7 municipalities (12.3%) had 1 councillor as a member of their audit committees and 1 municipality had 2 councillors as members of the audit committee.

Prior to 1994 the Municipal Managers of 47 municipalities (82.5%) were not members of the audit committees, while the Municipal Managers of 10 municipalities (17.5%) were members of the audit committees.

By the end of 2004, 40 municipalities (70.2%) did not have Municipal Managers as members of the audit committees, while the Municipal Managers were members of the audit committees in 17 municipalities (29.9%).

Prior to 1994 the Chief Audit Executives of 49 municipalities (86%) were not members of the audit committees, while they were members of the audit committees in the other 8 municipalities (14%).

By the end of 2004 39 municipalities (68.4%) did not have the Chief Audit Executives as members of the audit committees, while they were members of the audit committees in the other 18 municipalities (31.6%).

Prior to 1994 the Chief Financial Officers of 48 municipalities (84.2%) were not members of the audit committees, while they were members of the audit committees in the other 9 municipalities (15.8%).

By the end of 2004 39 municipalities (68.4%) did not have the Chief Financial Officers as members of the audit committees, while they were members of the audit committees in the other 18 municipalities (31.6%).

Prior to 1994 the Internal Audit Managers of 53 municipalities (93%) were not members of the audit committees, while they were members of the audit committees in the other 4 municipalities (7%).

By the end of 2004 46 municipalities (80.7%) did not have the Internal Audit Managers as members of the audit committees, while they were members of the audit committees in the other 11 municipalities (19.3%). The number of municipalities with an audit committee with one external member increased significantly from 21.1% to 77.2%, which represents a change that took place over the 10-year period.

5.10 SCOPE OF INTERNAL AUDIT

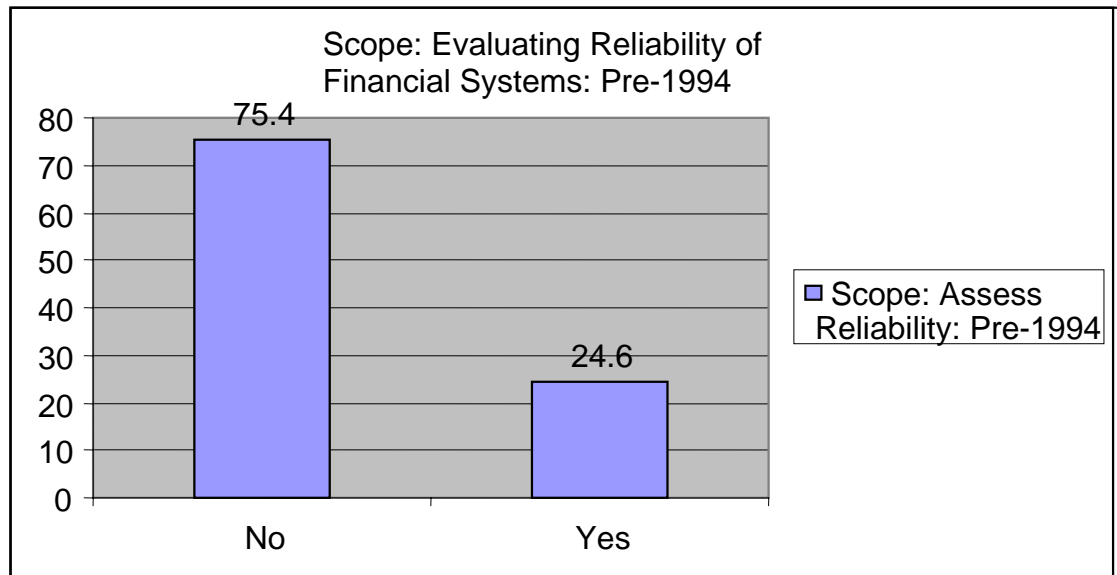
The questionnaire included 12 statements, each of which is an auditing activity that may be part of the scope of the internal audit function of a municipality.

5.10.1 EVALUATING THE RELIABILITY OF FINANCIAL SYSTEMS

43 of the 57 municipalities (75.4%) indicated that evaluation of the reliability of financial systems was not included in their scope of internal audit prior to 1994, while 14 municipalities (24.6%) indicated that it was included in their scope of internal audit.

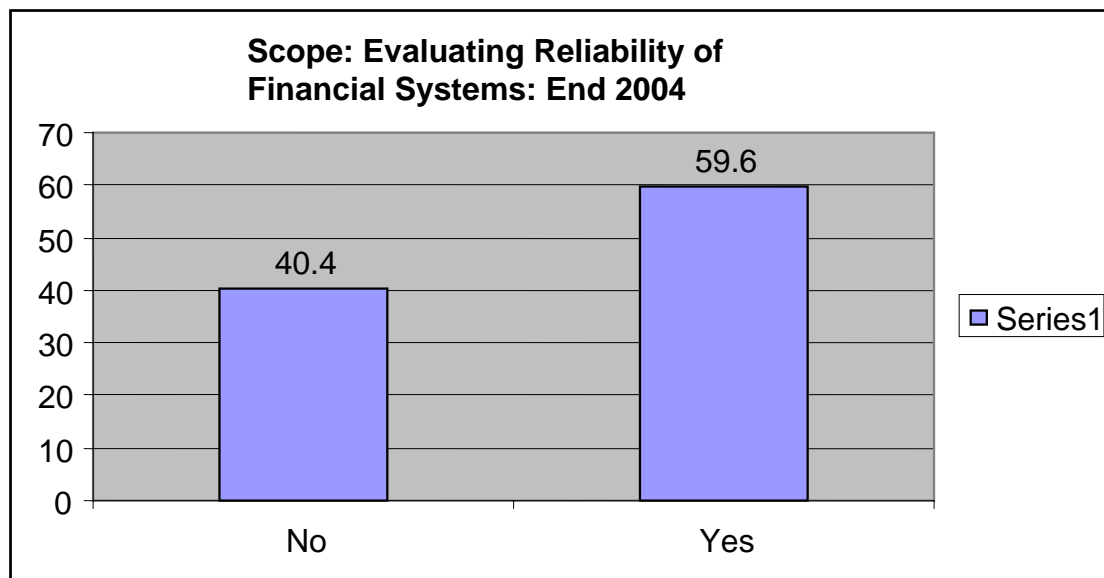
By the end of 2004 the number of municipalities that did not include evaluation of the reliability of financial systems in their scope of internal audit had decreased to 23 (40.4%) and the number of municipalities that did include it had increased to 34 (59.6%). This shows that by 2004 the internal audit function of 59.6% of municipalities had been involved in auditing aimed at assisting members of their respective organisations in the effective discharge of their responsibilities. This number increased significantly from 24.6% to 59.6%, which represents a change that took place over the 10year period.

Figure 5.16: Scope: Evaluating Reliability of Financial Systems: Pre-1994



Source: Own calculations

Figure 5.17: Scope: Evaluating Reliability of Financial Systems: End 2004



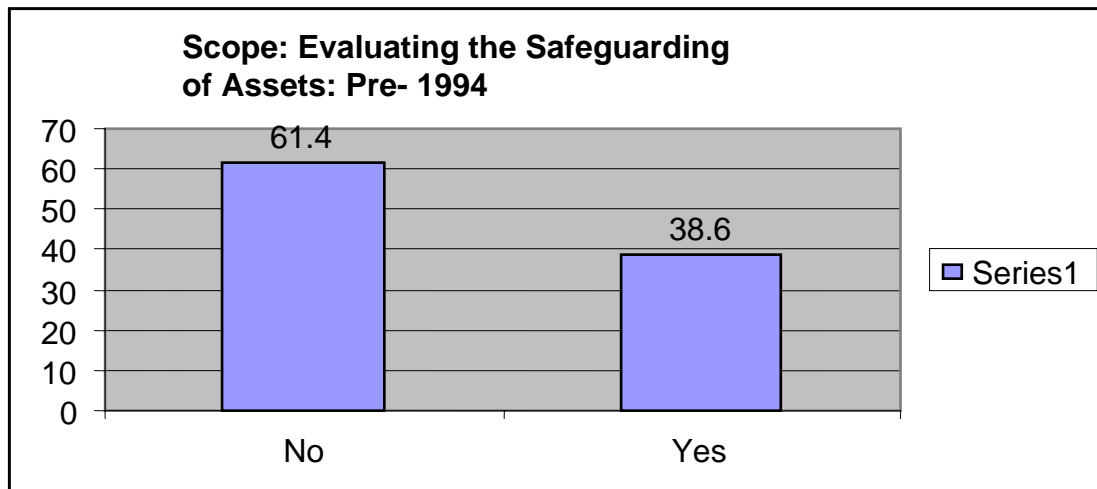
Source: Own calculations

5.10.2 EVALUATING THE SAFEGUARDING OF ASSETS

Prior to 1994, 35 of the 57 municipalities (61.4%) did not evaluate the safeguarding of assets as part of the scope of internal audit, while 22 municipalities (38.6%) did include it in their scope.

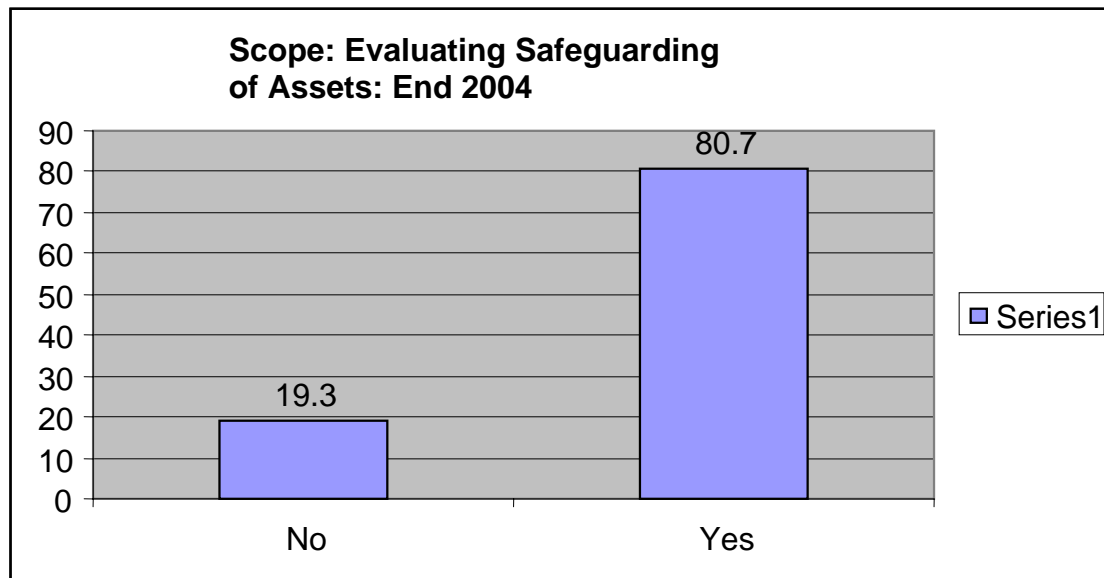
By the end of 2004 the number of municipalities that did not include evaluation of the safeguarding of assets in their scope of internal audit had decreased to 11 (19.3%) and the number of municipalities that did include it had increased to 46 (80.7%). This shows that by 2004 the internal audit functions of 80.7% of municipalities assisted the councils in executing the responsibility of ensuring that their assets were safeguarded. This number increased significantly from 38.6% to 80.7%, which represents a change that took place over the 10-year period.

Figure 5.18: Scope: Evaluating the Safeguarding of Assets: Pre-1994



Source: Own calculations

Figure 5.19: Scope: Evaluating the Safeguarding of Assets: End 2004



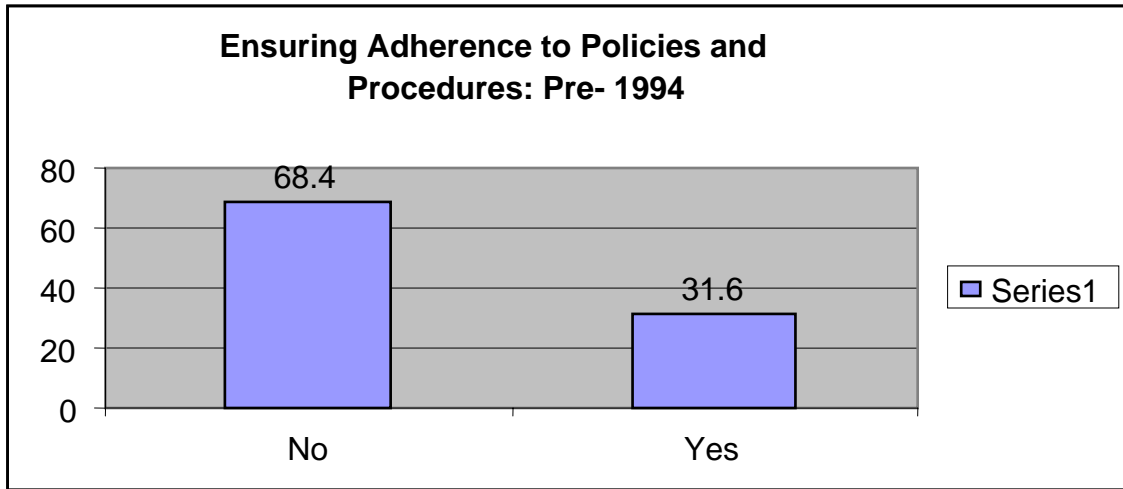
Source: Own calculations

5.10.3 ADHERENCE TO ORGANISATIONAL PROCEDURES AND POLICIES

Prior to 1994 the scope of the internal audit function of 39 of the 57 municipalities (68.4%) did not include performing an audit exercise aimed at ensuring that there was adherence to organisational procedures and policies. The internal audit function of 18 municipalities (31.6%) did include this exercise.

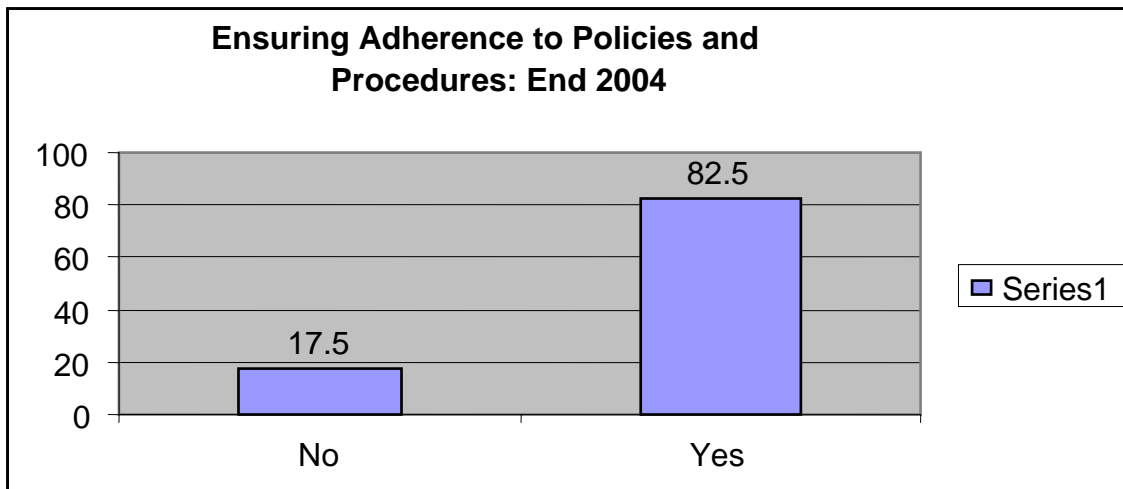
By the end of 2004 the number of municipalities that did not include the abovementioned exercise in their internal audit function had decreased to 10 (17.5%) and the number of municipalities that included it increased to 47 (82.5%). This shows that by 2004 in 82.5% of municipalities the internal audit functions had added value to their organisations by evaluating and monitoring compliance with policies and procedures. This number increased significantly from 31.6% to 82.5%, which represents a change that took place over the 10-year period.

Figure 5.20: Ensuring Adherence to Policies and Procedures: Pre-1994



Source: Own calculations

Figure 5.21: Ensuring Adherence to Policies and Procedures: End 2004



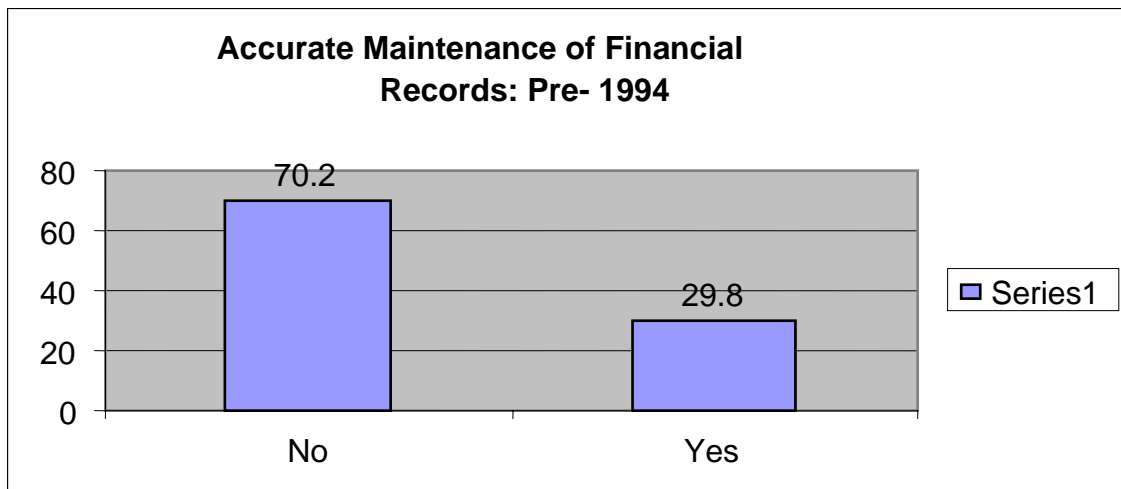
Source: Own calculations

5.10.4 ACCURATE MAINTENANCE OF FINANCIAL RECORDS

Prior to 1994 the scope of the internal audit function of 40 of the 57 municipalities (70.2%) did not include conducting an audit aimed at ensuring the accurate maintenance of financial records. 17 municipalities (29.8%) did include this exercise in their scope.

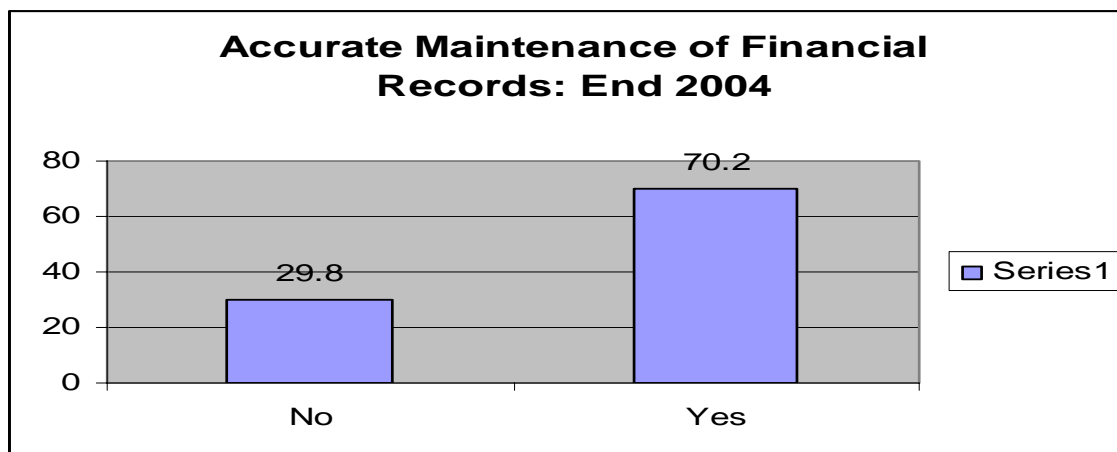
By the end of 2004 the number of municipalities that did not include the abovementioned exercise in the scope of their internal audit function had decreased to 17 (28.8%). The number of municipalities that included it had increased to 40 (70.2%). This shows that by 2004 in 70.2% of municipalities the internal audit functions had been effective in assisting their organisations to ensure that there was accurate maintenance of financial records exists. This number increased from 29.8% to 70.2%, which represents a change that took place over the 10-year period.

Figure 5.22: Accurate Maintenance of Financial Records: Pre-1994



Source: Own calculations

Figure 5.23: Accurate Maintenance of Financial Records: End 2004



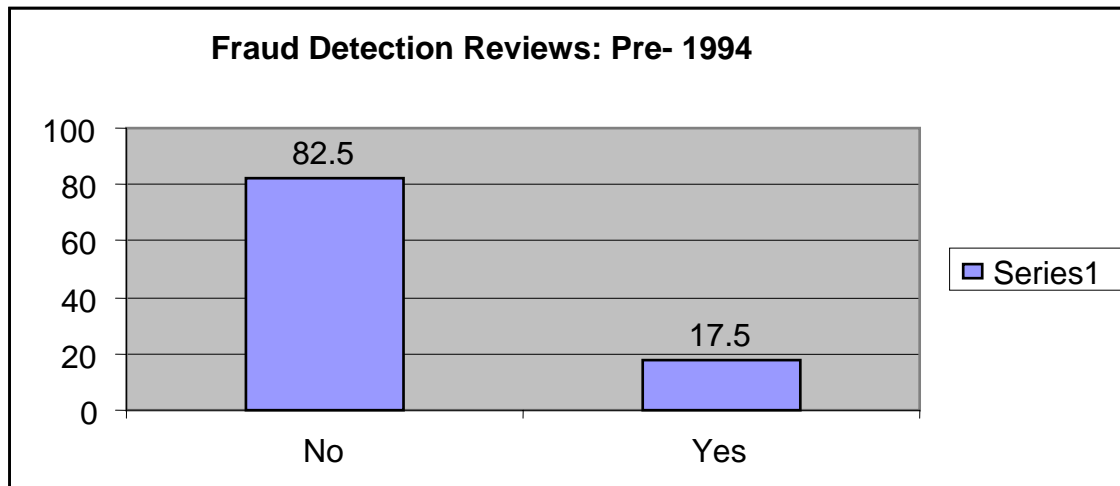
Source: Own calculations

5.10.5 FRAUD DETECTION REVIEWS

Prior to 1994, 47 municipalities (82.5%) included fraud detection reviews in the scope of their internal audit function and 10 municipalities (17.5%) did not include it.

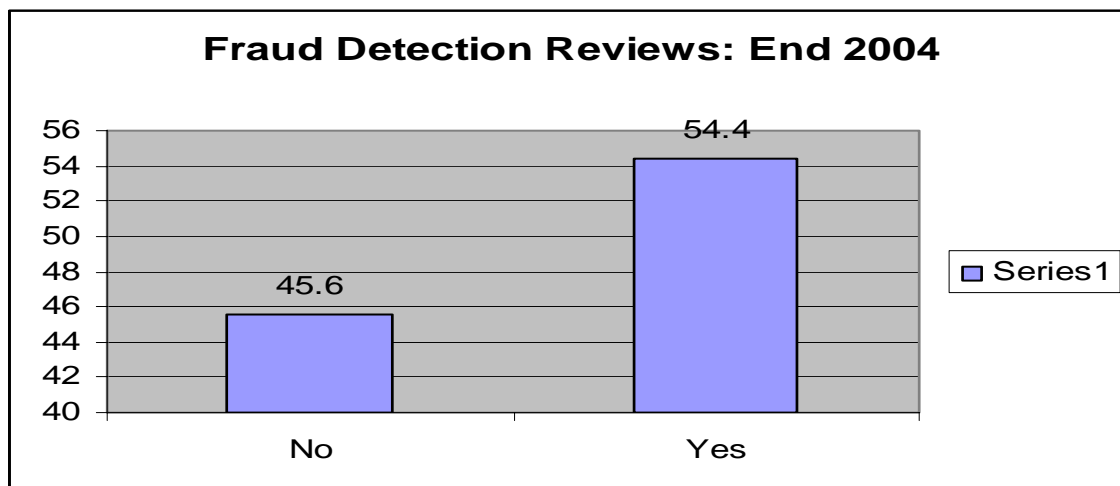
By the end of 2004 the number of municipalities that did not include fraud detection reviews in their scope of internal audit had decreased to 26 (45.6%), and the number of municipalities that included it had increased to 31 (54.4%). This shows that by 2004 54.4% of the internal audit functions of municipalities had been effective in conducting fraud detection exercises aimed at reducing incidents of fraud in their organisations. This number increased from 17.5% to 54.4%, which represents a change that took place over the 10-year period.

