

**AN INVESTIGATION INTO CHALLENGES FACING THE
INTERNAL AUDIT FUNCTION IN THE NAMIBIAN
PUBLIC SECTOR**

**A THESIS SUBMITTED IN PARTIAL FULFILMENT
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SHALI DAMA OMWENE KAPEPO

STUDENT NUMBER: 200124706

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Supervisor: Associate Professor, U.L. Paliwal

Abstract

Internal auditing function is the corner stone of internal controls in an organization. Despite the existence of internal audit function in the public sector of Namibia, its effectiveness remains a challenge due to challenges it is facing. This study investigated the challenges facing the internal audit function in the Namibian public sector. A survey was conducted using questionnaires to collect data from internal auditors, chief internal auditors and deputy directors (Internal Audit Departments). The population for this study was made up of Offices, Ministries and Agencies (OMAs). The study used empirical literature to identify the challenges facing internal audit function in the sampled OMAs. The challenges identified were categorised into themes and concepts that emerged from the study. The data were presented in frequency tables and charts obtained from the analysis using Microsoft Excel®. The results of the study show that internal audit function in the Namibia public sector is facing many challenges like lack of internal audit framework, lack of internal audit standards, outdated internal audit charter, no audit committee, lack of management support, lack of training for internal auditors and lack of career and development plan. The study recommended the formulation of a regulatory framework to regulate the internal audit function in the Namibia Public Sector. The study serves as a foundation for future research as it looked only into the challenges facing the internal audit function in the Namibia Public Sector; hence, there is a need for future research to investigate the impact of the challenges on the OMAs operations.

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Dedication

I dedicate this thesis to my late grandmother, Rakkell Shindjubi, the woman that brought me up and passed way at my tender age. Her words of mentorship are still vivid in my memories. This thesis is also dedicated to my lovely wife, Meke Iyaloo Kapepo, my son, Mewiliko Shiiveni – Omwene Kapepo and my parents Mr. Simon Kapepo and Mrs. Teopolina Kapepo for your unwavering support in the course of my study.

Declarations

I, Shali Dama Omwene Kapepo, hereby declare that this study is a true reflection of my own research, and that this work, or any part thereof has not been submitted for a degree in any other institution of higher education.

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Table of Contents

Abstract	i
Acknowledgements	ii
Dedication	iii
Declarations.....	iv
Chapter 1	1
Introduction	1
1.1 Orientation and Background of the study.....	1
1.2 Statement of the problem	3
1.3 Research Questions	4
1.4 Significance of the study	4
1.5 Limitation of the study	5
1.6 Definition of terms	6
1.7 Organisation of the Study.....	7
1.8 Summary	8
Chapter 2.....	9
Literature review	9
2.1 Introduction	9
2.2 Defining internal auditing	9
2.3 Historic background of internal audit function in the public sector	10
2.4 Relevance of Internal Audit function in Public Sector.....	16

2.5	Determinants of Internal Auditing Effectiveness	17
2.6	Possible challenges for internal audit function.....	22
2.7	Understanding challenges facing internal audit function	25
2.8	Gap in the Literature.....	29
2.9	Conclusion.....	29
Chapter 3		30
Research Methodology.....		30
3.1	Introduction	30
3.2	Research design.....	30
3.3	Population.....	31
3.4	Sample and Sampling technique	31
3.5	Pilot study.....	32
3.6	Research Instruments	33
3.7	Data Collection procedures	34
3.8	Data Analysis	35
3.9	Research Ethics	36
3.10	Conclusion.....	36
Chapter 4		37
Data Analysis, Findings and Discussion		37
4.1	Introduction	37

4.2	Response rate.....	37
4.3	Findings from the qualitative data.....	39
4.4	Internal auditors' trainings and qualifications.....	45
4.5	Regulation of internal audit.....	57
4.6	Effectiveness of the Internal Audit Function.....	72
4.7	Challenges facing internal audit function.....	80
4.8	Conclusion.....	92
Chapter 5		93
Conclusion and recommendations.....		93
5.1	Introduction	93
5.2	Conclusion.....	93
5.3	Research findings	94
5.4	Recommendations	96
5.5	Recommendations for further studies.....	98
References		98
APPENDIX A: Research Questionnaire		103

List of Tables

Table 1: <i>The characteristics of the Internal audit function for each level</i>	19
Table 2: <i>Comparison of organisational independence</i>	41
Table 3: <i>Membership in professional bodies</i>	56
Table 4: <i>Appointment of Audit Committee in OMA's</i>	66
Table 5: <i>The Perception of how effective the internal audit function in OMA's</i>	74
Table 6: <i>Adequacy of the structure of the internal audit function</i>	75
Table 7: <i>Existence and usage of the internal audit methodologies</i>	76
Table 8: <i>Documentation of roles and responsibilities of Internal Auditors</i>	77
Table 9: <i>Management's attitudes towards internal audit function</i>	79
Table 10: <i>Challenges faced during establishment of audit function</i>	82
Table 11: <i>Challenges faced during recruitment process</i>	85
Table 12 : <i>Challenges experienced during execution of audit</i>	86
Table 13: <i>Challenges experienced during planning of the audit</i>	88
Table 14: <i>Challenges experienced during reporting of the audit findings</i>	90
Table 15: <i>Challenges experienced during follow ups of recommendations</i>	91

List of Figures

<i>Figure 1: The Internal Audit Capability Model (IA-CM)</i>	18
<i>Figure 2: Overall response rate</i>	38
<i>Figure 3: Specific response rate</i>	38
<i>Figure 4: Experience in the internal audit function</i>	47
<i>Figure 5: Highest academic qualification</i>	49
<i>Figure 6: Frequency of training per year</i>	51
<i>Figure 7: Identification of training needs</i>	52
<i>Figure 8: Professional Qualification in place</i>	55
<i>Figure 9: Internal audit legal framework in OMAs</i>	60
<i>Figure 10: Internal audit charter in place</i>	61
<i>Figure 11: Response rate on the effectiveness of the audit committee in OMAs</i>	63
<i>Figure 12: Reporting line of internal audit function in OMAs</i>	67
<i>Figure 13: Use of International Professional Practice Framework in OMAs</i>	69
<i>Figure 14: Compliance with International Professional Practice Framework rate</i>	71
<i>Figure 15: Assessments of the internal audit function (%)</i>	72

Chapter 1

Introduction

1.1 Orientation and Background of the study

Internal audit function in the Namibian public sector came into existence in 1991 upon promulgation of the State Finance Act. Until late 2006, internal audit function within the Namibian public sector has been conducted centrally by the Treasury, which resides in the Ministry of Finance. According to the State Finance Act of 1991, this work is to be carried out by officers of the Ministry of Finance in the form of an investigation at ministries, public offices and statutory institutions relating to the functioning of treasury. As part of strengthening the internal controls within the Namibian public sector, the internal audit function was decentralised to Offices, Ministries and Agencies (OMAs) in the public sector in 2006 (Office of the Prime Minister [OPM], 2006). Carrying out an internal audit in the public sector in Namibia appears to remain a bigger challenge for the internal auditors (Vilho, 2013). At the same time, the effectiveness of the internal audit function is yearned by many in the public sector.

The internal audit function is responsible for carrying out internal auditing engagements in OMAs. In addition, the internal audit function carries out special investigations as mandated by the Treasury and Cabinet. The Ministry of Finance, which is the custodian of the internal audit function in the public sector, sets the standards for internal auditors.

According to OPM (2006), the Ministry of Finance will monitor compliance, provide training, guidance and advice and identify appropriate training and professional qualification for internal auditors. Vilho (2013) however, argues that there is no uniformity in the procedures to follow when carrying out the internal audit in OMAs as well as in terms of staffing and reporting. He further argued that there are no clear standards in place hence each OMAs tend to do what they see best fitting them.

With the increasing number of fraud and irregularities in the Namibian public sector, it is the duty of the internal audit function to assist management to investigate such cases in their respective OMAs. The internal audit function is therefore, obliged to give assurance that the policies and procedures, which are in place, are followed consistently and internal controls are intact. It is therefore, expected that the operations and programs of the OMAs can be improved if the internal auditors carry out their job appropriately.

The study investigated the challenges facing internal audit functions in the public sector. The researcher collected empirical evidence from internal auditors, chief internal auditors and deputy directors of internal audit to determine the challenges facing the internal audit function in the Namibian public sector in order to get the possible solutions to those challenges. The Study recommends the findings to the Ministry of Finance, which is the custodian of internal audit function in the Namibian public sector.

1.2 Statement of the problem

Internal audit function is an integral part of the internal control (Stephen, Kenneth & Jacques, 2012). It is a central part of the finance structure of public organisation, charged with responsibilities to assist the Government in achieving sound public financial management through effective public spending. The effectiveness of the internal audit function in the public sector can be hindered if the function is dogged by problems that are not dealt with on time (Dhamankar & Khandewale, 2003). It is essential for an internal audit function to be effective. An effective internal audit function has the ability of adding value to the performance of an organisation (Cohen & Sayag, 2010).

Cases of fraud and irregularities in the Namibian public sector are on the increase, let alone the inefficiency in managing the public sector expenditures. In his annual audit report, the (Auditor – General, 2010) laments that the internal audit function in the Namibian public sector is not effective; hence he could not rely on its work. Mafale (2014) corroborated this finding. Despite the existence of internal audit function in the Namibian public sector, most of the OMAs continue to overspend their budgets which is attributed to the lack of an effective internal audit function (Auditor – General, 2010). There is a perception that the internal audit function in the Namibian public sector is facing challenges that render it to be ineffective. It is, however, not clear, what these challenges are that causes the ineffectiveness and how those challenges can be addressed (Vilho, 2013). Thus, there is gap in literature regarding the challenges faced

by the internal audit function in the Namibian public service sector that cause the internal audit function to be ineffective.

1.3 Research Questions

In the light of the problem statement above the research questions are:

- i. What regulatory provisions are in place to regulate the internal audit function in the Namibian public sector?
- ii. What are the challenges facing the internal audit function in the Namibian public sector that cause the ineffectiveness of the internal audit function and how these challenges can be addressed?

1.4 Significance of the study

The findings of the study envisaged to provide clear articulation of the problems that are facing the internal audit function in the Namibian Public Sector and how to overcome them. The study shall recommend to the Ministry of Finance, who is the custodian of the internal audit function and to the managers of internal audit functions in OMAs the solutions to the challenges facing the function that has direct bearing on the effectiveness of the internal audit function. It is further, envisaged that the findings of the study would provide ways to improve the regulation of the internal audit function in the Namibian public sector. The research findings shall be useful in formulating an Audit Bill that should assist in regulates the internal audit function's activities and

reporting in the public sector. This study is therefore, of a contemporary relevance in this field of study. It sets out the path for future research, as there has been little research in this area in the Namibian Public sector.

1.5 Limitation of the study

Firstly, the study was limited to eight OMAs, leaving out twenty-three OMAs in the public sector where similar or different challenges might be prevalent and uncovered. Secondly, the availability and willingness of respondents to provide the required information was a challenge on its own, which resulted in prolonged data collection process.

1.6 Definition of terms

Although the following terms and concepts may have definitions other than those used in this research, the definition provided here represent the referral and contextual meanings of the terms used in this thesis.

Internal audit function - This refers internal audit unit, division, department or any similar unit in OMAs, which carries out the work of the internal auditors.

Internal auditors - This refers to the staff members in OMAs that are carrying out the internal audit works, they can vary from positions like assistant internal auditor, internal auditor, chief internal auditor and deputy director of internal audit.

Namibian Public sector- This refers to Ministries, Offices and Agencies that makes up the Namibian government to providing basic goods or services that are either not, or cannot be, provided by the private sector.

1.7 Organisation of the Study

The study consists of five chapters. Chapter 1 gives the orientation and the background and of the study, the statement of the problem, research questions, significance of the study, the limitation of the study and definition of the terms.

Chapter 2 presents the review of related literature in research topic and statement of the problem. It further points out to the gaps in the literature that necessitated this research.

Methodology is presented in chapter three and this consist of Research design, Population, Sample and Sampling Techniques for collecting data, Research Instruments, Data Collection Procedures, Data Analysis and Research Ethics followed during the process.

Chapter 4 shows the analysis of key findings arising from the study. Chapter 5 concludes the study by answering the research questions and providing the necessary recommendations and points out to the future studies.

1.8 Summary

The present study is about the challenges facing the internal audit function in the Namibian public sector. There is a public outcry that the internal audit function in the Namibian public sector is ineffective. It is however, not clear, what are the challenges that are facing the internal audit functions in the Namibian public sector and how can they be addressed. Hence, it is a matter of concern for the stakeholder and this research undertook a survey to identify them and their possible solutions.

Chapter 2

Literature review

2.1 Introduction

This chapter presents the reviews of literature on internal audit function in the public sector. The literature review is divided into appropriate headings outlining a comprehensive theoretical approach to the research. Firstly, it defines the internal auditing and secondly, it reviews the historic background of the internal auditing in a public sector. Thirdly, the chapter presents the relevance of understanding the challenges facing internal audit function in the public sector.

2.2 Defining internal auditing

According to Dunn (1996), internal auditing is “an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation. Its objective is to assist members of the organisation in the effective discharge of their responsibility” (p.271). This definition points out the importance of having an internal audit function within the organisation. It further, points out that internal auditing enhances the institution’s internal controls.

The Institute of Internal Auditors defined internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” (Institute of Internal Auditors [IIA], 2009).

From the above given definitions it can be deduced that the internal auditing is a building block of good governance and its absence or ineffectiveness thereof, will render internal controls of the organisation incomplete and ineffective.

2.3 Historic background of internal audit function in the public sector

Modern internal auditing began to evolve in 1941 when the Institute of Internal Auditors was formed in the United States of America. Only then did internal auditors expand the scope of internal auditing to the appraisal of all operations of the enterprise (Van der Schyf, 2000).

In Namibia, internal auditing in public sector came to existence in 1991 upon the introduction of the State Finance Act (State Finance Act, 1991). Ever since 1991 until early 2004 internal audit was, conducted centrally by the Treasury, which resides in the Ministry of Finance. The internal audit function was carried out by designation of any officer or officers of the Ministry of Finance to carry out investigations at OMAs and statutory institutions relating to functions of the Treasury (State Finance Act 31 of 1991). This was not really an internal audit. It was rather an inspection carried out by the Treasury officials to investigate cases of non-compliance with rules and regulation in place and as a result, these officers were perceived as the financial watchdogs for Ministry of Finance. In its country report, (The International Monetary Fund [IMF], 2008) pointed out that in early 2004, the Government decided to adopt modern, internationally accepted standards and approaches to internal audit. The Public Service Commission

within the Office of the Prime Minister issued a letter to all Permanent Secretaries proposing that:

- i. every OMAs should have its own internal audit function, and this function may be provided by the ministry's own staff, or outsourced to another ministry or an external agency;
- ii. the Ministry of Finance will set standards for internal audit, monitor compliance and provide guidance and advice, and
- iii. the Ministry of Finance will identify appropriate training and in due course professional qualifications for internal auditors.

Since the decentralization of the internal audit functions within the Namibian public sector, the OMAs struggled to set up a modernised internal audit functions. Vilho, (2013) argues that the implementation of these instructions has been very slow. Until 2013, some OMAs have not implemented the internal audit functions. For those OMAs that have implemented the internal audit functions, they still lacked effectiveness. Auditor – General (2010) in the summary audit reports on the accounts of Government of Namibia, points out that the internal controls within OMAs were not effective. This has resulted in the lack of budgetary control. Furthermore, the reports indicated that internal audit functions in OMAs did not have a legal framework for policies and guidelines under which they can operate. This resulted in a lack of uniformity in ways of carrying out their duties. Therefore, it was difficult for the Office of the Auditor-General to put reliance on the work carried out by Internal Auditors.

In the quest for good governance, the Office of the Prime Minister introduced a Personnel Administration Measures (PAM) for the job category: internal auditor, implemented on the 1 November 2006 (OPM, 2006). The overall purpose of introducing this PAM was to put in place the new measures that will regulate the work of the internal audit function in the public sector. Vilho (2013) states that before the introduction of the PAM, the staff in such a category were employed as accountant but performing the work of the internal auditor. Their work implied no more than simple determination whether controls are in place and regulations are obeyed. Vilho (2013) further argued that despite the introduction of the PAM, the ineffectiveness of the internal audit functions continued unabated.

