



## **MANAGEMENT SCHOOL**

**Develop policy framework for optimizing internal audit services to a wide range of stakeholders in a corporate governance structure.**

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This thesis is submitted in accordance with and in partial fulfilment of the requirements of University of Liverpool for the award of the degree of Doctor of Business Administration

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"If you want to go fast, go alone. If you want to go far, go with others" (African Proverb-Anon).

## Declaration by the Author

I declare that the work in this thesis is my original piece, except where shown by specific citation and reference in the text. I further declare that the work was carried out in accordance with the guidelines and regulations of the University of Liverpool. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution in the United Kingdom or overseas.

Any views expressed in this thesis are those of the author and in no way, represent those of the University of Liverpool.

Sign: 

Date: *October 2019*

**Julius Peter Kinyera**

## **Dedication**

I dedicate this thesis to my late mother (RIP) and my late son, Paul (RIP), my wife Linda and our children for their love and support.

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My sincere acknowledgement goes to the following people whose inputs and support shaped this study and guided the successful completion of my study programme.

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Julius Peter Kinyera

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## List of Common Acronyms/ Abbreviations

<b>Abbreviation/Acronym</b>	<b>Full Description</b>
AAA	American Accounting Association
AI	Appreciative Inquiry
APA	American Psychological Association
CAATs	Computer Assisted Auditing Techniques
CAE	Chief Audit Executive
CBOK	Common Book of Knowledge (IIA)
CEO	Chief Executive Officer
CIIA-UK	Chartered Institute of Internal Auditors- United Kingdom
CMA	The Capital Markets Authority- Uganda
FRC	Financial Reporting Council
IAF	Internal Audit function
ICAA	Institute of Chartered Accountants in Australia
ICAS	Institute of Chartered Accountants of Scotland
ICGU	Institute of Corporate Governance Uganda
ICPAU	Institute of Certified Public Accountants Uganda
IFAC	International Federation of Accountants
IIA	Institute of Internal Auditors-Global
IIA-U	Institute of Internal Auditors- Uganda Chapter
IPPF	International Professional Practice Framework
IAF	Internal Audit Foundation (Formerly IIARF)
IIARF	Institute of Internal Auditors Research Foundation
IoD	Institute of Directors Southern Africa
IAASB	International Auditing and Assurance Standards Board
KPIs	Key Performance Indicators
NEPAD	The New Partnership for African Development
OECD	The Organization for Economic Development and Cooperation
PMBOK	Project Management Book of Knowledge
PMI	Project Management Institute
PWC	PriceWaterhouseCoopers
SA	Statutory Authority
SEC	Securities & Exchange Commission (SEC)
SOX	Sarbanes-Oxley Act of 2002
SRM	Stakeholder Relationship Management
SSI	Stakeholders Satisfaction Index
Standards	International Standards for the Professional Practice of Internal Auditing
URA	Uganda Revenue Authority

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**Key Words:** Agency theory, Blended engagement, Corporate Governance, Expectation gap, Internal auditing, Internal Audit Value Chain, Stakeholder Management, Stakeholder mapping.

## **ABSTRACT**

### **Purpose/Objectives**

Internal auditing as a key control mechanism in corporate governance ecosystem is facing the threat of declining legitimacy and practical relevance. Theoretically, the effectiveness of internal auditing is pegged on the qualifications, skills and experience of internal auditors and their adherence to code of ethics and international internal auditing standards. Successive five-year global surveys conducted to evaluate stakeholders' perception of the state of internal auditing value-add mission revealed that amidst IIA continual efforts to standardize internal auditing, the percentage of internal audit stakeholders that perceive internal auditing adds value remained below 60% between 2013 and 2016, dropping to 44% in 2017. This has put internal auditing profession on the spot as many actors in corporate governance ecosystem question the legitimacy and practical relevance of the profession. The objective of this research is to examine the state of internal auditing in the context of a Uganda government institution and use the insights to develop policy framework that will empower internal auditing to optimize its value-add services to a wide range of stakeholders within the context of their institution and the IPPF.

### **Motivation to carry out the study**

Despite the global prominence of corporate governance principles and high-level standardization of internal auditing, organization operating context influence the formulation and enactment of governance policies in different jurisdictions. The desire to empower internal auditing with the capability to align with competing interests of a wide range of stakeholders in corporate governance inspired this research.

### **Design/Methodology/Approach**

This research approached Internal audit stakeholders' expectations with both explicit and implicit assumptions that organizations are social-scientific enterprises in which contextual dynamics influence sense-making. This informed the approach adopted in investigating stakeholders' perception through a dialectic process to allow for the interpretation of meanings, purposes and intentions underlying stakeholder's perception of internal auditing value-add role. A combination of qualitative approach to inquiry, supported by action research strategy and semi-structured interviews were applied to collect views from 17 purposefully chosen participants who are members in the institution's corporate

governance structure. Participants narratives were mapped onto the different segments in the internal audit value chain using a combination of thematic and content analyses and interpreted within the provisions of the International Standards for internal auditing and Internal Audit Charter of the institution.

### **Findings/Implications:**

Traditionally, the evaluation of internal auditing effectiveness has been dominated by the external audit perspective used purely for the purpose of expressing their opinion on financial statements. The approach often promotes inward-looking approach with a strong inclination towards assurance services portfolio, leaving other stakeholders whose interests fall within the consultancy service portfolio underserved. Although the IA standards number 2000 stipulates that internal auditing should add value to organization and its stakeholders, the standard does not give guidance on framework for internal audit stakeholder mapping. Moreover, the attribute standard number 1210 on internal audit proficiency is also mute on stakeholder management as a key knowledge area needed to achieve the objective of standard number 2000. The gaps in the IA Standards and the orthodoxy in the evaluation of internal auditing performance have been further propagated in the internal auditing policy of the institution. The institution's internal audit charter recognizes the multidimensional character of internal auditing. However, the charter does not provide a policy framework for enhancing the capability of its internal audit function to address stakeholders competing interests and other complexities in organizations operating environments.

IIA should consider standardizing stakeholder management as a key knowledge area under the Attribute and Performance Standards and should also consider institutionalizing stakeholder mapping as a criterion for evaluating internal audit performance.

At institutional level, the board audit committee should consider revising the internal auditing policy to institutionalize stakeholder management as a key performance area and promote implementation of the full extent of internal auditing value chain in the evaluation of internal auditing performance. Such policy framework will serve to enhance the scope, authority and responsibility of the internal audit function to conjoin a coherent common body of knowledge and develop a practice that is adaptive to the dynamic and complex organizational environment. This could facilitate the optimization of value-add services to a wide range of stakeholders in the corporate governance ecosystem.

## **Limitations**

Changing internal audit policy to embrace stakeholder management as a key performance area may be impeded by the balance of power in the organization ecosystem that could favour the promotion of interests of a particular constituency of stakeholders. At the global level, IIA may uphold internal auditor independence and objectivity, and choose to modify some subsidiary standards under the Attributes and Performance Standards instead of promulgating stakeholder management as new knowledge area in internal auditing.

## **Agenda for future research in corporate governance**

Future research on internal audit value-add mission should consider the influence of different theories of organization and corporate governance perspectives on internal audit policy and stakeholder mapping.

## **CHAPTER 1: BACKGROUND INFORMATION**

### **1.1.0 Introduction**

This chapter consists of seven broad sections.

The first section gives a brief historical background and explanations of corporate governance concept as the domain in which internal auditing, as a key control mechanism, is grounded. The role of internal auditing in corporate governance is also explained in the first section.

The second section gives an overview of the evolution in internal auditing in the more than 70 years since its recognition as a professional service by the IIA. The section also gives a summary of complexities that pose both policy and operational challenges in realizing efficiency and effectiveness in internal auditing. The overview highlights the metatheoretical character of internal auditing, differences in philosophies underpinning the broad categories of internal audit services, limitations posed by some sections of the international internal auditing standards and the continuous emergent of different constituencies of stakeholders with competing interests as some elements of the complexities.

The different dimensions in the evolution of internal auditing are rationalized in section three as key factors posing difficulties in the allocation of limited internal audit resources needed to optimize the provision of value-add services to a wide range of stakeholders. Additionally, section three relates lack of policy framework to implement internal auditing Attribute standard number 1210 and Performance standard number 2000 and other contextual complexities as the key hindrances that have attenuated the capacity of internal auditing to address itself to growing number of stakeholders with competing interests.

Research evidence on the state of internal audit value-add mission is presented in section four. In this section, a brief on the absence of enabling policy framework to address the impact of different challenges pointed out above, are coalesced as the major underlying cause of the declining legitimacy and practical relevance of internal auditing reflected in the PWC and IIA survey reports on internal audit stakeholder perception of internal audit value-add mission. The last part of section four presents an overview of the concept of policy framework as a construct within which key recommendations in this research are grounded.



Overview of the research design and implementation based on the gaps identified in the current theories and practice of internal auditing as a key component in corporate governance ecosystem is presented in section five. The subtopics covered under this brief are: the motivation to undertake this research, framing stakeholders' perceptions as work-placed based researchable situation, the research site context, justification for adopting qualitative research as a dominant approach and the envisaged contributions this research makes to both theory and practice.

The sixth section presents the summary and conclusions. Section seven presents a rundown of the subsequent chapters of this thesis.

### **1.2.0 Concept and theories of Corporate Governance**

It is not clear when the word governance found its place in the management of corporations. However, it is believed that corporate governance gained global prominence in the nineteenth century when the roles played by directors of companies were put under strict scrutiny in the wake of high-profile corporate scandals (Shah.N & Napier. C.J, 2019). Corporate governance concept considered in this research relates to the postulations issued during the Convention signed in Paris on 14th December 1960, in pursuant of Article 1 of the OECD. Resolutions from the convention became effective on 30th September 1961 (OECD, 2004).

The qualitative characteristics of corporate governance are based on its universal principles of transparency, accountability, fairness and independence (Goergen, M. et al. 2010). These are principles that were accepted during the Convention in Paris as foundation for organizational success and strong relationship between organizations and their stakeholders (OECD, 2004). The OECD recognizes that implementation of the concept of corporate governance varies according to different economic, legal and socio-cultural dynamics prevailing in different jurisdictions across the globe (Wanyama, 2014). It is not in the scope of this research to examine the extent of implementation of corporate governance principles at the institution but to develop a policy framework that optimizes value-add mission of internal auditing as a key control mechanism in corporate governance ecosystem.

True to OECD's proclamation, enactment of the concept of corporate governance continues to be characterized by both theoretical and practical variations. These variations present in form of: - different definitions of corporate governance, polarized perspectives of corporate governance between shareholder- stakeholder perspectives (Afza & Nazir, 2014) and

diverse implementation models (Pirson M. & Turnbull, S. 2012), discussed in details in chapter 2- Literature review. In addition to the aforesaid variations, one or a combination of different theories of organization such as the agency theory, the institutional theory, the resource dependency theory, the stewardship theory, and managerial hegemony theory influence the relationship between the actors in corporate governance structure and the tone of corporate governance policy in organizations (Larcker & Tayan, 2015). These are also discussed in details in section 2.3.0, chapter 2.

The conceptual and practical variations in corporate governance continue to attract a great deal of interests among scholars, organization leaders and state governments across the globe (Aguilera, et al., 2018). As acknowledged by the OECD, different jurisdictions have adopted different approaches to formulate corporate governance policies that align with the uniqueness in their operating environments (Du Plessis, et al., 2018).

Despite the global prominence of corporate governance concept, high profile corporate scandals continue to cast doubts on the efficacy of corporate governance systems around the world (Berger, et al., 2016). Accordingly, specialists in corporate governance space are curiously examining the deviances in the implementation of corporate governance concept (Aguilera, et al., 2018) by looking at corporate governance using complexity theory lens to gain insights into why governance systems are losing legitimacy amongst stakeholders (Goergen, M. et al. 2010). Complexity theory articulates that organization behaviour, as a social system, is complex and adaptive (Fabac, R. 2010). Implying that the fluidity in corporate governance should be looked at as a result of interactions, interconnectedness and interdependence between the internal, external actors and other stakeholders (Goergen, M. et al. 2010, p.2). Therefore, it is prudent to look at corporate governance dynamics within the context of organization as social-scientific enterprises whose behaviour transcends set of rules and standards used to govern an organization (Nuijten, et al., 2015).

The dynamic and complex nature of corporate governance practices have prompted some authorities to respond by issuing their own sets of corporate governance codes that are practically relevant to their different context (Aguilera, et al., 2018). Cadbury Committee-1992, OECD-2004, NEPAD-2004, IoD-2009 are some of the authorities that have issued corporate governance codes unique to their context (Wanyama, 2014). Details of the variations are presented in section 2.4.0, chapter 2 as evidence from practice.

Therefore, it is plausible to link the deviances in corporate governance to the rapid and unrelenting evolution in internal auditing and the role internal auditing plays as a key control mechanism in corporate governance. The overview on the role of internal auditing is presented below in section 1.3.0. and the challenges the complexities in operating environments pose to internal auditing performance evaluation are discussed in section 1.5.0.

### **1.3.0 Role of Internal Auditing in corporate governance ecosystem**

This research examines internal auditing as a key control mechanism grounded within the theoretical construct of corporate governance (Auditors, 2015). As a service, internal auditing is theorized as an independent, objective attestation and consulting services needed in the management of organization to ensure that an organization's risk management, governance and internal control processes are operating efficiently and effectively (IIA, 2017). The Chartered Institute of Internal Auditors postulates that internal audit effectiveness is pegged to the qualification, skills and experiences of internal auditors, whose adherence to the code of ethics and internal audit international standards would guarantee the achievement of its value-add mission (CIIA, 2019).

As highlighted above in section 1.2.0, corporate governance theory and practice continue to mutate and are still characterized by multiple interpretations. The dynamic interplay between the complexities that characterize organizations operating environments implies that the adoption of corporate governance concept will continue to be influenced by organizational operating context (Aguilera, et al., 2016). At the centre of this plethora of complexities and dynamism is internal auditing as a key control mechanism (Mihret, 2014).

The dynamic emergence in the corporate governance concept and practice continues to drive evolution in internal auditing (presented below in section 1.4.0 and reviewed in details in section 2.6.0, chapter 2) as the profession endeavours to provide value-added services to different constituents of stakeholders in organization governance ecosystem (Badara & Saidin, 2013). The variability in the corporate governance practices is a key driver of the evolution in internal auditing, which presents a strong case to conduct this research.

### **1.4.0 Evolution in Internal Auditing**

It is yet unclear how long internal auditing has evolved. However, available literature traces

the beginning of the evolution in internal auditing profession to 1941 when the IIA was established (IIA, 2017). The IIA is an international professional association responsible for providing dynamic global leadership to internal auditing as a profession (Bou-Raad, 2000). At the global level, the IIA champions the drive to internationalize and standardize internal auditing (Zanden & Zanden, 2013).

As mentioned above, the variations in the implementation of corporate governance principles across the globe continue to fuel the evolution in internal auditing in corporate governance ecosystems. The evolution in internal auditing has now endured for more than 70 years. Consequently, the different aspects of the evolution continue to pose both policy and operational challenges as evident in the low level of stakeholder perception of the legitimacy and practical relevance of internal auditing across jurisdictions as highlighted below in section 1.6.0. on the state of internal auditing.