Figure 5.24: Fraud Detection Reviews: Pre-1994



Source: Own calculations

Figure 5.25: Fraud Detection Reviews: End 2004



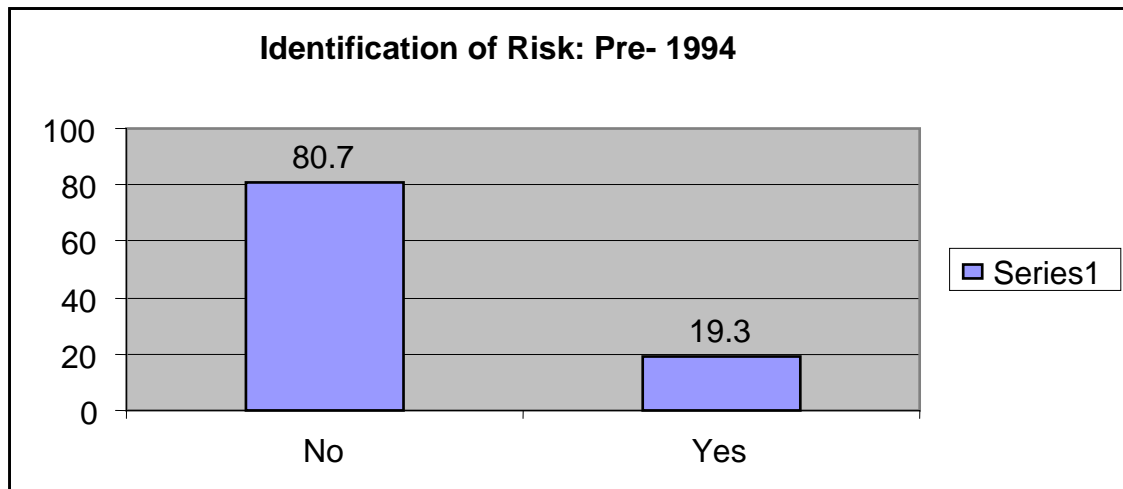
Source: Own calculations

5.10.6 IDENTIFYING RISK

Prior to 1994, 46 of the 57 municipalities (80.7%) did not include in the scope of their internal audit function the exercise of identifying risk, integrating management and monitoring risks across the organization. 11 municipalities (19.3%) included this exercise.

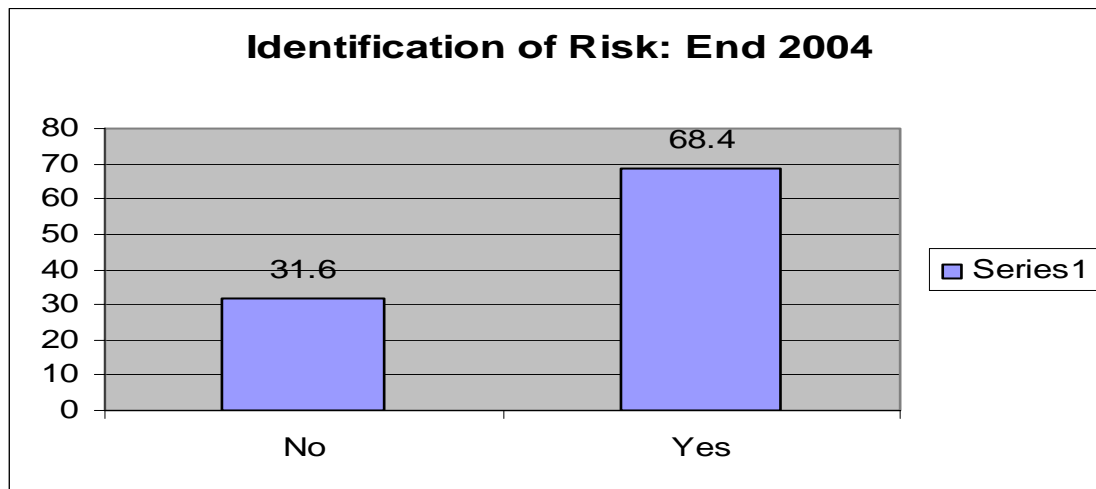
By the end of 2004 the number of municipalities that did not include the abovementioned exercise had decreased to 18 (31.6%) and the number of municipalities that included it had increased to 39 (68.4%). This shows that by 2004 the internal audit functions in 68.4% of municipalities had been effective with regard to their role of identifying risks, integrating the management and monitoring risks across the organisation. This number increased from 19.3% to 68.4%, which represents a change that took place over the 10-year period.

Figure 5.26: Identification of Risk: Pre-1994



Source: Own calculations

Figure 5.27: Identification of Risk: End 2004



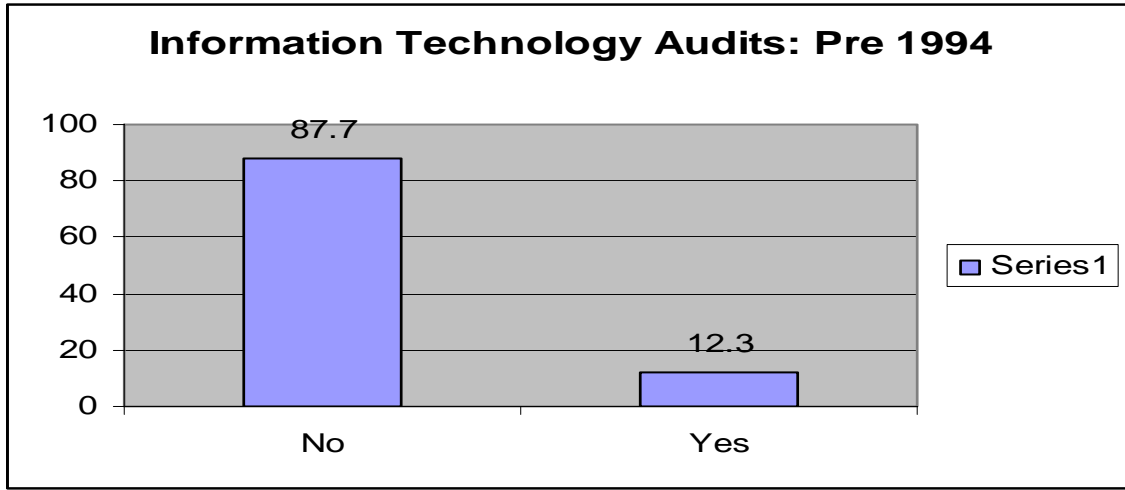
Source: Own calculations

5.10.7 INFORMATION TECHNOLOGY (IT) AUDITS

Prior to 1994, 50 of the 57 (87.7%) municipalities did not conduct information technology audits as part of the scope of their internal audit function. 7 municipalities (12.3%) did conduct information technology audits.

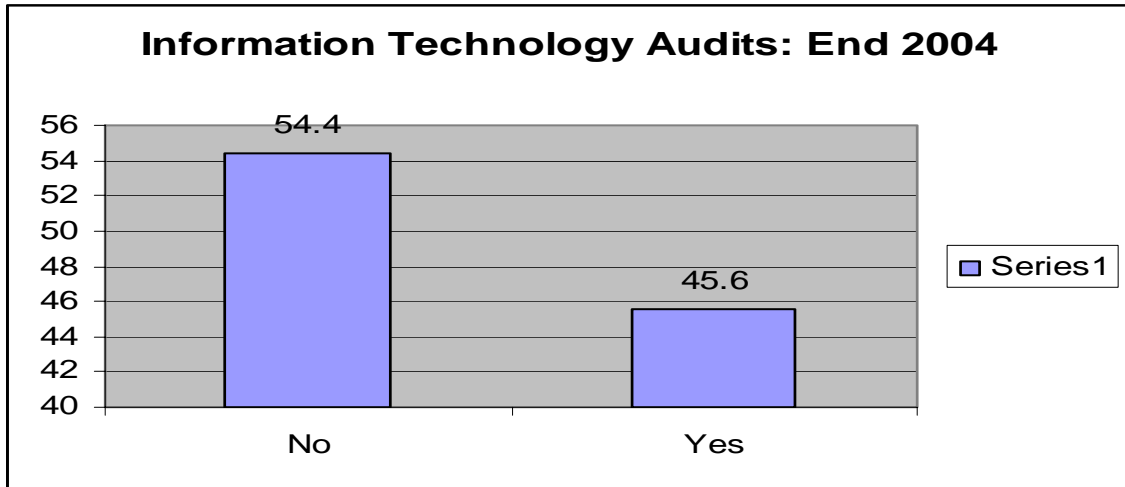
By the end of 2004 the number of municipalities that did not include information technology audits had decreased to 31 (54%) and the number of municipalities that did include information technology audits had increase to 26 (45.6%). This shows a trend towards more audits on information technology. The number of municipalities that conducted information technology audits increased from 12.3% to 45.6%, which represents a change that took place over the 10-year period.

Figure 5.28: Information Technology Audits: Pre-1994



Source: Own calculations

Figure 5.29: Information Technology Audits: End 2004



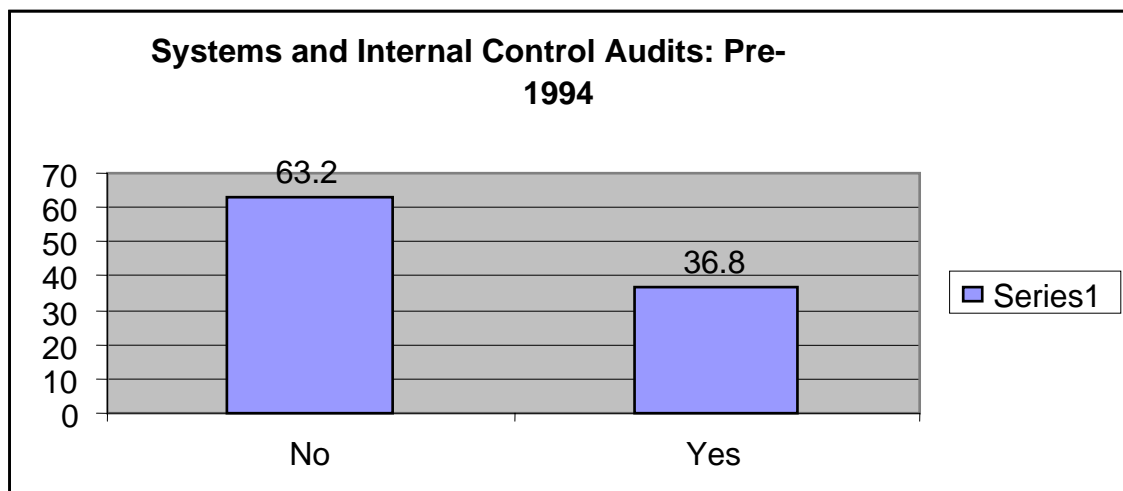
5.10.8 SYSTEMS AND INTERNAL CONTROLS AUDITS

When asked whether auditing systems and internal controls was part of the internal audit function prior to 1994, 36 of the 57 municipalities (63.2%) responded negatively and 21 municipalities (36.8%) indicated that they did conduct systems and internal controls audits.

By the end of 2004, the number of municipalities that did not conduct systems and internal controls audits had decreased to 10 (17.5%) and the number of municipalities that conducted systems and internal controls audits had increase to 47 (82.5%). This shows that by 2004 there had been an improvement in the effectiveness of the internal audit function.

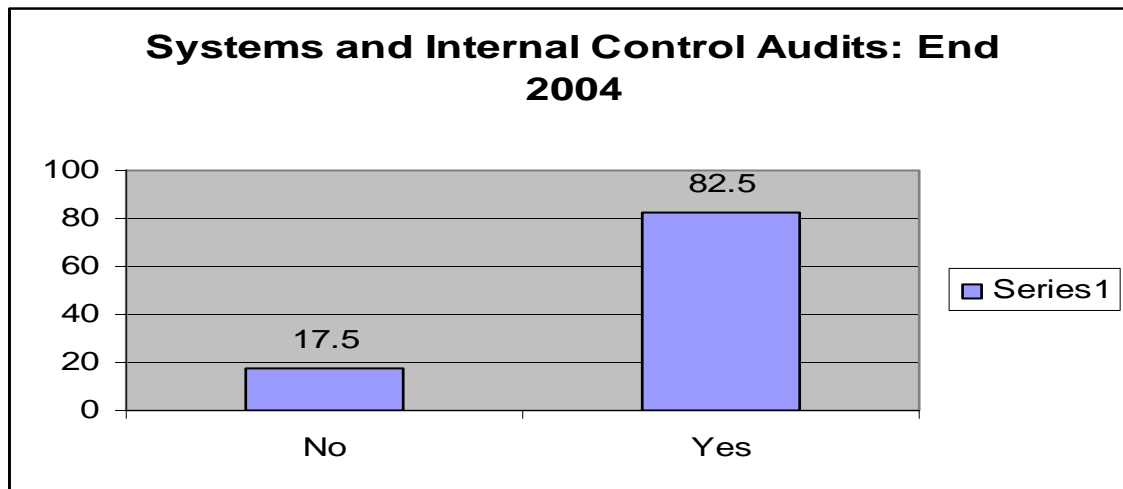
The number of municipalities that conducted systems and internal controls audits increased from 36.8% to 45.6%, which represents a change that took place over the 10-year period.

Figure 5.30: Systems and Internal Control Audits: Pre-1994



Source: Own calculations

Figure 5.31: Systems and Internal Control Audits: End 2004



Source: Own calculations

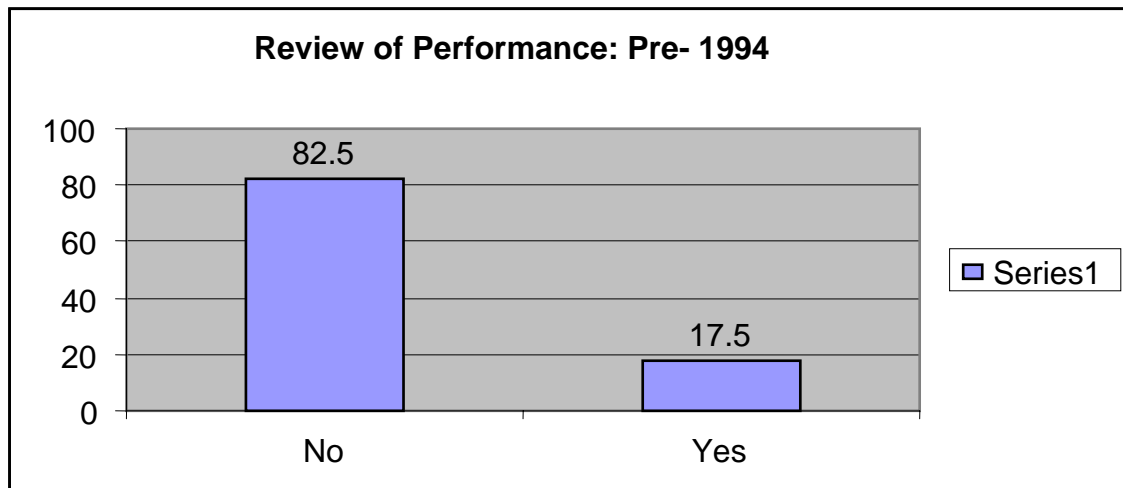
5.10.9 REVIEW OF PERFORMANCE

47 of the 57 municipalities (82.5%) indicated that they did not review the performance of all the aspects of the organisation prior to 1994, while 10 municipalities (17.5%) indicated that they did.

By the end of 2004 the number of municipalities that did not review the performance of all aspects of the organisation had decreased to 19 (33.3%) and the number of municipalities that reviewed performance of all aspects of the organisation had increased to 38 (66.7%). This shows that by 2004 66.7% of municipal internal audit functions had added value to their respective organisations.

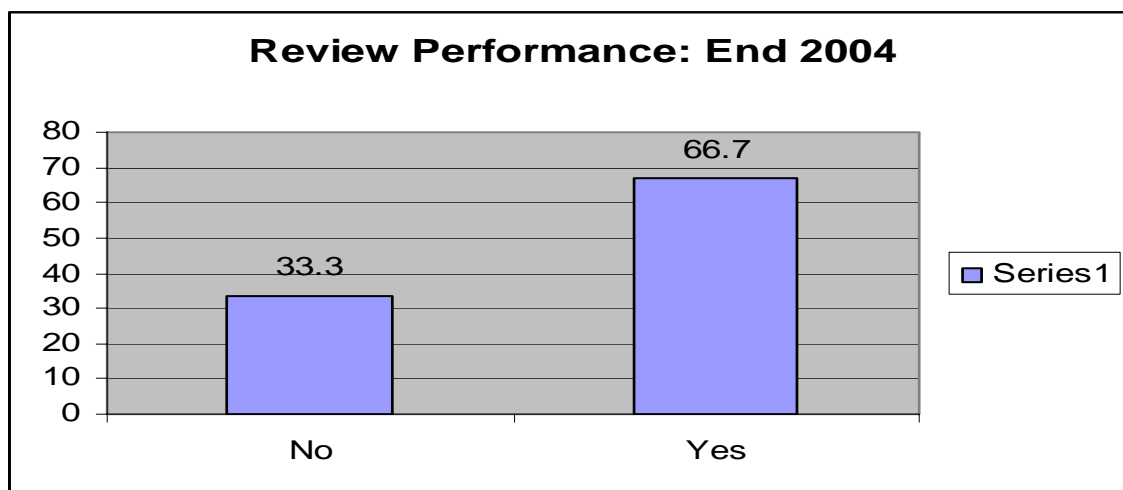
The number of municipalities that reviewed performance of all aspects of the organisation increased from 17.5% to 66.7%, which represents a change that took place over the 10-year period.

Figure 5.32: Review of Performance: Pre-1994



Source: Own calculations

Figure 5.33: Review of Performance: End 2004



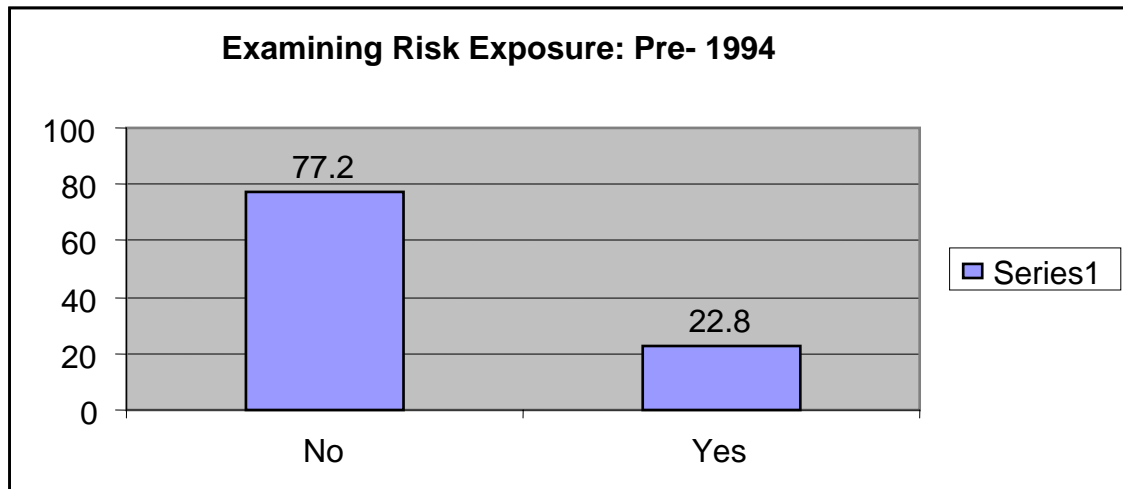
Source: Own calculations

5.10.10 EXAMINING RISK EXPOSURE

Prior to 1994, 44 of the 57 municipalities (77.2%) did not examine and report on risk exposure, while 13 municipalities (22.8%) did examine and report on risk exposure.

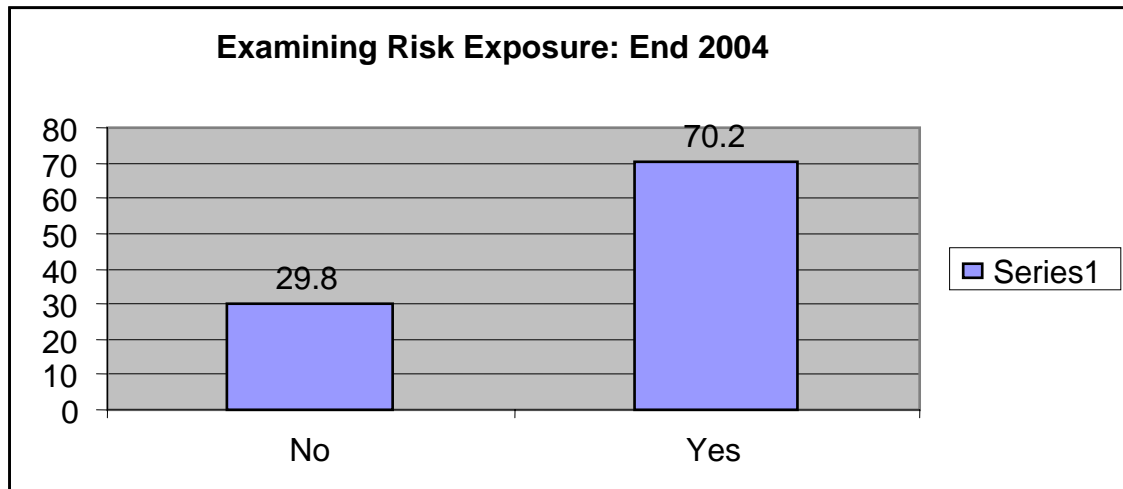
By the end of 2004 the number of municipalities that did not examine and report on risk exposure had decreased to 17 (29.8%) and the number of municipalities that included this exercise had increased to 40 (70.2%). This number increased from 22.8% to 70.2%, which represents a change that took place over the 10-year period.

Figure 5.34: Examining Risk Exposure: Pre-1994



Source: Own calculations

Figure 5.35: Examining Risk Exposure: End 2004



Source: Own calculations

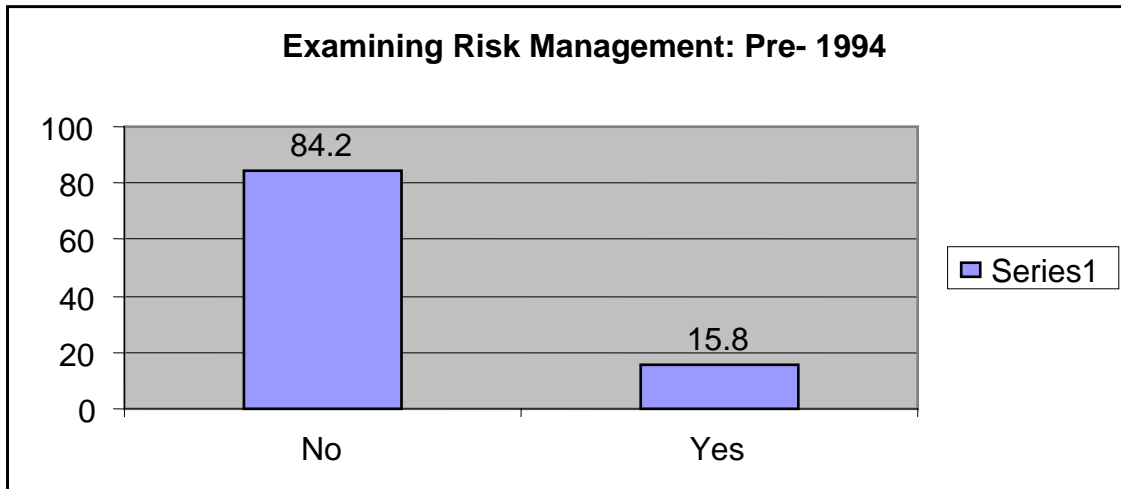
5.10.11 EXAMINING THE ORGANISATION'S RISK-MANAGEMENT EFFORTS

48 of the 57 municipalities (84.2%) indicated that their internal audit functions did not examine and report on their organisations' risk-management efforts prior to 1994, while 9 municipalities (15.8%) did examine and report on their organisations' risk-management efforts.

By the end of 2004 the number of municipalities that did not include the abovementioned exercise in their internal audit function had decreased to 22 (38.6%) and the number of municipalities that included it had increased to 35 (61.4%). This shows that by 2004 more internal audit functions within municipalities had been auditing their organisations' risk-management efforts.

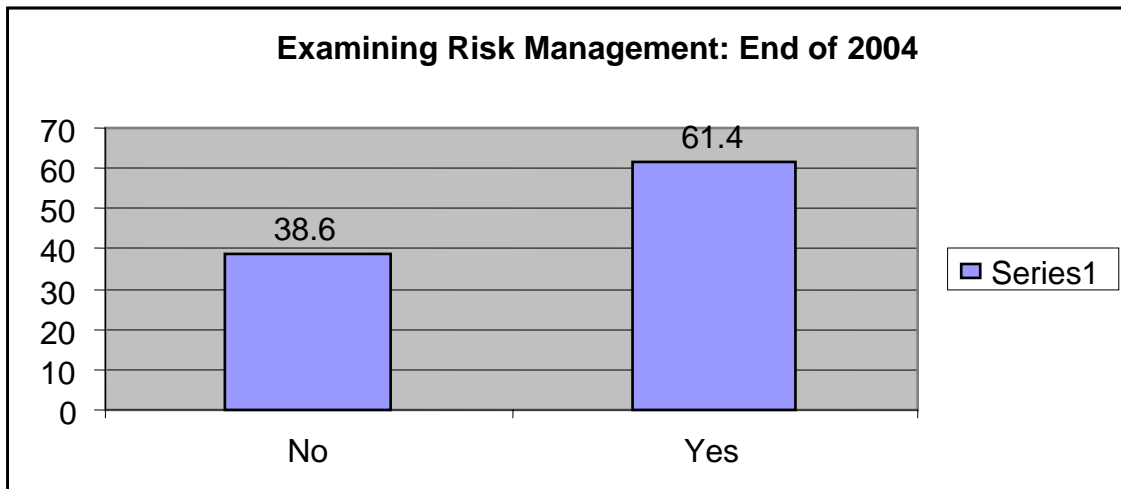
The number of municipalities that examined and reported on the organisations' risk-management efforts increased from 15.8% to 61.4%, which represents a change that took place over the 10-year period.

