AUD009 Stakeholders' perceptions on the association between ERM structures and internal auditing's contribution towards risk mitigation

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Abstract

A gap is widening between the expectations of internal audit stakeholders and the value that the function adds. One of the areas that internal auditing, based on the professional definition, should add value is the mitigation of risks threatening an organisation. This paper investigates the views of chief audit executives, the chairpersons of audit committees and senior management on the contribution to enterprise risk management that the internal audit functions make in the public sector. This contribution is considered in the context of existing risk management structures and the level of coordination between these structures and internal auditing. Findings reveal that the chief audit executives have very different views from the other two parties, supporting the concern of the Institute of Internal Auditors that stakeholders are in general of the opinion that their expectations of the contributions of internal auditing are not met. The results also indicate that the existence of enterprise risk management structures have very little effect on how the contribution of internal auditing to enterprise risk management is perceived.

Keywords: Enterprise risk management, Internal audit function, Level of coordination, Public sector enterprise risk management, Enterprise risk management structures, Stakeholders of internal auditing

1 INTRODUCTION

Richard Chambers (2014), the chief audit executive of the Institute of Internal Auditors (IIA) Global, the governing body of the internal audit profession, raised a serious concern when he asked the question whether a gap is widening between stakeholders' expectations of the contribution and the value of internal auditing. He based his concern *inter alia* on the findings of the annual studies conducted by PricewaterhouseCoopers on the seemingly deterioration of the perceived value of internal auditing. In the 2014 study (PwC 2014) the three major findings highlighted the significant differences of opinion between the internal audit stakeholders and the head of the internal audit function (IAF) or the chief audit executive (CAE) on what is expected of internal auditing; with only 49% of senior management and 64% of board members indicating that internal auditing is delivering on expectations and 55% of senior management are of the opinion that internal auditing do not add significant value. A survey conducted by Grant Thornton (2015) supports this view, providing evidence that the CAE and audit committee's priorities are not aligned. It seems that internal auditing is at a cross road and that a new way of thinking of what value adding entails is necessary. This is echoed by the IIA (2014) in a research document where one of the top five strategies of internal auditing is to focus on the alignment of activities with the expectations of key stakeholders. The question to be asked is – who are these stakeholders and what are their expectations?

One of the areas that are reoccurring in these surveys as well as in other research, is the role that internal auditing should play in the mitigation of key risks threatening the organisation. The rise of the insurance business, which dates back to the early 1700s, resulted in the emergence and development of risk management techniques (Merna & Al-Thani 2005:31-32). However, not all risks are insurable, thus much development has taken place in modern risk management, as this field is known and used by organisations world-wide today (Deloitte 2013; E&Y 2013). Increasingly, legislation and other forms of guidance on governance include the concept of risk management. One such example is the South African King reports on governance: the first report, *King I* (IoD 1994), did not discuss risk management; the second, *King II* (IoD 2002), addressed risk management to a limited extent; the third report, *King III* (IoD 2009), advanced risk management as a cornerstone of sound governance principles.

The roots of current risk management principles lie in the ultimate objective of private sector management, namely maximising value for shareholders (Meulbroek 2002:5), or the objective of the public sector, namely delivering a service to the public, thus serving the country and/or community (Van der Waldt & Du Toit 2005:46). With reference to risk management in the public sector, according to the IBM Center for the Business of Government (Hardy 2010:7), risk management is not a new concept, and a study performed by Accenture and Oxford Economics (2013:6) indicates that the concept is evolving rapidly. Nevertheless, the idea of viewing risks in a holistic manner (hereafter referred to as Enterprise Risk Management or ERM), is still somewhat unfamiliar in practice, and has been somewhat slower to be implemented across the globe and across various sectors (Odoyo, Omwono & Okinyi 2014:169; Accenture & Oxford Economics 2013:22).

According to various studies by Odoyo *et al.* (2015: 174)**,** E&Y (2013:6), Bolger (2011:12) and De Zwaan, Stewart and Subramaniam (2011:599-600), supported by a position paper by the IIA (2009a), the IAF can and should play a prominent role in supporting ERM. Moreover, the IIA is providing its members with guidance on how internal auditing can contribute to ERM in an organisation (IIA 2012a) and other bodies also provide additional guidance on this topic (Deloitte 2014; Cowan, Camfield, English & Hammond 2014). Although the role of internal auditing in the ERM domain has already been studied, it seems, after a thorough search on various databases, that limited research has been conducted on the public sector specifically and nor has the contribution of internal auditing in association with existing ERM structures (such as a risk management department, framework, committees, etc.) been investigated. In addition, the views of the IAF's stakeholders on this aspect have not yet been obtained and compared.