As discussed further in section 2.6.0 in chapter 2- the literature review, three areas define the enduring challenges internal auditing faces as the profession continues to evolve:

One area of interest in the evolution of internal auditing is the definition of internal auditing which contains a bouquet of different concepts cobbled in the definition. This is one area of complexity that presents both operational and policy challenges with regards to balancing internal audit resources to provide both assurance and consulting services (Abbot, et al., 2010). Internal auditing definition has so far been revised more than five times since 1947 as the profession responds to emerging complexities in organization operating environment (Gupta & Ray, 1992). Details of the themes that emerge with each revision of the definition of internal auditing are presented in **Table 1**, section 2.6.1 in chapter 2. These revisions were meant to enrich the scope and responsibility of internal auditing in reaction to changes in organizations operating environment and associated demands for internal audit value-add services (Romas & Rupsys, 2005, p. 171). Nonetheless, the traditional role of internal auditing, which is now being challenged, still dominates internal auditing policies in many organizations, (Al-Akra, et al., 2016). It is this tension that motivated this research to find a framework for aligning internal audit value propositions with those of their stakeholders.

Another area of interest in the evolution of internal auditing, which is also the focus of this research, is the challenges fuelled by the mismatch between IIA efforts to globalize and standardize internal auditing practice and growing complexities in organizations operating environments. The standards that are of interest in this research are Attribute standard

number 1210 and Performance standard number 2000. Attribute standard 1210 on proficiency postulates that internal auditors should possess a set of requisite knowledge, skills and other competencies for them to be proficient in executing their responsibilities. Meanwhile, Performance standard number 2000, suggests that the mandate bestowed under the definition of internal auditing automatically empowers internal audit function to add value to their organizations and *its* stakeholders (IIA, 2017). Considering the dynamic and complex situations in which internal auditing is carried out (IIA, 2012), lack of clear policy framework to implement the guidance of the standards at organizational level poses great challenges to the profession.

Yet another area of complexity is the practical difficulties in reconciling the principles of objectivity and independence with the philosophy behind consulting services that internal audit is mandated to undertake (Anderson, 2003). The IIA interpretation of Standard number 1112, in relation to Standard number 1111 on independence and objectivity of internal auditor seems to suggest that engaging in consulting services poses threats to internal auditor independence and objectivity. This challenge has been coined by some authors as the phenomenon of “serving two masters” (Abbot, et al., 2010), with its attendant strain on internal audit resources. The tension has often presented a cross-road situation for internal auditing, albeit with new opportunities for internal auditing to redeem its legitimacy and practical relevance (Chambers & Odar, 2015).

The intractable situation has provoked some authors to suggest the adoption of “blended engagement concept” as an avenue for balancing allocation of internal audit resources (Anderson, 2003). Blended engagements presuppose that consulting and assurance services should be consolidated in any audit engagement in order to address the tension between the philosophies underlying the two services. As discussed further, the blended engagement idea is not based on an existing theoretical construct that can be used to formulate a policy framework to address underlying stakeholder competing interests (Allegrini, et al., 2011).

The fourth area of complexity in the evolution of internal auditing is the unclear description of key internal audit stakeholders (Adriof, et al., 2017). Stakeholder theory and stakeholder interests continue to draw wide spread popularity in professional services in different sectors, including internal auditing (Andriof, et al., 2017). Stakeholder thinking has become the work phrase in describing whole round responsibility of internal audit function in organizations (Donaldson, 2002). Internal audit stakeholders are diverse and their interests

often conflict (Allegrini, et al., 2011). According to the pioneering work of Freeman, “the consideration of the perspective of the stakeholders themselves and their activities are very important in the management of companies” (Freeman, 1984). This is particularly concerned with ethics, morals and value when dealing with “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Adriof, et al., 2017).

The concept of stakeholder competing interest is further explicated in chapter 2, section 2.9.3. For all practical purposes, internal audit stakeholders are not limited to the conventional stakeholder constituencies such as audit committee, senior management, external auditors and board of directors as key actors in organization governance structure but includes others such as professional associations, government departments and agencies (Cohen & Wright, 2010). Despite the growing number of stakeholder constituencies, evidence abound that internal audit functions across many jurisdictions do very little to map their stakeholders (Lenz & Hahn, 2015).

Stakeholder mapping is reputed as a plausible approach in identifying stakeholders’ expectations and their influence (Almutairi, A. et al. 2019 p.222). This research acknowledge that stakeholder mapping concept has eluded internal audit profession for long due to lack of policy framework to coalesce the different areas of complexities highlighted above. Lack of coherent policy often resulted into different perspectives of internal auditing performance evaluation as explained below in section 1.5.0.

### **1.5.0 Perspectives of Internal auditing performance evaluation**

As internal audit activities continue to attract attention of diverse stakeholders in corporate governance ecosystems, internal audit functions and their stakeholders’ manifest different perspectives of value (Bepari & Mollik, 2016). The different perspectives are buttressed by factors such as stakeholder competing interests, multiplicity of concepts cobbled in the definition of internal auditing, the different philosophies underlaying the two broad categories of internal audit services and lack of policy framework for the implementation of Performance Standard number 2010.2A- “Planning” under “Managing Internal Audit activity” (IIA, 2017). The standards postulate that internal audit should consider expectations of members of the organization and its stakeholders as it plans its activities. This is further echoed in the internal audit charter though without a policy framework to operationalize the postulations and subsequently use the framework in performance evaluation.

Value-chain concept (IAASB, 2011) is being promoted as an end-to-end framework for evaluating internal audit performance within the concept of “system thinking” view of

organization (Homes & Noel, 2015). The value-chain concept postulates that internal audit effectiveness should be taken holistically as a consolidation of effectiveness in the different segments of the value chain (IIA, 2012). This resonates with the system thinking which postulate that the interconnected, interdependence of different subsystems that interacts in a complex manner with significant influence on each other should be considered in systems design and systems behaviour analysis (Goergen, M. et al. 2010).

Apparently, the archetypal used by external auditors to assess the external audit reliance on the works of internal audit continues to dominate the scene (Abdolmohammadi, 2012). The external auditors construct is based on key themes selected from sections of the internal auditing standards, such as competence, objectivity and processes (Abbott, et al., 2012). Some writers opine that the continued selective use of this approach only helps external auditors assess their reliance on the work of internal audit function for purpose of expressing their opinion on the financial reports (Bame-Aldred, et al., 2013) and often leaves other categories of stakeholders such a senior management, middle management and other stakeholders underserved (ICAA, et al., 2012).

Therefore, it is imperative to understand the expectations and value propositions of internal audit stakeholders within the context of complexities that characterize organization operating environment (Desai, et al., 2011). This will facilitate the understanding of stakeholders' perspectives which in turn foster judicious allocation of internal audit resources that maximize value to these stakeholders (Chambers & Odar, 2015). The "call to action" (IIARF, 2011) framework will ensure that internal audit conjoin a coherent common body of knowledge and develop a practice that is adaptive to the dynamic and complex organizational environment by pulling together the "Performance measure triangle" (Seago, 2015) illustrated in Figure 4, section 2.9.0, chapter 2.

It is envisaged that the performance measure triangle will position internal auditing as a partner in corporate governance and secure it as a practice-relevant profession capable of anticipating the competing needs of multiple stakeholders and transcend the boundaries of the standards (Harrington, et al., 2015). To realize this requires challenging the rigidity that Internal audit standards accord internal auditing and the ambiguity inherent in the interpretations of internal audit services and other complexities in organizations operating environment (Chambers & Odar, 2015). This will enhance internal audit legitimacy and practical relevance and reverse the current perception of the state of internal audit value

add mission highlighted below in section 1.6.0.

### **1.6.0 The state of internal audit value-add mission: Stakeholders perception.**

The state of internal auditing value-add mission as perceived by internal audit stakeholders is a culmination of the enduring operational and policy challenges that have fomented decline in the legitimacy and practical relevance of internal auditing across the globe. The phenomenon has been framed below in sections 1.10.0 to 1.10.3, as a subject of this study. The decline in the legitimacy and practical relevance of internal auditing has been interpreted and attributed to lack of a universal approach to deal with contextual factors such as: internal audit stakeholders competing interests, different perspectives applied in evaluating performance of internal auditing, tension between the philosophies underpinning internal audit assurance and consulting services (PWC, 2018). The profession is perceived by some constituencies of stakeholder to be losing grounds and is being challenged to proactively respond to emerging complexities in organizations' operating environments (Aguilera, et al., 2018). These concerns are well documented in reports on the state of internal audit global survey conducted between 2013 and 2017. The results of the survey highlight that the percentage of stakeholders who believe that internal audit function adds value to their organizations remained below 60% between 2013 and 2017, reaching a low of 44% in the year 2017 (PWC, 2018). This is further discussed as evidence from research in section 2.10.1 in chapter 2-Literature Review.

All the above views highlight the important role internal auditing plays as a key control mechanism in corporate governance. Evidently, priorities vary amongst different groups of stakeholders and their interest often compete, thereby dictating the need for internal audit function to develop capabilities, policies and work culture that links its activities to the organization's strategies and risk profile (Pitt, 2014). Therefore, the internal audit profession should wake up to its changing role and responsibility (Coetzee & Lubbe, 2014) in order to redeem its credence by taking the critical steps needed to reverse the declining stakeholders' perception (Allegrini, et al., 2011) and address stakeholders competing interests. The concept of stakeholders competing interests is discussed in detail in section 2.9.3 in the Literature review chapter 2.

Due to the universal character of corporate governance principles and the variations in



implementation of corporate governance concept, section 1.7.0 below presents a brief explanation of the conceptual framework within which the recommendations in this research are grounded.

### **1.7.0 Policy Framework as a basis for recommending action points**

Due to the dynamism and variability in the implementation of corporate governance concept across different jurisdictions, it is considered prudent to draw from an existing theoretical concept to recommend policy framework that can be adopted within the scope of this research to guide internal audit policy formulation in diverse jurisdictions.

The recommended action points in this thesis are based on the concept of policy framework and they are intended to suggest theoretical concept upon which other policies and procedures could be developed to empower internal auditing align its value-add mission with its stakeholders' expectations within a particular context. The idea behind a policy is to enunciate the principle of prudence and ensure consistent application of guidelines that align with stakeholders' interests in a structured and consistent manner and clarify the relationship between the different groups in an organization governance ecosystem (Andriof, et al., 2017).

IIA standards number 2000 advises that internal audit should consider stakeholders when concluding audit reports (IIA, 2017). However, it does not offer a framework for ensuring stakeholders consideration is grounded on an existing theoretical concept that can be consistently applied, measured and controlled in a structured way. This is more apparent, as discussed above in 1.2.0, corporate governance in whose domain internal auditing is practiced is in a state of flux (Aguilera & Crespi-Cladera, 2016). Therefore, it is appropriate to recommend a framework for formulating governance policies and procedures that are aligned to the dynamics at play in different jurisdictions as a way of addressing stakeholders' varied interests instead of recommending a one-size-fit all action, as it were.

### **1.8.0 Research site institutional context**

Corporate governance in Uganda context is reviewed in details in section 2.4.5, chapter 2. This section gives an overview of the institutional context of the research site.

The Uganda Revenue Authority (URA) headquarter, where this research was conducted, is a statutory institution established in 1991 and mandated by the Act of parliament of Uganda (Uganda Revenue Authority Act, Cap 196) to: "assess, collect & account for Central

Government Tax Revenue (includes Non-Tax Revenues) and to provide advice to government on matters of policy relating to all revenue sources” (URA, 2016). Being a state-owned enterprise (SOE), the authority is one of seven autonomous agencies under the supervision of the Ugandan Ministry of Finance, Planning and Economic Development (MOFPED, 2017). URA has been amongst organizations championing corporate governance best-practice in the country. It has a fully constituted internal audit and compliance department serving a variety of stakeholders. As a national tax collection authority, URA operates within strict legal framework. This research does not aim to examine the impact of such regulations on internal audit effectiveness. However, the research focuses on exploring how the internal audit function can contribute to URA’s effective management of the tax administration system.

### **1.9.0 Motivation to conduct this research**

It is well documented that the role of internal auditing is fast changing from the erstwhile traditional approach to value-add approach (Bou-Raad, 2000). More revealing is the PWC survey reports on the state of internal audit profession as viewed by their stakeholders. The survey results highlight internal auditing diminishing legitimacy and practical relevance in five successive years; 2013-2017 (PWC, 2018). Internal audit stakeholders’ relentless demands for internal audit profession to change course and start balancing internal audit resources between assurance and consulting services keep getting louder (Abbot, et al., 2010; Anderson, 2003). These demands resonate with the IIA Vice President’s call to internal auditors to understand their stakeholders value propositions in all their activities (Chambers, 2014).

Stakeholder consideration is also stipulated in the internal audit standards number 2000 that internal auditing should add value to its organization and stakeholders. However, there is no clear framework within which internal auditing policies can be formulated to guide the mapping of internal audit stakeholders.

One would have expected IIA to specify key knowledge areas required to achieve the objective of standards number 2000 and attribute standards number 1210 on “Proficiency”. Outcomes from this study were used to recommend a policy framework, grounded on an existing theoretical concept, to empower internal auditing address the diverse demands of the multiple stakeholders (PWC, 2015). The policy framework will also foster

implementation of the full extent of the internal audit value chain (Seago, 2015) in the evaluation of internal audit performance.

### **1.10.0 Framing stakeholders' perception as a subject of this research**

As pointed out above in section 1.6.0, stakeholder's perception of the state of internal auditing is largely driven by complexities in organizations' operating environment coupled with the slow pace in the standardization of internal audit practice. The mismatch between complexities and internal audit standardization process, brings to the fore the difficulties faced in the formulation of a corporate governance policy that empowers internal auditing with the capability to provide value-add services to a wide range of stakeholders in the tax management system. Consequently, internal auditing continues to face growing criticism over its slow pace in developing capabilities needed to respond to changes that present complex and dynamic developments within and outside their institutions (Kangave, 2005).

Amidst these phenomenal complex and fast-paced changes in organization's operating context, comes the need to refocus the range of activities that coalesce capability to serve a wide range of stakeholders (Adriof, et al., 2017). This would require that internal audit department collaborates with their stakeholders as a "trusted business advisor" (PWC, 2011) that can be relied upon to support the institution comply with regulatory requirements (PWC, 2018). As part of these developments, the board of directors and by extension, internal auditors are being implored to extend the frontier of oversight role beyond the traditional role of financial and fiduciary oversight and start promoting entrepreneurial ideas, giving counsel on resource management under risk and uncertainty as it works with management to craft winning strategies amidst changing circumstances (Adriof, et al., 2017).

As posited in the PWC 2017 state of internal audit performance survey, barely 44% of respondents perceive internal audit function as trusted business advisory partners and close to 56% look forward to seeing internal audit function becoming a trusted business advisor (PWC, 2017). Achieving this level of service remains a challenge to internal audit profession because the Standards and the institution's internal audit charter are silent on key knowledge areas/skills that internal audit function should adapt to align their value propositions with those of their stakeholders in different organizations operating environments.

### **1.10.1 Aim of the research**

The organizational situation that is the focus of this action research project is thus; the development of Internal audit policy framework and activity matrix that maximizes the provision of internal audit value-add services to a wide spectrum of stakeholders in a governance ecosystem. The aim of this research informs the use of qualitative inquiry (Creswell & Poth, 2018) as a dominant approach to data collection, analysis and interpretation. Justification for choosing qualitative inquiry is briefly explained below in subsection 1.10.2 and further explained in greater details in chapter 3 on the research methodology.

### **1.10.2 Adopting qualitative approach as a dominant method of inquiry**

The underlying assumptions in this research are that organization behaviour is fuelled by the social dynamics (Goergen, M. et al. 2010) and this characterizes organization as a “social-scientific enterprises” (Burrell, G. & Morgan, G. 1979). Which means that the claim that total objectivity can be sustained in an investigation is delusionary (Hopper, T. & Powell, A. 1985). Therefore, to make sense of the stakeholder perception phenomenon, necessitates taking a holistic view of the context and lived experiences of the stakeholders in the corporate governance ecosystem. This will entail adopting approach in which corporate governance is viewed as a multidisciplinary concept within the context of the philosophical debates around approaches to management research (Easterby-Smith, et al., 2012). The adoption of qualitative method of inquiry informs the scope and research questions presented below in section 1.10.3.