OMAs continued to lack proper controls over their budgets and at the same time the misappropriations of public money and other assets was also on the increase. The Permanent Secretaries, when asked by the Public Accounts Committee to explain the over and under expenditure within their OMAs, they point out that, their internal audit functions were not up to standard to advise them accordingly. It is however, not clear, what are the challenges that cause the internal audit function to be ineffective despite some significant evolution in the internal audit function in the Namibian Public sector.

Portella and O' Loughlin (2012) argues that internal audit professionals have to comply with national and international audit standards to be able to detect possible fraud

indicators. Furthermore, they need to be proactive and have to operate preventively by consulting and advising the management on the shortcomings in the internal controls.

In comparison with the neighbouring country, South Africa, where Namibia seems to have inherited most of its financial systems, there seemed to be many similarities in the developments of the internal audit function in the public sector. Van der Schyf (2000) pointed out that before the internal auditing function in the public sector in South Africa was given its official name in the early nineties, it consisted mainly of internal control and inspection components and the efforts were focused on financial and logistic inspection as well as compliance auditing. There was no specific guidance in place in the form of a legal framework to regulate the works of the internal auditors. As a result, the internal audit functions relied on the outsourcing of the internal audit engagement to the third parties, reducing their own effectiveness within the department. Therefore, outputs and systems were not appropriately evaluated. All of these shortcomings considerably minimised the contribution of the function of internal auditing as a management tool.

The status quo brought confusion about the meaning and the role of internal auditing.

The role and function of internal auditor is defined as:

“An independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It 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 process” (Milichamp & Taylor, 2012, pp.296).

In response to the confusion, the South African government came up with several legal frameworks to rescue the situation. These included, firstly the financial regulations promulgated in terms of the Exchequer Act (Act 66 of 1975), augmented by way of *Government Gazette* No 5791. These financial regulations made it the responsibility of accounting officers to establish an effective internal audit department and audit committee. The financial regulations gave birth to the official name of the internal audit function in South Africa.

Secondly, The King Report of 1994, contributed significantly to the establishment of the internal audit function in the South African Public Sector. The King Report recommended that all listed companies in South Africa should have an effective internal audit division at their disposal.

Finally, the promulgation of the Auditor-General Act (Act 12 of 1995) played in the development of the internal auditing function. Section 3(4) (a) - (d), of this act requires that the Auditor- General, who is the independent external auditor for the public sector departments to satisfy himself or herself that:

- Appropriate precautions have been taken to safeguard the proper collection of money and that the laws and instructions relating thereto have been duly observed;
- reasonable precautions have been taken in connection with the receipt, custody and issue of, and accounting for, property, money, stamps, securities, equipment, stores, trust money, trust property and other assets;
- receipts, payments and other transactions are made in accordance with the applicable laws and instructions and are supported by adequate vouchers; and that
- satisfactory management measures have been taken to ensure that resources are procured economically and utilised efficiently and effectively.

This Act further required the Auditor – General to specifically indicate where, in his or her opinion, the applicable internal control and management measures are inefficient or ineffective.

In the UK, internal audit is a legal requirement in the public sector, including local authorities and the government departments. The overruling reason for this is that the government and the public sector bodies are financed by the public money and must therefore be accountable for its use (Milichamp & Taylor, 2012). Accordingly, the public sector auditing process places a greater dependence on the effectiveness of internal audit than does the audit process in the private sector.

2.4 Relevance of Internal Audit function in Public Sector

Internal audit function is an essential component of the internal control of any organisation. This function is involved in helping organisations achieve their objectives through evaluating and improving the effectiveness of risk management, control and governance processes in an organisation (Milichamp & Taylor, 2012). To do this, the internal audit function works with management to systematically review systems and operations. These reviews (audits) are aimed at identifying how well risks are managed including whether the right processes are in place, and whether agreed policies and procedures are being adhered to (Cascarino & van Esch, 2007). Internal audits can also identify areas where inefficiencies are taking place or where innovations might be made.

Given the two views above, it is clear that the internal audit function is relevant in the public sector as it acts as a key contributor to good governance. It plays an important role in supporting management in discharging their responsibilities of implementing and ensuring that those internal controls are in place to safe guard the assets of any given organisation.

2.5 Determinants of Internal Auditing Effectiveness

There are numerous determinants of effectiveness internal audit identified by various studies. For the purpose of this study, the researcher reviewed the literature on one of the prominent theoretical framework, the Internal Audit Capability Model (IA- CAM). This framework is used as a determinant of the effectiveness of internal audit function in the public sector.

The Internal Audit Capability Model (IA-CM) for the Public Sector is a framework that identifies the fundamentals needed for effective internal auditing in government and the broader public sector. The model is used for self-assessment, capacity building, and advocacy. Its primary users are internal audit professionals together with the profession's key stakeholders (e.g., senior management, audit committee members, governing bodies, and external auditors). The underlying structure of the IA-CM is based on that of a Capability Maturity Model (CMM), which in turn is based on quality management principles. The model comprises five progressive capability levels, with each level describing the characteristics and capabilities of an audit function at that level. The levels illustrate the stages through which internal auditing can evolve as it defines, implements, measures, controls, and improves its processes and practices. Implementing repeatable and sustainable processes at one level provides the foundation on which to progress to the next level. These levels are illustrated below in Figure 1.

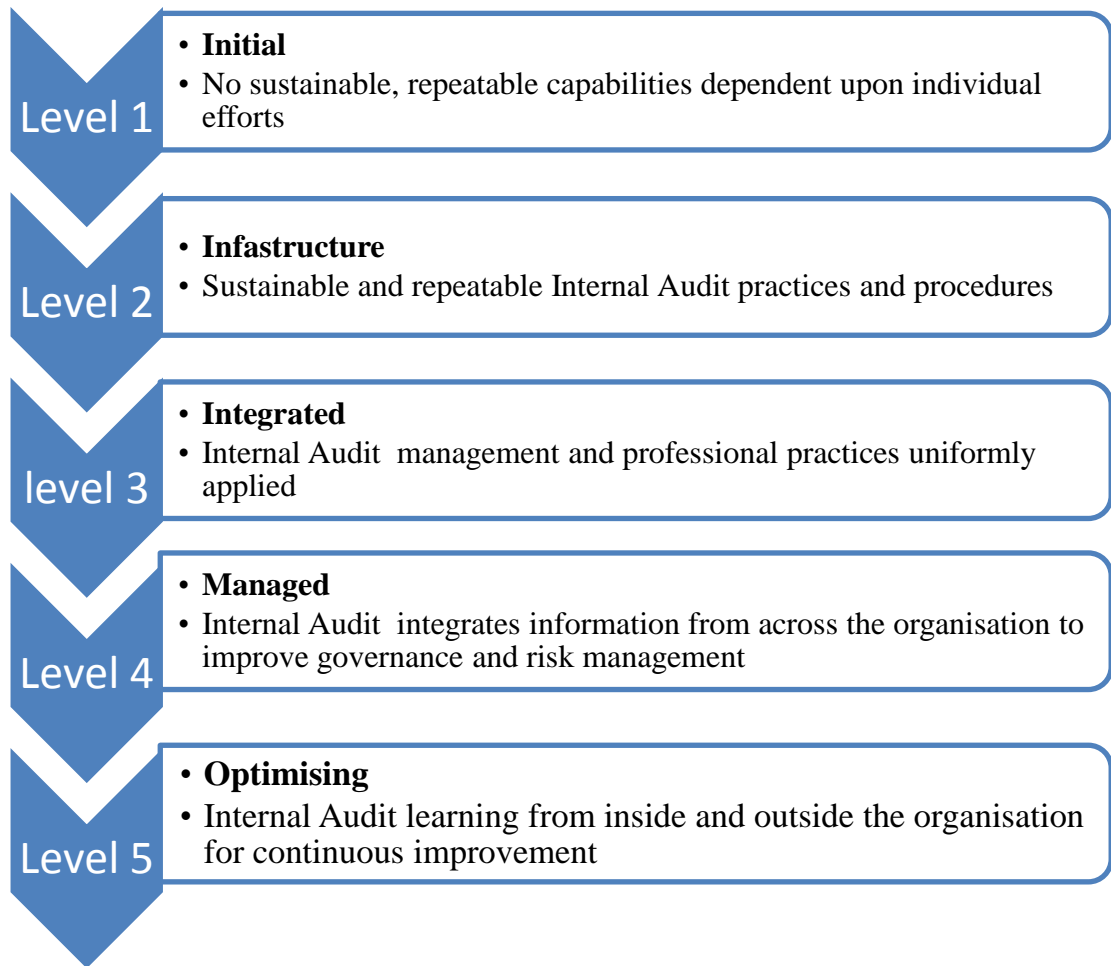


Figure 1: The Internal Audit Capability Model (IA-CM)

The framework can be used to assess the level of any given organisation in terms of the implementation of the IPPF standards. Each level has its own set of characteristics for its associated key process areas (KPAs).

Table 1: *The characteristics of the Internal audit function for each level*

Level	Indicators
<p>Level One</p> <p>Initial</p>	<ul style="list-style-type: none"> • Ad hoc or unstructured. • Isolated single audits or reviews of documents and transactions for accuracy and compliance. • Outputs dependent upon the skills of the specific person holding the position. • No professional practices established other than those provided by professional associations. • Funding approval by management, as needed. • Absence of infrastructure. • Auditors are likely to be part of a larger organisational unit. • Institutional capability is not developed.
<p>Level two</p> <p>Infrastructure</p>	<ul style="list-style-type: none"> • A key question or challenge for Level 2 is how to establish and maintain repeatability of processes and thus a repeatable capability. • Internal Audit reporting relationships, management and administrative infrastructures, and professional practices and processes are being established (IA guidance, processes, and procedures). • Audit planning based principally on management priorities. • Continued reliance essentially on the skills and competencies of specific persons.

	<ul style="list-style-type: none"> • Partial conformance with the Standards.
<p>Level three</p> <p>Integrated</p>	<ul style="list-style-type: none"> • Internal Audit policies, processes, and procedures are defined, documented, and integrated into each other and the organisation's infrastructure. • Internal Audit management and professional practices are well established and uniformly applied across the IA function. • Internal Audit is starting to align with the organisation's business and the risks it faces. • Internal Audit evolves from conducting only traditional IA to integrating as a team player and providing advice on performance and management of risks. • Focus is on team building and capacity of the Internal Audit function and its independence and objectivity. • Generally conforms to the <i>Standards</i>.
<p>Level four</p> <p>Managed</p>	<ul style="list-style-type: none"> • Internal Audit and key stakeholders' expectations are in alignment. • Performance metrics are in place to measure and monitor Internal Audit processes and results. • Internal Audit is recognised as delivering significant contributions to the organisation. • Internal Audit function works as an integral part of the organisation's governance and risk management.

	<ul style="list-style-type: none"> • Internal Audit is a well-managed business unit. • Risks are measured and managed quantitatively. • Requisite skills and competencies are in place with a capacity for renewal and knowledge sharing (within Internal Audit and across the organisation).
<p>Level five Optimising</p>	<ul style="list-style-type: none"> • Internal Audit is a learning organisation with continuous process improvements and innovation. • Internal Audit uses information from inside and outside the organisation to contribute into achieving strategic objectives. • World-class/recommended/best practice performance. • Internal Audit is a critical part of the organisation's governance structure. • Top-level professionals with specialised skills. • Individual, unit, and organisational performance measures are fully integrated to drive performance improvements.

Source: Adopted from IIA, 2009

According to Portella and O' Loughlin (2012), the five levels of IA-CM describe the internal audit function in accordance with its sets of capabilities. Level one representing the lowest while level five the highest. On lower levels (1 and 2), capabilities are characterised by the absence of infrastructure, lack of adherence to established professional practices or partial compliance with professional standards, reliance on

personal skills to perform engagements, and audit planning based on management priorities, among other factors. On higher levels (3 to 5), capabilities are characterised by compliance with professional standards; focus on independence and objectivity; documentation of processes, policies, and procedures; quantitative measurement and management of risk; participation in the organization's governance and risk management; and transformation into a learning organisation with continuous process improvements and innovation.

Even though the study was not about the effectiveness of internal audit function, the researcher used this theoretical framework to help determine the level of the internal audit function in the Namibian public sector. Identifying the level was important as it point out what possible challenges are associated with each level. The framework has also helped in drafting the

2.6 Possible challenges for internal audit function

As the main aim of this research is to identify the challenges that are facing internal audit function in the Namibian public sector, different authors and researcher's idea and recommendations regarding the related topic of internal audit are analysed and presented.

2.6.1. Lack of support

Lack of support to internal auditor is a one of the key indicators of challenges internal auditor are facing. Internal auditors are to have a close relationship with organisation's management and staff in their day-to-day activities. At the same time, they have to be independent from management. A good support and perception from their management enhances their effectiveness and contributes highly to the achievement of their audit objectives. According to Hailemariam (2014), management support is expressed in terms of supporting the auditing process by fulfilling the necessary resources, finance, transport if required, providing training, introducing auditors with new technology and procedures, budgeting funds for certification and other facilities that facilitate the internal auditing works. The lack of such vital support normally leads to the ineffectiveness of the internal audit function. Mafale (2014) is of the same opinion that, internal audit function will not be effective if it does not receive support from its management, in order for management to show support it has to use guidance received from internal auditors. Mafale further stated that allocation of adequate resources to internal audit function is also a sign of management support.

2.6.2. Independence of the internal audit function

Internal audit function is independent when it renders impartial and unbiased judgment in the conduct of its engagement. Independence of the internal audit function can further be described as the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. It requires

integrity and objectivity approach to the audit engagement. The concept requires the auditor to carry out his or her work freely and in an objective manner. Cohen and Sayag (2010) explain that in order for the auditors to perform their duties effectively they should be independent from the auditee and its management. Similarly, internal audit staffs should feel free to conduct an investigation, express opinions and make recommendations without pressure from the top management (Mafale, 2014). It is therefore important that there should be no intervention when performing and communicating results of internal audit engagement. In instances where internal auditors are employees of the entity, their independence can be significantly affected. It is however, a good practice to appoint an audit committee to enhance internal auditors' independence. The internal audit function will then report directly to the audit committee instead of management.

2.6.3. Lack of Legal framework

Despite the existence of internal audit function in the Namibian public sector since 1991, the function has been operating without a legal framework (Vilho, 2013). This legal framework is important in terms of internal audit function achieving its objectives and compliance with internal auditing standards (IIA, 2012). Internal audit legal framework is a broad system of rules that governs and regulates the internal audit function. It is a combination of auditing standards, guidelines and audit manual that are followed in the process of carrying out the internal audit work. They are regarded as the foundation of internal audit function as they set out the tone of what is expected from

the auditors, regulate, and direct them in their work. The lack of legal framework can result in the internal audit function not to carry out its duties in an effectively and efficient manner (Mafale, 2014). One of the key components of the legal framework is the internal audit charter. An internal audit charter is a formal written document that defines the internal audit function's purpose, authority and responsibility. The charter should establish the internal audit function's position within the entity; authorise access to records, personnel and physical properties relevant to the performance of managements; and defined the scope of internal audit function's activities (IIA, 2001). Additionally, an internal audit charter typically includes the responsibilities of the internal audit function in broad terms, the standards followed by the internal audit function; and the relationship between the internal audit function and the audit committee.

2.7 Understanding challenges facing internal audit function

Since inception, the internal audit function in the Namibian public sector appears not to have adequate legal backing that governs the functions and the reporting lines within the public sector (Vilho, 2013). At the same time, the function is expected to add value to the internal controls of the entity. In support of Vilho, Mafale (2014) argues that it appears that ministries have set up their own internal audit units with a separate establishment and a grading structure with the approval of the Office of the Prime Minister. The lack of uniformity in the setup of the internal audit functions in the OMAs can lead to inconstancy in carrying out the internal audit engagements. Mafale (2014) further agreed with Vilho, that the Ministry of Finance has neither set any standards for

internal audit, nor issued any guidelines to the ministries on the role and responsibilities of internal audit function. The standards and guidelines assist in maintaining uniformity and it enables the custodian to monitor the implementation thereof.

Milichamp and Taylor (2012) points out that internal audit is a cornerstone of good public sector governance. By providing unbiased objective assessment whether public resources are managed responsibly and effectively to achieve intended results, internal audit function, help public sector organizations achieve accountability and integrity, improve operations, and instil confidence among citizens and stakeholders (Casarino & van Esch, 2007). The public sector internal audit function adds value and improves the organisation's operation. It helps the organisation to realize its objectives by bringing systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. The value addition to internal controls in the entity by internal audit function is compromised if the internal audit is dogged by challenges that are not solved on time. It is therefore important to understand that challenges can only be addressed if they are identified on time.