In the context of the above, the main objective of the study is to determine, based on the opinion of internal audit stakeholders, whether there is an association between the ERM structures and the contribution that IAF makes towards public sector ERM activities. Hence, the views of CAEs as well as senior management are obtained and compared – specifically the views of the chair of the independent oversight committee (audit committee chairs or CACs) and Accounting Officers (AOs) in the South African public sector. Furthermore, the extent to which ERM is embedded within organisations (the maturity of risk management) and the level of coordination between ERM structures and the IAF are likely to influence the possible contribution made by internal auditing. Therefore, to address the main objective, two secondary objectives need to be addressed; first to determine the coordination between ERM structures and the IAF, and secondly, the contribution of the IAF towards ERM activities.

This study will contribute to the body of knowledge of both risk management and internal auditing. It will also provide public sector senior management and CAEs with valuable information on whether internal auditing is perceived by stakeholders to contribute to ERM, as well as on the role that existing ERM structures play, which could result in CAEs or AOs implementing a different strategy to enhance ERM and/or internal auditing, if necessary. It will also provide the audit committee with information on whether internal auditing is adding value, taking into account the existence (or a lack thereof) of ERM structures. Lastly, based on the possible contribution of and the coordination between internal auditing and ERM structures, the legislator and regulator of the public sector could be influenced to provide clearer guidance or regulations to enhance the effectiveness and efficiency of risk management practices.

A literature review was conducted to provide a theoretical foundation for the research objectives, after which the empirical research was conducted. The findings of the review and the empirical research are presented in the remainder of the paper.

2 STAKEHOLDERS OF INTERNAL AUDITING

As indicated above, it seems that the gap between the expectations of stakeholders and the services that internal auditing is providing, is widening. To understand what is expected of internal auditing, it is firstly necessary to understand who these stakeholders are, specifically within the public sector, and what their expectations entail. According to Miles (2012), stakeholder theory implies that apart from the traditional shareholders of organisations, other parties are involved; from employees to even competitors, classified in either primary stakeholders, secondary stakeholders or other stakeholders (Preble 2005:415). Paape, Scheffe and Snoep (2003:251) suggest that internal auditing's primary stakeholders are either internal or external; the first being senior management and the latter being external auditing, regulators and the public. Güner (2008:31) argues that internal auditing should always be aware of who its stakeholders are, what their expectations are, identify the performance gap, prioritize their demands and develop responses to meet their expectations.

With regard to the role of internal auditing in mitigating the risks of an organisation, prominent risk guidance documents (COSO 2004:83; AS/NZS 2004:27) suggest that the board of directors (and its audit and/or risk committee) and senior management (and the risk department and/or chief risk officer (CRO)) are the key role-players. However, in the South African public sector, the AO is the main authority, supported by an independent oversight body, namely the audit committee (RSA-MFMA 2003:S62(1)(C)(ii); S165(1)(b); S166(1); RSA-PFMA 1999:S38(1)(a)(ii)) as well as a senior management team. For internal auditors to be able to identify and meet the expectation of these stakeholders, they will need to understand what these stakeholders' duties with regard to risk management are; which are briefly explained below.

2.1 Accounting Officer

The AO is according to legislation (RSA-MFMA 2003:S62(1)(c)(i); RSA-PFMA 1999:S38(1)(a)(i)) and guidelines (IoD 2009:73-74; IIARF 2009a:50) ultimately responsible for sound corporate governance structures, including a risk management framework; with duties including, *inter alia,* setting the risk philosophy for the organisation as a whole; approving the risk appetite and risk tolerance that the organisation is willing to accept; understanding all the key risks; ensuring that the treatment of key risks is effective; ensuring that the overall risk management framework is efficiently implemented and maintained; and that communication of risk management to all stakeholders are effective and efficient. The AO mostly delegates these responsibilities to a committee, being either the audit committee or, if appropriate or necessary, a separate risk committee (De Zwaan *et al*. 2011:594; IIARF 2009a:51; PwC 2008:10). The risk committee's ultimate responsibilities are to ensure that the risk management framework is implemented and maintained, and to provide the AO with assurance that the above is functioning as approved. It also has the objective to ensure that the organisation's risk management framework keeps track of current best practices (IoD 2009:75).