### **1.10.3 Scope of the research**

This research is conducted within the construct of corporate governance. The scope of this research is limited to the examination of the established theoretical perspectives that can influence internal audit policy and develop a matrix of activities that internal audit function in the institution can adopt to add value to the different processes in the country’s tax management systems.

Placing the research within the corporate governance domain presents an array of concepts to be considered. The first set of concepts are extracted from the definition of internal auditing as stated earlier. Another set of concepts have been derived from the assurance and consulting services portfolio as stipulated in the Standards. The mix of concepts

contained in the different sections of the IIA Standards and guidelines, the organization's institutional legal framework, as well as the abundance of socio- economic concepts that underpin the design of a good tax systems present rich areas for inquiry. Internal audit contribution in the improvement of tax management system can be achieved within the ambit of internal control and research (Gurama, Z. & Mansur, M. 2018). This brings into focus the importance of research questions developed in 1.10.4 below to guide the data collection, analysis and interpretation.

#### **1.10.4 Statements of Research Questions**

Framing the research questions (Q) is guided by the need to examine the stakeholder perception phenomenon of internal audit value-add role in corporate governance. The framing is done within the construct of internal audit value chain concept (IAASB, 2011) and the boundaries of the IPPF (IIA, 2010). Value chain concept is a framework for measuring the scale and scope of social performance (Ibrahim & Rangan, 2014). In this case, employing framework for measuring internal auditing performance as a social service entails applying the "logic model" (Ibrahim & Rangan, 2014, p. 120). The logic model refers to internal auditing as a social service whose performance can be placed within a value chain (Gramling, et al., 2004).

In this study, it is considered appropriate to ensure the fulfilment of the requirements of the different segments of the internal audit chain as an end-to-end performance measure. The research questions seek to examine two broad aspects of internal auditing. The first aspect is concerned with the theoretical constructs espoused in the legal framework that establishes the institution, the purpose, authority and responsibility of internal audit function in the organization. The second aspect is concern with internal auditing practice in the organization.

#### **Research questions:**

Q.1: What are the legal and institutional foundations of internal audit function in the organization?

Q.2: What criteria does internal audit function apply to identify and map its key stakeholders?

Q.3: What are the processes and procedures for developing internal audit plan?

Q.4: What processes and procedures are applied in the evaluation of internal audit performance in the institution?

Q.5: What are the stakeholders value propositions expected of internal audit activities

Responses to the above questions are analysed and interpreted in chapter 4 of this thesis.

### **1.11.0 The contributions this research makes to theory and practice**

It is envisaged that this research will contribute to both theory and practice through the empowerment of internal auditing to optimize services to a wide range of stakeholders by adopting stakeholder management as a key performance area, apply the full extent of internal audit value chain in performance evaluation, improved communication, widening the understanding of the role of internal auditing and the promotion of debate on the robustness of the Standards. These contributions are briefly explained below in sections 1.11.1 to 1.11.6.

#### **1.11.1 Institutionalizing stakeholder management as key performance area**

Adopting stakeholder management as a key performance area in the internal audit charter will empower internal audit function to map its stakeholders competing interests in a more structured and consistent manner.

#### **1.11.2 Operationalizing IIA Standards 1000.A1 and 1000.C1**

Additional contribution that links theory to practice is related to the implementation of the provisions of Standards 1000.A1 and 1000.C1. The two Standard stipulates that an organization is obliged to define the nature of assurance and consulting services and include such definitions in their internal audit charter. The current internal audit charter does not define the nature of assurance and consulting services that the internal audit function undertakes in the organization.

#### **1.11.3 Enacting value chain concept in internal audit performance evaluation**

The evaluation of internal audit performance has traditionally been linked to internal audit standards and criteria stipulated in the external audit standards (ICAA, et al., 2012). This research recommends the application of the full extent of internal audit value chain as an end-to-end approach for allocating internal audit resources that align with stakeholders competing interests and diverse stakeholders' value propositions domicile in the different segments of the value chain (Desai, et al., 2011). The internal audit policy, activity matrix and the strategy for sustenance of value will be anchored on the adoption of stakeholder engagement policy to support the application of value chain concept as an-end-to-end performance evaluation framework.

#### **1.11.4 Improved communication**

Another practically relevant contribution this research makes is the identification of stakeholders' expectations through a structured stakeholder identification matrix (as part of stakeholder mapping). The importance of involving stakeholders such as, the audit committee, senior management, and middle management in the exploitation of opportunities to improve their practice is emphasized in literature on action research (Coughlan, 2011). This has the potential to offer the key stakeholders the opportunity to participate in cogenerating actionable knowledge that resolves the challenges in their situation (Coughlan, 2011, p. 53).

In this research, the research questions were addressed to the key actors in the institution's governance structure. It is believed that they are impacted by the multiple interpretations of the effectiveness of internal audit function in the organization. This view fits in with the four fundamentals of action learning of bringing peoples to dialogue, support and challenge one another as they learn together (Pedler, 2008). This is further reinforced by their voluntary participation, their respective responsibilities in their organization, which helps them create options as they act from the effect of their learning (Coughlan & Brannick, 2014).

Another contribution is premised on the understanding that the key stakeholders to internal audit services will have the opportunity to appreciate each other's perception and value propositions and help internal audit function address their diverse demands using a framework that the stakeholders participated in cogenerating. In addition to addressing the issue of expectation gap (Abbot, et al., 2010), the framework will guide the audit committee of the board in improving their oversight role (Haniffa & Hudaib, 2007).

#### **1.11.5 Promoting knowledge on the role of internal auditing**

From a practical point of view, this study will lead to a deeper appreciation and understanding of the role of internal audit function in adding value to the organization's operations, which in turn will culminate in the continued improvement in internal audit services. Organizations and other beneficiaries of internal audit services are also interested in initiatives aimed at improving such services. This thesis will open opportunity to understand the diverse perspectives of several key users of internal audit services and their perception of value as important insights for exploring ways of improving internal audit

service delivery in the context of the institution.

### **1.11.6 Promoting the debates on the robustness of the Standards**

It is a considered view in this thesis that time is now for the IIA to review its authoritative pronouncements to include a distinct section on stakeholder management as a new knowledge area that can be evaluated on its own right. The recommendations in this research will provoke scholars and practitioners to engage in debates around the robustness of the IPPF Standards in addressing the complexities internal auditing faces in organizational operating environments.

### **1.12.0 Arrangement of subsequent chapters**

Below are chapters that collectively form part of this thesis:

Review of literature in chapter 2 presents results from review of scholarly and industry specific literature obtained from published industrial literature, academic articles and other publications relevant to the theory and practice of corporate governance as a domain in which internal auditing is grounded. The strength and weaknesses of the existing ideas, knowledge and practice in internal auditing are adjoined as opportunity for this research and future research.

Research methodology in chapter 3 articulates the basic assumptions adopted by the researcher regarding the nature of realities, set of values and commitment to what is acceptable knowledge in the field of internal auditing. These are explained as the basis for choosing qualitative interpretive approach as a dominant method of inquiry in this research. Selection of participants using the 2x2 interest-influence matrix, the application of semi-structured interviews as data collection tool, dealing with ethical considerations, data analysis tools and concludes with a review of the tests conducted to authenticate participants' views are discussed in details in this chapter.

Results & interpretations, chapter 4 contains results from data analysis and interpretation thereof.

Discussions and conclusions, chapter 5-; presents discussions on how internal audit function can keep pace with complexities in organization operating environment, strategies for crafting framework for sustained internal audit function effectiveness are laid out in this chapter. The chapter also articulates implications of this research on existing theory and



practice of internal audit within the corporate governance domain, limitations and concludes with suggestions for future research opportunity.

Self-reflection & learning, chapter 6 presents the development of author as an action researcher and a leader in society, the author's researcher diary and key lessons learnt from the action research. The last, but not least sections of this thesis consist of appendices and references in that order.

### **1.13.0 Summary and Conclusions**

Corporate governance domain provides a grounding conceptual framework in which organization's operations and assets are overseen. The OECD model of Corporate governance and other mechanisms in its domain are anchored on the universal principles of transparency, accountability, fairness, independence. These are principles globally accepted to be key ingredients needed to foster organization success.

Organizations such as the OECD and other interested parties in different jurisdictions have continued to popularize corporate governance concept as foundation for strong relationship between organizations and their stakeholders. Despite this global appeal, corporate governance as a domain in which internal auditing is mandated to play role of key control mechanism, is still characterized by several disruptions and deviances such as variation in definitions, different perspectives and diverse models across different jurisdictions. The dynamism and complexities around the concept have created difficulties in determining a single global model of corporate governance. It has also created opportunities to tailor the concept to make it relevant in a particular jurisdiction.

As internal audit professionals grapple with the flux in corporate governance practices, research on internal audit value-add dispensation has been dominated by constructs prescribed in external audit standards, which constructs only focuses on financial reporting. The external auditors model the interrelation between the "competency", "objectivity" and "processes concepts on the basis of principal-agency framework, in order to evaluate their reliance on the work of internal audit for the purposes of expressing their opinion on the financial statements.

It is also argued that research on internal auditing has for too long been based on the agency and labour process theory (LPT) and these theories have limited internal auditing to simply being a mechanism for assurance, and yet complex organization environment demands more than just assurance.

The time is now to view organizational operating environment as complex and dynamic in which practices such as governance and its constituent's mechanism such as internal auditing continues to evolve. Taking the view that organizations are social- scientific enterprises, organizations control mechanism such as internal auditing with declining legitimacy and practical relevance, should be interrogated to design framework that can supplement the agency-centred orthodoxy. This approach will uncover stakeholders value propositions and synthesize the propositions to influence corporate governance policy that can be consistently leveraged to optimize internal audit services to a wide range of stakeholders within the boundaries of the International Professional Practices Framework on internal auditing.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.0.0 Introduction**

This chapter presents results from the review of literature obtained from assorted sources such as published scholarly articles, textbooks, best practice guidelines and reports from corporate governance communities of practice with keen interest in organizational stability. The review highlights strengths and weaknesses in the existing ideas, knowledge and practice viewed as opportunity for this research and future research in internal auditing as a key control mechanism in corporate governance.

The chapter is structured into four main sections; the concepts and theories section, the practice section, research evidence section, the summary and conclusions section.

In the concepts and theories section, the historical perspective of corporate governance is presented and discussed as a dynamic and complex interactions based on relationships between executive management, board of directors, shareholders and other stakeholders.

The relationships are further articulated as influenced by emerging complexities in social, economic and cultural context, rather than simply set of rules and standards. At the centre of this complex mix of contextual factors is internal auditing, discussed as a key control mechanism in organizations and anchored on the principles of corporate governance.

Furthermore, the concept section contains critical review of the complex and dynamic interplay of several factors such as perspectives of corporate governance, theories of organization, international auditing standards and philosophies behind the two broad categories of internal audit services. These factors are rationalized as key influencers in the formulation and enactment of governance policy in various jurisdictions across the world. The cross-road situation internal auditing is facing is presented as a culmination of the complex interplay between the elements of complexity in organizations' operating environment.

To focus the study, the practice section presents corporate governance in the context of Uganda as largely grounded on the global principles of governance although actual implementation of the principles varies and is impacted by contextual factors unique to Uganda. The practice section further presents documented evidence featuring continuous evolution in internal auditing since 1947 to date. The evolution features themes that

emerged with the changes in the definition of internal auditing as IIA continues in its effort to standardize and enhance the practical relevance of internal auditing as a profession. The section further explicates apparent challenges occasioned by the enduring evolution in internal auditing, as the profession grapples with widening stakeholders' expectation gap.

The research evidence section articulates evidence from research conducted by scholars and reports issued by different community of practice with keen interest in corporate governance global development. Evidence from previous researchers show that emerging complexities in organizations' operating environment present opportunities for improvement in corporate governance practices and internal auditing as a control mechanism.

The summary and conclusions section summarize key points from the continuous evolution in corporate governance and internal auditing. Cross-road situations occasioned by challenges emerging from the evolution offer strong case for undertaking interpretive approach to this research that transcend and supplement the current IPPF internal auditing Standards in order to unravel stakeholders' dissatisfaction.

## **2.1.0 Concepts and Theories**

### **2.1.1 Concept of Corporate Governance**

Corporate governance is the foundational concept on which internal auditing is grounded (Christopher, 2015). Corporate governance concept received world attention following the Convention signed in Paris on 14th December 1960, in pursuant of Article 1 of the OECD. Resolutions from the convention became effective on 30th September 1961. Since then, the concept has been popularized by scholars and practitioners in many jurisdictions across world. In 1992 the Cadbury Committee issued the 1992 Cadbury Code (Cuomo, et al., 2016). Other organizations that have popularized the concept by issuing corporate governance codes unique to their jurisdictions are the Africa Union, NEPAD, IoD (Wanyama, 2014).

Information on the historical development of the concept is scanty. Some researchers on accounting history opine that the concept acquired global prominence in the nineteen century and has since mutated in many ways. The mutation has moved from describing the concept in terms of office, function governing power to describing it as a way of regulating influence in the management of organizations (Shah & Napier, 2019: pp.340). Some writers

trace the roots of corporate governance to the principal- agent relationship that exists between owners of capital and managers of wealth (Aguilera & Crespi-Cladera, 2016). Other writers have referred to governance, in the context of government, as “magic concept” because of its characteristic as a globally marketable and amorphous domain with conflicting definitions, multiple overlapping dimensions, a hard-to-be-against concept with far reaching positive connotation (Pollitt & Hupe, 2011: pp.643). Other perspective holds the view that corporate governance provides the framework needed to moderate the devolution of authority between the executive members of an organization and its shareholders (Aguilera, et al., 2016). It is presumed that implementation of the corporate governance principles should cover all aspects of an institution operations (Wanyama, 2014).

Corporate governance principles promulgated during the Paris Convention have since become the international benchmark among organization policy maker (OECD, 2004). Despite the global appeal of these principles, OECD in its survey, recognizes that there is no single model of corporate governance that suits all operating context, and acknowledges challenges faced by different countries in their attempts to implement the concept (OECD, 2004). To moderate this, OECD maintains that the instruments is non-binding, which means its implementation should consider different circumstance at play in different jurisdictions.

Furthermore, catalysed by the increasing need to promote transparent accountability and widen the scope of responsibility within the framework (Mallin, 2013), corporate governance is viewed as a vehicle for providing reliable information to stakeholders on how the resources of an organization are being managed (Regoliosi & Alessandro d’Eri, 2014).

Following the pronouncements by the Cadbury Committee, more than 25 years ago, corporate governance concept has seen notable shift from the conventional oversight role to efficient resource management (Hodge, 2017). The shift in themes is largely being driven by the quest to harmonize the conventional profit maximization objective of the firm with ethical considerations (Dias, et al., 2017). As a result of this dynamism, the subject of corporate governance has continued to exhibit striking variations that make it topical amongst scholars and practitioners (Clarke, 2016). The deviances feature in the different definitions of corporate governance, diverse perspectives and other practical variations that characterize the development of corporate governance concept in the different jurisdictions (Aguilera, et al., 2018). The variations that have since been documented are expounded below in sections 2.1.2 to 2.3.0.

### **2.1.2 Definition of corporate governance**

In addition to OECD's assertion that the principles of corporate governance are non-binding, it is also recognized that corporate governance is evolutionary (OECD, 2017). This assertion signifies that corporate governance concept should be viewed in light of prevailing circumstances and their implementation should meet the demands of the time (Aguilera, et al., 2016). This is evident by the variations that exist in the definition of corporate governance as explained in the ensuing paragraphs.