Oversight addresses whether public sector entities are doing what they are supposed to do and serves to detect and deter public corruption. Insight assists decision-makers by providing an independent assessment of public sector programs, policies, operations, and results. Foresight identifies trends and emerging challenges. Auditors use tools such as financial audits, performance audits, investigations, and advisory services to fulfil each of these roles (Stephen, Kenneth & Jacques, 2012).

Dhamankar and Khandewale (2003) opine that the authority of the internal auditors will be undermined if it does not flow from right source and in the right manner. Namibia is not an exception when it comes to the source of authority and the manner in which it flows. The Act that is in place is only giving authority to internal auditors in the Ministry of Finance (State Finance Act, 1991). Dhamankar and Khandewale (2003) further argued that most often, the head of the Finance Department appoints the internal auditors and determines the scope of internal audit. In Namibia, the Ministry of Finance is playing the dual role, that of the financing the government and overseeing the internal audit function. Therefore, other OMAs in the public sector might not view the function in the right perspective. The internal audit team might be looked upon as a representative of the Ministry of Finance, assigned to detect financial frauds and hence, might not get co-operation from OMAs. They would start to hide the facts and information and the job of auditor would become difficult. More often, people are confused and are suspicious about the authority of the auditors to check particular area. This subsequently has put a question mark on the independence of internal auditors. According to Portella and O' Loughlin (2012) one of the biggest challenges in the public sector is the allocation of an adequate budget for the internal audit function. Allocation of adequate budget to the internal audit function is crucial as it allows the function to carry out its planned activities. This can be achieved if there is a management support for the internal audit function. According to Vilho (2013), the role played by the internal audit function in the Namibian public sector is not yet understood and recognised as adding value. As a result, there is lack of management support as far as internal audit is concerned. Van der Schyf (2000) points out that management only

recognise internal audit as adding value when they need it to carry out fraud investigation.

Van der Schyf (2000) further pointed out that among the barriers faced by internal audit function in public sector include the lack of legal framework to govern the function, lack of audit committee, lack of independence and lack of work force. This is further, supported by Ahmad and Taylor (2009) who argued that the ability to function with independence has been a long- standing challenge to the internal auditors and their profession and this challenge has received renewed attention due to the rise of corporate governance.

There seems to be enough indications in the above literature review that there are challenges facing the internal audit function in the Namibian public sector that are affecting the effectiveness of the internal audit function. Given the fact that the internal audit function in the Namibian public sector is still in its infancy, there is no much literature done on the topic to give a clear indication of the challenges facing the function in the Namibia public sector and what could be done to address them. Furthermore, given the limited literature, this study will focus on the internal audit functions in the OMAs only.

2.8 Gap in the Literature

Studies relating to internal audit function in the Namibian public sector are on the increase, mostly focusing on the effectiveness of internal audit function. However, no study was conducted on the above-mentioned topic in Namibia, hence resulting in the literature gap. Several researchers have pointed out that the internal audit function in the Namibian public sector is not effective. This research therefore, tries to fill the gap in the literature by conducting this study to determine the challenges facing the internal audit function in the Namibian public sector that makes it ineffective. The study further aimed at filling the gap in literature of what could be done to address the challenges.

2.9 Conclusion

This chapter critically examined literature on challenges facing internal audit function in the public sector. Internal auditing was defined and its relevance to the public sector was looked at. The theoretical framework was presented and the rationale to use such framework was discussed. Furthermore, the understanding of the possible challenges of internal audit function in the public sector was examined. Finally, knowledge gap in which the study tries to contribute to was also identified. The next chapter will discuss research methodology of the study.

Chapter 3

Research Methodology

3.1 Introduction

The purpose of the study was to investigate the challenges facing the internal audit function in the Namibian public sector that cause the ineffectiveness of the internal audit function and how these challenges can be addressed. Furthermore, the research intended to find out what regulatory provisions are in place to regulate the internal audit function in the Namibian public sector. This chapter therefore, describes the method and procedures used by the researcher to answer the research questions. These methods and procedures include, research design, population, sample and sampling techniques, research instruments, data collection procedure, data analysis, validity and reliability and ethical issues of the study.

3.2 Research design

The study used a mixed methods research design. According to Creswell (2014) mixed methods research “is a research design in which the researcher collects, analyses, and mixes (integrates or connects) both quantitative and qualitative data in a single study or a multiphase program of inquiry” (p. 304). A self-administered survey was conducted using questionnaires to collect quantitative data from internal auditors, chief internal auditors and Deputy Directors of internal audit in OMAs. The questionnaires were hand delivered to the respondents. Qualitative data was obtained through scrutiny of relevant official records and reports of internal audit functions in various OMAs. The secondary

data from the official records provided information that could not be obtained from the internal auditors and officials heading the internal audit functions in the OMAs.

3.3 Population

Cooper and Schindler (2012) define populations as “the total collection of elements about which we wish to make some inferences” (p.139). The present study is based on the Namibian public sector. The Namibian public sector population is made up of four Offices, twenty-one Ministries, six Agencies (OMAs) and forty-two State Owned Enterprises (SOE). For the Purposes of this research, the focus was on the Ministries, Offices and Agencies; therefore, the public sector was referred to as OMAs. The State Owned Enterprises (SOEs) were excluded because they are regulated by a different Act that allows them to establish their internal audit functions. The research population was therefore, a total of thirty-one Offices, Ministries and Agencies (OMAs).

3.4 Sample and Sampling technique

The study used a stratified random sampling technique to select OMAs for data collection. According to Cooper and Schindler (2012), stratified random sampling is “a probability sampling that includes elements from each of the mutually exclusive strata within a population” (p. 139). In order to have a full representation of the OMAs, 6 Ministries, 1 Office and 1 Agency were selected for this study based on the implementation of the internal audit function.

The respondents from OMAs were selected using the purposive sampling method. According to Cooper and Schindler (2012), purposive sampling is “a nonprobability sampling process in which a researcher chooses participants arbitrarily for their unique characteristics or their experiences, attitudes, or perception” (p. 139). The targeted respondents therefore, were the internal auditors, chief internal auditors and deputy directors of internal audit in the OMAs. These respondents were selected based on their experience and expertise gained in the execution of the internal audit on a daily basis.

3.5 Pilot study

The researcher conducted a pilot study in order to test the questionnaire. The pilot was carried out in one Ministry, Office and Agency respectively. Windhoek was chosen for the pilot study for the simple reason that this is where the researcher is based. The main aim of piloting was to examine the feasibility of approach that was intended to be used in a larger scale and to improve the validity of the questionnaires. The respondents had a similar profile as the respondents of this particular study in order to clarify the instructions. Based on findings of the pilot testing no significant changes were made to the original questionnaires, Hence, the researcher saw no need for a post-test questionnaire to be compiled. However, the results of the pilot study have helped in mapping out the themes.

3.6 Research Instruments

According to Zikmund, Babin, Carr and Griffin (2010) research instrument is “a tool used to collect data. An instrument is a tool designed to measure knowledge attitude and skills” (p.317). The researcher constructed structured questionnaires for collecting information from the respondents. The questions ranged from closed to open-ended.

The open-ended questions were constructed in order to allow the respondents to answer in their own words based on what they have experienced while the close-ended questions were constructed to allow respondents to focus on specific limited alternatives. The questionnaire was divided into four main sections. The first section dealt with the internal auditors’ training and qualifications. The second section was constructed to answer the first research question; hence, it focused on the legal framework in place. The third section focused on the effectiveness of the internal audit unit. The fourth section was constructed to answer the first research question; therefore, it focussed on the challenges facing the internal audit function.

The researcher also made use of semi-structured interview to get an in-depth understanding of what regulatory provisions are in place to regulate the internal audit function. The interviews were held with the head of the internal audit function in the respective sampled OMAs. The respondents were either chief internal auditors or deputy directors of internal audit departments or division, depending on the structure of the unit in each given OMAs.

3.7 Data Collection procedures

Data used in this study were collected from internal auditors, chief internal auditors and deputy directors of internal audit. In order to gain an in-depth understanding of this study, 40 questionnaires were prepared for distribution. However, due to smaller structures of the internal audit functions in two of the sampled OMAs that only came to the knowledge of the research at the time of questionnaire distribution, Only 38 questionnaires were distributed. All questionnaires were self-administered to allow the respondents to respond at their own time and pace. Twenty-seven questionnaires were distributed to the internal auditors, because they make up much of the percentage of the staff in any given internal audit function structures of OMAs. Eight and three questionnaires were distributed to chief internal auditors and deputy directors of internal audit, respectively. For security purposes and confidentiality of the information obtained, permissions to carry out the study were obtained from OMAs as well as the Ministry of Finance, which is the custodian of the internal audit function in the Namibian Public Sector.

The researcher further, held interviews with the head of each internal audit function in the sampled OMAs. This method gave the researcher the freedom to probe the interviewee to elaborate or to follow a new line of inquiry introduced by what the interviewee was saying. Secondary data were obtained through the scrutiny of State Finance Act, policies, internal audit manuals and internal audit reports.

3.8 Data Analysis

As the study used a mixed method, applying the sampling technique as outlined above, the data gathered from the internal auditors was analysed quantitatively after grouping the information along demographic indicators such as qualification, and experience level. For analysing of data, some items on the questionnaire were assigned the Likert scale score. The quantitative data were analysed using Microsoft Excel[®]. The variables of the questions were subjected to a nominal scale. This was done to enable the research to tabulate the responses. The results of this tabulation are presented in Chapter 4. To make the presentation easier for readers to understand and conceptualise the findings of the research, the descriptive statistical data were presented in frequency tables, graphs and charts obtained from the analysis using Microsoft Excel[®].

Qualitative data obtained through survey and through reviewing the State Finance Act, policies and internal audit reports from OMAs were analysed deductively to determine what regulatory provisions are in place to regulate the internal audit function in the Namibian public sector and to whom does the internal audit function reports to in the OMAs. The study outcome shall be used to recommend ways to improve the regulation of the internal audit function in the Namibian public sector.

3.9 Research Ethics

The researcher has followed and adhered to the guidelines of the University of Namibia on research ethics. Informed written consent was obtained from each respondent before administering questionnaires. Respondents were told that they could withdraw at any stage of the research. Personal information gathered through questionnaires was treated with strict confidentiality and was not disclosed to unauthorised users. Soft copy information on the desktop and the laptop was password protected and will only be permanently deleted two years after the marking of the thesis. The used questionnaires and any other hard copy information obtained during the research process were kept in a lockable drawer at the researcher's office and will be destroyed by means of burning two years after the marking of the thesis. Plagiarism is avoided and the ideas borrowed from other scholars or researchers has been appropriately acknowledged.

3.10 Conclusion

This chapter explored the research methodology used in conducting the study. The study used a mixed method design. The primary data and secondary data were collected using questionnaires, interview and review of the Act, policies and procedures in place. The data collected from primary and secondary sources was analysed using both qualitative and quantitative methods. The next chapter presents the findings and discussions of the study.

Chapter 4

Data Analysis, Findings and Discussion

4.1 Introduction

In this Chapter, data are presented and analysed quantitatively and qualitatively according to the identified themes of challenges faced by the internal audit functions in the OMAs. Quantitative data were gathered through questionnaire survey. These data was used to answer this research question: what are the challenges facing the internal audit function in the Namibian public sector that cause the ineffectiveness of the internal audit function and how these challenges can be addressed? The qualitative data are presented in a form of tables, charts and graphs. Quantitative data was analysed using descriptive analysis obtained from the analysis using Microsoft Excel®.

4.2 Response rate

Thirty-eight self-administered questionnaires were hand delivered to respondents as follows: three questionnaires to the deputy directors of internal audit, eight questionnaires were given to the chief internal auditors and twenty-seven questionnaires were distributed to the internal auditors. Of the 38 questionnaires that were distributed, 29 were returned, which represents a response rate of 76%, while nine questionnaires were not returned, which represent 24% as depicted in figure 2. Out of those 29 questionnaires returned, 2 were from the deputy directors of internal audit which represent a response rate of 67%, 5 were from the chief internal auditors which represents a response rate of 63%, while 22 were from internal auditors which translates into 79% response as indicated in figure 3.

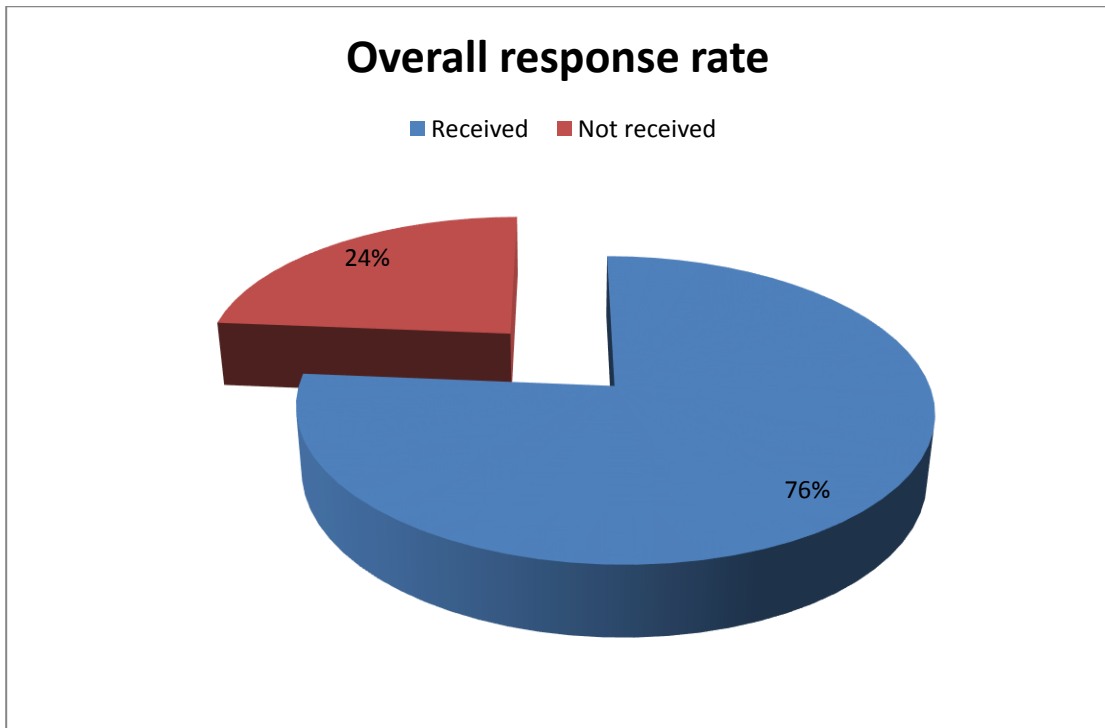


Figure 2: Overall response rate

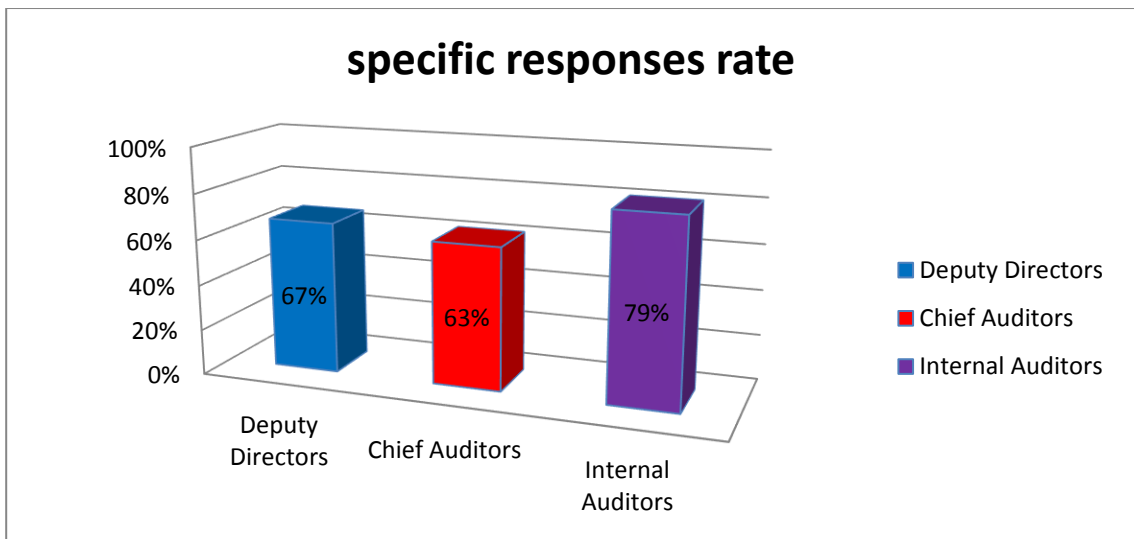


Figure 3: Specific response rate

The above two graphs indicate that the responses, being the overall response rate or the specific response rate were above the average. Therefore, it can be concluded that the response rate was a fair representation of the sample selected.

