The Institute of Internal Auditors South Africa
Progress Through Sharing

PLIGHT OF INTERNAL AUDITORS REPORT 2021

It has been two years since our last report where we disclosed findings as perceived by our members of the Institute of Internal Auditors SA, on challenges faced in the workplace by internal auditors, at all job levels in both the private and public sector. Our rationale for the 2021 research survey is to do a comparative study so as to gauge if there has been improvements or if the situation has worsened since our last interactive survey with regards to intimidation and victimisation that is specifically experienced in the internal audit profession.

The findings in the 2019 report revealed that there was a culture of fear and that internal audit is not protected by leadership in many organisations across South Africa. Audit Committees and oversight bodies were urged to do an introspection around their effectiveness in supporting and protecting internal auditors and internal audit as a profession.

Needless to say, that we, as a country and indeed, globally, have since experienced major external risk disruptions in the form of Covid-19 which, in turn, had a ripple effect on our economy and society and ultimately in organisations in general. Changing regulations have impacted negatively on an unstable economy, workplace disruptions in organisations and ultimate society disruptions. On the positive side, technological creativity and innovations have advanced the new way of life and work. Internal Audit, as a profession, has been impacted by these new trends and approaches in a positive way.

As stated before unlike external audit, internal audit is not a regulated profession and does not have the luxury of an Independent Regulatory Board for Auditors (IRBA) where internal auditors can go to with reportable irregularities. Their reports stop at the Audit Committee. Reporting on unethical behaviour is still an uncomfortable conversation for most and the building of an ethical culture in organisations, specifically from leadership down, has been a very slow process. For the most part this has been experienced more in the public sector but in recent times we have witnessed, albeit in media reports, that the corruption scourge has penetrated into the private sector as well.

In this study we have adopted a qualitative approach through a survey to our members to gain a better understanding of the experiences of internal auditors in the current climate in the country. A total of 132 members responded to the 2021 survey which was a decrease in respondents to the 349 that responded in 2019.

