ASSESSING THE IMPLEMENTATION OF THE KING III INTERNAL AUDITING REPORTING GUIDELINES AT UNIVERSITIES OF TECHNOLOGY IN SOUTH AFRICA

BY

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Declaration

I, Tiisetso Khori, passport number and student number , hereby declare that the dissertation submitted for the qualification Magister Technologiae in Internal Auditing at the Central University of Technology, Free State, is my own independent work and that I have not previously submitted the same work for a qualification at or in another university or faculty in fulfilment (or partial fulfilment) of the requirements for the attainment of any qualification. I hereby cede copyright of this product in favour of the Central University of Technology, Free State.

March 2019

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Summary

Sound corporate governance is indispensable for any organisation, mitigating the risk of financial scandals and maintaining the good reputation of organisations. Internal auditing has been found to be one of the fundamental pillars of sound corporate governance because of the key role it plays in improving organisational efficiency and effectiveness through the assessment of internal controls and risks and making of recommendations to enhance governance processes. Higher education institutions in the South African context are facing numerous challenges, such as poor incorporation of the King III Report and not being financially sustainable. This is especially applicable to Universities of Technology (UoTs) as 'newly born' type of university that emerged from the former technikons. Challenges such as those mentioned above emphasise a need for UoTs to adhere to sound governance, and the King III internal auditing guidelines can offer valuable insights in this regard. The main objective of the study was, thus, to assess the extent to which UoTs in the South African context implement the King III internal audit guidelines.

The study followed a qualitative research approach, using content analysis design to evaluate the annual reports of the six UoTs in South Africa, namely the Central University of Technology (CUT), Cape Peninsula University of Technology (CPUT), Durban University of Technology (DUT), Mangosuthu University of Technology (MUT), Tshwane University of Technology (TUT) and Vaal University of Technology (VUT). For each university annual reports were examined for years ending 2014, 2015 and 2016. A two-rater scale indicating if information was disclosed or not disclosed was used for section A of the empirical study, while a three-rater scale for section B of the impirical study, indicating that information was fully disclosed, partially disclosed or not disclosed. This, was applied to measure the extent to which the UoTs implemented the King III internal audit principles. A checklist was developed to ensure a uniform analysis of the documents.

Findings indicate that the UoTs did not implement most of the King III internal audit guidelines for the years 2014, 2015 and 2016. The majority of UoTs did not report on the following: whether internal audits adhered to the Institute of Internal Auditors (IIA)

Standards and Code of Ethics; whether the chief audit executive (CAE) reported functionally to the audit committee chairperson; whether the audit committee was responsible for the appointment, performance assessment and dismissal of the CAE whether internal audits provided a written assessment of internal financial controls to the audit committee. Most UoTs also failed to disclose whether the internal audit charter was defined and approved by the council. However, in reporting information which indicates that internal audit formed an integral part of the combined assurance model the UoTs fared somewhat better. Although information was disclosed pertaining to internal audit's responsibility in respect of corporate governance, there is still room for improvement. The positive findings indicate that most UoTs disclosed that internal audit is responsible for reporting on internal control and risk management.

Keywords: corporate governance, governace, internal audit, higher education, universities of technology, disclosure.

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List of abbreviations and acronyms

ACUA	Association of College and University Auditors
ANC	African National Congress
ANZUIAG	Australian & New Zealand University Internal Audit Group
BBC	British Broadcasting Corporation
BC	Before Christ
BDO	Binder Dijker Otte
BKD	Baird, Kurtz & Dobson
CAE	Chief Audit Executive
CAUT	Canadian Association of University Teachers
CBOK	Global Common Body of Knowledge
CEO	Chief Executive Officer
CFOs	Chief Financial Officer
CHE	Council on Higher Education
CHEIA	Council on Higher Education Internal Audit
CICA	Canadian Institution of Chartered Accountants
COBIT5	Control Objectives for Information and related Technology
CoCo	Criteria of Control Board
COGR	Council on Governmental Relations
COSO	Committee of Sponsoring Organisations
CPUT	Cape Peninsula University of Technology
CUC	Committee of University Chairs
CUT	Central University of Technology
DHET	Department of Higher Education and Training
DoE	Department of Education
DUT	Durban University of Technology
ECIIA	European Confederation of Institutes of Internal Auditing
ERM	Enterprise Risk Management
EY	Ernst & Young
FCA	Financial Conduct of Accounting
FET	Further Education and Training
FRC	Financial Reporting Council
FSB	Financial Services Board

FTSE	Financial Times Stock Exchange
HEA	Higher Education Act
IAASB	International Auditing and Assurance Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
IIA	Institute of Internal Auditors
IIRC	International Integrated Reporting Council
INTOSAI	International Organisation of Supreme Audit Institutions
IoDSA	Institute of Directors in Southern Africa
IPPF	International Professional Practices Framework
ISA	International Standards of Auditing
ISO	International Standards Organization
IT	Information Technology
ITIL V3	Information Technology Infrastructure Library
JSE	Johannesburg Securities Exchange Limited
KPMG	Klynveld Peat Marwick Goerdeler
LSE	London Stock Exchange
Ltd	Limited
MFMA	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
MUT	Mangosuthu University of Technology
NPC	Non-Profit Company
NSFAS	National Student Financial Aid scheme
NUHEP	Non-university Higher Education Provider
NYSE	New York Stock Exchange
OECD	Organisation for Economic Co-operation and Development
PAGVS	Panel on Accountability and Governance in the Voluntary Sector
PCAOB	Public Accounting Oversight Board
PFMA	Public Finance Management Act, no.1 of 1999
Pty	Proprietary
PwC	PricewaterhouseCoopers
RUSA	Rashtriya Uchchatar Shiksha Abhiyan
SABC	South African Broadcasting Corporation
SAICA	South African Institute of Chartered Accountants
SEC	Securities and Exchange Commission

SME	Small and Medium Enterprise
SNG	SizweNtsalubaGobodo
SOC	State-Owned Companies
SOX	Sarbanes-Oxley Act of 2002
SRC	Student Representative Council
TSX	Toronto Stock Exchange
TUT	Tshwane University of Technology
UHY	Urbach Hacker Young
UK	United Kingdom
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UoT	University of Technology
URMIA	University Risk Management and Insurance Association
USA	United States of America
VBS	Venda Building Society bank
VUT	Vaal University of Technology

Chapter 1: Introduction

1.1 Background to the study

Sound corporate governance is essential in curbing financial scandals and ensuring the good reputation of organisations (Lyke & Jickling, 2002:2, World Bank, 2006:2; Florea & Florea, 2013:79). Adherence to sound corporate governance practices can impact positively on the availability of capital, attracting investors and customers, and monitoring stakeholders' relationships in organisations (Armstrong, Segal & Davis, 2005:4; Gstraunthaler, 2010:147; Balkaran, 2013:12). Due to its positive impact in organisations, corporate governance has gained increased importance over the past few decades, mainly due to numerous international financial scandals such as WorldCom, Parmalat, Enron and Satyam, to name but a few (Moncarz, Moncarz, Cabello & Moncarz, 2006:26; Carrillo, 2007:96; Lenz & Sarens, 2012:534; Salami, Johl & Ibrahim, 2014:251; Afolabi, 2015:10; Aguilera, Desender, Bednar & Ho Lee, 2015:484). In South Africa there has been extensive media coverage of financial scandals involving state capture, Fidentia, Nkandla, KPMG, National Student Financial Aid scheme (NSFAS) and Cricket South Africa. Scandals like these emphasise the importance of sound corporate governance (South African Broadcasting Corporation (SABC), 2012:Online; Public Protector South Africa, 2014:321; News24, 2016a:Online; KPMG, 2017:Online).

In an effort to address possible corporate governance scandals many countries and organisations have developed corporate governance guidelines and frameworks. The United Kingdom (UK), United States of America (USA), Canada, the Organisation for Economic Co-operation and Development (OECD) and South Africa have all contributed notably to the development of corporate governance guidelines and frameworks (Lu & Batten, 2001:4; Armstrong *et al.*, 2005:16; United Nations (UN), 2006:1; Ackers & Eccles, 2015:517). In the UK, the scrutiny of corporate governance guidelines has intensified since the publication of the Cadbury Report in 1992 (Tricker, 2015:12). This report sparked worldwide debate on good governance and prompted role players in other countries to develop their own corporate governance guidelines (Aguilera & Cuervo-Cazurra, 2008:7).

In order to address corporate governance challenges, the USA promulgated the Sarbanes-Oxley Act (SOX) in 2002 (Orin, 2010:142; Van der Elst, 2010:8; Kostyuk, Carsten & Apreda, 2011:7; Kim & Lu, 2013:253). The OECD also contributed to sound corporate governace by developing a corporate governance code: the OECD Principles of Corporate Governance in 1998 (Aguilera *et al.*, 2008:7; Urbanek, 2009:62). In South Africa, the King Committee was established in 1992 with the aim of addressing corporate governance issues (Armstrong *et al.*, 2005:9). This committee was established by the Institute of Directors in Southern Africa (IoDSA) under chairmanship of the former High Court judge, Mervyn King (Cliffe Dekker Attorneys, 2002:1; Van Vuuren & Schulschenk, 2013:iv). Corporate governance in South Africa has been regulated since 1994 by a series of the King Reports, with the first King Report published in 1994, followed by King II in 2002 and King III in 2009 (IoDSA, 2002:7-29; Ntim, 2013:2; Ackers and Eccles, 2015:517). The King IV Report became effective on 1 April 2017 (Crous, 2017:XXXI).

In addition to the development of corporate governance guidelines for sound corporate governance, internal audit also emerged as one of the cornerstones of corporate governance, which received much attention in organisations (Karagiorgos, Drogalas, Gotzamanis & Tampakoudis, 2010:19; Swinkels, 2012:64; Balkaran, 2013:13; Florea & Florea, 2013:79; Plant, Coetzee, Fourie & Steyn, 2013:66). The aim of internal auditing is to assist management in improving organisational efficiency and effectiveness by assessing internal controls and risks, and making recommendations to improve governance processes (Cohen & Sayag, 2010:296; Gabrini, 2013:viii-5). The internal auditing function also frequently plays a leading role in organisations by assisting boards of directors to set a proper tone at the top (Sawyer, 2003:10; Gottschalk, 2011:79-80).

The global growth and evolution of the internal auditing profession are closely intertwined with the Institute of Internal Auditors (IIA), a global internal auditing institute established in 1941. The IIA aims to develop the international status of the internal auditing profession and provide a platform for exchanging ideas and information (D' Silva & Ridley, 2007:116; Burnaby & Hass, 2011:735; Mustafa & Haxhiraj, 2015:148). Occasionally, professional governing bodies such as the Public Accounting Oversight

Board (PCAOB), established by the US Congress, to oversee the audit of public companies and International Organisation of Supreme Audit Institutions (INTOSAI) were established. INTOSAI operates internationally to enhance the profession of internal auditing in external government audit communities.

In order to strengthen the efforts of internal auditors, public entities in South Africa must adhere to the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). The key objective of the PFMA is to secure transparency, accountability and sound management of the revenue, expenditure, assets and liabilities of certain public entities (RSA, 1999:13; Erasmus, Barac, Coetzee, Fourie, Motubatse, Plant, Stein & Van Staden, 2014:3). To achieve its objective, the PFMA requires, amongst other things, all public entities to have an internal auditing function in place (Marais, Burnaby, Hass, Sadler & Fourie, 2009:893; Gabrini, 2013:viii-5).

With the above in mind, the current study focused on a critical sector in the South African context, namely higher education. As there is a real and persistent need for skills development and training in the current knowledge age, higher education has become an important sector (Kokt & Le Roux, 2012:105). However, the higher education sector in South Africa is fraught with numerous challenges such as student unrest, funding constraints, pressure to use resources more effectively and efficiently, demands for accountability, governance issues and quality assurance (Middlehurst, 2010:307-308; Barac, Moloi & Marx, 2011:314; Arena, 2013:2000; Shamsuddin & Johari, 2014:303; PwC, 2014b:15; British Broadcasting Corporation (BBC) News 2016; KPMG, 2016a:17), and sound internal auditing practices is important in addressing these challenges.

In South Africa, higher education consists of three types of universities: traditional universities which offers traditional, theory-based courses; universities of technology (UoTs) which focus on applied and vocational education and training; and comprehensive universities in which approaches are followed from both traditional universities and UoTs (Du Pre, 2009:59-61; Bunting & Cloete, 2010). As UoTs are the 'newest' types of universities, which emerged from the former technikons (Du Pre, 2009:59), they may face additional corporate governance challenges, such as financial sustainability problems (PwC, 2014a:35-36), possible isolated managerial decision making (Baloyi & Phago, 2012:879), unethical practices, nepotism and inadequately qualified council members (Mthembu, 2009:16-17).

Although numerous previous studies have focused on corporate governance in higher education (Barac *et al*., 2011; Barac & Marx, 2012; Botha, 2012; PwC, 2014a; Moloi, 2015; Crous, 2017), as far as could be determined, no single study has been conducted on the implementation of the King III internal audit reporting guidelines at UoTs. Internationally, Chan and Richardson (2012) investigated corporate governance of 63 Canadian universities. The findings highlighted the need for defining and reviewing the institutions' strategic plans, goals and objectives, as well as monitoring the performance of the universities (Chan & Richardson, 2012). In the UK, Ntim, Soobaroyen and Broad (2017) analysed voluntary disclosure and the influence of internal governance structures of 130 UK universities. Ntim *et al.* (2017) found that, although the level of voluntary disclosure of corporate governance was very low, effective audit committees and independent governors impacted positively on the disclosure of these UK universities.

In the South African context, Barac *et al.* (2012) investigated the effectiveness of the 23 South African universities' corporate governance practices. These authors found that, out of 23 universities, the 16 universities which responded to the questionnaires needed a better comprehension of the King III Report with regard to integrated reporting. PwC (2014a) conducted research on corporate governance practices of the 23 South African universities and scrutinised the annual reports based on the Implementation Manual on Regulations for Annual Reporting by Higher Education Institutions of 2007 (hereafter refered to as Implementation Manual). Although the Implementation Manual recommended the application of the King II Report, it was found that 13 of the 23 universities had already been proactively applying the King III Report. The remaining 10 universities did not state whether they were following either the King II or the King III Report (PwC, 2014a).

Recently, Crous (2017) conducted a comprehensive study on corporate governance in the entire South African higher education sector, based on the King IV Report and other international best practices, and found that most universities were already proactive and had adopted the principles of the report. The author also confirmed that

South African universities did not disclose detailed information related to their internal auditing practices.

1.2 Statement of the research problem

Higher education institutions in South Africa are facing numerous and persisting challenges. These include matters pertaining to quality assurance, rising student debt, student unrest, increasing post-retirement obligations, failure to integrate key management functions, and inadequate incorporation of the King III Report on corporate governance (Brits, 2011:1288; Barac *et al.*, 2012:352; PwC, 2014a:16; KPMG, 2016a:11). In addition, public universities in South Africa face serious and constant financial crises, for example, with regard to financial sustainability (PwC, 2014a; KPMG, 2016a:45).

Financially, public universities have remained very dependent on government funding, tuition fees and third-stream income (such as donations, consultancy fees and research grants) in order to survive (Barac *et al.*, 2012:352; PwC, 2014a). Within a climate of poor economic growth, financial survival becomes problematic (PwC, 2014a; KPMG, 2016a:45). In this context UoTs have added challenge of not being financially sustainable. Therefore, sound corporate governance, and proper reporting on governance principles is imperative for UoTs in South Africa to respond to the aforementioned challenges.

1.3 Research objectives

1.3.1 Main objectives

The main objective of this study was to assess the implementation of the King III internal reporting guidelines at UoTs in South Africa.

1.3.2 Co-objectives

The co-objectives of the study were the following:

1. To determine whether UoTs implement internal auditing functions in accordance with the King III Report.

2. To analyse internal auditing information disclosed in the annual reports of UoTs based on the King III Report requirements.
3. To identify weaknesses in UoTs' disclosure regarding internal auditing aspects as required by the King III Report.
4. To make recommendations on improving internal auditing disclosure of UoTs in line with the King III Report.

The above-mentioned objectives can be addressed by answering the following questions:

1. Are the UoTs implementing internal auditing functions in accordance with the King III Report?
2. Is internal auditing information disclosed in the annual reports of the UoTs based on the King III Report requirements?
3. Are there any weaknesses in UoTs' disclosure on internal auditing aspects?
4. What recommendations can be made towards improving internal auditing disclosure of UoTs in line with the King III Report?

1.4 Research methodology and design

According to Kumar (2010), research methodology is a systematic way of solving a research problem. The three common research approaches are the quantitative approach, qualitative approach and mixed-methods approach. A quantitative study follows a research approach that uses numerical data to solve a particular research problem. A qualitative approach may use for instance in-depth interviews or content analysis to capture the experiences of people or events, and further focuses on drawing meaning from different experiences and perspectives of individuals (Thomas, 2003:1; Stake, 2010:31). The mixed-methods approach integrates both quantitative and qualitative approaches in solving research problems (Creswell, 2013:12).

In this study the researcher employed a qualitative research approach using content analysis as research design. This is consistent with similar studies on the topic (see Moloi, 2008; Barac *et al.*, 2011; Carels, 2013; PwC, 2014a). Also content analysis in a qualitative research approach allows large numbers of data to be processed (Flick, Kardorff & Steinke, 2000:267-269). The population of this study included 18 annual reports of the six South African UoTs, namely the Central University of Technology (CUT), Vaal University of Technology (VUT), Durban University of Technology (DUT), Tshwane University of Technology (TUT), Mangosuthu University of Technology (MUT) and Cape Peninsula University of Technology (CPUT), for three year-end periods of 2014, 2015 and 2016. This study made use of a checklist as a measuring instrument.

1.5 Ethical considerations

According to Kretzschmar, Prinsloo, Prozesky, Rossouw, Sander, Siebrits and Woermann (2012:16), ethics is based on three major concepts: the self, the good and the other; meaning that all parties involved benefits from the interactions. Ethics are moral principles, norms or standards of behaviour that guide the moral relationships of different stakeholders (Cooper & Schindler, 2011:114). However, in every research project some ethical dilemmas can be expected and must be taken into account (Kumar, 2014:283; Sanjari, Bahramnezhad, Fomani, Shoghi & Cheraghi, 2014:1). In this study the relevant ethical considerations were on the anonymity and confidentiality of the UoTs which participated. Even though the information on which the study was based was available in the public domain, the participants' identity was kept anonymous. The researcher did not reveal the names nor locations of the UoTs invistigated.

1.6 Limitations

Research limitations are conditions, influences, restrictions and shortcomings that the researcher cannot control. Research limitations influence the scope of the study and sometimes affect the findings of the study. It is important that any limitations that may influence the results of the study be mentioned (Ioannidis, 2007:324; Simon & Goes, 2013).

In this study, one of the limitations pertained to the development of the King IV Report, as the study was conducted around the time this report was published. Challenges pertaining to inaccurate interpretation of the King III Report had necessitated the development of the King IV. Therefore, some institutions had already adopted the King IV Report draft for best corporate governance practices, as it was made public from March 2016, which was still within the period of annual reporting for the UoTs.

Secondly, most countries have established their own corporate governance guidelines. However, only remarkable corporate governance guidelines, which are recognised as such and followed internationally, will be discussed in this study. The UK, USA, OECD and South Africa were selected, because these countries and organisation were identified as having the most influential corporate governance guidelines and frameworks developments in the world. Also, although most of the annual UoT reports were available, as indicated in section 1.4, the researcher experienced difficulties in obtaining the annual reports. Therefore, the research scope was limited, as the researcher studied only available annual reports.

1.7 Significance of the study

UoTs are still amongst the institutions which have not fully adopted sound corporate governance principles. In this regard, this study would highlight the importance of adopting and properly reporting on the King III Report at UoTs for sound corporate governance. The recommendations of this study could be used to inform higher education policy to enhance sound corporate governance practices. This study will also add to the existing literature on the importance of corporate governance and corporate governance guidelines in South African UoTs.

1.8 Layout of the study

Chapter 1: Introduction

Chapter 1 outlined the background of the study and formulated the research problem, objectives, research questions and methodology. Also, the significance and limitations of the study were identified. This chapter provided an overview of the layout of the study.

Chapter 2: Corporate governance

Chapter 2 explains corporate governance and illustrates various definitions of corporate governance as argued by different authors. Major corporate governance theories (agency, stakeholder and stewardship theories) are discussed. This chapter gives an overview on the historical development of corporate governance guidelines and frameworks, both internationally and locally. The King III Report on corporate governance is discussed and the major themes of this report are explained, namely types of entities, the 'apply' or 'explain' concept, the five moral duties and nine governance elements of the King III Report.

This chapter also sets out the requirements of the King III Report on the internal audit function. The discussion focuses on the need for and role of internal auditing, an overview on internal audit's approach and plan, and internal auditing status and standing in an entity (UoTs, for purposes of this study). Finally, chapter 2 provides a discussion of the development of the King IV Report which was influenced by significant local and international corporate governance, regulatory developments, and challenges facing other types of organisations (such as non-profit organisations, private companies and entities in the public sector) in applying the King III Report.

Chapter 3: Internal auditing

Chapter 3 presents a brief history of auditing, after which the history and important aspects of internal auditing are set out. The international and national governing bodies of the internal audit function are also explained. Various perspectives from internal audit firms and researchers on internal audit in higher education are discussed. Chapter 3 also presents the relationship between internal and external audit, forms of sourcing of internal audit function, internal audit function in higher education, and internal audit reporting.

Chapter 4: The South African higher education environment

Chapter 4 deals with the South African higher education environment, its development and governance, with reference to higher education in other countries such as the UK, USA, Canada and Australia. The last section focuses on annual reporting in higher education in South Africa.

Chapter 5: Research methodology

Chapter 5 discusses the research methodology that was adopted by the researcher. This chapter presents the research approach, research design, population, and data collection procedures used in the study.

Chapter 6: Analysis of findings

This chapter analyses and discusses the main findings of the study.

Chapter 7: Conclusion and recommendations

Chapter 7 summarises the study by providing conclusions, recommendations and suggestions for further research.

1.9 Summary

This chapter provided an overview of the key role played by corporate governance in organisations. Sound corporate governance has gained momentum over the past few decades, mainly due to numerous international financial scandals such as WorldCom, Parmalat, Lehman Brothers and Enron. Corporate governance guidelines have been considered to be mechanisms of sound corporate governance, with the Cadbury Report being the first to be internationally recognised. From this chapter, it also became clear that internal audit can add value to sound corporate governance, as it supports management in improving organisational efficiency and effectiveness to ultimately enhance governance processes. Ongoing national and international corporate governance failures have influenced the best practices of corporate governance for all organisations, including higher education institutions.

In the next chapter, definitions of corporate governance will be discussed. From there, a discussion follows of the agency theory, stakeholder theory and stewardship theory. The focus then shifts towards the historical development of corporate governance guidelines and frameworks, both internationally and locally. The King III Report on corporate governance will be set out, and a brief overview will be given on the newly developed King IV Report.

Chapter 2: Corporate governance

2.1 Introduction

The first chapter presented a brief overview of corporate governance and specifically stated that numerous financial scandals have had necessitated the development of corporate governance guidelines and frameworks. Because corporate governance is an evolving issue, guidelines and frameworks should be reviewed and adapted regularly (United Nations (UN), 2006:1; Ackers & Eccles, 2015:517).

This chapter will provide a brief background on corporate governance by presenting different definitions of the term. The chapter will focus on three theoretical frameworks: agency theory, stakeholder theory and stewardship theory, as they have affected the development of corporate governance (Mallin, 2016:16). Some recent corporate scandals will also be discussed. Although this study is based on the implementation of the King III Report, it is still crucial to view other countries' developments on corporate governance guidelines and frameworks. Therefore, this chapter will also provide a brief overview on the development of corporate governance guidelines and frameworks in the UK, USA, Canada and by the OECD, since they are considered to be corporate governance guideline pioneers and globally recognised as such (Lu & Batten, 2001:4; Armstrong *et al.*, 2005:16; UN, 2006:1; Achim & Borblea, 2013:38; Ackers & Eccles, 2015:517).

Furthermore, the various King Reports will be discussed in order to provide an overview of the chronological development of these reports. In addition to the King III Report, the 'apply' or 'explain' approach, types of entities, moral obligations and the elements of the King III Report will be set out. The need for and role of internal auditing, an overview on internal audits approach and plan, and internal auditing status and standing in an entity based on the King III Report will also be detailed.

2.2 Background on corporate governance

'Corporate governance' is a much-discussed concept that wields major influence over organisations (Majumder, Maiti & Sudipti, 2012:149). (In section 1.1 the important role played by corporate governance in organisations was discussed.) According to Emmanuel (2013:51-52), the term corporate governance was derived from the Greek word, *kyberman*, which means 'to steer or govern or lead'. This word was later adopted into Latin as *gubenare*, with the same meaning as in the Greek (Ghayour & Doaei, 2012:98).

Gregory (2000:56), Okpara (2010:48), Humayun and Adelopo (2012:713) and Mohamad and Toomey (2015:158) posited that corporate governance can be defined based on organisational and macro context. From an organisational perspective, corporate governance incorporates established relationships between all the stakeholders with the aim of achieving the organisation's primary objectives. The macro context entails a broader approach to the definition of 'corporate', as it refers to aspects of the growth in economic markets, capital growth, development of industries and overall wealth and welfare of nations (Gregory, 2000:56; Joshi, 2010:2-3; Humayun & Adelopo, 2012:713; Mohamad & Toomey, 2015:158).

Emmanuel (2013:51-52) defines corporate governance as the process of decision making and the systematic implementation of decisions in an organisation. However, Mathiesen (2002:26) defines corporate governance as a field in economics that investigates ways in which the management of organisations can be motivated by using compensation mechanisms such as contracts, corporate plans and rules to improve performance and achieve competitive return. In this way, Mathiesen (2002:26) emphasises the well-being of managers in the organisation. On the other hand, further reiterated by the OECD (2015:7), the term 'corporate governance' is referred to as a system which provides guidance in setting and achieving organisational objectives.

Wixley and Everingham (2005:1) concur with the above by stating that corporate governance is concerned with processes associated with management, decision making and control in an organisation. Millstein (as cited in Gregory, 2000:1) goes further and mentions that corporate governance refers to the combination of law, regulation, and appropriate voluntary private-sector practices. According to Millstein (as cited in Gregory, 2000:1), if private-sector organisations voluntarily adopt best practices of corporate governance, that will enable a corporation to attract financial and human capital while respecting the interests of stakeholders as whole.

In a similar manner, Gregory (2000:6) describes corporate governance as the combination of laws, regulations, listing rules and voluntary private-sector practices that enable a corporation to attract capital, perform efficiently, achieve the corporate objective and meet both legal obligations and general societal expectations. Similarly, Khan (2011:1) share the same sentiments as Gregory (2000:6) and Millstein (as cited in Gregory, 2000:i), though this author perceives shareholders as the only beneficiaries of an organisation.

According to Patranabis and Gupta (2016:136), corporate governance is the strict and efficient application of all management best practices and legal compliances, amid continually changing business scenarios. Messier, Glover and Prawitt (2008:36) refer to corporate governance as a system consisting of all the stakeholders, processes and activities that help ensure stewardship over an entity’s assets. Put somewhat differently, Gottschalk (2011:80) defines corporate governance as a system concerned with the allocation of rights amongst stakeholders, including shareholders, managers, workers and others with a stake in an organisation. ‘Stakeholders’ in this context mean all those who are affected directly and indirectly by the organisation (Mead, Sagar & Bampton, 2009:326).

The most widely adopted definition of corporate governance in various studies (Khalid, Seward, Trieu & Tran, 2006:2; Gstraunthaler, 2010:146, Le Roux, 2010:6; Barac & Marx, 2011:318; Muswaka, 2013:26; Vorster & Marais, 2014:33) is that provided by the Cadbury Committee. This definition sees corporate governance as a system by which companies are directed and controlled. Even though there is no universal definition for corporate governance (Brickley & Zimmerman, 2010:235; Stefanescu, 2012:74; Salami *et al.*, 2014:252), some main terms feature regularly in the various definitions offered. From the above, it can be deduced that both shareholders and stakeholders remain the core of sound corporate governance. In the execution of organisational processes, both shareholders and stakeholders are to be taken into consideration. In simple terms, organisations must aim to account for and satisfy the interests of stakeholders and build strong relations.

The importance of the relationship between an organisation and its shareholders emanates from the agency theory (De Cleyn, 2008:3). This theory was expanded into various theories such as the stakeholder theory, as well as the stewardship theory. The following three sections will discuss the aforementioned theories. Section 2.3.1 will discuss the agency theory, 2.3.2 the stakeholder theory, and 2.3.3 the stewardship theory.

2.3 Theories applicable to corporate governance

Theories of corporate governance are used to understand the way organisations are governed and how the system of corporate governance can be improved (Bloomfield, 2013:xiii). The following section discusses the most significant theories (agency theory, stakeholder theory and stewardship theory) which have affected the development of corporate governance (Mallin, 2016:16).

2.3.1 Agency theory

According to Rossouw, Van der Watt and Malan (2002:189), Aguilera and Jackson (2003:448), Letza, Sun and Kirkbride (2004:247-248) and De Cleyn (2008:3), the concept of 'corporate governance' arose from the agency theory; considered to be the most prominent theory (De Cleyn, 2008:3) that acknowledges the wide range of parties affected by the operations of organisations (Pickett, 2011:16). The agency theory was first conceptualised by Adam Smith, economist and author of *The wealth of nations* (1776) (Wells, 2010:1247-1250). In *The wealth of nations,* Smith wrote that "being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in private copartnery frequently watch over their own" (Wells, 2010:1247-1250). In this argument, Smith was concerned about the deviating interests between managers and shareholders, which may affect organisational operations (Wells, 2010:1247-1250). In the best interests of organisation, shareholders (one or more principals) engage another person as their director or manager (agent) to perform a service on their behalf. (Rossouw et al., 2002:189; Nyberg, Fulmer, Gerhart & Carpenter, 2010:1029; Sarens & Abdolmohammadi, 2011:4; Emmanuel, 2013:54). As agents perform services, they are also delegated decision-making authority. This delegation of responsibility by the principal and other stakeholders is valuable to the organisation; that, the agent is expected to act in the principal's best interest (Emmanuel, 2013:54; Ferdous, 2013:16-17).

However, it is possible that some agents may portray opportunistic behaviour and behave in a self-interested manner which conflicts with the principal's interests (Donaldson & Davis, 1991:50; Madison, 2014:9). Also, some directors may indulge excessively in the organisation's resources and forget their purpose. For instance, they may receive unsanctioned benefits and remuneration unrelated to their performance, treat an organisation as if it were their own property and exploit their position (Donaldson & Davis., 1991:50; Tricker, 2015:61-62). Such behaviour has been put forward in numerous corporate failures (Tricker, 2015:61-62). (Refer to the discussion on the corporate scandals on section 2.4)

When agents of an organisation abuse their power to the detriment of the principal, this results in diverging organisational interests (Madison, 2014:9) which, in terms of agency theory, is known as the 'agency problem' (Hart, 1995:678; Sarens & Abdolmohammadi, 2011:4). In order to curtail the agency problem, the principal may design activities that limit the agents in acting in their own interests (Donaldson & Davis, 1991:50). The principal requires the agent to act in a way that would not harm the principal, and when the agent fails to do this, the agent may be obliged to compensate the principal (Jensen & Meckling, 1976:5; Nyberg *et al.*, 2010:1029). Also, the principal may put in place corporate governance mechanisms that can curb opportunistic behaviour by the agent and better align the parties' interests (Jensen & Meckling, 1976:5; Van Slyke, 2007:163; Madison, 2014:9). The principal may also establish appropriate incentives for the agent. These incentive schemes typically include plans whereby agents may obtain shares, perhaps at a reduced price, as to align their financial interests with those of shareholders (Jensen & Meckling, 1976:11; Donaldson & Davis, 1991:50).

Corporate governance mechanisms could be either internal or external. Examples of internal mechanisms include boards of directors, audit committees, external auditors, internal audit and corporate charters. The external mechanisms include, amongst other things, legal and regulatory rules, investor monitoring, and labour and corporate governance codes (Donaldson & Davis, 1991:50; Cheffins, 2002:2; Höpner, 2005:334; Kostyuk *et al.*, 2011:11; Sarens *et al.*, 2011:3). Donaldson & Davis (1991:50) emphasised that the major corporate governance mechanism to counter managerial opportunism is a properly functioning board of directors. This body monitors managerial actions on behalf of shareholders and business (Donaldson & Davis, 1991:50).

As explained above, agency theory focused greatly on managers who are to maximise the profits of shareholders, while paying minimal attention to other stakeholders' interests (Wearing & Wearing, 2005; Achim & Borblea, 2013:38). In other words, according to this theory, organisations' policies value shareholders more than any other parties (Achim & Borblea, 2013:38) and limit the shareholders' liability of their effects upon others (Freeman, Harrison, Wick, Parmar & De Colle, 2010:4). Hence, an alternative theory to address all stakeholders' issues was deemed necessary (Achim & Borblea, 2013:38; Emmanuel, 2013:55), which will be discussed next.

2.3.2 Stakeholder theory

As mentioned in section 2.3.1, corporate governance revolves around a set of mechanisms which can mitigate the agency problem that arises from the separation of ownership and control in an organisation (Jain, Jiang & Mekhaimer, 2011:1). In other words, the agency problem in organisations can be mitigated through the adoption of both internal and external mechanisms of proper corporate governance (Hart, 1995:678; Nyberg *et al*., 2010:1030; Sarens & Abdolmohammadi, 2011:3). These mechanisms are essential for making optimal use of resources, promoting accountability, maintaining transparency and fairness, and recognising the rights of stakeholders (Pickett *et al.*, 2003:23; Ghayour & Doaei, 2012:96). The mechanisms further provide reasonable assurance to shareholders and other stakeholders with regard to the maintenance of ethical, social and corporate interests (Ghayour & Doaei, 2012:96-97).

The mentioned setback associated with agency theory,(as mentioned in section 2.3.1) together with the growing impact of organisations on the environment, the social impact on organisations, the rise of globalisation, and the growing dominance of information technology (IT), to name but a few, gave rise to stakeholder theory

(Freeman *et al.*, 2010:3; see also Ghayour & Doaei, 2012:98). The term 'stakeholders' represents all persons, groups and organisations that have an influence on and affect the organisation (Salami et al., 2014:252). Stakeholders can be classified into internal and external stakeholders. Examples of internal stakeholders are managers and employees at different levels, while customers, competitors and suppliers can be classified as external stakeholders (Van Puyvelde, Caers, Du Bois & Jegers, 2012:433; Achim *et al.*, 2013:38).

Stakeholder theory was developed from various perspectives (Freeman *et al.*, 2010:xvii). According to Donaldson and Preston (1995:71), the justifications for and advancements of stakeholder theory emanated from descriptive, instrumental and normative concepts. These three concepts will be unpacked in the following discussion. Some of the corresponding opinions to Donaldson and Preston's (1995) views will also be used to further explain these concepts.

First, stakeholder theory has a descriptive foundation, implying that it describes, and sometimes explains, specific corporate characteristics and behaviours (Donaldson & Preston, 1995:65-71). Instead of merely operating in isolation and considering shareholders' rights only, organisations value governance of all stakeholders (Rani & Mishra, 2008:37).

Secondly, the instrumental basis of stakeholder theory identifies the connections, or lack of connections, between the stakeholders' management and achievement of traditional corporate objectives (Donaldson & Davis, 1991:71). Stakeholder theory is based on the assertion that maximising shareholder wealth ignores maximising the value of other members and society, while managing all the stakeholders will be beneficial to all the groups (Crowther & Seifi, 2011:36-37). More focus is then placed on managing role players internally, externally, and those interfacing with an organisation (Van Puyvelde *et al.*, 2012:433) and assessing the role of these players in the organisation's internal and external environment (Isa, Hamid & Leong, 2016:282). Simply put, this theory rejects the idea that emphasis should fall on the single objective of shareholder wealth (Freeman *et al.*, 2010:4; Achim & Borblea, 2013:38; Emmanuel, 2013:55; Muswaka, 2013:26). (For examples of such theories, refer to the discussion above on agency theory and stewardship theory in the following section.)

Thirdly, the normative approach to stakeholder theory interprets the functionality of organisations. It involves the identification of moral or philosophical guidelines of the operations and management of organisations (Donaldson & Davis, 1991:71). It is therefore only ethically and morally correct if all stakeholders are considered in decision making (Crowther & Seifi, 2011:36-37). The normative approach to stakeholder theory further signifies a major step towards corporate citizenship (Crowther & Seifi, 2011:36-37). All shareholders, as well as other stakeholders, are considered to be equally affected by an organisation's operations and achievements (Salami *et al.*, 2014:252; Isa *et al*., 2016:282). However, this does not mean that shareholders have no rights or that representatives of these groups should be presented on the governing boards of organisations; it only implies that there must be a balance of the interests of all groups (Freeman *et al.*, 2010:9). With all this in mind, Isa *et al.* (2016:282) put forward that shareholder wealth could be fully maximised.

The growing complexities of relationships between corporations and society have created a worldwide drive for the regulation of corporate relations with various stakeholders (Okhmatovskiy & David, 2012:157). Initiatives include those of the South African King Reports on corporate governance which emphasise this matter continuously (Muswaka, 2013:265) by including sections that relate to various groups of stakeholders. Also, many corporate governance guidelines, such as those of the OECD, Canada and the USA, all have sections which address stakeholders' relationships with organisations (see section 2.6, 2.7, 2.8, 2.9 and 2.10 for discussion) (Panel on Accountability and Governance in the Voluntary Sector Canada, 1999:12; BKD LLP CPAs & Advisors, 2013:10; OECD, 2015:1).

2.3.3 Stewardship theory

Stewardship theory views governance differently than agency theory (Tricker, 2015:65) and stakeholder theory. Stewardship theory was derived from the assumptions that the complexities of organisational life are ignored in agency theory (Davis, Schoorman & Donaldson, 1997:20-21). This theory requires the stewards (managers) of organisations to act in the best interests of the company to maximise the principal's (shareholder's) value long term (Leong, 2005:355; Tricker, 2015:65). The perception is that the interests of the principal (shareholder) and steward (manager) do not necessarily diverge (Baker & Anderson, 2010:274), rather that the two parties can cooperate to maximise profits (Leong, 2005:355).