Studies (IIARF 2009a:50; PwC 2008:34-36; PRMIA 2008) on the status of global best practices of risk management report that respondents also agreed that risk management should be a board priority – both in the private and public sectors. But is the board or the AO recognising and accepting its responsibility when it comes to risk management? In a Deloitte study (cited in Beasley, Branson & Hancock 2008:44), the percentage of financial institutions acknowledging that oversight responsibility lies with the board rose from 57% in 2002 to 70% in 2008. However, the IIA Research Foundation (IIARF 2009a:12) found that only 39% of executive management and 52% of board members are of the opinion that sufficient information on risk reaches the appropriate decision making parties, with 51% of the respondents being satisfied with accuracy, 31% with completeness and 50% with the timeliness of information used in risk management activities. More recently, a study conducted by Coetzee and Lubbe (2013:50) on the risk maturity of South African organisations revealed that the implementation of a formal risk management framework in the public sector is lacking significantly behind that of the private sector, including the reporting and communication of risk-related issues. This raises the question as to whether the AO can really take full ownership of risks if they are not properly informed. Is it their responsibility to make sure they get the complete picture, or is it their senior management teams' responsibility to provide them with it, or do both parties have a responsibility? According to the professional definition (IIA 2012b), internal auditors, as assurance providers on risk management is most probably in the best position to ensure that the AO gets an overview of the whole risk management framework that is implemented and managed by the senior management team.

2.2 Senior management

The AO has as a main responsibility the establishment and implementation of the overall risk management strategy; thus the day-to-day risk-related activities that are in line with the organisation's vision. Thereafter, the strategic objectives has to be aligned with the risk appetite, as determined by the AO, by managing the organisation's risk profile in compliance with its risk framework (IoD 2009:75-76; COSO 2004:84-87; RSA-MFMA 2003:S62(1)(c)(i); RSA-PFMA 1999:S38(1)(a)(i)). Studies revealed that these tasks are mostly delegated to a CRO and/or risk department (Accenture & Oxford Economics 2013:14; PwC 2008:10) and a risk steering committee (Coetzee 2010:324); with their duties including, *inter alia,* establishing and communicating the risk management department's vision; ensuring that other relevant parties, such as the risk committee, are properly trained on risk management; and managing the risk function in terms of determining and implementing appropriate risk management infrastructures, policies and processes; establishing methodologies and facilitating the use of tools and techniques; facilitating risk identification and assessment; implementing risk reporting structures; and ensuring that risks are appropriately treated and monitored.

Summarising the view of prominent chief executives across the globe (Anonymous 2009:54-60), the future of risk management is a certainty with CROs playing a more prominent role in the ERM approach (which is a holistic approach to risk management), and the presence of a CRO being positively associated with the scope of implementation of a risk management framework (Beasley *et al.* 2005:529). For example, a company in the USA recently announced that they are adding the CRO to the board of directors and investors responded by increasing the stock price by 7% (Lam 2009:24). Concerning facts include that apart from the CRO, 70% of organisations (PwC 2008:36) do not have other full-time risk management staff; the risk department's staff complement ranges from between one to three employees (IIARF 2009a:8); and the credit crunch affected many global banks, resulting in a poor job market for risk professionals (Campbell 2009:12). The status of the risk management department and/or CRO is, however, complimented by the fact that many (between 30% and 40%) are actuaries, qualified risk managers or have a degree in a related field (PRMIA 2008:12; Kleffner, Lee & McGannon 2003:59). Various studies indicate growth in the appointment of risk management personnel – a few years ago, divisions averaged only one to two employees (PwC 2008:10), but by 2013, 58% of organisations indicated a significant increase in staff (Accenture & Oxford Economics 2013:14). For the South African public sector it seems that risk management is a relatively new concept and that most organisations have a risk management structure (Coetzee 2010:323), mainly consisting of a newly appointed CRO (Coetzee 2010:324), supported by a small budget (Erasmus, Barac, Coetzee, Fourie, Motubatese, Plant, Steyn, Van Staden 2014:6).

After obtaining an overview of the responsibilities of both the AO and senior management towards the mitigation of risks, it seems that these two parties have an enormous task. For internal auditing to assist in this task, it is important to obtain these stakeholders' perceptions on the contribution that internal auditing is making towards ERM.