Figure 5.36: Examining Risk Management: Pre-1994



Source: Own calculations

Figure 5.37 Examining Risk Management: End of 2004



Source: Own calculations

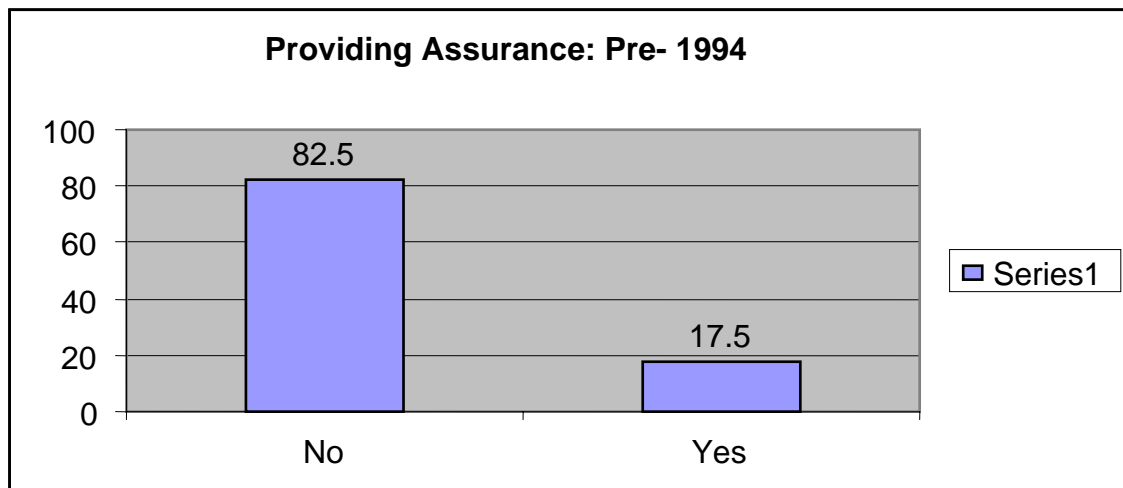
5.10.12 PROVIDING ASSURANCE

Prior to 1994, the internal audit function of 47 of the 57 municipalities (82.5%) did not provide assurance as part of its scope, while the internal audit function of 10 municipalities (17.5%) did provide assurance.

By the end of 2004 the number of municipalities that did not include the abovementioned exercise in their internal audit function had decreased to 24 (42.1%) and the number of municipalities that included it had increased to 33 (57.9%). This shows that by 2004 there had been an increase in the number of internal audit functions within municipalities that performed their core function of providing assurance to management as to whether the financial systems can be relied upon for decision-making and whether the organisation's acquired assets are safeguarded.

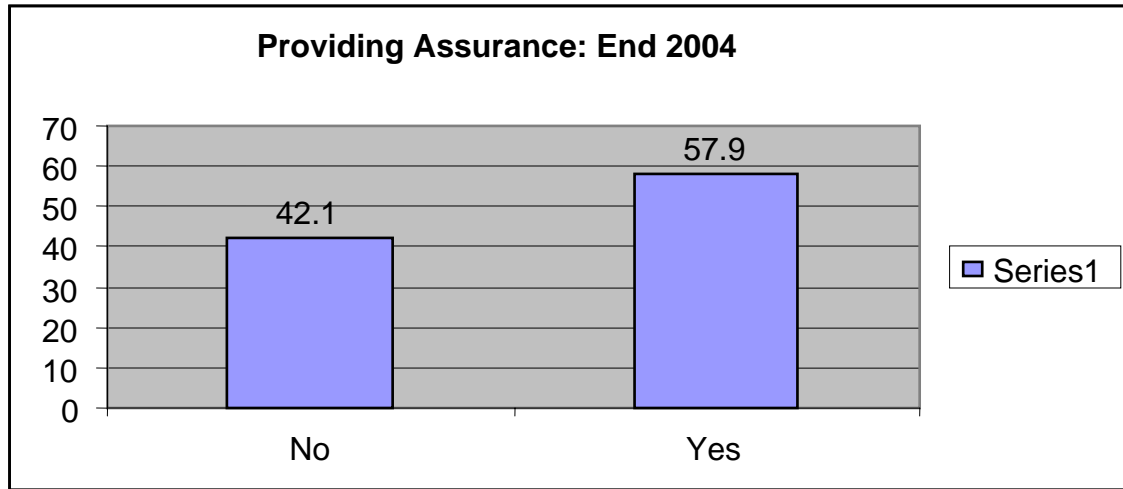
The number of municipalities where the scope of the internal audit function included providing assurance increased from 17.5% to 59.7%, which represents a change that took place over the 10-year period.

Figure 5.38: Providing Assurance: Pre-1994



Source: Own calculations

Figure 5.39: Providing Assurance: End 2004



Source: Own calculations

5.11 RATING INTERNAL AUDITORS' KNOWLEDGE

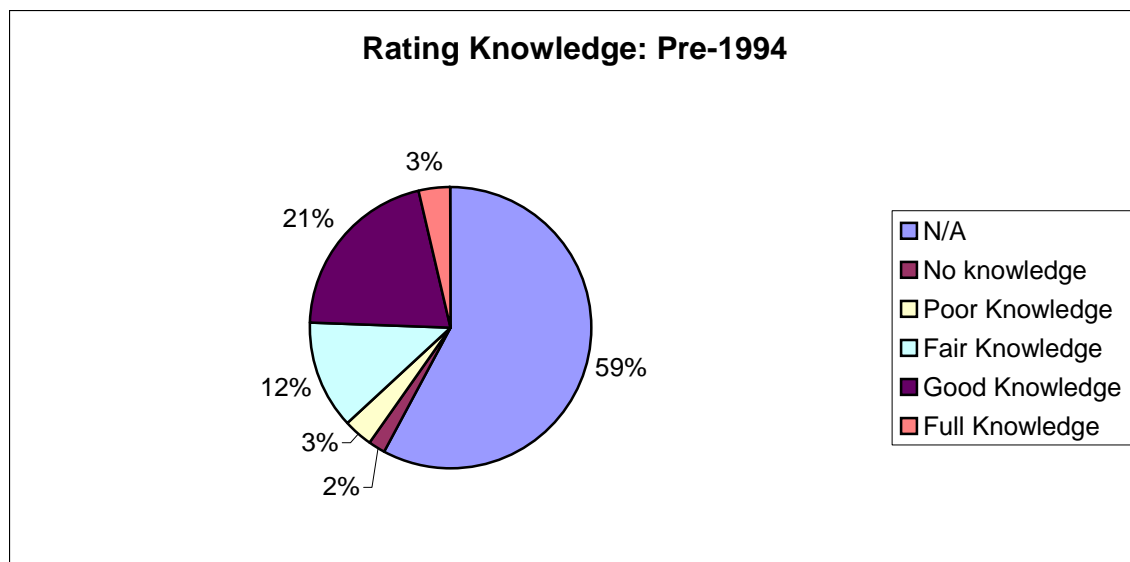
33 of the 57 respondents did not provide information with regard to the knowledge of auditors prior to 1994. They informed the researcher telephonically that the people employed during that period were longer at the municipalities and the existing officials were not informed as to how the internal audit function operated then. In 1 municipality (1.8%) the auditors had no knowledge of any aspects of the organisation's operations, in 2 municipalities (3.5%) the auditors had poor knowledge of the aspects of the organisations' operations, in 7 municipalities (12.3%) they had fair knowledge of all aspects of the organisations' operations, in 12 municipalities (21.1%) they had good knowledge of all aspects of the organisations' operations and in 2 municipalities (3.5%) they had full knowledge of all aspects of the organisations' operations.

The number of municipalities that did not provide information with regard to the knowledge of auditors by the end of 2004 decreased to 4. By the end of 2004 the auditors of 1 municipality (1.8%) did not have knowledge of any aspects of the organisation's operations; the number of municipalities whose auditors had poor

knowledge of all aspects of the organisations' operations had increased to 3 (5.3%); the number of municipalities whose auditors had fair knowledge of all aspects of the organisations' operations had increased to 10 (17.5%); the number of municipalities whose auditors had good knowledge of all aspects of the organisations' operations had increased to 28 (49.1%); and the number of municipalities whose auditors had full knowledge of all aspects of the organisations' operations had increased to 11 (19.3%). This shows that by 2004 there had been a small increase in the number of internal audit functions within municipalities that had full knowledge of their departments.

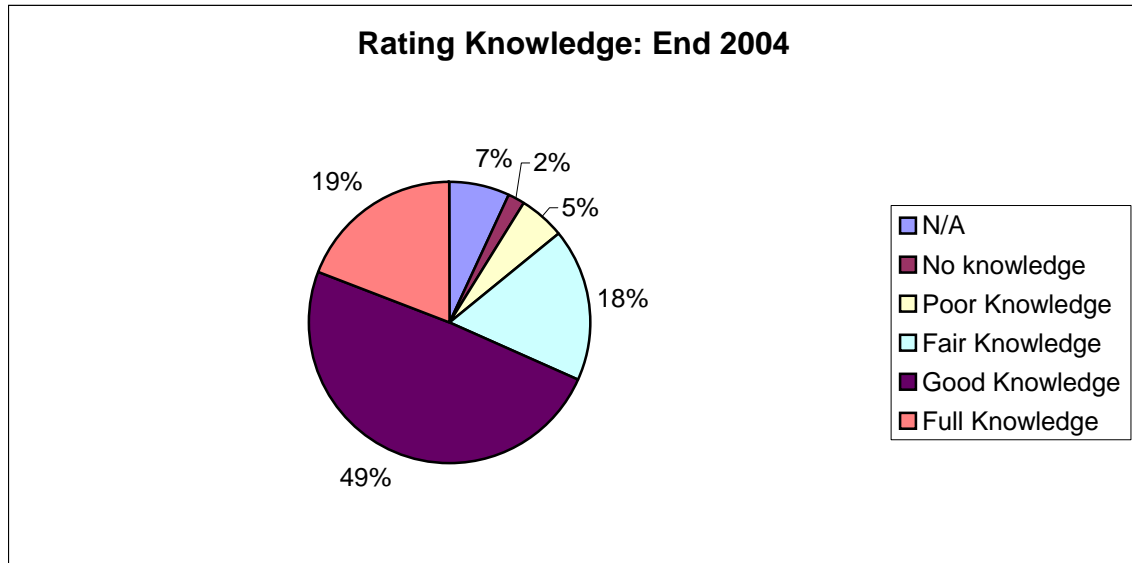
The number of municipalities where internal auditors had full knowledge of all aspects of the organisations' operations increased from 3.5% to 19.3%, which represents a change that took place over the 10-year period.

Figure 5.40: Rating Knowledge: Pre-1994



Source: Own calculations

Figure 5.41: Rating Knowledge: End 2004



Source: Own calculations

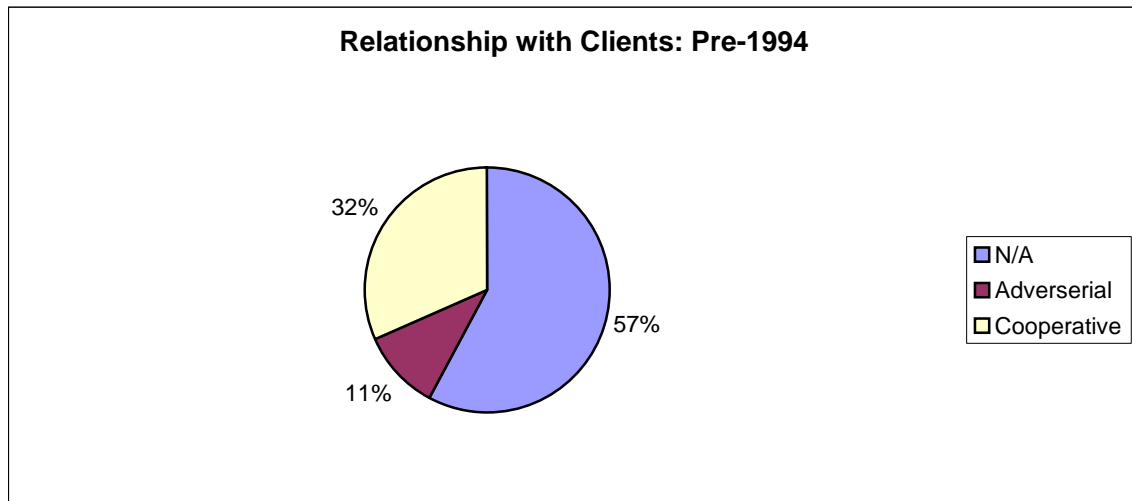
5.12 RELATIONSHIP WITH CLIENTS

33 of the 57 respondents did not provide information with regard to the relationship between the internal audit function and clients prior to 1994. They informed the researcher telephonically that the people employed during that period were no longer at the municipalities and that the current officials were not informed as to how the internal audit function was operated then. 6 of the municipalities (10.5%) indicated that the nature of the relationship between the internal audit function and clients was adversarial and 18 municipalities (31.6%) had a cooperative relationship.

The number of municipalities that did not provide information with regard to the relationship between the internal audit function and clients by the end of 2004 decreased to 4 (7%). By the end of 2004 the number of municipalities where the relationship was adversarial had decreased to 5 (8.8%) and the number of municipalities where the relationship was cooperative had increased to 46 (80.7%). The remaining 2 municipalities indicated that they had relationships that were neither adversarial nor cooperative. The number of municipalities where the

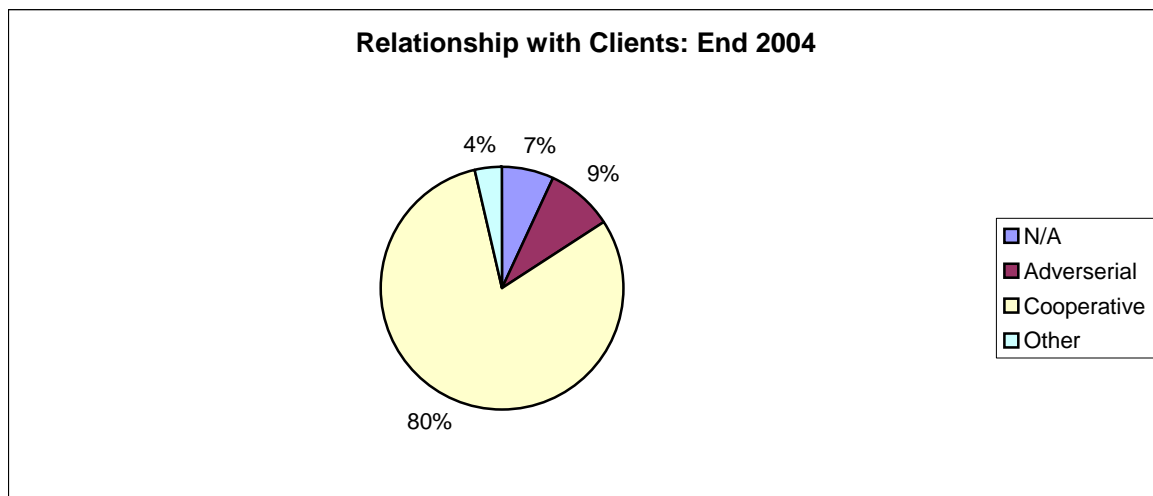
nature of the relationship between the internal audit function and clients was cooperative increased from 31.6% to 80.7%, which represents a change that took place over the 10-year period.

Figure 5.42 Relationship with Clients: Pre-1994



Source: Own calculations

Figure 5.43: Relationship with Clients: End 2004



Source: Own calculations

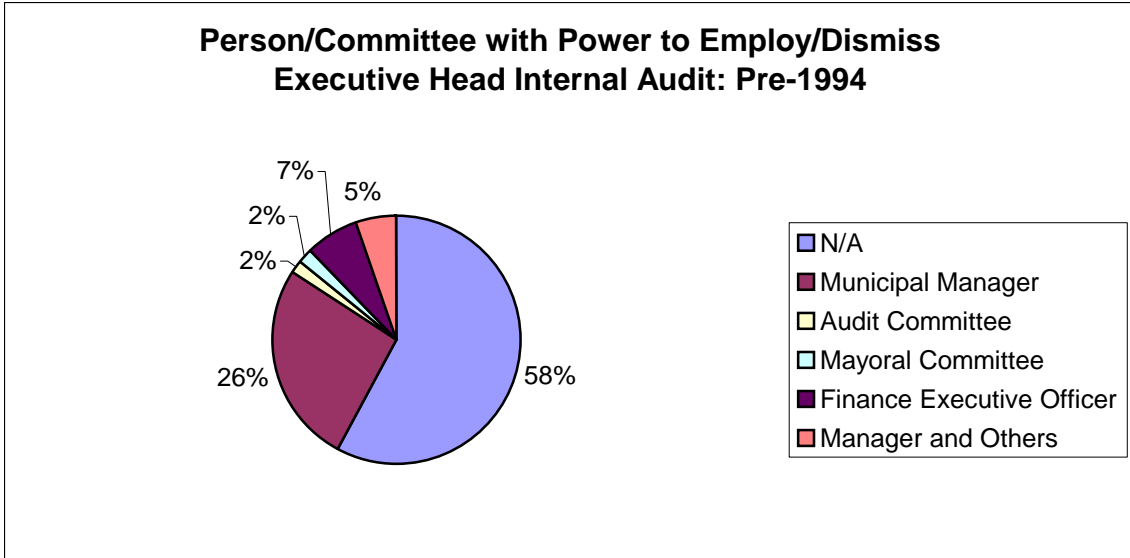
5.13 PERSON/COMMITTEE WITH POWER TO EMPLOY/DISMISS EXECUTIVE HEAD OF INTERNAL AUDIT

33 of the 57 respondents did not provide information with regard to who had the power to employ or dismiss the Executive Head of Internal Audit prior to 1994. They informed the researcher telephonically that the people employed during that period were no longer at the municipalities and that the current officials were not informed as to how the internal audit function was operated then. The Municipal Manager of 15 municipalities (26.3%); the Audit Committee of 1 municipality (1.8%); the Mayoral Committee of 1 municipality (1.8%); and the Finance Executive Officer of 4 municipalities (7%)⁵ had the power to employ or dismiss the Executive Head of Internal Audit. In 3 municipalities (5.3%) the Municipal Manager, in conjunction with the Audit Committee, had the power to employ or dismiss the Executive Head of Internal Audit.

The number of municipalities that did not provide information with regard to the person/committee that had power to employ or dismiss the Executive Head of Internal Audit by the end of 2004 decreased to 5 (8.8%). By the end of 2004 the number of municipalities where the Municipal Manager had the power to employ or dismiss the Executive Head of Internal Audit had increased to 23 (40.4%) the number of municipalities where the Audit Committee had the abovementioned power had increased to 3 (5.3%), the number of municipalities where the Mayoral Committee had the power had increased to 3 (5.3%) and the number of municipalities where the Municipal Manager in conjunction with the Audit Committee had the power had increased to 23 (40.4%).

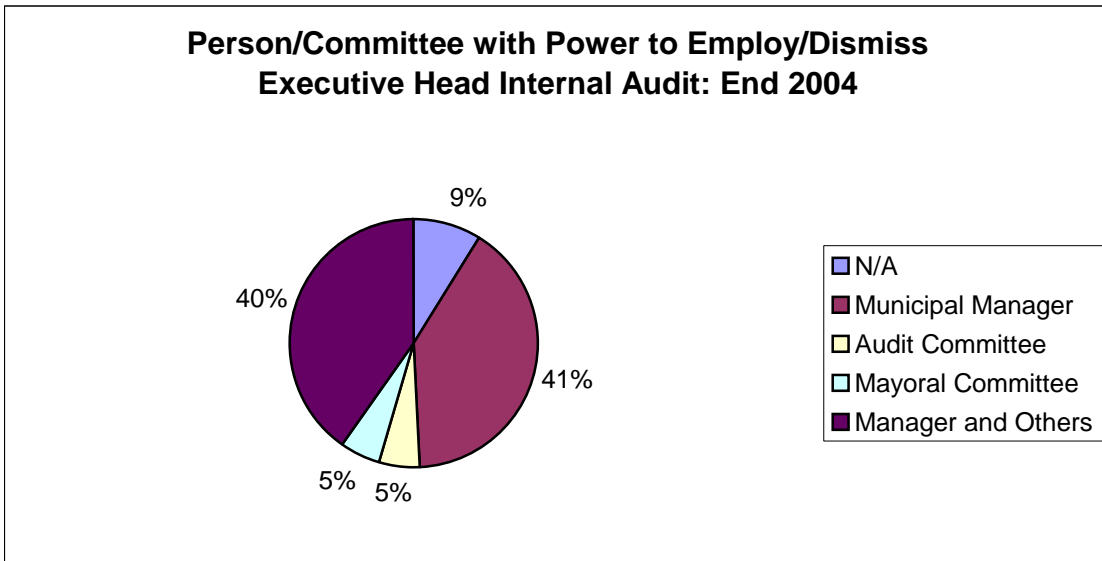
The number of municipalities where the Municipal Manager in conjunction with the Audit Committee had the power to employ or dismiss the Executive Head of Internal Audit increased from 5.3% to 40.4%, which represents a change that took place over the 10-year period.

Figure 5.44: Person/Committee with Power to Employ/Dismiss Executive Head Internal Audit: Pre-1994



Source: Own calculations

Figure 5.45: Person/Committee with Power to Employ/Dismiss Executive Head Internal Audit: End of 2004



Source: Own calculations

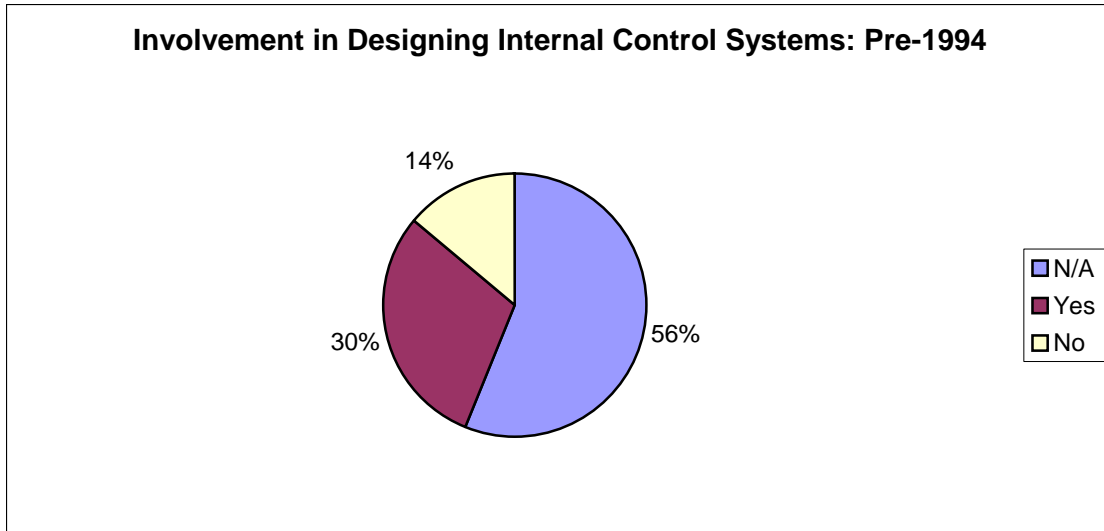
5.14 INVOLVEMENT IN DESIGNING INTERNAL CONTROL SYSTEMS

32 of the 57 municipalities (56.1%) did not have information on whether internal audit was involved in designing internal control systems and processes prior to 1994. In 17 municipalities (29.8%) internal auditors were involved in the designing of internal control systems and processes and in 8 municipalities (14%) they were not involved in the designing of internal control systems and processes.

The number of municipalities that did not have information on whether internal audit was involved in the designing of internal control systems and processes by the end of 2004 decreased to 4 (7%). By the end of 2004 the number of municipalities where internal auditors were involved in designing internal control systems and processes had increased to 26 (45.6%) and the number of municipalities where internal auditors were not involved in designing internal control systems and processes had increased to 27 (47.4%).