4.3 Findings from the qualitative data

After analysing the responses from the questionnaires, researcher obtained a copy of the State Finance Act, the legal document in place, to determine the extent to which it gives the mandate to the internal auditors and what mandates are they given? The researcher further gathered several copies of internal audit policies, audit charters from OMAs that have featured in the research. The researcher also compared the current practice of the internal audit function in the Namibian public sector with the Institute of Internal Audit Standards. The overall aim of this was to get an answer to the second research question, which was: What regulatory provisions are in place to regulate the internal audit function in the Namibian public sector? The results of the qualitative analysis of the above mentioned documents are presented below.

4.3.1 State Finance Act as a legal framework

Section 14 of the State Finance Act, gives the power to Treasury to designate the internal auditors. The internal auditors as designated by Treasury can be an internal auditor, auditors or any other officer or officers of the Ministry of Finance to carry out investigations at offices, ministries, agencies and statutory institutions in connection with any matter relating to the functions of the Treasury. This designation, apart from

being not clear about the internal auditors in OMAs, it also does not indicated the requirements that one should meet in order to be designated as an internal auditor. This has resulted in OMAs setting up their internal requirements for one to be appointed as an internal auditor. It appears further, that the lack of pointing out the requirement for one to be an internal auditor has resulted in lack of uniformity in the requirements. Some OMAs, uses general requirements from Public Service Commission that the minimum should be a three years degree, while the other uses a degree in accounting and finance as a minimum requirement. The lack of uniformity resulted in the positions of internal auditors in OMAs to be filled by people who do not have any auditing qualification let alone internal auditing background. This has contributed to the ineffectiveness of the internal audit function in the OMAs.

Section 15 of the Act points out that the internal auditors as designated by Treasury in section 14 shall carry out his or her duties subject to the directions of the Treasury. This can therefore be seen as lack of independence, as internal auditors could be perceived as the representative of Treasury. Despite this section not being clear on the duties, the internal audit functions in the OMAs used this section as the springboard to formulate their internal audit charters. As much as the State Finance Act seen as the legal framework in place, it appears to be silent about the reporting structure, hence making the governance responsibilities of oversight, insight, and foresight difficult.

4.3.2 Internal audit charter

Most of the OMAs chosen for the study have an internal charter in place. It however appears that these internal audit charters are not formulated in uniformity. Some appears to be outdated as the purpose of the internal audit functions stipulated in some of them is far from the good practice. The key elements of the internal audit charter are the purpose, authority, responsibility and organizational independence of the internal audit function. Most of the internal audit charters reviewed have the purpose, authority and responsibility covered fairly. However, the issue of organizational independence is not adequately covered in all the audit charters reviewed. The good practice requires the internal audit function to have organisational independence. IIA (2012) points out that the organisational independence can effectively achieved when the chief audit executive reports functionally to the board (audit committee). The following table compares the examples of the organisational independence to the current situation the OMAs.

Table 2: Comparison of organisational independence

IIA Standards requires the board (audit committee) to: (sources: IIA, 2012)	Current practice in OMAs (source: various internal audit charters used in OMAs)
Approve the internal audit charter	Some internal audit charters are approved by the Permanent Secretaries; while Some are not approved at all.
Approve the risk based internal audit plan	The risk based audit plans are approved

	by the head of internal audit division and some are approved by the Permanent Secretaries.
Approve the internal audit budget and resource plan	Internal audit budgets are approved Deputy director of finance and the Permanent Secretaries.
Receive communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters	Management of the OMAs receive the reports on the internal audit function activities and other matters are reported to the Permanent secretaries
Approve decisions regarding the appointment and removal of the chief audit executive	The approval of the decision regarding the appointment and removal of the Head of internal audit function is done by the Public Service Commission and in some instances by the Permanent Secretaries (depending on the level of head of internal audit function.)
Approve the remuneration of the chief audit executive	The remuneration of the head of internal audit is approved by the Public Service Commission as part of the salary structure of the entire public service.
Make appropriate inquiries of management and the chief audit executive	This key function is inconsistently carried by the annual performance review

<p>to determine whether there are inappropriate scopes or resource limitations</p>	<p>meetings, in which the OMAs review the achievement the annual plan of the OMAs. This process, hardly determines the inappropriateness of the of the scope or resources limitation for the internal audit function.</p>
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Source: Data collected through survey, September 2015

The above table compares similarities and differences between the IIA standards and the current practice in Namibia. It shows how far the internal audit function in the Namibian public sector is from the IIA standards. Even though 85% of the respondents have indicated that they make use of the IIA standards (see figure 11). The research found that some of the audit charters in place were not officially approved, by being signed by those that are charged with governance, posing a serious challenge of their legality. Furthermore, some of the audit charters were last updated 8 to 12 years back. This does not only limit the effectiveness of the internal audit function but also indicate that no assessment is in place.

The research further found that, there is inconsistency in the reporting line, as some of the charters indicated that the internal auditors should report directly to the Permanent Secretaries in the OMAs, while some are pointing out that the internal auditors should report to the audit committees, which on their own were found not be well constituted.

Despite having internal audit charter in place, the issue of independence appears to be not well addressed, especially the institutional independence, hence there is a serious need to put up a framework in place that will guide the organisational independence of the internal audit function within OMAs.

4.3.3 Policies and Procedures

Internal audit Standards requires the internal audit function to be guided by policies and procedures established by chief audit executive IIA (2012). The details of the policies and procedures should depend on the size and structure of the OMA. The size of the OMA in which the internal audit function operates will determine its effectiveness. It is a good practice that the policies and procedures should be obviously specified in order to reduce complications of internal auditor's work and to avoid contraventions of code of ethics. Policies and procedures guide internal auditors on how to perform their duties and what procedures to follow. The research found that several OMAs, who were chosen for the study appears to have inadequate policies and procedures in place to help in the regulation of the internal audit function. Those that have policies and procedures in place appear to be lacking uniformity as far as areas of how to communicate the findings are concerned. Moreover, these policies appear not to be strictly followed, resulting in lack of uniformity in the internal audit reports.

Findings from the quantitative data

The sections below present the results of the quantitative research. In order to respond to the research questions information obtained from the respondents were divided into subheadings in order to analyse them and get the required clarity to answer the research questions.

4.4 Internal auditors' trainings and qualifications

This section of the questionnaire was constructed in order to get information from the respondents regarding their experience in the internal audit function, training and qualifications the internal auditors have. The results were critically evaluated by comparing it to the internal audit standards in order to answer the second research question, which seek to identify the challenges that are facing the internal audit function within the Namibian public sector.

4.4.1 Experience in the internal audit function

Firstly, the current study shows that only 4% of the respondents had been in the internal audit function for more than 10 years, while 41% have been in the internal audit function between six and ten years. The result further indicates that 48% of the respondents possess an internal audit experience between 1 to five years. Only 7% of the respondents had been in the internal audit function less than a year. According to IIA (2012) internal auditors must possess appropriate and sufficient resources to

achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources. This include the identification of the number and experience level of the internal audit staff, knowledge, skills, and other competencies of the internal audit staff when selecting internal auditors for the engagement.

Majority of the respondents have been in the internal audit function between less than one year and 5 years, which indicates lesser experience in the internal audit function. Using the internal audit capability model (as explained in chapter 2), the results points out that the internal audit function in the Namibian public sector can be ranked at level two. This level is characterised by absence of infrastructure, lack of adherence to established professional practices or partial compliance with professional standards, reliance on personal skills to perform engagements, and audit planning based on management priorities, among other factors. It is therefore an indicator that lack of experience is one of the challenges faced by the internal audit function in the Namibian public sector. Finally, the range of experience in terms of years as depicted in Figure 4 shows that respondents were well placed to answer the survey questions as their range covers all the relevant numbers of years in the internal audit function.

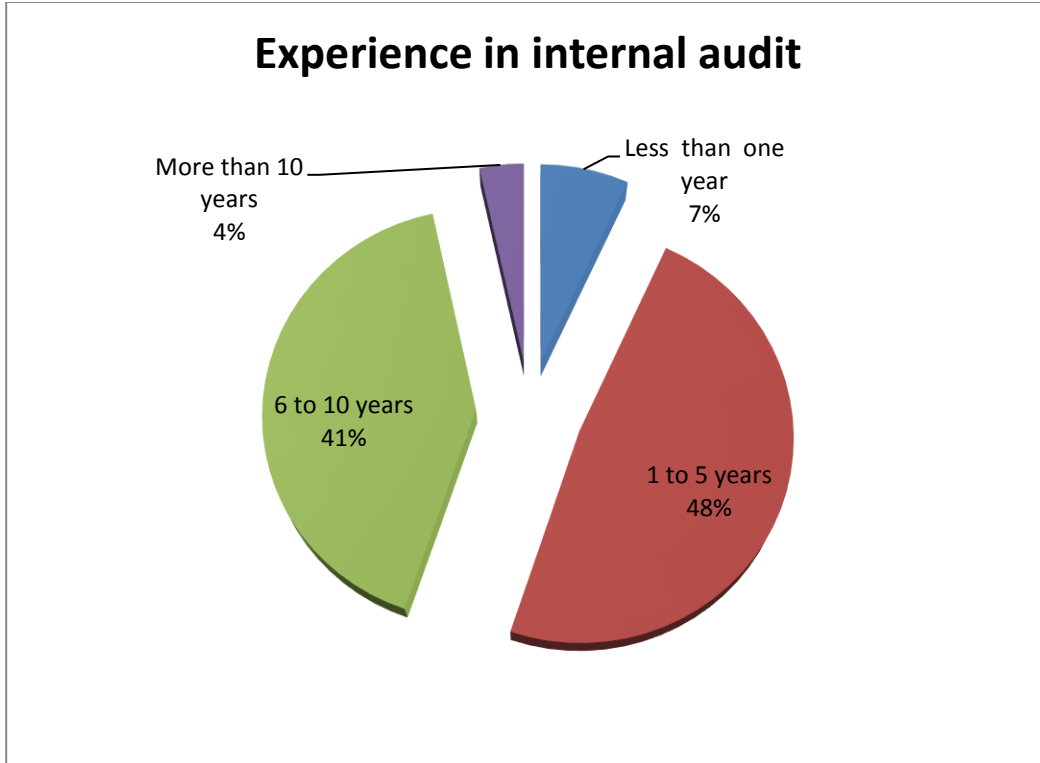


Figure 4: Experience in the internal audit function

4.4.2 Respondents' level of education

Figure 5 below, presents respondents' level of education. The results show that, the educational background of the respondents was predominantly those with undergraduate degree, as out of 29 respondents 18 (63%) have a bachelor's degree, while 9 (31%) of the respondents have diplomas. Only 1 (3%) respondent holds a Master's degree and honours' degree respectively. The results further indicate that none of the respondents holds a certificate or a PhD; hence, they are regarded as non-desirable qualifications.

The question on education was asked to find out whether respondents had appropriate qualification, especially in respect of the requirement of the profession. According to IIA (2012), internal auditors must possess the knowledge, skills, and other competencies needed to execute their individual responsibilities. This requires that internal audit function collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. IIA (2012) further points out that knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are therefore, required to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor (CIA) designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations. The result, therefore indicate that the respondents had the minimum qualification required for the job category. According to OPM (2006), the minimum requirement for a job category of internal auditor is a three years qualification. This requirement however does not specify the field of study, leaving the point of “appropriate qualification” difficult to evaluate whether met or not.

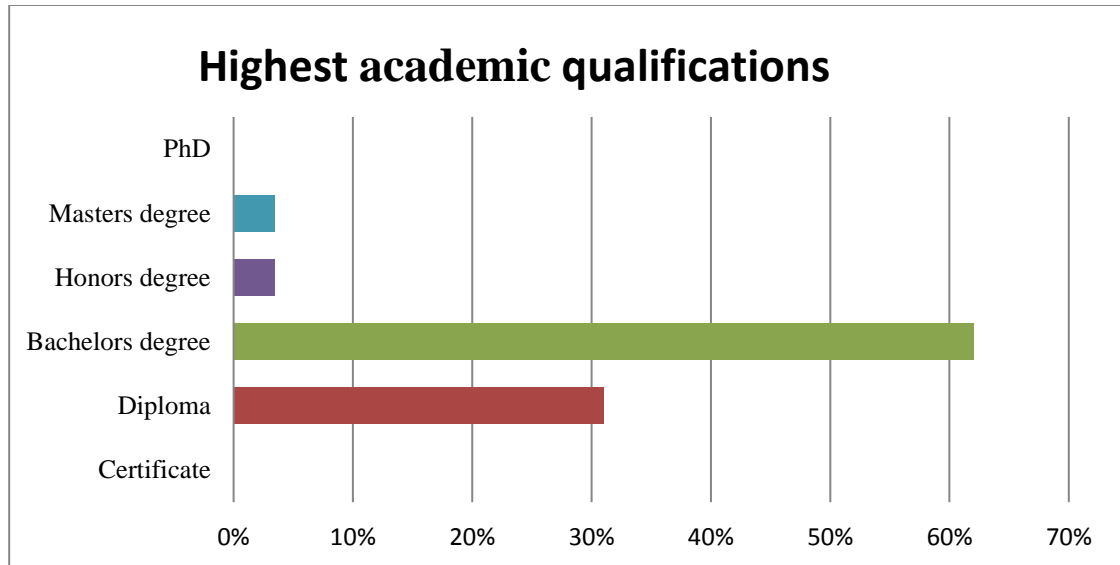


Figure 5: Highest academic qualification

4.4.3 Frequency of Training

The results have indicated that the highest percentage of the respondents gets internal audit skills trainings that are applicable to the public sector governance once in a year, translating it into 38%. The results further indicates that 31% of the responded have never received training while 14% of the respondents have however, indicated that they received training half-yearly and quarterly respectively. Only 3% of the responded got trainings monthly as depicted in Figure 6.

According to IIA (2012), internal auditors are required to enhance their knowledge, skills, and other competencies through continuing professional development. It is therefore expected that internal auditors need to stay informed about improvements and current developments in internal audit standards, procedures, and techniques,

including The IIA's International Professional Practices Framework guidance. Continuing professional education (CPE) may be obtained through membership, participation, and volunteering in professional organizations such as the IIA; attendance of conferences, seminars, and in-house training programme; completion of college and self-study courses; and involvement in research projects. This is ideally to be done frequently, at least twice a year. The result indicates that responded are not frequently updating their skills as required. Furthermore, the results are in a sharp contradiction with the response given to the question whether the respondents do make use of International Professional Practice Framework (IPPF) as depicted in Figure 13. The IPPF makes it a mandatory requirement for those who subscribe to it to have continuous professional development. The results of the study are therefore pointing out that the lack frequently updating of the skills among the internal audit function may lead to its ineffectiveness.