One broad definition popular amongst economists and social scientists describes corporate governance as a practice that guides the allocation of resources in an organization with the principal objective of realizing benefits for stakeholders (Cohen, et al., 2010). This definition looks at corporate governance as a practice that focuses on resource allocation to optimize economic benefits for stakeholders.

Recent pronouncement on corporate governance by the G20/OECD defines corporate governance in terms of the relationship that exists between the participating parties with regard to the participants' different interests in organizational activities (Du Plessis, et al., 2018, p. 6).

Another definition emphasizes the participation of different actors in corporate governance ecosystems and the rules that organizations leverage to control their activities, thereby giving a framework for organization's key stakeholders to participate in the governance structure (Jeswald, 2004).

Some jurisdictions describe corporate governance as a concept that requires organizations to institute sets of processes, policies, procedures and other internal control practices that support transparent accountability (Berger, et al., 2016). In addition to the diverse definitions of corporate governance, the concept is also polarized between two distinct perspectives explained below in sections 2.2.0 to 2.2.3.

### **2.2.0 Perspectives of Corporate Governance**

Perspectives of corporate governance are other areas where scholars and practitioners continue to hold different views. The genesis of the debates has been traced to a number of sources. Some writers trace the discourses on the different perspectives of corporate governance to Adam Smith in the 1700s when it was upheld that sustainable co-existence

can be attained when economics and ethics are synchronized (Adriof, et al., 2017). Other writers hypothesize that the need to address the concerns created by the information asymmetry that characterize the separation of ownership, control and the dynamic nature of stakeholders' interest in organizations' affairs triggered the debates on the different paradigms of corporate governance (Du Plessis, et al., 2018).

As analysed below in sections 2.2.1 and 2.2.2, the discourses have revolved around the shareholder and stakeholder perspectives as two distinct perspectives of corporate governance (Aguilera, et al., 2018). This highlights the moral and ethical underpinning of corporate governance that endures to date (Dias, et al., 2017). The disparity between the two paradigms and other rhetoric continue to shape the various traditions used in interpreting and advocating for a view on the fundamental purpose of an organization, and how they influence the related governance structure and practices (Larcker & Tayan, 2015). It also highlights the roles played and responsibility of different actors in the governance structure of an organization (Bottenberg, et al., 2017).

Influence of the two paradigms stretches beyond the structuring of controls and accountability but do not explicitly stipulate the structure or define parties to a corporate governance system that describes shareholders and stakeholders' expectations (Afza & Nazir, 2014).

### **2.2.1 Shareholder perspective**

Earlier writers opined that shareholder wealth maximization is the primary objective of an organization gave rise to shareholder perspective of corporate governance (Letza, Sun & Kirkbride, 2004). Some writer opined that the shareholder perspective is rooted in a landmark ruling in the case of Dodge vs Ford Motors in 1919 in the USA (Du Plessis, et al., 2018, p. 7). The ruling supported shareholder primacy, as most enterprises were privately owned which fuelled the need for "shareholder activism" (Goranova, et al., 2017). The shareholder perspective considers an organization as a legal person with rights and obligations to maximize shareholders' wealth (Shleifer & Vishny, 1997). This view maintains that a structure of sound governance practices is needed to support accountability and a system of control, ethics, social sustainability in organizational resources management (Peterson & Ferrel, 2015).

It is widely believed that the "agency problem" is foundational to the shareholder

perspective in as much as it does not fully explain the dynamics of corporate governance (Utama, et al., 2017). The dominance of shareholder primacy and ensuing debates then led to flareup of research on corporate governance predominantly positioned within the agency theory construct (Goranova, et al., 2017, p. 416). The shareholder primacy was mainly fuelled by the desire to stem potential self-interest of managers (Utama, et al., 2017, p. 168). In which case, there was need to institute independent internal audit function as a control mechanism with the mandate to provide assurance services to bridge the shareholder-manager information asymmetry that underpin the principal-agent problem (Christoper, 2014).

The shareholder perspective considers the supremacy of shareholders interest above all other interests, (Jensen, 2000 cited in: (Bottenberg, et al., 2017, p. 165). This is in direct contrast to the argument that shareholder supremacy if not well controlled could drive corporations to pursue shareholders wealth maximization at the expense of other interested parties (Jensen & Meckling, 1976 cited in (Bottenberg, et al., 2017, p. 165).

Therefore, espousing shareholder perspective as a foundation for formulating internal auditing policy in an organization implies that attestation will be at the core of internal audit activities, moreover at the expense of other value-adding services (Mihret, 2014). This concern could have sparked the rise and the promotion of stakeholder view of corporate governance as analysed below in 2.2.2.

### **2.2.2 Stakeholder perspective**

The traditional view of corporate governance that is centred on shareholders wealth maximization has attracted criticism from a number of quarters in the corporate governance domain (Denis, 2016). This promoted advocacy for stakeholder perspective as organizations are implored to balance shareholders' interests with those of other stakeholders (Bottenberg, et al., 2017) as governance regulatory environment keep changing (Aguilera, et al., 2018).

The definition of stakeholder commonly referred to in the context of an organization is that; "a stakeholder is any individual or groups of individuals, organizations that can influence or get affected by organizational actions, therefore, managers and service providers ought to take due care when responding to the needs or concerns of stakeholders" (Kok, et al.,



2015). It is widely believed that the subsequent unfolding of stakeholder perspective (Adriof, et al., 2017) in corporate governance have evolved from a shift in focus from conventional oversight to socially responsible and efficient management of resources (Hodge, 2017).

The debates on whether corporations should follow shareholder perspective or stakeholder perspective in formulating their governance policies is far from over (Bottenberg, et al., 2017). Stakeholder perspective holds the view that an organization and its management ought to be accountable to a wide spectrum of stakeholders that goes beyond shareholders' wealth perspective (Tirole, 2001). In effect, the desire to balance wealth creation with ethical prudence (Adriof, et al., 2017) is believed to underpin the promotion of ethics in organizational activities, thus, the emergence of stakeholder perspective (Ackers & Eccles, 2015). The perspective has been further reinforced by the pressure of globalization and pressures from different advocacy groups (Dignam & Galanis, 2017).

As a key control mechanism in corporate governance, internal auditing is at the centre of tension between shareholder and stakeholder perspectives, and the apparent variations in different corporate governance codes that have since been issued (Osemeke & Adegbite, 2016), creating complexities in the entire corporate governance ecosystem (Goergen, M. et al 2010). These complexities present challenges and opportunity to internal auditing as the profession is being pressured to review its historical characteristics by balancing internal audit resources in order to optimize its value-add services to a wide range of stakeholders in the governance ecosystem (Groff, et al., 2016). It follows therefore that the promotion of stakeholder perspective potentially widens the scope of internal auditing beyond providing traditional assurance services that dominates the shareholder primacy assumption, to the provision of other advisory/consulting services within its value-add mandate (Soh & Martinov-Bennie, 2015).

In addition to the influence of the different perspectives of corporate governance on the formulation of corporate governance policy, different theories of organization discussed below in sections 2.3.0 to 2.3.5 also influence corporate governance policy as they define the relationships between different actors in the corporate governance ecosystem.

### **2.3.0 Influence of theories of organization on internal auditing policies**

Furthermore, to the polarization of corporate governance between shareholder and

stakeholders' perspectives, several theories of organization have also been articulated to explain the relationships between the different actors in corporate governance arena (Miles, 2017) and how they influence the complex and dynamic nature of corporate governance policy formulation (Cohen, et al., 2010). Relatedly, these theoretical concepts inform internal audit stakeholders' expectation with regard to the scope and quality of internal audit services (Cohen, et al., 2008).

The theories of organization that have been examined below in sections 2.3.1 to 2.3.5 are: the agency theory, institutional theory, resource dependency theory, managerial hegemony theory, stewardship theory. Some writers have listed theories of organization to include sociological theory, political theory, transaction cost theory to expound on the variations and complexity of corporate governance (Afza & Nazir, 2014). This research does recognize the myriad of theories of organizations. However, the review in this thesis will be limited to the discussion of the influence of the agency, institutional, resource dependency, managerial hegemony and stewardship theories on corporate governance policy and therefore internal auditing policy in organizations.

### **2.3.1 Agency theory**

The "Agency theory", is an age long theory (Jensen & Meckling, 1976). It is a relatively dominant theory that underpins accounting discipline and corporate governance practices (Tricker, 2012, p. 62). The theory suggests that the reality and continued demand for internal auditing is underpinned by its utilitarian characteristics (Rupšys & Boguslauskas, 2007; Shi, et al., 2017). This was postulated in the view expressed by professor Flint in 1988 when he opined that auditing is purely a social undertaking whose value is espoused in its role of bringing about societal stability (Flint, 1988: cited in Teck-Heang & Ali, 2008; p.1). It further suggests that internal auditing serves as a mechanism instituted to check on the fidelity of management and information systems (Ma'ayan & Carmel, 2017). The agency theory therefore gave rise to two control mechanisms to be used in assuring the fidelity of management and information: one mechanism hinges on contract meant to align the interest of management, as agent, with that of the board (representing shareholders), as the principal (Cohen, et al., 2008). In which case, the traditional foundation of internal auditing is to give assurance to the shareholders regarding utilization of resources entrusted to management (Adams, 1994). Consistent with the shareholder primacy perspective (Goranova, et al., 2017), the agency theory promotes the idea of skewing internal auditing

towards serving shareholders demands, giving less attention to other stakeholders (Al-Akra, et al., 2016).

Considering the evolution that continues to shape the diffusion of corporate governance codes around the different countries and institutions, it will be appreciated that the agency theory and stewardship theory (discussed below in 2.3.11) are fast exhibiting inadequate coverage of the complexities in organization operating environment, and the realization that organizational activities impact a myriad of individuals and groups of individuals in their operating environment (Afza & Nazir, 2014, p. 258).

Designing corporate governance policy purely on the agency theory is the concern that proponents of the inclusion of ethics and stakeholder management in organizational governance policy are raising (Martineau, et al., 2017). This development has the potential to extend the scope of internal auditing beyond the traditional assurance services (Adriof, et al., 2017). Some writers on diverse theoretical arguments on corporate governance have highlighted the limitations of the agency theory as a domineering theoretical underpinning of an internal audit policy. They argue that the agency theory fails to position internal auditing as an adaptive and responsive service provider (Mihret, 2014). It is also asserted that in a complex and dynamic operating environment, internal audit should position itself to serve two or more masters, as it were (Lenz & Hahn, 2015). Serving-two masters metaphor alludes to the difficulty in the allocation of internal audit resources to sufficiently satisfy diverse and often conflicting stakeholders' interests (Abbot, et al., 2010).

### **2.3.2 Institutional theory**

The institutional theory of organization postulates that organizational governance structure is principally ritualistic and is usually instituted for social stability and cohesion (Beasley, et al., 2009; Saka-Helmhout, et al., 2016). It is therefore hypothesized that with the passage of time, all institutions, driven by the desire to attain legitimacy through standardization of their practices will adopt similar practices (Cohen, et al., 2008). This implies that little significance is put on what works for different organizations in different context (Hernanson, et al., 2012). In this study, such generalization is considered a major limitation and less plausible because it fails to consider the diverse and competing internal audit stakeholders' perspectives of value in different organizational context (Brajesh, 2010).

The advent of globalization has also given rise to a modification of the earlier institutional

theory to what other commentators refer to as “neo-institutional theory” (Wiseman, et al., 2016). Globalization has added more responsibility on organization leaders as they grapple with new dimensions of complexities (Arena & Jeppesen, 2016). This continues to give rise to variations in internal audit practices in different organizational context, creating a tension between IIA efforts to standardize and internationalize internal auditing. The state of tension occasioned by these complexities is recognized in the IIA CBOK (Protiviti, 2011).

It is also posited that in situations where internal audit function finds itself at the centre of tension between diverse theoretical persuasions, it may decide to “a fallback position” (Lenz, 2013). This highlights situations, consistent with OECD assertion mentioned above, where the dictates of the organizational context should be given due attention in deciding the scope and responsibility of internal auditing.

### **2.3.3 Resource Dependency theory**

The resource dependency theory considers the relationship between management and the board as that founded on the doctrine of partnership and driven by the need to share resources for a common cause (Nordberg, 2011; Martin, et al., 2016). However, its empirical application is not noticeable in practice (Drees, J.M. & Heugens, P.P, 2013). Theoretically, the resources dependency is inclined to treat the oversight role of the board of directors as subservient and considers the board’s role as more collaborative and advisory aimed at fostering legitimacy, as depicted by the positions different stakeholders take regarding balancing control that satisfy their varied needs (Cohen, et al., 2008). It is implied here that the board of directors should focus on the creation of strategic values through their knowledge of the organization business and reputation (Tricker, 2012). In this case, internal audit function plays the role of providing information to the corporate governance actors for purposes of interpretation (Cohen, et al., 2008).

Consistent with its little empirical application, the theory is not explicit on what kind of information internal audit should provide to the actors in the corporate governance space (Drees, J.M. & Heugens, P.P, 2013). Which reinforces the call for internal audit function to understand the information needs of different constituencies of stakeholders in order to design audit activities that can meet the information needs of diverse stakeholders with varied interests in the organization (PWC, 2017).

### **2.3.4 Stewardship Theory**

The stewardship theoretical construct of corporate governance is a viewpoint that focuses on aligning interests of the corporate governance actors with that of the organizational objectives (Davis, et al., 1997). The theory adds a behavioural dimension to corporate governance, which suggests that in stewardship, behaviour and organization's interest are inseparable (Pigé, 2017, p. 1). The theory therefore imputes honesty and trustworthiness as the real motivator that drives stewardship but not personal interest like in the case of the agency theory (discussed earlier) (Mohammed, et al., 2017). It also imputes that corporate governance players are always mindful of their reputation and therefore uphold honesty in all their action and behaviour (Nicholson & Kiel, 2007). This is consistent with OECD assertion that "trust and integrity play an essential role in economic life" (OECD, 2014).

There is a variation between the agency theory perspective and the stewardship theory. While the stewardship theory suggests that the motivation to act in the best interest of the organization is inherent in the moral fabric of corporate governance actors, the agency theory presumes that honesty is extrinsically imposed (Davis, et al., 1997), and thus the need to institute internal audit function to play watch dog role, as it were (Sarens, et al., 2016). In organization settings, some stakeholders' perceptions are founded on either the Agency theory or Stewardship theory. This invariably results into stakeholders competing interests (Christopher, 2010) discussed below in section 2.9.2.

### **2.3.5 Managerial Hegemony Theory**

Managerial hegemony theory stipulates that the role of board members, as actors, in corporate governance is passive. Implying that the board does not interfere with the day to day running of the organization but depends on information from management (Hernanson, et al., 2012). Management hegemony theory sharply contrasts with the agency theory since it suggests that the board apparently has no control over management (Beasley, et al., 2009; Mohammad, et al., 2016). The presumption of the managerial hegemony theory is that good governance policy should be put in place to basically satisfy regulatory requirements (Mohammed, et al., 2017). This presupposes that management determines the rules and play by it, as it were, which apparently is in direct contrast with the Agency theory. In terms of internal auditing value add mission, attestation to satisfy the executive management will dominate internal audit services, leaving other stakeholders underserved (Chambers & Odar, 2015).

## **2.4.0 Practices**

As presented in the review above, corporate governance state of flux presents in many forms such as; variations in the definition of corporate governance, multiplicity of codes being adopted in different jurisdictions across the globe (Regoliosi & Alessandro d'Eri, 2014). In broad terms, the concept of corporate governance can be best described in terms of the processes, practices and structures that organizations employ to manage their operations in order to meet their objectives and be able to operate sustainably (Afza & Nazir, 2014).

Accordingly, the practice section describes the environmental complexities within which internal auditing is conducted (IIA, 2012) and the evolution that have unfolded over the years. The complexities are presented in terms of technological systems, financial systems and societies systems (Fabac, 2010).