Stewardship theory portrays the classic ideas of corporate governance (Tricker, 2015:65-66). It focuses on the organisational relationship from a behavioural and structural perspective (Davis *et al.*, 1997:21), often discounted in other organisational theories (Van Slyke, 2007:164). The stewards are to behave in a manner that is aligned with the principals' interests (Madison, 2014:iv). In contrast to agency theory, which assumes that human beings are individualistic, opportunistic and self-serving, the stewardship theory depicts stewards as pro-organisational, trustworthy and serving orgainisations collectively by following the board's directives (Van Slyke, 2007:164). According to this theory, stewards of the organisation are not motivated by individual goals, but align themselves with the objectives of the organisation (Van Slyke, 2007:164). They are also motivated by intrinsic rewards such as trust, reputational enhancement, discretion and autonomy, level of responsibility, job satisfaction, stability and tenure, and mission alignment (Van Slyke, 2007:165). This behaviour can be maintained only by the quality of relationship between the principal and steward, environment and the ideals of the organisation (Madison, 2014:iv).

With regard to the organisational structure, stewardship theory focuses on implementing structures. Stewardship theory aims to enhance the effectiveness of stewards which, in turn, may produce value for the principals (Donaldson & Davis, 1991:52). The structures of the organisation might affect the performance of the steward. However, when all the boundaries and structures of the organisation are precise, the assets, liabilities, shareholders and directors can be identified easily (Tricker, 2015:66) and the expectations about corporate leadership will be clearer. Then it is more likely that the organisation will enjoy the classic benefits of unity of direction and of strong command and control (Donaldson & Davis, 1991:51-52).

The above sections examined the organisational theories that are mostly used in relation to corporate governance developments. To conclude, agency, stakeholder and stewardship theories stress the importance of shareholders and managers.

However, stakeholder theory does not only involve the mentioned parties, but also values all the stakeholders. In terms of agency and stewardship theories, shareholders are considered to be the principals of the organisation; managers in stewardship theory are stewards, while agency theory regards them as agents. In stakeholder theory the managers and shareholders form part of groups represented in an organisation.

Although agency, stakeholder and stewardship theories consider both managers and shareholders, these three theories arose from different assumptions on structures and behaviour in maximising shareholder wealth. According to stewardship theory, managers are good stewards who are goal oriented, while agents are motivated by incentives and require high monitoring to increase shareholders' value. Stakeholder theory posits that, if organisations could aim to balance the interests of all stakeholders, shareholder wealth would be maximised. To achieve this specific goal, these theories articulate, amongst other things, the importance of proper governance structures and mechanisms. Examples of such mechanisms include corporate governance guidelines and frameworks, internal auditing and others mentioned above. However, in the recent years, there have been corporate scandals, often resulting from failure to incorporate/ apply these theories. The next section will discuss some of the corporate scandals that occurred internationally, then in South Africa.

2.4 Corporate governance failures – a brief overview

Enron was an energy trader challenged by serious governance problems until the exposure thereof in October 2001 (Li, 2010:37). This resulted in one of the biggest audit failures in history, massive bankruptcy and thousands of job losses (Pickett et al., 2003:43; Li, 2010:31). Enron was one of the companies in the USA that was doing very well in the financial markets, and at its peak the shares were worth $90.75. This great performace of Enron did not last, and on 02 December 2001, when the company was declared bankrupt, its shares were trading at a mere $0.20. The demise of Enron occurred as a result of bad management and insufficient internal controls, combined with a highly competitive and results-driven culture (Johnson, 2003:50). The 'mark-to-market' accounting method used for booking the value of its trades was also directly linked to its fall (Li, 2010; Edel Lemus, 2014:42). Mark-to-market is a measure of the fair value of accounts that can change over time, such as assets and liabilities. Mark-to-market aims to provide a realistic appraisal of an organisations’ current financial situation (Segal, 2019:Online). Through this method Enron had managed to bypass controls and present fictitious high profits to its stakeholders (Moncarz et al., 2006:18-20). Also, middle to senior executives of Enron were expected to perform and produce high outputs that were largely unachievable; otherwise they would be dismissed from the company (Li, 2010:38). According to employees, they were compelled to manipulate data and present wrong output for the sake of reaching goals (Wright, 2009:10-13).

Furthermore, Enron’s accountancy firm, Arthur Anderson, which was identified as one of the so-called global big five audit firms, displayed numerous dubious accounting practices. Arthur Anderson participated in many consulting projects for Enron, and signed off on the company’s questionable accounting standards (Moncarz et al., 2006:24). The audit firm also housed a number of its staff in Enron. In addition, the audit firm was a routine supplier of accounting and management staff for Enron. Top officials abused their powers (Johnson, 2003:45), and audit partners had a final say on several reporting issues (Moncarz et al., 2006:24). In order to cut costs, Arthur Anderson provided both internal and external auditing to Enron (Wright, 2009:12). This was an indication that Arthur Anderson was just there to satisfy the external appearances of sound corporate governance and not to act in the best interest of Enron (Wright, 2009:13). However, Enron re-established a small internal audit department within the organisation. This is where one of the employees (Ms Sherron Watkins) noticed that Enron was really managing its potential future liabilities in a manner that concealed the true risk from stakeholders, and blew the whistle on the irregularities (Wright, 2009:13).

One other big corporate scandal that occurred in the USA was that of the WorldCom, which was considered the largerst long distance telecommunication company in the country, until its demise in 2002. In the presence of the external audit function (Authur Anderson), the chief executive officer (CEO) and chief financial officers (CFOs) of WorldCom conspired to cover up financial losses and destroyed some of the financial records. In the occurance of this fraud, Authur Anderson, was unable to deter any illegalities in the company’s financial practices (Ghulam & Alia, 2014:857). Similar to the Enron scandal discussed above, whistle blowing was an important tool used to expose the fraudulent activities of WorldCom, Cynthia Cooper being the whistle-blower (Bhasin, 2013:28). Because of the above-mentioned and other fraudulent activities, The United States Securities and Exchange Commission (SEC) charged WorldCom with massive accounting fraud of more than $3.8 billion (Lyke & Jicklinh, 2002: 1-2). WorldCom was filed after the passing of Sarbanes-Oxley Act in 2002, which will be discussed in section 2.7.3 (Ghulam & Alia, 2014:857).

In South Africa in 2007, the Financial Services Board (FSB), mandated an enquiry team to invistigate the affairs of Fidentia as per its mandate. By then, Fidentia was looking after R1.6 billion of the investors' funds (Steenkamp, 2007:27-29; Diale, 2008:557-558). In its investigation, the FSB enquiry team discovered misrepresentation to clients, misappropriation of client funds, misrepresention of investments, inadequate corporate governance procedures and material conflicts of interests (Diale, 2008:557-558). Several investors of Fidentia including the Transport Education and Training Authority, subsidised by government, lost around R245 million in investments. Living Hands Umbrella Trust which payed money to the Mineworkers Provident Fund to widows and orphans of mine workers killed in mine accidents, also lost their investments of close to R1.47 billion (Hanyane & Naidoo, 2012:178-179). In addition, about R406 million of clients' funds were unaccounted for (Diale, 2008:557-558).

Other major governance scandals that occurred in South Africa includes the scandal of the former president of South Africa, Jacob Zuma. On 13 February 2018, Jacob Zuma was recalled by the African National Congress (ANC), the ruling party, on unethical practices, including several cases of curruption. Zuma was charged with 18 crimainal charges for 783 instances of fraud that were included in the State Capture Report (Kok & Van Den Heuvel, 2019:80), and the investigation is ongoing.

Other corporate governance failures in South Africa that affected the credibility of the auditing fraternity include the recent scandal of KPMG and Venda Building Society (VBS) bank. KPMG was reported to be the external auditor of VBS, at the time this scandal occurred (Motau, 2018:17). On 11 March 2018, the Minister of Finance placed

VBS under curatorship, with SizweNtsalubaGobodo (SNG) appointed as the curator of VBS. As per the curator's findings on 13 April 2018, which indicated massive financial losses to VBS, the Deputy Governor of the South African Reserve Bank, appointed Terry Motau as an investigator of this case. With the assistence of Werksmans Attorneys, Motau (2018:19), reported that VBS conducted its business in questionable and reckless business manner, that there was material non-disclosure, with or without the intent to defraud depositors and other creditors. Motau (2018:47) indicated that from 27 January 2015 until the advent of the curatorship, VBS received over R3.4 billion from municipalities. However, VBS made payments of just over R2.3 billion to municipalities (Motau, 2018:47).

The other scandal in South Africa that relates to higher education was the fraudulent activies of the NSFAS. In the #FeesMustFall crisis (which will be discussed in section 3.7.2.1), Sioga (2018: Online) affirmed that the Auditor General issued a qualified report for 2017/2018 year for NSFAS due to massive financial losses. Sioga (2018:Online) indicated that NSFAS accumulated the financial loss as a result of irregular expenditure of R303,500,000n and overpaying students an amount of R503,400,000. Around the same period of 2017/2018, it further emerged that a Walter Sisulu University (WSU) student fradulently received extra funds from NSFAS, through IntelliMali (company tasked with the administration of NSFAS's food and book allowances). Instead of reciveing normal allowance of R1 400, a student received a lamp sum of R14 million from the NSFAS scheme (Timeslive, 2018:Online).

From the above brief overview, it is evident that any type of organisation can be involved in fraudulant activities. Als,o fraud can be commited by any individual, from the president of a country, to executive employees and students. However, the below section indicates that both internationally and in South Africa, mechanisms such as corporate governance guidelines have been developed as to address corporate scandals. The following section will give brief background of the development of some corporate governance guidelines.

2.5. Background on the development of global corporate governance guidelines and frameworks

Corporate governance guidelines are sets of principles, norms or recommendations which comprise elements of both legislation and regulation. In many countries corporate governance guidelines are designed to form part of their legal system (Gregory, 2000:App7; Visser, 2005:33; Zattoni & Cuomo, 2008:5; OECD, 2015:18). The guidelines are usually issued with much support from stock exchanges, corporations, institutional investors and associations of directors and corporate managers (Gregory, 2000:App7-8; Eccles & Serafeim, 2011:77-78).

Fundamentally, corporate governance guidelines may assist in improving corporate practices and performance (Aguilera & Cuervo-Cazurra, 2004:419-420; Steiner, Brenner & Saxenhofer, 2014:140) and respond to the economic needs and demands of an organisation (Pietrancosta, 2011:27). They impact visibly on corporate transparency, accountability and efficiency in the organisation (Barac & Moloi, 2010:19; Steiner *et al.*, 2014:139). In addition, corporate governance guidelines are intended to solve, or at least alleviate, the problem of conflicts of interests within an organisation in a cost effective way (Pietrancosta, 2011:27). It is also through corporate governance guidelines that the issues related to the three theories discussed above are addressed (Cankar, Deakin & Simoneti, 2008:1; Pietrancosta, 2011:27).

As corporate governance guidelines aim to protect all organisational stakeholders (Cicon, Ferris, Kammel & Noronha, 2010:621), they attempt to respond to deficiencies in organisations to protect their stakeholders. This may be accomplished, for example, by recommending a comprehensive set of norms for corporate relationships, the selection and dismissal of directors and top managers, and internal auditing information disclosure, to name but a few (Aguilera *et al.*, 2003:419-20). The guidelines also serve as recommendations to enhance the functioning of corporate governance mechanisms (Zattoni & Cuomo, 2008:2; Karagiorgos *et al.*, 2010:18; Coetzee & Lubbe, 2011:30; Pickett, 2011:50). (Also refer to sections 2.2 and 2.3.1 for other corporate governance mechanisms.)

Owing to the essential role played by corporate governance guidelines and frameworks discussed above, as well as various corporate governance scandals mentioned earlier, many countries and organisations all over the world have developed one or more corporate governance guidelines and frameworks. The next sections will discuss developments in corporate governance guidelines. As mentioned in section 2.1, the guidelines which were selected for discussion are those of the UK, USA, Canada, OECD, and South Africa.

2.6 The United Kingdom: developments in corporate governance guidelines

The development of corporate governance guidelines and frameworks in the UK commenced in 1992 and is an ongoing, ever-evolving process. The discussion below provides a historical overview of some of the UK corporate governance guidelines which originated from the Cadbury Report (Institute Of Chartered Accountants In England and Wales (ICAEW), 2016:Online) and paved the way for the Greenbury Report (1995), the Hampel Report (1998), the Combined Code (1998), the Turnbull Report (1999), the Higgs Report (2003), the Tyson Report (2003), the Combined Code (2003), and the Combined Codes of 2006, 2008, 2010, 2012 and 2014 respectively (Sheridan, Jones & Marston, 2006:498; Cicon *et al.*, 2010:621; Jordan, 2013:22; (ICAEW), 2016:Online).

2.6.1 The Cadbury Report (1992)

The slackness of accounting standards, the absence of clear reporting frameworks, and concerns that directors often do not establish and maintain internal controls in organisations, were some of the concerns raised by the Cadbury Report. These concerns were found to be major factors to unexpected corporate failures of major UK organisations such as Maxwell and Polly Peck (Carciumaru, 2009:115; Swinkels, 2012:52; Spira & Slinn, 2013:1; Ackers & Eccles, 2015:517). In 1991, the Financial Reporting Council (FRC), the London Stock Exchange (LSE) and the accountancy profession of the UK came together to form the Cadbury Committee under the chairmanship of Sir Adrian Cadbury (Rushton, 2005:3; Blowfield & Murray, 2014:166). The Cadbury Report was published in 1992 (Lu & Batten, 2001:49; Jones & Pollitt, 2003:1; Sheridan *et al.*, 2006:497; Jordan, 2013:1).

The Cadbury Report predominantly focused on the composition of the board of directors, the appointment and independence of non-executive directors, the service contracts and remuneration of executive directors (Carciumaru, 2009:115). This report further strived to achieve a balance between the essential powers of non-executive directors and executive directors and their accountability (Rossouw, 2005:729; Swinkels, 2012:52). It also paid attention to putting in place good controls in an organisation and ensuring better oversight through an audit committee (Pickett *et al*., 2003:48).

Through this report the UK was marked as the first European Union country to use the 'comply' or 'explain' principle. (Cankar *et al.*, 2008:3; Duhamel, Fasterling & Refait-Alexandre, 2012:2; Jordan, 2013:4). This principle required all the organisations listed on the LSE to disclose in their annual reports the extent of compliance with the Cadbury Report (Ow-Yong & Guan, 2000:126; Sheridan *et al.*, 2006:498; Jordan, 2013:4). All organisations which did not achieve full compliance with the report were to provide reasons for that (Scholtz, 2014:1). As 'comply' or 'explain' became an important trademark of corporate governance in the UK, revisions to the code have been done to address corporate governance crises occurring worldwide (Htay & Salman, 2013:541).

2.6.2 The Greenbury Report (1995)

In July 1995, the Greenbury Committee published the Greenbury Report, named after Sir Richard Greenbury who was the chairman of the committee (Spira & Slinn, 2013:4). Cash paid to government ministers by lobby groups and others in the UK government, necessitated the development of the Greenbury Report (Pickett *et al*., 2003:49; Blowfield & Murray, 2014:166). The Greenbury Report set out to respond to shareholder, with the aim to provide guidance for the executive remuneration committee under five thematic areas: accountability, responsibility, full disclosure, alignment of director and shareholder interests, and improved company performance (Greenbury Report, 1995:7; Mallin, Mullineux & Wihlborg, 2005:13; Sheridan *et al.*, 2006:498; Blowfield & Murray, 2014:166).

2.6.3 The Hampel Report (1998)

Following the recommendations of both the Cadbury and Greenbury Committees, namely that a new committee should review their work, the Hampel Committee was established in November 1995. The Hampel Committee consolidated the Cadbury Report and Greenbury Report in January 1998 (FRC, 2003:1; Pickett *et al*., 2003:50, Mallin *et al.*, 2005:534; Sheridan *et al.*, 2006:498). The Hampel Report objectively supported both the importance of measuring the effectiveness of control and the annual review of internal audit in an organisation (Pickett *et al.*, 2003:49-50; D'Silva & Ridley, 2007:117). It produced a set of general principles that allow flexibility in interpretation so that a board's first responsibility, namely to enhance the prosperity of the business over time, can be carried out (Ow-Yong & Guan, 2000:126). The Hampel Report also highlighted the interest of numerous other stakeholders over and above the shareholders of organisations and emphasised disclosure as one of the most important elements of accountability (Sheridan *et al.*, 2006:498; Htay & Salman, 2013:541).

2.6.4 The Combined Code (1998)

In June 1998, the three committees mentioned above (the Hampel, Cadbury and Greenbury Committees) came together to review the Hampel Report. The recommendations were consolidated into what became known as the Combined Code. The objective of the Combined Code was to secure sufficient corporate governance disclosure so that stakeholders can make informed decisions. Also, it advocates the importance of the roles of directors, shareholders and auditors in corporate governance (FRC, 2003:1; Blowfield & Murray, 2014:167).

2.6.5 The Turnbull Report (1999)

The Turnbull Report was developed by the ICAEW in 1998. This report merged the recommendations of the Cadbury, Greenbury and Hampel Reports and the Combined Code (ICAEW, 1999:1; Blowfield & Murray, 2014:167). The purpose of this report was to give guidance to the directors on the Combined Code and pay particular attention to the aspects of internal control and organisational risk (Cattrysse, 2005:9; Mallin *et al.*, 2005:534; Muwandi, 2010:16; Swinkels, 2012:53; Blowfield & Murray, 2014:167). In essence, it recommended that organisations implement a sound system of internal control to safeguard shareholders' investment and the company's assets, both of which are the responsibility of boards. It also recommended at least an annual management review on the effectiveness of internal controls, evaluation of risks in an organisation which should include risk management, operation and compliance, and financial controls Cattrysse, 2005:9).

2.6.6 The Higgs Report (2003), Smith Report (2003) and Tyson Report (2003)

In 2001, the Enron debacle (mentioned in section 1.1) raised questions globally about the effectiveness of the role of non-executive directors. This scandal prompted the UK government to set up the Higgs, Smith and Tyson Committees (Appiah, 2013:31). In 2003, the three reports from these committees were developed to review some of the sections on corporate governance contained in the Combined Code of 1998. First, the Smith Report by Sir Robert Smith reviewed the audit committees section (FRC, 2003:1; Tumuheki, 2007:3). The Smith Report was designed to assist organisational boards in making suitable arrangements for their audit committees and to assist directors serving on audit committees in carrying out their responsibilities (FRC, 2003:3; Mallin in Tourani-Rad & Ingley, 2011:158). Some of the recommendations of this report were that audit committee reports should be included in the annual report of an organisation. It is also the audit committee’s responsibility to ensure that the interests of the shareholders are protected by overseeing the internal control systems of organisations (Tricker in Clarke & Branson, 2012:50-51).

The Higgs Committee developed corporate governance guidelines known as the Higgs Report (FRC, 2003:3; Tumuheki, 2007:3). This report reviewed the role and independence of non-executives, the principal duties of the remuneration committee, the principal duties of the nomination committee and a pre-appointment due diligence checklist for new board members (FRC, 2003:61; Tricker in Clarke & Branson, 2012:50-51).

The Tyson Report was developed to review the Higgs Report and to instil more transparency in the recruitment and induction of directors (Tricker in Clarke & Branson, 2012:50-51). The Tyson Report was commissioned to review the role and effectiveness of non-executive directors in January 2003. It was stated that the report by Derek Higgs on the role and effectiveness of non-executive directors raised a number of questions on boardroom effectiveness (Tyson Report, 2003:1). Therefore, the aim of the Tyson Report was to instil more professionalism and transparency in the recruitment of directors, the induction of directors and other issues related to directors (Tricker in Clarke and Branson, 2012:50-51).

2.6.7 The Combined Code on Corporate Governance of 2003, 2006, 2008

In the early 2000s, the FRC commenced to align itself with global corporate governance developments (Mallin *et al.*, 2005:534). The FRC first revised the Combined Code on Corporate Governance of 1998 and published it as the Combined Code of Corporate Governance in 2003 (FRC, 2003:1; Mallin *et al.*, 2005:534). Amongst other matters, the Combined Code provided guidance on how to comply with particular parts of the Cadbury Report which relate to internal control provisions of the Smith and Higgs Report (FRC, 2003:2; Mallin in Tourani-Rad & Ingley, 2011:158). Also, compared with previous UK corporate governance guidelines, the Combined Code placed more emphasis on the contribution made by non-executive directors in a company's governance structures and decision-making processes (Pass, 2006:468).

Since then, still maintaining its 'comply' or 'explain' concepts, the Combined Code has been updated at regular intervals (Mead *et al.*, 2009:337). The Combined Code was revised every two years. The FRC's major focus was on the impact the Combined Code had on organisations and the extent organisations managed to implement it (Mallin in Tourani-Rad & Ingley, 2011:157). The 2003 code was superseded by the Combined Code of 2006, and then by the Combined Code of 2008, both containing major principles of the Combined Code of 2003 (FRC, 2006; FRC, 2008), namely remuneration, accountability and audit, managers' relations with shareholders and institutional shareholders, provisions on the design of performance-related remuneration, guidance on the liability of non-executive directors, care, skill and diligence, and disclosure of corporate governance arrangements (see FRC, 2003; FRC, 2006; FRC, 2008).

However, some major changes were made in each of the reports. In the Combined Code of 2008, some of these changes concerned the removal of restrictions regarding one individual chairing more than one Financial Times Stock Exchange (FTSE) 100 companies. The code also allowed the board chair of the FSTE 350 to sit on the audit committee, if considered independently appointed (Mallin, 2011:7-8).

2.6.8 The United Kingdom Corporate Governance Code of 2010, 2012, 2014

In May 2010, the FRC published the UK Corporate Governance Code to replace the Combined Code on Corporate Governance (Holden, 2010:1; Linklaters, 2010:1; Roach, 2016:109). The change to the name was designed to signify to all foreign investors and companies listed in the UK that, as a result of changes to Financial Conduct of Authority (FCA) listing, they now need to disclose how they have applied the UK Corporate Governance Code and if they have premium listing of shares (Dignam & Lowry, 2014:306). The FRC endeavoured to know the extent to which the code was followed by organisations and any improvements that needed to be done in regard with the Combined Code (Holden, 2010:1).

Specific reference is made in the 2010 code to principles related to the appointment, responsibility, composition and competences of the board of directors, and the audit committee's appointment and composition of nomination committees, audit committees and remuneration committees. It also focused on issues related to risk management, external auditors, communication with shareholders, protection of interests of minority shareholders, transparency and relations with institutional investors (Buła & Teczke, 2016:48). It further recommended annual election of all directors of FTSE 350 companies (FRC, 2012:16).

The successor of the UK Corporate Governance Code 2010 became effective in 2012 still bearing the same name, namely the UK Corporate Governance Code 2012 (FRC, 2012:2). Even though it did not deviate from the sections covered by other reports, each of the sections were broken down with the purpose of implementing the suggestions from the 2010 code (Blowfield & Murray, 2014:170). For example, still maintaining the 'comply' or 'explain' base, it drew attention to the impact of shareholders monitoring for application of the code, which could be enhanced by better interaction between boards and their shareholders (FRC, 2012:2). The FRC also urged boards to keep in mind their responsibilities and challenges of being stewards of shareholders' funds (Blowfield *et al.*, 2014:170).

The most recent update of the UK Corporate Governance Code 2012 was in October 2014 (Roach, 2016:109). The Combined Code of 2014 was responding to the ever-changing economic and social business environment which required evaluation at appropriate intervals (FRC, 2014:1). Some major changes included going-concern assessment and reporting, internal control, auditor reporting and the provisions of the code concerning remuneration and investor relations. It serves as a guide to a number of key components of effective board practice. Similar to other previous combined codes, it is based on the underlying principles of good governance: accountability, transparency, probity and focus on the sustainable success of organisations, with the aim of permanently changing economic and social business environments (FRC, 2014:1).

2.7 The United States of America: Corporate governance guideline developments

Similar to the UK, calls were raised for developing corporate governance guidelines in the USA (Yasseen & Singh, 2010:3). Some influential corporate governance guidelines and frameworks in the USA include the Internal Control – Integrated Framework of 1992 created by Committee of Sponsoring Organisations (COSO), which was later followed by the SOX (Tricker, 2015:110). In 2014 the updated Internal Control – Integrated Framework (hereafter the 'COSO Framework') was released. The next section will briefly discuss the above-mentioned corporate governance guidelines and frameworks.

2.7.1 The COSO Framework, 1992

The Committee of Sponsoring Organisations (COSO) is a committee in the USA dedicated to improving organisational performance and corporate governance through effective internal control, enterprise risk management and fraud deterrence (Cattrysse, 2005:6; D'Silva & Ridley, 2007:126). In 1985, the USA appointed the COSO under the chairmanship of Sir James C. Treadway to review the internal control systems of organisations. The committee emphasised the need for independent audit committees and internal audit functions (Cattrysse, 2005:6; Ohanyan & Harutyunyan, 2016:5). In 1992 the COSO managed to release the Internal Control – Integrated Framework as an initiative to respond to factors that could lead to fraudulent financial reporting (Protiviti, 2013:1). The COSO Framework can be described as a process driven by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Protiviti, 2013:26).

The COSO Framework of 1992 has five interrelated components, namely control environment, risk assessment, control activities, information and communication, and monitoring (Klamm & Watson, 2009:2). The five interrelated components are derived from the way management carries out their responsibility and how management responsibilities are integrated in management processes (Cousineau, 2012:18). The first component, control environment, is perceived as a foundation for all other control components and sets the tone of an organisation. It includes elements such as integrity, ethical values, competence, philosophy and operating style of the organisation's managers and employees. The second component, risk assessment, refers to the identification, analysis and management of (operating, economic, industry, regulatory) risks that may impact an organisation negatively. Management implements control activities, the third component, to mitigate the identified risks. Control activities include segregation of duties, approvals, reviews, reconciliations and authorisations. The fourth component is information and communication, which refers to the timely capture and dissemination of information on internal and external stakeholders, management, employees, suppliers and customers. The last component, which is monitoring, is referred to as a continual assessment of the internal control components and evaluation of organisational deficiencies (Cousineau, 2012:18).

2.7.2 The COSO Framework, 2013

In December 2014, the COSO released an updated version of its framework (Fischer & Friedman, 2014:34) after the review of the 1992 Framework which was no longer considered relevant to the business and operating environment (KPMG, 2013:2). The COSO Framework of 2013 focused greatly on internal control of organisations. The 2013 Framework retained the definition of internal control, as well as the five components of internal control, i.e., control environment, risk assessment, control activities, information and communication, and monitoring activities. The most considerable change made in the 2013 Framework was the development of 17 principles that support the five components (KPMG, 2013:1).

These 17 principles, together with the COSO Framework, provide guidance to organisations mainly on the environment in which organisations operate, as well as on their risk assessment (Cousineau, 2012:17; Fischer & Friedman, 2014:33). The framework can also be used to assess the effectiveness of the system of internal control to achieve objectives as determined by management (KPMG, 2013:2). The 2013 Framework is recognised as the best internal control framework by many countries such as Canada, the UK and South Africa (Hermanson & Rittenberg, 2003:40; Moeller, 2007:331; KPMG, 2013:1). The COSO Framework of 2013 also works in conjunction with the Sarbanes-Oxley Act of 2002 (SOX) (Cousineau, 2012:17).

2.7.3 Sarbanes-Oxley Act of 2002

The SOX came into play in the aftermath of the Enron scandal discussed in section 2.4.1 in the USA in 2001 and a number of other similar cases (Li, 2010:37). The failure of Enron undermined confidence in financial markets in the USA and abroad (Moncarz *et al.*, 2006:29). As investors began to question the integrity of both auditors and corporate managers, the USA became very eager to maintain and increase investors' confidence in organisational financial reports (Clark, 2005:5; Orin, 2010:142). Therefore, the US Congress reinforced the importance of control systems in organisations by introducing the SOX (Orin, 2010:142; Tricker, 2015:109). SOX mainly provided guidance on the responsibilities of auditors, boards of directors, and corporate managers with respect to financial reporting (Moeller, 2004:xi; Clark, 2005:5; Tricker, 2015:109). It also promulgated three internal control processes, namely safeguarding of assets, processing of accurate information and complying with laws and regulations (Edel Lemus, 2014:42). All trading companies in New York Stock Exchange (NYSE) and their auditors are required to comply with this act (Edel Lemus, 2014:43).

2.8 Canada: Corporate governance guideline developments

The Canadian corporate governance guidelines are also amongst the well-recognised guidelines in the world. The first development began with the Dey Report in 1994 which proved to be influential to the development of other guidelines and codes (Gregory, 2000:8). The other guideline on corporate governance in Canada that was internationally recognised was the Criteria of Control Board Framework of 1995 (Pickett *et al.*, 2003:200). In the following section, these two guidelines will be discussed, starting with the Dey Report of 1994 and then the Criteria of Control Board Framework of 1995.

2.8.1 The Dey Report, 1994

In Canada, the Dey Report of 1994 was developed under the chairmanship of Peter J. Dey and sponsored by the Toronto Stock Exchange (TSX). The Dey Report's aim was to lay a strong foundation for effective corporate governance practices. The 14 principles of the Dey Report focused mainly on the director's remuneration, issues related to the board, shareholders' roles, financial reporting, transparency and audit and stakeholders of the organisation (Commonwealth Association for Corporate Governance, 1999:23-26; Panasian, 2003:1; Yang, 2011:18).

The Dey Report was recommended as best practice guideline for all companies listed on the TSX. Recognising that there was no 'one size fits all' solution, the TSX did not require compliance with the guidelines, but every year organisations were to disclose and explain any differences between their corporate governance practices and the guidelines (Panel on Accountability and Governance in the Voluntary Sector (PAGVS), 1999:v; Yang, 2011:19).

2.8.2 The Criteria of Control Board Framework, 1995

The Criteria of Control Board (CoCo) was introduced in 1995 by the Canadian Institution of Chartered Accountants (CICA) with the objective of improving corporate governance, performance, decision making, control and risk management (QFinance, n.d:1). According to the CoCo, controls are all the elements of an organisation that, taken together, support people in the achievement of the organisation's objectives (Pickett *et al*., 2003:2002). The CoCo's internal control elements include purpose, commitment, capability, monitoring and learning. The model starts with the need for a clear direction and sense of purpose. The second element is commitment, which requires those within the organisation to understand and align themselves with the organisation’s identity and values. Capability is about equipping employees with the necessary resources for them to understand and discharge the requirements of the control model. Monitoring and learning include monitoring internal and external environments, monitoring performance, challenging assumptions, reassessing information needs and information systems and follow-up procedures, and assessing the effectiveness of control (Pickett *et al.*, 2003:202; Government Finance Officers Association, 2005:9-12).

2.9 The OECD principles of corporate governance

In Europe, some international institutions, such as the OECD, also encouraged countries to adopt and develop corporate governance guidelines (McGee, 2009:1). These principles have been internationally recognised and endorsed as one of the Financial Stability Forum’s Twelve Key Standards for Sound Financial Systems which countries should follow in order to promote their international financial stability (Bouchez, 2007:110), thus remaining the benchmark for good governance practices (Croft & Malhotra, 2016:140).

In April 1998, the OECD developed principles of corporate governance in order to respond to global changes and assist member and non-member governments to improve their corporate governance (Abu-Tapanjeh, 2009:559; Namoga, 2011:22). This preparation included the participation of a number of OECD committees and member countries (OECD, 1999:3). The principles were organised into five sections: the rights of stakeholders, equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the role of the board (Fremond & Capaul, 2002:6)

In 2002, the OECD Steering Group on Corporate Governance undertook a review of their corporate governance principles (Tumuheki, 2007:30). The review was supported by a comprehensive survey of how member countries addressed the different corporate governance challenges they were facing. The purpose was to respond to corporate governance developments and corporate scandals around the world (Jesover & Kirkpatrick, 2005:1). These new principles replaced the 1999 principles in 2004 (Bouchez, 2007:110). With its focus on increasing the responsibility of both shareholders and boards to be more accountable to their shareholders (Ffolkes-Goldson, 2016:55), the review had a considerable impact on country members such as Australia, the UK, Canada and partners such as South Africa and Brazil (Bouchez, 2007:110).

In 2015, the OECD/G20 Principles of Corporate Governance were developed. The review was undertaken by the OECD Corporate Governance Committee with all G20 countries, including South Africa and OECD member countries (OECD, 2015:4). Still containing the same principles as the first report mentioned above (Croft & Malhotra, 2016:140), the review placed even greater emphasis on matters such as shareholders' rights, remuneration of executives and financial disclosure (Deloitte, 2015:7).

2.10 South Africa: The development of corporate governance guidelines

South Africa also developed corporate governance guidelines in response to both its own and international corporate dilemmas (Hermanson & Rittenberg, 2003:47). Corporate governance in South Africa has been governed since 1994 by a series of what is known as the King Reports, which began with King I in 1994, then King II in 2002 (IoDSA, 2002:7-29; Miles & Jones, 2009:5) and King III in 2009 (Miles & Jones, 2009:7; Scholtz, 2014:4). The King Committee more recently published the King IV Report. The International Integrated Reporting Council (IIRC, 2015:Online) (previously the International Integrated Reporting Committee) which aims to create a globally accepted framework for a process that will result in better stakeholder communication by organisations, concurred that the King Committee's first three reports had great influence on a global scale. The IIRC (2015:Online), further emphasised that the King Reports have impacted on and guided sound corporate governance principles and the development of corporate governance codes internationally. The section below discusses the historical developments of the King Reports of South Africa.

2.10.1 The King I Report, 1994

Since mineral discovery in the late 19th century, the South African private sector has been a main contributor to the country's economic performance (Armstrong *et al.,* 2005:11). More than a decade ago, Armstrong *et al.* (2005:11) stated that over three-quarters of South Africa's productive capacity relied on private business, while one-third relied on state-owned companies. The contribution by these companies indicates that both the public and private sectors are significant role players in the South African economy. In the early 1980s, many South African corporations were reported to be bloated, unfocused and run by entrenched and complacent managers (Malherbe & Segal, 2001:1).

To respond to the corporate governance challenges in South Africa, from 1987, companies already started adapting certain international standards on corporate governance through the COSO (Yasseen & Singh, 2010:3). Also in the early 1990s, the Johannesburg Securities Exchange (JSE) established cross-shareholding ownership for all listed companies (Gstraunthaler, 2010:147). Cross-shareholding ownership is described as an ownership model whereby companies hold each other's shares (Yasuhiro & Atsushi, 2004:2). In reality, concern about corporate governance issues in South Africa has been around long before the establishment of its corporate governance frameworks (Rossouw, Van der Watt & Malan, 2002:289).

The single most important organisation that played a leading role in the corporate governance debate and related developments in South Africa was the Institute of Directors in Southern Africa (IoDSA) (Diamond & Price, 2012:65). The IoDSA's major influence on corporate governance in South Africa has been exerted through the series of the King Reports on Corporate Governance (Miles & Jones 2009:5). It is under the King Committee, headed by former High Court judge, Mervyn King, that, in 1994, South Africa managed to institutionalise its first King Report in 1994 (Cliffe Dekker Attorneys, 2002:1-2; Miles & Jones, 2009:5). The purpose of the first King Report was to serve as an instrument for high standards in corporate governance practices for both the private and public sectors. The King I Report mainly applied to the private sector, focusing mostly on companies listed on the JSE (Van Rensburg & Coetzee, 2011:49).

Gstraunthaler (2010:148) asserted that the King I Report had some international influences on its development. It has been emphasised that the King I Report was similar to that of the first report of the UK (refer to section 2.6.1 on the Cadbury Report) (Mangena & Chamisa, 2008:31) with regard to content and trajectories (Diamond *et al*., 2012:65).

The King I Report in its directives followed the Anglo-American style of a unitary board of directors. The Anglo-American style involved the balance of executive and non-executive directors who were accountable to shareholders of organisations (Armstrong *et al*., 2005:9-16; Gstraunthaler, 2010:146; Majumder *et al.*, 2012:151). In this style, in the case of board members, it is recommended that organisations have independent members, with a separation of the roles of the chairperson and CEO (Mangena *et al*., 2008:31).

Unlike its counterparts in other countries at that time, the King I Report did not only focus on the financial and regulatory aspects of corporate governance, but further advocated an integrated approach to sound corporate governance. The integrated approach of the King I Report entailed financial, social, ethical and environmental practices. Accordingly, the King I Report made it possible for the King Committee to successfully formalise the need for organisations to consider the societies and environments in which they operated (IoDSA, 2002:7). The first King Report earned recognition as a pioneer in promoting sound corporate governance (Vaughn & Ryan, 2006:504; Solomon & Maroun, 2012:6). This report was also adopted by a number of Commonwealth countries such as Lesotho and Botswana on a voluntary basis (Armstrong *et al*., 2005:9).

2.10.2 King II Report, 2002

Owing to changes in the South African economy, global market changes and revised legislation, updated corporate governance guidelines became necessary in South Africa around the turn of the century (Cliffe Dekker Attorneys, 2002:2). In 2002, the King II Report on corporate governance replaced the King I Report. The King II Report was a comprehensive document divided into six sections dealing with the accountability and responsibilities of boards and the processes of auditing and accounting (IoDSA, 2002:2). The King II Report replicated a considerable amount of the King I Report, but was more detailed (Kakabadse, Kakabadse & Kouzmin, 2002:310).

Furthermore, to maintain the vision of sound corporate governance, the King II Report consisted of seven characteristics of corporate governance, namely discipline, transparency, independence, accountability, responsibility, fairness and social responsibility (Vaughn & Ryan, 2006:506). Discipline refers to correct and proper behaviour; transparency implies the true picture of the status quo; independence refers to no undue influences; accountability refers to assessing board actions; responsibility pertains to all stakeholders; fairness implies the rights of various groups to be respected; and social responsibility pertains to good corporate citizenship (Pickett *et al.*, 2003:57).

The purpose of the King II Report was to promote greater business transparency and accountability, as well as to motivate management to act equitably towards employees and showing empathy towards social issues (Kakabadse *et al*., 2002:310). It acknowledged the shift from the single bottom line, which focuses on profit for shareholders, to the triple bottom line, which embraces the economic, environmental and social aspects of a company's activities (Cliffe Dekker Attorneys, 2002:2), which the King I Report already had adopted to some extent, as explained in the preceding section.

Not only did the King II Report give consideration to corporate governance disclosure, but this report was also hailed as 'a world first' report with regard to its inclusive approach to corporate governance disclosure (Wixley *et al*., 2005:vii). The King II Report distinctively promoted the inclusive corporate governance disclosure approach (Esser & Dekker, 2008:160). With this approach, King II required organisations to explicitly provide more transparent information relating to stakeholders' corporate governance practices (Ntim, Opong & Danbolt, 2012:85). For example, in their integrated annual reports, organisations were to express how they have impacted society (UN, 2006:3). The King II Report also expected organisations to disclose how they intend to impact positively on the society (IoDSA, 2009b:4).