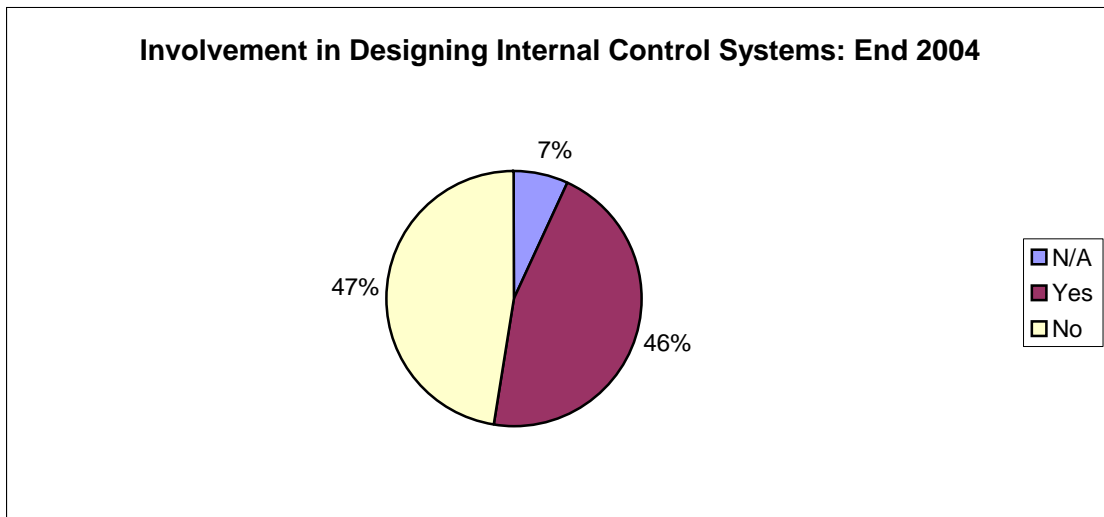
The number of municipalities where internal auditors were not involved in designing internal control systems and processes increased from 14% to 47.4%, which represents a change that took place over the 10-year period.

Figure 5.46: Involvement in Designing Internal Control Systems: Pre-1994



Source: Own calculations

Figure 5.47: Involvement in Designing Internal Control Systems: End 2004



Source: Own calculations

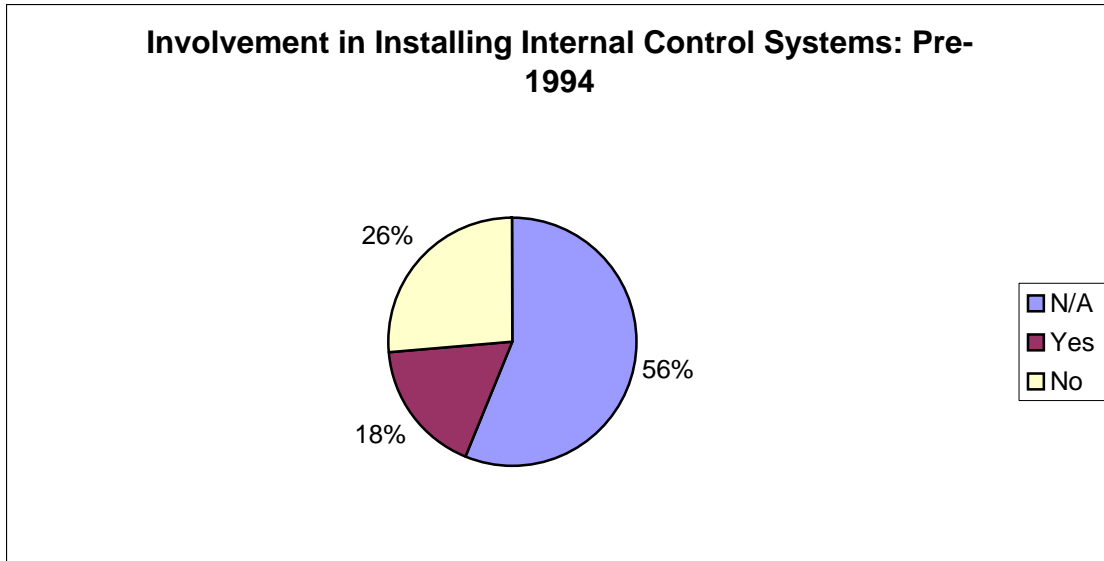
5.15 INVOLVEMENT IN INSTALLING INTERNAL CONTROL SYSTEMS

32 of the 57 respondents (56.1%) did not have information on whether internal audit was involved in installing internal control systems and processes prior to 1994. In 10 municipalities (17.5%) internal auditors were involved in installing internal control systems and processes and in 15 municipalities (26.3%) internal auditors were not involved in installing internal control systems and processes.

The number of municipalities that did not have information on whether internal audit was involved in installing internal control systems and processes by the end of 2004 decrease to 4 (7%). By the end of 2004 the number of municipalities where internal auditors were involved in installing internal control systems and processes had increased to 17 (29.8%) and the number of municipalities where internal auditors were not involved in installing internal control systems and processes had increased to 36 (63.2%).

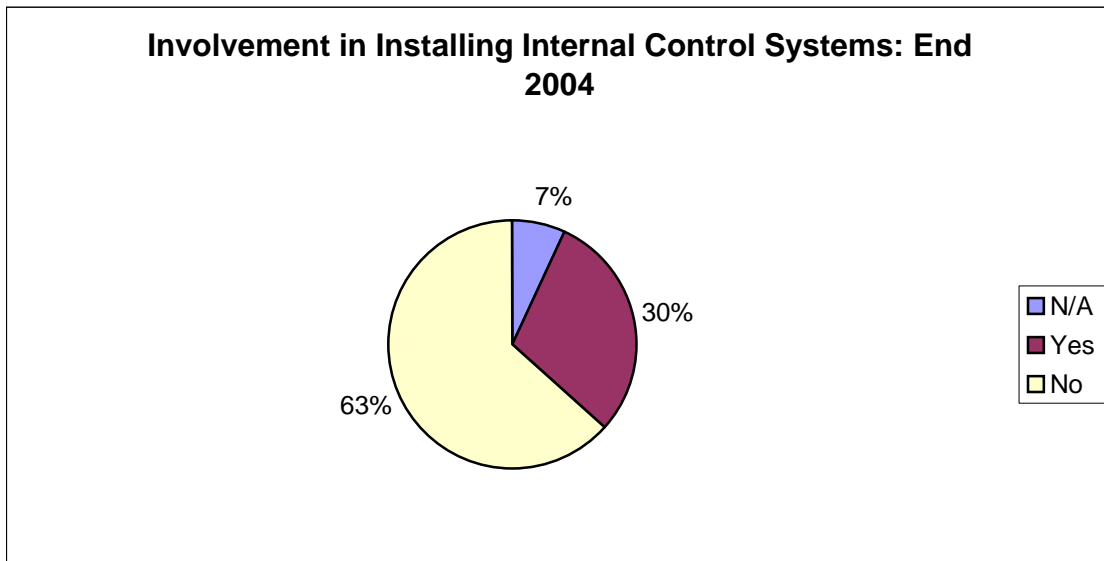
The number of municipalities where internal auditors were not involved in installing internal control systems and processes increased from 26.3% to 63.2%, which represents a change that took place over the 10-year period.

Figure 5.48: Involvement in Installing Internal Control Systems: Pre-1994



Source: Own calculations

Figure 5.49: Involvement in Installing Internal Control Systems: End 2004



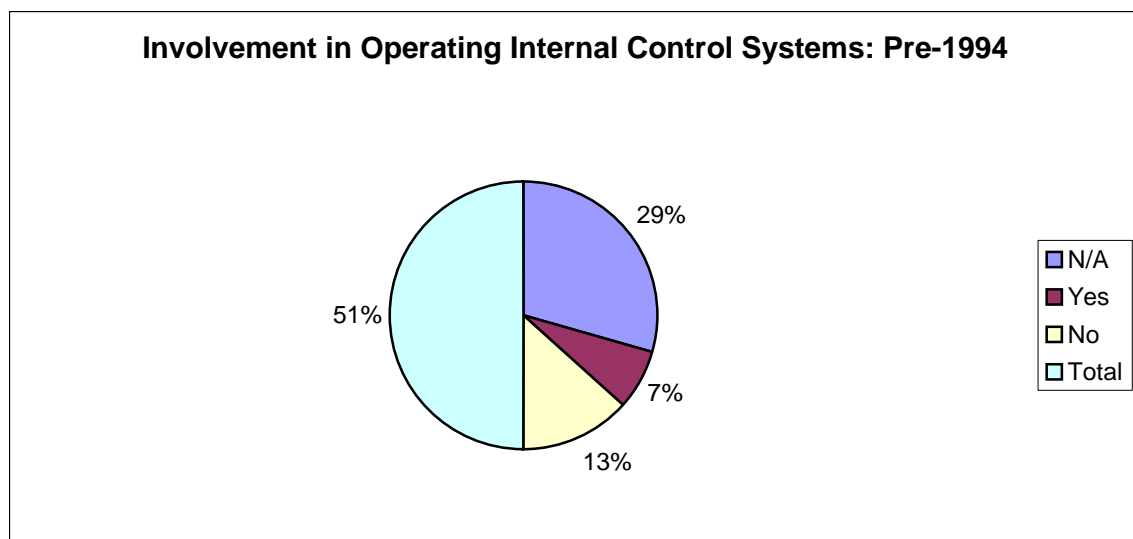
Source: Own calculations

5.16 INVOLVEMENT IN OPERATING INTERNAL CONTROLS SYSTEMS

33 of the 57 respondents (57.9%) did not have information on whether internal audit was involved in operating internal control systems and processes prior to 1994. In 8 municipalities (14%) internal auditors were involved in operating internal control systems and processes and in 15 municipalities (26.3%) internal auditors were not involved in operating internal control systems and processes.

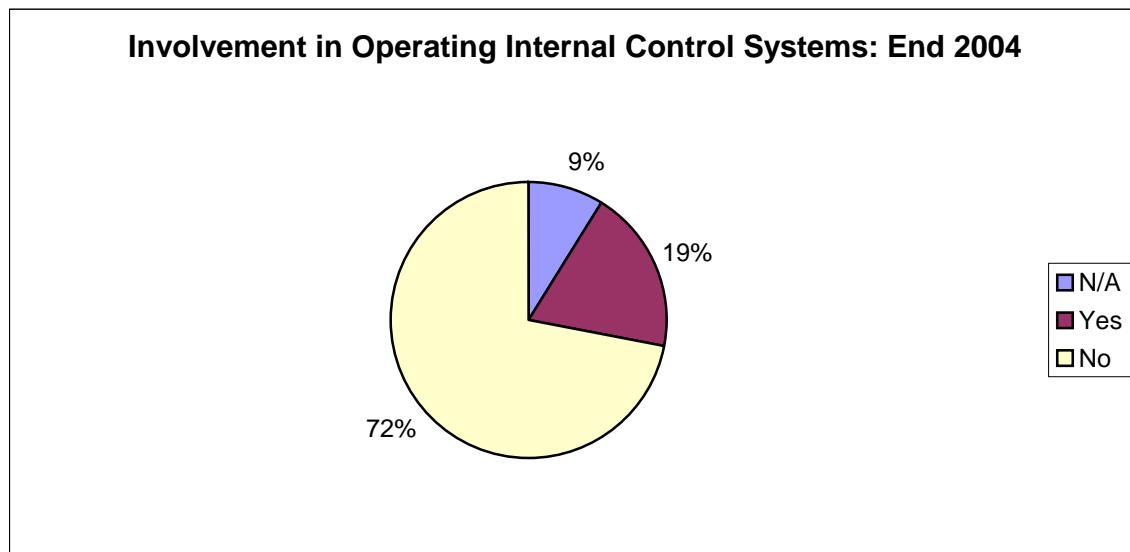
The number of municipalities that did not have information on whether internal audit was involved in operating internal control systems and processes by the end of 2004 decreased to 5 (8.8%). By the end of 2004 the number of municipalities where internal auditors were involved in operating internal control systems and processes had increased to 11 (19.3%) and the number of municipalities where internal auditors were not involved in operating internal control systems and processes had increased to 41 (71.9%). The number of municipalities where internal auditors were not involved in operating internal control systems and processes increased from 26.3% to 71.9%, which represents a change that took place over the 10-year period.

Figure 5.50: Involvement in Operating Internal Control Systems: Pre-1994



Source: Own calculations

Figure 5.51: Involvement in Operating Internal Control Systems: End 2004



Source: Own calculations

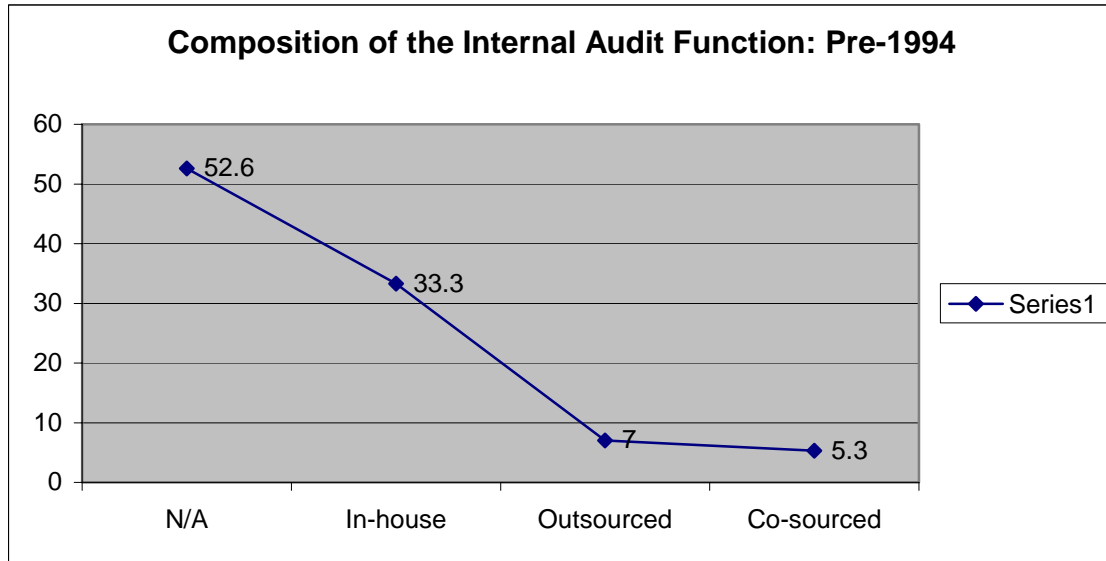
5.17 COMPOSITION OF INTERNAL AUDIT FUNCTION

30 of the 57 respondents (52.6%) did not provide information with regard to the composition of the internal audit function prior to 1994. They informed the researcher telephonically that the people employed during that period were no longer at the municipalities and the current officials were not informed as to how the internal audit function was operated. 19 of the 57 municipalities (33.3%) had an in-house internal audit function. In 4 (7%) municipalities the internal audit function was outsourced and in 3 municipalities (5.3%) the internal audit function was been co-sourced.

The number of municipalities that did not provide information with regard to the composition of the internal audit function by the end of 2004 decreased to 4 (7%). By the end of 2004 the number of municipalities that had an in-house internal audit function had increased to 30 (52.6%), the number of municipalities that outsourced their internal audit functions had increased to 6 (10.5%) and the number of municipalities that co-sourced their internal audit functions had increased to 17 (29.8%). The number of municipalities that had an in-house

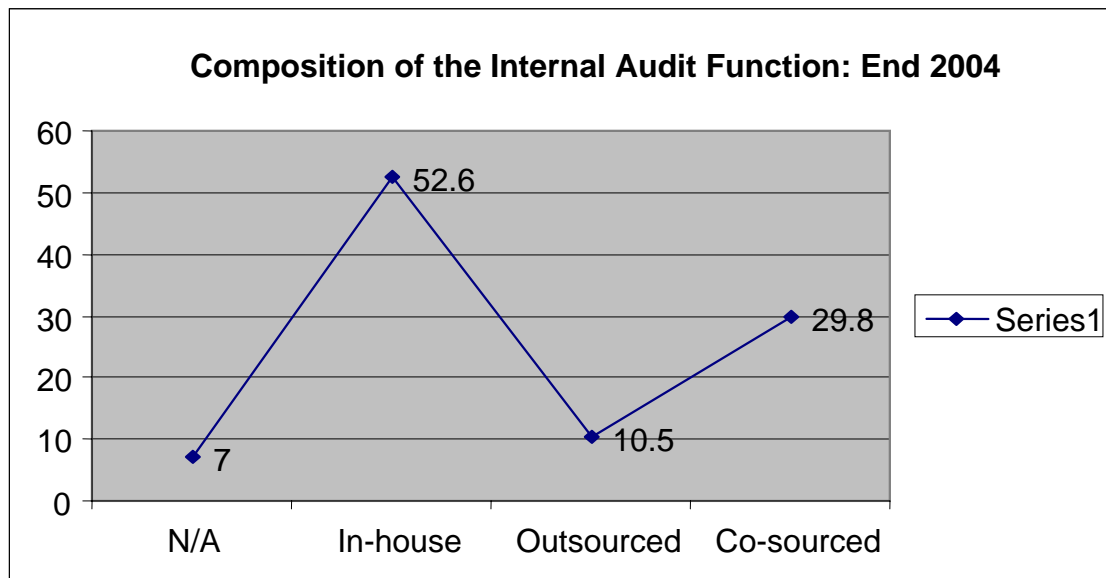
internal audit function increased from 33.3% to 52.6%, which represents a change that took place over the 10-year period.

Figure 5.52: Composition of the Internal Audit Function: Pre-1994



Source: Own calculations

Figure 5.53: Composition of the Internal Audit Function: End 2004



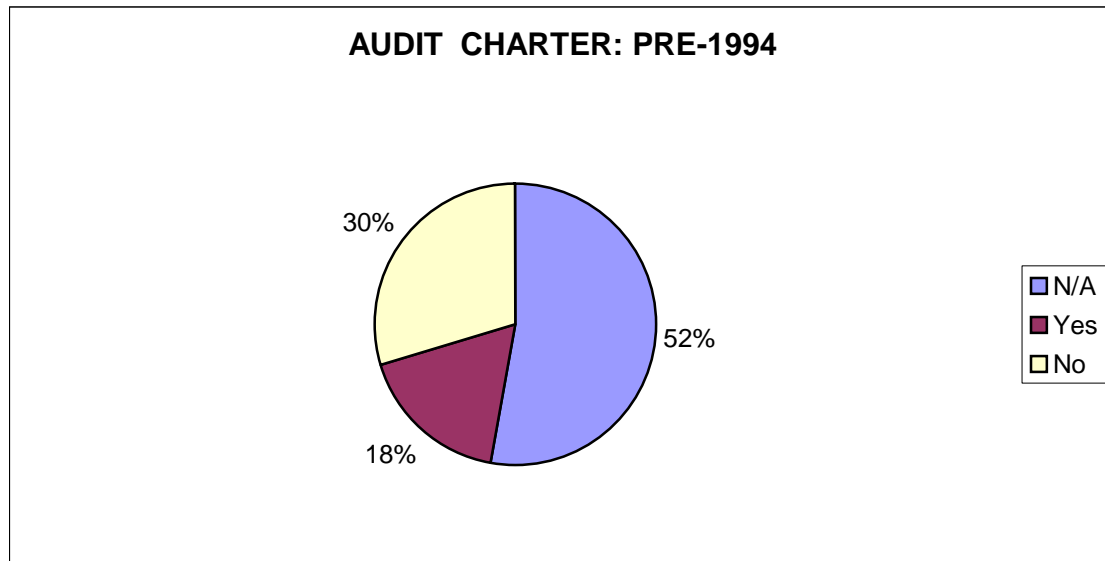
Source: Own calculations

5.18 AUDIT CHARTER

30 of the 57 respondents (52.6%) did not have information on whether an audit charter existed prior to 1994. 10 municipalities (17.5%) did have an audit charter and 17 municipalities (29.8%) did not have an audit charter.

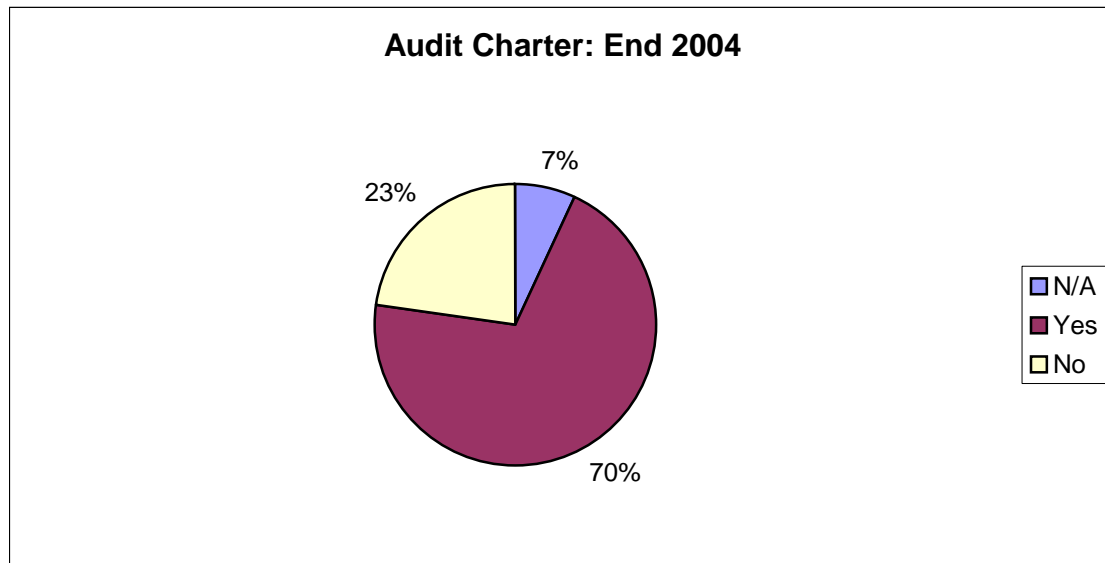
The number of municipalities that did not have information on whether an audit charter existed by the end of 2004 decreased to 4 (7%). By the end of 2004 the number of municipalities that had an audit charter had increased to 40 (70.2%) and the number of municipalities that did not have an audit charter had decreased to 13 (22.8%). The number of municipalities that had an audit charter increased from 17.5% to 70.2%, which represents a change that took place over the 10-year period.

Figure 5.54: Audit Charter: Pre-1994



Source: Own calculations

Figure 5.55: Audit Charter: End 2004



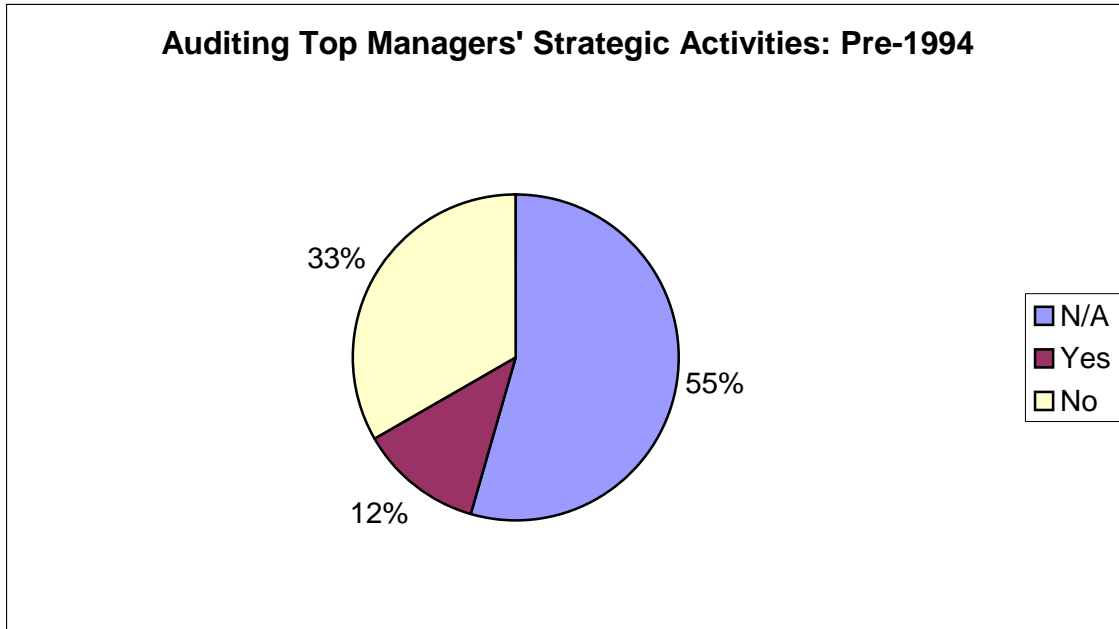
Source: Own calculations

5.19 AUDITING TOP MANAGERS' STRATEGIC ACTIVITIES

31 of the 57 respondents (54.4%) did not have information on whether auditing top managers' strategic management activities was part of the scope of the internal audit function prior to 1994. In 7 municipalities (12.3%) auditing top managers' strategic management activities was part of the scope and in 19 municipalities (33.3%) it was not part of the scope.

