

The effect of specific internal audit function features on the demand for internal auditors in South Africa

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ABSTRACT

This study explored specific features of the internal audit function in South Africa that affects the demand for internal auditors in this country. The study compared the views of chief audit executives of large listed companies with those working for other (smaller) South African companies. There were differences in the views held by these two groups of executives.

The results showed that most employees in an internal audit function are employed at a senior internal auditor level and although staff movements occur, the incumbent chief audit executive remains in that position for a relatively lengthy period. There is a shortage of competent internal auditors at various levels in South Africa, especially in the operational/performance and financial audit areas. Other features that were investigated in the study include experience, qualifications and remuneration of chief audit executives, internal audit vacancies per specialisation field, and recruitment sources.

Various areas for future research were identified, including exploring the need to introduce a formal traineeship programme for internal auditors, the skills requirements at different internal audit post levels, and the standing of the Certified Internal Auditor designation in the work environment.

Key words

Internal auditing; chief audit executives; composition of the internal audit function; internal audit employment; sources to recruit internal auditors

1 INTRODUCTION

Today's changing world poses various challenges to organisations and their managements. The increased demand for accountability as a result of corporate scandals, globalisation and rapid growth in international markets, the increasing complexity of the business environment, the transformation of ownership structures due to the growth in the number of institutional investors, privatisation and shareholder activism (Aguilera & Cuervo-Cazurra 2004:416 & 428), and many more related factors, places the spotlight on implementation of sound corporate governance principles. The current global economic meltdown, coupled with the credit crunch, is also taking its toll on confidence in business management. At the 2009 World Economic Forum it was reported that this global financial crisis has destroyed between 40% and 45% of the world's wealth, affecting every country, industry, organisation and individual (Lam 2009:22; Hull 2009:3). The King Committee on Governance (IOD 2009:9) regards the credit crunch and the resulting crisis being faced by leading

financial institutions, as a signal for a more strenuous pursuit of sound corporate governance principles.

Organisations world-wide are attempting to strengthen regulatory frameworks in order to restore investor confidence and to bring about greater transparency and accountability to corporate affairs (Davies & Schlitzer 2008:532). Strengthened regulatory frameworks necessitate more effective compliance monitoring mechanisms, resulting in the need for improved corporate governance structures. The internal audit function (IAF) is one such compliance mechanism operating within a corporate governance structure (Green & Gregory 2005:50-54; Jackson 2005:345-350; IIA n.d.(a)). Various internal and external role-players within an organisation, such as the board of directors and its committees (Zain & Subramaniam 2007:899), senior management (Carcello, Hermanson & Raghunandan 2005:82; Sarens & De Beelde 2006:219-241), shareholders (Paape, Scheffe & Snoep 2003:251; Holt & De Zoort 2009:71-72) and external auditors (Gramling, Maletta, Schneider & Church 2004:233; Haron, Chambers,

Ramsi & Ismail 2004:1156), recognise the value of an effective and efficient IAF to enhance sound corporate governance.

In addition to the emphasis placed on the IAF as a corporate governance mechanism, the role of and activities performed by the IAF have changed over the last decade (Deloitte & IIA (UK and Ireland), 2003), resulting in greater opportunities for internal auditors to add value within their organisations, but also increased responsibilities to fulfill this duty. The focus of an IAF's interest has shifted from a traditional compliance assessment role to a value-adding role where partnership with management is accorded greater significance (Spira & Page 2003:657; Van Peurse 2004:379; Carcello *et al* 2005:69; Cooper, Leung & Wong 2006:828-829; Abdolmohammadi, Burnaby & Hass 2006:814). Not only has this changed and expanded role resulted in a dramatic increase in the growth of the profession, but more demands are placed on the competencies of today's internal auditors (Specklé, Van Elten & Kruis 2007:103).

The internal audit profession in South Africa has not escaped this change in the role of internal auditing, with a resulting growing need for competent internal auditors (a competent internal auditor is an individual who is able to perform a work-role to a defined, acceptable standard, with reference to his/her working environment (IFAC 2003:13)). This could be ascribed to many factors, for example the strong emphasis on corporate governance acknowledging the need for and redefining the role of internal auditing (IOD 2009:56) and the mandatory requirement for an IAF by South African public sector legislation (South Africa 2000; South Africa 2003). As in the rest of the world, the South African internal audit profession is also confronted by the challenge to ensure that its members are competent internal auditors – a challenge which, according to Dr Claudelle von Eck (2010), chief executive officer of the Institute of Internal Auditors South Africa (IIA(SA)), has not yet been met. This is echoed in the *Fasset Scarce Skills Guidelines* (Fasset 2011:14), where Fasset, the Sector Education and Training Authority (SETA) for Finance, Accounting, Management Consulting and other Financial Services, identifies internal auditing as a scarce skill in South Africa.