### **2.4.1 Corporate Governance global practice**

Despite its growing prominence across the world, implementation of corporate governance principles exhibits distinct variations across many jurisdictions (Cuomo, et al., 2016, p. 224). The variations in corporate governance global practice are feature through factors such as governance codes promulgated in diverse jurisdictions, debates on the generally accepted model of corporate governance that are deemed applicable to different organization context, complexities in organization operating environment. As a continuation of this development, Foucault, in the 1980s, alluded to the concept of governance when he articulated the “concept of governmentality” based on four principles (Mihret & Grant, 2017, p. 701).

The first principle advocates active participation of organizational members in developing and enacting strategies for resolving social problem within their context. The second principle promotes flexibility of individuals in an organization as opposed to holding an organization accountable. The third principle focuses on legitimizing stakeholders’ mutual interests rather than promoting particular vested interest. The fourth principle looks at developing reliable and consistent performance management systems with interventions that target specific problem situation.

The four principles of “governmentality” (Mihret & Grant, 2017, p. 701) resonate with the OECD’s pronouncement regarding the interrelation between corporate governance actors

(OECD, 2017). The OECD definition of corporate governance that underscores the importance of relationship between actors in the corporate governance space and sets forth guidelines for different countries to facilitate the development of contextually unique corporate governance practices (Tricker, 2015) states that “Corporate governance is a set of relationships between a company’s management, its board, its shareholders and other stakeholders; good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring” (OECD, 2017),

As indicated in the OECD counsel, corporate governance “is evolutionary in nature and should be reviewed in light of significant changes in circumstances” (OECD, 2017). According to governance fact book, organizations competitiveness amidst changing world, depends on their ability to innovate and adapt their corporate governance practices to tackle specific risks and seize new opportunities (OECD, 2017) as evident by the several corporate governance codes being issued in different jurisdictions as discussed in section 2.4.2 below.

#### **2.4.2 Corporate governance codes**

Literature has it that the diffusion of corporate governance codes varies across nations and organizations (Wanyama, 2006). Different countries are at various stages of development and are at different levels in the implementation of corporate governance codes issued by the Cadbury Committee and OECD between 1992 and 2014 (Cuomo, et al., 2016, p. 228).

Depending on the jurisdiction, corporate governance across many jurisdictions are regimented and largely supervised by the board of directors who supervised the executive (Hao, et al., 2017). For example, by the year 2014 a total of 345 different corporate governance codes had been issued in 91 countries across the globe (Cuomo, et al., 2016, p. 225). These variations are all underpinned by the different perspectives, legal, cultural, socio-economic and theoretical concepts that different jurisdictions adopt in formulating their corporate governance policy/codes as they endeavour to promote operational efficiency and prove their legitimacy amongst stakeholders (Zattoni & Cuomo, 2008). As posited by some writers, whichever perspective of corporate governance is dominant in an environment, corporate institutions need to embrace the principles of corporate governance both in practice and at policy level (Tricker, 2015).

The variability in corporate governance practices became even stronger in the wake of high-profile corporate scandals that stunned the world in the recent past. For example, the conundrum provoked response from NASDAQ Stock Market LLC to propose that all NASDAQ listed companies should institute internal audit function in their governance structure (SEC 2013a: cited in (Raiborn, et al., 2017, p. 10). Although the NASDAQ proposal was subsequently relaxed due to several concerns raised by some organizations, internal audit function involvement in corporate governance continues to attract the attention of scholars, governments, organization leaders and other stakeholders (Aguilera & Crespi-Cladera, 2016).

The variations also motivated authorities such as the Cadbury Committee, OECD, NEPAD, IoD to adopt different codes in reaction to the dynamism and complexities in different operating context (Wanyama, 2014). The codes that are widely referred to are those issued by the Cadbury Committee 1992 and the OECD in 2004. The Cadbury codes are largely implemented within the influence of social political and economic factors relating to organizations' operating environment (Aguilera & Crespi-Cladera, 2016). The Cadbury Codes gained clout because they are not meant to be prescriptive like other laws, such as the SOX, but are presented as guidelines needed to foster the implementation in accordance to different organizational context (Florea & Florea, 2013). They are meant to moderate the balance between economic and social dynamics, self-interest and the stakeholders interests in order to encourage efficient use of resources and transparent accountability (Aguilera, et al., 2018).

Amidst all the variations, organizational leaders are increasingly being challenged to recognize stakeholder perspective as a major and important consideration in their organizational dynamics (Newcombe, 2003). This means that the era of stakeholder thinking in organizational development, demanding for responsiveness and responsibility towards stakeholders' interests, can no longer be ignored (Adriof, et al., 2017). This has spurred the adoption of stakeholder perspective in different disciplines such as engineering, management, medical, education, etc. (Jones, et al., 2014). Be this as it may, stakeholder perspective in management is falling short in impact due to the absence of policy framework for enacting the intricacies (Hendry, J. 2001).

Key points worth noting; whatever jurisdiction an organization operates in, corporate governance is broadly viewed as a system needed to foster sustainability between organizations and their operating environment (Idowu, et al., 2017).



Another important dimension of corporate governance is that implementation of the codes is subject to several factors in organization operating environment (OECD, 2017). These factors include, though not limited to, the legal and regulatory regimes, social dynamics and economic complexities (Cuomo, et al., 2016). This implies that the “non-binding” nature of corporate governance codes gives institutions the latitude to innovate their capability and tailor the Cadbury Code or the OECD Code to suit their operating context (Haxhi & Aguilera, 2014).

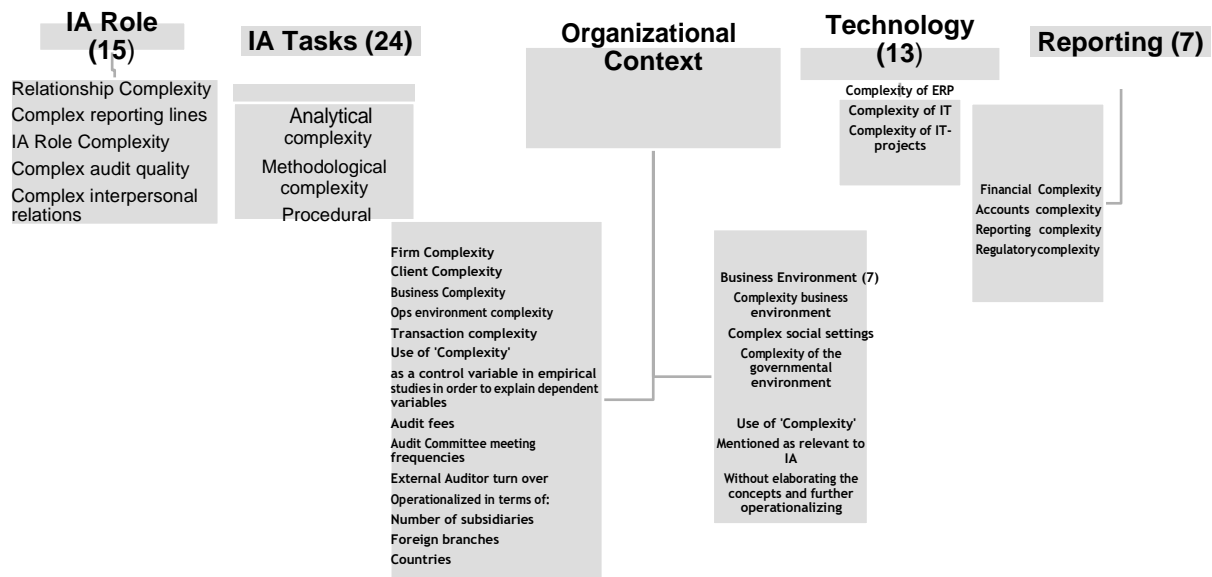
### **2.4.3 Complexities in organizations’ operating environments**

Corporate governance framework should be reconsidered in terms of the interactive complexity of the different internal and external actors and elements in organizational operating environment (OECD, 2017) as shown in Figure 1. The illustration in figure 1 demonstrates that complexities in organization operating environment come in the form of institutional, political, socio-cultural., economic, emerging technological dimensions (Allegrini, et al., 2011). Relationship with regulators, strategic partners, suppliers and competitors often, present yet another complex situation that organizations ought to deal with, as well (Zaman & Sarens, 2013).

Another arena of complexities lies in the internal environment regions. In this region, organization needs to deal with owners, demand from board of directors, employees and general organization culture (Bradbury & Redmayne, 2014).

Relatedly, internal audit function in organizations faces all the above complexities in varying scale and is expected to help their organization manage the risks that are inherent in the different interactive elements in the environment (Chambers & Odar, 2015). It is also important to note that such complexities pose a number of challenges in the allocation of internal audit resources, thereby creating atmosphere of suboptimal performance (Nuijten, et al., 2015) as internal audit function grapples with stakeholders conflicting demands (Ayuso, et al., 2014). Therefore, it is imperative for internal auditing to adapt innovative approach to effectively handle the complexities (Geyer, 2012). This presents new vision for internal audit practitioners (Chambers & Odar, 2015) and frontier for research in corporate governance (Aguilera, et al., 2016). It also presents opportunity for interrogating areas for enhancing stakeholders’ satisfaction rating that is context based (Ayuso, et al., 2014).

**Figure 1: Complexities in organizations operating environments**



Adapted from (Nuijten, et al., 2015, p. 198) and (Heintze & Bretschneider, 2000, p. 810).

Scholars and practitioners present this as a plausible way to theoretically and practically ground the variations in the implementation of corporate governance principles within the complexity theory (Goergen, M. et al 2010, p.2). “Complexity Theory” (Fabac, 2010) articulates that the behaviour of systems is an outcome of interactions between the system’s several independent elements or agents interacting in a dynamic and complex manner with difficult-to-predict outcomes (Afza & Nazir, 2014). These complexities, occasioned by the interactive elements in organization operating environment foment great challenges to internal auditing (Nuijten, et al., 2015). This implies that internal auditing should exercise due diligence to deliver excellence and adopt a framework that can deal with complexities in their organization operating environment in a sustainable manner (PWC, 2014).

In all this, the influence of theories and perspectives of corporate governance on organization governance structure and practice in an operating context are important elements to consider (Goergen, M. et al 2010). There are suggestions that internal auditing ought to pursue methodology that will address issues such as: assessing and handling of stakeholders’ competing interests, unclear boundaries and apparent interconnected between stakeholders’ interests and balance these will the requirements of the Standards (Mouri & Anderson, 2017).

From a project management point of view, which can aptly be adopted in managing internal audit activities, the five-complexity framework can be a combination of the following (PMI, 2013): -

Operational complexity- this is linked to project planning in the areas of scheduling and completion of project activities. It is opined that operational complexity increases with the size and activities of the organization.

Outcome complexity- these are complexities associated with unpredictable results of a project. This complexity could surge as internal audit ventures into consulting activities.

Environmental complexity – This emanates from the unstable and unpredictable from external factors. Therefore, controlling such complexity is challenging.

Stakeholder complexity- this category of complexity arises due to influence and interests of stakeholders. Internal auditing should take cognizant of the high sensitivity and stakeholders

competing interest based on their influence.

#### **2.4.4 Models of corporate governance**

It is not in the scope of this research to examine the different models of corporate governance in details or comment of the strength and weaknesses of each. The different models are highlighted here as a demonstration of the variations and complexities that corporate governance ecosystem presents to the actors in the domain. Models of corporate governance are further explicated in section 2.10.1 as evidence from research. This is the motivation behind this research; to examine existing theoretical construct within which innovation and adaptation can be grounded within the IIA International Professional Practice Framework.

#### **2.4.5 Corporate Governance in the Uganda context**

Corporate governance in Uganda is largely founded on the universal principles of corporate governance issued by the OECD, the Cadbury Committee and other pronouncements such as the Kings Committee Report of South Africa. Although most of the international guidelines underpin corporate governance in Uganda, implementation of the principles still faces the challenge of lack of clear structures and guidelines that should ideally be issued by the ICGU (Musaali, 2010). The general view of stakeholders, most notably the Uganda Parliament, is that the international guidelines need to be adapted to the Uganda economic and social context (Wanyama et al. 2006).

In keeping with the OECD Principles of Corporate Governance that emphasize segregation of responsibilities in terms of supervision, regulatory framework (OECD, 2004), Uganda has progressed in this aspect by enacting a number of basic laws to govern entities in both the public and private sectors. Fundamentally, the corporate governance legal framework hinges on the Companies Act 1964 (Musaali, 2010), and other Statutes creating public sector corporations such as the Uganda Revenue Authority (URA) and other state-owned enterprises. Other jurisdictions such as the CMA issues guidelines that stipulate minimum best practice standards to regiment listed companies in the capital market. On the other hand, the ICGU issues basic framework to guide all corporates, whether private or state-owned (Musaali, 2010).

Furthermore, in the financial subsector, Bank of Uganda enforces compulsory corporate governance codes for all financial institutions under the Financial Institutions Act 2004. As

stated earlier, URA is statutory institution created in 1991 under the Uganda Revenue Authority Act, Cap 196 (URA, 2016). It is an institution that is accountable to a number of stakeholders in its operating environment as it executes its mandate under the law that established it.

The discourses around perspectives of corporate governance have been documented in Uganda. In an empirical study, individuals in the Uganda corporate arena hold the view that stakeholder perspective should be advocated for instead of the conventional shareholder perspective (New Vision, 2016). Their argument is that shareholder perspectives tend to underserve other stakeholders and this could undermine long term sustainability of the corporate entity and the economy (Keasey et al. 1997: cited in Wanyama et al. 2006: p.59). Conclusions from the study suggest that although corporate governance in Uganda is founded on the OECD principles of corporate governance, the implementation of the principles is subject to contextual factors within the Uganda legal, regulatory and political frameworks (Wanyama, 2014). Other factors such as the economic, cultural, social and ethical considerations came out strongly as factors that might have a bearing on corporate governance practices in Uganda (Wanyama et al. 2006).

The assertion that contextual factors play an important role in shaping corporate governance practices has been acknowledged by the OECD when it recognized that it is not feasible to formulate a one-size-fit all governance policy that applies to all countries (Wanyama et al. 2009, p. 161). Therefore, the sustainability of the principles of corporate governance should hinge on adopting a stakeholder perspective of corporate governance (Andriof, et al., 2017). This postulation will have a bearing on the methodology applied in interrogating the state of internal auditing in the institution as articulated in chapter 3 on methodology.

### **2.6.0 The role of internal auditing in corporate governance ecosystem**

Despite all the variations documented in regards to the extent of implementation of the corporate governance codes (Cuomo, et al., 2016), internal auditing continues to be an essential component of corporate governance ecosystems (Desai, et al., 2011; Groff, et al., 2016). As it takes centre stage, different groups of stakeholders continue to demand for internal audit services that meet their expectations (Aghghaleh & et al, 2014).

Pioneering pronouncements and documentations of internal auditing as a professional

service in organization was issued in the early 1940s by the founding members of the IIA (Afza & Nazir, 2014). This officially institutionalized internal audit profession within the realm of corporate governance (Christopher, 2015).

Therefore, Internal audit value-add activities should include a mix of risk management, checking compliance and internal control efficacy at various levels in the organization (Gramling, et al., 2013).

Over the years, geopolitical and global economic dynamics have continued to impact organizations in significant ways (PWC, 2015). As a result of the developments, the role of internal auditing and its relationship with different stakeholders continues to change. This is evident by the changes in emphasis that are associated with each revision in the definition of internal auditing shown in **Table 1** and constant evolution in stakeholders expectation shown in Figure 2 that emerged after the 1940s, when internal auditors were expected to be fervent bookkeepers, verifiers and fraud detectors (Badara & Saidin, 2013). All the variations notwithstanding, the role of internal auditing in corporate governance still revolves around the provision of assurance on efficacy of risk management process and internal control system effectiveness as a responsibility to management and board of directors (Al-Akra, et al., 2016).