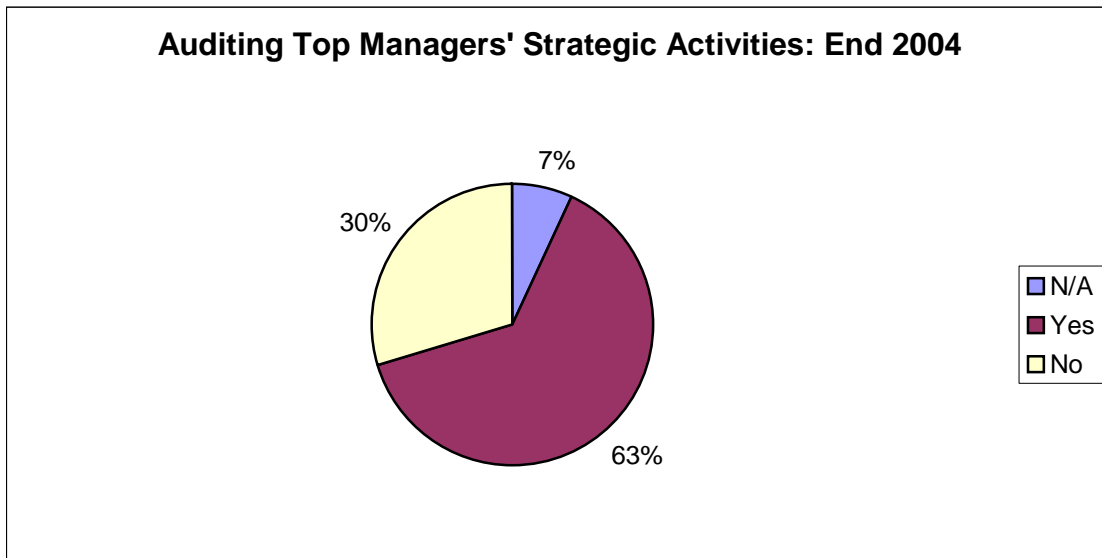
The number of municipalities that did not have information on whether auditing top managers' strategic management activities was part of the scope by the end of 2004 decreased to 4 (7%). By the end of 2004 the number of municipalities where auditing top managers' strategic management activities was part of the scope had increased to 36 (63.2%) and the number of municipalities where auditing top managers' strategic management activities was not part of the scope had decreased to 17 (29.8%). The number of municipalities where the scope of the internal audit function included auditing top managers' strategic management activities increased from 12.3% to 63.2%, which represents a change that took place over the 10-year period.

Figure 5.56: Auditing Top Managers' Strategic Activities: Pre-1994



Source: Own calculations

Figure 5.57: Auditing Top Managers' Strategic Activities: End 2004



Source: Own calculations

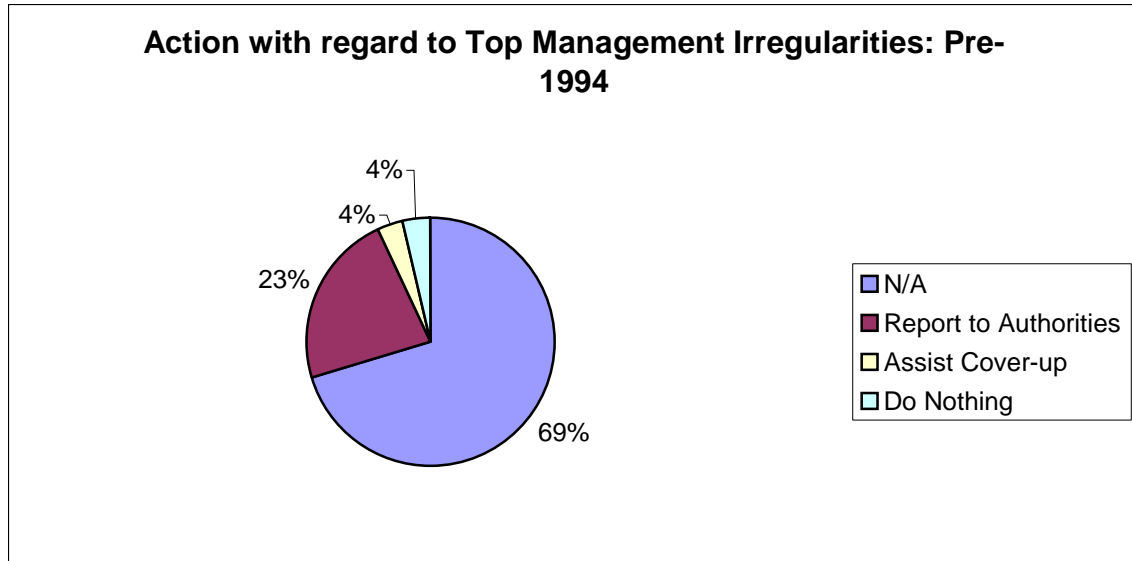
5.20 ACTION WITH REGARD TO TOP MANAGEMENT IRREGULARITIES

40 of the 57 respondents (70.2%) did not provide information about the period prior to 1994 with regard to the action to be taken by internal audit if audit findings confirmed irregularities by top management. They informed the researcher telephonically that the people employed during that period were no longer with the municipalities and that the current officials were not informed as to how the internal audit function was operated then. Internal audit in 13 of the 57 municipalities (22.8%) reported irregularities by top management to authorities. In 2 municipalities (3.5%) irregularities by top management were covered up and in 2 municipalities (3.5%) the internal audit function did nothing.

The number of municipalities that did not provide information about the period ending 2004 with regard to the action to be taken by internal audit if audit findings confirmed irregularities by top management, decreased to 14 (24.6%). By the end of 2004 the number of municipalities that reported irregularities by top management to authorities had increased to 41 (71.9%) The number of municipalities that covered up irregularities by top management had decreased to 1 (1.8%) and the number of municipalities where the internal audit function did nothing had decreased to 1 (1.8%).

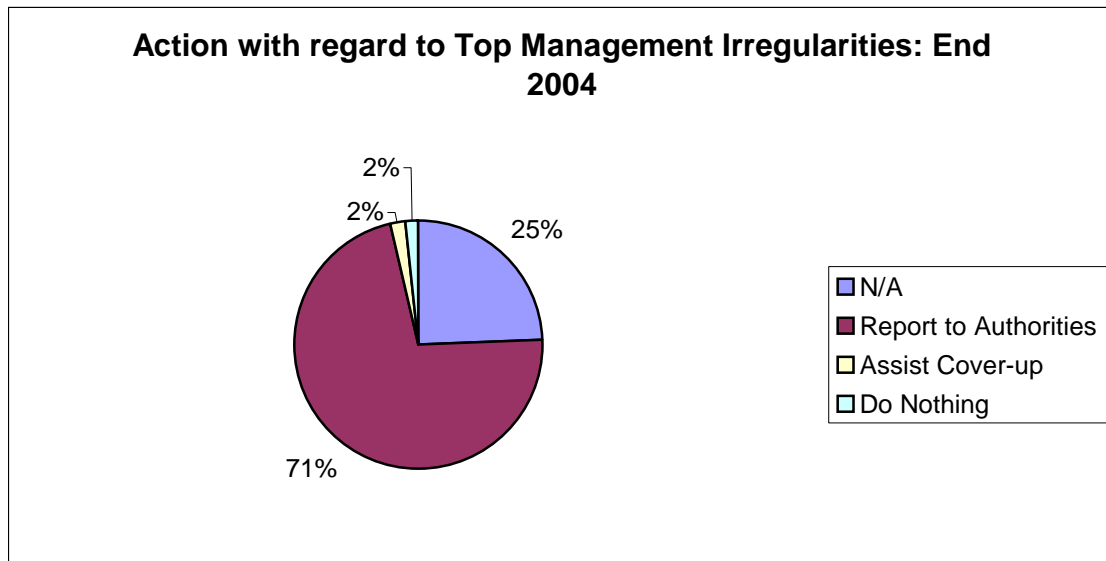
The number of municipalities where the internal audit function reported irregularities by top management to authorities increased from 22.8% to 71.9%, which represents a change that took place over the 10-year period.

Figure 5.58: Action with regard to Top Management Irregularities: Pre-1994



Source: Own calculations

Figure 5.59: Action with regard to Top Management Irregularities: End 2004



Source: Own calculations

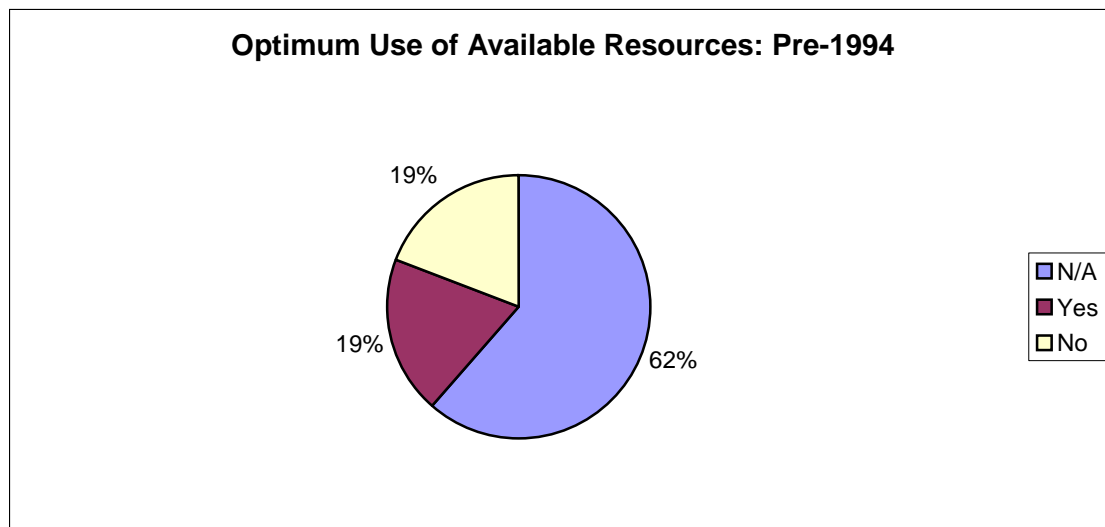
5.21 OPTIMUM USE OF AVAILABLE RESOURCES

35 of the 57 respondents (61.4%) did not have information on whether the internal audit function utilised available resources optimally during the period prior to 1994. In 11 municipalities (19.3%) the internal audit function utilised available resources optimally and in 11 municipalities (19.3%) the internal audit function did not utilise available resources optimally.

The number of municipalities that did not have information on whether the internal audit function had utilised available resources optimally by the end of 2004, decreased to 5 (8.8%). By the end of 2004 the number of municipalities where the internal audit function utilised available resources optimally had increased to 38 (66.7%) and the number of municipalities where the internal audit function did not utilise available resources optimally had increased to 14 (29.8%).

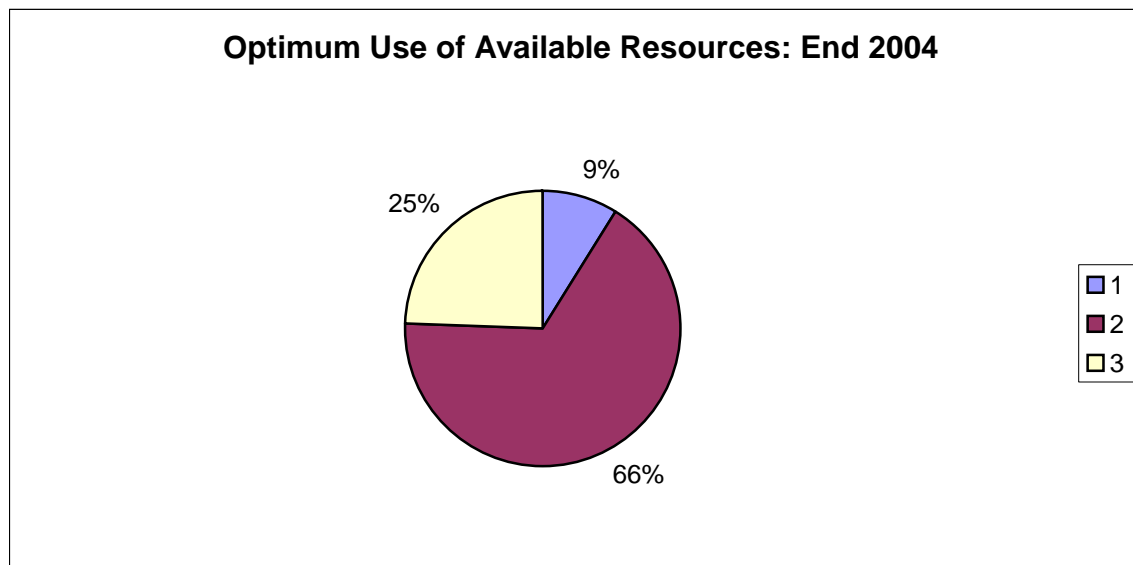
The number of municipalities where the internal audit function utilised available resources optimally increased from 19.3% to 66.7%, which represents a change that took place over the 10-year period.

Figure 5.60: Optimum Use of Available Resources: Pre-1994



Source: Own calculations

Figure 5.61: Optimum Use of Available Resources: End 2004



Source: Own calculations

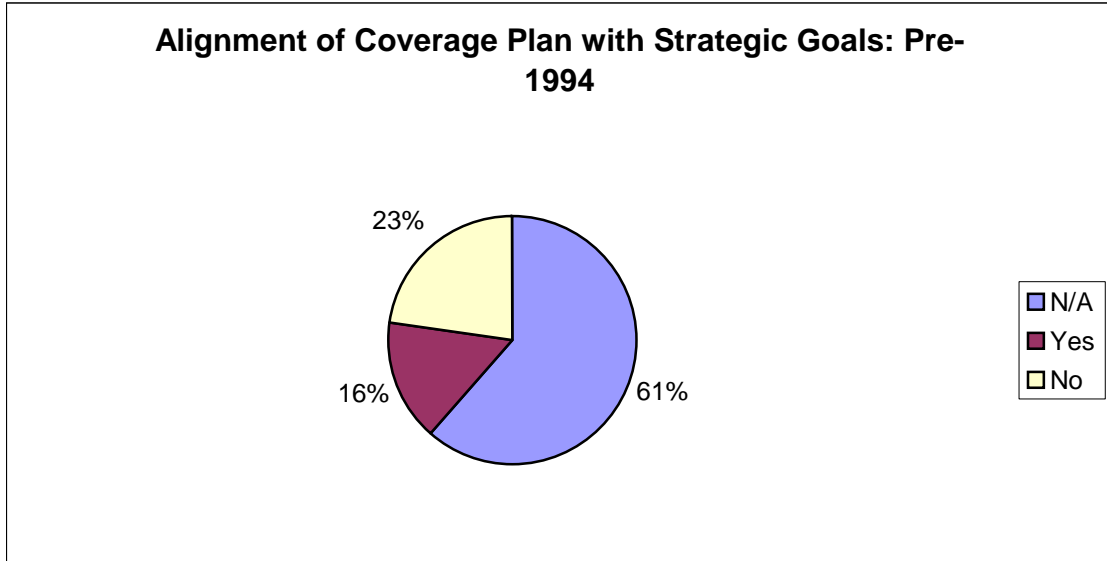
5.22 ALIGNMENT OF COVERAGE PLAN WITH THE STRATEGIC GOALS

35 of the 57 respondents (61.4%) did not have information on whether the coverage plan of the internal audit function was in line with the strategic goals of the municipality prior to 1994. In 9 municipalities (15.8%) the coverage plan of the internal audit function was in line with the strategic goals of the municipality and in 13 municipalities (22.8%) the coverage plan of the internal audit function was not in line with the strategic goals of the municipality.

The number of municipalities that did not have information on whether the coverage plan of the internal audit function had been in line with the strategic goals of municipality by the end of 2004, decreased to 5 (8.8%). By the end of 2004 the number of municipalities where the coverage plan of the internal audit function was in line with the strategic goals of the municipality had increased to 44 (77.2%) and the number of municipalities where the coverage plan of the internal audit function was not in line with the strategic goals of municipality had decreased to 8 (14%). The number of municipalities where the coverage plan of the internal audit function was in line with the strategic goals of the municipality

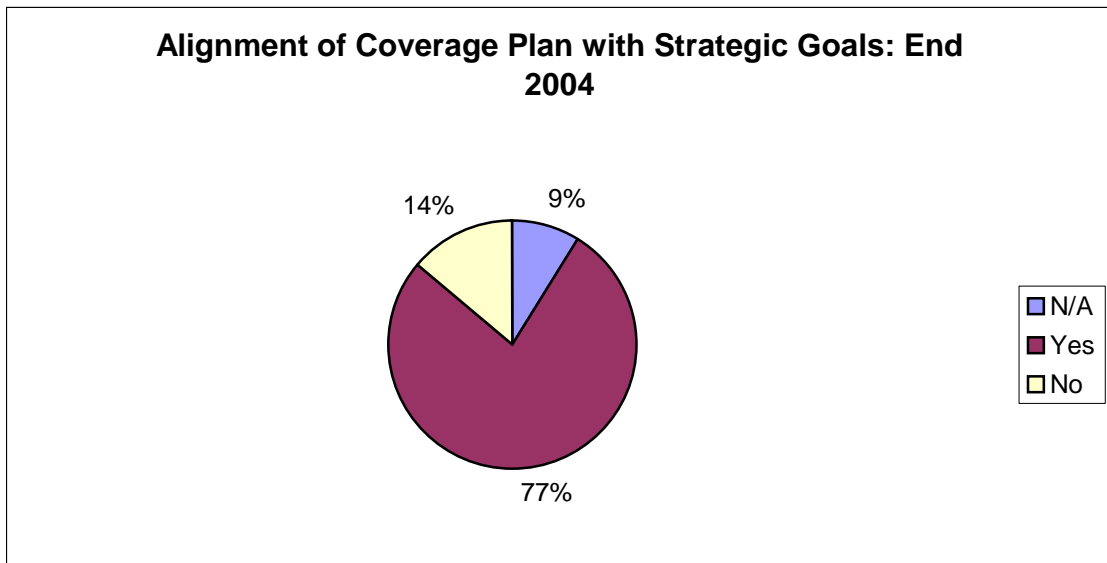
increased from 15.8% to 77.2%, which represents a change that took place over the 10-year period.

Figure 5.62: Alignment of Coverage Plan with Strategic Goals: Pre-1994



Source: Own calculations

Figure 5.63: Alignment of Coverage Plan with Strategic Goals: End 2004



Source: Own calculations

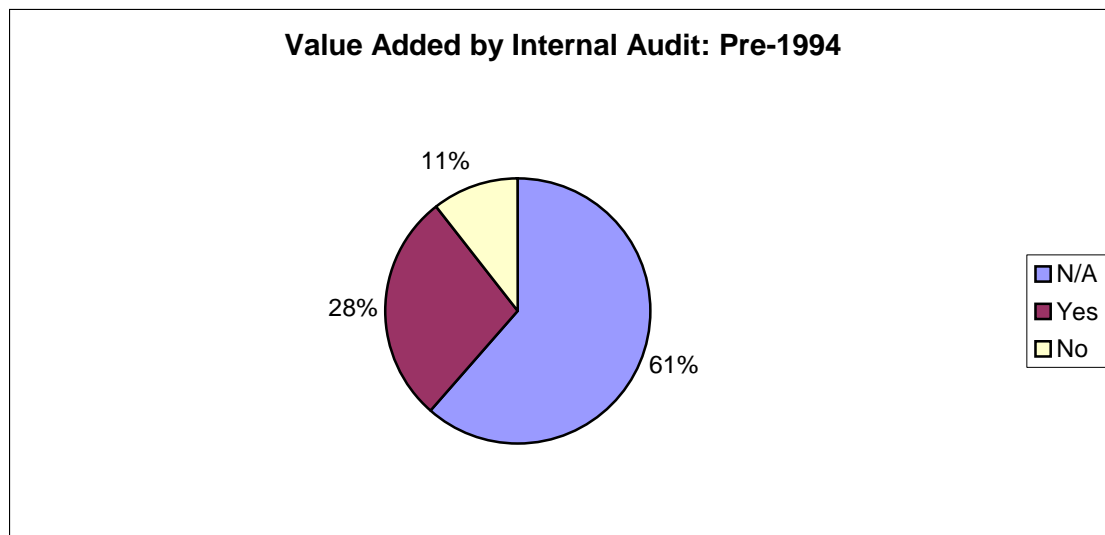
5.23 VALUE ADDED BY INTERNAL AUDIT FUNCTION

35 of the 57 respondents (61.4%) did not have information on whether the internal audit function added value to the municipality in the period prior to 1994. In 16 municipalities (28.1%) the internal audit function added value and in 6 municipalities (10.5%) the internal audit function did not add value to the municipality.

The number of municipalities that did not have information on whether the internal audit function had added value to the municipality by the end of 2004, decreased to 5 (8.8%). By the end of 2004 the number of municipalities where the internal audit function added value to the municipality had increase to 44 (77.2%) and the number of municipalities where the internal audit function did not add value had increased to 8 (14%).

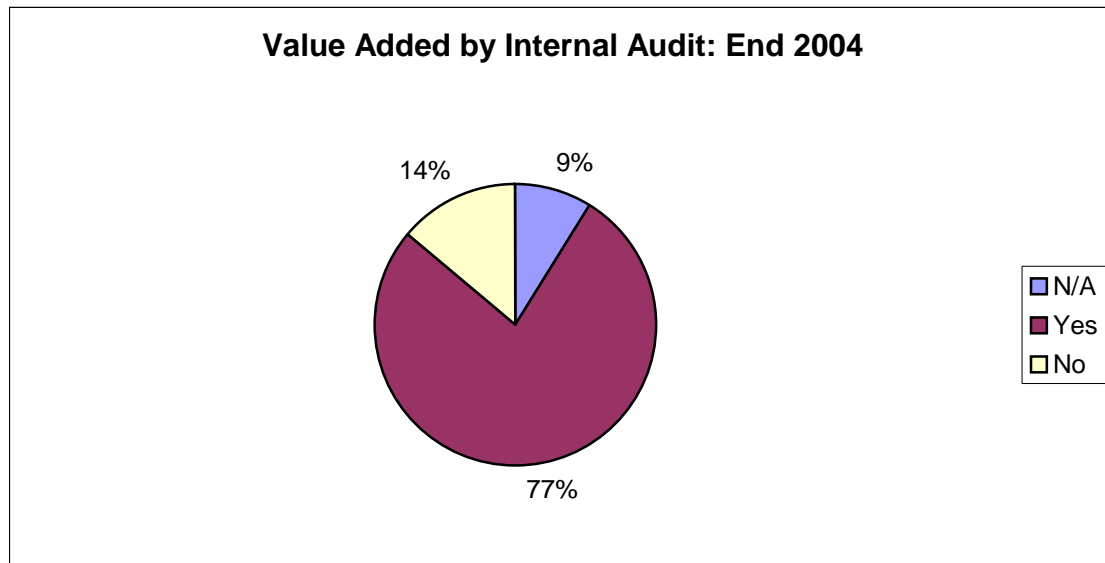
The number of municipalities where the internal audit function added value to the municipality increased from 28.1% to 77.2%, which represents a change that took place over the 10-year period.

Figure 5.64: Value Added by Internal Audit: Pre-1994



Source: Own calculations

Figure 5.65: Value Added by Internal Audit: End 2004



Source: Own calculations

5.24 INTERNAL AUDIT FUNCTION'S CONTRIBUTION TO IMPROVING MANAGERS' PERFORMANCE

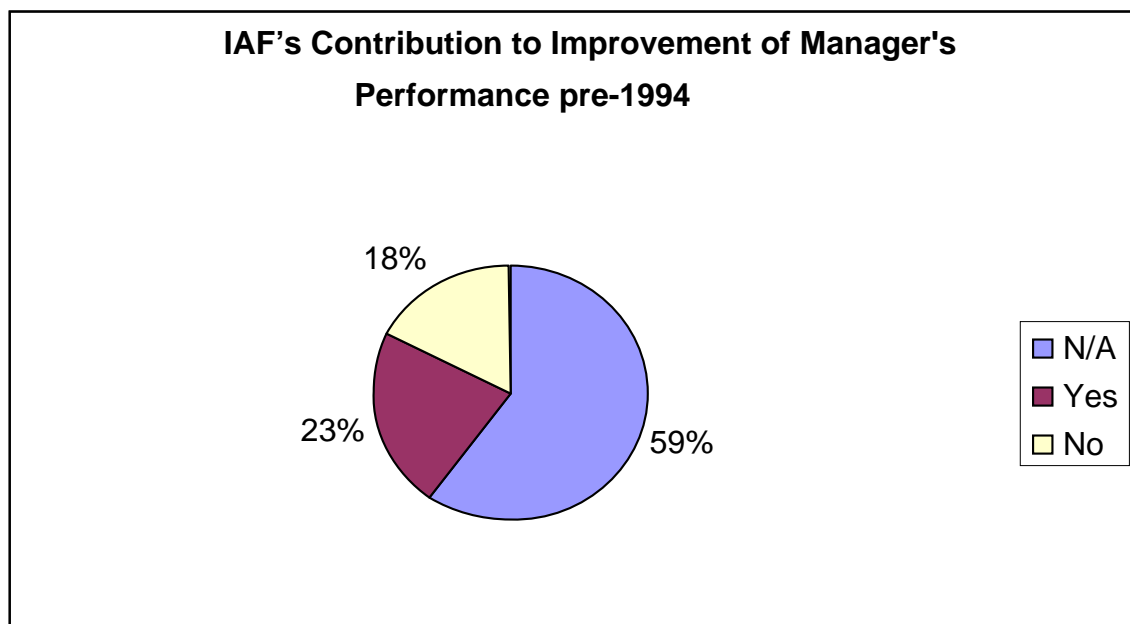
34 of the 57 respondents (59.6%) did not have information on whether the internal audit function's activities resulted in improving management performance and the quality of the organisation's managers prior to 1994. In 13 municipalities (22.8%) the internal audit function's activities contributed to improving management performance and the quality of the organisation's managers; and in 10 municipalities (17.5%) the internal audit function's activities did not contribute to improving management performance and the quality of the organisation's managers.