2 OBJECTIVE, LIMITATIONS AND SIGNIFICANCE OF THE STUDY

In this study an attempt was made to explore specific features of an IAF that have an effect on the demand for internal auditors in South Africa. In order to achieve this objective, the views of the heads of the IAFs of South African companies, the chief audit executives (CAEs), were sought. Their demand for internal auditors was placed in the context of the growth of the internal audit profession both in South Africa and globally, and the attainment of its certified qualification, the Certified Internal Auditor (CIA) designation.

The study built on the available body of knowledge, but considering the limited research that exists on the demand for internal auditors in South Africa, the

findings of this study should be important from a theoretical perspective. The study could benefit the IIA(SA) by providing information on aspects of the broader business environment affecting the demand for internal auditors – information that the IIA(SA) could use in developing strategies to market the profession, to promote its certified qualification and to structure its future operations. The information could also be utilised by the IIA Incorporated (Inc) to place the distinctive South African IAF features and its demand for internal auditors in the context of the need for internal auditors in the rest of the world. In addition, the study could be useful to the management of organisations in that it demonstrates that competent internal auditors are a scarce resource, which should prompt the organisations to explore initiatives to attract, train and retain such individuals.

The study was limited to the private sector in South Africa. The absence of the perceptions of CAEs in the South African public sector is a limitation which future research could address. The study could also be expanded to include both the private and public sectors of countries other than South Africa. This study only involved CAEs who are also members of the IIA(SA). Given that in South Africa there is no statutory requirement for internal auditors or even CAEs to be members of the IIA(SA), it is probable that a segment of the population was omitted. Furthermore, this study was based on the IIA(SA) 2006 database which had 266 CAE members in the private sector, representing 5.8% (266/4 622) of the total number of IIA(SA) members in both the private and the public sectors. The IIA(SA) membership increased from 4 622 in 2006 to 9 063 members in 2011, but the percentage of CAE members in the private sector remained stable at 5.8% (534/9 063) of the total membership (Erasmus 2011). Thus, although the sample used in the study (2006 IIA(SA) database) is unchanged at 5.8% of the total IIA(SA) membership, the fact that there has been an increase in total number of members, with its associated increase in absolute numbers of CAEs who were not contacted for this research, could be regarded as a limitation. Although the results of the study should be understood against the aforementioned limitations, various other studies utilising the databases of the IIA for research purposes were also faced with such limitations, for example the Christopher, Sarens and Leung (2009:215) study on internal audit independence in Australia.

This article is organised as follows: the next section, the literature study, provides the background context of the study by focussing on the demand for competent internal auditors. This is followed by sections on the research method, the findings of the study, and the conclusions, recommendations and areas identified for future research.

3 BACKGROUND

Many factors have influenced, and are still influencing the growing demand for internal auditors, but this need can mainly be ascribed to the changing role of the internal auditor. During recent years internal

auditing has evolved from an accountancy-based profession to a management-oriented profession, striving to assist senior management of the organisation in accomplishing their operational objectives (Enyue 1997). This is substantiated by the current definition (IIA 2009:2), which was amended in 1999, and defines internal auditing as an “assurance and consulting activity” that is “designed to add value” and “helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.

Based on this definition, Bou-Raad (2000:183) regards today's internal audit profession as exciting with its own standing and repertoire and no longer as a branch of the accounting profession or information technology profession. According to Adamec, Leinicke, Ostrosky and Rexroad (2005) contemporary internal auditing is based on the identification of strategic, operational and financial risks faced by the organisation, and the assessment of controls put in place by management to mitigate those risks, within a dynamically changing context. Archambeault, De Zoort and Holt (2008:376) further attribute the increase in the importance of today's internal auditor to the critical involvement of the IAF with internal control over financial reporting. Although various other factors have influenced the need for internal auditors world-wide over the past decade, corporate governance developments which have been triggered by corporate scandals, have probably influenced this growth the most.

3.1 Corporate scandals

Corporate scandals have led to an intense focus on corporate governance, effective oversight and sound internal controls, all of which have resulted in internal auditing enjoying a level of prominence and attention unlike ever before (Spira & Page 2003:654; Carcello *et al* 2005:117). Such scandals (usually originating from fraudulent accounting activities) and the resulting corrective legislation highlight the critical role that the IAF plays (Archambeault *et al* 2008:384). In a recent study performed in Australia and New Zealand, Coram, Ferguson and Moroney (2008:557) support this notion with their finding that organisations with an IAF are more likely than those without such a function to detect and self-report fraud.

Although corporate scandals are not new phenomenon (Markham 2006:11), the intensity with which the business environment is being influenced is on the increase. In two of the biggest global scandals that occurred in the last decade, namely Enron and WorldCom, the internal auditors played a prominent role, one contributing to the discovery of the fraud and the other being part of the corruption (Markham 2006:49-142 & 311-376; Cooper 2008; Williams 2008:471-4730). Carcello *et al* (2005:120) examined changes in internal auditing during the time of the

Enron and WorldCom disasters by performing a survey of the CAEs of mid-sized public companies in the United States of America (USA). It was concluded (2005:125) that internal audit budgets and staffing levels increased markedly during that time.