**Table 1: Different themes as internal auditing evolves**

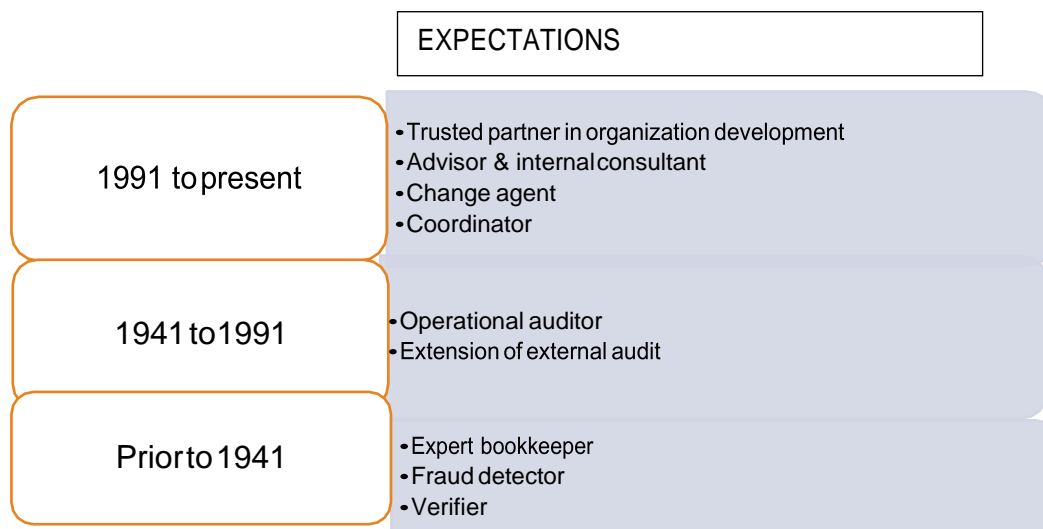
Year	Emphasis
1947	Primary focus was on accounting and financial matters and consideration for operating matters as a basis for protective and constructive <u>service to management</u> .
1957	Review of accounting, financial and other operations as a basis for <u>service to management</u>
1971	Review operations as a <u>service to management</u>
1978	<u>Emphasis changed to “Service to the organization”</u> rather than to management.
1981	Independent appraisal activity to <u>assist members of the organization</u> . “Members” being <u>emphasized here</u> .
1990	Independent appraisal function established within an organization to examine and evaluate its activities as a <u>service to the organization</u>

Adapted from (Gupta & Ray, 1992, p. 4).

The expectations of internal auditing role continued to evolve from the early 1940 until 1991 when the current definition of internal auditing was promulgated by IIA. The definition

widened the scope of internal auditing to include the audit of operational activities in their organizations (Allegrini, et al., 2011). The definition further heralded a new paradigm in which the demand for value-add auditing quickly moved the scope of internal audit function from being merely “beans counter” to a trusted partner (Jiin- Feng & Wan-Ying, 2011).

**Figure 2: Evolution in internal audit stakeholder expectations**



Adapted from (Lenz & Hahn, 2015)

The evolution in internal auditing has challenged internal audit practitioners to take note that using internal audit resources effectively goes beyond the provision of conventional assurance services that hitherto dominated perspective on internal audit role (Ernst and Young, 2013). Even though the evolving role of internal auditing appear clear cut, there are still complexities in organizations’ operating environment that pose great challenge to internal audit function. These complexities usually put a strain on internal audit resource in optimizing its value-add services to a wide range of stakeholders (Aghghaleh & et al, 2014). This constructively created the need to imbue stakeholder theory as another dimension in the study of internal audit function value- add role in organizations within the scope of assurance and consulting services as defined in the International Professional Practices Framework (IIA, 2017).

### 2.7.0 Internal audit services

The International Standards for the Professional Practices of Internal Auditing (Standards)

stipulates Assurance services and Consulting services as the two main categories of internal audit services covered under the implementation standards (IIA, 2017). These are services that have foundational tracing to the cluster of concepts huddled in the definition of internal auditing (IIA, 2016). The revisions in the definition of internal auditing that happened between 1947 and 1990 did not only give rise to different themes but also defined the internal audit scope and responsibility (Gupta & Ray, 1992) and continue to position internal auditing as a function with the capability to satisfy the ever increasing and complex demands for improved efficacy of risk management, control and governance processes in organization (IIA, 2016, p. 3).

However, there are debates amongst scholars and practitioners whether internal audit function can balance its resources to meet the demands of the two services since they are founded on different concepts and paradigms (Wilkinson & Coetzee, 2015). The continuing debates also highlight the dilemma to balance internal audit resource allocation that optimizes value addition that satisfy a wide spectrum of stakeholders with competing interests under the two broad perspectives of corporate governance (Ernst and Young, 2013).

While the emergent of “blended engagement” concept (Anderson, 2003) is also explicated as new development in the continuous improvement in internal auditing value-add mission examined below in sections 2.7.1 and 2.7.3, in this research, discussion on internal audit services is confined to the two broad categories of services conventionally mandated to internal auditing.

### **2.7.1 Assurance Services**

Internal Auditing (the Standards) defines Assurance services as: “an objective examination of evidence needed to provide an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.” (IIA, 2017). Within the context of internal audit activities, assurance impresses upon the internal audit function to objectively examine evidence to provide attestation to the effectiveness of the risk management, control and governance processes in the organization. For examples, assurance service can be performed to attest the fidelity of financial statements, organizational performance, compliance, system security, and due diligence engagements (IIA, 2016, p. 21).



Within the description, the Standards recognizes three parties that participate in the assurance service cycle. These are the organizational members who are directly engaged with the organization systems, as systems owners. The second party is the internal auditing function and the third actor are the user(s) of internal audit services (IIA, 2017). Assurance services are designed to bridge information asymmetry that underpin agency problem under the agency theory (Ernst and Young, 2013).

For all intent and purposes, assurance services are founded on a unique perspective compared to consulting services (Hasan, et al., 2005). Assurance service is meant to address information asymmetry that characterizes the principal-agency relationship (Mihret & Grant, 2017) founded on the agency theory construct (Mihret, 2014). This configuration tends to limit evaluation of internal audit performance in terms of information improvement at the expenses of other value adding services (Lenz & Hahn, 2015). To position internal auditing as a partner in organizational development (PWC, 2017), the definition of internal auditing impresses consulting services as articulated below in section 2.7.2.

### **2.7.2 Consulting Services**

Consulting Services are defined as: “advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility (IIA, 2017). Examples of consulting services cited in the standard include “counsel, advice, facilitation, and training” (IIA, 2016, p. 21).

The Standards stipulate that consulting services are advisory and is premised on stakeholder driven terms of reference (IIA, 2017). This is because the scope and expected output are usually negotiated and agreed between internal audit function and the management in the organization, all aimed at adding value and improving organization's risk management, governance and risk management processes (Abbot, et al., 2010). Strictly though, the standards stipulate that internal audit does not assume management responsibility (IIA, 2017). Reports from studies contend that internal audit function can add value to their organizations' competitive advantage by undertaking consulting activities (Shahimi, et al., 2016).

It has been observed that internal audit functions occasionally undertake consulting activities on request of senior management or audit committee, but not as part of internal

audit annual plan (Al-Akra, et al., 2016). The expectation of value of internal audit consulting activities has been challenged by the very Standards that the profession seeks to comply with. For example, attribute standard number 1120 and its subsections on the internal auditor individual objectivity limits internal auditor as some interprets the involvement of internal auditor in consulting services as a threat to their objectivity (D'onza, et al., 2015).

The argument has been modified to give rise to “blended engagement”, discussed below in section 2.7.3, as an initiative for satisfying stakeholders’ competing interests (Brajesh, 2010). Meanwhile, some have suggested that Internal auditing can leverage the potential areas for value-addition by undertaking the continuum activities presented in **Figure 3** (PWC, 2013).

**Figure 3: Potential areas for Internal Audit value addition**



Adapted from: PWC 2009; p.5

### 2.7.3 The “Blended Engagement” concept

Growing interest in corporate governance among scholars, practitioners and other corporate stakeholders has also brought with it myriad of corporate governance practices across the world (West, 2016). As earlier highlighted, several corporate governance codes have since sprung as the diffusion ripples across many nations (Zattoni & Cuomo, 2008) . However, due to the persisting stakeholder expectation gap, some writers are advocating for the promotion of “blended engagement” as a concept needed to address varied stakeholders value propositions (Anderson, 2003).

Contemporary internal auditing is no longer a matter of serving one master, but a multitude

of stakeholders (Hoos, et al., 2014). Internal audit function in organizations are expected to be responsive to changing and often conflicting demands from a myriad of actors in the corporate governance space (Abbot, et al., 2010). Accordingly, Internal audit functions are being pressured to optimize use of internal audit resources that maximize delivery of value to a wide range of stakeholders (Bolger, 2011).

Going by the definition, internal auditing is expected to deliver both assurance and consulting services within the constraints of internal audit resources (IIA 2017; Standards number 2030). Although the Standards give organizations and their internal audit function the latitude to agree on the “nature and scope” of the consulting services, the Institute of Internal Auditors is not clear on the types of consulting services internal audit function can offer (IIA, 2017: Standard Number 112). This therefore imply that such service is a subject that internal audit stakeholders are at liberty to demand from the service provider, in this case, the internal audit function. The challenge is for internal audit function to establish a framework that integrates the complex, dynamic and often conflicting value propositions of different stakeholders (Shahimi, et al., 2016) and still satisfy the provision of Standard 1100 regarding independence and objectivity (IIA, 2017).

Innovative internal audit functions in some organizations have found, albeit informal, ways of integrating the two services in their pursuit to align with different stakeholders’ value propositions (Florea & Florea, 2013). Blended engagement construct affords the internal audit function the opportunity to combine assurance and consulting services in a single audit to derive substantial benefits to a variety of stakeholders in the corporate governance structure of an organization (Head, et al., 2010) as it responds to different complexities in the operating environment (Raiborn, et al., 2017), including the intricate relationship between internal audit function and its traditional stakeholders discussed in sections 2.8.0 to 2.8.3.

### **2.8.0 Internal audit stakeholders**

Internal audit stakeholders are diverse and their interests often conflict (Allegrini, et al., 2011). The different constituencies of internal audit stakeholders include, though not limited to, audit committee, senior management, external auditors and board of directors as key actors in organization governance structure (Cohen & Wright, 2010).

More than ever before, stakeholder thinking has become the work phrase in describing whole round responsibility of internal audit function in organizations (Donaldson, 2002). In the wake of the many corporate scandals that reverberated across the world, questions are being asked of the whereabouts of the internal auditors when such impropriety was being perpetuated (Chambers & Odar, 2015). The model of corporate governance recognizes separate groups of stakeholders (Cohen, et al., 2010). Accordingly, there are multiple stakeholders such as the organization executives, labour organizations, investors, politicians and statutory bodies/regulators who have keen interest in corporate governance (Gramling, et al., 2013). In this study the multiplicity of internal audit stakeholders is recognized, but the focus will be on the audit committee, senior executives, external auditors and middle managers as key stakeholders (Swinkels, 2012).

In the early 1940's internal audit scope and reporting relationship was quite simple. Internal audit function was considered the "eye & ears" of the board (IIARF, 2011). Although the definition of internal auditing is explicit on the broad categories of internal audit services, it is not explicit on internal audit stakeholders. However, the Standards impresses key stakeholder groups as, the audit committee of the board of directors, senior management, external auditors and operational management (Hoos, et al., 2014). The responsibilities of internal audit function to its different constituents of stakeholders are articulated in sections below 2.8.1 to 2.8.3.

### **2.8.1 Audit Committee**

The Audit committee places reliance on information presented to it by internal audit function for purposes of executing their oversight mandate (Abbot, et al., 2010; Khelil, et al., 2016). In this regard, the internal audit function provides assurance services ranging from compliance, the integrity of financial reporting systems and internal control effectiveness & efficiency and fraud investigation (Al-Twajiry, et al., 2003; Abbott, et al., 2016). In addition to assurance services, internal audit function also provides the audit committee with consulting services relating to improvement in internal control (Gramling, et al., 2013). Which means, internal audit function reporting responsibility to the audit committee is informed by the need to address information asymmetry that exists between the audit committee and senior management, a typical configuration informed by the principal-agency challenges (Adams, 1994).

It is a relationship needed to bridge the apparent gap created by the remoteness of directors from their organizations (Mohammad, et al., 2016). This therefore underscores the critical need to have an “unconnected” function that provides internal assurance that the audit committee requires to undertake their oversight responsibility (Swinkels, 2012; Mihret & Grant, 2017).

In setting standards, the Institute of Internal Auditors presumes that quality of internal audit function performance has a direct positive relationship with and a key source of information that the audit committee can rely on to exercise their oversight role over management of an organization (Wanyama, 2014). In practice, internal audit function is taken to be a representative of the board of directors as this is typified in the Internal audit charter. Some writers describe reporting relationship between internal audit function, management and audit committee as a dual reporting relationship. In this case internal audit is functionally responsible to audit committee and administratively responsible to management (Stewart & Subramaniam, 2010). The dual reporting relationship or matrix organization has often been cited as a source of tension as internal audit is torn between serving two-masters (Abbot, et al., 2010).

### **2.8.2 Executive Management**

Executive or senior management is one group of stakeholder internal audit function is responsible to in an organization setting (PWC, 2018). The nature and purpose of internal audit function is well stipulated in its definition, thus, “Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” (IIA, 2004).

It is evident from the definition that internal audit function is expected to add value and improve organization's operations. At the centre of such operations is the senior management (Abbot, et al., 2010). One of the service portfolios of internal audit function that is stipulated in the definition is that of consulting services (IIA, 2017). Consulting activity of the internal audit function is to provide support to senior management or the executive (Ramamoorti, 2003). The provision of consulting services facilitates improvements in the areas of internal controls, process improvement and risk management (Chambers & Odar, 2015).

The nature of the relationship between senior management and internal audit function is that they are interdependent; senior management is expected to provide internal audit function with necessary information that can be used to identify areas for improvements, and internal audit function is expected to furnish senior management with their analyses and recommendations (Sarens & De Beelde, 2006).

Important to note also is that internal audit function and the executive members of the organization interact with each other on a day to day basis on matters relating to the organization (Khelil, et al., 2016). This means that the two groups are constantly involved in resolving issues that affect their organization (Chambers & Odar, 2015). However, in practice, the Attribute Standards number 1100 on Internal auditor independence and objectivity creates a situation in which internal auditors tend to keep their hands-off consulting services for fear of diluting their independence and objectivity. This is discussed below in section 2.9.4 as one of the complexities in operating environment that affect internal audit appetite to engage with consulting services.

### **2.8.3 External Auditors**

The relationship between internal audit function in organizations and external audit has long been established (Lee & Parker, 2016). The external audit standards give the external auditors the latitude to rely on works of internal audit function on matters relating to financial reporting (Desai, et al., 2011; Pike, et al., 2016). The standards further allow external audit to engage internal audit function to assist in performing certain tasks (International Federation of Accountants (IFAC), 2012).

In effect, the relationship between the internal audit function and external audit is designed to create efficiency and effectiveness of external audit since they often carry out their audits on annual basis (Messier, et al., 2011). The efficiency is mostly reflected in the amount of substantive works that the external auditors perform and sometime in reduction in external audit fees (Abbott, et al., 2012). Reduction in the time external auditors take on an audit is also considered a key factor in the relationship between external audit and internal audit function (Pizzini, et al., 2012).