3 RISK MANAGEMENT AND INTERNAL AUDITING

To answer the research question on what internal auditing contributes to ERM, it is first important to consider ERM structures in an organisation. It is argued that the maturity level of ERM structures is likely to influence the role of internal auditing; conversely, less risk maturity will probably result in a need for consultation, while a higher level of risk maturity will result in assurance activities (IIA 2009a:8). This section thus first addresses the secondary research question, namely the existence of ERM structures, and the level of coordination between these structures and internal auditing. Thereafter the main research question, namely the contribution of internal auditing toward public sector ERM, is investigated.

3.1 ERM structures and the level of coordination with internal auditing

As with any aspect of an organisation, ERM can only be successfully implemented and maintained if there is a well-defined strategy that informs the risk management framework; consisting of the totality of the structures, processes, systems, methodology, individuals involved, to name a few, that an organisation uses to implement its strategy (Psica 2008:53). To address the needs of a specific organisation, each organisation requires a unique ERM framework based on its strategy. Although the IAF is an internal function, the compilation of the function can be either in-house (all full-time employees), outsourced (appointing a consultant to conduct the services of the function) or co-sources (a combination of in-house and outsourced) (IIA 2009b). However, the type of IAF structure will be determined by the needs of the organisation and should not, in theory, affect the value that the function adds to the organisation (Barac & Motubatse 2009:947). Although there are benefits and pitfalls for all three options, in practice, studies within the South African public sector (Erasmus *et al.* 2014:9-11) indicate that stakeholders mostly rely more on the activities conducted by the outsource function.

The IIA (2009a:3-4; 2012a) stipulates that the role of internal auditing with regard to ERM is mainly to provide assurance on whether an ERM strategy has been correctly defined and implemented to assist the organisation in mitigating its risks. To be able to provide assurance on ERM, the IAF must be independent (IIA 2012b:1100). If the assurance engagement(s) performed by the IAF indicates that the ERM strategy is reliable and addresses the needs of the organisation, internal auditing should ensure that the key risk areas identified by ERM are covered in the audit plan (IIA 2012b:2010), and should perform risk-based internal audit engagements (IIA 2012b:2210.A1). The IIA (2009a:4-6) also indicates that the IAF can perform various types of activities related to consulting with regard to ERM, but that this should be done with safeguards – again, the IIA is guiding its members to operate independently from the ERM structures. To provide guidance on internal auditing in the public sector, the IIA Research Foundation has developed a capability model which identifies the fundamentals for an effective IAF in a government structure and the broader public sector (Ziegenfuss 2010:68; IIARF 2009b). With regard to risk management, for government organisations to be on Level 4 of the five-level capability matrix, internal auditing must provide overall assurance on, *inter alia*, risk management (IIARF 2009b:61).

In order for the IAF to be able to provide assurance on ERM and incorporate the outcomes of ERM processes into its activities (such as focusing on key risk areas and performing risk-based audit engagements), on the one hand, internal auditing has to be independent from ERM structures; on the other hand, it has to work together with such structures in areas such as communicating appropriately on risk-related issues (Liu 2012:288; Bolger 2011:12; IoD 2009:84-86; 97-99; PwC 2008:11). ERM structures and the IAF should thus constantly update each other on issues such as potential new risks, loss events or a lack of internal risk mitigating activities. A relatively new tendency is to implement an internal risk steering committee (Coetzee 2010:324), where various role players, such as the CAE and CRO, can meet on a regular basis and discuss risk-related issues. However, thus far, not much literature is available on the level of coordination practices between ERM structures and the IAFs; hence, the study reported in this paper obtained the views of CAEs, CACs and AOs in this regard for South African public sector national departments. This aim led to the first hypothesis, linked to the secondary research objectives:

H_1 There are differences between the perceptions of CAEs and internal audit stakeholders on the existing level of coordination between the IAF (in-house and outsourced) and ERM structures.

3.2 Internal auditing's contributions to ERM

As mentioned above, the IIA provides guidance to its members on the activities that they should, could and should not perform with regard to ERM (IIA 2009a). Core activities include providing assurance, as well as evaluating and reviewing the management of risks, such as the ERM processes followed. Legitimate activities that could be performed, but should be performed with caution, include consulting activities at both the strategic and the operational level. The IIA also stipulates that the IAF's annual plan should incorporate addressing key risks threatening the organisation (IIA 2012b:2010), as well as performing risk-based internal audit engagements (IIA 2012b:2210.A1), where each engagement should focus on the risks that affect the activity under review. The audit findings on what influences the current risks documented in the risk register should be communicated to the ERM structures to ensure that the risk register is updated (Campbell 2008), closing the loop which involves ERM structures identifying risks, and the IAFs providing assurance and reporting back to the ERM structures. Lastly, the IIA (2012:2050-2) also provides guidance to its members on the idea of combined assurance services, which, according to a study conducted by Decaux & Sarens (2015:57) means less surprises to the board and management, enhancing the adequate management of risk across the organisation, incorporating various assurance parties, but also minimising duplication.