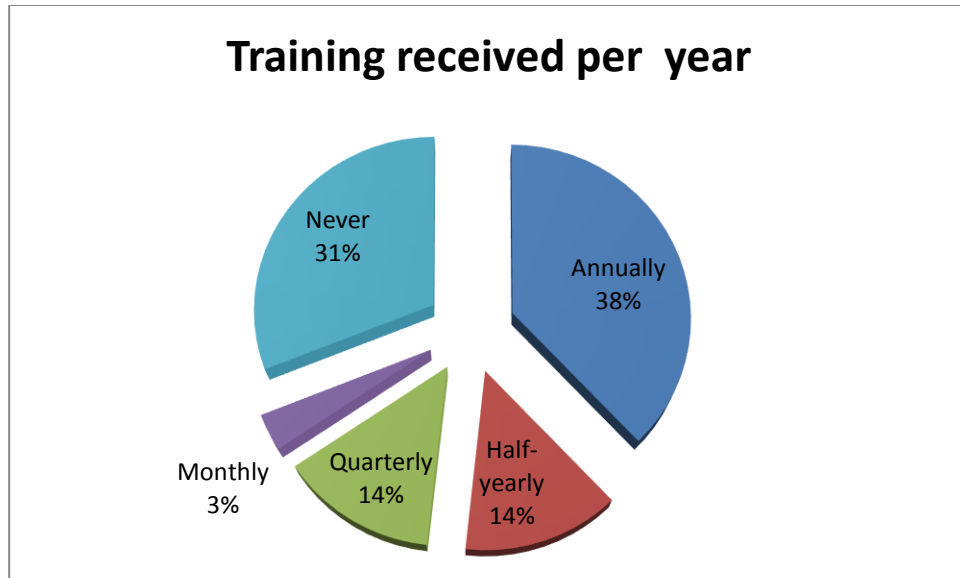


Figure 6: Frequency of training per year

4.4.4 Identification of the training needs for the internal audit unit

The graph below (figure 7) indicates that majority of the respondents identify their own training need, representing 48%. 24 percent of the respondents have indicated that management identify the training needs for them. In contrast to the requirement that the Ministry of finance which is the custodian of the internal audit function in the Namibian public sector, only 14% indicated that the Ministry of Finance identify the training needs, equating it to those that indicated that the Audit Committee does that for the respondents. The researcher asked this question in order to find out whether Ministry of Finance identifies the training needs for the internal audit function, as revealed in the literature review. The results have however, indicated otherwise. Implying that the Ministry of Finance, which is the custodian of the internal audit function in the Namibian public sector, has actually not been carrying

out its entrusted responsibility of identifying training needs for the internal auditors. Furthermore, the current regulation in place that allows Ministry of Finance to identify the training needs for the internal audit functions in the OMAs appears to contradict the international standards for the professional practice of internal auditing (standards) that requires the internal auditors to identify their own training needs. This contradiction may have contributed to the ineffectiveness of the internal audit function in the Namibian public sector. This can therefore, be seen as one of the challenges that the internal audit function in the Namibian public sector has been facing.

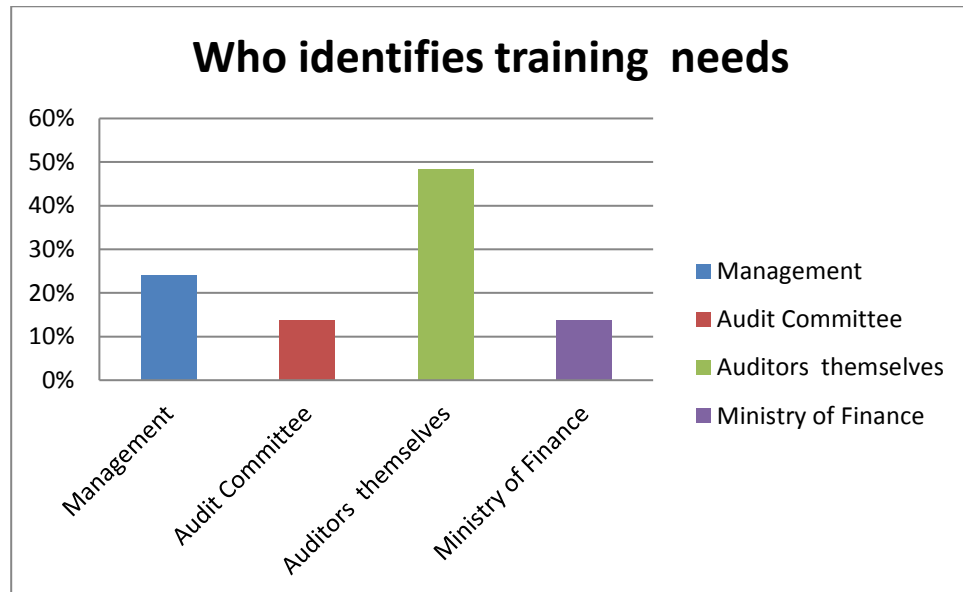


Figure 7: Identification of training needs

4.4.5 Professional qualification

The respondents were asked to indicate what professional qualification they possess. The aim of this question was to assist in answering the first research question that seeks to find out what regulatory provisions are in place to regulate the internal audit function in the Namibian public sector. The answers from the respondents will assist in finding out whether the respondents' qualifications are in line with requirements of the government as well as for the Institute of Internal Audit, which is an international regulating body. According to IIA (2012) the International Internal Audit standards requires that all internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The IIA further requires that the internal audit function collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. This literally means knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Therefore, internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations.

The response from the respondents shows a shocking revelation that out of the 29 respondents, 27 (93%) have no professional qualification. On the same wavelength, 2 (7%) respondents have indicated that they have other professional qualifications not indicated in the options available in the questionnaire as depicted in figure 8; however, they referred to their academic qualifications as the professional qualifications, which on its own indicates that there is a lack of the general understanding of what professional qualification is. The results cast a serious doubt on the quality of the work performed by the internal audit function in the Namibian public sector, as it appears that there is a lack of professional qualification among the staff of the internal audit function. Furthermore, the lack of understanding of what professional qualification might have also impacted on the lack of professional qualification as some staff might be under the impression that their academic qualification are their professional qualifications, hence no need for them to acquire any professional qualification.

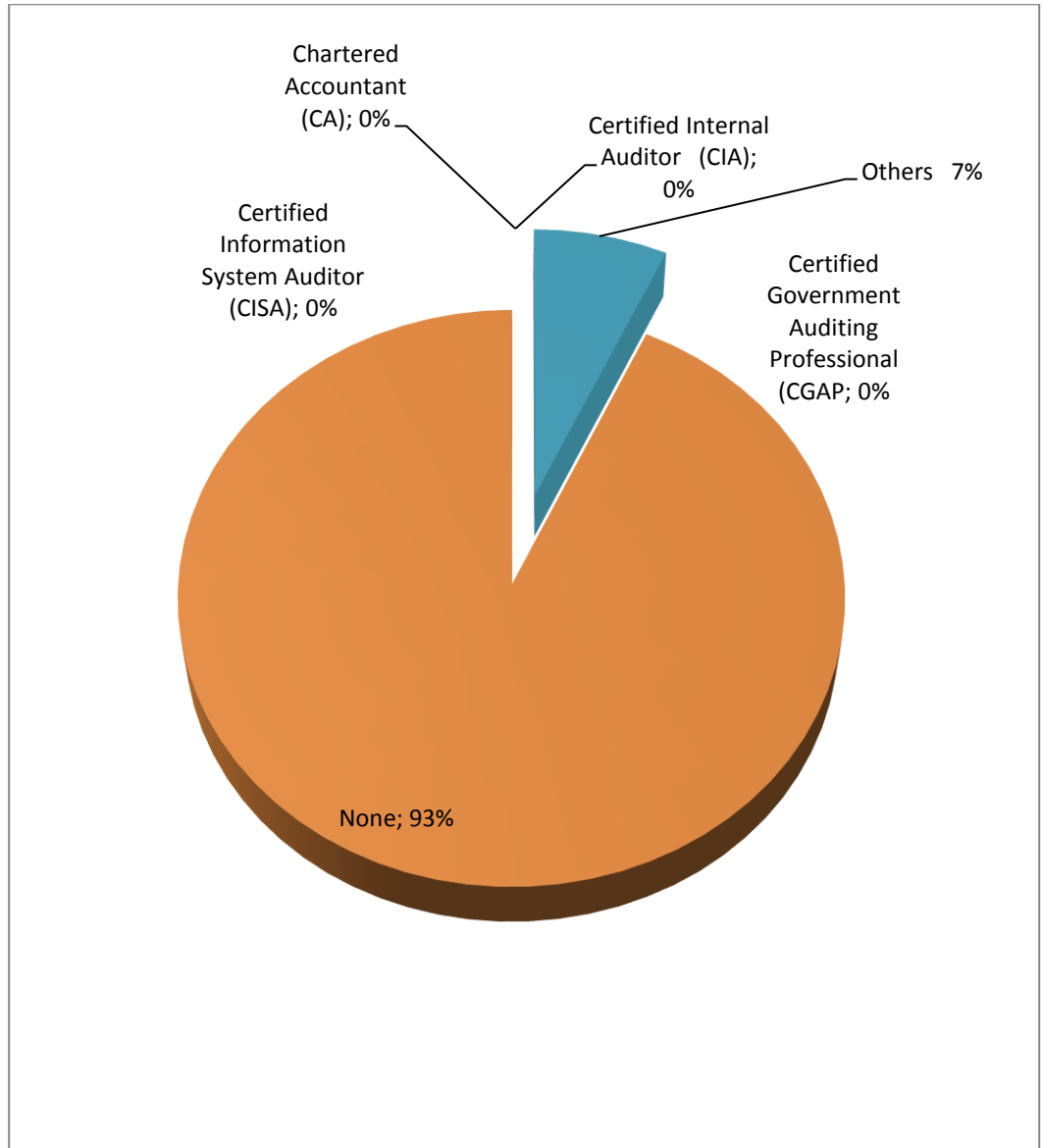


Figure 8: Professional Qualification in place

4.4.6 Association with the Professional bodies

The respondents were asked to indicate to which professional body they belong. This allowed them to indicate more than one option from the listed option. The response would have been invalid if the respondent have indicated any option in addition to the “none” response. All respondents have indicated that they belong to professional bodies. Majority (93%) have indicated that they belong to the Institute of the Internal Auditors (IIA). 3% indicated that they belong to Chartered Institute of Management Accountants (CIMA) and Association of Certified Fraud Examiner (ACFE).

Table 3: Membership in professional bodies

Name of the Professional body	Frequency	Percentage
Association of Chartered Certified Accountants (ACCA)	0	0%
Institute of Internal Auditors (IIA)	28	97%
Chartered Institute of Management Accountants (CIMA)	1	3%
Institute of Chartered Accountants of Namibia (ICAN) or South African Institute of Chartered Accountants (SAICA)	0	0%

Association of Certified Fraud Examiners (ACFE)	1	3%
Any others (please state)	1	3%
None	0	0%

Source: Data collected through survey, September 2015

The findings of the study indicates that, despite the lack of professional qualifications among staff members of the internal audit function in the Namibian public sector as indicated in the previous subsection in Figure 8 above, a whopping 97% of the respondents indicated that they are members of The Institute of Internal Auditors. This body is responsible of the professionalization of the internal audit. If this membership is to be used in an effective manner, it could benefit the internal audit function in the Namibian public sector through seminars, training and conferences.

4.5 Regulation of internal audit

This section of the questionnaire was constructed to garner information from respondents about internal audit legal framework, audit charter, audit committee and internal audit standards. These are regarded as the foundation of internal audit as they set out the tone of what is expected from the auditors, regulate, and direct them in their career.

4.5.1 Internal audit legal framework

Internal audit legal framework is a broad system of rules that governs and regulates the internal audit function. Combination of auditing standards, guidelines and audit manual that are followed in the process of the carrying out the internal audit work. They are regarded as the foundation of internal audit function as they set out the tone of what is expected from the auditors and regulate and direct them in their work. The lack of legal framework can result in the internal audit function not to carry out its duties in an effective and efficient manner.

The researcher wanted to find out whether there is a legal framework in place to regulate the work of the internal auditors in the Namibian public sector, and if there was, what is the name of that legal framework? The study revealed that majority of the respondents as per the three groups (Deputy Director, 100%; Chief Internal auditors, 80% and auditors 59% respectively) agree that there is no internal audit legal framework in place to regulate the work of the internal audit function in OMAs. The study points out that all the respondents from the group of the Deputy Directors of internal audit in the Namibian public sector, who are the internal audit executive agrees that there is no legal framework in place. This result indicates that OMAs are operating without appropriate legal frame, risking the effectiveness of the internal audit functions in the Namibian public sector. However, 20% of the chief internal auditors and 32% of the internal auditors indicated that there is a legal framework in place, respectively. However, when asked to state the name of the

legal framework, half of each group that have indicate that there is an internal audit legal framework have referred to the State Finance Act, Act 31 of 1991 as the legal frame work. While, the other halves has referred to the internal audit manuals and internal audit charter as their legal framework. This is an indication that the legal framework is not well understood by the respondents, casting more doubt on the regulation of the internal audit function in the Namibian public sector. Furthermore, the State Finance Act referred to is only talking about internal auditors in the Ministry of Finance, leaving a legislative gap for the internal auditors in other OMAs.

Only 9 % of the respondents from the group of auditors did not know whether there is an internal audit legal framework in place. This indicates that the respondents (who in this case were internal auditors) were either not well informed of the legal framework in place or it was not in place at all for them to know it. This further cast doubt on the effectiveness of the internal audit function in the Namibian public sector as it points out that there is no clear guidance in place to regulate the internal audit function in the Namibian public sector. Overall, the results indicates that the lower you go on seniority level the lower is the percentage of those that indicates that there is no legal framework, this can be attributed to the level of understanding among the group of respondents

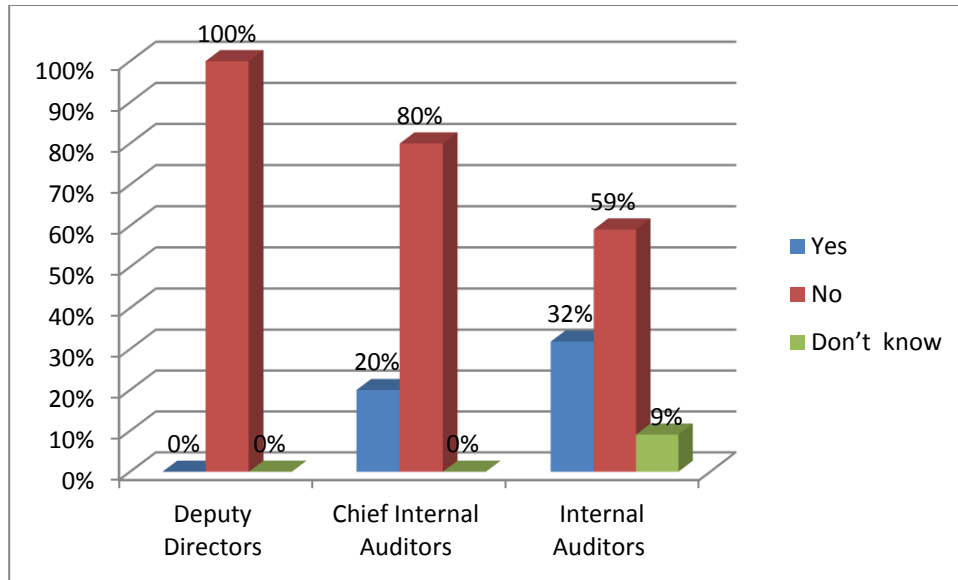


Figure 9: Internal audit legal framework in OMAs

4.5.2 Internal audit Charter

Internal audit charter is a formal written document that defines the purpose, authority, and responsibility of the Internal Audit Function. The charter defines the Internal Audit function's position within the organisation; authorises access to records, personnel, and physical properties relevant to the performance of audit; and defines the scope of work. The absence of this important document in any given organisation will signal challenges to the internal audit function, as there is no falling cushion when internal auditors are denied access to records, personnel and physical properties relevant for their engagement. Figure 10 presents the response on whether the respondent's OMAs have an internal audit charter in place. 62% have indicated that their respective OMAs have an internal audit charter in place. This results indicated that majority of the participating OMAs have a written mandate to carry out their engagements. 31% have indicated that they do not have

an internal audit charter in place. It is therefore a challenge to those that are operating without a charter as they lack the mandate to carry out their work independently. Surprisingly, 7% of the respondents are not sure whether their OMAs have an internal audit charter in place. The indication of staff members not sure whether they do have a charter in place or not points out that either there is a charter in place but not well communicated to the staff members or it is entirely not in place. Both options means that the internal auditors are facing a challenge of carrying out their mandate, as they might not know what they can do and what they should not in the absence of clear understanding or what regulates them.