THE DEMOGRAPHIC PROFILE OF THE RESPONDENTS

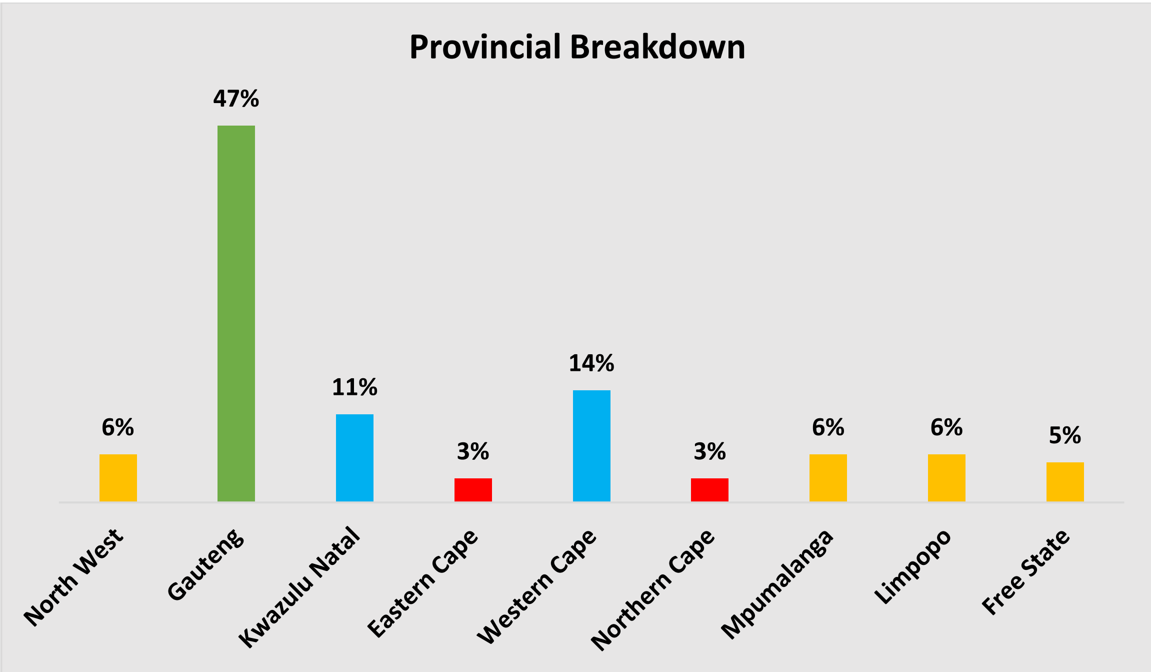

Figure 1 Provincial Breakdown

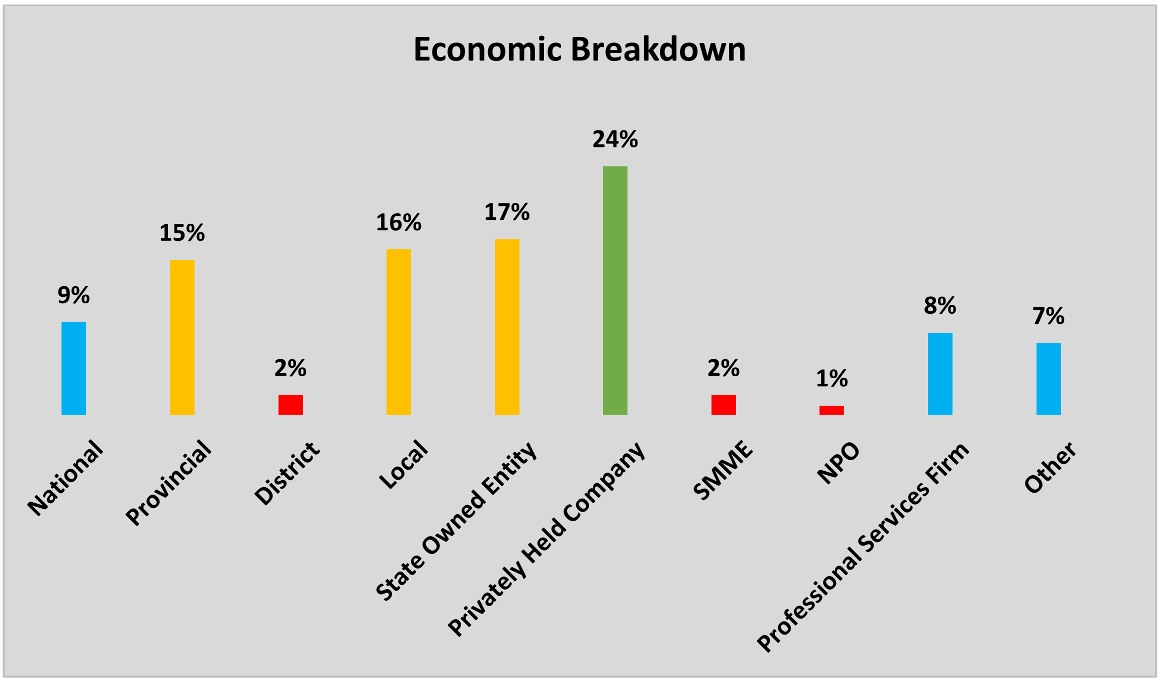

Figure 2 Economic Sector breakdown.