In South Africa, in spite of the fact that no specific scandal has been linked to the IAF, the proposition that scandals are a result of poor corporate governance policies and the role that internal auditing should play, have been considered (Vaughn & Versteegen-Ryan 2006; Khoabane 2009). Many contradictions are apparent in examining the issue of sound corporate governance *versus* the occurrence of corporate scandals. In 2003, the Institute of International Finance rated South Africa amongst the best performers in corporate governance in emerging markets (cited in Vaughn & Versteegen-Ryan 2006:511). On the other hand, in 2010 the Corruption Perception Index (Transparency International 2010) rated this country fifty-fourth out of a hundred and seventy eight countries. The Minister for Public Service and Administration, Ms Fraser-Moleketi (2008), addressing senior members of the private and public sectors, urged stakeholders (including internal auditing) to stand up and address the problem: “Corruption in both the private and the public sector poses important socio-economic, governance and values and ethics challenges in contemporary South Africa... Internal audit acts as an important preventative measure against fraud. South Africa has realised the value and importance of internal audit...”

3.2 Corporate governance developments

According to leading organisations across the globe, such as the New York Stock Exchange (NYSE) (Harrington 2004:1) and the USA's National Association of Corporate Directors (Staciokas & Rupsys 2005:170), and in South Africa the Institute of Directors (IOD 2002:23-41), internal auditing together with executive management, audit committees and external auditing, form the cornerstones of effective corporate governance. This statement is supported by many research studies involving boards of directors, senior management and the IAF (Deloitte & IIA (UK and Ireland) 2003; Gramling *et al* 2004:194; Crowe & Chizek 2005; PwC 2008(a); PwC 2008(b); Marx 2008; Christopher *et al* 2009:201). The literature thus supports the view that the IAF is a critical corporate governance mechanism that plays an important role in organisational governance by monitoring organisational risks and assessing controls (Paape *et al* 2003:261; Carcello *et al* 2005:71; Archambeault *et al* 2008:376). The belief that internal auditors form an integral part of an organisation's corporate governance process has led to the development of various global corporate governance guidance structures, all incorporating internal auditing to a greater or lesser extent, as illustrated by the examples listed in table 1.

Table 1: Inclusion of internal auditing in corporate governance guidance

| Country | Body | Internal Audit Function |
|---------------|---|---|
| Australia | Australian Stock Exchange Australian Prudential Regulatory Authority | Audit committee which drives internal audit All financial institutions |
| Canada | Canadian Federal Government | Recognises IIA <i>Standards</i> |
| China | Government | Laws and regulations on internal auditing |
| India | Stock Exchange Board | All listed companies |
| Italy | Italian Stock Exchange | Management code for listed companies |
| Kenya | Nairobi Stock Exchange | Listed companies |
| Malaysia | Code of Corporate Governance | Public listed companies |
| Mexico | Government | Public sector organisations |
| Netherlands | Code of Corporate Governance Government | Listed companies Public sector organisations |
| Norway | Financial Services Authority | Large banks and insurance organisations |
| South Africa | Government Johannesburg Stock Exchange Code of Corporate Governance | Public sector organisations Listed companies All organisations |
| Spain | Comision Nacional del Mercado de Valores | Listed companies |
| Sweden | Government | Government agencies |
| Taiwan | Government | Public companies must have at least one internal auditor |
| United States | New York Stock Exchange (NYSE) | Listed companies |

(Source: Green & Gregory 2005:50-54; Jackso 2005:345-35; IIA n.d.(a))

Carcello *et al* (2005:117-118) assert that when the Sarbanes-Oxley Act of 2002 was passed, and in 2003 when the NYSE mandated that all listed companies implement an IAF, the IIA Inc membership growth rate jumped abnormally, reflecting the rapidly increasing interest in the field. Carcello *et al* (2005:118) justify their notion by quoting the growth in the number of IIA Inc members, with the number of CAEs increasing by 19.5% in 2001, by 66.5% in 2002 and by 32% in 2003, while the overall IIA membership figures grew by 10.4% in 2002 and by 8.5% in 2003. They conclude that the 2002 year experienced abnormally strong growth, reflecting increased interest in the internal audit field.

3.3 Demand for competent internal auditors

The changed role of internal auditors which, over the past decade, could be ascribed to corporate scandals which triggered corporate governance developments and resulting legislation, contributes to the growing demand for competent internal auditors. Due to this changed role, the scope of the IAF is growing and requires expanded competencies on the part of internal auditors (Hass, Abdolmohammadi & Burnaby 2006:842). This includes knowledge, skills and attributes which, according to Harrington (2004:66), should enable them to cope with the extensive changes and complexities that characterise today's business environment, forcing them to demonstrate expertise in many areas, including control evaluations, operational reviews, system analyses and risk management (Sumners & Soileau 2008:7-9).