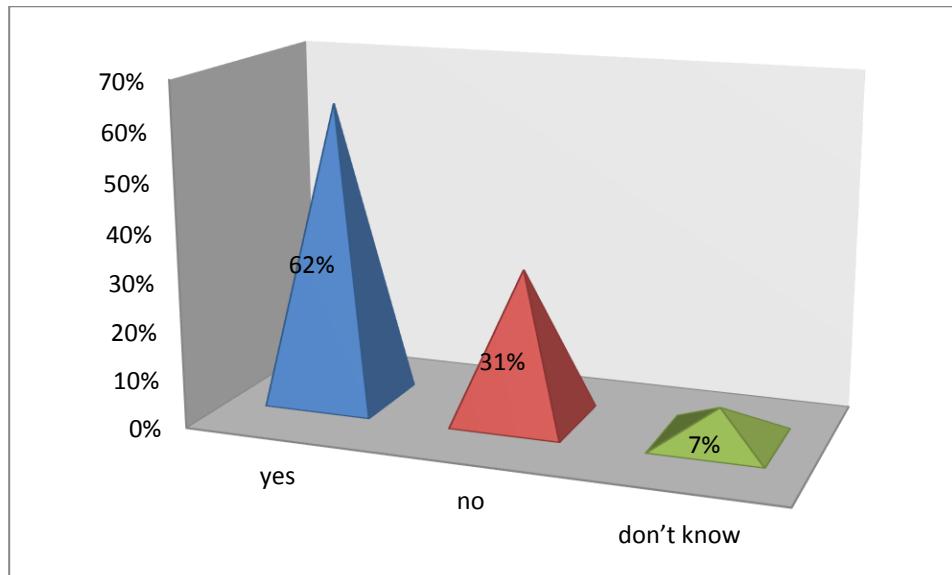


Figure 10: Internal audit charter in place

4.5.3 Audit Committee

The audit committee is the highest level of governing body charged with the responsibility to direct and/or to oversee the activities and management of the organisation (IIA, 2012). Normally, this includes an independent group of directors (e.g., a board of directors, a supervisory board, or a board of governors or trustees). This committee, in collaboration with management and other parties has the responsibility to manage risk and increase the likelihood that established objectives and goals would be achieved. It is therefore imperative for OMAs to have an effective audit committee, in order for these entities to attain their set goals.

The researcher wanted to find out how the respondents perceived the effectiveness of the audit committee in the OMAs and how the members of the committee are appointed. The researcher further wanted to find out about the internal audit reporting line in OMAs. Finding answers to the above-mentioned points, helps to determine what challenges the internal audit function faced that are related to the audit committees. Stephen, Kenneth and Jacques (2012) argued that the audit committee could significantly strengthen the independence, integrity, and effectiveness of public sector audit activities by providing independent oversight of the internal and external audit work plans and results, assessing audit resource needs, and mediating the auditors' relationship with the organization. It was therefore, imperative for the researcher to get the response in order to assess if any

other than the above mentioned, was a challenge faced by the internal audit function individually or collectively.

4.5.3.1 Effectiveness of the audit committee

The column in (Figure 11) depicts the response rate of the respondents in regards to whether their OMAs have an effective audit committee.

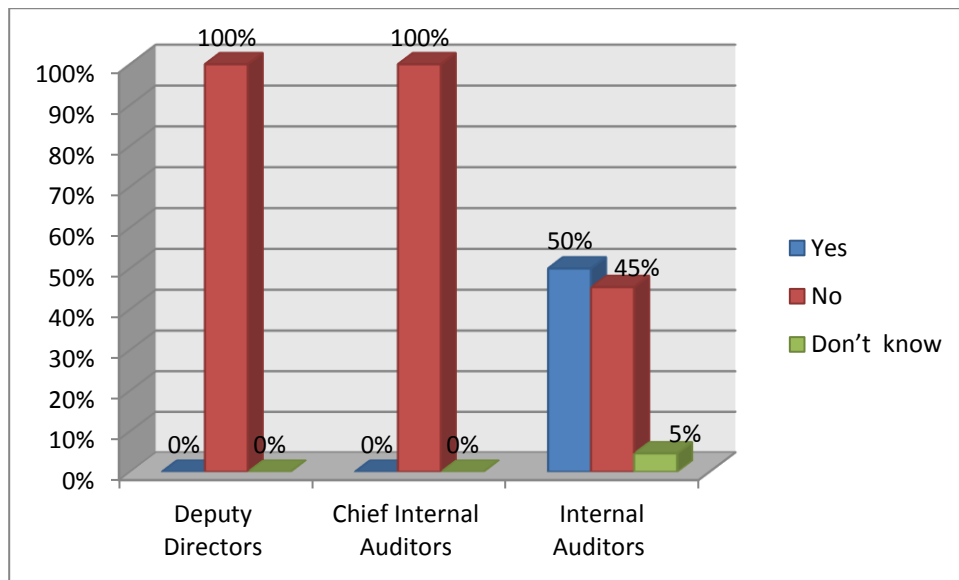


Figure 11: Response rate on the effectiveness of the audit committee in OMAs

The results show that 100% of the respondents in the group of deputy director and chief internal auditor agreed that their respective OMAs have no effective audit committees respectively, while the response from the internal auditors agreed that the audit committee was effective. Only 5% of the respondents from the group of internal auditors did not know whether the audit committee was effective or not.

Either this is because there are no measuring mechanisms in place to determine the effectiveness of the audit committee in place or the respondents simply did not know how to determine the effectiveness of the audit committee. Interestingly, the results from the group of deputy directors and chief internal auditors point out that the audit committee is not effective. These results from these two respective groups of respondents tend to carry more weight because of their seniority and more closer to the reporting line, where they are more in the interactions with the audit committee as opposed to the auditors that rarely come into interaction with the audit committee. Furthermore, the combined results indicate that the current audit committees are not effective, adding to the ineffectiveness of the internal audit function, and subsequently, to the challenges facing internal audit functions in the OMAs.

4.5.3.2 Appointment of the audit committee

Having an independent and competent audit committee in place helps the entity to attain its goals. It is therefore important for OMAs to have well-balanced audit committee members in place in terms of independence from Management and having appropriate competence. The researcher therefore wanted to find out how committee members in OMAs are appointed. Out of the 29 returned questionnaires, only 22 respondents opted to answer the question about the appointment of the audit committee in their respective OMAs. The results suggest that the appointments of the committee members are more done through nomination or secondments.

Stephen, Kenneth and Jacques (2012) points out that, where an audit committee established, depending on the characteristics of the jurisdiction, it should strive to include independent members who collectively possess sufficient knowledge of audit, finance, risk, and control. Those good characteristics normally tend to be lacking in the approach of politically appointment, nomination and secondments in comparison to competitive recruitments.

The results further revealed that 36% of the respondents indicated that they are not sure how the members are appointed. This can be seen as a worrying factor, if the auditors are not sure how those they are ought to be reporting to are appointed. Furthermore, 25% of the respondents indicated that the members are politically appointed. Politically appointed committee members, tend to focus more on how to appease the appointing authority as opposed to adding value to the control. Stephen, Kenneth and Jacques (2012) argued that the objectivity of the politically appointed committee members is in most cases hampered, causing the audit committee to become ineffective.

Only 9% of the respondents have indicated that the members in their respective OMAs were appointed through a competitive recruitment process. Despite this being regarded as the best practice, the results indicates that it is actually the list used approach in the Namibian public sector, qualifying the point that the internal audit committee in the Namibian public sector is ineffective.

Table 4: Appointment of Audit Committee is in OMAs

Manner of appointing Audit committees	Frequency	Percentage
Politically	5	23%
Competitive recruitment	2	9%
Nomination/ seconded	7	32%
Don't know	8	36%
Total	22	100%

Source: Data collected through survey, September 2015

4.5.3.3 Internal audit function reporting line in OMAs

The IIA (2012) requires that the internal audit function must be independent, and internal auditors must be objective in performing their work. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit function, the function must have a direct and unrestricted access to senior management and the audit committee. This can be achieved if appropriate reporting relationship is well established in OMAs. The researcher therefore, wanted to find out to whom the internal audit function reports to in OMAs.

Figure 12 presents the result of where the internal audit function reports to in OMAs. Out of the twenty-nine (29) questioners returned, one respondent opted not to respond to the question regarding the reporting line of the internal audit function. An overwhelming majority of 86% indicated that the internal audit

function in their respective OMAs reports to the Permanent Secretary. Only 14 % of the respondents have indicated that the internal audit function in their respective OMAs reports to the audit committee. The results indicates that organisational independence might be hampered as majority of respondents points out that they report functionally to the Permanent Secretary who is the Administrative head of the OMAs. Auditing and reporting findings to your managers can create tautness and it can affect the good working relationship hence the need of audit committee (Fraser & Lindsay, 2007). Organisational independence is effectively achieved when the internal audit function reports functionally to the audit committee. The results points out clearly that there is a direct relationship between the effectiveness of the audit committee as depicted in figure 12, and the reporting line of the internal audit function in the OMAs as depicted in Table 3.

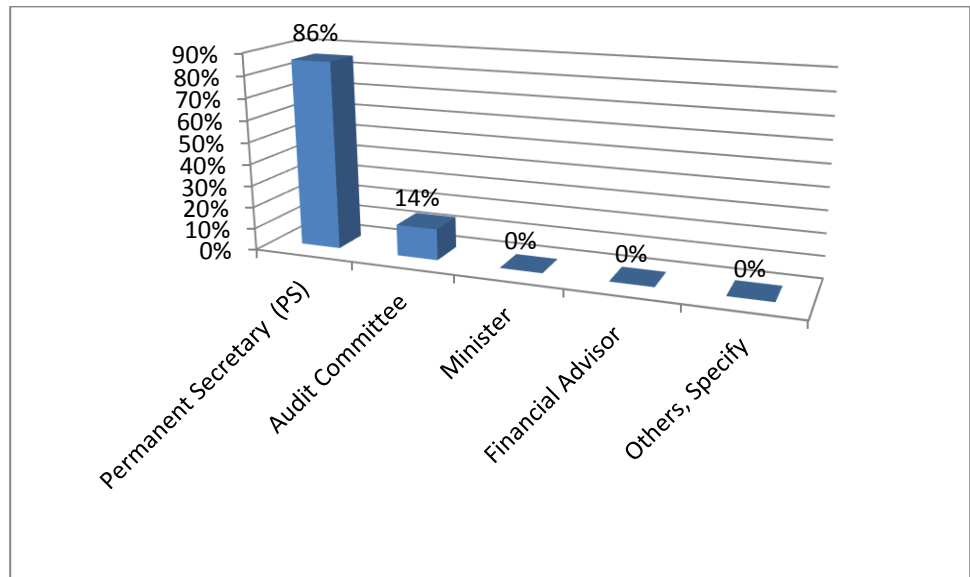


Figure 12: Reporting line of internal audit function in OMAs

4.5.4 International Professional Practices Framework in OMAS

The International Professional Practices Framework (IPPF) is the conceptual framework that organises authoritative guidance for internal auditors. The IPPF contain authoritative guidance to regulate internal audit professionals worldwide. The guidance is divided in two groups, the mandatory guidance and recommended guidance. The researcher constructed a question in order to help in answering the main research question that aim at finding out what regulatory provisions are in place to regulate the internal audit function in the Namibian public sector.

The results of the response as depicted in Figure 13 show that, 10% of the respondents do not use IPPF standards in the execution of their internal audit in their respective OMAS. About 7% of the respondents were not sure whether they make use of the standards or not. The results further, indicated that an overwhelming response of 83% of the respondents make use of the IPPF.

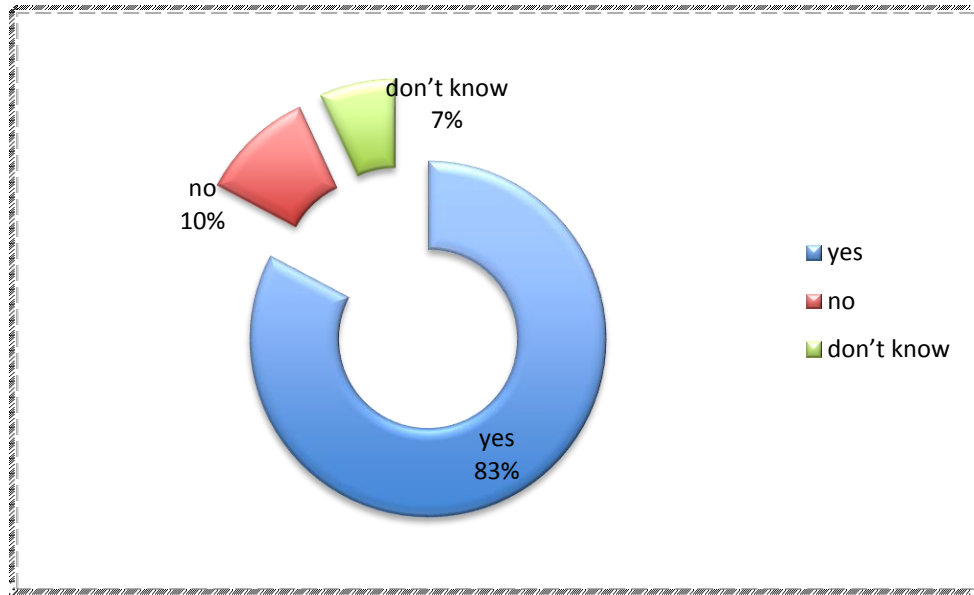


Figure 13: Use of International Professional Practice Framework in OMA

The researcher has constructed a follow up question to those respondents who have indicated that they do not make use IPPF. The aim was to find out what alternative do they have in place. In response to the question, what other standards do internal auditors use, in case the respondent have earlier indicated that they do not follow the IPPF standards? The respondents have indicated that they are making use of manuals and internally designed working papers. This indicates that the respondent were not aware of the IIA standards, hence casting doubt on the regulatory framework being followed.

4.5.5 Compliance with International Professional Practice Framework

The general requirement for internal auditor who claims to be using the IPPF is to comply with the Core Principles of the IIA standards. The Core Principles, taken as whole, articulate internal audit effectiveness (IIA, 2012). For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit function, demonstrates achievement of the Core Principles may be quite different from entity to entity, however, failure to achieve any of the Principles would imply that an internal audit function was not as effective as it could be in achieving internal audit's mission.

Despite the overwhelming response rate in the subscription to the IIA standards, as indicated in the above Figure 13, the results of the compliance with the standards leaves much to be desired. In response to question whether the internal audit function complies with International Professional Practices Framework (IPPF) standards, only 45% of the respondents acknowledged having complied with the standards, while 45% acknowledged that they do not comply with the IIA standards at all. Fourteen percent of the respondents, have however, indicated that they were not sure whether they were complying with the IIA standards as indicated in Figure 14 below.

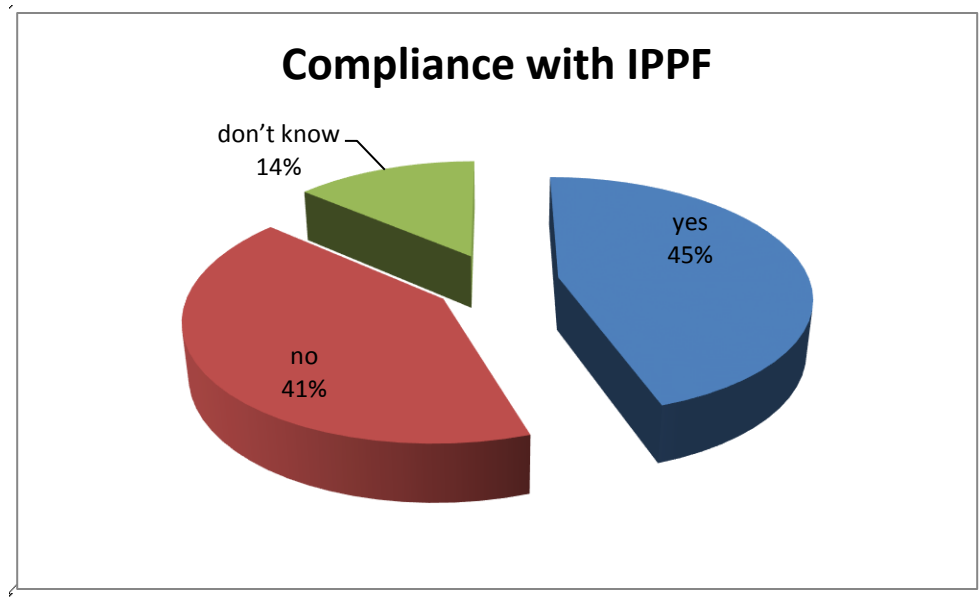


Figure 14: Compliance with International Professional Practice Framework rate

4.5.6 Assessments of internal audit function

Ongoing quality assurance and periodic self-assessments is regarded as an important part of maintaining an effective internal audit unit. The researcher was interested in finding out how often assessment is carried the internal audit functions in OMAs. Question 12 of the questionnaire required respondents indicate how often are the internal functions in their respective OMAs are assessed. It is interesting to note (as indicated in Figure 15) that 86% of the respondents have indicated that their respective internal audit functions have never been assessed. The IIA (2012) requires that the internal audit function should be reviewed regularly internally and externally. Therefore, lack of assessment either internally or externally signals noncompliance with standards. Eleven percent (11%) of the respondents indicated that they were not sure whether their respective internal audit functions were ever, assessed. It is only 3% of

the participants have indicated that their internal audit function undergoes an annual assessment. It is important that the findings of such internal and external assessments results in an improvement of the internal audit function and that a report on the outcomes of the quality assurance and effectiveness of the internal audit function should be presented to management and the audit committee, something that the result indicated is non existing.