Although adoption of the code remained voluntary, the JSE has subsequently made the King II Report a listing requirement (Visser, 2005:35). In addition to those types of organisations listed in the first King Report, King II was explained as being applicable to state departments, as well as national, provincial and local government administrations falling under the PFMA and Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (RSA, 2003). Therefore, not only were banks, financial and insurance entities required to conform to the King II Report, but also public sector entities. (Refer to section 3.5.3 on the PFMA discussion and MFMA in the section that follows.) However, ten years after the implementation of King II, many national government departments were still struggling to comply with the minimum requirements of the PFMA (Prinsloo & Pieterse, 2010:56), and adoption of King II by government entities was largely lacking (Wixley *et al.,* 2005:8).

Moloi (2015:1) is of the opinion that the limited adoption of King II's recommendations could largely be attributable to the fact that national government departments were already struggling to comply with mandatory legislative requirements contained in the PFMA as their minimum governance requirements. Cameron (2014:84), too, is of the opinion that, although the MFMA regulations are well intended, they have proved problematic in practice. Its implementation has required the development of a complex set of skills and has been extremely demanding in most organisations (Cameron, 2014:84), which may be the reason why adoption of King II was also slow.

2.10.3 King III Report, 2009

Following the King II Report, the King III Report was developed at the time when global economies were recovering from the effects of the global financial crisis caused by a number of global corporate governance failures (Seakamela, 2011:8). The major reason for the establishment of the King III Report was to respond to international changes in corporate governance (Service, 2015:33). The King III Report consisted of two documents: a code of governance (the code), which is a set of principles, and a report, which was aimed at providing recommendations on the best practices for each principle (Muwandi, 2010:1). The first draft of King III was released on 25 February 2009 for public comment (Esser, 2009:189), while the final version was released in September 2009 and published in March 2010 (Deloitte, 2009:2; Scholtz, 2014:4; Afolabi, 2015:12).

The philosophy behind the King III Report revolved around three principles, namely ethical leadership, sustainability and corporate citizenship (IoDSA, 2009b:9-11). According to this report, leadership in sound corporate governance should be derived from effective leadership by those charged with governance (Prinsloo & Pietersen, 2011:54). Leaders should direct the strategies and operations of organisations with the aim of achieving sustainable environments, as well as social and economic performance (Vorster & Marais, 2014:32). There is a direct link between sound corporate governance and effective ethical leadership, since sound corporate governance and effective ethical leadership are essential for an organisation to be considered successful in the eyes of all stakeholders in the 21st century (Botha, 2009a:55). The King III Report required leaders to have ethical values with the following characteristics: transparency, responsibility, accountability and fairness, all of which are to be based on their moral duties (IoDSA, 2009b:9-11). Sustainability has been described as the primary moral and economic imperative for organisations (Marx & Van Dyk, 2011:40). In order for organisations to be sustainable they need to understand and react to their position in society, and have an ethical relationship with society (IoDSA, 2009b:9-11).

Similar to the King II Report, the King III Report emphasised the triple bottom line of an organisation, which consists of economic, social and environmental performance (De Beer & Du Toit, 2015:207). The triple bottom line approach is based on the notion that the modern organisation should be accountable to investors, workers, governments, communities and the environment in which it operates (Muswaka, 2013:28-29; Thomas, 2014:93). King III implied that the triple bottom line performance and corporate governance practices should be incorporated in the integrated report of an organisation (Vorster & Marais, 2014:32). Integrated reporting should highlight the organisation's performance which would give a holistic view of the state of its affairs, as well as the potential risks associated with its operations (Muswaka, 2013:28-29).

The King III Report further gave clarification on terminology. For example, the word 'boards' refers to those charged with corporate governance responsibilities. Since entities differ, much of the wording in the report can be used interchangeably with other terms, for example, 'companies' and 'directors' with 'entities' and 'partners' (IoDSA, 2009b:16).

The King III Report aimed to emphasise the stakeholder inclusive approach, which was discussed in King II (IoDSA, 2009b:11). Esser (2009:189) argued that the stakeholders approach in King II was not entirely clear with regard to whose interests' directors should manage in an organisation. Therefore, the two approaches of the inclusive approach which were adopted by the King III Report were the 'enlightened shareholders' and 'inclusive stakeholders' approaches. The enlightened shareholder approach considers legitimate interests and expectations of stakeholders to have instrumental value. Stakeholders should be considered in as far as it would be in the interests of shareholders to do so. In the case of the stakeholder inclusive approach, boards should consider the legitimate interests and expectations of stakeholders based on the best interest of the company, and not merely on the best interest of the shareholders (IoDSA, 2009b:11-12).

The King III Report had a significant impact on the JSE. The JSE had to move decisively towards mandating the integrated reporting of organisations (Eccles & Serafeim, 2011:77; Solomon *et al*., 2012:6; SAICA, 2013:11; Eccles & Serafeim, 2014:8). The JSE listing requirements directed listed companies to provide a statement commenting on the extent of their compliance with King III, which may be contained in a separate section of an annual report (Seakamela, 2011:22; De Beer, 2013:46; Scholtz, 2014:4).

According to the IoDSA (2009b:6), sound corporate governance can never be separated from law. In South Africa the legislator also amended the Companies Act, 2008 (Act No. 71 of 2008) (hereafter the 'Companies Act of 2008') to incorporate certain code recommendations of the King Report (IoDSA, 2009b:6). The King III Report and Companies Act of 2008 shared many principles of sound corporate governance (PwC, 2012:2). For example, Principle 2.1 requires the board to act as the focal point for and custodian of corporate governance. Similarly, section 66(1)2 of the Companies Act of 2008 determined that an entity must have a board of directors with the authority to exercise all powers and perform any of the functions of the entity, except if limited by the Companies Act of 2008 or the company's Memorandum of

Incorporation (PwC, 2012:7). The alignment of the two was not only possible, but desirable in the spirit of corporate governance principles of accountability, fairness, transparency and responsibility (PwC, 2012:2).

2.10.3.1 Types of entities

All business entities act on behalf of their stakeholders; therefore, they need to adopt sound corporate governance practices (Hendrikse & Hefer-Hendrikse, 2012:469). Unlike the King I and King II Reports (which mostly focused on business enterprises like banks, financial and insurance organisations) (Unterlerchner, 2007:2), the King III Report applied to all organisations regardless of their nature and size (KPMG, 2009:3). Thus, all entities were expected to apply the principles of this report and consider its best practice recommendations (IoDSA, 2009b:19). Therefore, each entity had to consider the approach that best suits its size and complexity (Le Roux, 2010:2; Motubatse, Barac & Odendaal, 2015:401). This report was drafted on the basis that, if adopted, it could promote sound corporate governance practices (PwC, 2011:2). Also, Serretta, Bendixen and Sutherland (2009:195) were of the opinion that South African companies must demonstrate sound governance principles and practices so as to attract global investors.

The business entities to which the King III Report applies are profit and non-profit companies. The Companies Act of 2008 refers to a ‘profit company’ as an entity incorporated for the purpose of financial gain for its shareholders, while ‘non-profit companies’ (NPC) are companies incorporated for public benefit (King in Glazewski & Mongalo, 2010:447). Profit companies include private companies, personal liability companies, public companies, small and medium enterprises (SMEs), and state-owned companies. State-owned companies, as defined in the PFMA, include national government business enterprises, national public entities, provincial public entities and provincial government business enterprises (IoDSA, 2009b:7). King III was also a requirement for all companies listed on the JSE (IoDSA, 2009b:5). The business entities mentioned above are explained in the following paragraphs.

A private company should be a voluntary association of one or more persons, governed by the Companies Act of 2008, incorporated in terms of the Memorandum of Incorporation. These companies are also prohibited from offering their shares to the public, and their securities' transfers are restricted (King in Glazewski & Mongalo, 2010:447; Jooste, 2011:62). Such companies include Nestlé (South Africa) (Pty) Ltd and Vodacom Group Ltd. A private company's name should end with 'Proprietary Limited' or '(Pty) Ltd' (IoDSA, 2009b:7; BDO, 2011:2).

A personal liability company is an association of one or more persons in terms of the Companies Act of 2008. The current and past directors of such company are held jointly liable with the company for any payables and liabilities that were contracted during their periods (Cassim, Cassim, Cassim, Jooste, Shev & Yeats, 2012:81). Such include Jane Jones and Jesse Gloak. Personal liability companies should be designated as such by ending in 'Incorporated' or 'Inc.' (RSA, 2008; Cassim *et al.*, 2012:82).

A public company is a company that can issue securities through an initial public offering which can be traded in an open market. A public company should be designated by the term 'Limited' (Urbach Hacker Young (UHY) Hellmann SA, 2014:20-21). Public companies are owned by shareholders and they can be listed on a stock exchange. The term 'public' is used due to the fact that shareholders are members of the public. Examples of public companies include Mondi Limited and Tiger Brands Limited.

Small and medium enterprises (SMEs) are usually considered to be sole proprietorships, partnerships and close corporations and to be either publicly or privately-owned companies (Hendrikse & Hefer-Hendrikse, 2012:469). Such enterprises include i-Pay and Women's Health. Small enterprises normally employ between five and 50 workers, and annually generate at least R6 million in income, while medium enterprises employ a maximum of 200 workers and the annual income is under R25 million (Le Roux, 2010:4).

A foreign company should be a company incorporated outside of South Africa irrespective of whether it carries on business in South Africa. For example, Barclays Bank and Alcatel (Cassim *et al.*, 2012:94). A foreign company is prohibited from offering its securities to the public unless it follows the specific provisions relating to 'offers to the public' in the Companies Act of 2008. A foreign company is required to register as an external company if it conducts business in South Africa (RSA, 2008).

A state-owned company should be listed as a public entity or owned by a municipality. State-owned companies should be designated by 'SOC Ltd' (IoDSA, 2009b:8; King in Glazewski & Mongalo, 2010:447). Entities that fall in this category include national government business enterprises such as BloemWater, Botshabelo Water and SA Bureau of Standards; national public entities such as the Council on Higher Education (CHE), UoTs and the South African Social Security Agency; provincial public entities such as the Free State Tourism Authority; and provincial government business enterprises such as the Free State Development Corporation and East London Industrial Development Zone Corporation (National Treasury, 2011:1-10).

A non-profit company should be an association incorporated not for gain. These types of business entities are governed by members and directors (Cassim *et al.*, 2012:88). Examples of such companies include Global Water Foundation and Rhino Orphanage (RSA, 2008). A non-profit company carries the naming convention 'NPC' (IoDSA, 2009b:7; King in Glazewski & Mongalo, 2010:447).

From the above, it is evident that there are different types of entities in South Africa. Regardless of their type, all of these entities in their different sizes, ownership structures and purposes are expected to apply the King III Report. The next section will discuss the 'apply' or 'explain' base of the King III Report which is applicable to all the above-mentioned entities.

2.10.3.2 'Apply' or 'explain' concepts of the King III Report

The King III Report has set an international benchmark with its 'apply' or 'explain' approach (Muwandi, 2010:7). It shifted from the previous version of the King II Report of 'comply' or 'explain'. The underlying intention of this change was to avoid forcing organisations to comply with the recommended practices (Deloitte, 2009:1; UHY Hellmann SA, 2014:21).

The 'apply' and 'explain' base implies that the board of directors have to apply all the King III Report principles and recommendations and that they must report this to their stakeholders. When a specific principle or recommendation has not been applied, the board must explain the reasons (Miles *et al*., 2009:8; Afolabi, 2015:10). This 'apply' or 'explain' approach has also been adopted by 56 Commonwealth countries and 27 European countries, including the UK, in their respective corporate governance guidelines (see Unterlerchner, 2007:2; IoDSA, 2009b:5-6).

2.10.3.3 The five moral duties of the King III Report

The King III Report was based on the moral duties that find expression in the spirit of ubuntu (IoDSA, 2009b:9). 'Ubuntu' means 'humaneness' (Muswaka, 2013:29). The King III Report mentioned five individual moral duties which leadership has to follow when performing its stewardship role, namely conscience, care, competence, commitment and courage (KPMG, 2012:9). According to King III, conscience involves intellectual honesty and avoiding conflicts of interest; inclusivity (or care) requires directors to exercise care in the affairs of the company; competence implies that directors should have the knowledge and skills required to be directors of a company; commitment emphasises that directors should be diligent; whereas directors should have the courage to take decisions regardless of the risks to the organisation (Taylor, 2011:58-74).

Taylor (2011:49) averred that King III's moral duties be considered as obligations which leadership has to comply with when executing its organisational responsibilities. These moral duties have also been seen as essentials of effective leadership, because they enable those charged with corporate governance to respond to the challenges of modern corporate governance (De Beer & Du Toit, 2015:207). For example, leaders such as the executive authorities, auditing authorities and their senior management teams could respond to the challenges accordingly, and such leadership is characterised by the ethical values of responsibility, accountability, fairness and transparency, based on the moral duties (Prinsloo & Pietersen, 2011:54).

2.10.3.4 The nine governance elements of the King III Report

The King III Report has been widely applauded for containing the necessary elements to promote sound corporate governance in organisations and the country as a whole (Thomas, 2014:101). King III encourages all entities to adopt all the elements contained in the report (Marx & Ravjee, 2015:104). Each element is of equal importance and together forms a holistic approach to corporate governance (IoDSA, 2009b:15-16). All stakeholders are required to correctly understand and interpret these corporate governance elements contained in the report (Seakamela, 2011:6).

The King III Report provides guidance to all organisations on the following governance elements: ethical leadership and corporate citizenship; boards and directors; audit committees; the governance of risk; the governance of IT; compliance with laws, rules and relationships; integrated reporting and disclosure codes and standards; internal audit and governing stakeholders (IoDSA, 2009b:15-16; Wilkinson & Plant, 2012:24).

Ethical leadership and corporate citizenship refer to effective leadership based on an ethical foundation. The King III Report acknowledges the importance of appointing a board of directors to govern an organisation (PwC, 2011:2; Scholtz, 2014:5). The board is responsible for implementing effective ethics and ensuring that organisations are seen as responsible citizens. The boards and directors fulfil all the responsibilities as indicated in the King III Report (Botha, 2009b:707; Ernst & Young (EY), 2009:2). For example, the board should be responsible for governance of risk and IT. The King III Report recommends all organisations to have audit committees, and audit committees, in turn, are required to adhere to all King III responsibilities, such as overseeing the integrated disclosure of an organisation (PwC, 2011:3). The governance of risk refers to the risk governance of an organisation by the board with the assistance of management and the audit committee/risk committee (KPMG, 2009:3).

The governance of IT, as one of the new aspects introduced in the King III Report, is explained as the maintenance of good standards of IT in an organisation. For example, the board should ensure that an IT charter and policies are established and implemented (Van Vuuren & Schulschenk, 2013:3). Compliance with laws, codes and rules refers to the implementation and application of an effective compliance framework in an organisation. An internal audit function is needed to fulfil the requirements of an effective risk-based internal audit (Deloitte, 2009:2). The governing of stakeholders' relationships refers to the identification and monitoring of stakeholders' relationships in an organisation (Deloitte, 2009:8-9).

Integrated reporting and disclosure is another one of the additions to the King III Report. It is explained as reporting on the sustainability and financial information of an organisation. Its success is depended on stakeholders' transparency and accountability (Van Vuuren & Schulschenk, 2013:3).

In conclusion, the above sections provided clear indication that concerns regarding corporate governance have been at play since the development of COSO. Because of both national and international corporate challenges, South Africa too was driven to develop its own corporate governance guidelines. Corporate governance in South Africa has been regulated since 1994 by a series of the King Reports which began with King I in 1994, then King II in 2002 and King III in 2009. The significant local and international corporate governance and regulatory developments have eventually led to the King IV Report. The following section gives a brief overview of the King IV Report.

2.10.4 King IV Report, 2014

Even though the empirical study of this research project focused mainly on the financial years during which King IV was not yet operational, it is imperative to elucidate the background of this report, as it is part of the development of the King Reports. During May 2014, the King Committee embarked on drafting a new King Report on corporate governance, namely the King IV Report (IoDSA, 2014:1). The development of King IV was influenced by both significant local and international corporate governance and regulatory development. The other concern was that, although listed organisations were generally applying the King III Report, other types of organisations (such as non-profit organisations, private companies and entities in the public sector) were struggling in interpreting and adapting the King III Report.

In this regard, the King Committee, through establishing the King IV Report, aimed to develop a corporate governance guideline that is easily accessible to all types of entities across various sectors (IoDSA, 2014:1; Deloitte, 2016a:5). The King IV Report was released by the IoDSA in March 2016 for public comments (Cliffe Dekker Hofmeyr, 2016:1). It was then released in November 2016, and became effective in financial years commencing 1 April 2017, taking over from the King III Report (IoDSA, 2016:38; PwC, 2016:2).

To achieve its aim, the King IV Report became the first report that is outcomes based, demonstrating what could be achieved if governance principles were implemented effectively, with each principle being linked to a distinct outcome (Deloitte, 2016a:5). It also reworked the 75 principles of the King III Report and consolidated them into 16 principles. Each principle is supported by a limited number of recommended practices and requires specific disclosures (Deloitte, 2016a:5). This enhancement is an attempt to reduce the ‘tick box’ or mindless compliance approach to applying governance principles (Grant Thornton, 2017:Online).

Furthermore, the King IV Report enhanced some elements from the King III Report while retaining most philosophical underpinnings of the King III Report. These elements are ethical and effective leadership, the organisation’s being an integral part of society, corporate citizenship, sustainable development, stakeholder inclusivity, and integrated annual reports. These concepts were introduced by the King III Report and other earlier versions, and then refined in the King IV Report (PwC, 2016:2).

The King IV Report also introduced some new concepts of corporate governance and covered governance of remuneration in more detail (PwC, 2016:5). For instance, King IV proposed that both the remuneration policy and an implementation plan (stipulating the various aspects of remuneration together with a link to performance) be tabled for a non-binding advisory vote. Where the policy or implementation plan is not approved by at least 75% of shareholders, the remuneration committee must consult shareholders and disclose the nature and outcomes of such consultation (PwC, 2016:5). Regarding governance of IT, first introduced by the King III Report, King IV views information separate from technology, as a corporate asset. It also confirms the need for governance structures (refer to section 2.3.3 for examples of governance structures) to protect and enhance this asset.

The King IV Report also recommended that all organisations develop their social and ethics committees as prescribed board committees. These social and ethics committees and other board committees are required to have vast integration (PwC, 2016:5). Finally, the King IV Report put into consideration the critical role of stakeholders in governance processes. Thus, the board is required to not only consider the legitimate and reasonable needs, interests and expectations of stakeholders as a matter that enjoys intrinsic significance, but also value the role and responsibilities of stakeholders. The active stakeholders are required to hold the board and the company accountable for their actions and what is disclosed (Deloitte, 2016a:5; PwC, 2016:5).

In King IV the approach of ‘apply’ or ‘explain’ of the King III Report (discussed in section 2.10.3.2) was replaced with ‘apply’ and ‘explain’. (Also refer to section 2.10.3.2 for interpretation of the ‘apply’ or ‘explain’ concept.) The ‘apply’ and ‘explain’ approach of the King IV Report signifies that the application of all the principles is assumed and organisations should explain the practices they have implemented for the efficiency of each principle (Deloitte, 2015:5). Organisations are recommended to provide a narrative explanation of the recommended practices they have been implementing and the positive impact these practices have on the related King IV principles (PwC, 2016:4).

2.11 The King III Report requirements for internal auditing

As mentioned in section 2.10.3.4, one of the nine governance elements contained in the King III Report is internal auditing. The following section will discuss the literature on the internal audit function, with specific reference to the King III requirements. The internal auditing function will be discussed as a chapter on its own, in chapter 3.

According to the IIA (2015a:3), ‘internal auditing’ is defined as an independent, objective assurance and consulting activity designed to add value to and improve an organisation’s operations. Internal auditing helps an organisation accomplish its objectives by providing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Despite South Africa’s being considered a developing country, internal auditing has a robust presence both in the private and public sectors (Barac, Coetzee, Plant, Erasmus, Motubatse, Fourie, Steyn & Van Staden, 2013:1). The status of internal auditing in South Africa has been greatly elevated by the publication of the King III Report (Hendrikse *et al*., 2012:400). The King III Report opposed a one-size-fits-all approach to internal audit and recommended that internal auditing remain flexible in order to accommodate the requirements of different organisations (Motubatse *et al*., 2015:401). Such requirements depend on specific factors related to an organisation, including size, diversity, different legal systems and cultural environments (ICAEW, 1999:12; Marais *et al.*, 2009:889-890; IIA, 2012:1).

According to IoDSA (2009b:2), it is the responsibility of the board to see to it that there is an internal audit function in the organisation. Where the board decides not to implement an internal audit activity, full reasons for such a decision should be disclosed in the annual report (Hendrikse *et al*., 2012:400). The next sections will discuss the requirements of the King III Report on the internal audit function, specifically the need for and role of internal audit, an overview on the internal audit plan and approach, and the internal audit status and standing in a company.

2.11.1 Requirements for reporting

Following the release of the King III Report in 2010 (discussed in section 2.11.1), organisations in South Africa have been expected to embrace the concept of integrated reporting (Makiwane & Padia, 2013:421). As required by King III, the integrated report should convey the annual organisation's financial information and sustainability performance (PwC, 2014:15; Richard, 2017:172). More importantly, companies need to show how these components of integrated reporting are linked to one another so that stakeholders can make informed decisions about their current performance and their ability to create and sustain value in future (Makiwane & Padia, 2013:421). Also, integrated reporting increases the legitimacy of the operations of organisations and the trust and confidence of stakeholders (Richard, 2017:172). One of the components to be included in the integrated report is the internal audit function.

The inclusion of the internal audit information in the intergrated report is overseen by the audit committee (Refer to chapter 1, also sections 2.3.1 and 3.5 for examples of other assurance providers.) The audit committee is required to report on the internal audit strategies, corporate governance, risk management processes, financial performance and sustainability (Makiwane & Padia, 2013:421). (Section 3.8 provides detailed reporting lines of internal auditing, including reporting to the audit committee.) Moreover, the audit committee is to assist the board by reviewing the integrated report to ensure that the information provided is reliable and does not contradict other aspects of the report (Richard, 2017:172). Therefore, organisations applying the King III Report in their annual reporting are expected to meet the above-mentioned integrated reporting requirements as per King III.

2.11.2 The need for and role of internal auditing

The internal audit function plays a critical role in the organisation's control processes (Baker, 2010:1; Fourie, Plant, Coetzee & Van Staden, 2013:75). This role is consistent with its definition (Julien & Rieger, 2011:3). (Refer to the preceding section for the definition of 'internal audit'.) The internal audit function is believed to be a major contributor to the development of corporate governance practices worldwide (KPMG, 2009:3; Karagiorgos *et al*., 2010:16; Wixley *et al*., 2010:187). Its relationship with corporate governance impacts positively on the growth of an organisation. The literature further emphasises that an effective internal audit function, as part of corporate governance structures, plays a unique role in the organisation's control environment by monitoring the internal control system (Hermanson & Rittenberg, 2003:32; Sarens, 2009:3; Florea & Florea, 2013:79; Papageorgiou, Padia & Yasseen, 2013:594). The internal audit function also improves risk management, provides assurance with regard to compliance and sustainability issues of the organisation and tests the importance of the reliability of financial reporting (KPMG, 2009:3; Fourie & Ackermann, 2013:497). The internal audit charter should be defined and approved by the boards (IoDSA, 2009b:45-46).

It is also regarded essential for internal auditors to comply with the IIA's International Standards for the Professional Practice of Internal Auditing (hereafter the 'Standards') in order to strongly avoid being influenced by organisational factors (Marais *et al.*, 2009:889-890; Van Staden, Barac, Erasmus & Motubatse, 2013:34). (Refer to section 2.11 for some of these organisational factors.) These Standards should be a guide to internal audit practices and serve as a value-adding activity (Al-Twaijry, Brierley & Gwilliam, 2003:508; PwC, 2010:4; Marais, 2015:120). The Standards aim to improve organisational processes by providing a framework for performing and promoting a broad range of value-added internal auditing activities, forming the basis for the evaluation of internal audit performance, and fostering improved organisational processes and operations (IIA, 2012:1). Also, the IIA Code of Ethics has been established in order to promote an ethical culture throughout the internal audit profession (Coetzee, De Bruyn, Fourie & Plant, 2010:12; Marais, 2015:120).

2.11.3 An overview of the internal audit approach and plan

The King III Report requires internal auditors to follow a risk-based approach to its plan (EY, 2009:9; Coetzee & Lubbe, 2011:39; Malaescu & Sutton, 2015:95-114). A risk-based approach refers to the approach whereby, the internal audit function will consider the risks of an organization before deciding on the engagement to be conductedc. A risk-based approach is a move away from a compliance-oriented approach which adds little value to the internal audit function as it merely provides proof of the adequacy of controls (IoDSA, 2009b:14-15). If properly implemented, a risk-based approach could assist internal auditors to audit more effectively and efficiently, address organisational risk and ensure the optimal usage of resources (Coetzee & Lubbe, 2014:113-115). The Chief Audit Executive (CAE), who is the head of internal audit and its planning (Coetzee & Lubbe, 2011:55), needs to understand the strategy of the organisation and direct the function accordingly (Brink, 2009:840). In the risk-based approach, internal auditors should assess and monitor the risks which may arise from the strategic directions that were decided on by the organisational board (IoDSA, 2009b:14; Brink, 2009:838-839; Mutiro, 2013:19; Van Staden & Barac, 2014:35.) The internal audit function determines whether the controls in place are effective in managing the risks and make recommendations regarding the controls required to mitigate them (Asare, 2009:22; Hendrikse *et al*., 2012:102). From there, internal audit can provide a written assessment of the effectiveness of the internal controls and risk management to the board (IoDSA, 2009a:5; Moloi, 2014:684).

According to the risk-based approach, internal auditors should be in a position to build a strong relationship and work in close liaison with the audit committee. The audit committee's responsibilities regarding internal audit are the following: approving the internal auditing plan; evaluating the internal auditing function; ensuring the independence of internal auditing; maintaining a well-resourced and budgeted internal auditing function; and appointing, assessing the performance of and dismissing the CAE (IoDSA, 2009b:44-46; KPMG, 2009:3; see also Van Staden & Barac, 2014:35.) An effective audit committee should also strengthen the position of the internal audit function in an organisation by providing an independent and supportive environment where the CAE can raise matters affecting management (Scholtz, 2014:5; Van Staden & Barac, 2014:35). The CAE should have a standing invitation to executive committee meetings (IoDSA, 2009b:44-46). In return, internal audit should assist the audit committee in executing its corporate governance responsibilities (Fourie & Ackermann, 2013:495-496).

The internal audit function should enable the audit committee to provide independent feedback to the board (Mungal & Slippers, 2015:61). Hence, the internal audit function is to provide information through written audit reports to the audit committee at all audit committee meetings (Schneider, 2009:24, Mungal & Slippers, 2015:63). Furthermore, internal audit should coordinate its work with that of external assurance providers. The external auditors must be consulted in determining the activities of internal and external audit in order to minimise duplication of audit effort (IoDSA, 2009a:4).

2.11.4 Internal audit's status and standing in the company

The IoDSA (2009:44-46) on the King III Report specifically requires internal auditors to report on their responsibilities. This is in line with other corporate governance guidelines around the world, such as the Basel Committee (2015:32-33) in Canada reporting on the Financial Institutions Corporate Governance Principles for Banks, and the FRC (2014:28) reporting on the Combined Code. The CAE (head of internal auditing) reports functionally to the audit committee and administratively to the CEO (Ahmad & Taylor, 2009:900; PwC, 2010:4).

Furthermore, the King III Report recommends that the internal audit function stay relevant to key stakeholders of an organisation (EY, 2014:2) and that the CAE develop and maintain a quality assurance and improvement programme (IoDSA, 2009b:44-46). According to King III, internal audit should be strategically positioned to achieve its objectives and add value. In order to perform a value-added service and meet the complexity and volume of risk and assurance needs, a well-qualified internal audit team should be maintained (Fourie, 2008:68; Barac *et al.*, 2012:35; Fourie *et al.*, 2013:75; Papageorgiou *et al.*, 2013:594). The internal audit function needs to be multiskilled (Fourie, 2008:68), with business knowledge, insight, good judgment and effective communication skills (Julien & Rieger, 2011:4). More to that, pressure is inevitably being placed on internal auditors to acquire new skills and improve existing ones (Shishkina & Barac, 2015:40), whereas the internal audit function is expected to have the traits of independence and objectivity (IoDSA, 2009b:44-46; Coetzee *et al.*, 2013:54). Independence permits internal auditors to perform their work freely and objectively. This will be portrayed by the ability of the internal audit function to stand back from the operation under review (Zakaria, Selvaraj & Zakaria, 2006:894). If this is not achieved, the audit service will be fundamentally flawed (Pickett *et al.*, 2003:239; Marais, Burnaby, Hass, Sadler & Fourie, 2009:894). Objectivity is an unbiased attitude that allows internal auditors to perform engagements in such a manner that they believe in their working papers and results and that no compromises regarding quality are made (O'Donnell, 2015:13).

2.12 Summary

Chapter 2 commenced with a brief background of corporate governance, which mainly focused on defining the term. It clearly indicated that there are a number of diverse definitions of corporate governance and some overarching ideas. Agency theory, stakeholder theory and stewardship theory were explained in detail. Corporate governance scandals were discussed in this chapter, as they are some of the major causes of the development of global corporate governance guidelines.

Globally, many countries have developed governance guidelines and frameworks, and a brief background was given in this chapter of corporate governance guidelines of the USA, UK, Canada and OECD. With regard to South Africa, with its King Reports, the reader was informed regarding the emergence of the latest report, namely King IV. The chapter also elaborated on the requirements of the King III Report relating to internal auditing, and specific reference was made to specific reporting requirements.

The next chapter will provide the background and history of auditing and specifically internal auditing. The main concepts of internal auditing and internal audit governing bodies will be investigated. Focus will then shift to the relationship between internal and external auditing, internal audit in higher education and reporting on internal audit activities.

Chapter 3: Internal audit: an overview

3.1 Introduction

Owing to global corporate scandals (discussed in sections 1.1 and 2.1), which occurred mainly as a result of poor internal control systems, internal auditing began received much attention worldwide (Speklé, Elten & Kruis, 2007:103; Fourie & Ackerman, 2013:496). The field of internal auditing has grown dramatically since the early 20th century as one of the cornerstones of corporate governance and an important role-player in the business world (Barac, Plant & Motubatse, 2009:980; Coetzee & Lubbe, 2011:30; Fourie *et al.*, 2013:76). Barac *et al.* (2009:980) pointed out that internal auditing distinctively provides independent appraisals within an organisation and recommendations to management. Internal auditing is further involved in advising organisations regarding risk management, internal control systems and organisational processes (Al-Twaijry *et al.*, 2003:507; Hermanson & Rittenberg, 2003:32; Asare, 2009:15; Smidt, Van der Nest, Coetzee & Lubbe, 2015:41).

This chapter is set out as follows: The first section will provide a brief overview of auditing history and background, which will encompass some of the definitions of auditing. Thereafter, a discussion will follow on internal auditing, explaining its main concepts. The governing bodies of internal auditing, both international and South African, will be discussed, followed by the relationship between internal and external audit, with a focus on internal auditing at higher education institutions. Various perspectives will be presented from international auditing firms, particularly the big four and other international firms worth noting. Internal auditing reporting will be the last aspect to be discussed.

3.2 History and explanations of the auditing concept

3.2.1 A brief historical overview

Matthews (2006:1) and Teck-Heang and Ali (2008:2) determined that the early development of auditing is not well documented. Cook and Winkle (1984:19), Gupta and Ray (1992:3), Taylor and Kritzinger (1996:6), and Ramamoorti (2003:4) indicated that the earliest audits were based on detailed reviews of records designed to confirm whether all transactions related to payments and receipts had been recorded correctly. The current concept of testing or sampling was not part of the auditing procedure. The objective of early audits was only to prevent fraud and errors on the records (Daniela, 2010:238). The accounts under review were subject to a detailed and thorough check, with more emphasis on arithmetical accuracy (Porter, Simon & Hatherly, 2014:27).

The formal record systems of different ancient civilizations can be traced as far back as 3000 BC. In Mesopotamian civilization record-checking activities were conducted by using dots, check marks and tick marks (Moeller, 2009:3). Similar kinds of checking activities were also found in England during the reign of King Henry I (1100-1135). In England special audit officers were appointed to make sure that government revenue and expenditure transactions were properly accounted for as to prevent fraud (Teck-Heang & Ali, 2008:2). Similar record checks were conducted in early China, Persia, Babylon and the City States of Italy (Ramamoorti, 2003:3; Sawyer, Dittenhofer, Scheiner, Graham & Makosz, 2003:4).

In ancient Egypt auditing involved merely listening, since not many people were literate. Later, Greece and Rome followed the same procedure, namely the ‘hearing of accounts’ (Porter *et al.*, 2014:2). The servants responsible for public funds appeared periodically before government officials to give oral presentations on their accounts (Porter *et al.*, 2014:2). Upon hearing these accounts, judges would provide their decision as to whether the accounts were reliable or not (Porter *et al*., 2014:2). The Greeks also trusted their slaves with keeping records, as they reasoned that a slave under torture could be considered more reliable than a man under oath (Sawyer, 1993:43).

In Biblical times, the internal control system seems to always have been a fundamental issue, especially the need for competent and honest employees (O’Reilly in Ramamoorti, 2003:3). For instance, in Luke 12:42-44, in his parable, Jesus is quoted as follows:

> Who then is faithful and wise manager, whom the master puts in charge of his servants to give them their food allowance at the proper time? It will be good for

that servant whom the master finds doing so when he returns (Holy Bible, 1984:736).

The Bible also discusses the dangers of a lack of dual custody of assets (O'Reilly in Ramamoorti, 2003:3). In John 12:4-6 Judas Iscariot wanted the perfume which Mary poured on Jesus feet to be sold. In this scripture Judas is quoted as follows: 'Why wasn't this perfume sold and the money given to the poor. It was worth a year's wages'. But the Bible states that Judas did not say this because he cared about the poor, but only because he was a thief; and as keeper of the money bag, he used to help himself to what was put into it (Holy Bible, 1984:979).

The majority of ancient audits seemed to concern themselves with governmental and family units (Brown, 1962:696; Watts & Zimmerman, 1983:613; Defliese, Jaenicke, Sullivan & Gnospelius, 1987:7). This is because industries during this period mainly operated from cottages and small mills which were individually owned and managed. Therefore, there was no need for managers to report to owners on the management of resources. As a result, auditing was required less (Teck-Heang & Ali, 2008:2).

According to Watts *et al.* (1983:614) and Porter *et al.* (2014:2), the practice of auditing received more recognition in the beginning of the Industrial Revolution in the UK. The period 1840 to 1920 saw massive growth in the UK economy and the development of many industrial and commercial enterprises (Porter *et al.*, 2014:27). The mode of transportation, communication and financial institution also developed dramatically during the Industrial Revolution. The railways, insurance companies and banks contributed considerably to the UK economy (Defliese *et al.*, 1987:7; Matthews, 2006:6).

These large-scale operations of the Industrial Revolution resulted in a demand for large amounts of capital (Teck-Heang & Ali, 2008:2-3). Thus, a new middle class of investors emerged who provided funds for the establishment of large industrial and commercial undertakings. However, the share market during this period was unregulated and highly speculative, with high financial failures. Individual liability was not limited, and innocent investors were often liable for the debt of the business (Teck-Heang & Ali, 2008:2-7). Given this type of environment, the need emerged for investor protection (Defliese *et al.*, 1987:7; Matthews, 2006:6). To this end, the Joint Stock Companies Act was passed in 1844 (Porter *et al.*, 2014:27). This act required, amongst other things, annual disclosure of a balance sheet by directors to shareholders of the organisations. Auditors also had to be appointed and, unlike in ancient times, the audit covered only the balance sheet of the organisation (Glaser, 1990:25). It was through the Companies Act of 1900 that auditing was extended to the scrutiny of written accounting records and comparing entries in the books of accounts with documentary evidence (Glaser, 1990:25; Sawyer *et al.*, 2003:4).

In the mid-19th century, the centre of auditing development shifted from the UK to the USA (Marx, Schondeldt, Van der Watt, Van Dyk, Mare & Ramuedzisi, 2011:3; Porter *et al*., 2014:32). Porter *et al.* (2014:32) stated that this period was characterised by the continued growth of companies and development of the security markets and credit granting institutions. Later, in the years of recovery after the Wall Street Crash in 1929 and the ensuing depression, investments in business entities grew rapidly and a new class of investors emerged with an interest in the management and returns of the company (Teck-Heang & Ali, 2008:3; Porter *et al*., 2014:32).

At the same time, management responsibilities were being performed by different parties. The control and management of organisational activities were gradually being charged to small groups of well-qualified directors and executives. These managers were accountable for generating a reasonable return on the resources entrusted to them (Porter *et al*., 2014:33). Because shareholder involvement in the management of the companies was diminishing, an independent party was required to provide an objective view on organisation activities (Marx *et al*., 2011:3). It was because of the aforesaid changes that, during the 1920s to 1960s, organisations were put under great pressured to source independent valuators on their business performance.

In South Africa, the auditing profession developed in line with corporate law and governance practices. Similar to the UK, the growth of joint stock companies in South Africa, accompanied by a series of Companies Acts, led to statutory recognition of the auditing profession (Taylor *et al*., 1996:3; Marx *et al.*, 2011:3). Marx *et al.* (2011:3) attested that the first audit institution was the Institute of Accountants and Auditors in the South African Republic, established in 1894. In these early days, the four provinces namely, Transvaal, Orange Rivier Colony, Natal and Cape, each had their own society of accountants and auditors. The Natal Society of accountants was formed in 1895, the Transvaal Society of Accountants in 1904, while the Cape Society of Accountants and Orange River Colony Society of Accountants were formed in 1907 (Marx *et al*., 2011:3).

It was only after the four societies had come together in 1945, finally forming the Joint Council of the Society of Chartered Accountants of South Africa, that the profession became consolidated in South Africa (Marx *et al*., 2011:4). The Public Accountants and Auditors Act, 1951 (Act No. 51 of 1951) was published and stipulated the registration and designation of the profession, and was later amended to the new Public Accountants and Auditors Act, 1991 (Act No. 80 of 1991) (Marx *et al*., 2011:4). As a result, in South Africa, business decisions are taken based on the books of accounts. Periodical statements are drawn up to measure the success or failure of business. Auditors are much needed as independent valuators to provide authentic statements of organisations (Rachchh, Gadade & Rachchh, 2015:3).