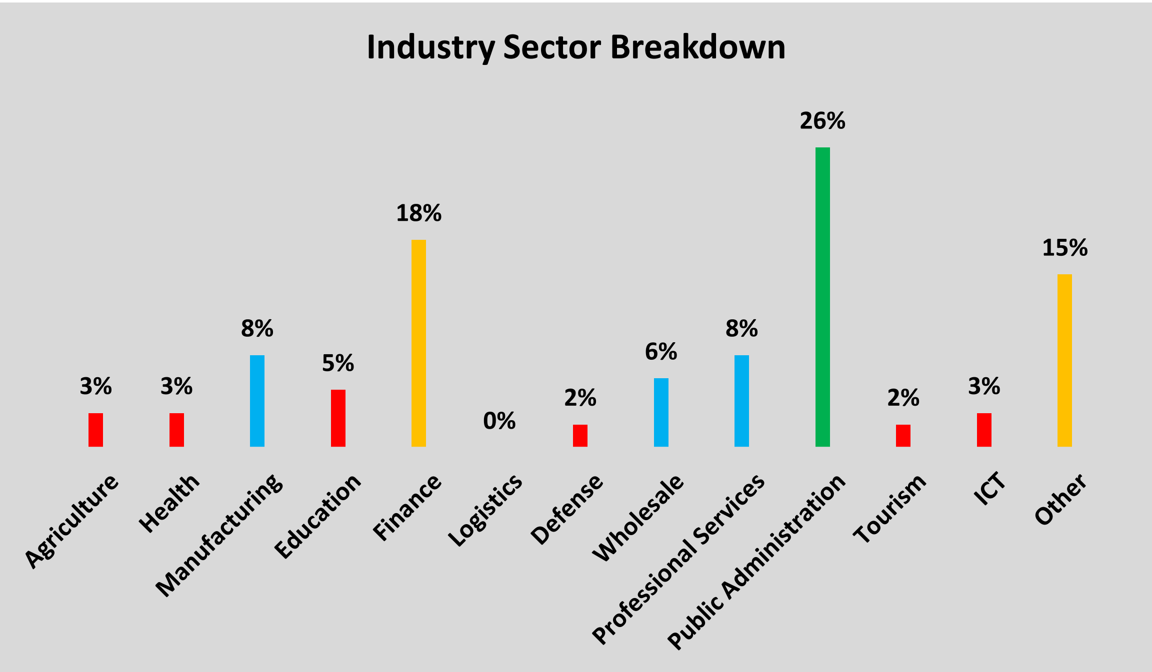

Figure 3 Industry Sector breakdown

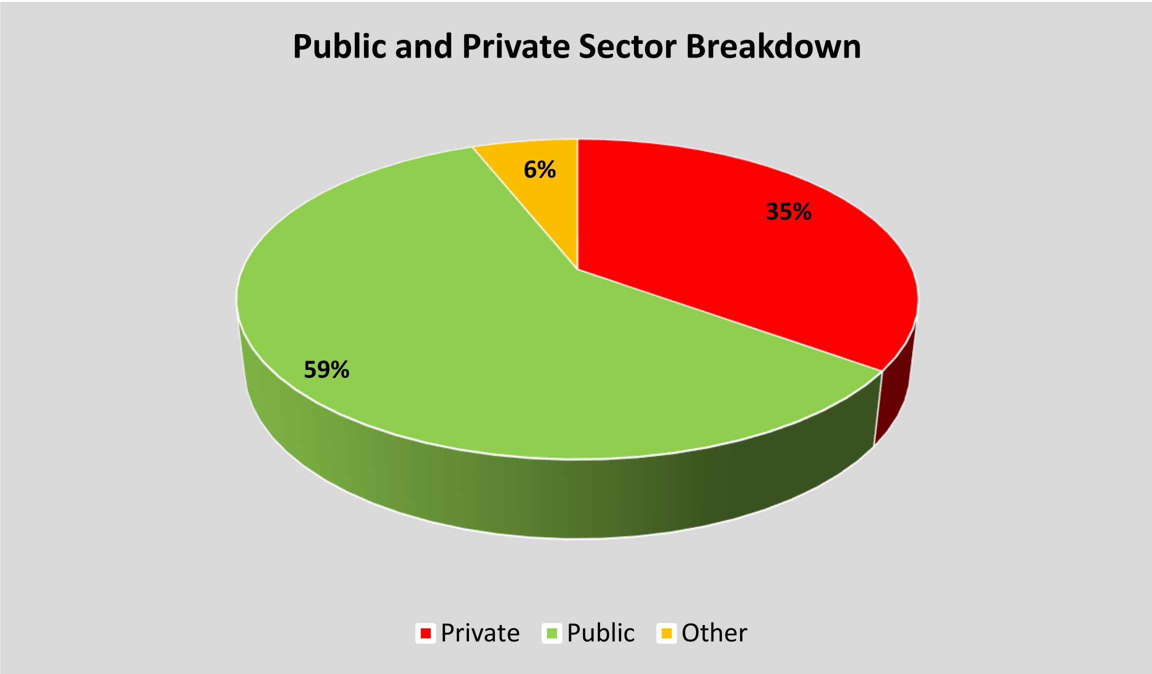

Figure 4 Public and Private Sector breakdown

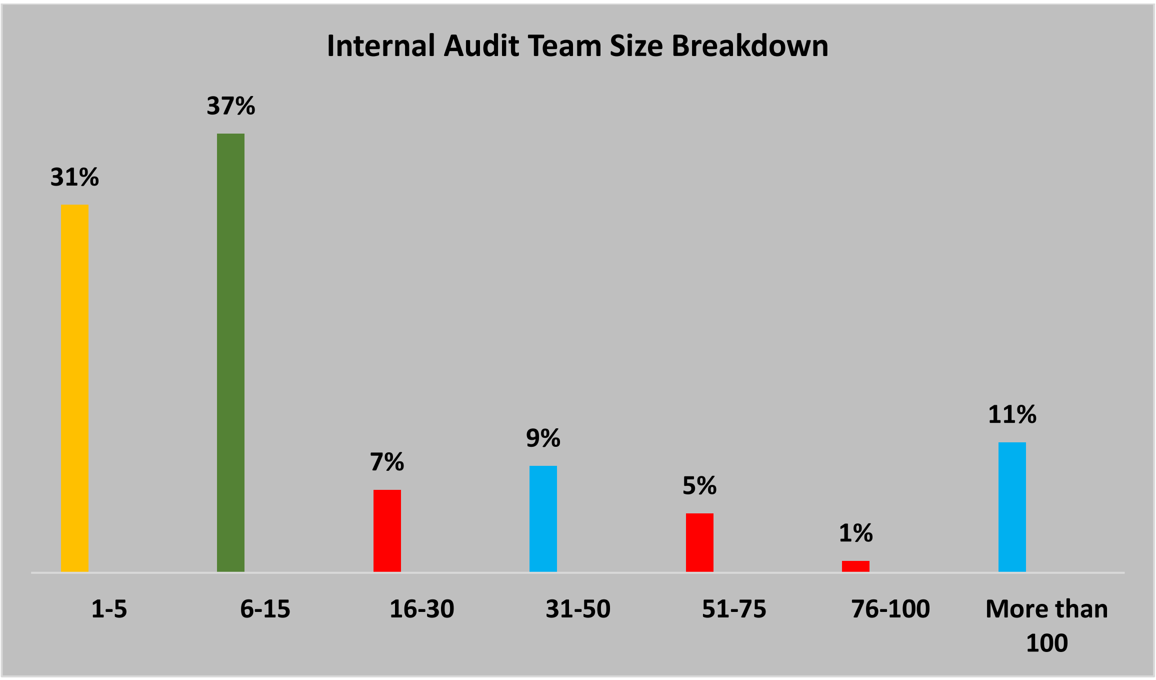

Figure 5 Internal Audit Team Size Breakdown