Nolan (2008:54) maintains that many internal auditors lack the skills required to deal with contemporary business risks. According to the IIA (2007), a broad range of skills and ongoing professional development is needed to ensure the formation and maintenance of an effective IAF. The IIA highlights a few essential elements, namely an in-depth knowledge of the organisation's industry; technical understanding and expertise; skills for implementing and improving

processes in both financial and operational areas; strong communication and presentation skills; and knowledge of the profession's standards and best practices. This is substantiated by the Common Body of Knowledge (CBOK) study (IIA Research Foundation 2007:327) that adds ethics and fraud awareness to the list. A recent study by Ernst & Young (2008:10) found that the continuously expanding role of the internal auditor leads to a skills gap and highlighted that the need for skilled internal auditors remains high.

Areas where there is a shortage of specifically skilled internal auditors includes, *inter alia*, (Robert Half International 2007; IIA Research Foundation 2007:345) the fields of information technology (IT), governance-related topics, and risk management. Other areas mentioned are fraud prevention, IT management, data mining and analysis, and specific industry skills (Deloitte & IIA (UK and Ireland) 2003:14-19; IIA Research Foundation 2007:344-349; PwC 2008(a):31 & 2008(b):31-37; Deloitte & IIA (UK and Ireland) 2008:17; Ernst & Young 2008:11-13).

From the above it is clear that various factors such as the changing role of internal auditing, the impact of corporate scandals and emphasis placed on internal auditing by corporate governance developments, increase the demand for competent internal auditors. The scarcity of competent and skilled internal auditors, being able to perform at an acceptable standard at the workplace (IFAC 2003:13), is highlighted by many global studies, identifying numerous situations affecting the IAF. These include, which also forms the focus of this study, the role of the CAE including the suitability of their qualifications and experience (Boyle 2003:1; Gray 2004:19-23; Carcello *et al* 2005:69-81; IIA 2007:9), the staff composition of the IAF (Spencer Pickett 2004:29-30; Oxner & Oxner 2006:51-57; Rittenberg & Anderson 2006:51-54), the current salary war and related vacancies in key positions (Robert Half International 2007:7; Roffia 2007:13; PwC 2008(a):30; Harrington

2008:47) and the recruiting and retaining of IAF staff, including staff turnover (Ernst & Young 2007:6-9; PwC 2007:30; Singer 2008:7).

3.4 IIA membership figures reflecting the growing need for competent internal auditors

Although the IIA Inc is the international governing body of the profession, not all individuals practising as internal auditors are allowed to register with the IIA Inc. The criteria for registration differ from one affiliated IIA chapter to another, but as a minimum requirement candidates must hold a bachelor's degree or equivalent at a recognised institution, plus suitable work experience (IIA n.d.(b)). Thus, to become a member of the IIA Inc and of its worldwide affiliations (for example the IIA in South Africa) an individual should have completed some form of tertiary education, an essential initial step in the training of a competent internal auditor. IIA membership holds various advantages (IIA n.d.(b); IIA(SA) n.d.), including professional recognition, access to guidance material and continuous

professional development information, and entry to the CIA examination which, if completed successfully, entitles a member of the IIA to use the CIA designation.

The CIA designation is a globally accepted certification designed specifically for internal auditors and remains the standard by which many individuals demonstrate their competency and professionalism in the internal audit field (IIA n.d.(c)). The examination for the CIA designation is conducted by the IIA(SA), and by 2009 there were nearly a thousand IIA(SA) CIA designated members.

Table 2 shows the number of members of the IIA(SA) and the IIA Inc over the past thirteen years. The increase in the number of members amounted to 187% for the international organisation and 485% for the South African organisation. There was an even higher increase in the number of members entitled to use the CIA designation, amounting to 401% and 1 618% for the IIA Inc and IIA(SA) respectively.

Table 2: Number of IIA members and those entitled to the CIA designation

| Year | IIA(SA) | | IIA Inc | |
|------|---------|-------|---------|--------|
| | Members | CIAs | Members | CIAs |
| 1997 | 1 088 | 58 | 59 015 | 16 343 |
| 1998 | 1 218 | 97 | 68 335 | 18 259 |
| 1999 | 1 232 | 127 | 68 421 | 20 656 |
| 2000 | 1 305 | 154 | 70 993 | 33 207 |
| 2001 | 1 651 | 196 | 74 424 | 36 428 |
| 2002 | 2 177 | 248 | 82 147 | 40 212 |
| 2003 | 2 576 | 344 | 89 166 | 45 788 |
| 2004 | 2 725 | 447 | 99 433 | 50 816 |
| 2005 | 3 800 | 569 | 114 775 | 55 296 |
| 2006 | 4 622 | 736 | 135 500 | 64 453 |
| 2007 | 5 259 | 935 | 154 470 | 67 237 |
| 2008 | 5 833 | 935** | 163 120 | 74 305 |
| 2009 | 6 368 | 997 | 169 230 | 81 871 |