With regard to the various areas discussed above where the IAF can or should contribute to the ERM, several studies, both in practice and academic, provide supporting evidence on the contributory roles that the IAF needs to maintain to enhance ERM in organisations (Odoyo *et* *al.* 2014; Liu 2012:290-292; De Zwaan *et al.* 2011:598-599). The second hypothesis as part of the secondary objectives tested in this study obtains the views of CAEs, CACs and AOs in this regard for the South African public sector:

H_2 There are differences between the perceptions of CAEs and internal audit stakeholders on the contribution of the IAF towards ERM.

As mentioned previously, the level of contribution of the IAF towards ERM is influenced by the risk maturity of an organisation; in other words, the extent to which ERM has been embedded across the organisation (IIA 2009a:8). However, very few studies integrate an examination of the contribution of the IAF towards ERM with an exploration of the risk maturity of the organisation. Sarens and Christopher (2010) obtained evidence on the association between governance guidance documents and the practices of risk management in Belgium and Australia. They concluded that weak guidance results in less developed risk management practices, while strong guidance is associated with better developed risk management practices. E&Y's (2013) study concluded that mature risk management within organisations drives financial results. The question arises whether this tendency will also be reflected in how the existence of an ERM structure (being independent from the IAF, with various levels of coordination between the two parties) influences the contribution of the IAF on seven aspects relating to the management of risk for the organisation; thus strong ERM structure results in high level of contribution of the IAF towards ERM and a weak ERM structure results in a lower level. This then led to the third hypothesis, addressing the main research objective:

H_3 There is an association between the existence of a full-time ERM structure, or the ERM structure's independence from the IAF, or the level of coordination between the ERM structure the IAF (in-house and outsourced), and the contribution of the IAF towards ERM.

The research method and research design applied in the study to test the hypotheses are outlined in the next section.

4 RESEARCH METHOD

To achieve the research objectives, a literature study were conducted to contextualise the existence of an ERM structure, its independence from the IAF, possible coordination between an ERM structure and the IAF, and the effect of these three elements on the possible contribution of the IAF towards ERM. Data on the status of and demand for internal auditing in South African public sector were gathered by means of a survey conducted at national, provincial and local government organisations. The questionnaires were mainly completed by means of personal or telephonic interviews with the departments' CAEs, CACs and AOs, or their representatives, namely chief financial officers (CFOs) or chief operation officers (COOs). The final survey includes the views of 124 CAEs, 93 CACs and 129 AOs from a targeted 40 national departments, five departments per province (45) and nine metros, 50 district and 53 local municipalities (112). The final response rate for national departments

(CAEs = 77%, CACs 75%, AOs = 77%), provincial departments (CAEs = 75%, CACs 37%, AOs = 100%) and municipalities (CAEs = 51%, CACs 39%, AOs = 40) were acceptable.

This article is based on the data gathered on their perceptions on the existence of an ERM structure in their organisations, and on whether the structure operates independently from the IAF (Yes/No/Unsure), the level of coordination between the ERM structure and the in-house and outsourced IAF (High/Medium/Low/None), and the contribution of the IAF with regard to seven ERM activities (a Likert-type scale ranging from 1=no contribution to 5=significant contribution). Not all questions were answered by all participants (refer to N in the tables below).

Non-parametric Kruskal-Wallis tests were conducted to obtain evidence on the first two hypotheses. The Kruskal-Wallis test was used because the data are ordinal scale data and the sample sizes are small. For the first hypothesis, "high" is coded as 1, "medium" as 2, and "low" as 3. This means that a lower mean indicates a higher level of coordination between the IAF and the ERM structures. The Chi-square test for independence was conducted to determine whether there is an association between the ERM structures and the contribution of the IAF towards ERM activities. The resultant cross-tabulations did not meet the requirement that less than 20% of all cells should have expected counts less than 5, and although 34.5% of the cross-tabulations meet the requirements, 65.5% do not, therefore the Linear-by-Linear test results were used to determine the statistical significance of the association. According to Agresi (1996, cited by Howell 2007), the standard Pearson Chi-square is more sensitive to small sample sizes than the ordinal or linear Chi-square; this underpinned the use of the Linear-by-Linear results in this instance. For this test, the Likert-type scale responses for each question are regrouped into two groups: responses of 1 to 3 are put in a group and recoded as '1', responses of 4 and 5 are put in a separate group and recoded as '2'. It is assumed that responses of 1 to 3 indicate a limited contribution by the IAF to ERM activities, whereas responses of 4 and 5 indicate a significant contribution.