3.2.2 Defining auditing

From the above, it is clear that auditing has been in existence for many years. In order to gain deeper understanding of the background to auditing, it is essential to incorporate its definition when discussing the concept. It would, however, be impossible to give a single definition of auditing due to the fact that the terms 'audit' and 'auditing' are being used differently in various disciplines and situations (Marx *et al*., 2011:3). The section below will give some definitions of auditing found in the literature.

Woolf, Tanna and Singh (1986:1) defined 'auditing' as a process whereby the accounting records of a business entity are subjected to detailed scrutiny in order to enable the auditor to form opinions as to their truth, fairness and accuracy. Similarly, Taylor *et al.* (1996:6) view auditing as an examination of all records and documents of a business to sufficiently satisfy the auditor that the statement that one is called upon to audit reflects a true and fair representation of facts. Wallace (1995:4) referred to auditing as a systematic process of (1) objectively obtaining and evaluating evidence regarding assertions about economic actions and events in order to ascertain the degree to which such assertions correspond to established criteria, and communicating results. According to the International Standards Organization (ISO) 19011, an audit is a systematic, independent and documented process for obtaining objective evidence and evaluating it objectively to determine the extent to which the audit criteria are fulfilled.

Porter *et al.* (2014:8) construed auditing primarily as an evaluative process involving the gathering and evaluation of audit evidence. From this evidence, conclusions may be drawn about the fairness with which the communication from the accounting process reflects the underlying economic events. These conclusions are then communicated to the users of the financial statements. Gramling, Rittenberg and Johnstone (2010:6) defined auditing as the examination of a company's financial statements. Rachchh *et al.* (2015:6) concur by regarding auditing as the independent examination of the financial information of any entity, carried out with the objective to express an opinion regarding whether records are true and fair. These authors view auditing as a process that can be applied in many different situations, including evaluating the efficiency and effectiveness of a process or a company department, the financial reports of a governmental agency, or the compliance with company operations or government regulations (Rachchh *et al.*, 2015:6).

The above definitions indicate that there is no uniform auditing definition. Although most of the authors refer to auditing as a process, there remain some deviating views. For example, some scholars consider auditing to be responsible for financial records, while some regard auditing as an activity to be charged to all organisational events.

3.3 Explaining internal auditing

3.3.1 A brief historical overview

Section 3.2 indicated that the increased organisational changes and needs of the 1840s (during the Industrial Revolution) put continued pressure towards the sourcing of independent evaluators. As a result, the concept of auditing evolved into two categories, namely internal auditing and external auditing (Moeller, 2009:3; Porter *et al*., 2014:33; Tijani, 2014:8). Moeller (2009:5) stated that, at their emergence, internal auditors were basically performing the detailed verification of accounting records in order to assist external auditors, who were concerned with expressing their opinion on the fairness of financial statements. During this time, railway organisations entered into large-scale transactions at widely dispersed geographical locations, and internal auditors focused on protection against payroll fraud and the loss of cash and other assets (Ramamoorti, 2003:4; Speklé *et al*., 2007:103; Barac *et al.*, 2009:980).

However, various developments in corporations and the general economy which occurred in the 20th century (as discussed in section 3.2) increased the scope of the work of internal auditors (Swinkels, 2012:29). The spread of businesses across national borders also required employees to provide assurance to organisational executives that activities are being executed properly (Sawyer, 2003:5). It was from the 1930s onwards that the US SEC required organisations to provide audited financial statements if they wanted to be registered on the Stock Exchange. Owing to the increase in work volumes, the work of external auditors changed from performing detailed verifications of transactions to working with more limited samples of transactions (Moeller, 2009:5). Consequently, a number of organisational needs arose beyond external audit services. Therefore, it became necessary to establish the internal audit function to which these responsibilities could be delegated (Gupta & Ray, 1992:3).

Although it has ancient roots, the practice of the internal audit profession did not become firmly established until after the development of the Institute of Internal Auditors (IIA) Inc. in 1941 (Sawyer, 2003:5). Since the inception of the IIA, internal auditors have been reviewing different aspects of businesses (Barlow, Helberg, Large & Le Roux, 1997:20). Eventually, internal audit had to move away from its traditional methods as discussed above towards the modern expectation of being able to respond as a management tool to organisational and managerial needs (Van der Schyf, 2000:138; Plant *et al.*, 2013:66). In other words, internal auditors have become required to work as employees, within organisations, though the skill could still be outsourced to other service providers (Gantz, 2013:13; Kumar & Sharma, 2015:28-29).

3.3.2 Defining internal auditing

According to Mautz and Sharaf (1982:11), although internal auditing has been performed for a very long time, there is little indication that it was well-defined or clearly directed prior to the establishment of the IIA. It was, therefore, after the establishment of the IIA that internal audit was clearly defined for the first time (Fourie *et al*., 2013:77), a definition which is updated regularly by the IIA (Karagiorgos *et al.*, 2010:16; Swinkels, 2012:44). Section 2.11 indicated that the IIA (2015:6) has most recently defined ‘internal audit’ as:

> An independent, objective assurance and consulting activity designed to add value and improve organisations’ operations. Internal auditing helps an organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The above definition of internal auditing covers some important aspects which differentiate the internal audit function from other professions. This definition is considered to be the most comprehensive definition of internal auditing (Hass, Abdolmohammadi & Burnaby*,* 2006:836). Therefore, the remainder of this section will use this definition of internal auditing as a basis to unpack the meanings of the different key aspects in this definition. According to Reding, Sobel, Anderson, Head, Ramamoorti and Salamasick (2007:2-6), the key aspects of this definition are independence and objectivity; assurance and consulting activity designed to add value and improve operations; assistance to organisations to accomplish objectives; a systematic, disciplined approach; and evaluating and improving the effectiveness of risk management, control and governance processes.

3.2.1.1 Independence and objectivity

The definition of internal audit features elements of independence and objectivity. In order for the internal audit function to survive, its independence and objectivity are key (Hass *et al.*, 2006:824; Zakaria *et al.*, 2006:894). Refer to section 2.11.4 for discussions on independence and objectivity and how these two elements, if practised well by internal auditors, can have a positive impact on the organisational status. Also refer to section 2.11.3, as it conveys the importance of the independent relationship of internal auditors with other parties such as audit committees.

3.2.1.2 Assurance and consulting activity designed to add value and improve operations

Internal auditors provide assurance and consulting services to management, boards of directors and audit committees. Assurance and consulting engagements represent a fundamental shift in the role of internal auditing (Marais *et al.*, 2009:883; Mihret, Mula & James, 2012:153; Plant, 2014:74). Lenz and Sarens (2012:533), Marais *et al.* (2009:883) and Erasmus and Fourie (2014:3) concur by asserting that assurance and consulting services have a great impact on the risks, control processes and governance of organisation, as also discussed in chapter 2.

According to the IIA (2012:2), as well as Soh and Martinov-Bennie (2015:84), assurance services involve the objective assessment of evidence by internal auditors in order to provide an independent opinion or judgment regarding the operations of organisations. Internal auditors are to determine the nature and scope of assurance engagements – a process which involves three parties. The first party, namely the auditee, is directly involved with the subject matter of interest (the objectives of the organisation); the auditor as the second party makes assessments and provides the conclusion; and the third party, being the user, relies on the auditor's assessment of evidence and conclusion (Reding *et al.*, 2007:5).

In contrast, consulting services are advisory in nature. Examples of such service activities include providing internal control training and advice to management (IIA, 2012:2; Mihret *et al.*, 2012:160; Soh & Martinov-Bennie, 2015:84). These types of engagements involve two parties, namely the auditee and the auditor. The first party, the auditee, is seeking and receiving the advice, while the second party, the auditor, is offering and providing the advice (Reding *et al.*, 2007:5).

3.2.1.3 Helping organisations to accomplish objectives

Internal auditing is designed to add value and improve organisational operations (Pickett *et al.*, 2003:239-241; Gantz, 2013:13-14). This improvement can be achieved if the role of internal auditors is grounded firmly in the organisation's objectives (Pickett *et al.*, 2003:239-241; Kidron, Ofek & Cohen, 2016:804). The internal audit function has to form a client base and has to understand the needs of its clients (Gantz, 2013:13-

14; Erasmus & Fourie, 2014:2). It should aim to improve operations and strengthen their relationship with employees (Gantz, 2013:13-14). This should be the ultimate goal of the internal audit function and should drive the entire audit process. Failure in this regard would mean that there is no reason for organisations to resource internal audit service (Kidron *et al.*, 2016:804).

3.2.1.4 A systematic, disciplined approach

In order to achieve the organisation's objectives, internal audit should follow a systematic, disciplined approach (Pickett & Pickett, 2003:239; Moeller, 2009:111). Assurance and consulting engagements must be performed in a well-disciplined, systematic manner. For instance, the internal audit function should provide the directors of an organisation with an adequate, ongoing and systematic and disciplined way of obtaining independent assurance that the policies of the board are being implemented by management (Lenz & Sarens, 2012:541).

3.2.1.5 Evaluating and improving the effectiveness of risk management, control and governance processes

Another concept inherent in the definition of internal audit is evaluating and improving the organisation's operations. Internal auditing needs to focus on making improvements and being part of those improvements (Pickett *et al.*, 2003:239; Moeller, 2009:111). As stated in the definition, internal audit should improve and evaluate the effectiveness of risk management, control and governance. Risk management, control and governance are related concepts that set the scope for the internal audit role. (Refer to section 2.11.2 on the role of internal auditing on risk management, control and governance.)

From the above, it is evident that, from mere clerical work, the modern internal audit function has evolved to assisting management with risk management processes and designing of internal controls and governance processes. It is also clear that the role of the internal audit function and the definition of internal auditing have undergone numerous changes through the years. The section also gave an overview of the current definition of internal auditing. The next section will discuss the governing bodies which were involved in the shaping of the internal auditing profession.

3.4 Internal auditing governing bodies

3.4.1 International

Corporate governance failures and other high-profile corporate scandals (mentioned in section 1.1 and 2.4) witnessed globally over the last few years did not only have an impact on the role of the internal audit function, but also influenced the developments of internal audit governing bodies worldwide. The section below provides a brief discussion of some of the governing bodies which elevated the role of internal audit. These include the IIA, the European Confederation of Institute of Internal Auditing (ECIIA), the International Organisation of Supreme Audit Institutions (INTOSAI) and the Public Accounting Oversight Board (PCAOB).

3.4.1.1 The Institute of Internal Auditors (IIA) Global

In order to formalise the internal auditing profession, the IIA Global was established in 1941 in the USA (Al-Twaijry *et al.*, 2003:507). The IIA was created with the purpose of establishing the international status of the internal auditing profession and providing a medium for the interchanging of ideas and information amongst members of the profession (D'Silva & Ridley, 2007:116; Burnaby & Hass, 2011:735). The IIA Global is recognised as the leading international internal audit institute, involved in the fields of certification, education, research, risk management, governance, internal control, IT and security relating to internal auditing and management (Al-Twaijry *et al.*, 2003:507; Burnaby & Hass, 2011:736; IIA, 2016:Online). This institute has a network of affiliates serving members in more than 160 countries, with more than 185 000 members globally, South Africa included (Burnaby & Hass, 2011:736; IIA, 2016:Online).

The IIA Global has implemented several initiatives to promote the profession of internal auditing. For example, in the 1990s, the IIA sponsored numerous research studies and accredited articles (Ramamoorti, 2003:11). In 2006, and also in 2010, through the Institute of Internal Auditors Research Foundation, the IIA conducted studies which were instrumental in establishing the global common body of knowledge (CBOK) of the internal audit profession (O'Regan, 2001:224; Fourie *et al.*, 2013:77; Chambers *et al.*, 2015:40). It is also the responsibility of the IIA Global to maintain the International Professional Practices Framework (IPPF) (Al-Twaijry *et al*., 2003:507; Burnaby & Hass, 2011:736). If well incorporated, the IPPF can assist internal auditors to become well-skilled partners of management who could improve governance in organisations (Fourie *et al*., 2013:76).

The new IPPF, which became effective in 2015, provides mandatory guidance and recommended guidance. The mandatory guidance of this framework is essential for internal auditors as it consists of the following elements: the core principles; the IIA Standards; the definition of internal auditing; and the IIA Code of Ethics (Chambers *et al.*, 2015:40; IIA, 2016:Online). The recommended guidance basically provides internal auditors with guidance on implementing the recommendations. The recommended guidance of the IPPF consists of practice advisories, referred to as implementation guidance and practice guides, which are the supplemental guides of the internal audit profession. The implementation guidance provides internal auditors with a fundamental guide on the application of the Standards when executing their responsibilities. The practice guides, which include internal audit-specific issues, processes, programmes, tools and procedures, provide practical guidance for internal auditors in performing their day-to-day responsibilities (IIA, 2016:Online).

While the IIA ensures that it provides at least internal audit-related training programmes to its members, it acknowledges that it cannot offer every single type of training programme needed by its members. It has, therefore, also formed strategic alliances with relevant training providers (IIA, 2016:Online). The next section provides discussion of the the European Confederation of Institute of Internal Auditing (ECIIA), as one of the associations which elevated the role of internal audit.

3.4.1.2 The European Confederation of Institute of Internal Auditing (ECIIA)

The ECIIA, a non-profit association based in Brussels, Belgium, is a confederation of the national associations of the profession of internal auditing located in 37 countries, including all those of the European Union. Currently, the ECIIA represents almost 40 000 internal audit professionals. As such, the ECIIA is an associated organisation of the IIA (ECIIA, 2016:Online).

The mission of the ECIIA is to further the developments of corporate governance and internal audit in Europe through knowledge sharing, key relationships and the regulatory environment (Florea & Florea, 2013:81). The ECIIA also aims to promote the application of the IIA Standards and Code of Ethics to all the internal audit professionals in the public and private sectors throughout Europe (Florea & Florea, 2013:81-82).

3.4.1.3 The International Organisation of Supreme Audit Institutions (INTOSAI)

The INTOSAI was founded in 1953 under the initiative of Emilio Fernandez Camus, (President of the Supreme Audit Institutions (SAI) of Cuba). At present, the INTOSAI has 192 members, which include South Africa, Brazil, the UK and USA. The INTOSAI also has five associate members such as the IIA and the World Bank (Senft & Gallegos, 2008:671; INTOSAI, 2016:Online). The organisation operates internationally as an umbrella for external government audit communities and enhances the profession of internal auditing. To achieve this, the organisation provides an institutionalised framework for audit institutions to promote development and transfer of knowledge. As an international organisation, the INTOSAI encourages the exchange of experience, findings and insight amongst its members, and continuously improves government audits around the globe (INTOSAI, 2016:Online).

3.4.1.4 Public Accounting Oversight Board (PCAOB)

The PCAOB is a non-profit organisation established by the US Congress to oversee the audits of public companies (PCAOB, 2016:Online). Both the USA and non-USA public accounting firms that audit public companies under the jurisdiction of the SEC are authorised to register with the PCAOB (Razaee, 2009:259). The PCAOB, which is the review board on internal auditing, was created in conjunction with the passage of the SOX (Orin, 2010:154). The PCAOB was developed in 2004 with the aim of reforming the internal control systems and financial reporting systems in the USA. The major objectives of the PCAOB were to enhance reliable financial reporting and restore the confidence of investors after the business scandals and accounting failures of the early 2000s (Hass *et al.*, 2006:837).

3.4.2 Internal auditing and legislation in South Africa

Section 1.1 made reference to corporate governance failures and their impact on the development of internal audit governing bodies globally, indicated in sections 3.4.1.2, 3.4.1.3 and 3.4.1.4 respectively. Similar challenges were equally influential in the South African context. As indicated in section 1.1, in response to these international and local corporate governance crises, South Africa reinforced and encouraged the practice of internal audit by forming the Institute of Internal Auditors South Africa (IIA SA). The following sections will provide a brief overview of the IIA SA, the National Treasury of South Africa and some of the treasury acts which mandate the work of internal audit in South Africa. The acts discussed in the following section are the PFMA and the MFMA.

3.4.2.1 The Institute of Internal Auditors South Africa

The IIA SA was formally recognised in 1961 (Fourie *et al.*, 2013:77) and is an affiliate of the IIA Global, as mentioned in section 3.4.1.1 (IIA SA, 2015:2). As part of the international network, the IIA SA represents the interests of internal auditors in South Africa and provides them with the support and opportunities to develop to their fullest potential. This is achieved through the offering of technical guidance, professional training and certification programmes, continuing professional development opportunities, conferences and networking opportunities, executive leadership network and research, and technological guidance for the profession of internal audit (Steyn, 2014:92; IIA, 2015a:2).

3.4.2.2 National Treasury

Since 1994, the South African National Treasury has played a fundamental role in the introduction of financial management reforms across the government sectors in South Africa. The key objective of National Treasury is to secure the sound and sustainable management of the financial affairs and lead policies and reforms of the South African national, provincial and local government. Moreover, National Treasury supports government in developing an approach to assist in the improvement of service delivery to different South African communities (National Treasury South Africa, 2009:2).

National Treasury focuses on improving accountability within organisations. With this aim in mind, the National Treasury developed the Internal Audit Framework in 2003/2004 as per request of internal auditors in the public sector of South Africa. The National Treasury was to develop regulations to provide a framework of uniformity for the accounting norms and standards (Van Rensburg & Coetzee, 2011:49). This framework was to serve as a guideline for the development and operation of internal audit in the public sector of South Africa. It was also intended to ensure that the internal audit function complies with the requirements of acts such as the PFMA and the MFMA (National Treasury, 2009:2; Fourie & Erasmus, 2014:104), the acts that provide criteria on the internal audit function (Ackermann, 2016:95).

3.4.2.3 The Public Finance Management Act

In 2000, the promulgation of the PFMA drew attention to sound corporate governance and accountability in South Africa (Van der Schyf, 2000:147; Marais *et al*., 2009:884). This act applies to all state departments, a number of public entities, the constitutional institutions and provisional legislatures, subject to subsection (2) (PMFA, 1999:12). Since the development of the PFMA, internal auditing has become compulsory for all national and provincial state departments in South Africa. The PFMA requires accounting officers to ensure that all departments have an effective, efficient and transparent system of financial and risk management, as well as internal control (Fourie & Erasmus, 2014:104). The PFMA also requires National Treasury to make regulations and issue instructions to accounting officers on how to manage the internal audit function (Erasmus *et al.*, 2014:1-3).

3.4.2.4 The Municipal Finance Management Act

The reform of the internal audit functions of the local government sector in South Africa has been strengthened through the implementation of the MFMA which became effective in July 2004 (Marais, 2015:120). The MFMA was promulgated in 2003 (RSA, 2003:s2) with the aim to provide best practices for overall financial management of local municipalities, thus, contributing to a better managed and accountable local government sphere (Ackermann, 2016:93). In order to maximise the capacity of municipalities to deliver services to communities, the MFMA focused on modernising budget, accounting and financial management practices (Van Rensburg & Coetzee, 2011:47). The MFMA also intended to put into place a sound financial governance framework by clarifying and separating the roles and responsibilities of the council, mayor and officials of municipalities. The MFMA also forms an integral part of the broader reform package for local government, as outlined in the 1998 White Paper on Local Government. Also the Constitution of South Africa required the establishment of the MFMA. The Constitution obliges all three spheres of government to be transparent about their financial affairs (National Treasury South Africa, 2016:Online).

3.5 The relationship between internal and external audit

Globally, sound corporate governance has become an increasingly prominent issue, and specific emphasis has been placed on the importance of the relationship between internal and external audit (Glover, Prawitt & Wood, 2007:1; Munro & Stewart, 2011:465; IIA, 2015a:21). Distinguishing between the roles of internal and external audit is also imperative for this study (Chowdhury, Innes & Kouhy, 2005:893). There is often difference between what the audit profession perceives their objectives to be and the perceptions of some stakeholders regarding an external or internal audit (Garcia-Benau & Humphrey, 1992:304).

The internal audit function in an organisation aims, amongst other things, to assist management with the evaluation of controls, risk and governance (also refer to sections 2.11, 2.11.1, 2.11.2, 2.11.3, 2.11.4 and 3.3 respectively), whereas the objective of external auditors is to provide assurance to shareholders, board and management on the financial performance and current financial position, to name but a few (Endaya, 2014:26; ECIIA, 2016:14). However, external auditors must also have an understanding of organisational risks and internal controls as they are relevant to their audit scope (Coetzee, 2010:64; International Auditing and Assurance Standards Board (IAASB) International Standards of Auditing [ISA] 315, 2016:717). ISA 610 indicates that the methods for internal and external audit to achieve these objectives are often similar, hence there is an opportunity to substitute efforts between internal and external audit (IAASB [ISA], 2016:709) and achieve efficient and effective assurance (Schartmann, 2007:42; Deloitte, 2013:2).

However, in their relationship with internal audit, external auditors should refrain from supervising the internal audit function; they should rather use internal auditors' work to avoid unnecessary duplication of duties (Schartmann, 2007:42; Ridley, 2008:155-156; Deloitte, 2013:2; see also section 2.11). The professional auditing standards such as ISA 610 support the external auditor's reliance on the work of internal audit and indicate that, before external audits can place reliance on the work of internal auditing, they should be satisfied with internal audit's objectivity with regard to its status, the level of competency of the internal audit function and whether the internal audit function follows a systematic, disciplined approach in the execution of its duties, including quality assurance (IAASB, 2016:710).

Academic research supports the reliance of external audit on the internal audit function. On analysing internal audit assistance and external audit timelines, Abbott, Parker and Peters (2012) found that internal audit assistance to external auditors might not only result in audit cost savings, but also in greater audit efficiencies within organisations. Saidin (2014) investigated whether reliance on internal auditors' work reduced the external audit cost and external audit work in UK local authorities. She found that the reliance of external audit on internal audit helps to minimise increases in external audit fees and duplication of duties. Zain, Zaman and Mohamed (2015) found that the interaction between the quality and contribution of internal audit function prompts greater external auditor reliance on internal auditors work. Furthermore, Pike, Chui, Martin and Olvera (2016) found that external auditors involved in the development of the internal audit plan perceive the internal audit function as more objective and that both objectivity and involvement contribute to external auditors' placing more reliance on the internal audit function as compared to external auditors with no involvement.

A high level of assurance to clients can be achieved when there is proper dialogue and coordination between internal and external audit's work (Center for Audit Quality USA, Institute of Internal Auditors & Audit Executive Center, 2015:3; IIA, 2016:11). There should be at least information exchange and coordination in respect of the audit plans, programmes and audit reports (Ridley, 2008:155-156; National Treasury South Africa, 2009:43-44; Kumar & Sharma, 2015:28-29). This coordination between internal auditors, as the internal assurance providers, and external auditing, as the external assurance providers, and other parties such as management is known as combined assurance (PwC, 2009:3; PwC, 2013:10).

Both the King III and King IV Reports support the combined assurance model. Audit firms such as PwC and Deloitte have written about this as well. Combined assurance requires proper coordination between management and the internal and external assurance providers (Deloitte, 2011:1; PwC, 2009:3; PwC, 2015:14; IoDSA, 2016:68). PwC (2013:10) asserted that, in the combined assurance model, the efforts of management and the internal and external assurance providers increase their collaboration and develop a shared and more holistic view of the organisation's risk profile. The King III Report stated that, together, combined assurance providers maximise risk and governance oversight and control efficiencies and optimise overall assurance to the audit and risk committee, considering the company's risk appetite (IoDSA, 2009b:50). Strengthening the combined assurance model in organisations also enables senior management and the audit committee to prioritise their efforts (Deloitte, 2014:9; IIA, 2015b:1). The King III Report further tasked the audit committee to monitor the appropriateness of the combined assurance model (PwC, 2009:2; PwC, 2014a:15).

From the above, it is clear that both internal and external audit activities are important for organisations. Therefore, it is imperative for organisations to maintain clear boundaries and relationships between the two. In the combined assurance model, proper coordination of internal and external audit with other assurance providers is important as to avoid unnecessary duplications. The next section will explain internal audit sourcing.

3.6 Internal audit functions: in-house vs. outsourcing vs. co-sourcing

Access to capable and skilled people, whether in-house or externally sourced, is crucial for establishing an internal audit structure that is fit for purpose and has a solid foundation to deliver value to the organisation (EY, 2014:3). With regard to the need for adequate internal audit resources and specialist skills, the audit committee, in consultation with the CAE, should consider various sourcing models (PwC, 2009:2; Suleiman & Dandagob, 2014:224). The sourcing arrangements for the internal audit function can be found mainly in three distinct forms: Organisations can either in-house, outsource or co-source the internal audit function (PwC, 2009:2; Suleiman & Dandagob, 2014:224).

The functions of the business are in-house when performed by internal audit staff members who form part of the organisational structure. Similarly, in-house internal auditors have more day-to-day contact with the operations of the organisations (Glover *et al.*, 2007:8; Coetzee, 2010:962; Gabriele & Ojo, 2013:24). In-house internal auditors are more readily available to assist senior management and audit committee with their respective functions, and often display a greater understanding of operations and risks threatening organisations. This creates opportunity for the in-house internal audit function to discover problems or challenges at earlier stages (Coetzee, 2010:962). It is also easy for in-house internal auditors to build good and trusting relationships with employees, which in turn allows employees to share critical facts or ideas with internal auditors (Glover *et al.*, 2007:8; Gabriele & Ojo, 2013:24).

The disadvantage of the in-house model is that organisations may lack expertise and resources (e.g., financial and human) necessary to assess emerging risks (Carey, Subramaniam & Ching, 2006:12; PwC, 2013:3). In cases such as these, outsourcing internal auditors should be considered, especially when it is more cost effective (National Treasury South Africa, 2009:40; PwC, 2014c:23).

Outsourcing is the process of contracting certain operations to suppliers who do not form part of the organisational structure (IIA, 2015c:4). Outsourcing of business functions is not a new concept, but outsourcing of the internal audit function is distinctive, specifically in the sense that a major part of the governance structure is not part of the organisation anymore (Hermanson & Rittenberg, 2003:58; Gabriele & Ojo, 2013:24). Organisations rather bring consultants externally from audit firms to conduct their internal audit function (Papageorgiou *et al.*, 2013:596; PwC, 2013:3). The outsourced internal audit function appears to mirror a vital wider trend across organisations of outsourcing non-core areas such as IT, human resource management and taxation (Carey *et al*., 2006:12, see also Chambers, 2014a; Kinsella, 2014). These views are in line with a study conducted by Barac and Motubatse (2010:974) on internal audit outsourcing practices in South Africa. They found that the CEO as respondents of South African listed companies perceived the need for specialised technical expertise as an extremely important rationale for the outsourcing of the services of the internal audit function.

However, outsourcing can pose a major risk to organisations due to uncertainties regarding service costs, security, quality and delivery; hence co-sourcing may provide an attractive option to management (Protiviti, 2009:180; Suleiman & Dandagob, 2014:228; IIA, 2015c:5). Hass *et al.* (2006:839) and Suleiman & Dandagob (2014:228) argue that an increased demand for internal audit services places strain on many departments' limited time budgets, resulting not only in outsourcing, but also co-sourcing of the internal audit activities. The co-sourced model of internal audit involves an in-house team partnering with a third party that can bring in subject matter experts as needed, normally for shorter periods, to assist the core team (PwC, 2013:3; Plant, 2014:105). According to a study conducted by PwC (2014c:23), several CAEs indicated that organisations are turning to co-sourcing of the internal audit function to bring in the necessary skills missing in the in-house internal audit function (PwC, 2014c:23; see also Van Staden *et al.*, 2014).

To conclude, internal auditing can be sourced in different forms, which can either be in-housing, outsourcing or co-sourcing. Even though the internal audit function can be sourced differently within various organizational contexts, its role remains the same, as discussed in the preceding sections. Based on the set objectives, any type of organisation, higher education included, can opt for any form of internal audit sourcing. The following section discusses the internal auditing function in higher education.

3.7 The internal audit function in higher education

As stated in section 3.3.1, internal audit is performed in a diverse legal and cultural environment and within organisations that vary in purpose, size, culture and structure (Fadzil, Haron & Jantan, 2005:844; Arena, 2013:2001). Internal auditing is undoubtedly a fundamental component of sound corporate governance in organisations, including higher education (Singh, 2016:17). In recent years, the internal audit function has emerged as an important tool to assist higher education institutions in achieving their goals and maximising their value to society (Singh, 2016:14).

Similar to other organisations, higher education institutions are making strides to improve transparency in operations, services and finances (PwC, 2009:3; Holmes & Brown, 2012:Back cover). Higher education institutions are striving by all means to be accountable to their stakeholders and to enhance risk management by putting proper systems of internal control in place, amongst other things (Zakaria *et al.*, 2006:892; Shamsuddin & Joharn, 2014:303). The internal auditing function can provide higher education institutions with an independent, objective perspective. The internal audit function further improves compliance in the operations of these institutions (Grant Thornton, 2014:23-24).

Internal auditors work together with management functions, council and administrative units of higher education institutions to establish sound corporate governance and effective internal control system (Singh, 2016:17). It is, therefore, crucial that internal auditors consider the scope of the institution's operations and work in order to support the evaluation and management of risks and controls (Binder Dijker Otte (BDO), 2013:Online; KPMG, 2016b:23; Singh, 2016:19). Moreover, higher education institutions must consider and implement the recommendations of internal auditors so as to enhance the overall institutional effectiveness and efficiency of the internal control (Baker Tilly Beers & Cutler, 2010:24).

The next sections will discuss some of the associations and guides of the internal audit function in higher education institutions, comprehensive perspectives of international audit firms and previous studies conducted in other countries and South Africa on internal auditing of higher education institutions.

3.7.1 Internal audit associations and guides of higher education institutions

3.7.1.1 International

Section 3.4 discussed the governing bodies and guidelines for internal audit, while chapter 2 discussed corporate governance guidelines which can be followed by different types of organisations. Although they may adhere to some of these internal audit governing bodies' corporate governance guidelines mentioned above, higher education institutions around the world have bought into the idea of forming associations and guidelines (Crous, 2017:116-123), including some that are specifically applicable to their internal audit function. Some of the countries that have been following this trend are the UK, USA, Australia, New Zealand and South Africa. A discussion of each follows.

3.7.1.1.1 United States of America

In 1958, the Association of College and University Auditors (ACUA) was established in the USA, gaining members mostly from the USA and Canada. The goal of ACUA was to serve as an advocate and leading expert for the internal auditing function in higher education institutions. ACUA was also formed to be a credible source of internal auditing information and knowledge to other higher education associations, strategic partners and the general public (ACUA, n.d:Online; Colbert & Kwon, 2000:289). To enrich the knowledge of its members, ACUA provides multiple audit tools such as white papers, ACUA kick starters and a risk dictionary, which are available only to its members (ACUA, n.d:Online). ACUA also owns the *College and University Auditor Journal* which covers a variety of topics related to internal auditing in higher education, fraud and risk assessment and management. Most of the articles are written by internal auditors working in higher education institutions, sharing their experiences and unique perspectives (ACUA, n.d:Online).

ACUA has professional affiliations, including the IIA (discussed in section 3.4.1.1); the Council on Governmental Relations (COGR), an association of research universities, medical centres and independent research institutions; and the University Risk Management and Insurance Association (URMIA), a non-profit association serving colleges and universities on effective risk assessment and management (ACUA, n.d:Online; COGR, n.d:Online; URMIA, n.d:Online).

3.7.1.1.2 United Kingdom

Since its formation in September 1992, the Council of Higher Education Internal Audit (CHEIA) has become the voice of the internal audit function in the UK higher education sector. It provides a network for its members, who are the individuals delivering internal audit services to universities, whether in-house teams or outsourced from the external audit companies, as well as institutional staff, networking with internal auditors (CHEIA, 2016:Online). To provide guidance to its members, the CHEIA publishes members-only resources on IT audit, risk management, corporate governance, audit delivery support programmes and guidance and fraud resources, to name but a few.

Also in the UK, the Committee of University Chairs (CUC) is a non-profit body delivering education and development opportunities to UK university chairs. Its members developed the Higher Education Code of Governance of 2014. The purpose of this code is to identify the key values and practices on which the effective governance of the UK higher education institutions is based, in order to help deliver institutional mission and success. This code also has certain requirements relating to the internal audit of higher education. For example, governing bodies are required to appoint external auditors based on the report of the internal audit function (CUC, 2014:16).

3.7.1.1.3 Australia and New Zealand

In Australia and New Zealand, higher education institutions have come together to form a group called the Australian & New Zealand University Internal Audit Group (ANZUIAG). The group, which has not yet been established formally, currently serves as a discussion group and is open to internal audit staff from Australian and New Zealand tertiary education institutions (University of Queensland, 2017:Online).

3.7.1.2 South Africa

In South Africa, internal auditing has been increasingly recognised in the public sector (Erasmus & Fourie, 2014:2). In accordance with the Implementation Manual on Regulations for Annual Reporting by Higher Education Institutions of 2014, it is in the best interest of the public that universities, similar to public entities, have effective internal audit functions (Department of Higher Education and Training (DHET), 2014:paragraph 8). However, the Higher Education Act (HEA) does not address internal audit capacity and responsibilities directly, but assigns responsibility for quality assurance in higher education to the Council of Higher Education (CHE) (2004:v). The HEA also prescribes compliance with the King III Report in regard to the role of internal auditing (PwC, 2009:3; see also DHET, 2014.) The following section will discuss different perspectives of international audit firms on the internal audit function of in higher education.

3.7.2 Perspectives of international audit and consulting firms

International audit firms have identified various matters relating to the internal audit function in higher education institutions. Below discussions pertain to the emerging themes in internal auditing in higher education, both in the national and international sphere, as identified by some international audit and consulting firms.

3.7.2.1 KPMG

According to KPMG (2011:12), higher education institutions in China are facing higher risks due to their global expansion. Given this growth, the internal audit function is expected to be able to assist with operational assessment, specifically with risk identification that relates with international activities. Furthermore, the internal audit function is expected to test the efficiency and effectiveness of internal controls so as to mitigate any possible risks (KPMG, 2011:16).

In the context of Ireland, it was identified that internal auditing can play the following significant roles in higher education: assisting of the board and audit committee with evaluation of programmes to detect and deter fraud, determining appropriate enforcement of policies and procedures regarding the expenditure of research grants and donor-restricted funds, and confirming that policies and procedudure are communicated to and understood by relevent employees (KPMG, 2012:2). The internal audit function can also support the IT department by performing periodic comprehensive assessments of statutory privacy and security compliance (KPMG, 2012:1). Similar to China, KPMG (2012:2) in Ireland has emphasised that internal auditors are expected to focus on the risks of higher education institutions as they expand their activities to new locations, particularly abroad.

According to KPMG (2016b:1-2), internal auditors of US higher education institutions, together with external auditors, provide independent views on the prevention of fraud and detection of internal controls (KPMG, 2016b:1-2). These were the same issues raised by KPMG (2016a:16) in South Africa during the #FeesMustFall campaign. This #FeesMustFall campaign drew media attention both nationally and internationally and served as an indicator of the funding gap in South African universities. The campaign began in 2015, and flooded South African universities with massive protests which led to temporary shut-downs of various institutions (KPMG, 2016a:16). The main concern of this movement was access for poor black students to affordable, good quality education (KPMG, 2016a:5-6).

KPMG (2016a:16) emphasised that, in South Africa, fraud and corruption pose a significant threat to universities' ability to deliver quality and sustainable tertiary education; hence, it is critical to adopt a holistic fraud risk management (see NSAFAS fraud issues that occurred in higher education in section 2.4) (KPMG, 2016a:19). The other most effective anti-fraud strategies require universities to instil a sound, ethical culture amongst staff, students, suppliers and other stakeholders (KPMG, 2016a:4). KPMG (2016a:17) further indicated that internal auditors in South African universities need to consider the existence of fraud when conducting their institutional audits. Internal auditors also need to work with forensic auditors in the cognisance of unethical behaviour of management (KPMG, 2016a:17).

3.7.2.2 PwC

According to PwC (2015:Online), higher education institutions employ internal auditing as part of the corporate governance mechanism. In order to achieve their objective regarding sound corporate governance, internal auditors in higher education institutions in the UK increased their focus on distinct issues such as uncertainties regarding longer-term demand for postgraduate study, increased capacity and investment decisions against education quality and entry tariffs. In the UK, higher education institutions aim to treat students mainly as customers. In other words, marketing and student admission functions play important roles. To achieve this, the involvement and support of internal auditors are a necessity (PwC, 2015:Online).

The crucial issue in Canadian higher education is the growing parental and societal expectations. In Canada, similar to the UK (as indicated above) and South Africa Accounting and Finance (in the below paragraph), PwC (2013:2) identified that the parents and public want the best education system for their children. As a result, the parents and public constantly need assurance and accountability in this regard; hence, strong internal audit is required to meet these expectations (PwC, 2013:2).

In the USA, the increasing cost of higher education and growing industry and regulatory expectations require institutions to continue to seek synergies amongst the institutional internal audit function (PwC, 2014b:6). According to PwC (2014b:6), internal auditors in US higher education institutions have defined roles with regard to institutional compliance and enterprise risk structure. The internal audit function in US higher education is responsible for mitigating risks and responding to key exposures and any implication to the institution from an operational, financial reporting and legal or compliance perspective. It also establishes ongoing programmes to mitigate potential non-compliance (PwC, 2012:3-7; PwC, 2014b:6).

PwC (2014b) stated that public universities in South Africa are experiencing tremendous pressure regarding post-retirement obligations, admittance of more students, sourcing of more funding, running admission points systems (which have also attracted public scrutiny), and reporting on universities' performance. Therefore, PwC (2014b) recommended that higher education institutions adopt the Implementation Manual of 2007 (as amended in 2014), which prescribes a consistent framework for annual reporting. This manual was amended replaced by a new version in 2014. (Refer to section 4.4.1 which explains annual reporting in South African public universities.)

3.7.2.3 Deloitte

In reviewing the status of higher education institutions in Southern India, Deloitte (2013) indicated that Rashtriya Uchchatar Shiksha Abhiyan (RUSA), a new centrally sponsored flagship scheme for higher education, aims to improve the overall quality of the existing state institutions. The RUSA ensures that all institutions conform to prescribed norms and standards and adopt accreditation as a mandatory quality assurance framework (Deloitte, 2013). With reference to section 3.6, it is important to note that, in the assurance model, internal audit is recognised as the internal assurance provider. With this in mind, it is also important to note that internal audit in India has emerged to assist organisations, including higher educational institutions, in achieving their goals and maximising their value (Singh, 2016:14).