** no new CIAs due to change in new system
(Source: Erasmus 2009; IIA n.d.(d); Johnson 2009)

Figure 1 depicts the percentage of CIAs (both internationally and in South Africa) in relation to the total number of members of the IIA Inc and IIA(SA). A sharp increase around 2000 is evident on the graph representing the international position (white) – approximately 50% of IIA Inc members are CIAs. The graph representing the South African position (black) increases steadily, but not dramatically – approximately 15% of IIA(SA) members are CIAs. The latter tendency could be ascribed to either a lower demand for internal auditors with CIA designations, or a considerable shortage of such internal auditors in South Africa. The reasons for this discrepancy are again raised in the discussion of

the results of this study.

4 RESEARCH METHODOLOGY

In this study the views of the CAEs of South African companies were sought. The 2006 database of the IIA(SA), which identifies CAEs, excluding those in the public sector, as a specific category of its members, was used. As explained in section 2 of the article, the utilisation of the 2006 database could be regarded as a limitation of the study, against which the results should be considered. Table 3 provides details on the population used for the study, the number of responses and the initial response rate.

Figure 1
Correlation between IIA members and CIAs for South Africa and internationally

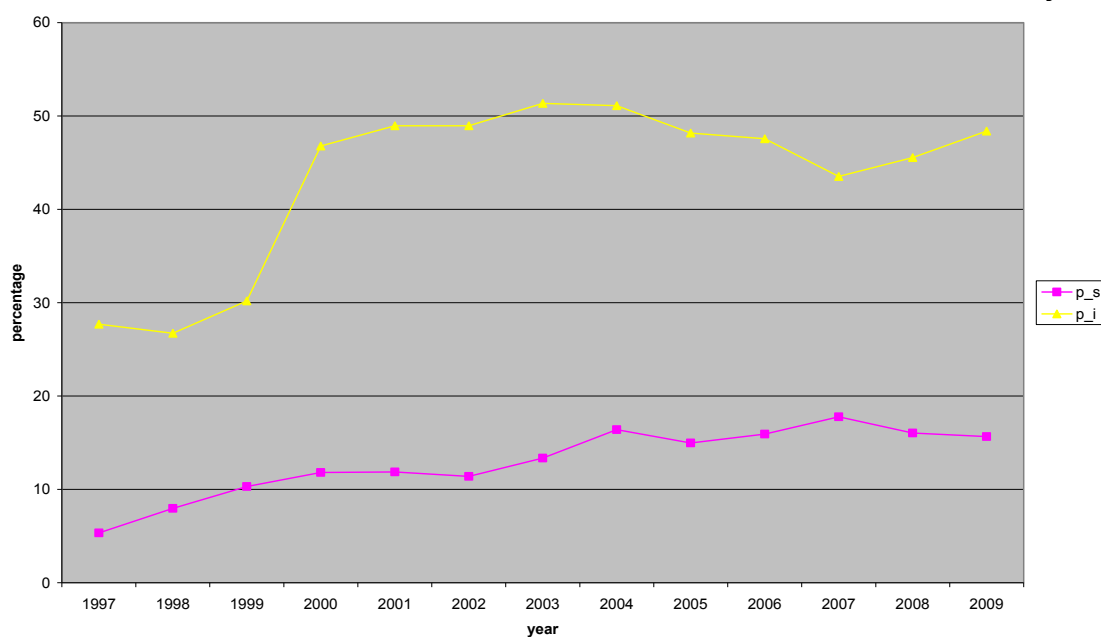


Table 3: Population, number of responses, initial response rate

| Population: number of CAEs per IIA(SA) database | Number of responses | Response rate |
|---|---------------------|---------------|
| 266 | 62 | 23.3% |

The exclusion of inappropriate, unknowledgeable and uninterested respondents, as advocated by Van der Stede, Young and Chen (2005:666), resulted in a further three responses being discarded. This brought the number of responses to 59, with an effective response rate of 22.1%.

With the assistance of the IIA(SA), a questionnaire was e-mailed in 2007/2008 to all CAE members in the IIA(SA) population. These e-mails also contained an introductory letter from the research team and a letter of support from the IIA(SA), inviting the CAEs to participate in a study to determine the demand for internal auditors by completing the attached questionnaire. Respondents were then requested to lodge their completed questionnaires on a website. The Unisa Bureau of Market Research extracted the data from the website and used the SPSS computer program to analyse the data.

This study then compared the above data with the views of CAEs that participated in the iKUTU study (2009) conducted by researchers from the University of Pretoria, Tshwane University of Technology, and the University of South Africa which was supported by the IIA(SA) and KPMG. The initial focus of the iKUTU study was to target South Africa's top 40 listed companies, based on market capitalisation, as the population. As such a list was not representative of companies across all the main sectors of listed companies in the South African economy, this initial list was adjusted to incorporate at least one company from each main sector (iKUTU 2009:9). Welman, Kruger and Mitchell (2005:71) consider it a general rule that a sample should not comprise less than 15 units of analysis, and should preferably consist of

more than 25 units, so the 30 companies responding to the iKUTU study was deemed sufficient for the descriptive analysis of its results.