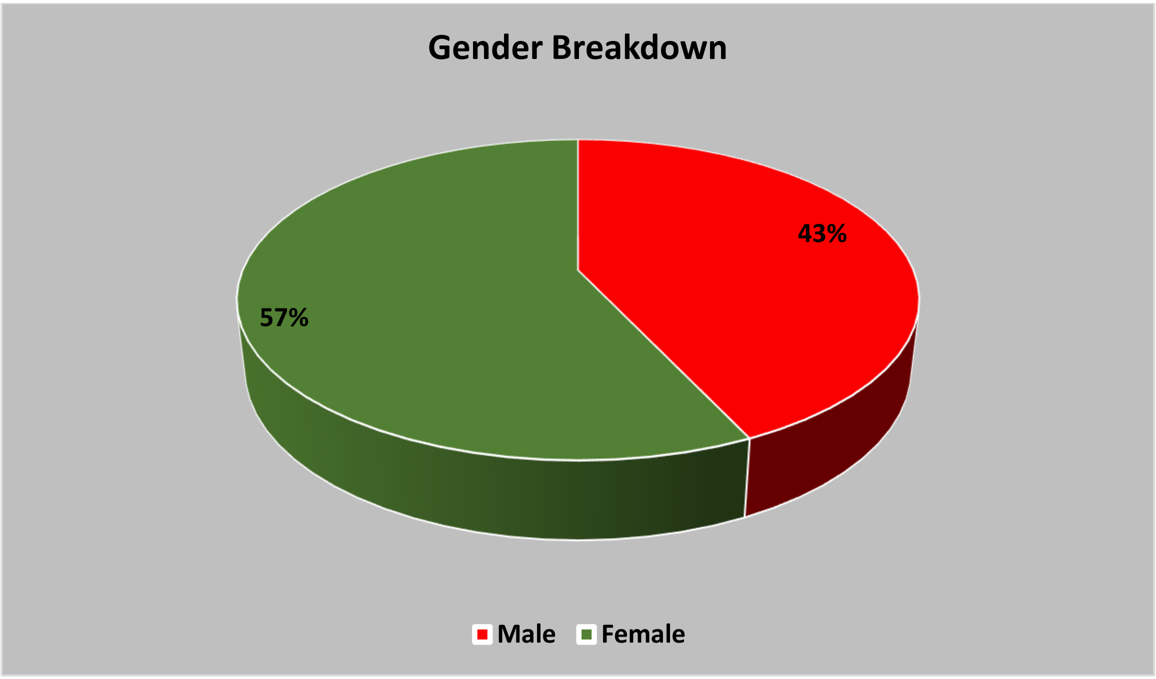

Figure 6 Gender Breakdown

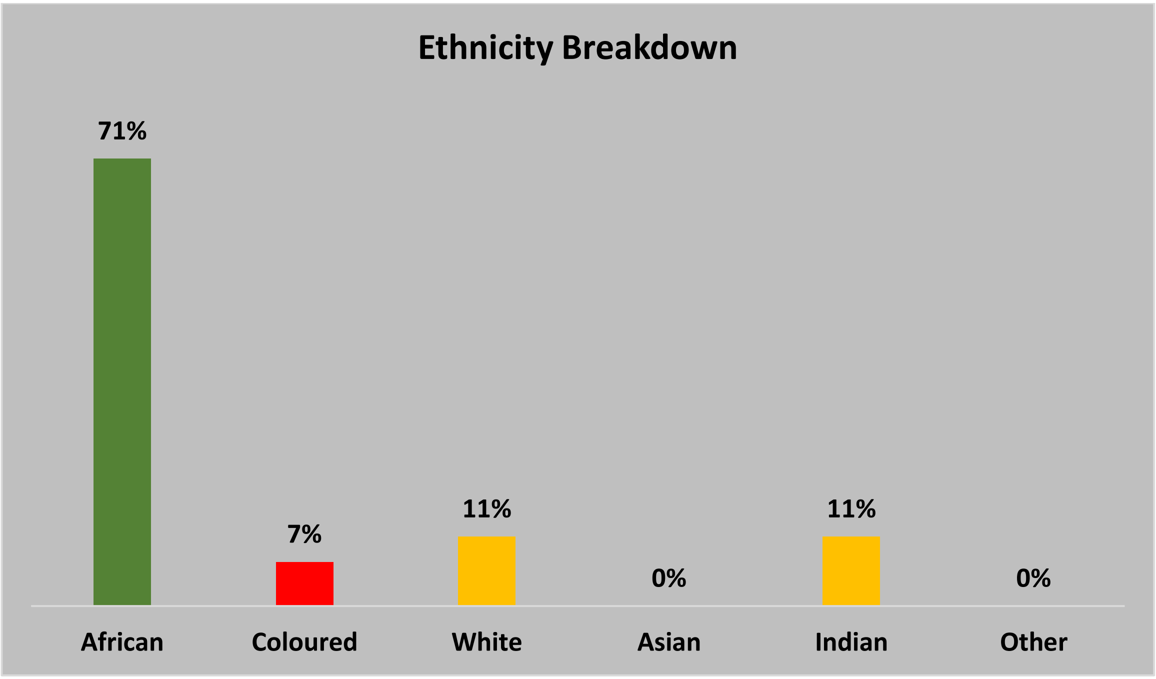

Figure 7 Ethnicity Breakdown

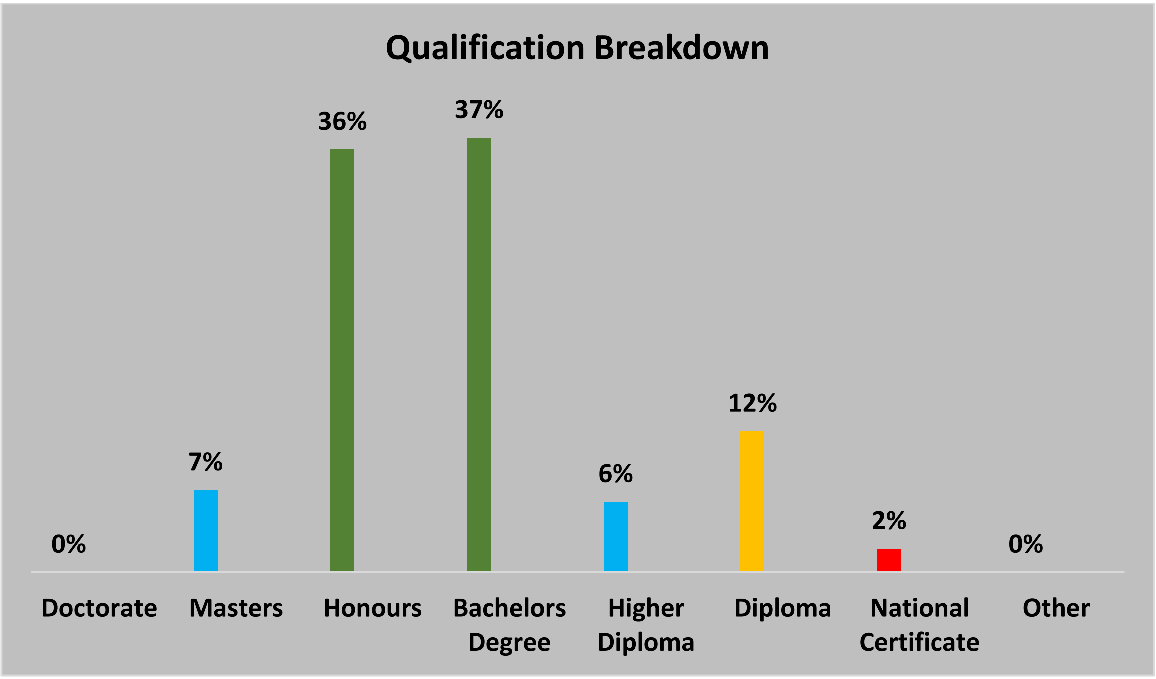

Figure 8 Qualification Breakdown