In South Africa, no recent information the researcher could find illustrated by Deloitte with regard to the internal audit function in higher education institutions. One of the discussed issues relating to higher education found by the researcher was the outsourcing of skills from South Africa. The discussion focused on the city of Cape

Town, Durban and Johannesburg, which were named the best outsourcing destinations in South Africa (Deloitte, 2016b:1-6). (Also refer to section 3.6 on the concepts of outsourcing and outsourcing of the internal audit function.) In this discussion, Deloitte (2016:1-6) posed that higher education institutions and other market players such as service providers and buyers need to work together to anticipate the demand and prepare for an adequately skilled workforce.

3.7.2.4 EY

According to EY (2015a:25), the rapid expansion in higher education in the Czech Republic has resulted in some serious challenges for the country's higher education education system. The main device for improving standards is considered to be the reform quality of assurance (EY, 2015a:25-27).

With regard to the practices of higher education in Australia, EY has investigated alternative forms of governance in these institutions (EY, 2014:33). The aim was to determine some of the challenges around the committee structure, as well as to assist universities with regard to their internal audit function (EY, 2014:33).

In South Africa, EY has a list of publications, but the researcher has found none that discusses the internal audit of higher education institutions. Some published issues compared South Africa's budget speech to trends in Africa and other emerging markets. EY found that currency fluctuations and commodity price challenges are one of the factors common to South Africa and other African countries (EY, 2016:1). The EY also provided discussions on the integrated reports of South Africa's top 10 state-own entities (EY, 2015b). The results included the following positive trends: evidence of innovation in layout and structure, less repetition of information. The negative trends included the following: some companies not making an effort to produce an integrated report, presentation of information that is not material and tendency to concentrate on the positive issues (EY, 2015b:15).

3.7.2.5 Baker Tilly

Baker Tilly Beers and Cutler (2010:24) revealed that, in the US higher education environment, internal auditors were sometimes perceived to be policing universities, causing personnel to be uncomfortable with working with them. Baker Tilly Beers and Cutler (2010:24) indicated changes to internal audit role and its definition (as explained in sections 3.3, 3.3.1 and 3.3.2) has promoted a more effective internal audit function

In their resource link, Baker Tilly Greenwoods in South Africa provides information on the South African Revenue Service, the new Companies Act, bulletin guide on doing business in South Africa and many others (Baker Tilly Greenwoods, 2017:Online). However, nothing was found on higher education.

3.7.2.6 Grant Thornton

Similar to Baker Tilly, Grant Thornton emphasised that, in an increasing number of higher education institutions in the USA, internal auditors no longer simply comply with policies and procedures, but also make recommendations to improve the universities' operational efficiency and effectiveness and perform quality assurance (Grant Thornton, 2014:23-24).

As also emphasised by KPMG (2016b:1-2), Grant Thornton (2014:14) indicated that higher education institutions in the USA are facing numerous instances of non-financial reporting fraud. For example, it was found that higher education institutions' reports to external users often contained multiple errors or misstatements of facts (Grant Thornton, 2014:14). As a result, much involvement of the internal audit function is required. The regular tests on the effectiveness of the internal controls through random internal audits, either by the internal audit department or a third party, should be performed. The internal audit function is expected to report the results of those tests to the audit committee annually (Grant Thornton, 2014:6-16). Grant Thornton (2014:6-16) further recommends the following to universities to maximise the value provided by either outsourced, in-housed or co-sourced internal audit function: strong tone at the top and great support from leadership of higher education to the internal audit function (see section 3.6 on different ways of sourcing the internal audit function). Grant Thornton (2014:23-24) recommended that US higher education institutions promote independence of the internal audit function and flexible resources and leverage internal auditing expertise in strategic risk assessment.

With regard to South African higher education, Grant Thornton (2016:16) explored issues such as the politics of international student mobility. They indicated that, by 2025, the international student market is predicted to reach 8 million students, representing a considerable opportunity for higher education institutions. In this regard, Grant Thornton (2016:16) recommended South Africa to demonstrate the economic and political benefits of international student mobility. Some themes discussed were the budget speech of 2016, things that South Africa can do to stave off the water crisis and many more. Significant efforts were taken in reviewing other industries and variables, but recently nothing was has been discussed based on the internal auditing of higher education institutions.

3.7.2.7 BDO

In South Africa, BDO (2013:Online) emphasised that internal audits are vital for the risk assessment and internal controls of higher education institutions. An internal audit can generate efficiency by allowing those charged with governance to obtain an objective assessment of the institution’s activity, while also assessing the effectiveness of its controls (BDO, 2013:Online).

The above discussion clearly shows that the mentioned audit firms consider internal audit to be play an important role in establishing internal controls, risk management and corporate governance in higher education institutions. Most audit firms identified institutional fraud as a challenge in higher education institutions, both internationally and in South Africa. It also appeared from the above discussions that there are still some of the audit firms which have not publish any literature relating to the internal audit function of higher education institutions. However, it is not only the audit firms that are expected to or are doing research on this topic, but many global academic studies have been conducted on the matter. These will be addressed in the next section.

3.7.3 Previous academic studies on internal audit of higher education

Both internationally and locally, scholars have conducted research to confirm the importance of the internal audit function in higher education institutions. A discussion of relevant research follows below.

3.7.3.1 International academic studies on internal audit

In the UK, Cheng (2011) interviewed 64 academics on the impact of quality audits of UK universities. Cheng (2011) found that the internal audit function had a more significant impact on the awareness of the importance of good teaching practices in higher education institutions as compared to the external audit function. Antilla (2009) compared the implementation of the quality assurance systems in the Sibiu Alma Mater University in Romania and the Tampere University in Finland. Antilla (2009) confirmed that the Romanian University had internal auditors to provide assurance on the quality of the teaching process, education, research activities and partnerships formed within Romania and European countries (Antilla, 2009). However, there was nothing stated relating to the internal audit activities of Tampere University, although some of the findings regarding this university indicated that, in the future, an expanded internal audit workforce with a high level of qualification will be a necessity.

In exploring the external and internal quality audits of Turku University of Applied Sciences in Finland, Kettunen (2012) found that the systematic procedure of external audits and internal audits promote the continuous improvement of the higher education institutions in Finland. However, Kettunen (2012) further found that, although internal auditors are to observe necessary improvements in the process management, weaknesses mainly relating to process management were determined by external auditors (Kettunen, 2012).

Arena (2013) conducted an empirical study on the internal audit function of 35 Italian universities and found a limited number of the internal auditing sections in these universities. Out of 35 universities, only 42.86% had internal audit teams to perform the internal audit activities, while 57.14% did not have any team. Also, on average, only 75% of the corrective actions suggested by the internal auditors in Italian universities were implemented (Arena, 2013).

Zakaria *et al.* (2006) investigated the role of internal auditors in the Malaysian 17 public universities and 49 private universities. The findings of this study revealed that a huge number of private institutions did not have the internal audit function. The survey disclosed that 18.4% of private higher education institutions in Malaysia had internal audit departments, while 88.2% of public higher education institutions had internal audit departments (Zakaria *et al.*, 2006). In another Malaysian study, Shamsuddin and Johari (2014) addressed the effect of internal auditing towards internal control system effectiveness in the higher education institutions of Selangor state. These authors indicated that a substantial number of public and private higher education institutions did not have the internal audit function. They further stated that, although there was a need for the empirical study to prove the results, it was concluded that internal audit had a positive influence on the internal control system effectiveness in the higher education institutions (Shamsuddin & Johari, 2014).

In Australia, Christopher (2012a) analysed the views of the vice chancellors of nine universities regarding the adoption of internal audit as a governance control mechanism by Australian public universities. According to Christopher's (2012a) findings, the vice chancellors considered the internal audit function as an important governance component which assesses the effectiveness of operations in universities. However, Christopher (2012a) highlighted that the role of internal auditing in all nine universities did not reconcile with the new definition of internal audit relative to providing financial, operational, consultancy advisory and risk management services. (Refer to section 3.3.2 for the definition of internal auditing.)

Mallari and Santiago (2013) examined the status, problems and prospects regarding internal audit services of the state universities and colleges in the Philippines. The two authors determined that 10 of the 25 institutions did not have the internal audit function at all, while the remaining 15 institutions had a shortage of the internal audit staff. About nine institutions had one to two internal audit staff members, three institutions had two to three internal audit staff members, two institutions had five to six internal audit staff members, while one institution had over six internal audit staff members (Mallari & Santiago, 2013).

Ohanyan and Harutyunyan (2016) conducted a case study in the Eurasia International University in Armenia in which they assessed the role of internal auditing in the continuous improvement of quality management systems in private higher education institutions. They presented that, although most internal controls were in place, the lack of consistent checks made the institutions' internal controls weaker. Therefore, Ohanyan and Harutyunyan (2016) highlighted the importance of the integration of the internal control systems and monitoring in which the internal audit function is suggested as the monitoring tool.

In Thailand, Musika and Upping (2014) attempted to determine whether the internal audit function was well established in higher education institutions and what role it plays in supporting the governance of these institutions. Their paper focused on evaluating internal control efficiency in the finance department of the RMUTI Sakon Nakhon Campus. The findings indicated effective internal control systems which portrayed effective internal audit. For example, it was found that the internal audit staff members who control withdrawals of government expenditure acted responsibly. However, the internal control of cash showed inconsistent daily counting and recording of cash in hand (Musika & Upping, 2014). The following section will discuss the findings of research conducted in South Africaa universities in regard with the internal audit function.

3.7.3.1 South African academic studies

In South Africa, Crous (2017) studied corporate governance in South African higher education institutions and reported that some universities were proactive and had already included disclosures recommended by the King IV Report, effective from 1 April 2017 (as indicated in section 2.10.4). The scores of the disclosure relating to the internal audit funcion were very low, which supports the fact that the King IV disclosure recommendations were not yet being applied. Universities also disclosed their information as required by the Implementation Manual of 2014 at a low rate. Only 9% of the councils' disclosure indicated that they were receiving regular reports from internal auditors. Also, between 2011 and 2015, out of 113 annual reports, only 55% included statements on the involvement of internal auditors on internal control system. Of these annual reports, just 10% disclosed the importance of the role of the internal audit function in reviewing risk assessments.

A study by Barac *et al.* (2011) analysed corporate governance practices in South African higher education institutions and found that only 19 of the 22 participating institutions had a formal internal audit function. The findings indicated that the internal audit function was performed in-house in six of the institutions, outsourced by seven others, while, for six of the institutions, such information was obscurely disclosed. Moreover, only one of the participating universities disclosed fully that internal auditors collaborated with its external auditors (Barac *et al*., 2011). (Refer to section 3.5 on the relationship of internal and external audit.)

Moloi (2016) analysed the governance of risks in the 2016 annual reports of 19 South African public universities. Findings showed that written assessment by internal audit, indicating that risk management systems and processes were effective, was not disclosed at all. In addition, these institutions failed to embrace the idea of separate risk departments within their structures, as there seemed to be reliance on the internal audit departments to conduct the day-to-day risk management activities (Moloi, 2016).

From the above discussion, a gap in the literature can be identified. None of the studies addressed the specific disclosure of the King III internal audit guidelines in higher education institutions. Also, the above studies obtained inconsistent results in regard to the internal audit function of these institutions. Some of the findings revealed that certain institutions did not have an internal audit function at all, while some have internal audit teams that have a positive impact on higher education activities. However, the researcher could not overlook the fact that some international studies identified dysfunctional internal audit functions, which could not execute its responsibilities to fully and positively benefit the institutions. The South African studies revealed weak disclosures by universities in respect of the internal audit function. The next section will discuss reporting on the internal audit function.

3.8 Reporting by and on the internal audit function

In section 2.11.1 it was indicated that internal audit reporting is one of the responsibilities of internal auditors. Fourie (2008:67) and Deloitte (2013:9) interpret an internal audit report as a periodical final product or medium of communication by which internal auditors convey their findings, results and recommendations. It assists recipients and other users of the report who are not part of the audit team in gaining a detailed understanding of the audit assignments. The internal audit report further assists management in taking necessary actions and decisions towards compliance, risk management, internal control system and efficient utilisation of resources (Tijani, 2014:23; Prickett, 2014:7). Fourie (2008:67), IIA (2012:15), Deloitte (2013:2) and Prickett (2014:7) emphasised that internal audit reports that have integrity, meet professional standards and quality, and contain reliable information are valuable to organisations.

Although internal audit contributes considerably to sound corporate governance (see sections 2.11.2 and 3.1), its work is still limited to internal use (Ackers & Eccles, 2015:531-532; Ackermann, Marx & Fourie, 2016). Other organisational parties such as audit committees, external auditors and management mandatorily disclose their information to the public (Holt, 2009:10; Deloitte, 2017:22-50), whereas internal auditors are not mandatorily required to report to external stakeholders (Singleton, 2003:301; Archambeault, DeZoort & Holt, 2008:376; Boyle, DeZoort & Hermanson, 2015:695-696).

As mentioned in section 2.11.2, the CAE reports only functionally to the board, audit committee or its equivalent, and administratively to the CEO (IoDSA, 2009b:46; Norman, Rose & Rose, 2010:546; Van Staden & Barac, 2014:36; O'Donnell, 2015:1). The audit committee or board report would rather be an indirect source of voluntary disclosures of the internal audit function to the public (Holt, 2009:10; Boyle *et al.*, 2015:695). The CAE reports functionally to the audit committee or its equivalent at least once a year (Tabuena, 2013:28). As a minimum suggested requirement, this report should include exposure of significant risk which could hamper the achievement of strategic and operational objectives and control issues arising from internal audit activity, as well as a progress report on the fulfilment of the internal audit plan (Holt, 2009:15; IIA, 2012:4-52; Boyle *et al.*, 2015:695-696). (Refer also to section 2.11.)

In administrative reporting, the CAE reports internal audit of day-to-day activities. Administrative activities include approval of budgets, management accounting and human resource administration, including personnel evaluations and compensation of staff (PwC, 2010:1; Tabuena, 2013:29). The IIA (2012:3) and Chambers (2014b:210) specified that this dual reporting relationship (of reporting functionally to the board, audit committee or its equivalent, and administratively to the CEO) is best practice to ensure internal audit independence.

In South Africa, there is no existing statutory requirements that need internal auditors to provide disclosure to its external stakeholders. Even the MFMA, which reinforces the establishment of the internal audit function, provides guidance only in regard to internal audit responsibilities and mentions nothing concerning reporting to the public (Ackermann *et al.*, 2016). (Also refer to section 3.5.3 for the purpose of the MFMA.)

However, the Implementation Manual of 2014 recommends that public higher education institutions follow the King III Report as their guideline for reporting. In this regard, under the 'apply' or 'explain' notion (discussed in section 2.10.3.2), application of the principles or recommendations should be positively expressed in the institutional annual reports to indicate that the disclosure of the institution complies with the King III Report requirements. (See section 2.11 on the King III requirements for the internal audit function.) Should there be no specific principle or recommendation applied, institutions are still expected to fully explain adopted and applied procedures (see IoDSA, 2009b:8; Barac & Moloi, 2010:22).

In section 2.11.4, it was indicated that the audit committee should oversee the reliability and substance of organisational integrated annual reports. As mentioned earlier in this section, internal auditors do not report externally but internally on their functions to the audit committee. It is, therefore, logical that, for public universities in South Africa, the audit committee will externally provide some form of disclosure on internal audit information. Section 4.4.1 states the information to be disclosed in the audit committee section of the annual integrated report, relating to the internal audit function.

Although King IV became effective from 1 April 2017 (as indicated in section 2.10.4), there is no law yet enforcing public universities in South Africa to implement the report. However, since King IV is applicable to all organisations on a voluntary basis, universities can be expected to follow its principles and recommendations voluntarily, as indicated in section 3.7.4.

3.9 Summary

Chapter 3 provided the history of auditing, which can be traced as far back as 3000 Before Christ (BC). It was evident from this chapter that, after the Industrial Revolution which originated in the UK, the ancient methods of Mesopotamia, Greece, Egypt and many others which had been used to maintain internal control systems became irrelevant. Organisations gradually began to seek different strategies and techniques to overcome challenges which emanated from the Industrial Revolution. A series of Companies Acts, which emphasised the need for auditing, were legislated, and the use of independent evaluators became priority for proper system checks. Similar to the UK, the auditing profession in South Africa developed in line with a series of such acts.

This chapter also indicated that from the term ‘auditing’, the concepts of external auditing and internal auditing emerged, with the purpose of providing independent verifications in the documents of organisations. From merely verifying the transactions performed by external auditors, later in the 20th century, internal auditing evolved to independently and objectively providing assurance and consulting activities to assist organisations in evaluating and improving effectiveness of risk management, control and governance processes. Its status and development have been constantly promoted by institutions such as the IIA and PCAOB.

This chapter submitted that, according to the combined assurance model, internal auditors and other assurance providers, together with external auditors, are considered to be complementary and, therefore, should not duplicate one another’s responsibilities. With this amount of change in the internal role, its scope was expanded in a way that allowed for greater contributions towards higher education institutions. This chapter also showed that international audit and consulting firms regard risk management, internal control and corporate governance as the primary responsibility of internal auditing in higher education.

However, this chapter presented comprehensive literature from various authors, affirming that, though internal audit could be an important tool for organisations, some higher education institutions do not always implement and utilise the internal audit function to its full potential. Even in institutions which have this function, the internal audit staff members still seem to fail to execute their responsibilities adequately to accomplish institutional goals.

Finally, this chapter explained that reporting is the other major responsibility of the internal audit function. Although internal auditors usually reported internally (only to audit committees), internal auditors' reports have recently been integrated in the annual report for external users. The IIA or corporate governance guidelines such as the King III Report provide guidance on internal audit reporting.

Chapter 4 shifts the focus towards the historical development of higher education with specific reference to South Africa. This chapter will outline international and South African higher education development and governance evolution. Some similarities and differences between UoTs and traditional universities will be identified, as well as the unique challenges facing UoTs in South Africa. The last two aspects discussed in chapter 4 is annual reporting and specifically in South African public universities.

Chapter 4: Historical development of higher education with specific reference to South Africa

4.1 Introduction

Higher education institutions globally have seen an increase in student numbers in recent years, together with institutional challenges and governance issues (Sultana, 2012:351; Tandberg, 2013:506). The United Nations Educational, Scientific and Cultural Organisation (UNESCO) (2017) asserted that, from 100 million students enrolled in 2000 globally, student enrolments in higher education grew to 207 million in 2014. Though this may seem to be a great achievement, it has, however, negativelty impacted higher education institutions, as more students mean more pressure on existing limited resources and infrastructure (Tandberg, 2013:507).

Chapter 1 reflected on the challenges faced by higher education institutions, both internationally and nationally, and that these challenges have compelled higher education institutions to advance and maintain their governance goals (Amaral, Jones & Karseth, 2002:xv; Vidovich & Currie, 2011:43; Schmidt, 2014:2). It is for these reasons that higher education institutions in different countries have been seeking best governance models that would fit their missions and goals.

From the 1980s, universities in countries such as the US, UK, Australia, Canada and South Africa have started to move away from their traditional collegial models to more entrepreneurial models where universities consider and incorporate the needs of business and industry into their programmes and courses (Peters, 2013:13). Universities, thus, began to adopt the managerial principles associated with organisations – incorporating so-called managerialism (Lazzeretti & Tavoletti, 2005:476; Barac & Marx, 2012:355; Tsai & Beverton, 2007:6; Peters, 2013:13; Davidovitch & Iram, 2015:20). In South Africa, early governance models were mainly adopted from the UK models (Hall, Symes & Luescher, 2002:20). In this sense, higher education in South Africa is also moving towards managerialism (Dominguez-Whitehead, 2011:1313; Tight, 2014:299).

The purpose of this chapter is to give a brief overview of South African higher education developments. Reference will also be made to some of the developments and governance styles of Western universities, as South Africa, as a former British colony, integrated these styles in its university system (Cloete & Muller, 1998:2-4; Kulati, 2003:14). The discussion will first focus on the US, UK, Australian and Canadian higher education systems and then move to South African higher education developments, including the identity of traditional universities, UoTs and comprehensive universities. The discussion will provide some insights on the unique challenges facing UoTs. The international and national governance environment will also be set out. The final aspect to be attended to in this chapter is corporate reporting.

4.2 The international development of higher education institutions

Higher education development is not a unique phenomenon in South Africa. Developments in higher education institutions have also taken place in countries such as the UK, US, Canada and Australia. The sections below will discuss the development of higher education in these four countries, and South Africa.

4.2.1 United Kingdom

Higher education in the UK has long important history. While exact dates are uncertain, teaching on higher education level in the UK has been documented from 1096, with the University of Oxford being the first university established in the country. The establishment of the University of Oxford was followed by that of the University of Cambridge in 1209, three Scottish universities, St Andrews, St Glasgow and St Aberdeen in the 15th century, and the University of Edinburgh in 1583 (Van Deuren, 2013:9).

A major expansion of higher education in the UK occurred in the 19th century. This occurred during the awarding of Royal Charters authorised by the ruling monarch at the time to the St David's College, Lampeter University (subsequently part of the University of Wales), Durham University, King's College London and University College London. The first part of the 19th century also saw the foundation of medical, science and engineering colleges in the major industrial cities of England. Some of these colleges were later merged to become the Universities of Birmingham, Bristol, Leeds, Liverpool, Manchester and Sheffield and were referred to as the ‘redbrick universities’ (Van Deuren, 2013:9). The purpose of these merged universities was to respond to the demands of the students and employers aligned with the Industrial Revolution (Dearlove, 2002:261). (See section 3.2.1 for a brief discussion of the Industrial Revolution in the UK.) By the end of World War II in 1945, the UK had nine universities and myriads of university colleges (Van Deuren, 2013:9).

The UK higher education environment did not cease to develop. In 1992, the UK government formally abolished the division between universities and polytechnics and established a unitary system of higher education in the UK. Universities in the UK were then categorised as ‘old universities’, ‘new universities’ and ‘open universities’. The old universities were universities established before 1992, new universities were previously known as polytechnics which gained university status in 1992, and open universities were established from 1969 (Jongbloed, 2008:15-16; Boliver, 2015:1).

The old universities provide a range of professionally accredited degree courses including engineering, accountancy, teacher training, librarianship and information science, and medical studies. However, they do not provide professional training. The role of new universities changed with the 1966 White Paper Plan for the polytechnics and other colleges. This plan described the polytechnics as regional centres of higher education linking industry with business (Van Vught, Bartelse, Bohmert, Burquel, Divis, Huisman & Van der Wende, 2005: 11-14). Polytechnics were originally set up by charitable endowment to enable working-class individuals to advance their general knowledge and industrial skills on a part-time or full-time basis. The open university is the major provider of part-time degrees in the UK (Jongbloed, 2008:15-16).

Based on the recent patterns and trends of UK higher education (2016), in 2014–2015 there were 164 higher education providers, excluding education colleges in the UK. The analysis further indicated that, within this period, 2.27 million students were studying at UK universities, 1 697 150 part-time and the remaining 568 930 full-time. The universities employed 404 000 staff members, of which 198 500 were academic staff and 205 500 non-academic staff (Universities UK, 2016).

4.2.2 United States of America

Higher education in the USA began as early as the 1770s with the establishment of colleges such as the William and Mary College, Harvard College, Yale College, King's College, Rhode Island College, Queen's College and Dartmouth College (Bowers, 2012:23). In this period the American people believed that individuals cannot be legitimately educated, employed and religiously observant unless institutions of higher learning were developed (Cohen & Brawer, 1989:1). Before 1776, institutions including Harvard, were providing education to men going into ministry only (Bowers, 2012:23). Between 1776 and 1783, the USA higher education curriculum expanded to include advanced academic learning in science, mathematics, medicine, law and technological and scientific education (Bowers, 2012:25).

In the 20th century, as briefly discussed in section 3.2.1, economic and social changes drastically transformed higher education in the USA. The American people came to view broad access to higher education as a necessary component towards the benefit of the nation. It was also in this period that the middle-class, women and minorities were granted rights to higher education (American Council on Education, 2001:iii), making the USA one of the first countries to achieve mass higher education (Altbach, Reisberg & Rumbley, 2009:iv), with an estimated 3.6 million students enrolled in 1960 (Cote & Furlong, 2016:161).

In 2012, the USA enrolled an all-time high of about 20.9 million students in the 4 727 higher education institutions in the country (Cote & Furlong, 2016:161). These institutions are divided into three types. According to the American Council on Education (2001:7-10), the three types of higher education in the USA each include public and private institutions. They are two-year colleges, usually called community, junior, or technical colleges; four-year colleges, which usually offer either four years of general undergraduate education (liberal arts) or a combination of general and pre-professional education; and comprehensive universities, which offer both undergraduate and graduate education, as well as professional degrees (American Council on Education, 2001:7-10).

4.2.3 Canada

The first colleges in Canada were established through colonial legislatures. Private colleges developed with the support of church organisations, which became a dominant institutional model for Canadian higher education. The first colleges were the King's College founded in Windsor in 1789 and the college of New Brunswick founded in Fredericton in 1800 (Jones, 2014:4). McGill College emerged in Montreal in 1821, supported by funds from the estate of James McGill. This college was the first non-church college (Xu, 2009:92). The King's College at York (later Toronto) was awarded a charter from the British Crown in 1827. In the 1840s a number of colleges were established, including the Queen's College of the Presbyterian Church, Acadia College of the Baptist Church, and Victoria College of the Methodist Church in 1841 (Jones, 2014:4).

The rise of colleges which dominated Canadian higher education raised questions about which institutions, if any, should receive support from colonial governments. The fact that land endowments had been granted to colleges linked to the Church of England led to bitter political disputes between religious groups and within colonial legislatures. As a result, the King's College at York eventually emerged as the provincial University of Toronto in 1849, and the Brunswick College was named the University of New Brunswick in 1858 (Jones, 2014:4).

After World War II, public perceptions of the role of higher education began to change in Canada (Xu, 2009:92; Jones, 2014:6). Canadian soldiers had been major contributors to the war effort. In return, qualified soldiers were offered the veterans' benefits programme with the option of receiving free university education, with the federal government covering the tuition fees and basic living. The programme was successful, both in terms of encouraging the further education of returning veterans and in spreading out the transition of veterans into the rapidly changing post-war labour market. In 1945–1946 the enrolment of Canadian universities increased by 46% when 20 000 veterans entered the university system (Jones, 2014:6)

After the 1950s, the comprehensive universities were founded. These included Dalhousie University, Queen's University, Toronto University, to name a few (Xu, 2009:92). Each year, nearly 1 300 000 full-time and part-time students study in Canadian colleges or universities (Jones, 2014:9).

4.2.4 Australia

The first higher education institution in Australia is the University of Sydney which was founded in 1850 in New South Wales. By 1912, Australia had successfully developed a university in each state. These include the University of Adelaide in South Australia, founded in 1874, the University of Tasmania in 1890, the University of Queensland in 1909, and the University of Western Australia in 1911 (Jongbloed, 2008:16).

Towards the 1980s, the Australian higher education system changed (Pham, 2000:118). The unified national system of higher education which encouraged distinction between universities and colleges was implemented (Jongbloed, 2008:16). For more developments, a series of government reviews looking at different aspects of research and innovation systems were held and led to reforms encompassing teaching and learning, workplace relations, governance, student financing, research, cross-sectorial collaboration and quality matters (Jongbloed, 2008:16).

According to Higher Education Funding Australia (2015:5), the Australian higher education system currently comprises public universities, private universities, international branches, and other non-university higher education providers (NUHEPs). These are categorised as follows: 172 registered higher education providers comprising 37 public universities, three private universities, one private university of specialisation, two overseas universities, and 129 NUHEPs (Higher Education Funding in Australia, 2015:5). The Grattan Institute (2014:3) indicated that the higher education workforce in Australia is significantly increasing, with more than 50 000 people currently holding academic jobs, consisting of a combination of casually-employed tutors and full-time lecturers (Grattan Institute, 2014:3).

From the above sections, it is evident that most countries have experienced significant changes and developments in their higher education environment since its establishment. (As mentioned earlier, the South African developments will be discussed later in the chapter.) Internationlly, the numbers are consistently growing with regard to student enrolments, staff members and number of institutions. But with this many developments the underlying question is whether there are proper governance systems that enable these institutions to meet their goals and the needs of their stakeholders. The next section will explain popular governance models that have been evolving in higher education around the world.

4.3 Brief background of governance in higher education

Since the 19th century, the traditional idea of governance in higher education has stressed the importance of autonomy. Academic institutions have often used governance to isolate themselves from direct control by external agencies (Enders, De Boer & Weyer, 2013:7; Davidovitch *et al.*, 2015:16). Institutions of higher education have always been perceived to be free to act and conduct themselves according to their own principles (Davidovitch *et al.*, 2015:16), a principle which is also referred to as academic freedom. However, because of global changes (discussed in chapter 1 and section 4.1), around the 1950s, higher education institutions started losing their institutional autonomy (Enders *et al.*, 2013:16; Davidovitch *et al*., 2015:16).

Furthermore, the increased number of stakeholders stimulated the changes in higher education as they demanded more of institutions with regard to performance, accountability and value (Hirsch & Weber, 2001:149; Altbach *et al.*, 2009:iii; PwC, 2014b:1; Davidovitch *et al.*, 2015:20). Governments also became more concerned about the capacity of higher education to serve their respective societies (Capano, 2014:2; see also Mok, 2003:119; Barac *et al.*, 2011:318). Therefore, institutions were obligated to set clear purposes, objectives and roles (Askling & Kristensen, 2000:19; Pham, 2000:118; Altbach *et al*., 2009:6; PwC, 2014b:1) and more focus was diverged to institutional governance (Dearlove, 2002:257-258; Sultana, 2012:345).

According to Trakman (2008:66), there is no one-size-fits-all model of governance that could exemplify sound governance practices in higher education. In other words, to achieve sound governance over years, higher education institutions would not constantly use one governance model consistently, because as time passes, institutions face different dilemmas. It is also critical to highlight that the King Committee opposes a one-size-fits-all model (IoDSA, 2009b:1). Hence, investigations and research have been conducted to find the best model of governance and decision-making in higher education. As a result, a series of governance models have evolved in higher education (Teichler, 2013:324). The next section will explain briefly the governance models that emerged in higher education institutions, as well as the external governance of higher education, both internationally and nationally.

4.3.1 Governance developments in higher education

Governance in higher education institutions involves internal and external relationships. Internal governance involves the relationships between the institutional governing bodies and academics, while external governance in higher education institutions involves the relationships between universities and states (Crous, 2017:120) and other external agencies. The following discussions will focus on the internal and external governance developments in higher education in the UK, US, Canada, Australia and South Africa.

4.3.1.1 United Kingdom

4.3.1.1.1 Internal governance

As a result of the dramatic shift in UK higher education from the 1980s, which included a considerable increase in student numbers (as seen in section 4.2.1) and a decrease in state funding, institutions were forced to seek better governance strategies to respond adequately to these changes (Taylor, 2013:82). From the 1980s, the pre-1992 universities, also known as the old universities (as discussed in section 4.2.1) practised the collegial governance model, which focused on the formation of institutional governance committees with minimal hierarchy (Deem, 1998:47; Dearlove, 2002:257; Claxton-Freeman, 2015:59). These committees involved a group of academics with equal powers who encouraged diverse perspectives and autonomy in teaching and research (Deem, 1998:47; Melo, Sarrico & Radnor, 2010:236; Claxton-Freeman, 2015:59). The former polytechnics and colleges, or new universities (as indicated in section 4.2.1), followed the bureaucratic governance model (Deem, 1998:48). In this model, decisions were taken hierarchically and there were generally a series of norms and principles to be followed (Melo *et al*., 2010:236).

From the 1990s onwards, most UK universities began to resemble the structuring of private organisations (Teichler, 2013:324). These universities had inherited some of the organisational strategies, structures, technologies, management instruments and values found in private business sectors (Smeenk, Teelken, Eisinga & Doorewaard, 2009:590; Melo *et al.*, 2010:236-237; Middlehurst, 2013:275). Different terms referring to this governance approach were adopted. For example, this approach was referred to as 'managerialism' (Pham, 2000:19; Dearlove, 2002:257; Jongbloed, 2008:15-16; Melo *et al.*, 2010:236), 'new public management' (Taylor, 2013:82), 'market-based public administration' (Askling & Kristensen, 2000:19; Smeenk *et al.*, 2009:590; Christopher, 2012b:529) or 'corporate governance' (Trakman, 2008:69).

In the above governance approach, those in charge of the governance of UK universities had the same responsibilities as key actors in the private sector. The vice chancellors were redefined as the CEOs, reporting to the governing councils. The governing councils had the same responsibilities as corporate boards, responsible for developing, implementing and monitoring various governance processes. The CEOs were expected to assist the governing councils to be more accountable to the universities' stakeholders (Dearlove, 2002:265; Melo *et al.*, 2010:233; Peters, 2013:13). Some of the public universities have moved structurally closer to this model, with the chairs and smaller boards of governors or trustees directing the governance of the UK universities, while the CEOs, chief operating officers and CFOs are responsible for serving the governing boards of the universities (Trakman, 2008:69).

4.3.1.1.2 External governance

The UK government set some policies with particular emphasis on the efficiency and sound governance of public universities (Trakman, 2008:69-70). For instance, in the early 1960s, the UK government commissioned the Robbins Committee to assess long-term higher education developments (Taylor, 2013:81). The Robbins Report recommended that universities democratically organise their affairs, unrestricted by, and unaccountable to, any external body, since any restrictions on academic freedom would undermine their identity (Salter & Tapper, 2002:247). The Dearing Report of 1997, formally known as the National Committee of Enquiry into Higher Education, published by the Dearing Committee and commissioned by the UK government, also recommended proper management and governance arrangements in universities (Trakman, 2008:69-70; Taylor, 2013:84). The Dearing Report further emphasised that universities had to become more accountable, more collaborative and more responsive to challenges (Deem, 1998:56; Trakman, 2008:69-70). This report assumed a highly managerial view of higher education rather than a focus on collegiality (Deem, 1998:56). (See section 4.2.2.1.1 which discussed the UK higher education shift from collegial governance model to managerial governance model.)

The Lambert Review of Business University Collaboration, popularly known as the Lambert Report, commissioned by the UK Treasury in the early 2000s stressed the importance of governing bodies in promoting universities' collaborations (Taylor, 2013:84). Most importantly, the Lambert Report also considered the committee structures of universities' internal governance to be detrimental to sound governance (Taylor, 2013:84). The CUC, a representative body of UK universities' heads (as indicated in section 3.7.1.1.2), was established to provide a clear distinction between governance of the new universities and old universities. (See section 4.2.1 on the difference between new and old universities.) For example, the CUC published a corporate governance code for governing body members (Taylor, 2013:82). (Refer to section 3.7.1.1.2 on the recommendations of the CUC Governance Code, 2014, which is the latest version.)

4.3.1.2 United States of America

4.3.1.2.1 Internal governance

Prior to the 1950s, the governance pattern of US higher education closely resembled that of the private colleges. The USA institutions of higher education followed the lay governance model that involved the non-professional boards of trustees, who exercised policy and fiduciary responsibility at campus level. Under this approach, public colleges and universities had to compete with one another for resources, students, and political support in an unregulated marketplace of service delivery (McLendon, Deaton & Hearn, 2007:647).

As discussed in section 4.1.2, McLendon *et al.* (2007:647) indicated that, after World War II, the USA faced massive social and political challenges, which also impacted on the higher education system. For example, the US government had to increase expenditure to improve infrastructure and respond to the increased student enrolments in higher education institutions (Lyall in Hirsch & Weber, 2001:17-18; McLendon *et al.*, 2007:647). As a result, these challenges created wider expectations of universities from the USA government and public. The institutions were then expected to be more responsive to the broader needs of society and government, thus requiring most universities to redesign their governance systems (Lyall in Hirsch & Weber, 2001:17-18; McLendon *et al.*, 2007:647). Most US universities and colleges then had to search for sound governance models that emphasised rationalism and hierarchy (Lyall in Hirsch & Weber, 2001:17-18; McLendon *et al.*, 2007:647). In this regard, Shattock (2006:17-18) stated that a shared governance model became more common in US higher education institutions. Shared governance in US universities and colleges was performed by three groups, namely the institutional governing body, the CEO and the academic community (Shattock, 2006:17-18). In this approach, the councils, senates and committees were to be jointly responsible and coordinated by the institutional CEOs. The committee structures were also responsible for diffusing governance to the academic community (Taylor, 2013:86-92).

Later, in 1966, the institutional governing boards, faculties and administrators were included in the structures of the universities' shared governance. The governing boards comprised the lay trustees who acted as stewards of higher education institutions and protectors of public interests. The faculties were represented by groups of academics, while managers represented the universities' administrations (Duderstadt in Hirsch & Weber, 2001:36-37). According to Taylor (2013:90) and Hirsch and Weber (2001:149), in the post-World War II era, it was deemed that the shared governance model served the US universities very well. Taylor (2013:90) pointed out that this model was conducive to good performance of core university activities of research and teaching.

Towards the end of the 20th century, the shared governance model could no longer meet the expected pace of change and responsiveness desired by political and corporate stakeholders. In particular, research universities were criticised for sacrificing teaching to their research mission and neglecting undergraduate education (Lyall in Hirsch & Weber, 2001:16-17). Therefore, from the 1990s, US higher education followed the new model of governance called managerialism (Teichler, 2013:324). (Refer to 4.2.2.1.1 for an explanation of managerialism.)

4.3.1.2.2 External governance

The external governance of US universities is represented by one or a combination of state supervisory bodies which differ from state to state (Duderstadt in Hirsch & Weber, 2001:32; Crous, 2017:204). For instance, states such as Indiana, Kentucky, Louisiana, Massachusetts, Missouri, New Jersey, North Dakota, South Carolina, Virginia and Washington are not fully controlled by the state governing body, as universities in these states have autonomy (Chappell, 2013:14). Meanwhile, universities in Alabama, Delaware, Michigan, New Mexico, Vermont, Nevada and Wyoming have full autonomy and governors have no control over their governance (Chappell, 2013:14).

Some of the external governance efforts in the US higher education environment include the Statement of Government of Colleges and Universities publication in 1966. This statement was drawn up jointly by the American Association of University Professors, the American Council on Education, and the Association of Governing Boards of Universities and Colleges. This statement sought to define the respective roles of governing boards, faculties and students (Hall *et al*., 2002:33). The Glion Declaration of 1998, which was published by a group of Western Europeans and Americans who have been closely associated with higher education, called for functional relationships between societies and universities for good performance. The Glion Declaration of 1998 was followed by the Glion Declaration of 2000 which focused on the governance of universities in Europe and the USA. The latter declaration emphasised the importance of sound governance, as it could have an impact on institutional well-being and effective performance (Rhodes in Hirsch & Weber, 2001:16-17).