Given the limited number of responding companies (iKUTU = 30 and general CAEs = 59), the choice of sample size could have influenced the results and the generalisations of the results may therefore be curtailed.

5 RESULTS

In the following sections, specific features relating to the IAF affecting the demand for internal auditors as revealed by the literature (refer to section 3.3) in South Africa are discussed in context of the empirical study.

5.1 Composition of the IAFs

The general CAE respondents (employed in small and medium sized companies) were asked to indicate the size of the IAF in their employer organisations. Based on the 59 responses received from the CAEs, the total number of permanent employees in their IAFs amounted to 1 529, with 25 as the average. It should be taken into account that the standard deviation in this average amounted to 39.93, which is significant. All the CAE respondents provided information on the distribution of the total number of IAF employees in the various categories illustrated in table 4.

From table 4 it is clear that nearly half of the employees in the IAFs of responding general CAEs were at senior internal auditor level (47.2%), followed by 27.6% at internal auditor level and 21.5% at

Table 4: Number of IAF employees per category

| Category | General CAEs (%) | CAEs of large listed companies (%) |
|--------------------------|------------------|------------------------------------|
| Internal auditor manager | 21.5% | 18.3% |
| Senior internal auditor | 47.2% | 46.8% |
| Internal auditor | 27.6% | 28.8% |
| Internal auditor trainee | 3.7% | 6.1% |
| Total | 100% | 100% |

internal auditor manager level, while only 3.7% operated at the lowest level. Although the CAEs of the large listed companies reported a higher average number of employees in their IAFs (39 employees in relation to the 25 employees referred to above), the distribution between the various categories of internal auditors in their IAF appears comparable with the information provided by the general CAEs. In the IAFs of both groups nearly two thirds of the IAF employees were at the two highest levels: 68.7% for the general CAEs and 65.1% for the CAEs of the large listed companies, as indicated in table 4. This finding should be considered against the statistics reported

on in section 3.4, indicating that there could be a shortage of competent internal auditors if measured by the number of internal auditors holding the CIA designation (refer to table 2 and figure 1).

5.2 Experience and remuneration of employees in IAFs

All respondents were asked to provide information on the number of internal auditors appointed and the number of resignations tendered in their IAFs during the twelve months preceding the date of the study. These results are presented in table 5.

Table 5: Employee movements in IAFs

| Post level | General CAEs | | | CAEs of large listed companies | | |
|--------------------------|--------------|--------------|----------|--------------------------------|--------------|----------|
| | Appointments | Resignations | Movement | Appointments | Resignations | Movement |
| CAEs | 10 | 6 | 4 | 1 | 1 | 0 |
| Internal auditor manager | 21 | 18 | 3 | 2 | 3 | (1) |
| Senior internal auditor | 31 | 26 | 5 | 3 | 5 | (2) |
| Internal auditor | 22 | 18 | 4 | 5 | 2 | 3 |
| Internal audit trainee | 6 | 1 | 5 | 2 | 1 | 1 |
| Net effect | 90 | 69 | 21 | 13 | 12 | 1 |

As reported in table 5, in the twelve months preceding the date of the study, only one CAE from the large listed companies resigned and was replaced by another appointee. The finding that 17.2% of the CAEs of the large listed companies held their positions for ten or more years and that this percentage increases to 41.3% for a period of five to ten years, supports the notion that movement at CAE level in the large listed companies is limited. The general CAE respondents reported six resignations at that level, while ten appointments were made. The finding that the general CAE respondents have, on average, held their positions for 8.6 years (in comparison with the 9.8 years for the CAEs of the large listed companies) also indicates limited change at CAE level. Table 5 further indicates that a negative movement was experienced in the IAFs of the large listed companies at the internal auditor manager and senior internal auditor levels. This tendency was not found for the general CAE respondents. The latter respondents nevertheless experienced the highest movements at these levels, which coincided with the high number of employees in their IAFs at those levels. Considering the total movement, it appears that changes to the staff component of the IAFs of the large listed companies are much lower (with a net effect of 1), than that for companies presented by general CAE respondents.

this amount increased to R1 million or more for 50.0% of these respondents (16.6% of them refrained from disclosing this information, while 8.1% of the general CAE respondents did not disclose this information).

The results showed that, in accordance with expectations, a correlation was found between the post level and the years of experience in internal auditing. At the highest level, that of a CAE, an average of 8.6 years of experience was indicated by general CAE respondents, followed by 5.8 years of experience at internal auditor manager level, 3.9 years of experience at senior internal auditor level, 2.3 years of experience at internal auditor level and less than one year experience for internal auditor trainees. Very comparable figures were found for the CAE respondents of the large listed companies, namely 9.8 years at CAE level, 6.1 years at internal auditor manager level, 4.1 years at senior internal auditor level and 2.6 years at internal auditor level, while for internal auditor trainees the length of experience was even lower than that reported by the general CAE respondents.