Limitations of the study include that the study is only conducted in the South African government; further studies should be conducted to include the public service in other countries as well as the private sector. Furthermore, although most questionnaires are completed by means of a personal interview, some of the questionnaires are completed by the respondent on his/her own and then returned to the research team. However, it was confirmed with the participant that such questionnaires were completed by him/her and if not, these questionnaires were eliminated from the study. Lastly, it was decided not to include CRO due to most risk management structures within the South African public sector being relatively young.

5 RESULTS

The findings of the statistical analysis are presented in this section. For the first hypothesis, the differences between perceptions of CAEs, CACs and AOs on the level of coordination between the IAF and ERM structures were tested by using the Kruskal-Wallis test. The results are presented in Table 1. Fewer participants (between 26 and 37, compared to 42 to

110) answered the question relating to the outsourced IAFs' level of coordination because the structure of most IAFs was either in-house (all internal audit activities were performed by an in-house function) or co-sourced (most activities were performed by an in-house IAF with only a few activities outsourced to an external provider).

Table 1: Level of coordination between IAF and ERM structures

Stakeholder	In-house IAF			Outsourced IAF		
	N	χ^2	*p*	N	χ^2	*p*
CAE	110	13.387	0.001	30	0.102	0.950
CAC	42			26		
AO	54			37		

For the first hypothesis, there is sufficient sample evidence, at a 5% level of significance, to accept H_1 for in-house IAFs. Thus, there is a statistically significant difference between the three groups with regard to the level of coordination between the in-house IAF and the ERM structures ($p<0.05$). Furthermore, the mean ranks indicated that the CAE group (a mean rank of 92.65) tend to rate this level of coordination as more prominent than the AO and CAC groups (mean ranks of 129.26 and 105.56 respectively). However, for the views on the outsourced IAF, at a 5% level of significance, the sample evidence is not sufficient ($p > 0.05$) to accept H_1. This implies that the three sets of stakeholders do not differ statistically significantly on the level of coordination between the outsourced IAF and the ERM structures (a mean rank for CAEs of 46.73, a mean rank for CACs of 45.94 and a mean rank of 47.96 for AOs).

Guidance (IIA 2009a; 2012:2050; IoD 2009:84-86) and other studies (Coetzee & Lubbe 2011:29-40) identifies seven areas where the IAF can contribute to ERM. Kruskal-Wallis tests were performed to ascertain whether the three groups perceive the contribution of the IAF towards these ERM activities differently. The results are shown in Table 2.

Table 2: Contribution of the IAF towards ERM activities

Contribution	N			χ^2	*p*
	CAE	**CAC**	**AO**		
1) Assurance on ERM	107	79	119	2.098	.350
2) Assurance on risk management process(es)	110	80	119	1.193	.551
3) Strategic consulting	104	78	111	12.824	.002
4) Operational consulting	103	78	117	8.678	.013
5) Combined assurance	104	82	114	.072	.965
6) Risks included in audit engagements	114	84	125	7.099	.029
7) Update risk register with audit findings	105	79	118	1.620	.445

For four activities (nr 1, 2, 5, 7) the second hypothesis is not rejected at a 5% level of significance ($p > 0.05$), which implies that the three stakeholder groups do not perceive the level of contribution by the IAF towards providing assurance on these activities differently. However, for the other activities, statistically significant differences at a 5% level of significance are recorded between the three groups with regard to the perceived level of contribution by the IAF. These three activities are strategic consulting, operational consulting and internal auditing incorporating risks into the internal audit engagement(s). Furthermore, the mean ranks indicated that the CAE group tends to rate most of the contribution of the IAF towards ERM as more significant than the AO and CAC groups (strategic and operational consulting, risks incorporated into the audit engagements and updating of the risk register with internal audit findings). The AO group believes that the IAF contributes to assurance on risk management processes (mean rank of 158.59 compared to 156.96 for CACs and 146.96 for CAEs) and combined assurance (mean rank of 151.87 compared to 150.17 for CACs and 149.01 for CAEs). The CAC group (163.52) tends to rate the contribution of the IAF towards assurance on ERM as more significant than the AO and CAE groups (150.3 and 148.24 respectively).