4.3.1.3 Canada

4.3.1.3.1 Internal governance

The governance models followed in the 1900s in Canadian higher education institutions shared the following features: a high degree of institutional autonomy; bicameralism, which is where the responsibility for administrative and fiscal matters is assigned to a governing board and responsibility for academic matters is assigned to a senate; and lay governance (as explained in section 4.2.2.3.1) (Pennock, Jones, Leclerc & Li, 2012; Capano, 2014:14-15). In the mid-1990s, Canadian higher education institutions experienced a significant decrease in government funding. As a result, universities increasingly turned to private sources of financial support and devoted a greater share of institutional resources to external relations (such as expanding corporate university partnerships). The increased financial concerns within universities required management to be more independent (Brownlee, 2016:Online) and clarify their internal governance models to all stakeholders (Capano, 2014:14-15).

Similar to the UK and USA, higher education institutions in Canada were forced into the practice of managerialism (Capano, 2014:14-15). They were required to apply managerial tools of business with the objectives of improving efficiency, marketing themselves and generating commercial revenue. Many universities also employed the services of professional administrators to enhance the institutions' economic performance (Chan & Richardson, 2012:31).

4.3.1.3.2 External governance

Higher education in Canada also has external agencies that exert influence on its governance. In Canada, the Education Review Commission, mandated by the Canadian government, was established in 1992 and chaired by Sir Duff Roblin. Its mandates included making recommendations on the governance structures of post-secondary education, university management systems, public accountability, accessibility, and cooperation between universities and community colleges (Government of Canada, 2018:Online).

The Canadian Association of University Teachers (CAUT), founded in 1951, created the Policy Statement on Governance of 2008 that required faculty associations to encourage their members to play a full and active role in the senate. This statement recommended that universities take initiative in making changes to the membership and voting structure of the senate. Moreover, the statement required that members of senate reflect the diversity of the academic community, whereas the board should include representatives from faculty, staff, students and alumni and reflect the diversity of the community in which the university is located (CAUT, Online).

4.3.1.4 Australia

4.3.1.4.1 Internal governance

In the 1980s, similar to their American peers, Australian public universities followed the collegial governance model. (Refer to section 4.2.3.1 for an explanation of the collegial governance model.) In the 1990s, many universities in Australia began to follow the worldwide trend of shifting from the old collegial governance model towards what became known as public management or corporate managerialism (Trakman, 2008:68-69; Christopher, 2014:558-563). The pressure to withdraw from the collegial culture to the new model of corporate managerialism was initially influenced by the Dawkins Report of 1988 (Christopher, 2014:558-563). (See section 4.3.3.4.2 on the Dawkins Report.) This model was grounded in the rationale of corporate efficiency and was a reaction to the criticism that public universities in Australia were poorly managed. Also, as the Australian government required a more cost-effective university management model, this governance model was intended to redress deficiencies and encourage universities to comply with the demands of government (Trakman, 2008:69).

4.3.1.4.2 External governance

In 1995, the Australian government issued the Hoare Report, which proposed changes to university governance. The report was necessitated by changes relating to the representatives of students and a wider range of activities in Australian universities. The report proposed changes to university governance practices (Hoare, 1995:1). Also, the Australian National University Act, issued in 1946 (as amended in 2014) by the Commonwealth of Australia, externally governed Australian higher education institutions (Vidovich & Currie, 2011:46; Norton & Cherastidtham, 2014:62).

Universities in Australia also followed the Dawkins Report of 1998 to improve their governance. This report recommended explicit and implicit incentives for vice chancellors to centralise authority (Considine, 2001:150). In addition, the subsequent governmental reforms, such as the National Governance Protocols of 2004 and the Bradley Review of 2008, reinforced the need to promote efficiency, effectiveness and competitiveness in university operations and accountability (Christopher, 2014:558-563).

4.3.1.5 South Africa

The beginning of the governance debate in South African higher education institutions can be traced to the 1980s when the collegial model dominated (Cloete & Kulati, 2003:2; Jansen, 2004:302; Barac & Marx, 2012:355). This model of higher education has been thoroughly condemned from the 1990s during the initial phase of introducing democracy (Cloete & Kulati, 2003:28; Dominguez-Whitehead, 2011:1313). This was because the collegial governance model was assumed to be too exclusive and regarded as an obstacle to transformation in higher education, as the majority of employees were considered to be aligned directly or indirectly with the apartheid regime (Cloete & Kulati, 2003:28; Barac & Marx, 2012:355).

Since the dawn of democracy in 1994, the trend of university governance has largely focused on the relationship between university and government (Mthembu, 2009:4). The focus has been to realign and reintegrate the local higher education institutions with their global counterparts, and this has been done partly by way of introducing co-operative governance (Cloete & Kulati, 2003:14; see also OECD, 2008:353; Mthembu, 2009:4). The concept of co-operative governance emerged from a more general idea of state supervision (Hall *et al.*, 2002:43). It also assumed the active participation by civil society constituencies and acknowledged their different interests, maintained separate identities and recognised their mutual interdependence and responsibilities for a common goal (Green Paper, 1996:28).

However, the CHE Review of 2004 noted a change in the original intended co-operative governance model (CHE, 2016:46). The publication of the National Plan for Higher Education in 2001, and amendments to the HEA which introduced mechanisms that allowed the minister of education to intervene in troubled institutions, caused a shift from state supervision to state steering. The minister of education was tasked with appointing administrators to take over the functions of university councils (Hall *et al.*, 2002:33; OECD, 2008:353-354; Lange & Luescher-Mamashela, 2016:115-116). As a result, universities withdrew from the co-operative governance model (CHE, 2004:199; Lange & Luescher-Mamashela, 2016:115-116) and followed the new trending governance model known as managerialism (OECD, 2008:354-355; Dominguez-Whitehead, 2011:1313). (Refer to section 4.2.2 which explains managerialism.)

Higher education institutions in South Africa are regulated by the HEA, the Regulations for Annual Reporting by Higher Education Institutions of 2003, revised in 2007 (Barac *et al.*, 2012:356), and the Implementation Manual of 2014 issued by the Department of Higher Education (DHET) under the regulations of the HEA. (See also section 4.3.3.5 for further explanation on the relationship between government and public institutions of higher education.) Although subsidised by the state, universities in South Africa are deemed to be autonomous and they report to their university councils, rather than to the government (Brand South Africa, 2013). There are also different structures that form the governing body of higher education, which will be discussed below.

4.3.1.5.1 Governance structures of higher education in South Africa

The CHE (2016:49) identified three main governance structures in South African universities, namely the council, the senate and the institutional forum. In many instances, students are represented in all committees such as the senate and council (CHE, 2016:50). The council is the main governing body of public universities (Cloete & Kulati, 2003:6). It is the highest decision-making body and is responsible for governance, quality, integrity, financial affairs, performance, and the reputation of the institution (Barac *et al*., 2011:324).

Another major governance structure of higher education is the senate (Barac *et al.*, 2011:324). The senate is responsible for planning and delivering academic research programmes while maintaining a level of independence from the council (Mthembu, 2009:11). Senate members are expected to perform other functions that the council may delegate or assign (Cloete & Kulati, 2003:6).

A relatively new body in the governance structures of higher education is the institutional forum (Mthembu, 2009:11). The primary role of the institutional forum is to advise the council on transformation. Institutional forums are established to pay more attention to the implementation of legislation and national policy, race and gender equity, the selection of candidates for senior management positions, codes of conduct and others (Hall *et al.*, 2002:20; Cloete & Kulati, 2003:6).

As part of the emergence of a new democracy in South Africa, the HEA required all the institutions' statutes to have the representation of students (CHE, 2016:50). The student representative council (SRC) was then developed to represent students' interests (CHE, 2016:50). The SRC is expected to be seen as a significant stakeholder in the decision-making bodies (i.e., the council and senate) rather than a mere structure of governance. The SRC constitutions have to be approved by another university body, usually the council (Mthembu, 2009:12).

The discussion in the above sections draw attention to the number of governance models which evolved in higher education all over the world. It is clear that, at some point, higher education institutions in the UK, US, Canada, Australia and South Africa were run according to a completely collegial governance model. Owing to the changing environments in which higher education institutions operate, the need arose for them to change from their traditional collegial governance mode to the market-based governance models. In South Africa, before higher education institutions could follow the direction of other international universities, they were distinct from their co-operative governance model, which later did not work. In all the countries mentioned above, government and other external agencies had some predominant influence on the governance of higher education. The next section will review the background of higher education in South Africa.

4.4 Higher education in South Africa

The following sections will incorporate the discuss the history and background of higher education in South Africa, that is, the factors which determined the identity of traditional universities, comprehensive universities, and UoTs. The unique challenges of UoTs will also be explored.

4.4.1 Recent history and background

The history of higher education in South Africa has been a complex one since the country's colonisation by Britain (Roux & Becker, 2016:131-132; Soudien, 2016:8). Higher education were developed from Western styles, especially those of the UK and other European countries. Therefore, the following discussion will document the development of higher education in South Africa since 1994 when South Africa became a democratic country.

Alexander (2006:11) and Roux and Becker (2016:131-132) describe post-1994 as the period in which South Africans were able to construct a new historical community, without racial thinking and racial discrimination, as a united nation. This type of environment had an impact on higher education institutions, as the imbalances of the past system of apartheid were addressed (Moloi, Mkwanazi & Bojabotseha, 2014:469). It was also only post-1994, after the apartheid era, that developments in higher education received much attention and were embraced by many African scholars (Hay & Monnapula-Mapesela, 2009:3; Schwartzman in Schwartzman, Pinheiro & Pillay, 2015:28).

In the post-1994 era, the aim of the government of South Africa was to provide a high-quality, accessible education system while meeting the educational needs of society. As such, government required higher education to put more effort into making a better education system (Baloyi & Phago, 2012:873). Government-allied mass movements focused on transformation, the definition of purposes and goals, extensive policy research, policy formulation, adoption, and implementation in the areas of governance, funding, academic structures, academic programmes, and quality assurance in higher education (Badat, 2010:5-6; Baloyi & Phago, 2012:873; Nkhumeleni, 2012:24). Relevant acts and policies, such as the 1997 White Paper for Social Welfare which sought to redress the inequalities of the past and transform the higher education system into serving a new society, met broader national needs, and new opportunities were introduced (Mthembu, 2009:10).

The 2001 National Plan for Higher Education was also developed. This plan had three objectives, namely that of human resource development, infrastructure and innovation (National Plan, 2001:4). In 1999, the National Student Financial Aid Scheme (NSFAS) was established to improve the amounts of loans, bursaries and grants available to low-income students and increase the accessibility of higher education (Dominguez-Whitehead, 2011:1313). The introduction of the HEA, which focused mainly on aspects of equality, development, accountability and quality, and the Higher Education

Restructuring and Transformation Guidelines for Mergers and Incorporations of 2003 was also an attempt to facilitate the transformation of higher education in South Africa (Van Louw & Beets, 2008:497).

At the same time, the physical shape of higher education institutions was substantially modified (Adams, 2006:5-6; Bunting & Cloete, 2010:1; Moloi *et al.*, 2014:470). From 2001 to 2007, the South African higher education system underwent a significant restructuring process of merging universities, technikons and colleges (Arnolds, Stofile & Lillah, 2013:1; see also McGrath & Nickola, 2008:2; Mentz, Kotze & Van der Merwe, 2008:29). It was within this period that the 36 higher education institutions were reduced to 23 universities, as all former teachers' colleges were either closed or incorporated into the universities and technikons (Adams, 2006:5-6; Badat, 2010:12; Bunting & Cloete, 2010:1; Moloi *et al.*, 2014:470).

These mergers brought about the landscape of 11 traditional universities, six comprehensive universities (one distance) and six UoTs which were previously known as technikons (McGrath *et al*., 2008:1; Bunting & Cloete, 2010:1; Moloi *et al.*, 2014:469-470; see also Du Pre, 2009:59-61). According to the Department of Higher Education and Training (DHET, 2017:33), at present, South Africa has 26 universities, and the number of comprehensive universities has increased to nine. Since 2009, the DHET has also been responsible for further education and training (FET), which covers training provided from Grades 10 to 12, including career-oriented education and training offered in technical colleges, community colleges and private colleges. There are around 450 registered FET colleges in South Africa (Moloi *et al.*, 2014:469-471).

There are also private higher institutions, of which 88 are registered and 27 are provisionally registered with the DHET to confer specific degrees and diplomas. Higher education development in South Africa has also been characterised by considerable growth in student numbers (Bozalek & Boughey, 2012:693). In 1995, the numbers of the enrolled students were above 550 000. In 2008 there was an increase to 874 680, with 799 490 students at public institutions and 75 190 at private institutions (Brand South Africa, 2013:1; see also Moloi *et al.* 2014:470). In 2011, gross figures revealed that approximately 900 000 students enrolled in South African higher education institutions (Schwartzman in Schwartzman *et al.*, 2015:29). In 2014, both public and private higher education institutions experienced an increase in student enrolment, from 1 103 639 students in 2013 to 1 111 712 students in 2014. This increase was due to an increase in enrolments in private higher education institutions, from 119 941 in 2013 to 142 557 in 2014, while public institutions experienced a decrease in enrolled students from 983 698 in 2013 to 969 155 students in 2014 (DHET, 2016:5). In 2015, the total number of enrolled students in public universities increased to 985 212 (DHET, 2017:8).

According to the latest available statistics, is estimated that a total of 1 043 102 students were enrolled in 2017, with 193 962 of those students starting their undergraduate for the first time (Africa Check, 2018:Online). After the #FeesMustFall campaign, there was a projected increase in the number of student enrolments for 2018 (KPMG, 2016a; News24, 2016b:Online; University World News, 2016:Online). Following government's approval of free higher education in December 2017, applying only to first-time-entering university students, the expected student enrolments for 2018 in public universities amounted to 1 060 312, with 208 308 of students being first-time-entering students (Africa Check, 2018:Online).

4.4.2 Differentiating traditional universities, universities of technology and comprehensive universities

According to Van Staden (2010:166), the South African government did not formulate any policy that stated clearly the difference between the UoTs and traditional universities. Nor has the government differentiated comprehensive universities from traditional universities and UoTs (Mbabane, 2010:3). However, authors such as Du Pré (2010), Oxford University Press Southern Africa (2015:Online) and Johnson, Van Louw and Smit (2010) identified some differences between South African universities based on the following factors: background, definition of these institutions, types of degrees, course offerings, research and development, and entrepreneurship and innovative ethos, all of which are discussed below.

Traditional universities have existed in South Africa since 1829, with the founding of the South African College of Cape Town. Other universities followed, including University of the Cape of Good, founded 1873, and the University of South Africa, founded in 1918 (Sedgwick, 2004). However, the establishment and development of traditional universities only dominated much of the early part of the 20th century (Du Pre, 2010:3). The UoTs and comprehensive universities came into being as part of the renewed higher education landscape formed from 2004 onwards (Du Pre, 2010:1; Brand South Africa, 2017).

UoTs emerged from the former technikons in 1997 after a debate on changing the names of these institutions presented by the Committee of Technikons Principals, a statutory body that coordinated the activities of technikons and advised the minister on the challenges they faced. It was felt at the time that the term ‘technikon’ did not adequately represent or identify a higher education institution and it was also the perception of parents, students, staff and public service that technikons were inferior to universities (Du Pre, 2010:15-16). Comprehensive universities emerged from mergers between traditional universities and technikons (Brand South Africa, 2017; Du Pre, 2010:1). The primary aim of establishing a comprehensive university was to strengthen the provision of technikon programmes by making sure that these programmes are available throughout the country, especially in rural areas (DoE, 2004:1).

Often, science and engineering students in traditional universities were perceived to have mainly academic knowledge and seemingly little understanding of the real world and industrial experience, and this perception tended to define traditional universities in South Africa (Du Pré, 2010:11-18). In contrast, the main aim of UoTs emphasises innovation and problem solving (Du Pré, 2010:11) while maintaining the vocational component inherited from the ‘technikon’ era by integrating theory and application of subject in the real world (McGrath & Nickola, 2008:2; Mentz *et al.*, 2008:29; Du Pré, 2010:11). UoTs in South Africa have become the centre of technology and focus on the study of technology from the viewpoint of the different fields of study (Du Pre, 2009:59-61; Oxford University Press Southern Africa, 2015:Online). In this way, UoTs manage to strengthen their cooperation with business industries and become partners in the emerging knowledge society, while traditional universities have lost their monopoly in this area (Johnson *et al.*, 2010:119). Comprehensive universities offer a diverse range of academic programmes from both traditional universities and technikon types by incorporating vocational, career-focused, professional and general formative programmes (Bozalek & Boughey, 2012).

In traditional universities, degrees are expected to give students an understanding of the underlying scientific principles of their field of study, while UoT degrees focus on the application of those principles and using them when they are vital (Du Pré, 2010:18). Comprehensive universities offer degrees and technology qualification and comprehensive programmes typical of the traditional university, as well as programmes typical of UoTs' teaching focus (Bunting & Cloete, 2010). South African public universities offer a range of academic courses, but the entrance requirements vary from institution to institution depending on the courses and different offering types. Traditional universities offer degree courses that take about three years to complete, while UoTs offer mainly diploma and certificate courses, with some degree courses (Oxford University Press Southern Africa, 2015:Online).

South African universities conduct research from different perspectives. The traditional university research partnership has always been based on the premise of practical benefits to society (Du Pré, 2010:20). Although criticised for their failure to adjust to the changing nature of society (Johnson *et al.*, 2010:119), UoTs focus mainly on ways and means of solving specific problems that exist within the industries. The emphasis is on teaching, learning, responsiveness and innovation (Du Pré, 2010:20; Johnson *et al.*, 2010:119). Comprehensive universities strive to bring together academics and researchers with a variety of ways of conceptualising and approaching problems in a wide range of fields. This creates potential productive environments in which research responds directly to practical problems. Comprehensive universities focus on strengthening applied research through linking the emerging emphasis of technikons to the current mentioned research strengths (DoE, 2004:4-5). Finally, traditional universities have been involved in various innovative downstream activities other than entrepreneurship, while these two aspects remain central in the UoTs (Van Staden, 2010:185; Oxford University Press Southern Africa, 2015:Online).

4.5 Corporate annual reporting

Corporate reporting is the primary means by which organisations provide information on their performance to both internal and external stakeholders (Everingham & Kana, 2004:1; Crowther, 2016:2). Corporate reporting is a crucial aspect of corporate governance in the sense that meaningful and adequate reporting enhances sound corporate governance (Bhasin & Paliwal, 2011:3). Eccles and Serafeim (2014:1), Bhasin and Bamahros (2016:71) and Beerbaum (2013:3) claimed that organisational reporting presents the information and transformation that increase the level of transparency and accountability. Beerbaum (2013:3) goes on to state that corporate reporting could reveal the strengths of organisations, thereby impressing the public and other stakeholders with their integrity (Healy & Palepu, 2001:409).

Ntim *et al.* (2012:85) indicated a significant relationship between organisational annual reporting and agency theory, discussed in section 2.3. They determined that corporate reporting could be a solution to any agency problem (see section 2.3.1 for examples of agency problems) as it enables shareholders to evaluate the performance of management and observe how efficiently management is utilising the company's resources in meeting the interests of principal (Bhasin *et al.*, 2016:71).

Initially, corporate reporting focused mainly on the financial information of organisations (EY, 2013:4; Crowther, 2016:2; Morros, 2016:337) as shareholders were primarily interested in financial statements (EY, 2013:4). However, owing to the major corporate failures (presented in the previous sections), corporate reporting also evolved. From the 1980s, organisations began to disclose both financial and non-financial information to their stakeholders (EY, 2013:4; Bhasin *et al.*, 2016:71). Organisations started shifting away from simply being stewards and accountable to their shareholders, to being focused on the comprehensive needs of their different stakeholders (Crowther, 2016:2). Similarly, shareholders began declaring that financial results were no longer sufficient to offer an overview of a given business. They demanded information on issues relating to sustainability, the environment and social responsibility (Ighian, 2015:125), though provided in stand-alone reports (Morros, 2016:337). Although the stand-alone reports might have contained information about a reporting organisation's social, environmental and economic impacts, practices and policies, it was often difficult for readers to systematically link information across different policies, practices and impacts because of the level of detail in the report (De Villiers, Rinaldi & Unerman, 2014:8). Therefore, with such a vast range of information, corporate reporting became a more complex issue in order to meet the different expectations of various stakeholders (Morros, 2016:337).

To provide a clearer and more comprehensive picture of the activities carried out by organisations, integrated reporting became the new way for organisations to report on their activities (Eccles & Serafeim, 2014:7; Ighian, 2015:125; Morros, 2016:342). According to Eccles and Serafeim (2014:7), integrated reporting is a newly developed concept with a short history aligned with the IIRC. Integrated reporting promotes a more cohesive approach to corporate reporting with the aim of improving the quality of information made available to stakeholders (Eccles & Serafeim, 2011:14; IIRC, 2013:7; also refer to section 2.11.1). Some innovative reporting organisations had individually initiated such practices (De Villiers *et al*., 2014:8). For instance, the Cadbury Committee of 1992 advocated corporate reporting as a mechanism for accountability in the UK. The UK Corporate Governance Guideline of 2014 focused on companies' provision of information about the risks affecting longer-term viability. This guideline recommended that organisations present information for a more transparent and broader view of solvency, liquidity, risk management and viability (FRC, 2014:3).

In the USA, the SOX (as seen section 2.7.3) required processing of accurate information and complying with laws and regulations (Healy *et al.*, 2001:409; Bhasin *et al*., 2011:3). The OECD Principles of Corporate Governance (2015:6-7) identified critical areas of disclosure, such as the financial and operating results, company objectives, major share ownership, remuneration, related party transactions. New issues that were not addressed in the last version of these principles include the recognition of recent trends relating to the items of non-financial information, which companies may voluntarily include in their reports (OECD Principles of Corporate Governance, 2015:6-7).

Similarly, as mentioned in section 2.11.1, the King III Report was concerned with corporate reporting. This report mandated all companies listed on the JSE to provide their stakeholders with an integrated report (IoDSA, 2009b:12; Van Zyl, 2013:907; De Villiers, 2014:118). The following section will discuss corporate annual reporting in South African public universities.

4.5.1 Requirements on annual reporting in South African public universities

The section above indicated the importance of disclosure in organisations. Similarly, higher education institutions are required to present their information to their stakeholders (PwC, 2014). In South Africa, the Implementation Manual (DHET, 2014:17) mandates higher education institutions to report to their stakeholders annually and make their reports easily accessible.

According to the Implementation Manual (2014), the aspects to be addressed in annual reports of South African higher education institutions are the following: the reports and statements on governance and reports on operations; annual financial review; report of independent auditors on the consolidated financial statements; consolidated annual financial statements; report of independent auditors on the supplementary financial data; and financial performance indicators.

The Implementation Manual (2014:17-30) indicates that internal audit information is to be discussed within the statements on governance and reports on operations, particularly under the report on the audit committee as mentioned in section 3.8, and under the report on internal administrative/operational structures and controls. The minimum content relating to internal audit to be disclosed by the audit committee is as follows:

- disclosure that internal auditors have unrestricted access to the audit committee;
- that meetings are held at least twice a year and internal auditors do attend;
- that the audit committee operates in accordance with written terms of reference, confirmed by the committee which assists the council in monitoring the combined assurance model, as explained in section 3.5;

- information relating to the effectiveness of internal controls, financial controls, accounting policies;
- annual review on the risk assessment conducted by internal audit and approval of the internal audit plan by the audit committee;
- monitoring of compliance with internal audit policies;
- the activities, scope, adequacy and effectiveness of the internal audit function; and
- regular follow-ups to ensure that all items raised in the annual audit management letter and interim internal audit reports are addressed (Implementation Manual, 2014:22-23).

The minimum content of the section on internal administrative or operational structures and controls should disclose information in regard to risk management, internal control and corporate governance. Concerning risk management, annual reports should include a brief description of how risk assessment took place and make mention of whether risk management was conducted in conjunction with the internal auditors. Annual reports should also state that higher education institutions developed a programme of internal audits to examine the systems, procedures and controls in those areas considered as high risk (PwC, 2014). For internal controls, the annual reports of UoTs should disclose the effectiveness of internal control systems with regard to financial reporting and the safeguarding of assets against the unauthorised acquisition, use or disposal of such assets. In addition, they should disclose that internal auditors reported findings and recommendations to management, the audit committee and the council. Corrective actions should be taken to address control deficiencies and other opportunities for improving systems when identified. Furthermore, there should be disclosure indicating that the effectiveness of an internal control system can change according to circumstances, and the date when internal control systems were assessed should be provided. In regard to corporate governance, UoTs should disclose whether the information systems which utilise modern technology are directed/implemented according to defined and documented standards (i.e. documented organogram, established policies and procedures, code of ethics) to achieve efficiency, effectiveness, reliability and security, and are in use throughout the organisation.

Finally, the Implementation Manual of 2014 recommends that higher education institutions in South Africa follow the King III Report in disclosing their information (see also section 3.8 and 4.6). Therefore, in this study, the minimum content analysed in the UoTs' annual reports was aligned with the King III principles on the internal audit function and integrated reporting discussed in the subsections of section 2.11.

4.6 Summary

This chapter revealed the great advances in higher education in UK, US, Canadian, Australian and South African universities which have been following Western styles of higher education. Some of the determinants identified for these changes are the dramatic massification and evolving challenges which caused higher education to become a complex type of institution. As a result, sound governance in higher education institutions was considered to be a necessity.

From the old collegial model of governance, higher education institutions in the UK, USA, Canada, Australia and South Africa inherited the strategies, structures, technologies, management instruments and values, ordinarily found in the private business sector. Many universities in these countries have thus evolved towards market-oriented governance models.

This chapter also reviewed the concept of corporate annual reporting. An overview was given of the history thereof, from the stand-alone reports of financial, social and environmental information to integrated reporting. The requirements of annual reporting in South African public universities were also stated. The next chapter focuses on the research methodology applied in this study.

Chapter 5: Research methodology

5.1 Introduction

The purpose of this chapter is to detail the methodology used to assess the implementation of internal auditing guidelines at UoTs as per the King III Report. This chapter details the research methodology applied in this study. It outlines the research approach, design, population and sampling, data-gathering instrument and data collection and procedure used in this study.

5.2 Research philosophy/paradigm

Research philosophy, (also refferd to as paradigm) are frameworks which provide a way of comprehending reality (Hennink, Hurter & Bailey, 2011:11). Research philosophy also entails patterns, structure or system of scientific and academic ideas, values and assumptions. Research is primarily based on certain paradigms (also refferd to as paradigms) that constitutes to appropriate research methods that can be developed for the conducted study. There are two primary research paradigms and those are positivist and anti-positivist (also known as interpretative) (Leedy & Ormord, 2013:138).

According to Leedy and Ormord (2013:138), the positivist approach relies on facts that could be observed. This approach is normally used in quantitative, mathematical and experiential research and it is more subjective (Leedy & Ormord, 2013:138). The anti-positivist paradigm does not consider facts but rather different perspectives of reality (Hennink et al, 2011:14-15). It allows the researcher to be part of the process and reveal various interpretations by people (Hennink et al, 2011:14-15). For this study the anti-positvist was found to be ideal, as it enabled the reasercher to determine the level of disclosure of the six UoTs in line with the King III Report. The next section discusses research methodology.

5.3 Research methodology

Research is the systematic process of enquiry with the aim to either add to existing knowledge and ideas or to uncover new knowledge or ideas (Melville & Goddard, 1996:xiii; Kumar, 2012:7). Through scientific research, so-called knowledge gaps are identified and possible solutions presented (Welman & Kruger, 1999:34-35). Research methodology allows researchers to scientifically find solutions to problems in both social and natural sciences by incorporating procedures that enable objective and informed findings (Mouton, 2001:55; Bhattacharyya, 2006:17; Pickard, 2007:xvi; Kumar, 2010). New research findings can lead to original knowledge and solutions to existing problems (Creswell & Clark, 2011:209).

5.4 Research approach

As indicated in section 1.4, there are three types of research approaches: quantitative, qualitative and mixed approaches. The quantitative research approach is a systematic procedure that places focus on facts and ignores everyday life experiences to solve research problems. The purpose of the quantitative approach is to make evaluations with regard to objective data, which is either presented in numbers (Welman, Kruger & Mitchell 2005:8; Leedy & Ormrod, 2010:2).

Qualitative research involves an understanding and evaluation of social or human problems (Creswell, 1994:2). This research approach focuses on the behaviour and motives of the subject in order to form a holistic opinion (Welman *et al.*, 2005:8). In other words, qualitative researchers are interested in meanings; how people make sense of their lives and experiences (Leedy & Ormrod, 2010:133; Creswell, 2014:4). Apart from being flexible (Ghauri & Gronhaug, 2010:196), qualitative research allows for participants to provide detailed discussions related to their feelings and perceptions (Maxwell, 2013:30). Qualitative data are usually presented in words instead of numbers (Welman *et al.*, 2005:8).

The mixed-methods approach is a combination of quantitative and qualitative research approaches in a single research project (Edmonds & Kennedy, 2013:146). Problems most suitable for this approach are those which both the quantitative and qualitative approaches alone are inadequate to address (Creswell & Clark, 2011:2). A mixed research approach enhances not only the understanding of a research problem, but also the credibility and trustworthiness of the research findings, as it allows for the development of multiple perspectives (Hesse-Biber, 2010:3; Creswell & Clark, 2011:2). Owing to the nature of this study, a qualitative research approach was applied.

5.3.1 Research design

A research design is a systemic procedure and technique to be followed in order to solve a research problem (Creswell, 2014:11-12). Blumberg (2011:147) and Creswell (2014:11-12) define a 'research design' as an outline of action, which the researcher will follow, from the problem identification phase to the operational implications and conclusions phase. As this study intended to assess the content and contextual meaning of text of the annual reports of UoTs, the researcher found content analysis design to be most applicable. Using content analysis as a research design is consistent with other similar studies on the topic (see Moloi, 2008; Barac *et al.*, 2011; Carels, 2013; PwC, 2014a; Moloi, 2015).

A content analysis design is a flexible research technique for a subjective interpretation of written, verbal or visual-textual data (Morgan, 1993:112; Elo & Kyngäs, 2008:108; Du Plooy, 2009:213; Smith, 2015:108-109). Content analysis allows the researcher to interpret communicative material such as books, legal documents, internet blogs, websites, minutes of meetings, films, video tapes and annual reports (Krippendorff, 2013:10; Leedy & Ormrod, 2013:148).

According to Hsieh and Shannon (2005:1277), there are three approaches to content analysis: summative content analysis, conventional content analysis and directed content analysis. In summative content analysis, keywords are identified based on the relevant area of interest prior to or during data analysis. From there, quantitative data can be converted into qualitative data by interpreting the chosen keywords or counting the frequency of content items. Hsieh and Shannon (2005:1285) articulated that this process of counting keywords/content is called manifest content analysis, while the process of interpreting counted keywords is referred to as latent content analysis.

In conventional content analysis, categories are developed from the textual data and the researcher avoids formulating predetermined categories. For example, the researcher will use open- instead of closed-ended interview questions to gain clarity from participants. From there, the exact words from the text that seem to capture key thoughts or concept of the participants are highlighted and used to formulate categories (Brain, 2016).

With directed content analysis a researcher will set up key concepts or variables from the existing theory and theoretical framework before analysing data. The researcher will then develop categories with strict definitions, as these categories have been developed from the existing theory or theoretical framework. This approach allows the researcher to generate more targeted questions developed from the categories that already exist (Brain, 2016).

For this study, summative content analysis was selected, because there were no theoretical frameworks or theories followed to predetermine the categories. Also, categories could not be derived from the textual data. Instead, the researcher focused on interpreting content based on the area of interest (i.e., the King III internal auditing guidelines and literature reviewed) and following the steps of content analysis outlined by Hsieh and Shannon (2005:1286). Hsieh and Shannon (2005:1286) stipulated the steps, namely to give research questions, select population and sample data that will present the study, define the categories to be analysed, provide the procedure of coding, check for validity and reliability of the interpreted data and, finally, analyse the results. These steps are discussed below.

In step 1 the researcher has to provide research questions. For this study, the research questions were formulated based on the literature reviewed and the relevant sections in King III relating to internal auditing guidelines.

In step 2 the researcher selects the population and sample data that were to present the study. Although the King III Report has been effective from March 2010, and on a voluntary basis, the researcher used the annual reports of 2014, 2015 and 2016 in this study. The reason for this decision is that the Implementation Manual of 2014 mandating public higher education to implement King III only became effective in June

2014. The selection criteria followed in the study required the annual reports of each university to comprise both financial and non-financial information, including statements on governance and reports on operations; annual financial review; report of independent auditors on the consolidated financial statements; consolidated annual financial statements; report of independent auditors on the supplementary financial data and financial performance indicators.

Step 3 involves defining the categories to be analysed. The categories were identified based on the literature reviewed and the King III requirements referred to above were formulated prior to conducting the study. Some of the categories from the literature review were identified during the analysis process. (See annexure A for a checklist of the categories used in this study.)

Step 4 requires the researcher to describe the procedure of coding. In this step, the researcher began by searching the key words that were developed from the King III requirements relating to internal audit and literature reviewed (see annexure B for these keywords). The researcher assigned keywords that were relevant to the categories identified in the council, audit committee and management reporting sections of the annual report (see also 3.8). These keywords were found in paragraphs, sentences, words and phrases. The researcher then interpreted the data which appeared in word and phrases, sentences, paragraphs, or synonyms, using the two-rater measuring instrument for section A and three-rater measuring instrument for section B. Through this measuring instrument the information was measured as either fully disclosed or not disclosed. (See annexure C on the guidelines of the measuring instrument.)

Step 5 comprises a check for validity and reliability of the interpreted data. For validity, as indicated before, the keywords were words/phrases or synonyms that appeared in the King III Report and literature reviewed. The synonyms were also confirmed with the supervisor. For reliability, the researcher recounted and re-assigned the keywords so as to avoid errors in the counting and assigning of keywords. The researcher also went back to verify the interpretations. Lastly, to check the validity of the data, the researcher interpreted the data based on the guidelines in the King III Report relating to internal auditings and literature reviewed only. The researcher then verified the interpreted data in order to test for reliability.

The final step was to analyse the results. Chapter 6 of this study presents the data analysis.

5.5 Population

In research a population refers to the total number of companies, people, objects or groups with similar characteristics (Naicker, 2008:44). The population of this study was the annual reports of the six UoTs in South Africa, namely the CUT, VUT, DUT, TUT, MUT and CPUT, for the year ends of 2014, 2015 and 2016. Not only is it important for a researcher to define and describe the population, but also to specify the criteria used for the selection of the population (Polit & Hungler, 1999:225). (Section 5.3.1 stated the criteria for selection of the annual reports.) In this study, 16 out of the 18 annual reports met the criteria. One report of 2014 was excluded as it did not meet the criteria (only the financial information of the university was presented). Also, one report of 2016 was excluded, as the UoT already disclosed its information according to the King IV Report.

5.6 Measuring instruments

Research that employs inadequate measuring instruments might elicit inconclusive or incorrect responses (Leedy & Ormrod, 2013:81). As this study focused on the guidelines in the King III Report on internal audit reporting, the compilation of a checklist was the best technique to be used to record the data. A checklist is a list of behaviour, characteristics or any other trait, factor, phenomenon or aspect that a researcher is investigating. A checklist is useful, especially when a researcher needs to determine whether a required item is present (Leedy & Ormrod, 2005:185).

The layout of the checklist was as follows: Section A contained self-developed questions related to higher education and governance, while section B captured the disclosure of the internal auditing principles and practices as per the King III Report. The checklist was developed taking into account the previous studies of Moloi (2015) on assessing corporate governance disclosures in South Africa's national government departments, of Barac *et al.* (2010) on the assessment of corporate governance reporting in the annual reports of South African listed companies, and of Zaakir (2016) on IT and cloud governance disclosures of South African financial institutions (see annexure A). The checklist for both sections A and B applied a two-rater scale. This scale, as mentioned earlier, indicated whether the information was either 'fully disclosed' or 'not disclosed'. (Refer to annexure C for guidelines on the description of these two raters.)

5.7 Data collection procedure

The collection of data took place from 30 June 2016 to 30 June 2018. Although it is articulated in the study of Crous (2017) that the DoE expects universities to post their annual reports on their websites, only 55% of the annual reports in the three reporting years (2014, 2015, 2016) were found on the universities' websites. The remaining reports were either sourced from the CFOs, or telephonically or by e-mail directly from the universities (the office of the vice chancellor or marketing department). After gathering the annual reports, the researcher personally assessed the level of disclosure of the reports based on the King III internal audit guidelines and the self-developed checklist using Microsoft Excel. From there the researcher interpreted the data as indicated in section 5.5.

5.8 Fieldwork challenges

During fieldwork, the researcher encountered challenges. As indicated earlier some of the annual reports were not available on the universities' websites and the researcher had to communicate with the offices of vice chancellors and marketing departments to obtain them. This delayed the completion of the data analysis. In addition, even though the Implementation Manual (DHET, 2014:6) requires higher education institutions to submit their annual reports to the DHET by 30 June every year, one UoT indicated that its 2016 annual report was still outstanding.

Although the Implementation Manual (DHET, 2014) stipulates all the information that should be contained in the annual reports, it became clear from telephone communication with the universities that some of the staff members assumed that an annual report is a report that consists of financial information only. The researcher also found some inconsistencies in naming the annual reports. The following titles were encountered: ‘annual report and financial statement’, ‘integrated annual report’ and ‘financial annual statement’. (See also Crous (2017) for similar challenges experienced during the data collection of the PhD study.)

5.9 Summary

This chapter discussed the research methodology followed in this study. The different research approaches were discussed, namely the quantitative, qualitative and mixed research approach. This chapter also reflected on the research design applied, which in this case was content analysis design. Owing to the nature of the study, content analysis allowed the researcher to analyse and examine text and other communicative material. The three approaches of content analysis, namely summative, directed and conventional content analysis, were explained. The approach used in this study was summative content analysis. This chapter also described the population and measuring instrument used. The procedures of data collection followed were stipulated.

The following chapter will focus on data analysis. In this chapter the findings of the study will be presented and interpreted. Descriptive statistics and inferential statistics will also be set out.