Based on the responses received from the general CAE respondents, an average remuneration of R688 080.65 was earned for the 2007/2008 year in which the research was conducted, while in the case of the CAE respondents of the large listed companies

The same tendency was found with regard to remuneration benefits. Higher post levels were associated with higher remuneration – according to general CAE respondents, remuneration ranged from R475 258 at the internal auditor manager level, to R344 212 at the senior internal auditor level, to R220 483 at the internal auditor level, to R120 526 at the internal auditor trainee level. Higher remuneration benefits were reported by the CAE respondents of the large listed companies; R507 823 at internal auditor

manager level (6.9% higher), R368 062 at senior internal auditor level (6.9% higher), R229 642 at internal auditor level (4.2% higher) and R132 727 at internal auditor trainee level (10.1% higher).

5.3 Vacancies in IAFs

All respondents were asked to provide the particulars of vacancies within their IAFs. Table 6 illustrates the average number of vacancies in the IAFs by field of expertise during the twelve months preceding the date of the study, for both groups of respondents.

The CAE respondents of the large listed companies experienced the highest demand for internal auditors at the internal auditor manager level (12.0 vacancies), while general CAE respondents noted fewer

vacancies (10.2) at this level, but identified the internal auditor level with 11.9 vacancies as the area with the highest demand. Both groups of CAE respondents confirmed that the area of the lowest demand was at the internal auditor trainee level.

All the CAE respondents indicated that their vacancies had the largest impact on the operational/performance audit. This need coincided with what was identified by the CAE respondents of the large listed companies as the activities on which their IAFs spent the most hours, amounting to 36.6% of their available time. Both these groups of respondents identified financial audits as the second most affected activity when it comes to vacancies experienced within their IAFs.

Table 6: Average number of vacant positions in IAFs

| Field of expertise | I/A manager | Senior I/A | I/A | I/A trainee | Total |
|---------------------------------------|-------------|------------|------|-------------|-------|
| General CAEs | | | | | |
| Financial audit | 1.4 | 1.7 | 2.3 | 1.0 | 6.4 |
| Compliance audit | 1.0 | 1.3 | 2.3 | 0 | 4.6 |
| Operational/performance audit | 3.5 | 1.3 | 2.3 | 2.0 | 9.1 |
| Information systems audit | 1.3 | 1.6 | 2.0 | 0 | 4.9 |
| Enterprise risk management | 1.0 | 1.0 | 1.0 | 0 | 3.0 |
| Corporate governance | 1.0 | 1.0 | 1.0 | 0 | 3.0 |
| Forensic audit | 1.0 | 1.0 | 1.0 | 0 | 3.0 |
| TOTAL | 10.2 | 8.9 | 11.9 | 3.0 | - |
| CAEs of large listed companies | | | | | |
| Financial audit | 1.5 | 1.9 | 2.3 | 1.0 | 6.7 |
| Compliance audit | 1.0 | 1.3 | 1.0 | 0 | 3.3 |
| Operational/performance audit | 6.0 | 1.4 | 3.3 | 2.0 | 12.7 |
| Information systems audit | 1.5 | 1.7 | 0 | 0 | 3.2 |
| Enterprise risk management | 1.0 | 1.0 | 1.0 | 0 | 3.0 |
| Corporate governance | 1.0 | 1.0 | 0 | 0 | 2.0 |
| Forensic audit | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 12.0 | 8.3 | 7.6 | 3.0 | - |

KEY: I/A = Internal auditor

5.4 Sources of recruitment of internal auditors

All CAE respondents were asked to identify all the sources they use to recruit internal auditors. Table 7 provides the detailed information.

Both groups of respondents cited employment agencies as their major source of recruitment of

internal auditors, and were in favour of recruiting through networking. External audit firms and other internal audit firms were also viewed as important sources by the CAE respondents of the large listed companies, while for the general CAE respondents these two represented the least favourable alternatives.

Table 7: Sources to recruit internal auditors

| Sources | General CAEs (%) | CAEs of large listed companies (%) |
|---------------------------------------|------------------|------------------------------------|
| Tertiary education institutions | 35.4% | 36.7% |
| Employment agencies | 67.7% | 76.7% |
| Other departments in own organisation | 30.6% | 26.7% |
| External audit firms | 29.0% | 46.7% |
| Other internal audit firms | 25.8% | 43.3% |
| Networking | 40.3% | 56.7% |

5.5 Qualifications of CAEs

All CAE respondents listed their completed formal qualifications. Two thirds of the CAE respondents of the large listed companies held a bachelor's degree and an honours degree, while only 16.7% held a master's degree (or MBA) and a mere 3.3% had obtained a doctorate. No general CAE respondent

indicated that he or she had a doctorate, while only six (9.3%) of them had master's degrees. Approximately half of these respondents (53.2%) held honours degrees and bachelor's degrees. Based on the aforementioned, it appears as if the CAEs employed by the large listed companies have to be more highly qualified academically than those at other South African companies in the private sector.