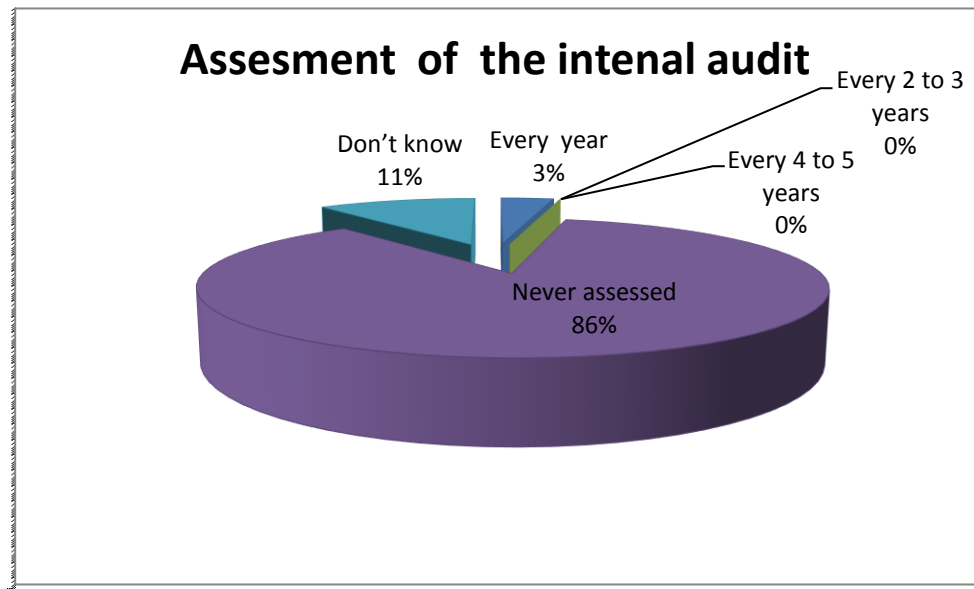


Figure 15: Assessments of the internal audit function (%)

4.6 Effectiveness of the Internal Audit Function

Respondents were asked several close-ended questions on their perceptions regarding the effectiveness of internal audit function in their respective OMAs. The researcher wanted explore the respondents' perception on the effectiveness of the internal audit function; whether the current structure of the internal audit unit is adequately structured

to respond to the need of the OMAs; whether the internal audit function has prescribed audit methodologies and are followed when carrying out the audit engagements. Through this section of the questionnaire, the researcher wanted also to find out if the roles and responsibilities of the internal auditors are clearly documented in OMAs. The findings on the questions are presented and discussed below.

4.6.1 Perception on the effectiveness of the internal audit function in OMAs

The literature reviewed indicated that internal controls in OMAs are not strong as they are ought to be. Internal audit function, being a component of internal control is therefore not an exception. The results of the research as presented in Table 5, on one hand points out that a combination of the respondents that regards the internal audit function as either not effective (51%) and those that are not sure (21%) gives an overall scoring of 72 %. That revelation corroborate the point that internal audit function is not effective. Moreover, the results confirm what Vilho (2013) and Mafale (2014) had concluded, that the internal audit function in the Namibian public sector is not effective. On the other hand, the results however, show that 28% of the responded perceive the internal audit function to be effective. Despite the above findings, the internal audit function is perceived to be ineffective.

Table 5: The Perception of how effective the internal audit function in OMAs

Grading of the Internal audit function in OMAs	Frequency	Percentage
Very effective	0	0%
Effective	8	28%
Not effective	15	51%
Not sure	6	21%
Total	29	100

Source: Data collected through survey, September 2015

None of the respondents has perceived their internal audit function to be very effective.

4.6.2 Adequacy of the internal audit function structure

The effectiveness of the internal audit function depends on the staffing, knowledge, and skills of those that are in those positions (Cohen & Sayag, 2010). The researcher constructed the question to garner view from the participants on how they feel whether their internal audit function is currently structured in such a way that it can respond to the internal control needs of the OMAs. The respondents indicated that the combination of those who agree and strongly agree is just a mere 20%. This can be interpreted that

only a minority of the respondents are agreeing that the internal audit structure is correctly structured to respond to the need of the OMAs. Twenty four percent of the respondents were neutral, this normally is associated with lack of an overall understanding of what the internal audit function is ought to be doing and what it is doing at a given time. Responses from the study showed that 52% of respondents disagreed that the current structure of internal audit function is adequate to respond to the needs of the OMAs. This result suggests that internal auditors are not satisfied with the structure of internal audit function. They deem it narrow. They say so because they see the structure limiting them moving to the next level within the internal audit function as there are only two higher levels. This dissatisfaction could result in the internal auditors not performing their duties accordingly. However, increasing the size and structure of internal audit function could be costly, since it will require more resources in terms of human capital and finances. IIA (2012) stated that, the size of the organisation enhances internal audit effectiveness.

Table 6: Adequacy of the structure of the internal audit function

Respondents view	Frequency	Percentage
Strongly agree	3	10%
Agree	3	10%
Neutral	7	24%
Disagree	15	52%
Strongly disagree	1	3%
Total	29	100

Source: Data collected through survey, September 2015

The overall results therefore, indicates that majority of the responded concur to the point that internal audit functions in OMAs are inadequately structured to responds to the need of the OMAs. It can therefore be derived that internal audit function structures are inadequately structured, making it one of the challenges the internal audit function is facing that make it ineffective.

4.6.3 Internal audit methodologies

One of the indicators of whether the internal audit function is effective is the usage of international recognised methodologies. The researcher wanted to find out whether there are prescribed methodologies to follow when carrying out the internal audit, and are followed. The results of the findings are presented in Table 7 below:

Table 7: Existence and usage of the internal audit methodologies

	Frequency	Percentage
Yes, but not followed	2	7%
Yes, but followed seldom	11	38%
Yes, and they are strictly followed	15	52%
No	1	3%
Don't know	0	0%
Total	29	100

Source: Data collected through survey, September 2015

The results indicated that more than a half of the respondents have indicated that there are methodologies in place and they are strictly followed, disagreeing with the existing literature reviewed that indicated that there are no methodologies in place (Vilho, 2013). The research could however not point out whether methodologies followed are universal in order to validate the point in the literature that each OMA was left to do what they deemed to be right in carrying out the internal audit within their respective OMAs.

4.6.4 Roles and responsibilities of the internal auditors

The roles and responsibilities of the internal auditors serve as the bench mark to determine whether they are doing their work or not. Ideally, these have to be documented and well communicated to the staff (Ahmad & Taylor, 2009). The researcher constructed a question to get the response from the participants and to enable him to get an understanding whether the roles and responsibilities of the internal auditors are clearly documented. Table 8 below presents the findings of the research:

Table 8: Documentation of roles and responsibilities of Internal Auditors

	Frequency	Percentage
Fully documented	11	39%
Partly documented	12	43%
Not documented	4	14%
Don't know	1	4%

Total	29	100
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Source: Data collected through survey, September 2015

As indicated above, the finding shows mixed responses. None of the response gave an outright majority (more than 50%) in each category. The indifference in the results can be attributed to the lack of understanding of the roles and responsibilities of the internal audit function in OMAs. However, if combined, those that have indicated that the roles and responsibilities of the internal auditors are either fully documented or partially documented, show a different picture. This therefore, shows that the lack of documentation of the roles and responsibilities of the internal auditors are one of the challenges facing the internal audit function in the Namibian public sector.

4.6.5 Managements' understanding of roles and responsibilities of Internal Audit function

Literature reviewed has indicated that management have roles and responsibilities to carry out toward the internal audit function, in order for it to excel. The researcher wanted to find how the respondents perceive management's attitude in carrying out their roles and responsibilities towards the internal audit. The outcomes of the research are presented in Table 9 below:

Table 9: Management's attitudes towards internal audit function

	Frequency	Percentage
They don't understand	4	14%
They understand	5	17%
They understand but they don't care	18	62%
Don't know	2	7%
Total	29	100

Source: Data collected through survey, September 2015

The above presented results indicate that a vast majority of the respondents have a strong perception that Management do understand the roles and responsibilities of the internal audit, however, they just do not care. This can be translated into a point that managements "I don't care" attitudes towards the roles and responsibilities of internal audit function is one of the challenges that are facing the internal audit function in the Namibian public sector. Furthermore, only few respondents has indicated that their managements do not understand the role and responsibilities of the internal audit function. This can be attributed to the ineffective communication between management and the internal audit function in OMA's that normally indicates that management understand the roles and responsibilities of internal audit function in OMA's. This is adding more weight to the challenges facing the internal audit function.

4.7 Challenges facing internal audit function

This section of the research instrument was constructed to determine the challenges experienced by the internal audit function in OMAs based on the stages, which the internal audit function goes through to be established and staffed in any given OMAs. These stages are the establishment of the internal audit unit, division or directorate and the recruitment of the internal auditors. This was done in order to specifically, identify the challenges the internal audit function experienced in those crucial stages. Hailemariam (2014) argued that most of the internal audit function fail during these crucial stages if the problems that they encounter are not addressed on time.

Furthermore, the rest of the questions in this section were based on the audit process of the internal audit cycle. The main aim of categorising the questions was to identify the challenges experienced by the respondents in each stage and processes. Van der Schyf (2000) opined that internal audit functions that are plagued by unresolved problems during these stages mostly ends up being perceived to be useless and as a result auditee hardly give cooperation when the internal auditors are carrying out their duties.

The pilot study results have played a vital role in the structure of this section. The results of the pilot have indicated the need of grouping the questions in themes as respondents can relate easily to them when they are grouped based on the stages and processes. Therefore, all questions in this section were close-ended, except one question that was open ended in order to give the respondents the option of stating any other challenges they have experienced in any of the stages and process that not covered in

the close-ended questions. The respondents were allowed to choose more than one alternative. This was done to enable them to state all possible challenges they have encountered in each given stage.

4.7.1 Establishment of the internal audit function in the OMAs

Establishment of the internal audit function in OMAs is the most critical stage and it plays a vital role in the effectiveness of the internal audit function. It is important to have an internal audit function built on a strong foundation to enhance its effectiveness. The study reveals that management support is important to ensure effectiveness of internal audit function. Nonetheless, the results reveal that internal auditors do not receive support from management. This is evident from responses that indicated that 79% of the respondents agreed that management did not support them during the establishment of the internal audit function. Ahmad and Taylor (2009) found that lack of management support is one of the problems faced by the internal audit function in the public sector. Hence validating the finding that lack of management support is indeed one of the challenges faced by the internal audit function in the Namibian public sector. Furthermore, the results from interviews and open-ended questions also showed that management does not give more attention to establishment and structure of the internal audit function. This finding is in consistence with prior studies, which revealed that management does not support the process of establishment of internal audit function (Mafale, 2014). This finding suggests that management does not value the work of internal auditors and that they do not mind about their establishment. In addition, not

supporting the internal audit function where necessary may also be a sign that shows that management does not understand the importance of internal auditors.

Table 10: Challenges faced during establishment of audit function

Challenges faced during establishment of audit function	Frequency	Percentage
Lack of management support	23	79%
Lack of legal framework to operate within	22	76%
Lack of funding	15	52%
Lack of understanding of the internal audit roles by the internal auditors themselves	12	41%

Source: Data collected through survey, September 2015

A Legal Framework establishes the minimum guideline for the development and operation of internal audit function in the Public Service. It serves as a source of reference and is the leading guidance mechanism on internal auditing in the Public Service. The absence thereof indicates that the internal audit function operated without appropriate guidance. The study revealed that 76% of the respondents agreed it has been a challenge they faced. This finding is in concurrence with prior study that revealed that there is a general lack of legal framework to regulate internal audit function in the Namibian public sector (Vilho, 2013). Furthermore, the study results point out that lack of funding has been among the challenges the internal auditor faced during the

establishment of the internal audit functions. Thus, management should establish clear legal framework to regulate the internal audit function in the Namibian public sector.

Regarding the funding of the internal audit function, the study shows that lack of funding is one of the challenges the internal audit function experienced during the establishment stage, 52% of the respondents have agreed that it is indeed a challenge. Funding in relation to the establishment of the internal audit function, includes, research to determine the structure, training of internal audit staff and payment of their salaries. Lack of funding at the establishment stage therefore signals the future ineffectiveness of the internal audit function as it will be established without appropriate foundation. Furthermore, these raise a question of why would management allocate funds if they do not value the internal audit function. Funding of the internal audit function is very crucial for it to add real value to the internal control of any entity (Van der Schfy, 2000). The results have also indicated that 41% of the respondents agreed that lack of understanding of the internal audit roles by the internal auditors themselves has been a challenge. This lack of understating of the roles of the internal audit by the internal audit staff themselves can be attributed to ignorance. Therefore, it is important to have an appropriate screening process of staff during the recruitment stage.

4.7.2 Recruitment of internal auditors

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Hailemariam, 2014). The researcher wanted to find out if the internal auditors have experienced any challenges during the recruitment and staffing process. The study has revealed that an overwhelming majority of the respondents (97%) agree that an unattractive remuneration package is one of the challenges they faced during the recruitments and staffing processes. This implies that properly qualified staff will not stay in an internal audit function that is underpaying them. In addition, this result cements the earlier results in figure 8 that revealed that there are no Certified Internal Auditors (CIAs) within the Namibian internal audit function. Therefore, this finding shows that internal auditors in the Namibian public sector lack professional qualifications that could result in lack of expertise in their specialised areas.

Regarding the recruitment duration, 72% of the respondents have pointed out that it takes too long to recruit. This finding is in consistence with what Vilho (2013) has that recruitment of internal audit staff takes unnecessarily too long. A similar study by Van der Schfy (2000) in South Africa has revealed that the quality of the work can be compromised if the internal audit structures are not filled on time. The results has further, indicated that 66% of the respondents have encountered a challenge of staff

recruited without auditing qualifications. It is however, expected that the auditors should comply with minimum continuing education requirements and professional standards published by their relevant professional organisations in order for them to stay relevant (IIA, 2009). Lack of unattractive remuneration packages could be one of the contributing factor, as qualified auditors will not accept a lower remuneration package.

Table 11: Challenges faced during recruitment process

Challenges faced during recruitment process	Frequency	Percentage
Recruitment process takes too long	21	72%
Unattractive remuneration packages	28	97%
Staffs are recruited with no internal auditing / auditing qualification	19	66%
Lack of consulting with existing internal auditors on the recruitment process	8	28%
Unavailability of experienced audit staff	12	41%

Source: Data collected through survey, September 2015

The result further shows that, 41% of the respondents have experienced a challenge of unavailability of the experienced audit staff during the recruitment process. Meanwhile, only 28% have encountered lack of consultation with the existing auditors in the process of recruitment, thus, making it unlikely to be a serious challenge the internal audit function is facing that renders it to be ineffective.

4.7.3 Execution of the internal audit work

Conducting the fieldwork is the most important activity under the executing stage and it concentrates on testing of the functionality and effectiveness of the internal controls. It is during this phase the internal auditors determine whether the controls identified during the preliminary review and planning stage are operating properly and in the manner described by management. This stage concludes with a list of significant findings communicated to management through a draft audit report.

The researcher wanted to determine the challenges experienced during this critical stage. It is important to identify the challenges encountered during this stage because if they are not identified and dealt with on time; they might have a negative impact on the audit report which is the main product of the audit.