Amongst other responsibilities, internal audit function has often been expected to add value to their stakeholders through services such as risk management, detection of irregularities in financial reporting (Prawitt, et al., 2012). These are all considerations that external

auditors look at when deciding on whether to rely on the works of internal audit function (IAASB, 2011). The scope, responsibility and relationship between internal audit and its key stakeholders are all subject to diverse factors in their organization operating context (IIA, 2017) and affect internal audit performance as discussed below in section 2.9.0

### **2.9.0 Internal audit performance evaluation**

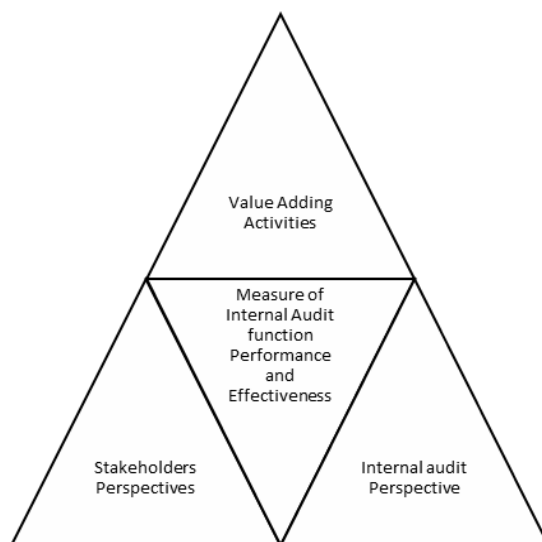
As a key player in corporate governance ecosystem, internal audit profession is required to comply with its guiding principles and core values (IIA, 2017). It should demonstrate measure of its performance relevant to stakeholders' value propositions (Al-Akra, et al., 2016). Since the early years when IIA embarked on the standardization of internal auditing, the standards offer little criteria for evaluating internal audit function (Hill, L.K. et al. 2009). This came to a head following high profile corporate scandals in the recent past, when interests in internal audit services has grown to new levels (Pizzini, et al., 2015).

Despite this growing interest, measuring internal audit function performance continues to invite diverse interpretations from distinct groups of actors in corporate governance ecosystem (Burton, et al., 2012) as illustrated in Figure 4. Moreover, the broad nature of the definition of internal audit has also generated numerous dimensions for measuring internal audit effectiveness (Roussy, 2013).

Literature on measurement of quality of internal audit services is largely based on the external audit perspectives (Hill, et al., 2009). The external audit "watchdog" perspective focuses on assessing input attributes such as competency of the individual internal audit staff, internal audit function independence in the organization governance structure as method of assessing elements that they believe guarantee value addition (Roussy & Brivot, 2016). Archival documents from the Global Institute of Internal Auditors focus on the strength of internal audit process as a measure for assessing internal audit effectiveness (Ziegenfuss, 2000). The Institute presumes that strict conformance with set standards and best practices guarantee value add by the internal audit function in any organization irrespective of the complex and dynamic context (KPMG, et al., 2012). Other writers posit that quality of internal audit services has been a subject of studies based on different areas of organization activities such as employee satisfaction, financial performance, etc. (Sharma, et al., 2016). Accordingly, different elements influence the

different perspectives of internal audit performance evaluation as discussed below in sections 2.9.1 to 2.9.11.

**Figure 4: Model of Internal Audit performance**



Adapted from: Seago; CBOK, 2015: p.13.

### **2.9.1 Influence of organization context on internal audit performance**

The dynamic and complex business environment in which internal audit activities are carried out continue to present an ever-growing list of challenges that the internal audit practitioners need to deal with as they undertake to add value to their organization's operations (IIARF, 2015, PWC 2015). These developments in organizations operating environment in the 21st century do not only present challenges but also opportunities for growth for the internal audit practitioners and policy makers in organizations (Bolger, 2011).

Development in technologies, swift integration of information, communication and technology networks, and fast-paced advancement of capabilities in communication have intensely fast-tracked the leap to globalization and added complexities that internal audit functions need to help management of organizations deal with (Chambers & Odar, 2015). Similarly, these advancements have also significantly added to the intricacy and sophistication in organizations' operations in the areas of corporate governance, risk management, controls, and amenability towards regulatory compliance (Christensen & Hirth Jr, 2014).



To the internal audit practitioners, the changes present greater value-addition opportunities in their respective organizations' operations. The challenge however is for the internal audit function to determine the "True North" (PWC, 2015) that aligns the internal audit value propositions with those of the stakeholders within the constraint of audit resources (Seago, 2015) depicted in Figure 4. The true north concept articulates and appeals to the use of a framework that enables consistent value delivery to a broader spectrum of stakeholders by internal audit function amidst rapid transformation that characterizes environment in which organizations operate (Nuijten, et al., 2015). Moreover, the influence of the environmental factors varies depending on the organization operating environment. One organization may experience dominance of one element compared to others depending on the level of governance maturity in an organization (Allais, et al., 2017). The idea behind governance maturity advocates for the formulation and enactment of desirable attributes such as leadership, systems, structures, processes, and communication to stakeholders that should be in place. Governance maturity is expected to feature at five levels; immature, developing, compliant, institutionalized and mature (Allais, et al., 2017).

### **2.9.2 Stakeholders' competing Interests**

The IIA Common Book of Knowledge contains two reports issued on 18<sup>th</sup> July 2018 by IIA based one-on-one survey of more than 1,000 internal audit stakeholders from 23 countries. The first report dubbed, "Voice of Customers", concluded that stakeholders' views on the expectation of value often differ and their interests' conflict, making meeting the demands of different constituencies of stakeholders difficult (IIA, 2018). The second report concluded that internal audit should move beyond assurance services and leverage advisory services to provide value-add to a wide spectrum of stakeholders (IIA, 2018).

Changes in organization operating environment do not only create new, diverse and often competing demands and expectations from stakeholders, but also prompted innovative ways through which the internal audit functions relate with their stakeholders (Brajesh, 2010). These emergences have further made the call for internal audit function to act in partnership-like manner with senior management as the internal audit function undertakes audit activities focusing on operations, as well as consulting activities aimed at improving different business processes and operations (Abbot, et al., 2010).

In practice, these swings in demand for different internal audit services have often left other stakeholders underserved and unsatisfied (Chambers & Odar, 2015). In some cases, the internal audit function has responded by scaling up their involvement in assessing financial risk and fraud investigations (Allegrini, et al., 2011). In other instances, internal audit function focuses on financial reporting (PWC, 2011). Stakeholders' interests often compete, and this gives rise to different and conflicting perceptions of how to measure internal audit value maximization (Brajesh, 2010).

It is therefore suggested that for continued relevance, interested parties want internal audit function in organization to rethink their role under the agency theory and extend the frontiers of their role beyond the internal audit standard procedures (PWC, 2014). With this comes the challenge of designing a framework for aligning diverse, dynamic and competing stakeholders' value propositions that can be consistently used in measuring internal audit function effectiveness and efficiency as opposed to heavy dependence on external audit perspective (Chambers & Odar, 2015).

Researchers suggests that to maximize internal audit function services require a mix of imperatives such as: the clarification of developing stakeholders' expectations, bridge the gap between internal audit standards and reality by developing a strategic plan, leveraging other risks and control functions, crafting a flexible audit plans, enhancing internal audit talent pool, establish stakeholder relationship plan and ensure the creation a performance scorecard (PWC, 2009).

This therefore suggests that internal audit function needs to determine its "true north" by "triangulating" senior management, audit committee and other key stakeholders' value propositions into a framework that consistently optimizes the delivery of value to a wide range of key stakeholders (PWC, 2015) as portrayed in the model of stakeholder expectation gap in Figure 5. It is evident from the relationship internal audit function has with its corporate governance stakeholders that the stakeholders' expectations often intersect (Carroll & NaEsi, 1997) (Donaldson, 2002)). That notwithstanding, the demands sometimes compete depending on the uniqueness and variety of the stakeholders (Abbot, et al., 2010).

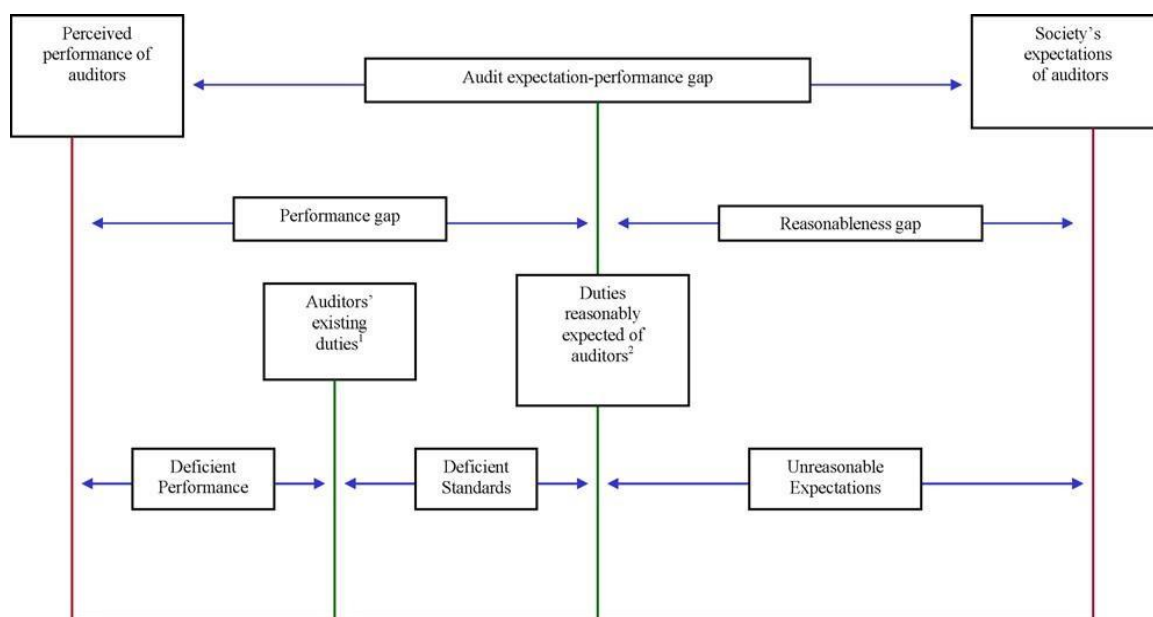
The competing demands of stakeholders inevitably stress the limited resources of internal audit function (Brajesh, 2010; Meshari, 2017). To deal with such competing demands, internal audit function requires a framework that it can rely on to align with the expectations of the stakeholders (Hill, et al., 2009), as is the case with "serving two masters"; audit

committee and management and their competing needs' (Abbott et al., 2010).

Moreover, stakeholders' perception of internal audit function value add role is usually subject to multiple interpretations by the different stakeholder's (Gramling, et al., 2004). The diversity in stakeholders' value propositions and demand for quality means that these stakeholders have interest in making suggestions that can improve performance of internal audit function to align with stakeholders' perception of value (PWC, 2015). The conflicting perspectives of internal audit value has continued to widen stakeholders' expectation gap and to the utter disappointment with internal audit performance (PWC, 2013).

This study worked within the construct of value chain to identify practical research agenda that can afford the Internal Audit function in the institution to work differently to maximize its value creation that satisfy a wide range of stakeholders in the organization governance space and within the boundaries of the IPPF (Standards).

**Figure 5: Model of stakeholder expectation gap**



Source: Porter (1993). Adopted from (Haniffa & Hudaib, 2007: pp.181).

### 2.9.3 Stakeholders' perspectives of internal audit value-add mission

Over the years, stakeholder thinking continues to take centre stage in the narratives of organization rule of engagement (Andriof, et al., 2017). Despite these developments, stakeholder as a theory is still subject to multiple interpretation (Miles, 2017). As mentioned

earlier, internal audit function stakeholders' expectations of internal audit quality are diverse and often competing (Abbot, et al., 2010). What is not in dispute is that all these stakeholders expect to maximize internal audit function value in their own domain (KPMG, et al., 2012).

These variations are antecedents for stakeholders to hold different views for assessing internal audit function quality in their operating context (Harrington, et al., 2015). In section 2.8.0 (above), it was also explained that a typical corporate governance structure is constituted by multiple stakeholders; senior management, audit committee, middle management and external auditors, whose expectation of internal audit value add role depend on several elements in the organization environment (Nuijten, et al., 2015).

Another complexity that internal audit function contends with is regarding compliance with the International Standards for Professional practice of internal auditing (Standards). This is further explained in section 2.9.4 below.

#### **2.9.4 The Standards and internal audit performance evaluation**

The Standards are fundamentally principles-based and they set out requirements that generally guide the practice of professional internal auditing at the global level. International outlook notwithstanding, the Standards recognize the dynamics and complexities in different organization operating environment and their effect on the practice of internal auditing (IIA, 2017). In the preamble on the key purpose of the *Standards*, which apply to internal audit staff and their audit activities is: to serve as mandatory component of the IPPF, provide the framework needed to promote value add services of internal auditing, put in place a basis for evaluating the internal audit performance and foster improvement in processes and operations in organizations (IIA, 2017).

The internal auditing standards (the Standards) characterize internal auditing as objective, systematic and control mechanism instituted to close information gap and reduce complication in organizations management information systems (Flesher, et al., 2000), a view that reinforces the agency theory (Adams, 1994). However, rising complexities in organizations' operating environment render the traditional audit conformist approach less effective in satisfying organization challenges that come with these complexities (Nuijten, et al., 2015). Internal auditing can only keep pace with the dynamic and complex situations in organizational operating environment by pursuing methods that can effectively deal with the different situations (Geyer, 2012).

Looking at organization environment using the stakeholder theory lens, which is subject to several different interpretations, lend credence to policy makers to pay attention to contextual dynamics and complexities in designing internal audit policy and programs (Miles, 2017). Internal auditing can provide more value to organization's operations by monitoring the interactions between the elements and factors in the environment by adapting a forward-looking approach (Spira & Page, 2003). This view therefore challenges the validity of the move to standardize internal audit activities within the confine of knowledge areas as revealed by the gaps that have persisted in prior studies on corporate governance (Allegrini, et al., 2011).

It has been suggested by some writers that senior management and board members do not believe that adherence to standards is a sure deal for the delivery of value by internal audit practitioners (Lenz & Hahn, 2015). Section of the IIA Standards designed to regulate performance "Performance Standards" contains more than 30 sub- sections. Apparently, all the Standards are inward-looking. For example, Standard number 2000 "Managing the Internal Audit Activity" states: "The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization". The standard displays an overenthusiastic interpretation by referring to the definition of internal auditing and internal audit charter and mutedly mentions stakeholders. The requirements for Internal charter are stipulated in Standard number 1000. However, standard number 1000 makes no mention of stakeholders. Subsequent sections of the Standards do not give guidance on stakeholder management as a key performance area. This would suggest therefore that internal audit performance should be assessed with due consideration of the influence of the dynamics in organization operating context.

With the emerging complexities in organizations operating environment, the purpose and responsibility of internal audit function are being challenged in many ways. For example, the scope of internal audit activities as stipulated in the Standards is being challenged for its inadequacy in addressing the nature and reality of the value propositions of the internal audit stakeholders (Chambers, 2014).

Other criticisms of the scope of internal audit activities as stipulated in the Standards assert that the "add value" rhetoric is merely inspirational and a selling gimmick which does not address what internal audit is meant to be (Bolger, 2011). It is also apparent that different

sectors such as the Basel Committee on banking supervision are beginning to enhance internal audit performance in their different jurisdictions by postulating guidelines on internal audit effectiveness that go beyond the IIA definition of internal auditing and internal audit standards to address the unique organizational context (Al-Matari, et al., 2016).