The number of municipalities that did not have information on whether the internal audit function's activities had contributed to improving management performance and the quality of the organisation's managers by the end of 2004, decreased to 5 (8.8%). By the end of 2004 the number of municipalities where the internal audit function's activities contributed to improving management performance and the quality of the organisation's managers had increased to 40

(70.2%); and the number of municipalities where they did not contribute to improving management performance and the quality of the organisation's managers had increased to 12 (21.1%).

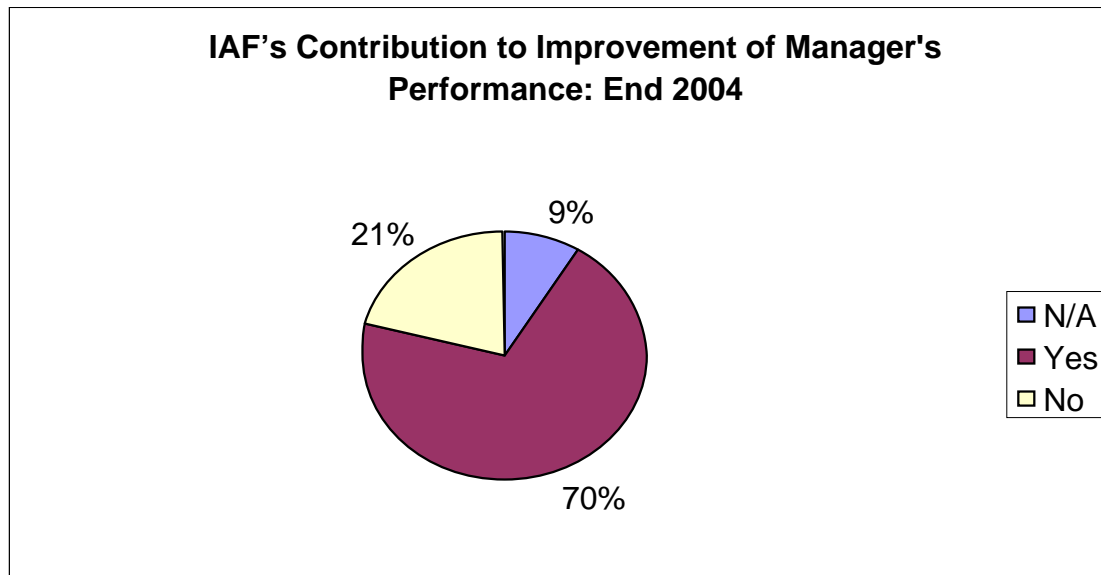
The number of municipalities where the activities of the internal audit function contributed to improving management performance and the quality of the organisation's managers increased from 22.8% to 70.2%, which represents a change that took place over the 10-year period.

Figure 5.66: Internal Audit Function's Contribution to Improvement of Managers' Performance: Pre-1994



Source: Own calculations

Figure 5.67: Internal Audit Function's Contribution to Improvement of Managers' Performance: End 2004



Source: Own calculations

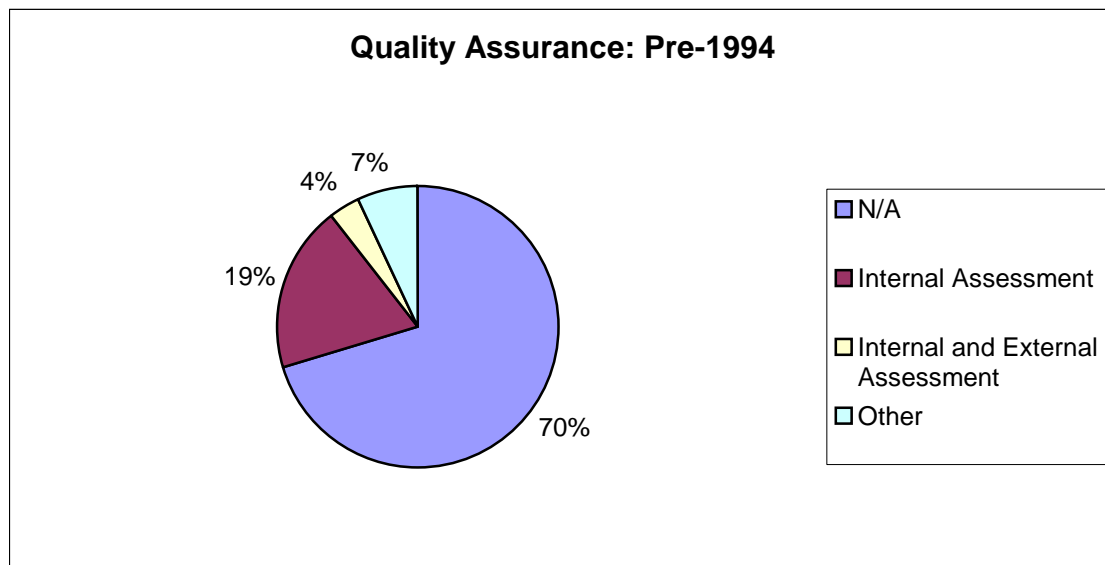
5.25 QUALITY ASSURANCE

40 of the 57 respondents (70.2%) did not provide information with regard to the quality assurance and improvement programmes used to establish and maintain quality prior to 1994. They informed the researcher telephonically that the people who were employed during that period were no longer with the municipalities and the current officials were not informed as to how the internal audit function was operated then. 11 of the 57 municipalities (19.3%) performed internal assessment as part of quality assurance and improvement programmes to establish and maintain quality. 2 municipalities (3.5%) performed internal and external assessment as part of quality assurance and improvement programmes to establish and maintain quality; and 4 municipalities (7%) used other programmes that did not include internal and external assessment as part of quality assurance and improvement programmes to establish and maintain quality.

The number of municipalities that did not provide information as to whether quality assurance and improvement programmes to establish and maintain quality had been used by the end of 2004 decreased to 11 (19.3%). By the end of 2004 the number of municipalities where internal assessments were performed as part of quality assurance and improvement programmes to establish and maintain quality, had increased to 16 (28.1%); the number of municipalities where internal and external assessments were performed had increased to 17 (29.8%); the number of municipalities who used other programmes that did not include internal and external assessment had decreased to 11 (1.8%); and 2 municipalities (3.5%) performed external assessment as part of quality assurance and improvement programmes to establish and maintain quality.

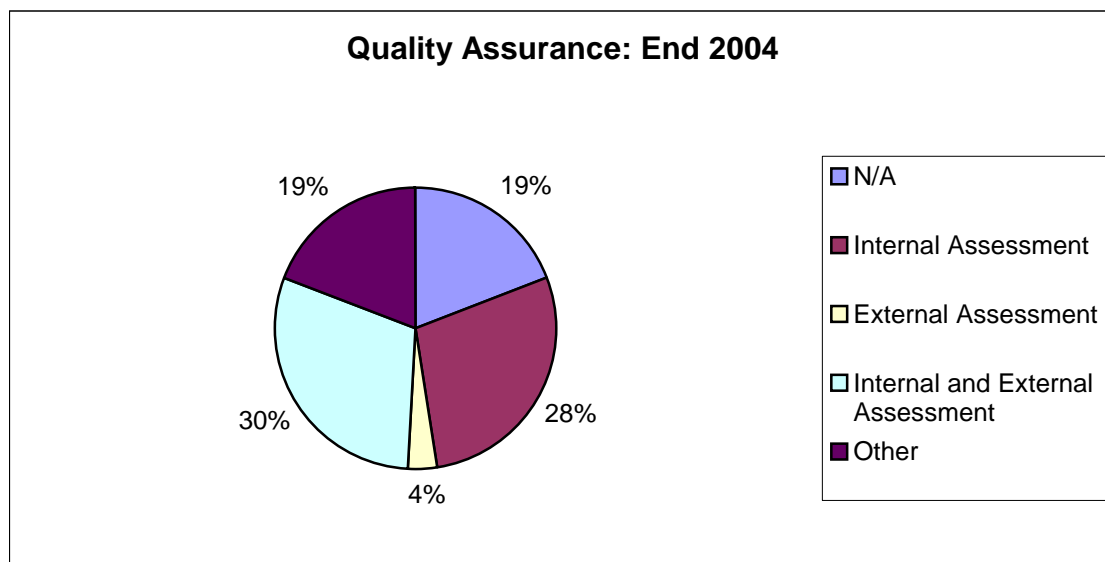
The number of municipalities where internal and external assessments were performed as part of quality assurance and improvement programmes to establish and maintain quality, increased from 3.5% to 28.1%, which represents a change that took place over the 10-year period.

Figure 5.68: Quality Assurance: Pre-1994



Source: Own calculations

Figure 5.69: Quality Assurance: End 2004



Source: Own calculations

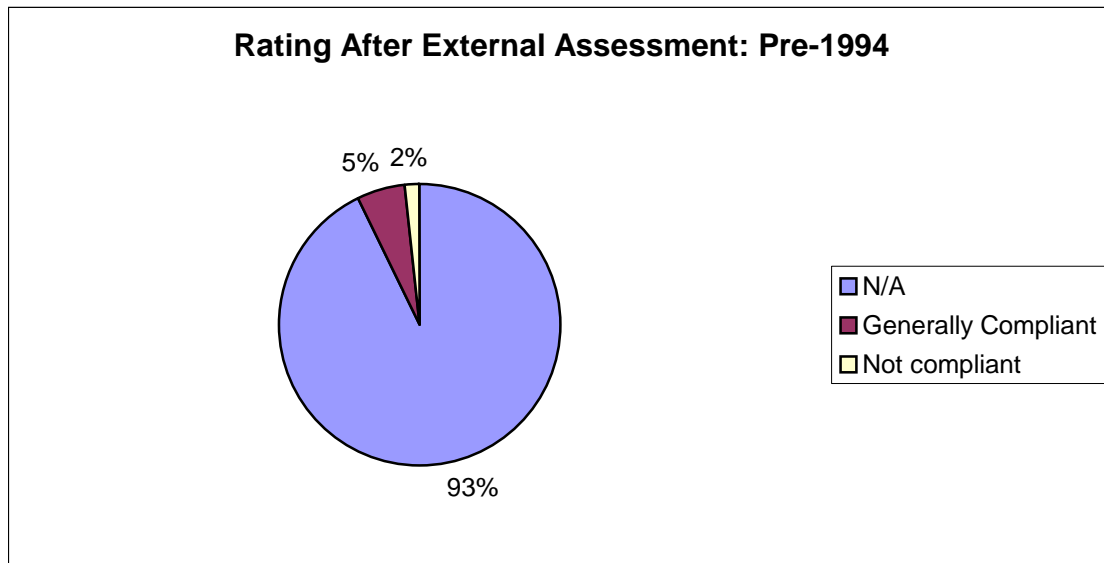
5.26 RATING AFTER EXTERNAL ASSESSMENT

53 of the 57 respondents (93%) did not provide information with regard to ratings received by municipalities on external assessments prior to 1994, because 40 municipalities did not provide information concerning the quality assurance performed in their municipalities and 13 did not perform external assessments as part of quality assurance in order to establish and maintain quality. In 3 municipalities (5.3%) the results of the quality assessments confirmed that the internal audit function was generally compliant; and in 1 municipality (1.8%) the results of the quality assessment indicated that the internal audit function was not compliant.

The number of municipalities that did not provide information with regard to ratings received by municipalities on external assessments by the end of 2004 decreased to 39 (68.4%). By the end of 2004 the number of municipalities where the results of the quality assessment confirmed that the internal audit function was generally compliant, had increased to 13 (22.8%); and the number of municipalities where the results of the quality assessment indicated that the internal audit function was not compliant stayed constant, namely 1 municipality (1.8%).

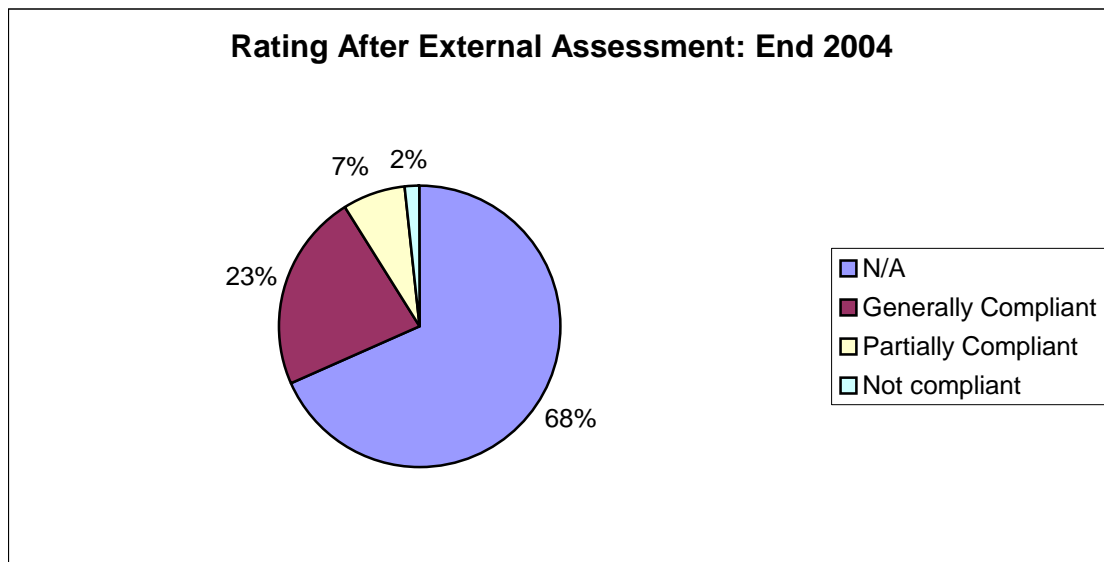
The number of municipalities where the results of the quality assessment confirmed that the internal audit function was generally compliant increased from 5.3% to 22.8%, which represents a change that took place over the 10-year period.

Figure 5.70: Rating After External Assessment: Pre-1994



Source: Own calculations

Figure 5.71: Rating After External Assessment: End 2004



Source: Own calculations

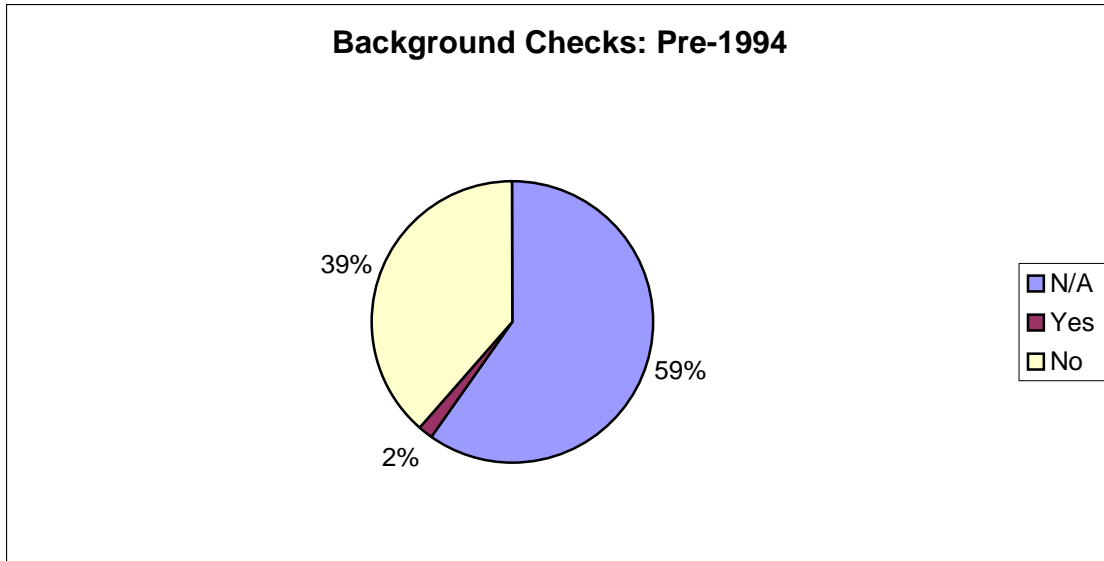
5.27 BACKGROUND CHECKS

34 of the 57 respondents (59.6%) did not have information on whether the internal audit function assisted in performing background checks (including professional credential checks and academic degree confirmations) prior to 1994. In 1 municipality (1.8%) the internal audit function assisted in performing background checks and in 22 municipalities (38.6%) the internal audit function did not assist in performing background checks.

The number of municipalities that did not have information on whether the internal audit function had assisted in performing background checks (including professional credential checks and academic degree confirmations) by the end of 2004, decreased to 4 (7%). By the end of 2004 the number of municipalities where the internal audit function assisted in performing background checks had increased to 11 (19.3%); and the number of municipalities where the internal audit function did not assist in performing background checks had increased to 42 (73.7%).

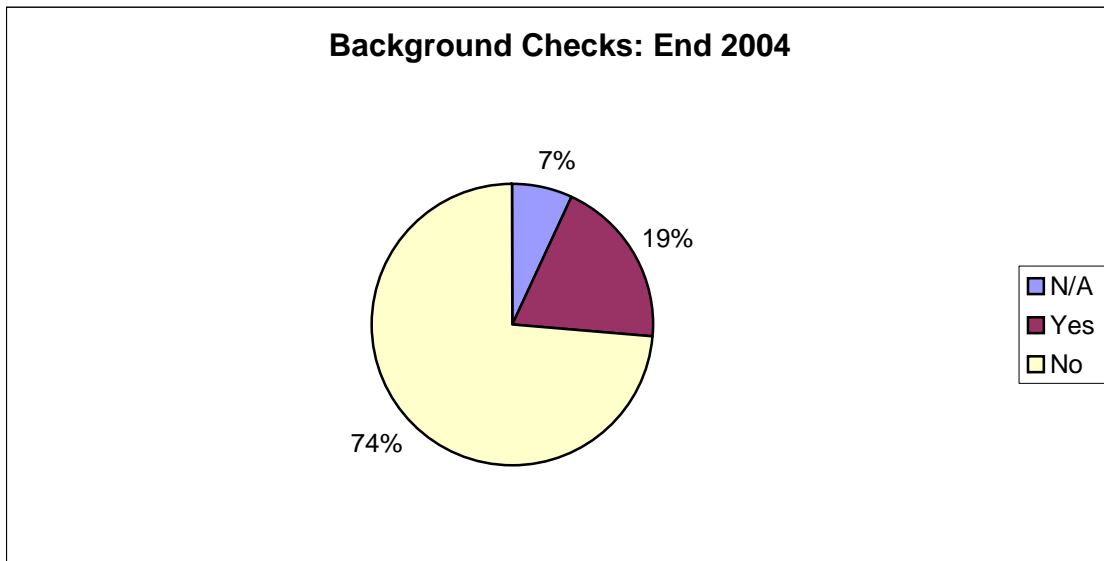
The number of municipalities where the internal audit function assisted in performing background checks (including professional credential checks and academic degree confirmations) increased from 1.8% to 19.3%, which represents a change that took place over the 10-year period.

Figure 5.72 Background Checks: Pre-1994



Source: Own calculations

Figure 5.73: Background Checks: End 2004



Source: Own calculations

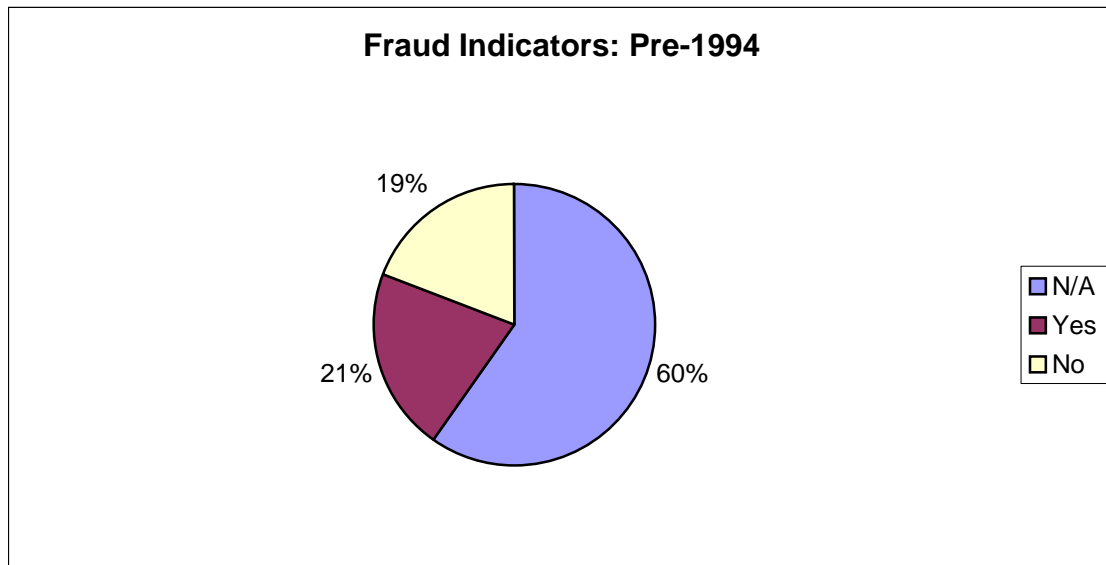
5.28 FRAUD INDICATORS

34 of the 57 respondents (59.6%) did not have information on whether the internal audit function had sufficient knowledge to identify fraud indicators prior to 1994. In 12 municipalities (21.1%) the internal audit function had sufficient knowledge to identify fraud indicators and in 11 municipalities (19.3%) the internal audit function did not have sufficient knowledge to identify fraud indicators.

The number of municipalities that did not have information on whether the internal audit function had had sufficient knowledge to identify fraud indicators by the end of 2004, decreased to 4 (7%). By the end of 2004 the number of municipalities where the internal audit function had sufficient knowledge to identify fraud indicators had increased to 39 (68.4%); and the number of municipalities where the internal audit function did not have sufficient knowledge to identify fraud indicators had increased to 14 (73.7%).

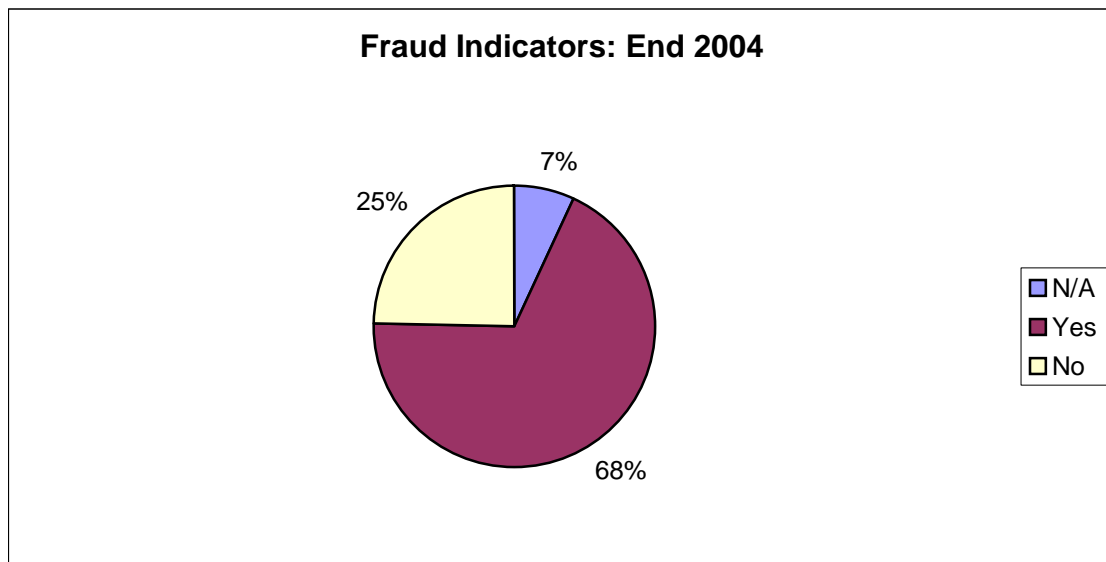
The number of municipalities where the internal audit function had sufficient knowledge to identify fraud indicators increased from 21.1% to 68.4%, which represents a change that took place over the 10-year period.