Table 12 : Challenges experienced during execution of audit

Challenges experienced during execution of audit	Frequency	Percentage
Management decides on the areas to be audited	8	28%
Lack of support from staff members	20	69%
Lack of support from Management	22	76%
Restriction on access to documentations and audit information	3	10%
Unrealistic expectation from management	11	38%
Unrealistic time frame allocated to finish the work	4	14%
Lack of expertise	17	59%

Lack of understanding of the role of internal auditors by auditee staff	9	31%
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Source: Data collected through survey, September 2015

Table 12, indicates the result of the survey where the major challenges experienced are the lack of support by management and staff members, scoring 76% and 69% respectively. The result points out that lack of management support seems to be a recurring challenge as indicated in table 8 as well. These results indicate that management and staff members in the OMAs do not appreciate the importance of having an internal audit function hence they do not offer support when required.

Lack of an expert has been also, identified as another challenge and it seems to be crosscutting as indicated earlier in Table 10. On the positive side, for the internal auditors, only 10% and 14 % have experienced challenges of access restriction to documentation and audit information needed for the audit and unrealistic period allocated to finish the work, respectively. Thus, making the two challenges less likely critical, to render the internal audit function ineffective.

4.7.4 Planning of the audit

The planning stage is the first stage of the audit. It set out the tone to the audit, as the auditor notifies the client of the engagement, discusses the scope and objectives of the audit with management, gathers information on important processes, evaluates existing controls, and plans the remaining audit steps. It is therefore important to understand the challenges, if any, experienced during this stage. The results of the survey as presented in Table 13 indicated that 66% of the respondents have experienced that internal auditors lacked an understanding of risk assessment; hence, it is a challenge. Sixty two percent of the respondents have alleged that lack of resources to execute their intended plan was a challenge. At the same time, 55% have experienced lack of cooperation from the auditee.

Table 13: Challenges experienced during planning of the audit

Challenges experienced during planning of the audit	Frequency	Percentage
Lack of understanding by internal auditors of what risk assessment is	19	66%
No prescribed auditing methodologies in place	7	24%
Lack of resources to execute the plan	18	62%
Lack of cooperation by the auditee	16	55%
Lack of skills by the internal auditors to draw up a plan	5	17%

Source: Data collected through survey, September 2015

Lack of skills by the internal auditors to draw up a plan and lack of prescribed auditing methodologies were identified as the least experienced challenges at 17% and 24% respectively.

4.7.5 Reporting of the findings

Reporting is the final stage of the audit. It is the stage where the internal auditors communicate their findings to management based on proof collected during the execution process. The findings are communicated through various pre-established communication channels. These channels are exit meetings and draft reports. Additionally, the audit findings are presented and recommendations discussed for improvements. The researcher set out questions for the respondents to indicate what challenges were encountered during this stage. A resounding majority of 79% have indicated that their recommendations were not implemented timeously, making it a serious challenge experienced. Furthermore, 66% of the respondents have indicated that their recommendations are not implemented at all and that management does not respond to their draft report timeously, respectively. Hence, challenges.

Table 14: Challenges experienced during reporting of the audit findings

Challenges experienced during reporting of audit findings	Frequency	Percentage
Findings are not accepted by management	2	7%
Recommendations are not implemented at all	19	66%
Recommendations are not implemented timeously	23	79%
Lack of appropriate reporting structure	9	31%
Management does not respond on the draft report timeously	19	66%

Source: Data collected through survey, September 2015

The result further indicated that only 7% have experienced their findings not accepted by management, thus, a less likely challenge. However, 31% indicated there were no appropriate reporting structures in their OMAs, making it a challenge to them when they want to communicate their findings to those that are charged with governance.

4.7.6 Follow ups on the implementations of the recommendations

Follow up is a process by which the internal auditors determine the adequacy, effectiveness, and timeliness of actions taken by management on reported audit findings. It is important for the auditor to find out whether the findings were implemented and or not. Sometimes recommendations are not implemented because of their impracticality. The researcher was interested in investigating the participants' views on the follow-ups of their recommendations. This question aimed at collecting

answers to determine what exactly perceived as a challenge during the follow up face of the audit. The response has indicated that majority of the auditee fail to provide reasons why recommendations were not implemented, making it a popular challenge the auditors have experienced. The results further pointed out that, when conducting the follow ups, the auditee staff are mostly not available, hence the auditors ends up not testing whether all recommendations were implemented or not.

Table 15: Challenges experienced during follow ups of recommendations

Challenges experienced during follow ups of recommendations	Frequency	Percentage
Recommendation are not implemented at all	8	28%
Recommendation given are not practical	7	24%
Unavailability of the auditee staff during follow up	14	48%
Cost of doing follow up exceed the benefit of the recommended internal control	2	7%
Auditee fail to provide reasons why recommendations were not implemented	24	83%

Source: Data collected through survey, September 2015

Despite the results indicating that participants encountered numerous challenges during the follow-up stage, some are much pressing and can render the internal audit to be ineffective.

4.8 Conclusion

This chapter presented the analysis and discussion on information drawn from both the qualitative and the quantitative data. The qualitative data reviewed has indicated that there is a lack of legal framework to regulate the internal audit function, while the quantitative data have indicated that there are numerous challenges experienced. The results further gives an indication that the Internal audit function in the Namibian public sector is on stage one of the Internal audit Capability Model (IA- CM). The following chapter presents the findings and recommendations.

Chapter 5

Conclusion and recommendations

5.1 Introduction

The previous chapter focused on presentation, interpretation and discussion of the results of this study. This chapter draws conclusions on the study and suggests recommendations to address challenges facing internal audit function in the Namibian public sector. The chapter further, points out the future research on the topic to address the challenges identified in this research.

5.2 Conclusion

Internal audit function is an integral part of the financial structure of any public organisation, charged with responsibilities to assist the Governments to achieve sound public financial management through effective public spending (Stephen, Kenneth & Jacques, 2012). Internal audit function is a key component of internal control of any organisation. Its absence or ineffectiveness thereof, renders the internal controls of the organisation ineffective. Internal audit function in the Namibian Public Sector came into existence in 1991 upon the promulgation of the State Finance Act and was decentralised to the Offices, Ministries and Agencies (OMAs) in 2006. Since its inception, the internal audit function in the Namibian public sector has not been effective; it was however not clear as what are the challenges that rendered the internal audit function in the Namibian public sector ineffective. In the quest for effective internal controls in the OMAs, the Namibian public sector decentralised the function to the OMAs. The move

was widely accepted, however, the effectiveness of the internal audit function left a lot to be desired in the Namibian public sector.

5.3 Research findings

The study was, prompted by the widely reported ineffectiveness of the internal audit function in the Namibian public sector. The study concentrated on the internal audit function in the OMAs, leaving out the state owned enterprises, as their internal audit functions are regulated by their respective Acts. Questionnaires were used to collect data from the deputy directors of internal audit, chief internal auditors, and internal auditors because they are involved on the daily execution of the internal audit activities.

Two research questions guided the study. Based on the findings of the study, the answers to the research questions that emerged were as under:

Research question 1: What regulatory provisions are in place to regulate the internal audit function in the Namibian public sector?

1.1 Even though some respondents pointed out to the State Finance Act to be the legal frame work, the research points out that the there is no legal framework in place to regulate the internal audit function the Namibian public sector.

1.2 The Audit charters in place are outdated and some are not even approved posing a serious challenge of their legality.

The study found that there are policies and procedures in place to regulate the internal audit function. However, they lack uniformity.

Research question 2: What are the challenges facing the internal audit function in the Namibian public sector that cause the ineffectiveness of the internal audit function and how these challenges can be addressed?

Findings:

2.1 Challenges faced during establishment of audit function

- Lack of management support
- Lack of legal framework to operate within
- Lack of funding

2.2 Challenges faced during recruitment process

- Unattractive remuneration packages
- Recruitment process takes too long
- Staffs are recruited with no internal auditing or auditing qualification

2.3 Challenges experienced during execution of audit

- Lack of support from Management
- Lack of support from staff members
- Lack of expertise

2.4 Challenges experienced during planning of the audit

- Lack of understanding by internal auditors of what risk assessment is
- Lack of resources to execute the plan

- Lack of cooperation by the auditee

2.5 Challenges experienced during reporting of the audit findings

- Recommendations are not implemented timeously
- Management does not respond on the draft report timeously
- Recommendations are not implemented at all

2.6 Challenges experienced during follow ups of recommendations

- Auditee fail to provide reasons why recommendations were not implemented

2.7 Other challenges experienced

- Lack of uniformity in carrying out the internal audit work across OMAs
- Lack of explicit legal framework to guide internal audit function in the Namibian public sector
- Ineffective audit committees, because they are either appointed through nomination or through political appointment
- Lack of quality assessment of internal audit function
- The internal audit function structures are not adequately structured to respond to the need of the OMAs.

5.4 Recommendations

From the findings of this study, it can be concluded that there are many serious challenges facing the internal audit function in the Namibian public sector. These challenges are multifaceted. Most of these challenges are due to the lack of a legal

framework and lack of internal audit standards. The study therefore, concludes that the Ministry of Finance, which is the custodian of the internal audit function in the Namibian Public sector, should consider the following recommendation in order to address the challenges identified by the study.

5.4.1. Regulation of internal audit function

The Ministry of Finance should have legislation on internal audit to adequately, regulate the work of the internal audit function. This legislation can be in a form of requiring all the internal auditors in the Namibian public sector to use the IIA Standards or it can be in a tailor made regulation that will be on par with the IIA standards in order to foster international recognition and professional development. The study further recommends for uniformity in audit charters and implementation of standardised audit manual to deal with the challenge of lack of uniformity experienced. Furthermore, the Auditor-General, as the independent external auditor of the Namibian public sector should also play a role by making it a requirement that when reporting, the Auditor - General should, in particular, mention where, in his or her opinion, the applicable internal control and management measures in OMAs are inefficient or ineffective. This will help in mitigating the challenges experienced by internal auditors, where management found not to value the existence of internal audit function, hence not provided support.

5.4.2. Establishment of internal audit function, recruitment and audit processes

The study recommends for the professionalization of the internal audit function in the Namibian public sector. This will address challenges experienced during the recruitment and audit process. The professionalization will also address the issue of quality of the audit work, remuneration and will foster independence.

5.5 Recommendations for further studies

Since the current study identified the challenges, it will be of great importance for a future study to determine the impact these challenges have on the performance of the internal audit function and subsequently the effectiveness of the internal controls of any given OMAs. Professional internal auditing service of the highest quality can be achieved if problems facing the internal audit function are well understood and dealt with on time (Van der Schyf, 2000). It is therefore, recommended that further study be carried out to determine the impact these challenges have on the Namibian internal audit function. Furthermore, a further study should be carried out to find out how other countries who faced similar challenges have addressed them. This will help the Ministry of Finance, the custodian of internal audit function in the Namibian public sector, to avoid any pitfalls in the process of addressing these challenges.

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APPENDIX A: Research Questionnaire



Dear Sir/ Madam

My Name is **Shali Dama Omwene Kapepo**, a Master of Science in Accounting and Finance student at the University of Namibia Windhoek. I am conducting a research titled “**an investigation into the challenges facing the internal audit function in the Namibian public sector**” in partial fulfilment of the requirement of the qualification. The findings of the study will provide ways to address challenges facing the internal audit function and to improve the internal audit function in the Namibian public sector. The information will be treated with confidentiality and used only for academic purpose.

By signing this document, you are agreeing to participate in the study. Participating in this research is voluntary. Even if you decide to participate now, you may change your mind and stop at any time.

Could you please complete the following questionnaire to help me in my study?

I agree to participate in the study.

Signature

Date

Thank you

Questionnaire

Instruction: Please indicate your choice by Marking (X) in the appropriate box.

Internal auditor's training and qualifications

1. How long have you been in the internal auditing function?

Less than one year	1 to 5 years	6 to 10 years	More than 10 years

2. What is your highest academic qualification?

Certificate	Diploma	Bachelors degree	Honours Degree	Masters Degree	PhD

3. How frequently do you get internal audit skills trainings that are applicable to Public sector governance?

Annually	Half- yearly	Quarterly	Monthly	Never

4. Who identify the training needs for internal audit unit?

Management	Audit Committee	Auditors themselves	Ministry of Finance

5. Do you have any of the following professional qualification? (please tick all that are applicable)

Certified Internal Auditor (CIA)	
Chartered Accountant (CA)	
Certified Information System Auditor (CISA)	
Certified Government Auditing Professional (CGAP)	
Others (please indicate)	
None	

6. To which auditing Professional body do you belong?

Association of Chartered Certified Accountants (ACCA)	
Institute of Internal Auditors (IIA)	
Chartered Institute of Management Accountants (CIMA)	
Institute of Chartered Accountants of Namibia (ICAN) or South African Institute of Chartered Accountants	

(SAICA)	
Association of Certified Fraud Examiners (ACFE)	
Any others (please state)	
None	

Legal Framework

7. Does your Office, Ministry, Agency (OMA) have an internal audit Charter?

Yes	No	Don't know

8. Does your O/M/A have legal framework in place that regulates the function of the internal audit function?

Yes	No	Don't know

(a) If yes, list the legal framework in place

9. Does your OMA have an effective Audit Committee?

Yes	No	Don't know

If your answer in number 9 is **yes**, then:

(a) How is your audit committee appointed?

Politically	Competitive recruitment	Nomination/ seconded	Don't know

(b) If your answer in number 9 is **NO**, kindly Explain

To whom does your internal audit unit in your OMA reports to?

Permanent Secretary (PS)	
Audit Committee	
Minister	
Financial Advisor	
Others, Specify	

10. Is the internal audit using International Professional Practices Framework (**IPPF**) standards?

Yes	No	Don't know

(a) If **no**, why? In addition, what other standards are used by the internal audit?

11. Do you think the Internal Audit Unit in your OMA complies with IPPF standards?

Yes	No	Don't know

12. How often is your Internal Audit unit assessed?

Every year	Every 2 to 3 years	Every 4 to 5 years	Never assessed	Don't know

Effectiveness of Internal Audit Unit

13. How would you grade the level of Internal Audit Unit of your OMA?

Very effective	Effective	Not sure	Not Effective	Useless

14. Do you feel that the **current structure** of your Internal Audit Unit in your OMA is adequately structured to respond to the need of your OMA?

Strongly agree	agree	Neutral	disagree	Strongly disagree

15. Does the Internal audit Unit has prescribed audit methodologies to follow when carrying out internal audit?

Yes, but not followed	
Yes, but followed seldom	
Yes, and they are strictly followed	
No	
Don't know	

16. Are the roles and responsibilities of the internal auditors clearly documented in your OMA?

Fully documented	Partly documented	Not documented	Don't know

17. Do you think Management understands the roles and responsibilities of internal auditors?

They don't understand	
They understand	
They understand but they don't care	
Don't know	

Challenges facing Internal audit Function

18. In your Opinion, what are the challenges faced by internal audit function during the following stages? (You may choose **more than one** alternative)

(a) Establishment of the internal audit functions in your OMA?

Lack of management support	
Lack of legal framework to operate within	
Lack of funding	

Lack of understanding of the internal audit roles by the internal auditors themselves	
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(b) Recruitment of the internal audit staffs?

Recruitment process takes too long	
Unattractive remuneration packages	
Staffs are recruited with no internal auditing / auditing qualification	
Lack of consulting with existing internal auditors on the recruitment process	
Unavailability of experienced audit staff	

(c) Execution of the internal audit work?

Management decides on the areas to be audited	
Lack of support from staff members	
Lack of support from Management	
Restriction on access to documentations and audit information	
Unrealistic expectation from management	

Unrealistic time frame allocated to finish the work	
Lack of expertise	
Lack of understanding of the role of internal auditors by auditee staff	

(d) Planning of the audit

Lack of understanding by internal auditors of what risk assessment is	
No prescribed auditing methodologies in place	
Lack of resources to execute the plan	
Lack of cooperation auditee	
Lack of skills by the internal auditors to draw up a plan	

(e) Reporting of the findings

Findings are not accepted by management	
Recommendations are not implemented at all	
Recommendations are not implemented timeously	
Lack of appropriate reporting structure	
Management does not respond on the draft report timeously	

(f) Follow ups on the implementation of the recommendations?

Recommendation are not implemented at all	
Recommendation given are not practical	
Unavailability of the auditee staff during follow up	
Cost of doing follow up exceed the benefit of the recommended internal control	
Auditee fail to provide reasons why recommendations were not implemented	

(g) Any other challenges that you have experienced?

Thank you!