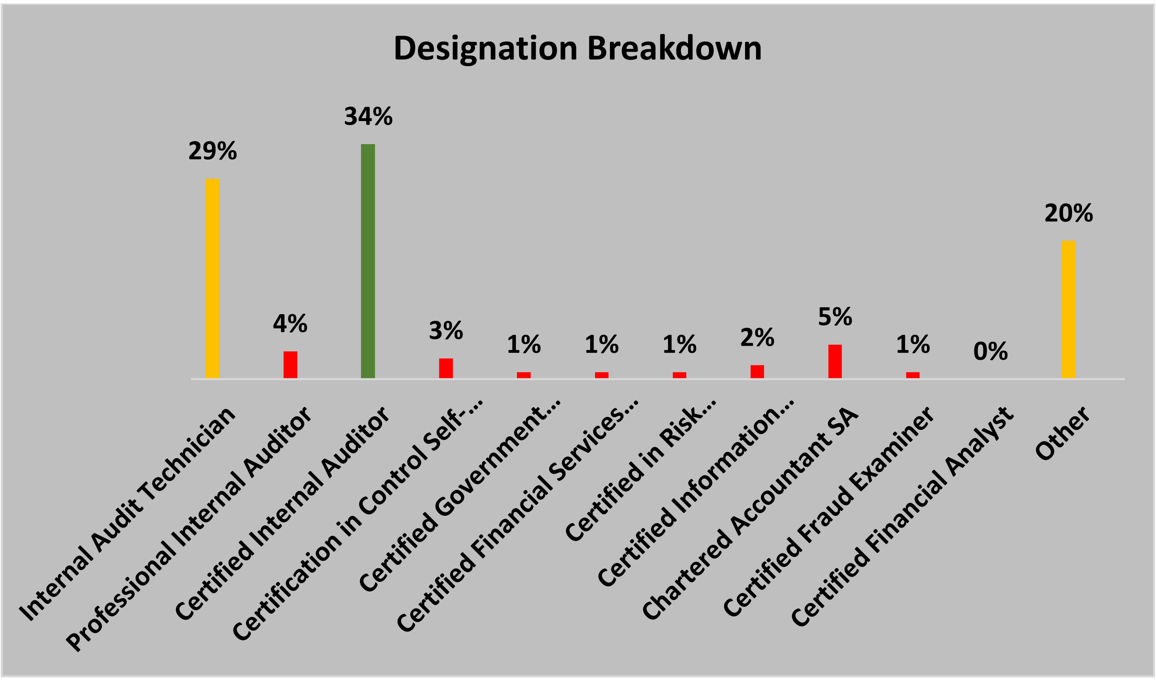

Figure 9 Designation Breakdown

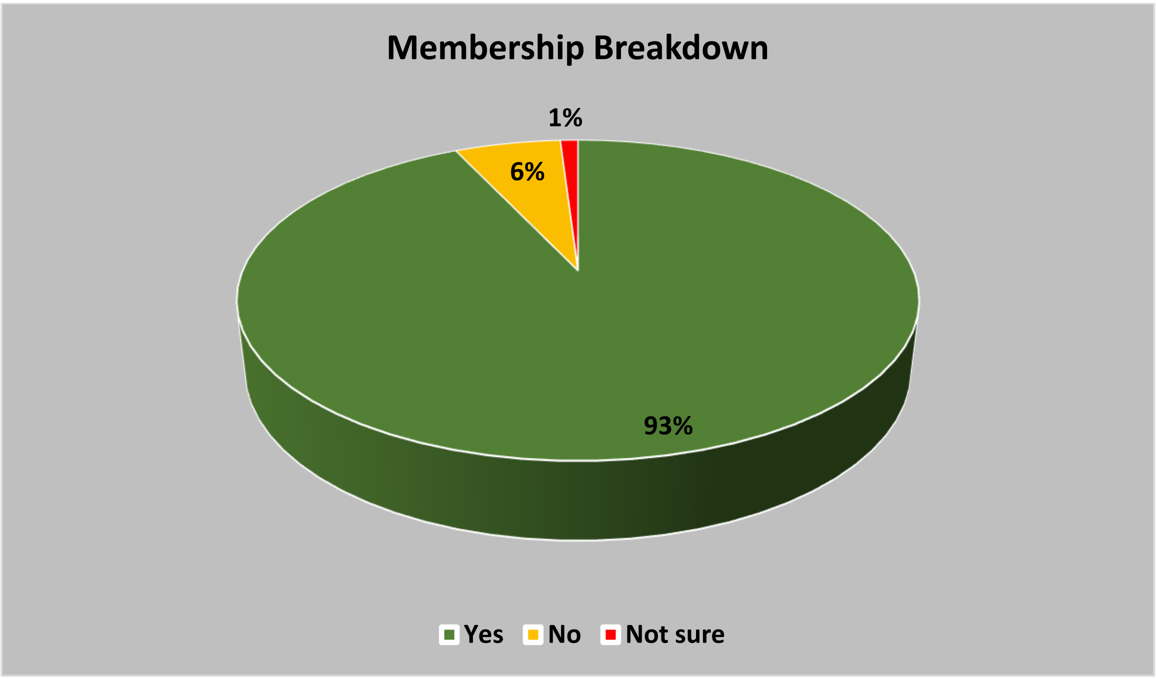

Figure 10 Membership Breakdown

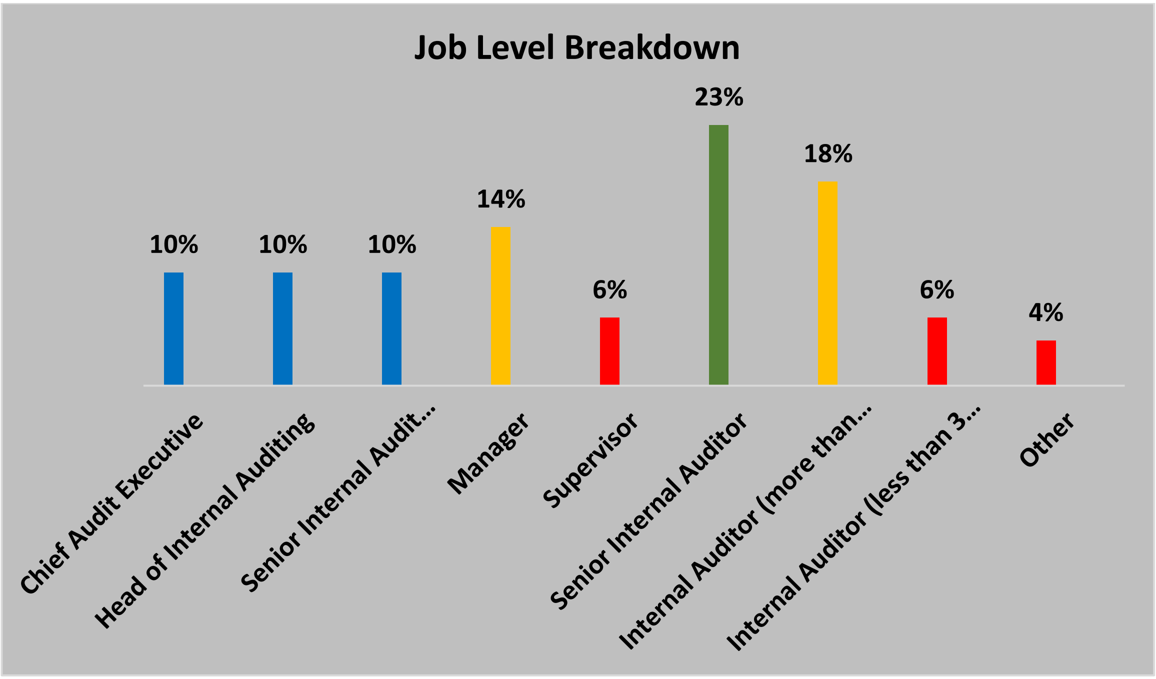

Figure 11 Job level Breakdown

Executive Summary

The key demographic findings in the 2021 research study indicated the following:

1. A **total** of 132 members responded to the 2021 survey which was a decrease in respondents to the 349 that responded in 2019.
2. **Mostly** African female, senior internal auditors, with a CIA designation, in Gauteng Province, in a team size of 6-15, completed the survey.
3. ***Highest no of Respondents***:
    a. *IIASA Members* -93%
    b. *Public Sector -59%*
    c. *Private Sector-35%*
    d. *Bachelor's Degree- 37%*