With regard to the third hypothesis, on the association between the ERM structures and the contribution of the IAF towards risk management activities, Linear-by-Linear Association tests were used. The ERM structures include the 'existence of a full-time ERM structure', 'the operation of the ERM structure independent from the IAF', 'the level of coordination between the ERM structure and in-house IAF', and 'the level of coordination between the ERM structure and outsourced IAF'. The contribution of the IAF towards ERM activities includes the seven categories as mention above. The results are set out in Table 3.

For this hypothesis, H_3 is rejected at a 5% level of significance for most associations. The AO respondents perceive the highest level of association between the ERM structure and the contribution of the IAFs towards mitigating risks (10 of the 28 possible associations), followed by the CAE respondents (4 of the 28 possible respondents). Concerning is that, according to the CAC respondents, which are the overseer of internal auditing, no association exists between the existing ERM structures within the organisation and the contribution of the IAF towards mitigating risks. According to the CAE group, the IAF has to be independent from the ERM structure to be able to provided assurance on ERM; coordination between ERM structures and the IAF is essential in providing strategic ERM consulting as well as updating the risk register with internal audit findings; and the existence of an ERM structure is needed for the IAF to incorporate key risks into the internal audit engagements performed. The AO group is of the opinion that the existence of a full-time ERM structure will influence the contribution of the IAF in providing assurance on ERM and incorporating key risks when performing audit engagements; and the coordination between ERM structures and the in-house IAF will influence almost all areas of IAF contribution whereas for the outsourced IAF, only strategic and operational consulting will be affected.

It can thus be concluded that there is a statistically significant association between the ERM structures and the contribution of the IAF towards risk management activities in only 14 of the 84 cross-tabulations, mostly perceived by the AO. This may be due to perceptions among senior management that in-house IAFs should contribute to providing assurance on ERM, (three significant associations) as well as incorporate the key risks of the organisation into their daily activities (three significant associations), and that outsourced IAFs should contribute more on consulting advice (two significant associations).

Table 3: Association between ERM structures and contribution of IAF towards ERM activities

Stakeholder	ERM structures	Contribution of IAF to ERM activities																				
		Assurance on ERM			Assurance on risk management process(es)			Strategic consulting			Operational consulting			Combined assurance			Risks incorporate in internal audit engagements			Update risk register with internal audit findings		
		N	χ^2	*p*	N	χ^2	*p*	N	χ^2	*p*	N	χ^2	*p*	N	χ^2	*p*	N	χ^2	*p*	N	χ^2	*p*
CAE	Full-time	105	3.398	.065	108	.784	.376	102	.954	.329	101	.415	.520	102	.133	.716	112	5.443	.020	103	.210	.647
	Independent	76	6.189	.013	79	4.049	.44	73	.331	.565	72	.099	.753	72	.537	.464	80	1.689	.194	74	1.916	.166
	Coordinate (In-house)	97	1.836	.175	98	.488	.485	95	8.556	.003	93	3.052	.081	93	.792	.373	102	2.210	.137	96	7.391	.007
	Coordinate (Outsourced)	27	.981	.322	30	.063	.802	29	.000	.983	30	.683	.409	28	3.305	.069	30	.262	.609	29	.019	.891
CAC	Full-time	76	1.013	.314	77	.117	.732	75	.073	.787	75	.208	.648	79	.802	.371	81	.001	.975	76	.024	.877
	Independent	66	.081	.776	66	.231	.631	65	.001	.973	65	1.393	.238	68	.507	.476	71	.408	.523	67	.083	.773
	Coordinate (In-house)	36	.780	.377	37	1.735	.188	35	.050	.823	33	.157	.692	38	.150	.698	38	1.690	.194	35	.598	.439
	Coordinate (Outsourced)	22	.658	.417	22	1.381	.240	21	1.364	.243	20	.954	.329	23	1.255	.263	22	1.493	.222	21	.848	.357
AO	Full-time	118	4.859	.028	118	.440	.507	110	.182	.670	116	.333	.564	113	1.500	.221	124	3.896	.048	117	.459	.498
	Independent	94	.249	.618	92	.030	.862	85	.417	.518	91	.035	.851	88	.062	.803	98	.574	.449	92	.819	.365
	Coordinate (In-house)	53	2.248	.134	53	5.083	.024	51	13.31	.000	51	9.306	.004	51	6.379	.012	52	13.153	.000	50	11.29	.001
	Coordinate (Outsourced)	36	2.505	.114	37	1.177	.278	36	5.274	.022	34	4.508	.034	36	3.602	.058	37	3.639	.056	35	1.106	.293