Figure 5.74: Fraud Indicators: Pre-1994



Source: Own calculations

Figure 5.75: Fraud Indicators: End 2004



Source: Own calculations

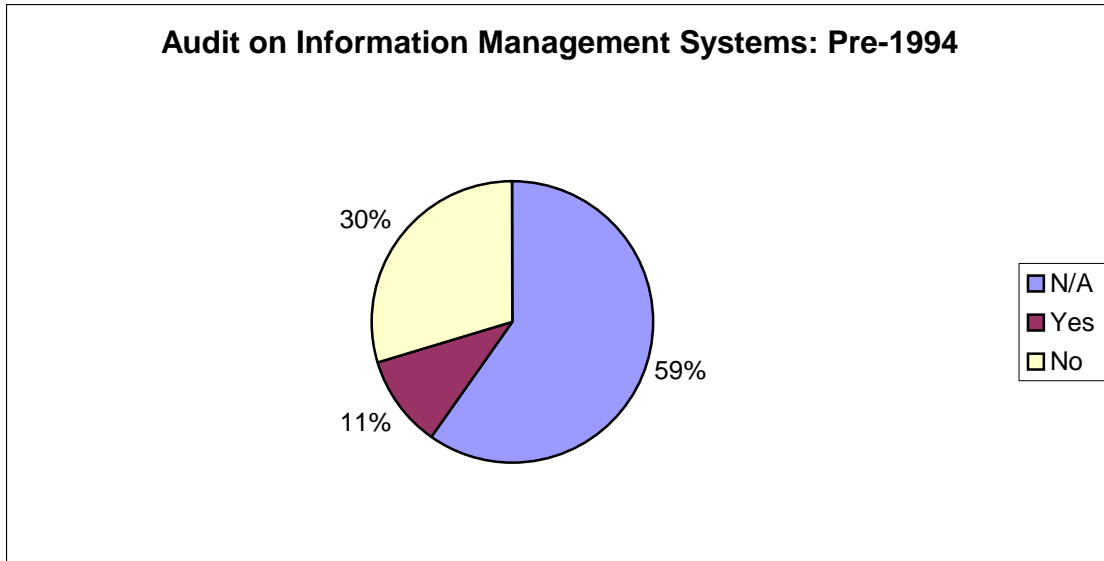
5.29 AUDIT ON INFORMATION MANAGEMENT SYSTEMS

34 of the 57 respondents (59.6%) did not have information on whether the internal audit function performed an audit on information management systems prior to 1994. In 6 municipalities (10.5%) the internal audit function performed an audit on information management systems and in 17 municipalities (29.8%) the internal audit function did not perform an audit on information management systems.

The number of municipalities that did not have information on whether the internal audit function had performed an audit on information management systems by the end of 2004 decreased to 5 (8.8%). By the end of 2004 the number of municipalities where the internal audit function performed an audit on information management systems had increased to 26 (45.6%); and the number of municipalities where the internal audit function did not perform an audit on information management systems had increased to 26 (45.6%).

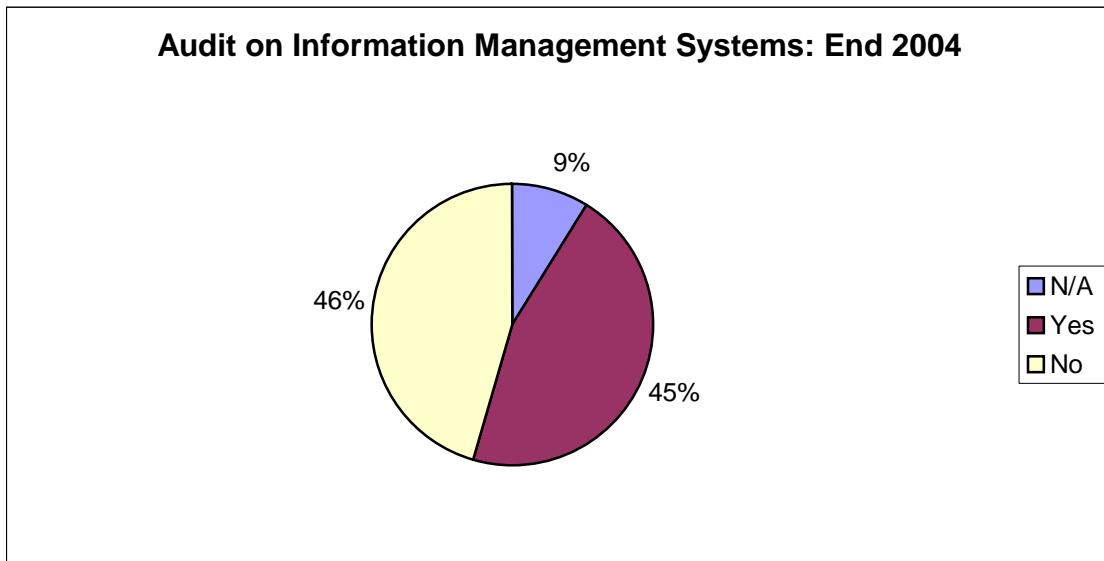
The number of municipalities where the internal audit function performed an audit on information management systems increased from 10.5% to 45.6%, which represents a change that took place over the 10-year period.

Figure 5.76: Audit on Information Management Systems: Pre-1994



Source: Own calculations

Figure 5.77: Audit on Information Management Systems: End 2004



Source: Own calculations

5.30 SUMMARY

The data was checked for consistency and accuracy. Data analysis was done using the SPSS Version 13 programme. 57 responses were received - all 6 metropolitan councils, 10 district municipalities and 41 local municipalities responded. All 9 provinces responded - KwaZulu-Natal returned the most responses, namely 11, followed by the Northern Cape and Gauteng with 8 each, Western Province and Mpumalanga with 7 each, Limpopo 6, the Eastern Cape 5, North West 3 and the Free State 2. 10.5% of the municipalities that responded did not have an internal audit function by 2004. The majority of municipalities (40.4%) had established an internal audit function by 1994; and from 1995 to 2004 this number increased to 49.1%.

There was a significant change between the period prior to 1994, and from 1994 to 2004 with regard to the budget allocated to the internal audit function. During the period prior to 1994 the budgets for the internal audit function of 93% of the municipalities ranged up to R5-million. 1.8% of the municipalities had budgets in the categories R6- to R10-million, R11- to R16-million and R20-million. The rest of the municipalities (35.1%) did not allocate budgets to their internal audit function. In the period 1994 to 2004, 91.2% of municipalities allocated budgets of up to R5-million to their internal audit function. 1.8% of the municipalities allocated budgets of R6- to R10-million, 3.5% of the municipalities allocated budgets of R11- to R15-million and 1.8% of the municipalities allocated budgets of R20-million or more. 5.3% of the municipalities did not allocate a budget to their internal audit function.

There was a major improvement from the period prior to 1994 to the period 1994 to 2004 with regard to ensuring that the internal audit function was independent by reporting functionally to an audit committee. During the period prior to 1994 only 17.5% of municipalities had an audit committee and during the period 1994 to 2004 82.5% of the municipalities had an audit committee.

There was a major improvement in the expansion of the internal audit function's scope from the period prior to 1994 to the period 1994 to 2004. Prior to 1994 only 24.6% of the municipalities had internal auditors who assessed the reliability of financial systems, and from 1994 to 2004 this number increased to 59.6%. Prior to 1994, 38.6% of the municipalities had internal auditors who assessed the safeguarding of assets, and from 1994 to 2004 this number increased to 78.9%. Prior to 1994, 31.6% of the municipalities had internal auditors who ensured that there was adherence to organisational procedures and policies, and from 1994 to 2004 this number increased to 82.5%. Prior to 1994, 29.8% of the municipalities employed internal auditors to ensuring accurate maintenance of records, and from 1994 to 2004 this number increased to 70.2%. Prior to 1994, 17.5% of the municipalities employed internal auditors to conduct fraud detection reviews, and from 1994 to 2004 this number increased to 54.4%. Prior to 1994, 19.3% of the municipalities employed internal auditors to identify, integrate and monitor risks across the organization, and from 1994 to 2004 this number increased to 68.4%. Prior to 1994, 10.5% of the municipalities had internal auditors who conducted information technology audits, and from 1994 to 2004 this number increased to 45.6%. Prior to 1994, 36.8% of the municipalities had internal auditors who conducted systems and internal control audits, and from 1994 to 2004 this number increased to 82.5%. Prior to 1994, 17.5% of the municipalities employed internal auditors to review performance of all aspects of the organization, and from 1994 to 2004 this number increased to 66.7%. Prior 1994, 22.8% of the municipalities employed internal auditors to examine risk exposure, and from 1994 to 2004 this number increased to 70.2%. Prior to 1994, 15.8% of the municipalities had internal auditors who examined and reported on their organisations' risk-management efforts, and from 1994 to 2004 this number increased to 61.4%. Prior to 1994, 17.5% of the municipalities had internal auditors who provided quality assurance, and from 1994 to 2004 this number increased to 57.9%.

A small improvement with regard to the knowledge of internal auditors employed in the municipalities was noted between the periods prior to 1994 and 1994 to 2004. Prior to 1994 internal auditors of 3.5% of the municipalities had full knowledge on all aspects of the organisations' operations, and from 1994 to 2004 this number increased to 19.3%.

As regards the relationship with clients, there was a major improvement between the periods prior to 1994 and 1994 to 2004. Prior to 1994, 31.6% of the municipalities had a cooperative relationship between the internal auditors and the clients, and from 1994 to 2004 this number increased to 80.7%.

With regard to independence of internal auditors there was a significant improvement between the periods prior to 1994 and 1994 to 2004. Prior to 1994 the auditors of 14% of the municipalities were not involved in the designing of internal control systems and processes, and from 1994 to 2004 this number increased to 47.4%. Prior to 1994 the auditors of 26.3% of the municipalities were not involved in the installation of internal control systems and processes, and from 1994 to 2004 this number increased to 63.2%. Prior to 1994 the auditors of 26.3% of the municipalities were not involved in the operation of internal control systems and processes, and from 1994 to 2004 this number increased to 71.9%.

A moderate improvement was noted between the periods prior to 1994 and 1994 to 2004 with regard to municipalities that did not outsource their internal audit function. Prior to 1994, 33.3% of the municipalities had an in-house internal audit function and 7% of the municipalities outsourced their internal audit function. From 1994 to 2004 these numbers increased to 52.6% and 10.5% respectively.

There was a major improvement in the number of municipalities that had an audit charter. Prior to 1994, 29.8% of the municipalities had audit charters, and from 1994 to 2004 period this number increased to 70.2%.

There was also a significant improvement with regard to the municipalities where the scope of internal auditors included auditing top managers' strategic management activities. Prior to 1994 only 12.3% of the municipalities audited their top managers' strategic management activities, and from 1994 to 2004 this number increased to 63.2%.

There was a major improvement with regard to the number of municipalities where internal auditors reported irregularities by top management to authorities. Prior to 1994 only 22.8% of the municipalities' internal auditors reported irregularities by top management to authorities; and from 1994 to 2004 this number increased to 71.9%.

The number of municipalities in which auditors utilised available resources optimally, also increased significantly. Prior to 1994 it was only 19.3%, and from 1994 to 2004 the number increased to 66.7%.

Prior to 1994 the internal audit function of only 15.8% of the municipalities had a coverage plan in line with the strategic goals of the municipality. This number increased significantly to 77.2% from 1994 to 2004.

Prior to 1994 only 28.1% of the municipalities had an internal audit function that added value to the organization. From 1994 to 2004 this number increased significantly to 77.2%.

There was also a major improvement with regard to the internal audit function resulting in the improvement of management performance and the quality of the organisation's managers. Prior to 1994 only 22.8% of the municipalities' internal audit function activities resulted in improvement of management performance and the quality of the organisation's managers. From 1994 to 2004 this number increased to 70.2%.

A major improvement was noted with regard to municipalities that had quality assurance and improvement programmes to establish and maintain quality. Prior to 1994, 19.3% of the municipalities performed internal assessments and 3.5% performed both internal and external assessments. From 1994 to 2004 these numbers increased to 71.9% and 29.8% respectively.

There was a small increase in the number of internal audit functions of municipalities rated as generally **compliant** after external assessment of the quality assurance performed in their municipality. Prior to 1994 the results of the quality assessment confirmed that the internal audit function of 5.3% of the municipalities was generally compliant, and from 1994 to 2004 this number increased slightly to 22.8%.

The number of municipalities where the internal audit function assisted in performing background checks (including professional credential checks and academic degree confirmations) increased significantly from 1.8% in the period prior to 1994 to 73.7% during the period 1994 to 2004.

The number of municipalities where the internal audit function had sufficient knowledge to identify fraud indicators also increased significantly from 21.1% during period prior to 1994 to 68.4% during the period 1994 to 2004.

Another major increase was noted in the number of municipalities where the internal audit function performed audits on information management systems – it was only 10.5% prior to 1994 and it increased to 45.6% during the period 1994 to 2004.

CHAPTER 6 - CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The overall objective of this study was to evaluate the effectiveness and efficiency of internal audit within local government for the period 1994 to 2004 and to recommend processes for improvement. Furthermore, the study reflected on the changes that occurred in the internal audit functions of local government and also on the factors that made the changes possible. The need for the study arose from an extensive review of literature that revealed very little research on internal audit in local government.

6.2 THE IMPACT OF INTERNAL AUDIT ON SOUTH AFRICAN LOCAL GOVERNMENT DURING THE PERIOD 1994 TO 2004

It is clear from the study that 40.4% of internal audit functions within municipalities had been established by 1994 and from 1995 to 2004 this number increased to 49.1%.

It was important to examine the budgets allocated to internal audit functions by various municipalities and to compare the size of budgets prior to 1994 with the size during the period 1994 to 2004. It became clear that the allocation of budgets to internal audit functions improved from one period to the other. Prior to 1994, 59.6% of the municipalities allocated a budget of up to R5-million to their internal audit functions. This number increased to 86% during the period 1994 to 2004. This increase shows that municipalities view the function as a component that can add value to the operations of their organisations.

During the period 1994 to 2004, 82.5% of internal audit functions became independent by reporting functionally to an audit committee. Compared to the 17.5% of the period prior to 1994, it suggests that the internal audit functions were more effective in the period 1994-2004. The independence of internal audit

was further strengthened by the fact that the number of municipalities where audit committees consisted of external members increased significantly from 21.1% prior to 1994 to 77.2% in the period 1994-2004.

During the period 1994 to 2004 there was a significant improvement in the expansion of the scope of the internal audit function – it included assessing the reliability of financial systems and the safeguarding of assets; ensuring that there was adherence to organisational procedures and policies and accurate maintenance of records; conducting fraud detection reviews; identifying risk; integrating and monitoring of risks across the organization; conducting information technology and systems and internal control audits; reviewing performance of all aspects of the organization; examining risk exposure; examining and reporting on the organisation's risk-management efforts; and providing assurance. This expansion of scope suggests that internal audit in municipalities was effective in the period 1994 to 2004.

During the period 1994 to 2004 internal auditors employed in municipalities had greater knowledge of all aspects of the organisation's operations, suggesting that the internal audit function in municipalities was effective. During this period the cooperative relationship between the internal auditors and the clients also showed improvement when compared to the period prior to 1994. This suggests that the internal audit function of municipalities were able to perform their duties effectively in the period 1994 to 2004.

The independence of internal auditors also improved from 1994 to 2004 since there was an increase in the number of internal audit functions not involved in the designing of internal control systems and processes; in the installation of internal control systems and processes; and in the operating of internal control systems and processes. This suggests that internal auditors were effective in the period 1994-2004.

During the period 1994 to 2004 the number of municipalities that had in-house internal audit functions increased to 52.6%. When compared to the 10.5% that outsourced their internal audit functions, it suggests that management was satisfied with the efficiency of internal audit functions in their organisations.

During the period 1994 to 2004 the number of municipalities that had an audit charter increased to 70.2% - suggesting that the internal audit function was effective in performing its duties.

During the period 1994 to 2004 the number of municipalities where the scope of internal auditors included auditing top managers' strategic management activities increased to 63.2%, suggesting that internal auditors added value to the strategic initiatives of the municipal management.

During the period 1994 to 2004 the number of municipalities where auditors reported irregularities by top management to authorities increased to 71.9%, suggesting that internal auditors were independent.

During the period 1994 to 2004 the number of municipalities where auditors utilised available resources optimally increased to 66.7%, suggesting that management was satisfied with the efficiency of the internal audit function in their organisations.

During the period 1994 to 2004 the number of municipalities where the coverage plan of the internal audit function was in line with the strategic goals of the municipality increased to 77.2%, suggesting that internal auditors were adding value to the strategic initiatives of the municipal management.

During the period 1994 to 2004 the number of municipalities where the internal audit function was regarded to add value to the municipality increased to 66.7%,

suggesting that management was satisfied with the efficiency of the internal audit function of their organisations.

During the period 1994 to 2004 the number of municipalities where the activities of the internal audit function contributed to improving management performance and the quality of the organisations' managers increased to 70.2%, suggesting that internal auditors added value to their organisations.

During the period 1994 to 2004 the number of municipalities where the internal audit function used quality assurance and improvement programmes to establish and maintain quality, increased to 71.9%, suggesting that internal audit functions were effective.

During the period 1994 to 2004 the number of municipalities where the internal audit function was rated generally compliant after external assessment of the quality assurance performed in their municipality, increased to 22.8%. This increase is not sufficient. However, it suggests that internal audit functions were effective when compared to the period prior to 1994.

During the period 1994 to 2004 the number of municipalities where the internal audit function assisted in performing background checks (including professional credential checks and academic degree confirmations) increased to 73.7%, suggesting that internal auditors were adding value to their organisations.

During the period 1994 to 2004 the number of municipalities where the internal audit function had sufficient knowledge to identify fraud indicators increased to 68.4%, suggesting that internal audit functions were effective when compared to the period prior to 1994.

During the period 1994 to 2004 the number of municipalities where the internal audit function performed audits on information management systems increased

to 73.7%, suggesting that internal auditors were adding value to their organisations.

6.3 IMPLICATIONS FOR MUNICIPAL MANAGERS

It is important for municipal managers to note that from 1994 to 2004 there was only a small increase of 19.3% of internal auditors who had full knowledge of all aspects of their organisations' operations. This moderate increase suggests that more resources should be allocated to the training and development of internal auditors.

The National Government, who funds most of the municipalities, should note that the study has established that 10.5% of the respondents do not have an internal audit function. The National Government ought to ensure that all municipalities have an internal audit function.

From 1994 to 2004 there was a small increase to 22.8% in the number of municipalities where the internal audit function was rated as generally **compliant** after external assessment of the quality assurance performed in the organisation. This small increase suggests that more resources should be allocated to the training and development of internal auditors.

6.4 RECOMENDATIONS FOR INTERNAL AUDIT MANAGEMENT

It is encouraging to note that the study has established that, during the period 1994 to 2004, the number of internal audit functions that became independent by reporting functionally to an audit committee increased to 82.5%. However, all internal audit function managers should ensure that their organisations have an audit committee in order for the internal audit function to be more effective.

6.5 RECOMMENDATIONS FOR FURTHER STUDIES

Local government in South Africa is in the process of development. It operates in a changing legal environment with the aim of ensuring that management is effective in the distribution and delivery of basic services and infrastructure to all the businesses and citizens of South Africa. It is therefore vital that further research be conducted in this sector to keep abreast with the trends that affect this sphere of government.

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APPENDIX A

RESEARCH QUESTIONNAIRE

Please mark the first column with an X next to the appropriate option.

1. THE CATEGORY OF MUNICIPALITY

(PLEASE INDICATE WHICH SECTION IS APPLICABLE IN YOUR MUNICIPALITY)

1	METROPOLITAN MUNICIPALITY
2	LOCAL MUNICIPALITY
3	DISTRICT MUNICIPALITY

2. THE PROVINCE

1	WESTERN PROVINCE
2	EASTERN CAPE
3	NORTHERN CAPE
4	FREE STATE
5	KWAZULU NATAL
6	MPUMALANGA
7	GAUTENG
8	LIPOMPO
9	NORTH WEST

3. THE BUDGET OF THE MUNICIPALITY

(PLEASE INDICATE WHICH OPTION IS APPLICABLE IN YOUR MUNICIPALITY)

PRE-1994	POST-1994	
1		0 TO 5 BILLION RAND
2		6 TO 10 BILLION RAND
3		11 TO 15 BILLION RAND
4		16 TO 20 BILLION RAND
5		GREATER THAN 20 BILLION

4. THE BUDGET OF THE INTERNAL AUDIT FUNCTION

(PLEASE INDICATE WHICH OPTION IS APPLICABLE IN YOUR MUNICIPALITY)

PRE-1994	POST-1994	
1		0 TO 5 MILLION RAND
2		6 TO 10 MILLION RAND
3		11 TO 15 MILLION RAND
4		16 TO 20 MILLION RAND
5		GREATER THAN 20 MILLION

5. THE NUMBER OF STAFF IN INTERNAL AUDIT FUNCTION

(PLEASE INDICATE WHICH OPTION IS APPLICABLE IN YOUR MUNICIPALITY)

PRE-1994	POST-1994	
1		1 TO 9
2		10 TO 19
3		20 TO 29
4		30 TO 39
5		40 TO 49
6		50 TO 59
7		60 TO 69
8		70 UPWARDS

6. WHEN DID YOU SET UP THE INTERNAL AUDIT FUNCTION OR WHEN WAS THE INTERNAL AUDIT FUNCTION ESTABLISHED?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

1	1994 OR PRIOR TO 1994
2	1995
3	1996
4	1997
5	1998
6	1999
7	2000
8	2001
9	2002
10	2003
11	2004

7. DOES THE AUDIT COMMITTEE EXIST

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE-1994	POST-1994	
1		YES
2		NO

8. REPORTING LINES ADMINISTRATIVE

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE-1994	POST-1994	
1		MUNICIPAL MANAGER
2		CHIEF FINANCIAL OFFICER EXECUTIVE
3		AUDIT COMMITTEE

9. REPORTING LINES FUNCTIONAL

(PLEASE INDICATE WHICH SECTION IS APPLICABLE IN YOUR MUNICIPALITY)

PRE-1994	POST-1994	
1		CHIEF EXECUTIVE OFFICER
2		CHIEF FINANCIAL EXECUTIVE
3		AUDIT COMMITTEE

10. INDICATE MEMBERSHIP OF THE AUDIT COMMITTEE UNDER THE FOLLOWING CATEGORIES.

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE-1994	POST-1994		HOW MANY	RANGE OF LEVEL OF SKILLS
1		EXTERNAL PEOPLE – INDICATE NUMBER OF MEMBERS		
2		COUNCILLORS		
3		MUNICIPAL MANAGER		
4		CHIEF AUDIT EXECUTIVE / HEAD OF INTERNAL AUDIT		
5		CHIEF FINANCIAL OFFICER EXECUTIVE		
6		MANAGERS WITHIN INTERNAL AUDIT – INDICATE NUMBERS		

11. IN YOUR OPINION WHAT IS THE SCOPE OF THE INTERNAL AUDIT FUNCTION?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE-1994	POST 1994	
1		TO ASSESS THE RELIABILITY OF THE FINANCIAL SYSTEMS FOR DECISION-MAKING
2		TO ASSESS WHETHER THE ASSETS ARE SAFEGUARDED.
3		TO ASSIST THE ORGANIZATION BY ENSURING THAT THERE IS ADHERENCE TO ORGANIZATIONAL PROCEDURES AND POLICIES
4		TO ASSIST THE ORGANIZATION BY ENSURING THAT ACCURATE MAINTENANCE OF FINANCIAL RECORDS EXISTS.
5		TO CONDUCT FRAUD DETECTION REVIEWS.
6		TO IDENTIFY RISK, INTEGRATING THE MANAGEMENT AND MONITORING OF RISKS ACROSS THE ORGANISATION
7		TO CONDUCT IT AUDITS
8		TO CONDUCT SYSTEMS AND INTERNAL CONTROLS AUDITS
9		REVIEWING PERFORMANCE OF ALL ASPECTS OF THE ORGANIZATION
10		EXAMINE AND REPORT ON RISK EXPOSURE
11		EXAMINE AND REPORT ON ORGANISATION RISK 'S MANAGEMENT EFFORTS
12		ASSURANCE PROVIDER
13		OTHERS (PLEASE SPECIFY*

12. RANK THE INTERNAL AUDIT FUNCTION ON ITS KNOWLEDGE ON ALL ASPECTS OF THE ORGANISATION'S OPERATIONS

(Please rank from 1 to 5 with 1 being least knowledgeable to 5 being the most knowledgeable)

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

	1	2	3	4	5
	LEAST KNOWLEDGE	FAIR KNOWLEDGE	BETTER KNOWLEDGE	GOOD KNOWLEDGE	FULL KNOWLEDGE BEST
KNOWLEDGE OF ALL ASPECTS OF THE ORGANISATIONS OPERATIONS BEFORE 1994					
KNOWLEDGE OF ALL ASPECTS OF THE ORGANISATIONS OPERATIONS BY THE END OF 2004					

PLEASE MARK THE FIRST COLUMN WITH AN X NEXT TO THE APPROPRIATE OPTION.