KEY FINDINGS

Statement	Yes	No	Not sure
In my organisation Internal Audit operates independently without leadership or political interference.	75%	12%	13%
When reporting on Internal Audit findings, I have been intimidated and victimised.	24%	71%	6%
My job has been compromised when reporting on corruption.	13%	79%	8%
I fear for my life when reporting on corruption and unethical behaviour.	16%	71%	13%
My audit committee understands the mandate of Internal Audit in the organisation.	77%	9%	14%
My audit committee provides the necessary support to the Internal Audit function.	56%	26%	18%
The executive leadership provides the necessary support to the Internal Audit function.	58%	30%	12%

The Internal Audit function is appropriately skilled to execute on its mandate in the organisation.	75%	20%	5%
I am protected in my organisation and have the necessary freedom when reporting on unethical findings.	61%	18%	20%
I feel safe to report on unethical findings in my organisation.	58%	23%	19%
Are you aware of the Anti-intimidation and Ethical Practices Forum (AEPF)? A platform for professionals to report and gain support on unethical behaviour and intimidation.	46%	47%	7%
The chief audit executive works with key stakeholders (audit committee/external auditors) without the presence of management.	65%	17%	18%
The Audit Committee ensures the implementation of internal audit agreed recommendations and follows up on non-implementation.	66%	21%	13%
The chief audit executive enforces compliance of the ethics policy and code of ethics for internal auditors.	81%	12%	7%

Executive Summary

In the 2021 report we have added to the survey in order to better understand the plight of challenges that Internal Auditors are facing in the workplace. There is an overall sense of improvement since 2019 in most areas which is encouraging to note. The biggest concern in our last finding was in the area of executive management giving the appropriate support and protection when unethical findings are raised, where 30% of our respondents said no they are not protected, however this has decreased to 18% in 2021 which is very encouraging in that leadership is taking the necessary steps to support and protect Internal Auditors when it comes to reporting of unethical practices.

Another positive indicator is that less Internal Auditors feared for their lives when reporting on unethical practices as only 16% said yes in 2021 and in 2019 it was 18%. A notable finding is that when asked if the audit committee provides the necessary support to the Internal Audit function, this rating has decreased from 63% to 56% of the respondents who are in agreement. This is an area of concern as the question begs, “Is leadership adequately trained to deal with reporting of unethical practices?” We have emphasised before that internal audit reports functionally to the Audit Committee and that this oversight role, in relation to internal audit, should be included in the Audit Committee’s charter. It is therefore imperative that the Audit Committee has a full understanding of internal audit’s mandate in order for it to execute its duties effectively. Training of ethics and an organisations code of ethics is crucial for all employees, even more so for those in leadership roles as this area unpacks ethics in a wholistic manner incorporating the reporting of ethics and how to deal with whistle-blowing or whistle-blowers. It is a sensitive area and should be dealt with appropriately.

On the plus side most agreed that the audit committee does understand the mandate of Internal Audit in organisations as 77% agreed in 2021 and 68% in 2019. In the case of the executive leadership providing necessary support to the Internal Audit function 58% agreed in 2021 which has increased from the 52% agreed rating in 2019. We are also encouraged by the fact that most respondents agreed to the fact that the Chief Audit Executive enforces compliance of the ethics policy and code of ethics as 81% agreed. Chief Audit Executives have a birds eye view in organisations when it comes to internal audit and governance practices with regards to all key stakeholder areas in organisations. We cannot emphasise enough that Internal Audit is a discipline which should be practiced with independence as a non-negotiable factor at its core and has to remain independent if it were to fulfil its mandate effectively.

On the experience of reporting on unethical practices in organisations over 70% of the respondents indicated that they do not feel intimidated, victimised, threatened or fear. 58% agreed that they feel safe to report on unethical behaviour. The results indicate that internal auditors are essentially able to operate independently and without interference as internal auditors' findings would not only point to wrong doing in the form of fraud and corruption, but also lack of controls, breach of governance principles and in relation to performance audits, objectives not met.

RECOMMENDATIONS

The following recommendations are suggested:

- Leadership should set the tone at the top, be accountable to findings and recommendations.
- Audit committees to adopt a more proactive approach in engaging the internal audit function.
- Training of ethics to be all inclusive incorporating how to deal with reporting and should be available to employees at all levels in organisations.
- Leadership to act immediately when unethical practices are being reported.
- Audit committee members to be appropriately skilled to deal effectively with the internal audit mandate including knowledge and understanding of the international internal audit standards.
- Leadership and governing bodies to ensure adequate protection of the internal audit function as well as internal auditors to feel safe when reporting on unethical practices.
- Internal auditors to report timeously on unethical practices.