Chapter 6: Empirical study

6.1 Introduction

Chapter 1 indicated the importance of corporate governance and internal auditing in organisations. Corporate governance was further discussed in chapter 2, whereas chapter 3 investigated the internal audit function. From these three chapters it was concluded that internal audit is one of the vital instruments of sound corporate governance. Through its relationship with other assurance providers and its role as viewed by various authors and auditing institutions (see sections 3.7.2, 3.7.3.1 and 3.7.4), internal auditing has proven to be instrumental for sound corporate governance. Internal audit importance is also apparent in higher education institutions (see chapters 3 and 4). To test whether UoTs are implementing the reporting guidelines in King III relating to internal audit, the researcher followed a qualitative content analysis approach, as explained in chapter 5.

This chapter presents the findings of the study. The researcher used Microsoft Excel to capture the data of the research findings. The analysis of the study is presented below.

6.2 Tabulation of characteristics

An analysis was done on the six participating UoTs. As indicated in chapter 1, the results and population of this study will be anonymous. The full names of the universities will not be used. Instead, the researcher made use of letters to represent the universities, namely University A, University B, University C, University D, University E and University F, or A, B, C, D, E and F for purposes of brevity.

As mentioned in section 5.4, there were two universities for which reports could not be obtained. As such, there will be no reports included in the data for University D for the 2014 year, and since University F indicated that they were already on par with the King IV reporting guidelines (this study focuses on the guidelines of King III), their reports will also be excluded.

Section A below presents the findings of the set of self-developed questions on internal audit reporting, and section B the results on the specific King III internal audit reporting guidelines at UoTs. For the checklist, refer to Annexure C. 'Not applicable (n/a)' indicates the annual reports that could not be obtained or those which did not meet the criteria, as explained in chapter 5. The number and average of the level of disclosure of each requirement are indicated and explained below.

6.2.1 Section A: Internal audit reporting in general (self-developed questions)

As mentioned in chapter 5, this section deals with self-developed questions based on the scope of the literature review. These findings are important to sketch the background and to obtain a better understanding of the various participants to the study. Refer to section A in annexure A for detail on the questions. In this section, the results will be discussed related to the alignment of disclosure with the King III Report, disclosure on governance models adopted, disclosure on the sourcing of internal audit functions and on the relationship between internal and external audit.

6.2.1.1 Alignment of UoT disclosure with the King III Report

Chapter 2 discussed the importance of corporate governance guidelines and provided examples of the well-known corporate governance guidelines which are considered to be mechanisms of sound corporate governance. The theories of corporate governance (i.e., agency theory, stakeholder theory and stewardship theory), which also guide organisations towards best practices of corporate governance, also discussed in Chapter 2, concurred with this view. It is, therefore, imperative for any type of organisation, including higher education institutions, to follow corporate governance frameworks for better performance and corporate practices (refer to section 2.4). With reference to section 3.8, the Implementation Manual of 2014 has made it mandatory for universities in South Africa to follow the King III Report for their disclosure.

The figures below indicate that the majority of the UoTs disclosed that they were implementing the King III Report. In 2014, 100% of the annual reports gathered disclosed that UoTs followed the King III Report. Though University C and E did not mention directly that they followed the King III Report, the two universities disclosed that they adopted the Implementation Manual of 2014. This is consistent with the requirements of the study, as mentioned earlier, that the Implementation Manual of 2014 requires public higher education institutions in South Africa to follow the King III Report.

All six UoTs disclosed that they complied with the King III Report in 2015, while five out of the six UoTs indicated that they followed the King III Report in 2016. University E indicated that it was already following the King IV Report. Therefore, a total of five UoTs indicated that they were following King III in 2016.

Table 1: Alignment of UoTs with the King III Report

Institution	2014	2015	2016
University A	Disclosed	Disclosed	Disclosed
University B	Disclosed	Disclosed	Disclosed
University C	Disclosed	Disclosed	Disclosed
University D	No report (n/a)	Disclosed	Disclosed
University E	Disclosed	Disclosed	King IV (n/a)
University F	Disclosed	Disclosed	Disclosed
Total	**n = 5**	**n = 6**	**n = 5**
Percentage disclosed	**100%**	**100%**	**100%**
Percentage not disclosed	**0%**	**0%**	**0%**

6.2.1.2 Disclosure on governance models adopted by UoTs

Section 4.2.2.5 stated that co-operative and corporate governance models are the most recent governance models adopted by public higher education institutions in South Africa. To test the disclosure on co-operative governance (similar to PwC, 2014), a number of key words and themes relating to co-operative governance were searched. These included terminologies such as ‘governing stakeholder relationships’, ‘worker and student participation’, ‘stakeholder inclusivity’ and ‘co-operative governance’. University A referred to this principle as ‘co-operative governance’ in 2014 and 2015, while in 2016 it was referred to as ‘governing stakeholder relationship’. University B referred to this as ‘co-operative governance’ for all of the years. For university C, E and F, this statement was referred to as ‘worker and student participation', while University D referred to it as 'stakeholder inclusivity' throughout. Figure 2.1 below represents the number of instances that terminology relating to co-operative governance appeared in the annual reports. In summary, based on the analysis of the UoTs' annual reports of 2014, 2015 and 2016, 100% of the UoTs followed the co-operative governance model.

In addition, the following was found in the three reporting years: University A mentioned the involvement of university council, senate, institutional forums, staff representatives and student representatives in governance structures. University B stated that council committed to work with other structures, not disclosing specifically which structures. University C mentioned the involvement of university council, senate, institutional forums, staff representatives and student representatives in governace structures. For University D, there was no further detail relating to the institutional forum discussed, except for mentioning the concept of stakeholder inclusivity. University E and University F gave general statements by mentioning that the institutions believed in stakeholder involvement.

Figure 2.1: UoTs principles of co-operative governance contained in the annual reports

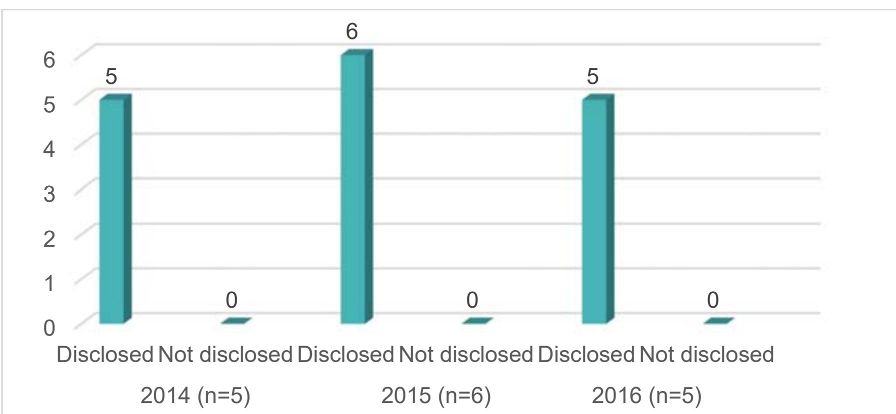
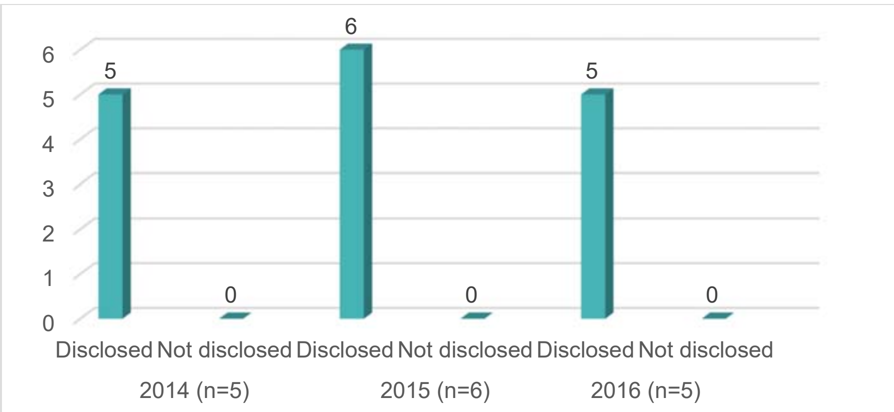


Figure 2.2 below represents the number of instances that terminology specifically relating to corporate governance principles appeared in the annual reports. As section 2.11.4 (last paragraph) indicated, that the King III Report charges the board of directors with corporate governance, the analysis on the disclosure levels by UoTs was based on the actual statements of council on corporate governance. From figure

2.2 it can be seen that disclosure appeared throughout 2014, 2015 and 2016, for each university. In summary, 100% of the annual reports of UoTs contained council's statement on corporate governance, and all council statements on corporate governance for the periods under review included statements on institutional commitment to corporate governance. Some more detailed discussions on council committees, membership, agenda and resolutions were included in some of the council statements on corporate governance.

Figure 2.2: UoTs' wording of corporate governance contained in the annual reports



6.2.1.3 Disclosure on the structure of the internal audit function

Section 3.7 indicated that the internal audit function can be in-housed, outsourced or co-sourced. In table 2 below, it is clear that all the annual reports disclosed outsourcing as their form of internal audit sourcing. None of the UoTs disclosed that they in-housed their internal audit function. In these three reporting years, the UoTs outsourced the internal audit function to either one of the following accounting firms: SNG, Ngubane & Co, PwC, Indyebo Consulting and EY. In 2016, one of the UoTs started co-sourcing their internal audit function. In some instances, the mentioned firms jointly offered internal audit services to UoTs.

In 2014, the number of UoTs which disclosed outsourcing of internal auditing amounted to four. University A did not disclose whether it made use of in-house, outsourced or co-sourced internal audit. In 2015, five of the UoTs disclosed that they outsourced their internal audit function, with University A once again not disclosing anything. In 2016, four of the UoTs disclosed that they outsourced their internal audit function, and the remaining one disclosed that it co-sourced internal audit. The firms which services were utilised remained largely unchanged from year to year, as indicated in table 2. University B moved away from outsourcing their internal audit function in 2014 and 2015 to co-sourcing it in 2016. It was disclosed in the 2015 report by University B that an Internal Audit Director was appointed late in 2015, hence the change in sourcing in 2016. University F used outsourced internal audit from two different audit firms for the periods analysed.

Table 2 below represents the disclosure on the sourcing of internal auditing for the years ended 2014, 2015 and 2016. It also indicates the various firms which provided services to the institutions.

Table 2: Disclosure on the sourcing of the internal audit function

	Year					
	2014		2015		2016	
Institution	**Insourced / Outsourced / Co-sourced/ Not disclosed**	**Firm(s) if outsourced / co-sourced**	**Insourced / Outsourced / Co-sourced**	**Firm(s) if outsourced / co-sourced**	**Insourced / Outsourced / Co-sourced**	**Firm(s) if outsourced / co-sourced**
University A	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Outsourced	EY
University B	Outsourced	SNG	Outsourced	SNG	Co-sourced	SNG
University C	Outsourced	PwC	Outsourced	PwC	n/a	n/a
University D	n/a	n/a	Outsourced	EY	Outsourced	EY
University E	Outsourced	SekelaXabiso	Outsourced	SNG	Outsourced	SNG
University F	Outsourced	PwC and Indyebo Consulting (joint internal auditors)	Outsourced	PwC and Indyebo Consulting (joint internal auditors)	Outsourced	PwC and Indyebo Consulting (joint internal auditors)
n = total	**5**		**6**		**5**	
n = insourced	**0**		**0**		**0**	
n = outsourced	**4**		**5**		**4**	
n= co-sourced	**0**		**0**		**1**	

6.2.1.4 Internal audit relationship with external auditors

Section 3.5 emphasised the importance of the internal and external auditors' relationship, especially because their methods to achieve their objectives are often similar. This section also emphasised the importance of external auditors' relying on the internal auditor's work in order to avoid duplication of efforts. Academic research further supports the reliance of external audit on internal audit's work, as this could lead to audit efficiencies and resource savings.

From the analysis below, in 2014, 80% of the UoTs fully disclosed that internal audit and external audit have a relationship; however, it was not stated whether external audit relies on the work of the internal audit function. In 2015, 83% of the UoTs disclosed this information, while in 2016 100% of the analysed reports of UoTs disclosed such information, with University A further stating that internal auditors meet with external auditors to discuss their reports, findings and progress on previous findings. The rest of the universities which disclosed information with regard to the internal and external audit relationship either mentioned that the audit committee monitored the relationship between internal and external auditors, or mentioned that the audit committee held meetings with internal and external auditors, although they were still afforded separate meetings.

Table 3: Disclosure on level of internal and external audit relationship

	Year		
Institution	**2014 (n=5)**	**2015 (n=6)**	**2016 (n=5)**
University A	Not disclosed	Disclosed	Disclosed
University B	Disclosed	Disclosed	Disclosed
University C	Disclosed	Disclosed	Disclosed
University D	n/a	Not disclosed	Disclosed
University E	Disclosed	Disclosed	n/a
University F	Disclosed	Disclosed	Disclosed
Total disclosed	4	5	5
Percentage disclosed	80%	83%	100%

6.2.2 Section B: Analysis of disclosure on King III internal audit reporting questions

This section provides an overview of the analysis of the annual reports of the UoTs, with specific reference to the requirements of the King III Report's internal audit reporting guidelines. In each subsection below, a brief overview of the relevant section in the literature will be given, after which the results of the data analysis will be discussed.

6.2.2.1 The council should ensure that there is an effective risk-based internal audit function

Section 3.3 presented that, from performing mere routine and clerical work, the modern internal audit function has evolved to assisting management with risk management processes, designing of internal controls and governance processes, in short, performing an effective risk-based internal audit function. With reference to section 2.11.2, risk management, control and governance are some of the important concepts that set the scope of the internal audit role, which will be discussed in more detail below.

6.2.2.1.1 General disclosure on the evaluation of governance

Analysis was done on the disclosure by the UoTs regarding the responsibility of the internal audit function with regard to corporate governance. In 2014, 60% of the UoTs included in their annual reports some form of disclosure relating to internal audit's responsibility for corporate governance. University B mentioned that internal audit is fully responsible for assessing corporate governance practices. University C reported that internal auditors reviewed the internal control systems and policies and reported findings and recommendations to management and the audit committee. University F disclosed that internal audit assisted the university council in reviewing university policies. No indication of disclosure was identified for Universities A and E. In 2015, 50% of the universities (Universities B, C and F, again), were the only universities which fully disclosed the extent of internal audit's responsibility for corporate governance. The other three did not manage to disclose such information. In 2016, disclosure level was at 60% as University A, B and C fully disclosed internal audit's responsibility relating to corporate governance. The table below gives a representation of the information, indicating for each university the number of instances found in the annual reports relating to the specific principle.

Table 4: Disclosure on the responsibility of the internal audit function relating to corporate governance

Institution	No. of instances principle appeared	2014		No. of instances principle appeared	2015		No. of instances principle appeared	2016	
		Not disclosed	Fully disclosed		Not disclosed	Fully disclosed		Not Disclosed	Fully disclosed
		(n=5)			(n=6)			(n=5)	
University A	0	√		0	√		1		√
University B	3		√	2		√	1		√
University C	1		√	1		√	1		√
University D	n/a	n/a	n/a	0	√		0	√	
University E	0	√		0	√		n/a	n/a	n/a
University F	1		√	1		√	0	√	
Total		2	3		3	3		3	2

6.2.2.1.2 Disclosure on assessment of effectiveness of risk management and internal control

Regarding internal audit's responsibility when it comes to risk management, the disclosed information was stated in a sentence or two at most. In 2014, 80% of the UoTs disclosed that internal auditors were responsible for or were involved in the process of risk management. Of the five analysed annual reports, only University A did not disclose this requirement in its annual report. In 2015, 83% of the UoTs disclosed that internal audit was involved in or responsible for risk management, as University E did not disclose this information. In 2016, all five annual reports disclosed information regarding internal audit and risk management. The annual reports therefore showed an increasing trend in terms of disclosure over the three years.

6.2.2.1.3 Disclosure on analysing business processes and associated controls

As above mentioned, the King III Report requires internal auditors to be responsible for the recommending and improving of systems of internal control in an organisation.

Other corporate governance guidelines such as the COSO Framework of 2013 and Criteria of Control Framework of 1995 and SOX emphasised the importance of the internal audit function on the internal control system (refer to sections 2.7.1, 2.7.2, 2.7.3 and 2.8.2). The data analysis included determining whether or not the annual reports contained specific disclosure on the responsibility of the internal audit function relating to internal control. In 2014, the keyword searches indicated that 80% of the UoTs disclosed the internal auditors' responsibility in terms of internal controls. There was an average of 83% disclosure for 2015 and 80% for 2016 regarding this aspect. In 2014, University A did not disclose information relating to the internal audit responsibility on internal control system, while University E did not disclose information in 2015. In 2016, it was university F which did not disclose internal audit responsibility on internal control system.

6.2.2.1.4 Reporting on instances of fraud, corruption, unethical behaviour and irregularities

The King III Report requires the internal audit function to provide a source of information that is appropriate regarding instances of fraud, corruption, unethical behaviour and irregularities. In addition, in response to the #FeesMustFall campaign, KPMG also recommended that internal auditors in South African universities consider the possibility of existence or occurence of fraud when conducting their institutional audits. KPMG further recommended that internal auditors work with forensic auditors in the identification and reporting of unethical behaviour of management (see section 3.7.2.1). Also although section 2.4 has indicated the fruduelent activities that occurred in NSFAS, disclosure in regard with faud, corruption, unethical behaviour and irregularities was low. In 2014, 2015 and 2016, the majority of the universities (20%, 17% and 20% for the various years respectively) disclosed minimal information. Only University A mentioned that internal audit made recommendations regarding the management of fraud and unethical behavior for these three reporting years. University D, indicated that their existing ERM and guidelines were used to direct the risk management plan. University D further indicated that ERM focus areas with the planned deliverables were all implemented, and they included development of a whistleblowers policy and fraud hotline. Nothing was diclosed by Univerity D in conjuction with internal audit reponsibility on reporting on instances of fraud, corruption, unethical behaviour and irregularities. There is therefore much room for improvement relating to disclosure and reporting on instances of fraud, corruption, unethical behaviour and irregularities.

6.2.2.1.5 Disclosure on the internal audit charter

The internal audit charter is recognised as an essential element in guiding internal auditors in performing their duties. Section 2.11 of the literature review specified that the internal audit charter should be defined and approved by board which, for purposes of the context this study, means that the internal audit charter should be approved by the university council. However, only University B fully disclosed this information in all three years. University A managed to fully disclose this information only in 2014 and 2016. The rest of the universities did not mention anything about the internal audit charter, which could raise concerns regarding the university council support on the internal audit function, as the council is considered to be the main governing body of the university. Once again, there is still room for improvement for disclosure by UoTs in this regard.

6.2.2.1.6 Disclosure on the IIA Standards and Code of Ethics

As mentioned in section 3.4.1.1, the IIA was formed to establish the status of and give guidance to the internal auditing profession and provide a medium for the interchanging of ideas and information amongst internal auditors. Section 3.4.1.1 also indicated that, amongst other initiatives, the IIA developed a mandatory guidance that consists of the IIA Standards and the IIA Code of Ethics with the aim to develop and guide the internal audit profession. In concurring with the IIA on the prominence of the IIA Standards and code of ethics, the King III Report recommends that internal auditors perform their work in compliance with the IIA Standards and adhere to the IIA Code of Ethics. However, the results of the analysis of the reports indicated that the UoTs did not fully disclose whether they were following these two essentials. For the three years under review, only University B partially disclosed that it adhered to the IIA Standards, and nothing in regard to the application of the IIA Code of Ethics. The disclosure of UoTs on the IIA Standards and Code of Ethics can therefore still improve a lot.

6.2.2.2 Internal audit should follow a risk-based approach to its plan

Section 2.10 indicated that the King III Report requires the internal audit function to follow a risk-based approach to its audit plan. This means that the internal audit charter and plan should be informed by the strategy and risks of the organisation, that the internal audit function should be independent from management, and that the function should be objective so as to address organisational risk and ensure the optimal usage of resources. Internal audit should also report on assurance on strategic goals. The empricial findings on these matters will be discussed in the sections below.

6.2.2.2.1 Disclosure on the internal audit approach

In section 2.11.3, it was mentioned that the King III Report recommends that the internal audit plan and approach be informed by the specific strategies and risks of the UoTs. Keyword searches revealed that the UoTs disclosed information relating to the internal audit function following a risk-based approach to its audit plan at an average of 60% in 2014. University A and F did not report on such matters. In 2015, 50% of the UoTs fully disclosed that the internal audit plan and approach were addressed by the strategy and risks of UoTs, while University A, E and F did not disclose anything. In 2016, only University D did not disclose the information, while 80% of the UoTs fully disclosed this requirement.

6.2.2.2.2 Reporting on internal audit's independence from management

In executing its plans and responsibilities, the King III Report requires internal auditors to be independent from the organisational management. Section 2.11.4 indicated that independence allows internal auditors to perform their work freely and objectively. However, in the analysis, none of the UoTs made specific mention in their disclosure that internal auditors were independent from management in the three years under review. It should, however, be noted that, although these universities did not apply the King III Report in regard to this disclosure requirement, some of the universities used the services of independent assurance providers (see also section 6.2.1.3), which may imply independence, even in the absence of specific disclosure.

As stated in section 6.2.1.3, this means that 80% of the internal audit functions of the UoTs may be perceived to be independent from management in 2014. For 2015, 100% of the internal audit functions of the UoTs were independent assurance providers, and may be perceived to be independent from management. For 2016, only one university had a co-sourcing arrangement, which means that 80% of the universities used independent assurance providers, and may be perceived to be independent from management. The university that used the co-sourcing arrangement did not specifically make mention of the independence from management. See also the analysis of the internal audit independence which will be discussed in section 6.2.2.5.1.

6.2.2.2.3 Reporting on assurance on strategic goals

As mentioned in section 2.11.4 of the literature review, the King III Report requires the internal audit function to be an objective provider of assurance that considers the opportunities which will promote the realisation of strategic goals identified, assessed and effectively managed by the UoT management team. Also, with reference to section 3.3.2.2, internal auditors should be in a position to consider not only risk, controls and corporate governance, but also to advise organisations on opportunities to further add value. In order to achieve this, amongst other activities, internal auditors have to develop a plan, based on the management needs and goals, to address organisational risks. UoTs disclosed information on the internal audit plan at an average of 100% in 2014. In 2015 83% of the UoTs disclosed this requirement, while in 2016, it was disclosed at an average of 80%. Only university D did not disclose this information for both 2015 and 2016 (also to be discussed in section 6.2.2.4.1).

Refer to the discussion in section 6.2.2.2.2 of the King III requirement on the internal audit function as an objective provider of assurance that considers the risks which may prevent or slow down the realisation of strategic goals. In respect of the King III requirement on the internal audit function as an objective provider of assurance that considers whether controls are in place and functioning effectively to mitigate risks, also refer to section 6.2.2.2.2, as it was already addressed in that section.

6.2.2.3 Internal audit should provide a written assessment of the effectiveness of the institution's system of internal controls and risk management

According to King III, as explained in section 2.11.3, the internal audit function should provide a written assessment of the effectiveness of the system of internal controls and risk management. The data for the three years were therefore, analysed based on reporting and disclosure relating to combined assurance, operational, compliance and sustainability issues, elements of the control framework, systems of control and risk management and reporting to the audit committee, which will all be discussed in the subsections that follow.

6.2.2.3.1 Reporting on combined assurance

Section 3.5 stressed the importance of combined assurance, which requires both internal and external assurance providers to be efficiently involved in the assurance process. However, in 2014, none of the UoTs fully disclosed that the internal audit function was part of the combined assurance model. Of five universities, only University B partially disclosed that the institution implemented the combined assurance model, though it did not specify to the reader of the annual report the parties involved. University B also did not include any further information or background to put the necessity of combined assurance in context.

In 2015, there was significant improvement in disclosure, with 67% of the UoTs partially disclosing information on internal audit being part of the combined assurance model. Still, none of the UoTs fully disclosed any further information or explanatory background on the principle of combined assurance, which could be a term that the reader of an annual report might not be familiar with. In its annual report of 2015, University B used the same statement as in 2014. University D disclosed that the council considered and approved the combined assurance framework, prepared in terms of the King III Report principle 3.5. (As mentioned in section 3.5, principle 3.5 states that the audit committee is to monitor the effectiveness of the combined assurance model.) University E stated that quarterly reports were submitted by the audit and risk committee to council on combined assurance. University F indicated that, although there was no formal combined assurance model, all assurance providers, being internal and external assurance providers, had a good relationship.

In 2016, 80% of the universities partially reported on combined assurance. University B, once again, used the statement it had used in the annual reports of 2014 and 2015, but additionally stipulated that the development of a combined assurance plan will be considered as advocated in the King IV Report. Also in 2016, University D partially disclosed that in the quartely meetings of the audit and risk committee meetings, one of the agenda items included was the implementation of the combined assurance risk model. It further stated that the combined assurance model was part of the enterprise risk management (ERM) planned deliverables. University F only indicated that all combined assurance providers had healthy relationships. University A, being its first time to report on combined assurance in the three years, fully disclosed in just one sentence that internal audit was part of the combined assurance model. From the above, there was a clear improvement among the UoTs in the disclosure relating to combined assurance from 2014 to 2016.

6.2.2.3.2 Reporting on operational, compliance and sustainability issues

The King III Report requires internal control to be established not only on financial matters, but also on operational, compliance and sustainability issues and analysis for these three aspects are discussed below.

6.2.2.3.2.1 Disclosure on operational issues

With reference to section 6.2.2.1.3, internal audit has been responsible for analysing internal controls on the business operations at the rate of 80% in 2014 (with no disclosure by University A), 83% in 2015 and 80% in 2016. In 2015, University E did not disclose anything relating to the responsibility for operational issues, while in 2016, University F also did not disclose any information.

6.2.2.3.2.2 Disclosure on compliance issues

The King III Report requires organisations to comply with all aplicable laws, rules, standards and codes. It is therefore important that internal auditors as assurance providers do not only focus on financial controls but also take charge over compliance issues (IoDSA, 2009:86). In this study, in all three reporting years most UoTs did not disclose whether the internal audit function implemented or evaluated compliance on standards, rules or laws. Most UoTs disclosed the responsibility of internal auditors on the institutional policies. In 2014, this information was disclosed at the rate of 60%. University B mentioned that the internal audit function conducted a follow-up audit on compliance. University C and F disclosed that internal audit gets involved in the development of policies. University C further stated that internal auditors are involved in the distribution and communication of the Code of Ethics. University A and E failed to disclose information pertaining to compliance issues.

In 2015, the UoTs disclosed the information relating to compliance at an average of 67%. University A stated that it is the responsibility of internal auditors to ensure that policies and procedures are designed for sufficient and efficient internal control systems. University B, mentioned that the institution's ethics was managed effectively as recommended by the King III Report and ethics performance was included in the scope of internal audit. University B further stated that internal audit reviewed policies in line with the best practices and enhancements recommended. University C and F indicated that internal auditors assisted the university council to develop polices.

In 2016, 60% of the UoTs managed to disclose information on compliance. University A indicated that internal auditors are mandated to report any misconduct against a Code of Ethics to the audit and risk committee of the council. University A further stated that the internal audit function is used to review the implementation of the policies and frameworks, as well as the effectiveness or lack thereof. University B indicated as per the King III Report that the evaluations of ethics performance are included in the scope of internal audit. University C affirmed that internal auditors review the internal control systems and policies and report findings and recommendations to management and the audit committee of council. University C also mentioned that internal audit established policies and procedures, including the Code of Ethics that is communicated throughout the organisation to foster a strong ethical climate. University D, E and F did not make any disclosure to this requirement.

6.2.2.3.2.3 Disclosure on sustainability issues

According to the IoDSA (2009b:45) internal auditors are to evaluate or implement internal controls on sustainability issues. Though in the three reporting years of 2014, 2015 and 2016, UoTs managed to disclose information in general on their sustainability issues, none of them disclosed that the internal audit function established controls over sustainability issues.

6.2.2.3.3 Disclosure of framework

The King III Report requires UoTs to maintain three frameworks, namely a governance framework, a risk management framework and an internal control framework. These three matters will be discussed in the subsections that follow.

6.2.2.3.3.1 Governance framework

There are a number of governance frameworks, as indicated in chapter 2. However, in the analysis performed for section 6.2.2.1.1, it was found that, in 2014 and 2015, five of the six UoTs followed the King III Report, while in 2016, all six UoTs followed the King III Report as their governance framework. University D further indicated that the Control Objectives for Information and related Technology (COBIT5) and Information Technology Infrastructure Library (ITIL V3) frameworks were identified as suitable governance frameworks for adoption of IT governance. The reporting by UoTs in terms of governance frameworks can therefore be considered to be good.

6.2.2.3.3.2 Internal control framework

Chapter 2 discussed some of the frameworks that address issues of internal control, namely the COSO Integrated Framework of 2013 and CoCo. The UoTs reported on the internal control framework at a very low rate in the three reporting years. In 2014, only University C disclosed that the institution maintained an internal control framework, though it was not mentioned specifically which framework was followed. The other four universities did not disclose any information regarding their internal control framework. In 2015 and 2016, none of the UoTs disclosed information on maintaining any internal control framework. None of the UoTs disclosed the elements of the internal control framework. Reporting among UoTs relating to internal control frameworks is therefore at a very low level, and there is much room for improvement in disclosure.

6.2.2.3.3.3 Risk management framework

Chapters 2 and 3 indicated risk management as one of the responsibilities of internal auditors. Section 6.2.2.1.2 also provided the analysis of the internal audit function on risk management as required by the King III Report. The King III Report further requires organisations to maintain their risk management framework. In 2014, University A, E and F disclosed information in regard to their risk management framework. University A mentioned that, in response to the recommendations made in the 2014 internal audit report on the management of fraud, the framework for fraud risk management would be revised in 2015. University E mentioned that the risk management policy, which included the risk management framework, had been approved by the university council in 2014. University F reported that the risk management framework was being utilised to develop a risk register.

In 2015, the UoTs which disclosed information related to risk management framework were University A, C and D. University A mentioned that, in response to the recommendations made in 2015, internal audit reports on the management of fraud and improvements to the framework for fraud risk management would continue in 2016. University C indicated that the ERM framework was evolving in the institution (see section 2.7 on ERM; the ERM framework is one of the frameworks developed by COSO). University D mentioned that its ERM and existing guidelines were used to direct its Risk Management Plan.

In 2016, University A and D were the only universities to disclose information relating to risk management framework. University A mentioned that its audit and risk committee reviewed and recommended to council the approval of key documents such as the ERM policy and ERM framework. University A further indicated that, in response to the recommendations made on the management of fraud in 2015, internal audit reports on the improvements to the framework for fraud risk management would continue in 2017. University D disclosed that it was committed to the implementation of the ERM framework on an ongoing basis. This university further stated that the ERM framework, together with the policy, provided processes for risk management that allowed council, through the audit and risk committee, to identify, prioritise and effectively manage its material risks.

In conclusion, on average, less than half of the UoTs made mention of their risk management frameworks over the three years. Therefore, the UoTs can still improve their disclosure on these matters.

6.2.2.3.4 Reporting on providing written assessments

The King III Report recommends that the internal audit function provide a written assessment of the system of internal controls and risk management to the council. Only University B fully disclosed that internal audit submitted the written assessment of internal control and risk management to its audit and risk committee in 2014. In 2015, University B partially disclosed the information, as it did not include specific information on risk assessment. University C also only partially disclosed that it reviewed its risk in conjunction with the internal auditors and developed a programme of internal audits to examine the systems, procedures and controls in those areas considered as high risk. No further information on reporting to council could be found. Similarly, in 2016, there was low reporting on this requirement, as only University B partially disclosed that internal audit provided a written assessment of risk management to the audit committee.

In regard to specific reporting on the written assessments of the financial controls to the audit committee by the internal audit functions, none of the UoTs disclosed this information in the annual reports for any of the three years under review. In summary, the UoTs can still make significant improvements relating to their reporting of how they provide written assessments to audit and risk committee, as this is important information for the reader of an annual report.

6.2.2.4 The audit committee should be responsible for overseeing internal auditing

As mentioned in section 2.11.3, the King III Report gives clear guidance on the responsibilities of the audit committee with reference to the internal audit function. The principles relating to the audit committee responsibilities to internal audit principles will be discussed in the section below under six separate subheadings.

6.2.2.4.1 Audit committee approval of internal audit plan

In 2014, 100% of the five UoTs fully disclosed information relating to the audit committee’s responsibility for the internal audit plan approval. In 2015, 83% of the UoTs fully disclosed that the audit committee had already approved the internal audit plan, with only University D not disclosing on approval. (As mentioned earlier, University D did not have an annual report available for the 2014 year.) In 2016, 80% of the UoTs fully disclosed information in regard to the internal audit plan. University C and D, however, only disclosed that their audit plans were recommended to council by their audit committees, with no mention being made of approval, while the audit committees of University A and B had already agreed and approved their internal audit plans. Only University F did not disclose any information relating to the audit committee’s responsibility on the internal audit plan, even though they made such disclosure in the previous years.

6.2.2.4.2 Audit committee evaluation of performance of the internal audit function

As stated in section 3.3.1, the King III Report recommended that the audit committee evaluate the performance of the internal audit function and ensure that it is subjected to independent review. As was discussed in section 6.2.1.3, with the exception of one instance, all of the UoTs outsourced their internal audit functions. For 2014 and 2015, it was only University B and C (40%) which fully disclosed that their audit committees evaluated the performance of the internal audit function. University A disclosed this information for 2016. Also, for 2016, University B further disclosed that the internal audit quality review was to take place in five years’ time. The rest of the universities did not mention anything for all three reporting years. Disclosure on the performance evaluation and quality review of the internal audit function is therefore an area where most of the UoTs’ disclosure is clearly lacking.

6.2.2.4.3 CAE reporting to audit committee chairman

Section 4.4 emphasised the benefits of corporate reporting, whereas section 3.8 explained that the CAE’s report to the audit committee should be an indirect source of voluntary disclosures of the internal audit function to the public. However, in 2014, none of the UoTs (0%) disclosed that the CAE reported functionally to the audit committee chair. In 2015, University C and F partially disclosed that the audit committee received formal reports from internal audit. The results were interpreted as partial disclosure, since these annual reports did not specifically mention whether the

CAE was the one who submitted the report, with the possibility being that some of the UoTs might not have had a CAE at the time of reporting. University B and E (33%) fully disclosed that the CAE reported functionally to the audit committee. University A and D did not mention anything related to this recommended practice. In 2016, University B and F partially disclosed that the audit committee received reports from internal audit, not stating exactly under whose authority the report was submitted. The remaining 60% of the UoTs did not mention anything in their reports. Therefore, there still was a relatively low level of disclosure on this aspect.

6.2.2.4.4 Audit committee responsibilities with regard to the CAE

With reference to section 2.11.3, the audit committee should be responsible for the appointment, performance assessment and dismissal of the CAE. In all three reporting years, none of the UoTs (0%) disclosed that the audit committee was responsible for the appointment, performance assessment and dismissal of the CAE. Only University B mentioned that the audit committee was responsible for the appointment, performance assessment and dismissal of the internal audit service provider, referring to its outsourced internal audit function, and not the CAE. This aspect therefore also had a very low level of disclosure by the UoTs.

6.2.2.4.5 Resource and budget allocation of the internal audit function

The King III Report further recommended (as discussed in section 2.11.3) that the audit committee ensure that the internal audit function is appropriately resourced and has appropriate budget allocated to the function. In 2014, it was only University B and F (40%) that partially disclosed this recommended practice. University B disclosed that the audit committee was responsible for resourcing the internal audit function. None of the participating universities mentioned anything concerning the internal audit budget. In 2015, 33% of the UoTs partially disclosed this information. Both University B and F indicated only that they were responsible for resourcing the internal audit function. Nothing was mentioned by any of the universities specificatlly concerning the internal audit budget. In 2016, 80% of the UoTs partially disclosed this information. University B and F stated that they were responsible for the appointment of the internal audit service provider, while University C and D disclosed that they recommended the appointment of the internal audit service provider to the audit committee. Once again, none of the universities made mention of budgeting specifically for internal auditing in their disclosures. As a result, disclosure on these matters is on a low level.

6.2.2.4.6 Reporting by the internal audit function at audit committee meetings

Section 2.11.3 specified that the King III Report requires internal audit to report at all audit committee meetings. In 2014, 60% of the UoTs did not disclose that the internal audit function reported at all audit committee meetings. Only University B fully disclosed that the internal audit function reported at all audit committee meetings. University C partially disclosed that internal audit attended audit committee meeting, but stated nothing in regard to the internal audit function's actually reporting to the audit committee in those meetings. In 2015, 50% of the UoTs fully disclosed this information, while University A, D and E did not disclose anything. In 2016, 60% of the UoTs disclosed that the internal audit function reported to the audit committee in all the meetings. It was only University B, D and F which fully disclosed this information, while University C partially disclosed the information, as it did not disclose whether internal audit reported to the audit committee in those meetings. University A did not report on this requirement at all. This is, therefore, an area where the UoTs could show some improvement in disclosure practices.

6.2.2.5 Internal audit should be strategically positioned to achieve its objectives

As mentioned in section 2.11.4 of the literature review, the King III Report states that internal audit should be strategically positioned to achieve its objectives, and disclosure in the annual report should follow suit. The specific requirements in this regard will be discussed in the five subsections below.

6.2.2.5.1 Independence and objectivity of the internal audit function

Independence and objectivity are addressed in the King III Report under the section dealing with strategic positioning of the internal audit function. As part of the empirical study, this requirement was already dealt with in detail in section 6.2.2.2.2, finding that even though independence may be assumed due to outsourcing, most of the UoTs did not specifically disclose information on the independence and objectivity of the internal audit function.

6.2.2.5.2 Functional reporting of internal audit to the audit committee

Section 2.11.3 indicated the responsibilities of the audit committee with regard to internal audit. In as much as all the analysed annual reports of the UoTs included the audit committee responsibilities on the internal audit function, only a few reports over the three reporting years disclosed that the internal audit function reported to the audit committee functionally. Non-disclosure can make it difficult for the reader of an annual report who is not familiar with these reporting lines to understand the functioning and reporting. In 2014, none of the UoTs disclosed that internal audit reported functionally to the audit committee. In 2015, there was an increase in disclosure, when four of the UoTs (University B, C, E and F) disclosed that the internal audit function reported functionally to the audit committee. There was a significant decrease of disclosure of this practice in 2016. Of the five annual reports, only two of them (University B and F) indicated that the internal audit function reported functionally to the audit committee. Therefore, despite an increase in disclosure in 2015, the available annual reports for 2014 and 2016 indicate that there is still a low disclosure level relating to functional reporting.