All CAE respondents were also required to list all their professional qualifications. Nearly half (46.7%) of the CAE respondents of the large listed companies were qualified chartered accountants (CAs), while it was the case for 27.4% of the general CAE respondents. Thirty percent of the CAE respondents of the large listed companies held the CIA designation, while 37.1% of the general CAE respondents were CIAs. The employment of CAs by the large listed companies is apparent and contrasts with the lower percentage employed by other South African companies in the private sector. This could be ascribed to the current shortage of CAs experienced in South Africa (SAICA 2008). The relatively low employment of CIAs at the CAE level of both groups could also be ascribed to a shortage of skills in internal auditing (Fasset 2011:14).

6 CONCLUSIONS, RECOMMENDATIONS AND AREAS FOR FUTURE RESEARCH

This study has attempted to explore the effect of specific features relating to IAFs, as revealed by the literature, on the demand for internal auditors in South Africa, by comparing the views of small to medium size companies' CAE respondents (general) in the private sector with those from large listed companies. The results indicate that the IAF of companies employs internal auditors at various levels of seniority and experience, but the bulk (approaching 50%) are designated "senior internal auditor". This phenomenon should be further investigated to determine to what extent the nature of the activities performed by IAFs, the approaches they follow, and their roles and responsibilities have an impact on the level of employment that IAFs require. The lowest number of employees are at the bottom level, namely at the internal audit trainee level. This finding could indicate that the formal learnership programme of the IIA(SA) is not utilised to its full potential. Given the high demand for internal auditors as explained in section 3.3, the IIA(SA) (2011) places emphasis on formal learnerships as part of an internal auditor's career path. The possibility of introducing a formal traineeship for internal auditors represents an area that should be researched and could lead to much higher employment at the internal audit trainee level.

The findings of the study also show that limited staff movement was experienced at the CAE level, which could be ascribed to the 58.5% of CAEs who reported that they had held their positions for at least the past five years. Vacancies at this level were filled within the period under review, a possible indication that filling such a strategic position was a matter of urgency. With regard to the vacant positions within the IAF, both groups indicated a high level of vacant positions, especially within the area of operational/performance auditing, a possible indication for the need for specialist operational/performance internal auditors. The fact that most vacancies are within the higher post-levels, could probably be ascribed to the shortage of competent internal auditors in South Africa, as substantiated by the low numbers of certified professionals.

The expected correlation was found between post level and remuneration benefits, but remuneration

was also related to the incumbents' years of experience. The CAE respondents of the large listed companies reported higher average remuneration benefits attached to all the post levels in their IAF than the general CAE respondents. More years of experience were, however, also reported at all post levels in the IAFs of the large listed companies than in the other South African companies.

All IAFs experienced vacancies and a shortage of staff was identified especially in the operational/performance and financial audit areas. CAE respondents of the large listed companies registered such demand at the higher post levels (at the internal auditor manager and senior internal auditor levels), while for the general CAE respondents it was at a lower level (internal auditor level). This finding should be explored to specifically identify the knowledge and skills requirements for internal auditors at the various post levels and in particular to determine whether these relate to the attributes of an organisation, for example its size and regulatory environment.

All CAE respondents indicated that they mainly use employment agencies and networking opportunities to recruit internal auditors. Should the formal learnership programme of the IIA(SA) gain more momentum, the reliance on external recruitment sources could be reduced and substituted with a formal progressing of internal audit trainees into the business environment.

Although approximately 86% of the CAE respondents of the larger listed companies held a bachelor's or higher degree, this percentage decreases to 62% for the general CAE respondents. These findings raise concern, especially in the light that the IIA(SA) Career Path (2011) suggests a master's degree as a suitable qualification for a CAE. It therefore appears that only approximately 30% of the CAE respondents of both groups met this criteria. Both the profession as well as educators of internal auditors have a great responsibility to promote academic excellence and thereby increase the number of CAEs with higher degrees.

The results show that in both the large listed companies and the other South African companies, CAEs are appointed even though they do not hold the CIA qualification. In the light of the changing role of internal auditors in general and the increased emphasis on internal auditing in mandatory corporate governance compliance regimes, resulting in an increased demand for competent internal auditors, it is apparent that the head of the IAF, the CAE, should hold an appropriate professional qualification. The results indicate that nearly half of the CAEs of the large listed South African companies are CAs, while only 27.4% of these respondents hold a CIA. For the general CAE respondents, the opposite were found. This tendency also represents an area for future research. Such a study could explore the standing of the CIA designation in the work environment (including both large listed companies and other companies) and identify, if appropriate, weaknesses that have an impact on the standing of the designation.

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