13. NATURE OF RELATIONSHIP BETWEEN INTERNAL AUDIT FUNCTION AND CLIENTS WITHIN MUNICIPALITY

(PLEASE CHOOSE THE ANSWER THAT YOU THINK IS APPLICABLE TO YOUR MUNICIPALITY)

PRE-1994	BY END OF 2004	
1		ADVERSARIAL
2		CO-OPERATIVE
		OTHER: PLEASE EXPAND

14. INSTITUTION OR OFFICIAL THAT HAS THE POWER TO EMPLOY AND DISMISS THE EXECUTIVE HEAD: INTERNAL AUDIT

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE-1994	BY END OF 2004	
1		MUNICIPAL MANAGER
2		AUDIT COMMITTEE
3		MAYORAL COMMITTEE
4		FINANCE EXECUTIVE OFFICER
5		MUNICIPAL MANAGER IN CONJUNCTION WITH THE AUDIT COMMITTEE AND MAYOR AUDIT COMMITTEE

15(A). ARE INTERNAL AUDITORS INVOLVED IN THE DESIGNING OF INTERNAL CONTROL SYSTEMS AND PROCESSES?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE- 1994	BY THE END OF 2004	
1		YES
2		NO

15(B). ARE INTERNAL AUDITORS INVOLVED IN THE INSTALLATION OF INTERNAL CONTROL SYSTEMS AND PROCESSES?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE- 1994	BY THE END OF 2004	
1		YES
2		NO

15(C). ARE INTERNAL AUDITORS INVOLVED IN OPERATING OF THE INTERNAL CONTROL SYSTEMS AND PROCESSES?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE- 1994	BY THE END OF 2004	
1		YES
2		NO

16. COMPOSITION OF INTERNAL AUDIT FUNCTION

(PLEASE CHOOSE THE APPLICABLE SECTION TO YOUR MUNICIPALITY)

PRE- 1994	BY THE END OF 2004	
1		IN-HOUSE INTERNAL AUDIT ACTIVITY
2		THE INTERNAL AUDIT FUNCTION HAS BEEN OUTSOURCED
3		CO-SOURCED (A COMBINATION OF EMPLOYEES AND OUTSOURCING)

17. DOES AN AUDIT CHARTER EXIST IN YOUR MUNICIPALITY?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE- 1994	BY THE END OF 2004	
1		YES
2		NO

18. DO YOU FEEL THAT PART OF THE INTERNAL AUDIT SCOPE IN YOUR MUNICIPALITY IS TO AUDIT TOP MANAGER'S STRATEGIC MANAGEMENT ACTIVITIES?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE- 1994	BY THE END OF 2004	
1		YES
2		NO

19. IF THE ANSWER FOR QUESTION 17 IS YES AND THE AUDIT FINDINGS CONFIRM IRREGULARITIES BY TOP MANAGEMENT, PLEASE STATE WHAT ACTION THE INTERNAL AUDIT WILL TAKE?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE- 1994	BY THE END OF 2004	
1		REPORT TO AUTHORITIES
2		ASSIST THE MANAGEMENT IN COVERING UP THE IRREGULARITY
		DO NOTHING

20. DO YOU FEEL THAT THE INTERNAL AUDIT FUNCTION IN YOUR MUNICIPALITY UTILIZE THE AVAILABLE RESOURCES TO ITS OPTIMUM?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE- 1994	BY THE END OF 2004	
1		YES
2		NO
3		OTHER:

21. Please expand on question 19 in the space provided for below.

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22. DO YOU FEEL THAT THE COVERAGE PLAN OF THE INTERNAL AUDIT FUNCTION IN YOUR MUNICIPALITY IS IN LINE WITH THE STRATEGIC GOALS OF THE MUNICIPALITY?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE- 1994	BY THE END OF 2004	
1		YES
2		NO
3		OTHER:

23. DO YOU FEEL THAT THE ACTIVITIES OF THE INTERNAL AUDIT FUNCTION IN YOUR MUNICIPALITY ADD VALUE TO THE ORGANISATION?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE- 1994	BY THE END OF 2004	
1		YES
2		NO

24. Please expand on question 22 in the space provided for below.

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25. DO YOU FEEL THAT THE ACTIVITIES OF THE INTERNAL AUDIT FUNCTION IN YOUR MUNICIPALITY RESULT IN IMPROVING MANAGEMENT PERFORMANCE AND THE QUALITY OF THE ORGANISATION'S MANAGERS?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE- 1994	BY THE END OF 2004	
1		YES
2		NO

26. IN ESTABLISHING AND MAINTAINING QUALITY, PLEASE STATE WHAT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMMES ARE IN PLACE?

(PLEASE CHOOSE THE APPLICABLE SECTION TO YOUR MUNICIPALITY)

PRE- 1994	BY THE END OF 2004	
1		INTERNAL ASSESSMENT
2		EXTERNAL ASSESSMENT
3		COMBINATION OF BOTH INTERNAL AND EXTERNAL
4		OTHER

IF THE ANSWER IS "OTHERS" THEN EXPLAIN IN THE SPACE PROVIDED BELOW

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27. IF THE ANSWER OF QUESTION 25 IS THAT EXTERNAL ASSESSMENT WAS PERFORMED PLEASE INDICATE THE RATING THAT WAS RECEIVED BY YOUR MUNICIPALITY.

PRE- 1994	BY THE END OF 2004	
1		GENERALLY COMPLIANT
2		PARTIALLY COMPLIANT
3		DID NOT COMPLY

28. DOES THE INTERNAL AUDIT FUNCTION IN YOUR MUNICIPALITY ASSIST IN PERFORMING BACKGROUND CHECKS THAT INCLUDES PROFESSIONAL CREDENTIAL CHECKS AND ACADEMIC DEGREE CONFIRMATIONS?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE-1994	BY THE END OF 2004	
1		YES
2		NO

29. DO YOU FEEL THAT IN YOUR MUNICIPALITY THE INTERNAL AUDIT FUNCTION HAS SUFFICIENT KNOWLEDGE TO IDENTIFY FRAUD INDICATORS?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE-1994	BY THE END OF 2004	
1		YES
2		NO

30. Does the internal audit function in your municipality audit information management systems?

(PLEASE INDICATE WHICH SECTION IS APPLICABLE TO YOUR MUNICIPALITY)

PRE-1994	BY THE END OF 2004	
1		YES
2		NO

31. IS THERE ANYTHING THAT YOU FEEL STRONGLY ABOUT THAT HAS NOT BEEN COVERED WHICH YOU WISH TO BE PART OF THIS QUESTIONNAIRE?

(PLEASE COMMENT IN THE SPACE PROVIDED FOR.)

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THANK YOU FOR YOU TIME AND EFFORT.

APPENDIX B

Appendix Table 3.3: Year Internal Audit Function established

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	6	10.5	10.5	10.5
	1994	23	40.4	40.4	50.9
	1995	1	1.8	1.8	52.6
	1997	1	1.8	1.8	54.4
	1998	1	1.8	1.8	56.1
	2000	1	1.8	1.8	57.9
	2001	2	3.5	3.5	61.4
	2002	4	7	7	68.4
	2003	9	15.8	15.8	84.2
	2004	9	15.8	15.8	100
	Total	57	100	100	

Appendix Table 3.4: Municipal Budget: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	1	1.8	1.8	1.8
	0 to 5 bn	53	93	93	94.7
	6 to 10 bn	1	1.8	1.8	96.5
	11 to 15 bn	1	1.8	1.8	98.2
	> 20 bn	1	1.8	1.8	100
	Total	57	100	100	

Appendix Table 3.5: Internal Audit Budget: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	20	35.1	35.1	35.1
	0 to 5 mn	34	59.6	59.6	94.7
	6 to 10 mn	1	1.8	1.8	96.5
	11 to 15 mn	1	1.8	1.8	98.2
	> 20 mn	1	1.8	1.8	100
	Total	57	100	100	

Appendix Table 3.6: No. of Staff in Internal Audit Function: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	26	45.6	45.6	45.6
	1 to 9	30	52.6	52.6	98.2
	70 upwards	1	1.8	1.8	100
	Total	57	100	100	

Appendix Table 3.7: Audit Committee: Existence Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	9	15.8	15.8	15.8
	Yes	10	17.5	17.5	33.3

	No	38	66.7	66.7	100
	Total	57	100	100	

Appendix Table 3.8: Admin Reporting Lines: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	33	57.9	57.9	57.9
	Chief Executive Officer	14	24.6	24.6	82.5
	Chief Financial Officer	10	17.5	17.5	100
	Total	57	100	100	

Appendix Table 3.9: Functional Reporting Lines: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	34	59.6	59.6	59.6
	Chief Executive Officer	9	15.8	15.8	75.4
	Chief Financial Officer	10	17.5	17.5	93
	Audit Committee	4	7	7	100
	Total	57	100	100	

Appendix Table 3.10: Audit Committee: External Members: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	45	78.9	78.9	78.9
	1	12	21.1	21.1	100
	Total	57	100	100	

Appendix Table 3.11: Audit Committee: Councillor Members: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	51	89.5	89.5	89.5
	1	5	8.8	8.8	98.2
	2	1	1.8	1.8	100
	Total	57	100	100	

Appendix Table 3.12: Audit Committee: Municipal Managers: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	47	82.5	82.5	82.5
	1	10	17.5	17.5	100
	Total	57	100	100	

Appendix Table 3.13: Audit Committee: Chief Audit Executive: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	49	86	86	86
	1	8	14	14	100

	Total	57	100	100	
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Appendix Table 3.14: Audit committee: Chief Financial Officer: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	48	84.2	84.2	84.2
	1	9	15.8	15.8	100
	Total	57	100	100	

Appendix Table 3.15: Audit Committee: Internal Audit Managers: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	53	93	93	93
	1	4	7	7	100
	Total	57	100	100	

Appendix Table 3.16: Scope: Assess Reliability: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	43	75.4	75.4	75.4
	Yes	14	24.6	24.6	100
	Total	57	100	100	

Appendix Table 3.17: Scope: Assess Safeguarding: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	35	61.4	61.4	61.4
	Yes	22	38.6	38.6	100
	Total	57	100	100	

Appendix Table 3.18: Scope: Ensure Adherence: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	39	68.4	68.4	68.4
	Yes	18	31.6	31.6	100
	Total	57	100	100	

Appendix Table 3.19: Scope: Accurate records: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	40	70.2	70.2	70.2
	Yes	17	29.8	29.8	100
	Total	57	100	100	

Appendix Table 3.20: Scope: Fraud Detection: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	47	82.5	82.5	82.5
	Yes	10	17.5	17.5	100
	Total	57	100	100	

Appendix Table 3.21: Scope: Identify Risk: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	46	80.7	80.7	80.7
	Yes	11	19.3	19.3	100
	Total	57	100	100	

Appendix Table 3.22: Scope: IT Audits: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	50	87.7	89.3	89.3
	Yes	7	12.3	10.7	100
	Total	57	100	100	
Missing					
Total		57	100		

Appendix Table 3.23: Scope: Systems Audits: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	36	63.2	63.2	63.2
	Yes	21	36.8	36.8	100
	Total	57	100	100	

Appendix Table 3.24: Scope: Review Performance: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	47	82.5	82.5	82.5
	Yes	10	17.5	17.5	100
	Total	57	100	100	

Appendix Table 3.25: Scope: Risk Exposure: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	44	77.2	77.2	77.2
	Yes	13	22.8	22.8	100
	Total	57	100	100	

Appendix Table 3.26: Scope: Risk Management: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	48	84.2	84.2	84.2
	Yes	9	15.8	15.8	100
	Total	57	100	100	

Appendix Table 3.27: Scope: Assurance Provider: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	47	82.5	82.5	82.5
	Yes	10	17.5	17.5	100

	Total	57	100	100
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Appendix Table 3.28: Scope: Other: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	56	98.2	98.2	98.2
	Yes	1	1.8	1.8	100
	Total	57	100	100	

Appendix Table 3.29: Rank Internal Audit Function: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	33	57.9	57.9	57.9
	No knowledge	1	1.8	1.8	59.6
	Poor Knowledge	2	3.5	3.5	63.2
	Fair Knowledge	7	12.3	12.3	75.4
	Good Knowledge	12	21.1	21.1	96.5
	Full Knowledge	2	3.5	3.5	100
	Total	57	100	100	

Appendix Table 3.30: Relationship with clients: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	33	57.9	57.9	57.9
	Adversarial	6	10.5	10.5	68.4
	Cooperative	18	31.6	31.6	100
	Total	57	100	100	

Appendix Table 3.31: Who had the Power to Employ and Dismiss: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	33	57.9	57.9	57.9
	Municipal Manager	15	26.3	26.3	84.2
	Audit Committee	1	1.8	1.8	86
	Mayoral Committee	1	1.8	1.8	87.7
	Finance Executive Officer	4	7	7	94.7
	Manager and Others	3	5.3	5.3	100
	Total	57	100	100	

Appendix Table 3.32: Involvement in Designing Internal Control Systems: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	32	56.1	56.1	56.1
	Yes	17	29.8	29.8	86

	No	8	14	14	100
	Total	57	100	100	

Appendix Table 3.33: Involvement in Installing Internal Control Systems: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	32	56.1	56.1	56.1
	Yes	10	17.5	17.5	73.7
	No	15	26.3	26.3	100
	Total	57	100	100	

Appendix Table 3.34: Involvement in Operating Internal Control Systems: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	33	57.9	58.9	58.9
	Yes	8	14	14.3	73.2
	No	15	26.3	26.8	100
	Total	56	98.2	100	
Missing	System	1	1.8		
Total		57	100		

Appendix Table 3.35: Composition of IAF: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	30	52.6	53.6	53.6
	In-house	19	33.3	33.9	87.5
	Outsourced	4	7	7.1	94.6
	Co-sourced	3	5.3	5.4	100
	Total	56	98.2	100	
Missing	System	1	1.8		
Total		57	100		

Appendix Table 3.36: Did Audit Charter Exist: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	30	52.6	52.6	52.6
	Yes	10	17.5	17.5	70.2
	No	17	29.8	29.8	100
	Total	57	100	100	

Appendix Table 3.37: Functions include Auditing Top Manager's Activities: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	31	54.4	54.4	54.4
	Yes	7	12.3	12.3	66.7
	No	19	33.3	33.3	100
	Total	57	100	100	

Appendix Table 3.38: Action taken if irregularities by Top Management found: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	40	70.2	70.2	70.2
	Report to Authorities	13	22.8	22.8	93
	Assist Cover-up	2	3.5	3.5	96.5
	Do Nothing	2	3.5	3.5	100
	Total	57	100	100	

Appendix Table 3.39: Does IAF Utilize Resources Optimally: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	35	61.4	61.4	61.4
	Yes	11	19.3	19.3	80.7
	No	11	19.3	19.3	100
	Total	57	100	100	

Appendix Table 3.40: Coverage Plan in Line with Strategic Goals: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	35	61.4	61.4	61.4
	Yes	9	15.8	15.8	77.2
	No	13	22.8	22.8	100
	Total	57	100	100	

Appendix Table 3.41: Internal Audit Adds Value: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	35	61.4	61.4	61.4
	Yes	16	28.1	28.1	89.5
	No	6	10.5	10.5	100
	Total	57	100	100	

Appendix Table 3.42: IAF activities serve to Improve Managers' Performance: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	34	59.6	59.6	59.6
	Yes	13	22.8	22.8	82.5
	No	10	17.5	17.5	100
	Total	57	100	100	

Appendix Table 3.43: Quality Assurance Measures in Place: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	40	70.2	70.2	70.2
	Internal Assessment	11	19.3	19.3	89.5
	Internal and External Assessment	2	3.5	3.5	93
	Other	4	7	7	100
	Total	57	100	100	

Appendix Table 3.44: Rating after External Assessment: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	53	93	93	93
	Generally Compliant	3	5.3	5.3	98.2
	Not compliant	1	1.8	1.8	100
	Total	57	100	100	

Appendix Table 3.45: IAF performing Background checks: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	34	59.6	59.6	59.6
	Yes	1	1.8	1.8	61.4
	No	22	38.6	38.6	100
	Total	57	100	100	

Appendix Table 3.46: Fraud Dection Knowledge and Skills: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	34	59.6	59.6	59.6
	Yes	12	21.1	21.1	80.7
	No	11	19.3	19.3	100
	Total	57	100	100	

Appendix Table 3.47: Management Systems audited by IAF: Pre-1994

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	34	59.6	59.6	59.6
	Yes	6	10.5	10.5	70.2
	No	17	29.8	29.8	100
	Total	57	100	100	

Appendix Table 3.48: Municipal Budget End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	1	1.8	1.8	1.8
	0 to 5 bn	52	91.2	91.2	93
	6 to 10 bn	1	1.8	1.8	94.7
	11 to 15 bn	2	3.5	3.5	98.2
	> 20 bn	1	1.8	1.8	100
	Total	57	100	100	

Appendix Table 3.49: Audit Budget End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	3	5.3	5.3	5.3
	0 to 5 mn	49	86	86	91.2
	6 to 10 mn	2	3.5	3.5	94.7
	16 to 20 mn	1	1.8	1.8	96.5
	> 20 mn	2	3.5	3.5	100
	Total	57	100	100	

Appendix Table 3.50: No. of Staff End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	7	12.3	12.3	12.3
	1 to 9	45	78.9	78.9	91.2
	10 to 19	2	3.5	3.5	94.7
	60 to 69	1	1.8	1.8	96.5
	70 upwards	2	3.5	3.5	100
	Total	57	100	100	

Appendix Table 3.51: Audit Committee: Existence End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	4	7	7	7
	Yes	47	82.5	82.5	89.5
	No	6	10.5	10.5	100
	Total	57	100	100	

Appendix Table 3.52: Admin Reporting Lines: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	5	8.8	8.8	8.8
	Chief Executive Officer	50	87.7	87.7	96.5
	Chief Financial Officer	2	3.5	3.5	100
	Total	57	100	100	

Appendix Table 3.53: Functional Reporting Lines: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	5	8.8	8.8	8.8
	Chief Executive Officer	15	26.3	26.3	35.1
	Chief Financial Officer	3	5.3	5.3	40.4
	Audit Committee	34	59.6	59.6	100
	Total	57	100	100	

Appendix Table 3.54: Audit Committee: External Members: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	13	22.8	22.8	22.8
	1	44	77.2	77.2	100
	Total	57	100	100	

Appendix Table 3.55: Audit Committee: Councillor Members: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	49	86	86	86
	1	7	12.3	12.3	98.2
	2	1	1.8	1.8	100
	Total	57	100	100	

Appendix Table 3.56: Audit Committee: Municipal Managers: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	40	70.2	70.2	70.2
	1	16	28.1	28.1	98.2
	2	1	1.8	1.8	100
	Total	57	100	100	

Appendix Table 3.57: Audit Committee: Chief Audit Executive: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	39	68.4	68.4	68.4
	1	18	31.6	31.6	100
	Total	57	100	100	

Appendix Table 3.58: Audit committee: Chief Financial Officer: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	39	68.4	68.4	68.4
	1	18	31.6	31.6	100
	Total	57	100	100	

Appendix Table 3.59: Audit Committee: Internal Audit Managers: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	46	80.7	80.7	80.7
	1	11	19.3	19.3	100
	Total	57	100	100	

Appendix Table 3.60: Scope: Assess Reliability: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	23	40.4	40.4	40.4
	Yes	34	59.6	59.6	100
	Total	57	100	100	

Appendix Table 3.61: Scope: Assess Safeguarding: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	11	19.3	19.3	19.3
	Yes	46	80.7	80.7	98.2
	Total	57	100	100	

Appendix Table 3.62: Scope: Ensure Adherence: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	10	17.5	17.5	17.5
	Yes	47	82.5	82.5	100
	Total	57	100	100	

Appendix Table 3.63: Scope: Accurate records: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	17	29.8	29.8	29.8
	Yes	40	70.2	70.2	100
	Total	57	100	100	

Appendix Table 3.64: Scope: Fraud Detection: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	26	45.6	45.6	45.6
	Yes	31	54.4	54.4	100
	Total	57	100	100	

Appendix Table 3.65: Scope: Identify Risk: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	18	31.6	31.6	31.6
	Yes	39	68.4	68.4	100

	Total	57	100	100	
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Appendix Table 3.66: Scope: IT Audits: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	31	54.4	54.4	54.4
	Yes	26	45.6	45.6	100
	Total	57	100	100	

Appendix Table 3.67: Scope: Systems Audits: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	10	17.5	17.5	17.5
	Yes	47	82.5	82.5	100
	Total	57	100	100	

Appendix Table 3.68: Scope: Review Performance: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	19	33.3	33.3	33.3
	Yes	38	66.7	66.7	100
	Total	57	100	100	

Appendix Table 3.69: Scope: Risk Exposure: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	17	29.8	29.8	29.8
	Yes	40	70.2	70.2	100
	Total	57	100	100	

Appendix Table 3.70: Scope: Risk Management: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	22	38.6	38.6	38.6
	Yes	35	61.4	61.4	100
	Total	57	100	100	

Appendix Table 3.71: Scope: Assurance Provider: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	24	42.1	42.1	42.1
	Yes	33	57.9	57.9	100
	Total	57	100	100	

Appendix Table 3.72: Scope: Other: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	52	91.2	91.2	91.2
	Yes	5	8.8	8.8	100
	Total	57	100	100	

Appendix Table 3.73: Rank Internal Audit Function: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	4	7	7	7
	No knowledge	1	1.8	1.8	8.8
	Poor Knowledge	3	5.3	5.3	14
	Fair Knowledge	10	17.5	17.5	31.6
	Good Knowledge	28	49.1	49.1	80.7
	Full Knowledge	11	19.3	19.3	100
	Total	57	100	100	

Appendix Table 3.74: Relationship with clients: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	4	7	7	7
	Adversarial	5	8.8	8.8	15.8
	Cooperative	46	80.7	80.7	96.5
	Other	2	3.5	3.5	100
	Total	57	100	100	

Appendix Table 3.75: Who had the Power to Employ and Dismiss: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	5	8.8	8.8	8.8
	Municipal Manager	23	40.4	40.4	49.1
	Audit Committee	3	5.3	5.3	54.4
	Mayoral Committee	3	5.3	5.3	59.6
	Manager and Others	23	40.4	40.4	100
	Total	57	100	100	

Appendix Table 3.76: Involvement in Designing Internal Control Systems: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	4	7	7	7
	Yes	26	45.6	45.6	52.6
	No	27	47.4	47.4	100
	Total	57	100	100	

Appendix Table 3.77: Involvement in Installing Internal Control Systems: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	4	7	7	7
	Yes	17	29.8	29.8	36.8

	No	36	63.2	63.2	100
	Total	57	100	100	

Appendix Table 3.78: Involvement in Operating Internal Control Systems: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	5	8.8	8.8	8.8
	Yes	11	19.3	19.3	28.1
	No	41	71.9	71.9	100
	Total	57	100	100	

Appendix Table 3.79: Composition of IAF: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	4	7	7	7
	In-house	30	52.6	52.6	59.6
	Outsourced	6	10.5	10.5	70.2
	Co-sourced	17	29.8	29.8	100
	Total	57	100	100	

Appendix Table 3.80: Did Audit Charter Exist: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	4	7	7	7
	Yes	40	70.2	70.2	77.2
	No	13	22.8	22.8	100
	Total	57	100	100	

Appendix Table 3.81: Functions include Auditing Top Manager's Activities: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	4	7	7	7
	Yes	36	63.2	63.2	70.2
	No	17	29.8	29.8	100
	Total	57	100	100	

Appendix Table 3.82: Action taken if irregularities by Top Management found: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	14	24.6	24.6	24.6
	Report to Authorities	41	71.9	71.9	96.5
	Assist Cover-up	1	1.8	1.8	98.2
	Do Nothing	1	1.8	1.8	100
	Total	57	100	100	

Appendix Table 3.83: Does IAF Utilize Resources Optimally: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	5	8.8	8.8	8.8
	Yes	38	66.7	66.7	75.4
	No	14	24.6	21.1	96.5
	Other	2	3.5	3.5	100
	Total	57	100	100	

Appendix Table 3.84: Coverage Plan in Line with Strategic Goals: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	5	8.8	8.8	8.8
	Yes	44	77.2	77.2	86
	No	8	14	12.3	98.2
	Other	1	1.8	1.8	100
	Total	57	100	100	

Appendix Table 3.85: Internal Audit Adds Value: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	5	8.8	8.8	8.8
	Yes	44	77.2	77.2	86
	No	8	14	14	100
	Total	57	100	100	

Appendix Table 3.86: IAF activities serve to Improve Managers' Performance: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	5	8.8	8.8	8.8
	Yes	40	70.2	70.2	78.9
	No	12	21.1	21.1	100
	Total	57	100	100	

Appendix Table 3.87: Quality Assurance Measures in Place: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	11	19.3	19.3	19.3
	Internal Assessment	16	28.1	28.1	47.4
	External Assessment	2	3.5	3.5	50.9
	Internal and External Assessment	17	29.8	29.8	80.7
	Other	11	19.3	19.3	100
	Total	57	100	100	

Appendix Table 3.88: Rating after External Assessment: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	39	68.4	68.4	68.4
	Generally Compliant	13	22.8	22.8	91.2
	Partially Compliant	4	7	7	98.2
	Not compliant	1	1.8	1.8	100
	Total	57	100	100	

Appendix Table 3.89: IAF performing Background checks: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	4	7	7	7
	Yes	11	19.3	19.3	26.3
	No	42	73.7	73.7	100
	Total	57	100	100	

Appendix Table 3.90: Fraud Dection Knowledge and Skills: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	4	7	7	7
	Yes	39	68.4	68.4	75.4
	No	14	24.6	24.6	100
	Total	57	100	100	

Appendix Table 3.91: Management Systems audited by IAF: End 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	N/A	5	8.8	8.8	8.8
	Yes	26	45.6	45.6	54.4
	No	26	45.6	45.6	100
	Total	57	100	100	

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