6.2.2.5.3 CAE standing invitation to executive committee meetings

As indicated in section 2.11.3, the King III Report recommends that the CAE should have a standing invitation for the executive committee meetings. For all three years under review, none of the UoTs mentioned that the CAE has a standing invitation for the executive meetings. This is, therefore, an area where the UoTs can improve on their current disclosure practices.

6.2.2.5.4 Appropriateness of skills and resources of the internal audit function

The King III Report recommends (as discussed in section 2.11.4) that the internal audit function be skilled and resourced as is appropriate for the complexity and volume of risk and assurance needs of the institution. Section 6.2.1.3 showed that most UoTs outsourced the internal audit function in the three reporting years, while only one university co-sourced the function in 2016. As mentioned in section 3.6, one of the reasons for these two models of sourcing of the internal audit function was to add new expertise or enhance on existing expertise. Reference should be made to section 6.2.1.3 in this regard. In addition to this disclosure, for 2014, University A disclosed that the quality of the university's internal audit function had improved significantly since outsourcing the internal audit function. In this respect, improvement of the quality of the internal audit function could possibly be seen as the result of a skilled and well-resourced internal audit function. University B mentioned that its audit and risk committee needed a strong internal audit function or department in addition to the outsourced service to provide support and deal with issues arising in the institution and operational matters. Also, in 2015, University B published that, in order to strengthen the existing internal audit, an internal audit director had been appointed by the institution and assumed duty on 1 October 2015. In 2016, none of the UoTs disclosed that the internal audit function was skilled and resourced as is appropriate for the complexity and volume of risk and assurance needs. Therefore, even though the readers of the annual reports may make the assumption that the internal audit function is appropriately skilled and resourced due to outsourcing, there is still room for improvement in the disclosure of this aspect by the UoTs.

6.2.2.5.5 Quality assurance and improvement programmes

The King III Report (as discussed in section 2.11.4) recommends the CAE develop and maintain a quality assurance and improvement programme. For the three years under review, none of the UoTs disclosed information in regard to this requirement. Section 6.2.1.3 indicated that most of the UoTs outsourced the internal audit function, and some of the risk aligned with outsourced internal audit is quality. This apparent lack of disclosure and information on the quality assurance and improvement programme to be developed and maintained by the CAE raises concerns. The other cause of non-disclosure might be that, since most UoTs outsourced the internal audit function, the CAE did not have the opportunity to be fully committed and become part of the outsourced internal audit team.

6.3 Summary

This chapter provided an analysis and discussion on the research findings of this study. It presented findings on the self-developed questions on the internal audit function and the King III internal audit reporting.

The UoTs in general showed improving or satisfactory disclosure practices regarding aspects relating to thefollowing:

- the governance models used,
- council's statement on corporate governance,
- the structure of the internal audit function and sourcing model used,
- the relationship between internal and external audit,
- the assessment of the effectiveness of risk management and internal control,
- internal audit's responsibility for recommending and improving systems of internal control,
- following a risk-based approach,
- reporting on strategic goals,
- establishing internal controls on compliance of policies,
- making use of combined assurance,
- the specific governance framework used, and
- the audit committee approving the internal audit plan.

Even though some satisfactory disclosure practices were identified, many UoTs still have shortcomings in their disclosure of the following aspects:

- the responsibility of the internal audit function with regard to evaluating corporate governance processes,
- reporting on instances of fraud, corruption, unethical behaviour and irregularities,
- adherence to the IIA Standards and Code of Ethics,
- information on and disclosure pertaining to the internal audit charter,
- the extent of reliance by the external auditor on the work of the internal audit function,
- specific information on internal audit's independence from management,

- reporting compliance with applicable laws and codes and sustainability issues,
- the internal control framework used,
- the risk management framework used,
- written assessments on the systems of internal controls and risk management,
- written assessments on financial controls,
- the audit committee's evaluation of the performance of the internal audit function,
- reporting by the CAE to the audit committee chairman,
- the audit committee's responsibilities with regard to the CAE,
- resources and budgets allocated to the internal audit function,
- functional reporting by the internal audit function at audit committee meetings,
- the standing invitation of the CAE to executive committee meetings,
- the appropriateness of skills and resources of the internal audit function, and
- the CAE developing and maintaining a quality assurance and improvement programme

The next chapter will provide concluding remarks on the study, as well as the recommendations of the study.

Chapter 7: Reflections, conclusions and recommendations

7.1 Introduction

This study started with an introductory chapter, followed by three literature review chapters on corporate governance, internal auditing and the South African higher education environment. The literature laid the foundation for the empirical study, with the detail of the research methodology discussed in the fifth chapter. Chapter 6 analysed and discussed the findings of the empirical part of the study. This chapter presents the summary of results and conclusions, recommendations and suggested future research.

7.2 Reflections on the literature and research methodology

The below sections present a reflection of the literature presented on corporate governance development, an overview of internal auditing and the development of higher education with specific reference to South Africa. The reseach methodology will also be reflected upon.

7.2.1 Corporate governance development

Sound corporate governance, amongst other things, reduces the likelihood of financial scandals and ensures the good reputation of organisations. Development in corporate governance has increased significantly in response to the numerous scandals that have occurred around the world. Such scandals include Enron, Parmalat, Fidentia, KPMG, Cricket South Africa and NSFAS issues.

Also in response to these scandals and other corporate governance-related issues, organisational theories have been developed. In this study, agency theory, stakeholder theory and stewardship theory were identified as major theories that strengthened sound corporate governance, as indicated in sections 2.3.1, 2.3.2 and 2.3.3. Although these three theories arose from different assumptions of structures and behaviour, they share an emphasis on the importance of shareholders and managers, while stakeholder theory values other internal and external stakeholders.

To further enhance corporate governance, the three theories articulated corporate governance guidelines and frameworks as mechanisms of sound corporate governance. Sections 2.6 to 2.11.4 discussed some of the corporate governance guidelines developed by countries such as the UK, USA, Canada and South Africa. In addition, the OECD was also one of the international institutions that mostly encouraged countries to adopt and develop corporate governance guidelines. South Africa also received worldwide attention with its King Reports on corporate governance. Sections 2.10.1, 2.10.2 and 2.10.3 discussed the background of the King I, King II and King III Reports respectively. Internal audit requirements as per the King III Report were set out in section 2.11, while the newly developed King IV Report was briefly discussed in section 2.10.4.

7.2.2 Internal auditing

The profession of internal auditing has come under the global spotlight due to the corporate scandals mentioned above and briefly discussed in chapters 1 and 2. Chapter 3 indicated that, from the ancient methods of verifying transactions, internal auditing evolved later in the 20th century towards independently and objectively providing assurance and consulting activities to assist organisations in evaluating and improving the effectiveness of risk management, control and governance processes. Section 3.4 mentioned the international institutions that have influenced the status of the internal audit profession, namely the IIA and PCAOB. In South Africa, besides these international influential institutions, IIA SA, the National Treasury and some of the treasury acts mandating the work of internal audit, namely the PFMA and the MFMA, were developed.

The importance of the relationship between internal and external audit was discussed in section 3.5. It was purported that both internal and external audit equally impact on the organisational activities. Forms of sourcing, namely in-house, outsourcing or co-sourcing of the internal audit function, was set out in section 3.6. These three forms of sourcing share the same role, as discussed in chapter 3.

Section 3.7 explained that the internal audit function has emerged as an important tool to assist higher education institutions in achieving their goals. To add value to their internal audit function, higher education institutions in countries such as the UK, USA, Australia, New Zealand and South Africa have established internal audit associations and guidelines. International audit and consulting firms also have contributed significantly in higher education institutions. These include KPMG, PwC, Deloitte and EY. Baker Tilley, BDO and Grant Thornton also emphasised the internal audit function.

Section 3.7.3.1 presented findings from international and local studies that assessed the importance of the internal audit function in higher education institutions. These studies revealed a gap in the literature, as none of them addressed the issue of the King III internal audit reporting guidelines in South African UoTs. Inconsistent results with regard to the internal audit function of higher education institutions were noted. The findings also revealed that some of the higher education institutions did not have an internal audit at all, while others did have internal audit teams that added value to the institutions.

Chapter 3 discussed the concept of internal audit reporting as one of the responsibilities of the internal audit function. This chapter further pointed out that the internal audit reports to audit committees are integrated in the annual report, meant for both internal and external users. The IIA or corporate governance guidelines such as the King III Report provide direction on internal audit reporting.

7.2.3 Development of higher education with specific reference to South Africa

Higher education institutions in countries such as the UK, US, Canada, Australia, as well as South Africa, have seen great development in recent years. Some of the determinants identified for these changes, indicated in section 4.1, are the dramatic massification of education and governance issues, which resulted in higher education's becoming a complex institutions. To respond to these issues, sound governance was found to be a vital for higher education institutions.

As indicated in sections 4.1 and 4.2, higher education institutions moved away from the collegial governance (internal governance) model followed in the 1950s towards various internal governance models, including the bureaucratic governance model, collegial model and co-operative governance managerialism referred to as either new public management, market-based public administration or corporate governance. Sections 4.2.2.1.2, 4.2.2.2.2, 4.2.2.3.2, 4.2.2.4.2 and 4.2.2.5 emphasised that the external governance of higher education institutions involves the relationships amongst institutions, states and other external agencies.

The development of higher education in South Africa since the dawn of democracy in 1994 was discussed in section 4.3. In this section different types of higher education institutions were explained. The differences between the three types of universities in South Africa, namely traditional universities, comprehensive universities and universities of technology, were identified and set out. The discussion in chapter 4 focused on corporate annual reporting and higher education reporting requirements. The next section will provide a summary of the research methodology followed in the study.

7.2.4 Research methodology

Chapter 5 discussed the research philosophy/paradigm. This study applied the anti positivist paradigm as it enabled the researcher to evaluate the extent UoTs disclosed the internal audit requirement as per the King III Report. Research methodology followed was also explained in section 5.3. Three types of research approaches, namely quantitative, qualitative and mixed approaches, were explained in section 5.4. Owing to the nature of the study, the qualitative research approach was found to be the most suitable approach. As this study assessed the content and contextual meaning of text, in the annual reports of UoTs (CUT, CPUT, MUT, DUT, TUT and VUT), the researcher found a summative content analysis design to be the most applicable. A total of 55% of the annual reports analysed were obtained from the UoTs websites, the rest from the universities' CFOs. Challenges experienced in obtaining these reports were referred to in section 5.8. Section 5.6 indicated that the measuring instrument used to assess the UoTs annual reports was a checklist. Depending on the information analysed, a two-rater scale was used indicating whether information was fully disclosed or not disclosed for section A questioner. Alternatively, a three-rater scale was applied; thus, indicating information was 'fully disclosed', 'partially disclosed' or 'not disclosed' for section B. Annexure C provides guidelines on the description of these three raters.

The study addressed the main research objective, which was to assess the implementation of the King III internal reporting guidelines at UoTs in South Africa. In terms of the co-objectives, internal auditing information disclosed in the annual reports of UoTs were analysed based on the King III Report requirements. The empirical findings indicated that not all UoTs implement internal auditing functions in accordance with the King III Report. Recommendations were made on improving internal auditing disclosure of UoTs in line with the King III Report.

The next section will provide a summary of the findings, which were detailed in chapter 6.

7.3 Summary of empirical results and conclusions

Below sections provide a summary of the findings, as per the requirements of the King III internal audit guidelines detailed in chapter 6.

7.3.1 Section A: Self-developed analysis

The aim of this study was to assess the implementation of the King III Report at UoTs. The results indicate that, in 2014, five of the UoTs adopted the King III Report. One of the UoTs' annual report was not available at the time the analysis was performed. In 2015, all six UoTs followed the King III Report. In 2016, one of the six UoTs was already proactive and followed the King IV Report and therefore, had not adopted the King III Report for that year. Based on the analysis of the UoTs' annual reports of 2014, 2015 and 2016, 100% of the UoTs followed the co-operative governance model and the corporate governance model.

Regarding sourcing of the internal audit function, in 2014, four of the UoTs outsourced their internal audit function, while in 2015, it was five universities. In 2016, four universities outsourced the internal audit function, while only one co-sourced this function. The UoTs outsourced the internal audit function to either one of the following accounting firms: SNG, Ngubane, PwC, Indyebo Consulting and EY. One university had a jointly outsourced internal audit function in all three reporting years. The results further indicate that, in 2014, 80% of the internal audit functions had a relationship with the external audit function, while in 2015, it was 83%, and 100% in 2016.

7.3.2 Section B: Implementation of the internal audit reporting guidelines contained in the King III Report

According to the findings, UoTs showed poor disclosure of information in the three years under review, pertaining to the following requirements: reporting on the internal audit function adhering to the IIA Standards and Code of Ethics, discussed in section 6.2.2.1.6; reporting that the internal audit function provided a written assessment of internal financial controls to the audit committee, discussed in section 6.2.2.3.4; reporting on the CAE’s functional reporting to the audit committee chairman, analysed in section 6.2.2.4.3; reporting on the appointment, performance assessment and dismissal of the CAE by the audit committee, analysed in section 6.2.2.4.4; reporting that the CAE has a standing invitation to attend executive committee meetings, discussed in section 6.2.2.5.3; and reporting that the CAE developed and maintained a quality assurance and improvement programme, analysed in section 6.2.2.5.5.

It was also noted that there are some internal audit guidelines which UoTs need to make improvements on with regard to their disclosure. Such information pertained to the requirement on the internal audit function in evaluating the governance processes, as indicated in table 4, section 6.2.2.1.1; on providing a source of information as appropriate regarding instances of fraud, corruption, unethical behaviour and irregularities, as indicated in section 6.2.2.1.4; reporting on compliance with applicable laws and codes and sustainability issues, as mentioned in 6.2.2.3.2, and the definition and approval of the audit charter by the council, as discussed in sections 6.2.2.1.5.

Few UoTs (as indicated in section 6.2.2.3.4) disclosed that internal audit provided a written assessment of the system of internal controls and risk management to the council, which shows that this aspect needs improvement. Few universities disclosed information related to the risk management framework, as was discussed in section 6.2.2.3.3.3. Section 6.2.2.4.3 indicated that the UoTs did not disclose that the CAE reported functionally to the audit committee chairman.

The overall findings indicate that, despite low disclosure, the UoTs showed improvements in disclosing the following information: that the internal audit plan and approach were informed by the strategy and risks of the UoTs; that the internal audit function was appropriately resourced and had appropriate budget allocated to the function; that the internal audit function reported at all audit committee meetings; and that the audit committee was responsible for evaluating the internal audit function performance. UoTs also showed improvements by partially disclosing that the internal audit function formed an integral part of the combined assurance model as internal assurance provider and that the internal audit function was skilled and resourced as is appropriate for the complexity and volume of risk and assurance need.

The disclosure of the King III guidelines on internal auditing by the UoTs was higher in areas where internal audit was required to perform an objective assessment of the effectiveness of risk management, as indicated in section 6.2.2.1.2. Additional internal audit principles that were disclosed at a high rate in the three reporting years were the following: that the internal audit function systematically analysed and evaluated the UoT processes and associated controls (section 6.2.2.1.3); that the internal audit plan was agreed and approved by the audit committee (section 6.2.2.4.1); disclosure on governance models used (section 6.2.1.2), that the UoTs had outsourced or co-sourced the independent internal audit activity (6.2.1.3), disclosure on reporting on assurance on strategic goals (section 6.2.2.2.3), the relationship between internal and external audit (section 6.2.1.4), and the specific governance frameworks used (section 6.2.2.3.3.1).

The findings show that University B, followed by University C, in all three reporting years performed best with regard to disclosing the information as required by the King III internal audit reporting guidelines. The university with the lowest performance in implementing the King III internal audit reporting guidelines was University A in 2014. For 2015 and 2016, the lowest rates were achieved by University D.

7.4 Recommendations

This section presents recommendations with regard to the availability of annual reports and the implementation of the King III internal audit reporting in the UoTs of South Africa.

7.4.1 Availability of annual reports

As mentioned in section 1.6, the researcher experienced challenges obtaining the annual reports of the UoTs, as all reports were not readily available in the public domain. The researcher recommends that UoTs ensure that all their annual reports are available on the university websites as soon as possible after the reporting period (30 June) on a continuous basis. The title of the compiled financial information and non-financial information should be 'Annual Report' or the specific naming should be agreed upon by the universities and the naming consistently used. It is suggested that UoTs keep annual reports of previous years on their websites as well, in order to ensure that readers of annual reports can compare disclosure from year to year.

7.4.2 The King III internal audit reporting guidelines

The researcher recommends that the UoTs implement all the King III Report guidelines, alternatively, the King IV Report going forward, in order to achieve sound corporate governance. It is also recommended that there should be a section in the annual report in which all the internal audit information guided by the King III Report is disclosed. When disclosing the King III Report guidelines, universities should adapt the wording of these guidelines in line with terminology used by the relevant institution. If no disclosure is made as required by the King III Report, UoTs should provide the reasons for non-disclosure. The DHET can host workshops to audit representatives from committees, councils, management and internal auditors with regard to internal audit reporting as per the King III Report. It is further suggested that a "template" be developed which can be used by UoTs to check their compliance with the reporting guidelines of the King Report.

7.5 Suggested future research

This study only dealt with the internal auditing aspects in the annual reports of UoTs in South Africa, and reports were analysed over three years only. Further studies could assess the implementation of the reporting guidelines in the King III Report specifically relating to internal auditing in all public higher education institutions, private higher education institutions or even other government departments. A study can be conducted comparing disclosure of private and public higher education institutions, and a similar internationally comparative study can also be conducted.

The study was conducted during the changeover period between King III and King IV. Similar studies might also be conducted to compare the implementation of the King III Report and the new King IV Report in terms of guidelines on internal auditing. Some studies can compare the implementation of the King III Report or King IV Report between former technikons (UoTs) and the traditional universities and comprehensive universities. Also, further studies can assess the implementation of the King IV Report in both public and private organisations.

This approach used in this study was summative content analysis. Future studies could be conducted using a different approach, and going further than merely analysing the content of the annual reports. For example, interviews could be conducted with CAEs, internal auditors or chairpersons of audit committees as part of a qualitative study.

7.6 Concluding remarks

Good corporate governance and proper reporting thereon increases the legitimacy of the operations of organisations and the trust and confidence of stakeholders. Applying the principles of sound corporate governance and acting responsibly toward stakeholders will always remain a moving target.

In the words of the great Judge Mervyn King (2006: 22-23), those in charge of governance:

> *"…have to be aware of the five corporate sins of*

- *self-interest,*
- *self-concern,*
- *focusing on processes (administration) rather than enterprise,*
- *pride, when a decision has been made which turns out to be the incorrect one and the board is slow to correct it,*
- *arrogance, when the board believes that it has the right formula for its business, its competitors do not, and nothing will go wrong!..."*

Therefore, organisations, including higher education institutions, can never become complacent regarding the application of and reporting on good governance.

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Annexure A: Checklist

Part A: Questions on the checklist used in assessing the implementation of the King III internal auditing reporting at the Universities of Technology in South Africa.

Entity:

Key for checklist

√	Where the tick is under disclosed, partially disclosed or not disclosed, it represents the status of the disclosure based on the research questions.

Section A: Self-developed questions

1. Does the annual report of UoT disclose if they follow the King III Report?

1. Disclosed	1. Not disclosed

2. Does the annual report disclose if UoTs adopted co-operative governance and corporate governance?

1. Disclosed	2. Not disclosed

3. Does the annual report of UoT disclose how they source internal auditing (outsourced, co-sourced, or in-house)?

1. Disclosed	2. Not disclosed

4. Does the annual report of UoT disclose the relationship between internal and external auditors?

1. Disclosed	2. Not disclosed

5. Does the annual report of UoT disclose the relationship between internal and external audit?

1. Disclosed	2. Not disclosed

Section B: Question based on the internal audit reporting guidelines of the King III Report

1. Does the annual report of UoT disclose that the council ensures that there is an effective risk-based internal audit function?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

1.1 Does the annual report of UoT disclose that the internal audit function was established?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

1.2 Does the annual report of UoT disclose that the internal audit function evaluates the governance processes?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

1.3 Does the annual report of UoT disclose that the internal audit function performs an objective assessment of the effectiveness of risk management and the internal control framework?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

1.4 Does the annual report of UoT disclose that the internal audit function systematically analyses and evaluates the UoT processes and associated controls?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

1.5 Does the annual report of UoT disclose that the internal audit function provides a source of information regarding instances of fraud, corruption, unethical behaviour and irregularities?

1. Fully disclosed	2 Partially disclosed	3 Not disclosed

1.6 Does the annual report of UoT disclose that an internal audit charter is defined and approved by the council?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

1.7 Does the annual report of UoT disclose that the internal audit function adheres to the IIA Standards and Code of Ethics?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

2. Does the annual report of UoT disclose that internal audit function follows a risk-based approach to its plan?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

2.1 Does the annual report of UoT disclose that the internal audit plan and approach are informed by the strategy and risks of UoT?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

2.2 Does the annual report of UoT disclose that the internal audit function is independent from management?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

2.3 Does the annual report discloses that the internal audit function is an objective provider of assurance that considers the opportunities that will promote the realisation of strategic goals that are identified, assessed and effectively managed by the UoT's management team?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

3. Does the annual report of UoT provides a written assessment of the effectiveness of the UoT's system of internal controls and risk management?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

3.1 Does the annual report of UoT disclose that the internal audit function forms an integral part of the combined assurance model as internal assurance provider?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

3.2 Does the annual report of UoT disclose that the internal controls are not established only over financial matters, but also on operational, compliance and sustainability issues?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

3.3 Does the annual report of UoT disclose that UoT maintains an effective governance, risk management and internal control framework?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

3.4 Does the annual report of the UoTs discloses that management specifies the elements of the control framework?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

3.5 Does the annual report of UoT disclose that the internal audit function provides a written assessment of the system of internal controls and risk management to the council?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

3.6 Does the annual report of UoT disclose that the internal audit function provides a written assessment of internal financial controls to the audit committee?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

4. Does the annual report of UoT disclose that the audit committee is responsible for overseeing the internal audit function?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

4.1 Does the annual report of UoT disclose that the internal audit plan is agreed and approved by the audit committee?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

4.2 Does the annual report of UoT disclose that the audit committee evaluates the performance of the internal audit function?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

4.3 Does the annual report of UoT disclose that the CAE reports functionally to the audit committee chairman?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

4.4 Does the annual report of UoT disclose that the audit committee is responsible for the appointment, performance assessment and dismissal of the CAE?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

4.5 Does the annual report of UoT disclose that the audit committee ensures that the internal audit function is appropriately resourced and has appropriate budget allocated to the function?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

4.6 Does the annual report of the UoT discloses that the internal audit function reports at all audit committee meetings?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

5. Does the annual report of UoT disclose that internal audit is strategically positioned to achieve its objectives?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

5.1 Does the annual report of UoTs disclose that the internal audit function is independent and objective?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

5.2 Does the annual report of UoT disclose that the internal audit function reports functionally to the audit committee?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

5.3 Does the annual report of UoT disclose that the CAE has a standing invitation to attend executive committee meetings?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

5.4 Does the annual report of UoT disclose that the internal audit function is skilled and resourced as is appropriate for the complexity and volume of risk and assurance needs?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

5.5 Does the annual report of UoT disclose that the CAE develops and maintains a quality assurance and improvement programme?

1. Fully disclosed	2. Partially disclosed	3. Not disclosed

Part B: Summary on analysis of the internal audit reporting by the South African UoTs as per the King III Report.

Section A: Analysis on self-developed checklist

	2014					2015					2016				
	Total number of assessed UoTs	Disclosed	Scores in %	Not disclosed	Scores in %	Total number of assessed UoTs	Disclosed	Scores in %	Not disclosed	Scores in %	Total number of assessed UoTs	Disclosed	Scores in %	Not disclosed	Scores in %
1. Alignment of UoT disclosure with the King III Report	5	5	100%	0	100%	6	6	100%	0	0%	6	5	83%	1	20%
2. Disclosure on governance models adopted by UoTs:															
co-operative governance	5	5	100%	0	100%	6	6	100%	0	0%	5	5	100%	0	0%
Corporate governace	5	5	100%	0	100%	6	6	100%	0	0%	5	5	100%	0	0%
4. Disclosure on the structure of the internal audit function:															
4.1 In-house		-	-				-	-				1	20%		
4.2 Co-sourced		-	-				-	-				-	-		
4.3 Outsourced	5	4	80%	1	20%	6	5	83%	1	17%	5	4	60%	1	20%
5. Internal audit relationship with external auditors	5	4	80%	1	25%	6	5	83%	1	17%	5	5	100%	0	0%

Section B: Analysis on internal audi reporting checklist as per the King III Report

Sub Section	Total number of assessed UoTs	Fully disclosed	Score in %	Not disclosed	Score in %	Partially disclosed	Score in %	Total number of assessed UoTs	Fully disclosed	Score in %	Not disclosed	Score in %	Partially disclosed	Score in %	Total number of assessed UoTs	Fully disclosed	Score in %	Not disclosed	Score in %	Partially disclosed	Score in %
	2.1 The council should ensure that there is an effective risk based internal audit																				
2.1.1 Internal audit should evaluate the UoTs' governance processes	5	3	60%	2	40%	0	0%	6	3	50%	3	50%	0	0%	5	2	40%	3	60%	0	0%
2.1.2 Internal audit should perform an objective assessment of the effectiveness of risk management	5	4	80%	1	20%	0	0%	6	5	83%	1	17%	0	0%	5	5	100%	0	0%	0	0%
2.1.3 Internal audit should systematically analyse and evaluating business processes and associated controls	5	4	80%	1	20%		0%	6	5	83%	1	17%	0	0%	5	4	80%	1	20%	0	0%
2.1.4 Internal audit provides a source of information regarding instances of fraud, corruption,unethical behaviour and irregularities	5	1	20%	4	80%	0	0%	6	1	17%	5	83%	0	0%	5	1	20%	4	80%	0	0%
2.1.5 An internal audit charter should be defined and approved by the council	5	2	40%	3	60%	0	0%	6	1	17%	5	83%	0	0%	5	2	40%	3	60%	0	0%
2.1.6 Internal audit should adhere to the IIA Standards and code of ethics	5	0	0%	4	80%	1	20%	6	0	0%	5	83%	1	17%	5	0	0%	4	80%	1	20%
	2.2. Internal audit should follow a risk based approach to its plan																				
2.2.1 The internal audit plan and approach should be informed by the strategy and risks	5	3	60%	2	40%	0	0%	6	3	50%	3	50%	0	0%	5	4	80%	1	20%	0	0%
2.2.2 Internal audit should be independent from management	5	4	80%	2	40%	0	0%	6	6	100%	0	0%	0	0%	5	4	80%	1	20%	0	0%
2.2.3 Internal audit should be an objective provider of assurance that considers the risks that may prevent or slow down the realisation of strategic goals	5	5	100%	0	0%	0	0%	6	5	83%	1	17%	0	0%	5	4	80%	1	20%	0	0%
	2.3 Internal audit should provide a written assessment of the effectiveness of the UoTs' system of internal controls and risk management																				
2.3.1 Internal audit should form an integral part of the combined assurance model asinternal assurance provider.	5	0	0%	4	80%	1	20%	6	0	0%	2	33%	4	67%	5	0	0%	1	20%	4	80%
2.3.2 Internal controls should be established not only over financial matters, but also on the following issues:																					
2.3.2.1 Operational issues	5	4	80%	1	20%	0	0%	6	5	83%	1	17%	0	0%	5	5	100%	0	0%	0	0%
2.3.2.2 Compliance issues	5	3	60%	2	40%	0	0%	6	4	67%	2	33%	0	0%	5	3	60%	2	40%	0	0%
2.3.2.3 Sustainability issues	5	0	0%	5	100%	0	0%	6	0	0%	6	100%	0	0%	5	0	0%	5	100%	0	0%
2.3.3 UoTs should maintain the following frameworks:																					
2.3.3.1 Governance framework	5	5	100%	0	0%	0	0%	6	6	100%	0	0%	0	0%	5	5	100%	0	0%	0	0%
2.3.3.2 Internal control framework	5	1	20%	4	80%	0	0%	6	0	0%	6	100%	0	0%	5	0	0%	5	100%	0	0%
2.3.3.3 Risk management framework	5	3	60%	2	40%	0	0%	6	3	50%	3	50%	0		5	2	40%	3	60%	0	0%
2.3.4 Management should specify the elements of the control framework	5	0	0%	5	100%	0	0%	6	0	0%	6	100%	0	0%	5	0	0%	5	100%	0	0%
2.3.5 Internal audit should provide a written assessment of the system of internal controls and risk management to the council	5	1	20%	4	80%	0	0%	6	0	0%	4	67%	2	33%	5	1	20%	4	80%	1	20%
2.3.6 Internal audit should provide a written assessment of internal financial controls to the audit committee	5	0	0%	5	100%	0	0%	6	0	0%	6	100%	0	0%	5	0	0%	5	100%	0	0%
	2.4 The audit committee should be responsible for overseeing internal audit																				
2.4.1 The internal audit plan should be agreed and approved by the audit committee	5	5	100%	0	0%	0	0%	6	5	83%	1	17%	0	0%	5	4	80%	1	20%	0	0%
2.4.2 The audit committee should evaluate the performance of the internal audit function	5	5	100%	0	0%	0	0%	6	4	67%	2	33%	0	0%	5	2	40%	2	40%	0	0%
2.4.3 The audit committee should ensure that the internal audit function is subjected to an independent quality review	5	2	40%	3	60%	0	0%	6	2	33%	4	67%	1	17%	5	2	40%	3	60%	0	0%
2.4.4 The CAE should report functionally to the audit committee chairman	5	0	0%	5	100%	0	0%	6	2	33%	2	33%	2	33%	5	0	0%	3	60%	2	40%
2.4.5 The audit committee should be responsible for the appointment, perfomance assessment and dismissal of the CAE	5	0	0%	5	100%	0	0%	6	0	0%	6	100%	0	0%	5	0	0%	5	100%	0	0%
2.4.6 The audit committee should ensure that the internal audit function is appropriately resourced and has appropriate budget allocated to the function	5	0	0%	3	60%	2	40%	6	0	0%	4	67%	2	33%	5	0	0%	1	20%	4	80%
2.4.7 Internal audit should report at all audit committee meetings	5	1	20%	3	40%	1	20%	6	3	50%	3	50%	0	0%	5	3	60%	1	20%	1	20%
	2.5. Internal audit should be strategically positioned to achieve its objectives																				
2.5.1 The internal audit function should report functionally to the audit committee	5	0	0%	5	100%	0	0%	6	4	67%	2	33%	0	0%	5	2	40%	3	60%	0	0%
2.5.2 The CAE should have a standing invitation to attend executive committee meetings	5	0	0%	5	100%	0	0%	6	0	0%	6	100%	0	0%	5	0	0%	5	100%	0	0%
2.5.3 The internal audit function should be skilled and resourced as is appropriate for the complexity and volume of risk and assurance needs	5	0	0%	4	80%	1	20%	6	0	0%	3	50%	2	33%	5	0	0%	5	100%	0	0%
2.5.4 The CAE should develop and maintain a quality assurance and improvement programme	5	0	0%	5	100%	0	0%	6	0	0%	6	100%	0	0%	5	0	0%	5	100%	0	0%

Annexure B: Key words

Keywords used for analysis process

Section A: Self-developed questions	**Keywords identified**
1. Does the annual report disclose the governance model which UoT has adopted?	Governance, co-operative governance, corporate governance, managerialism
2. Does the annual report of UoTs disclose if they follow the King III Report?	King III, King
3. Does the annual report of UoTs discloses how they source internal auditing (outsourced, co-sourced or in-house)?	Source, sourcing, outsourced or co-sourced, or in-house, internal audit sourcing
4. Does the annual report of UoTs discloses the relationship between internal and external audit?	Internal, external, internal audit external audit, relationship, communicate, work, meet
Section B: Internal audit function requirements based on the King III Report	
1. Does the annual report of UoT disclose if the council of the university ensures that there is an effective risk-based internal audit?	Risk, internal audit, internal
1.1 Does the annual report of UoT disclose that the internal audit function was established?	Internal audit, internal
1.2 Does the annual report of UoT disclose that the internal audit function evaluates the governance processes?	Internal audit, internal, governance, corporate governance
1.3 Does the annual report of UoT disclose that the internal audit function performs an objective assessment of the	Internal audit, internal, risk, assessment, control, control framework

effectiveness of risk management and the internal control framework?	
1.4 Does the annual report of UoT disclose that the internal audit function systematically analyses and evaluates UoTs processes and associated controls?	Internal audit, internal, control
1.5 Does the annual report of UoT disclose that the internal audit function provides a source of information as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities?	Internal audit, internal, fraud, corruption, unethical, irregularities
1.6 Does the annual report of UoT disclose that an internal audit charter is defined and approved by the council?	Internal audit, internal, internal audit charter
1.7 Does the annual report of UoT disclose that the internal audit function adheres to the IIA Standards and Code of Ethics?	IIA standards, ethics, code of ethics
2. Does the annual report of UoT discloses if the internal audit function follows a risk-based approach in its plan?	Internal audit, internal, risk, risk-based approach
2.1 Does the annual report of UoT disclose that the internal audit plan and approach are informed by the strategy and risks of the UoT?	Internal audit, internal, strategy, risk management, plan
2.2 Does the annual report of UoT disclose that the internal audit function is independent from management?	Internal audit, internal, independent, management
2.3 Does the annual report of UoT disclose that the internal audit function is an	Internal audit, internal, strategic goals, code of governance principles

objective provider of assurance that considers the risks that may prevent or slow down the realisation of strategic goals; code of governance principles?	
2.4 Does the annual report of UoT disclose that the internal audit function is an objective provider of assurance that considers whether controls are in place and functioning effectively to mitigate these?	Internal audit, internal audit function, controls, risk, mitigate risk, risk mitigation, mitigate
2.5 Does the annual report of UoT disclose that the internal audit function is an objective provider of assurance that considers the opportunities that will promote the realisation of strategic goals that are identified, assessed and effectively managed by the UoT's management team?	Internal audit, internal audit function, opportunities, strategic goals, goal, plan, goal identification
3. Does the annual report of UoT disclose if internal audit of the university provides a written assessment of the effectiveness? 3.1 Does the annual report of UoT disclose that the internal audit function forms an integral part of the combined assurance model as internal assurance provider? 3.2 Does the annual report of UoT disclose that the internal controls are established not only over financial	Internal audit, assessment, audit committee, risk management, combined assurance

matters, but also on operational, compliance and sustainability issues? 3.3 Does the annual report of UoT disclose that UoT maintains an effective governance, risk management and internal control framework? 3.4 Does the annual report of UoT disclose that management specifies the elements of the control framework? 3.5 Does the annual report of UoT disclose that the internal audit function provides a written assessment of the system of internal controls and risk management to the council? 3.6 Does the annual report disclose that the internal audit function provides a written assessment of internal financial controls to the audit committee?	
4. Does the annual report of UoT disclose if the audit committee is fulfilling its responsibility of overseeing internal auditing?	Audit committee, committee, internal, internal audit
4.1 Does the annual report of UoT disclose that the internal audit plan is agreed and approved by the audit committee?	Audit committee, committee, internal audit plan, internal

4.2 Does the annual report of UoT disclose that the audit committee evaluates the performance of the internal audit function?	Audit committee, internal, internal audit, performance
4.3 Does the annual report of UoT disclose that the audit committee ensures that the internal audit function is subjected to an independent quality review?	Internal audit, independent review, independent assessment, independent evaluation, audit committee
4.4 Does the annual report of UoT disclose that the CAE reports functionally to the audit committee chairman?	CAE, director of internal audit, head of internal audit, report, audit committee
4.5 Does the annual report of UoT disclose that the audit committee is responsible for the appointment, performance assessment and dismissal of the CAE?	Audit committee, performance, dismissal, appointment, hire, CAE, head of internal audit, resourced
4.6 Does the annual report of UoT disclose that the audit committee ensures that the internal audit function is appropriately resourced and has appropriate budget allocated to the function?	Resourced, audit committee, internal audit function, budget
4.7 Does the annual report of UoT disclose that the internal audit function reports at all audit committee meetings?	Audit committee, internal audit, internal, meeting, report
5. Does the annual report of UoT disclose if the internal audit should be strategically positioned to achieve its objectives?	Independent, independence objective, internal audit, necessary resources, resources

5.1 Does the annual report of UoT disclose that the internal audit function is independent and objective?	Internal audit, independent, objective
5.2 Does the annual report of UoT disclose that the internal audit function reports functionally to the audit committee?	Internal audit, report, functionally to the audit committee
5.3 Does the annual report of UoT disclose that the CAE has a standing invitation to attend executive committee meetings?	CAE, meeting, committee meeting, head of internal audit, director of internal audit, head of audit
5.4 Does the annual report of UoT discloses that the internal audit function is skilled and resourced as is appropriate for the complexity and volume of risk and assurance needs?	Internal audit function, skilled and resourced, risk
5.5 Does the annual report of UoT disclose that the CAE develops and maintains a quality assurance and improvement programme?	CAE, quality assurance, improvement programme, maintain

Annexure C: Guidelines on the description of checklist raters

Guidelines on the description of the two raters used as measuring instrument of the study questions for section A and the three raters used for section B.

Section A: Guidelines for self-developed questions

Disclosed	Not disclosed
The UoT disclosed any of the principals, for instance, if UoT indicated that they followed the King III Report and stated clearly the procedure as required by the King III Report.	The information indicated that there was nothing disclosed with regard to the requirement.

Section B: Guidelines for the King III internal audit questions

Fully disclosed	Partially disclosed	Not disclosed
The UoT disclosed the principles and practices as per the King III internal audit reporting, covering all the aspects and elements of the principles and practices. This information has to appear in the relevant sections which report on the internal audit function (refer to section 3.8 for this sections) or as a standalone report of the internal audit function as recommended by	The information represents the internal audit information with one or more aspects and elements missing. For example, if the principle recommends internal audit to provide a written assessment of the system of internal control and risk management to the council and when in the UoT disclosure the	The 'not disclosed' information indicates that there is nothing disclosed in regard to the principles and practices of the King III Report.

the King III Report. The results are deemed fully disclosed also when UoT provided reasons for not applying the King III Report.	concept of risk management or its synonym or idiom is not mentioned, such information is deemed partially disclosed. Also, information that appears in the irrelevant section of the annual report or not in the standalone internal audit function report, is also deemed partially disclosed.	