6 CONCLUSION AND RECOMMENDATIONS

In this article, the contribution of internal auditing to the ERM activities of organisations, as perceived by the main stakeholders of an IAF (CAEs as heads of the IAF, CACs and AOs representing senior management) is investigated. The literature confirms that the perceptions of internal auditing's stakeholders differ from their expectations and is a concern for the profession. Furthermore, according to legislation as well as applicable guidance from the IIA and King III regarding the South African public sector, internal auditing should play a prominent role in risk-related activities to ensure that the risks threatening an organisation are mitigated to an acceptable level. The perceptions of these three sets of stakeholders on the contributions made by the IAF with regard to ERM activities are investigated in the context of the ERM structures currently in place, as well as the level of coordination between these structures and the IAF. The reason for this is that the role that internal auditing can play where a sound ERM structure and proper coordination are in place should differ vastly from its role where these are not in place.

With regard to the perceptions of these groups on the level of coordination between the IAF and the ERM structures, the participants rated the perceived level of coordination between in-house IAF and the ERM structures as statistical significantly lower than between the outsourced IAF and the ERM structures. The CAE group indicates a significantly higher level of coordination (mean rank) than the other two groups for their in-house IAF. However, the CAE group's objectivity could be questioned, as the CAEs are responsible for the activities of the in-house IAF. It is a matter for concern that especially the CAC group, as the overseers of the IAF, do not hold the same views as the CAE group on the level of coordination between the in-house IAFs and the ERM structures. However, whether there is coordination between the IAF and ERM structures or not, the question could be asked whether the CACs and AOs of the organisation perceive the IAFs' contribution to ERM to be at an acceptable level (high or medium)? In respect of the perceptions of the three groups on the contribution of the IAF towards ERM, both the CAC and AO groups mostly rank the contribution on the seven activities listed lower than the perceptions of the CAE group. As was expected, for the three assurance-related contributions (nr 1, 2 and 5), no significant differences were found between the three groups.

There are some causes for specific concern. Firstly, the CAC group, as overseers of the IAF, rates the contribution of the IAF in most activities listed as very low (especially in respect of its providing assurance on the risk management process, strategic consulting and operational consulting and updating the risks register with audit findings). Secondly, there are some areas where statistically significant differences do exist (strategic consulting, operational consulting, and the IAFs' incorporating the risks of the organisation into their internal audit engagement plans). Thirdly, the CAEs mostly rate their perceived contributions substantially higher than the other two groups. Especially the results on core IAF activities, such as the IAF's incorporating the risks of the organisation into internal audit engagement plans (a result of a risk-based audit strategy), and the risk register's being updated with internal audit engagements' findings (a result of management's trust in the work of the IAF), are reasons for concern. These findings again reflect the negative perceptions of the CAC group and the

AO group on the contribution of the IAF towards core ERM activities as stipulated by the IIA.

The analysis of the various ERM structures and level of coordination in association with the contribution of the IAF towards ERM activities showed that only 16.6% of the cross-tabulation revealed a statistically significant association, mostly identified by the AO group (11.9%). However, even where the groups indicated that no formal ERM structures exist or that the level of coordination between the IAF and the ERM structures is very poor or not applicable, the contribution of the IAF towards the risk management activities is not influenced. This could be an indication that in organisations where ERM structures do not exist or are weak, the IAF fulfils these duties, to ensure that the organisation still adheres to the guidance and legislation applicable.

Given the finding that both senior management groups perceive the contribution of the IAF towards risk management activities as rather weak, CAEs should take cognisance of this fact and should try to improve this perception. AOs and audit committees could investigate the organisation's ERM structures and the role that internal auditing plays, which could be enhanced if the proper level of coordination is established. CACs should encourage the IAF to improve its role in risk management activities as a sound ERM framework is vital for a risk-based internal audit approach. Regulators and other guiding bodies should consider whether more specific guidance should be provided on the coordination between the two parties. If so, this coordination could also be stipulated more clearly in the legislation and other relevant documents. Lastly, the IIA should take note of the perceptions of senior management on the contribution of internal auditing towards the mitigation of risks threatening the organisation. The IIA is already concerned about the perceptions of stakeholders that their expectations are not met and should thus position its members to first, be aware of this concern and secondly, how they can change this perception.

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