Key point is that situations vary from organization to organization, with these variations come the challenges of complexities that render the standardization of internal audit practice less attractive (Cohen & Wright, 2010). In which case, incorporating the dynamics of stakeholders' value propositions in internal auditing performance value chain is key in meeting their expectations within an organization context (Homes & Noel, 2015). This is being resounded as stakeholder thinking continues to dominate the debate on internal audit scope, responsibility and engagement (Adriof, et al., 2017) within the value chain framework Figure 6 explained below in section 2.9.6.

### **2.9.5 Other organizational dynamics and internal audit performance**

To highlight the recognition of the importance of uniqueness that characterize organizations context, the Institute of Internal Auditor gives latitude for flexibility in determining the nature of assurance and consulting services that internal audit function should include in the internal audit charter (IIA, 2012). The Standards, Attribute Standards numbers 1000.A1 and 1000.C1 stipulate that internal audit charter should clearly define the nature of both assurance and consulting services that internal audit function is obliged to provide, while considering their organization operating context (IIA, 2017). On internal audit resource management, Standard Number 2030 uses three key words, such as "appropriate", "sufficient" and "efficient" to emphasize judicious internal audit resource management by Chief Audit Executive. IIA's further interprets "Appropriate" to mean the application of a combination of technical knowledge, skills, and other competencies in performing internal audit workplan. On the other hand, the standards interpret "Sufficient" in terms of the quantity of internal audit resources required to accomplish internal audit workplan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan" (IIA, 2016).

Key point to note is the importance of stakeholder involvement in the formulation of the kind of assurance and consulting services to be included in the internal audit charter that most internal audit charter inadvertently misses out (Chambers, 2014). The audit charter is an

official document that outlines the purpose, responsibility, authority and position of internal audit function in an institution (IIA, 2010). Organizational context is a quality factor that have undeniable influence on the quality of internal audit function services in that organization (PWC, 2015). Contextual factors are considered the foundation on which other elements of quality (inputs-processes -outputs-impact) are laid; it defines the control environment, legal and regulatory factors, amongst others, at play within the operating environment (Francis, 2011). It is therefore important that the internal audit function appreciates these elements in the context to accurately determine the scope of their assessment of quality (Abdolmohammadi, 2012).

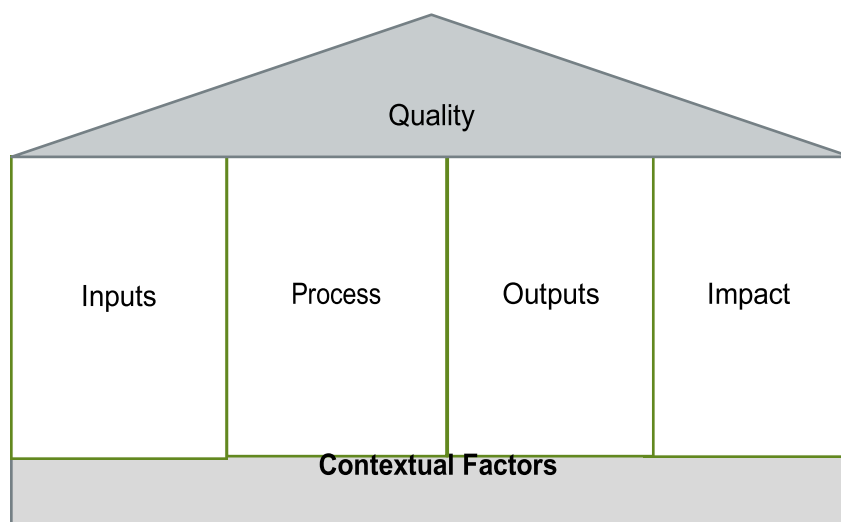
Audit committee oversight role is considered one of the contextual factors that plays out in judging quality of internal audit function (Abbott, et al., 2012). Some authors assert that the totality of quality of corporate governance ought to be the focus of external auditors as an outcome of a combination of various element in the internal audit function value chain (Desai, et al., 2010). The influence of the organizational operating context on the reliance of external auditors on internal audit function presupposes that all the other corporate governance stakeholders to internal audit function also consider the contextual factors in assessing the quality of internal audit performance (Badara & Saidin, 2013).

### **2.9.6 Value Chain framework in the evaluation of internal audit performance**

The value chain concept was first hatched in the 1980s by Porter as a construct for developing competitive advantage in organization strategy formulation (Caruana, et al., 2000). Value chain concept can be placed within the “system thinking” view of organizations (Homes & Noel, 2015). Applied to internal auditing, the idea of value chain assumes that internal audit function value chain is made of up of loci of values resident in inputs, transformational process, throughputs that needs to be exploited to align internal audit function value add activities with stakeholders’ value expectations as shown in Figure 6 (IIA, 2012).

The multidimensional construct of internal audit function value chain should be aggregated in order to measure the impact of the internal audit function activities in relation to the different stakeholders’ constituencies whose value propositions are domiciled in the different segments of the value chain (IAASB, 2011). The different segments; inputs, processes, outputs, outcomes and contextual factors in the internal audit function value chain are explained below in sections.

**Figure 6: Framework of Internal Audit Function Value Chain**



*Adapted from: IAASB, 2011*

### **2.9.7 Inputs**

This segment refers to the characteristic competencies that the internal audit function and internal audit staff presents in structural terms. This includes the contents of the internal audit charter, internal audit function mission and objectives and the internal audit resources (IAASB, 2011). External auditors rely on inputs as a dominant measure for assessing their reliance on internal audit function (Gramling, et al., 2004). Although it may be assumed in theory that inputs have direct influence on output, in practice, this does not necessarily result into desirable outputs or impacts (Ayuso, et al., 2014). For example, external auditors may inappropriately get satisfied with the structural form, such as professional competence of internal audit staff to rely on the work of internal audit function but miss out the importance of process in their assessment of internal audit function in an organization (Harding & Trotman, 2009).

This means that using inputs in exclusion of the other elements of quality in the internal audit value chain perpetuates the stakeholders' expectation gaps (Badara & Saidin, 2013). As part of the quality value chain, assessment of internal audit function quality should look at the process followed in arriving at the output and in accordance with the OECD stakeholder perspective (OECD, 2017) and Sir Adrian Cadbury societal perspective of corporate governance (Tricker, 2015). It is a construct that is highly addressed in the IIA Standards. The IIA Standards recognizes that internal audit activities are conducted in diverse legal, cultural and social settings (IIA, 2017).



The IIA emphasized that the “Standards are principles-focused and mandatory”. The two broad sections of the Standards give guidance on “Attribute” and “Performance”. The IIA asserts that these standards are “internationally applicable at organizational and individual levels”.

The attribute standards echo the ‘three-factors’ attributes postulated in the external audit standards. In the internal audit function value chain referred to in Figure 6. This is ideally a measure of value within the input element in the internal audit function value chain. The attribute standards measure areas of internal auditor technical competency, professionalism (due care), internal audit department level of independence used to gauge objectivity and issue relating to internal audit charter and internal audit function interaction with the board of directors, etc (Christensen & Hirth Jr, 2014).

Important to note are some emerging challenges caused by the tension between IFAC and IIA. In its recent pronouncement IFAC revised external audit standards and guidance on external audit reliance on the work of internal audit. Apparently, the revision does not give reference to IIA and its standards and guidance (IAASB, 2012). This development highlights the important notion that developing a universal framework for measuring internal audit value is still far-fetched (Chambers, 2014).

### **2.9.8 Process**

Within the internal audit function value chain are the process, activities, phases, conduct, behaviours undertaken to convert the inputs into outputs by the internal audit function (Francis, 2011). By their nature, processes in the value chain are very pertinent and constitute key elements in the assessment of internal audit function. Inputs would not be usable unless they are taken through credible activities that converts them to outputs. In practice, throughputs may be of inferior quality unless activities, phases and behaviours put into convert inputs by highly qualified and competent internal auditors are marred with biases and systemic flaws in the conversion processes (KPMG, et al., 2012).

In this case, the processing stage in the internal audit function value chain is considered important by stakeholders since by its nature, arriving at audit conclusions requires making professional judgements that are consistent with the reality in their organization operating environment (Abdolmohammadi, 2012). To ensure quality, as stipulated in performance standards, audit activity which includes, internal audit resource management, quality of

communication (IIA, 2017) are necessary to provide assurance that internal audit function and the method of processing information meet the dual cogency of theory and practice (Lint, et al., 2011).

### **2.9.9 Outputs**

Internal audit activities undertaken to convert inputs by exerting processing rigour are what constitute outputs such as the audit report (IIA, 2017). This view of output in practice is based on the quality of audit reports that the internal audit function issues to management. The reports are subjected to several tests to ascertain accuracy of findings, implications and audit recommendations. It would suffice to say therefore that measuring output is a lot easier than measuring processes. Which mean that stakeholders are not only interested in audit reports, but needs be assured of the processes through which the reports are issued. This has been particularly held true by stakeholders who expect to rely on internal audit reports if they are timely, properly & effectively communicated and relevant for the purposes achieving organizational objectives (Burton, et al., 2012).

### **2.9.10 Outcomes/Impact**

Impact as a measure of quality in the internal audit function value chain is taking center stage amongst a wide range of stakeholders to internal audit function. This is closely linked to the quality of outputs. It is an assessment of reality as it were (Bonner, 2008). In organizational practices, outcomes from internal audit function outputs are usually seen in the changes/improvements that come as a result of the implementation of certain recommendations (Christensen & Hirth Jr, 2014). It is therefore not surprising that outcomes are applied in judging the quality of internal audit function value add role in their organization by separate groups of stakeholders (Peecher, et al., 2013).

It is important to appreciate that measuring performance of internal audit function has taken many dimensions beyond what is stipulated in the three-factor focus for external audit standards (Abbott, et al., 2012). The principal elements that form the pillars of quality: inputs, processes and outputs and impact, are theoretically reasoned to be associated with one another. It is further urged that the association between the elements are not necessarily a causal relationship in practice (Ilgen, et al., 2005).

Suffice to say that the linkages between the four elements do not translate to automatic

assurance of quality. They ought to be configured in a balanced way to align with the expectations of the different constituencies of stakeholders or actors in the corporate governance arena (Ayuso, et al., 2014). Each dimension fundamentally affect quality and is very important to different stakeholders in varying proportions depending on the context in which the organization operates (Soh & Martinov-Bennie, 2011).

It is evident from the foregoing review that varying description of effectiveness exist. The position taken in this study is that internal audit function is poised to deliver value to its organization if it engages with its stakeholder in discussing and understanding value propositions from different stakeholder constituencies. It is only then the function will help its stakeholders, and therefore, the organization in navigating the dynamic and complex disruptions in the operating environment (PWC, 2017). This is what underpins the objective of this research; to work with internal audit function and its stakeholders to improve risk management and governance processes in their organization (IIA, 2017).

#### **2.9.11 System thinking and value chain framework**

One of the continuing challenges to internal audit function in modern times is how to balance effectiveness, efficiency and economy. The three “Es”, where effectiveness is interpreted as “doing the right thing”, efficiency translated as “doing things right” and economy looked at as “doing things cheaply, are buzz words that dominate measurement of performance in various disciplines, including internal auditing (Chambers & Odar, 2015). One can juxtapose the three Es within the construct of system thinking and internal audit value chain concept (Homes & Noel, 2015) of Inputs, processes, outputs and outcomes (IAASB, 2011) as illustrated in Figure 6. This will highlight effectiveness as a single most sought-after measure of performance that cuts across the entire value chain. It is no longer disputable that diverse constituencies of stakeholders expect internal audit function, regardless of what level of efficiency internal audit processes achieve in audit projects, or how cheaply such projects are executed, internal audit needs to balance all these with effectiveness as evidence of value add (Allegrini, et al., 2011).

Internal audit function tends to optimize internal audit resources aimed at exerting positive impact on the quality of corporate governance and risk management processes in their organizations by undertaking risk-based approach (Lenz & Hahn, 2015) and yet this approach tends to leave out other areas of operations as immaterial. Internal audit function

is expected to provide its services to diverse constituencies of stakeholders in an organization corporate governance space. It is therefore expected to undertake the review of a wide range of operational expanses of an organization (Roussy & Brivot, 2016). This expectation is further reinforced in the OECD fact book on the implementation guidelines issued to guide the implementation of corporate governance in organization (OECD, 2017).

Nonetheless, the adoption of the universal perspective of corporate governance and the definition of internal auditing (IIA, 2017), often clash with the unique, complex and dynamic context that characterize organization operating environment. It is therefore not viable to consider a one-size-fit-all approach in assessing the internal audit function value addition role without considering the uniqueness of organization operating context (Bolger, 2011) as interests of distinct groups of stakeholders compete for internal audit resources at different space and time (Brajesh, 2010).

#### **2.10.0 Evidence from Research**

In terms of research, the concept of corporate governance has concentrated more on how codification and implementation of the concept have the potential to promote good governance, moreover with most researches paying little attention to stakeholders' perspective (Diouf & Boiral, 2017).

#### **2.10.1 Models of corporate governance**

The need to adopt context-oriented approach to corporate governance has also been resounded in research conducted by the Harvard Business School. The research recognizes the complex dimensions of organizational operating environment shown below in Table 2, as critical in successful delivery of projects or services (Hambrick, et al., 2008). The report further advises organizations to develop structures, processes, policies and procedures that is unique to their situation (Tricker, 2015). Important to note is that the OECD definition of corporate governance mutedly refers to "relationship perspective" and ambiguously highlights stakeholders as "other participants" as essential elements in corporate governance (OECD, 2017).



This perspective was reemphasized when the "societal perspective" of corporate governance took centre stage. The societal perspective postulates that corporate governance ought to take the "full set of legal, cultural, and institutional structure" that

balances stakeholders needs (Tricker, 2012: p.32). This proclamation resonates with Sir Adrian Cadbury assertion that corporate governance has evolved beyond the need to satisfy only shareholders' wealth maximization objectives to that of pursuing a balance between economic and societal needs (Carcello, et al., 2011). This assertion then was amplified in the Cadbury report when it was stated that:

“Corporate governance is holding balance between economic and societal goals and between individual and communal goals. The corporate governance goal is there to encourage the efficient use of resources and equally to require accountability for the stewardship of the resources. The aim is to align, as closely as possible, the interests of individuals, corporations and society” (Sir Adrian, 2000: cited in Tricker, 2015: p.32).

The societal perspective and scope of corporate governance highlighted by Sir Adrian Cadbury in his presentation to his audience in the World Bank 2000, “Global Corporate Governance Forum”, resonates with the view of corporate governance schematic model being advocated by the IIA as shown in Table 2.

**Table 2: Dimensions of Corporate Governance**

	Structure		Process
	Formal	Behavioural	Behavioural
<b>Organization</b>  <b>Inward</b>	<u><b>Economics</b></u> Designing optimal incentive & monitoring structures	<u><b>Power</b></u> Showing how positions affect power/politics within organizations	<u><b>Social psychology</b></u> Revealing how decision-making processes may be biased
<b>Organization</b>  <b>Outward</b>	<u><b>Legal</b></u> Creating and enforcing governance rules and regulations for societal benefits	<u><b>Social networks</b></u> Showing how power and information flow in inter-organizational networks	<u><b>Symbolic management</b></u> Understanding how symbols and language can address normative compliance with societal norms and values

Adapted from: Zajac and Westphal, 1998: (Hambrick, et al., 2008, p. 382).

Furthermore, research on the dynamics of corporate governance practices in organizations should take cognizant of the contextual frame used in designing their governance structures (Bottenberg, et al., 2017). This approach resonates with the view that advocates for the adaptation of internal audit activities to the “law of requisite variety” (LRV) as a way of promoting context-sensitive approach to facilitate the alignment of activities with the prevailing reality in the organization operating environment (Poulis & Poulis, 2016, p. 507).

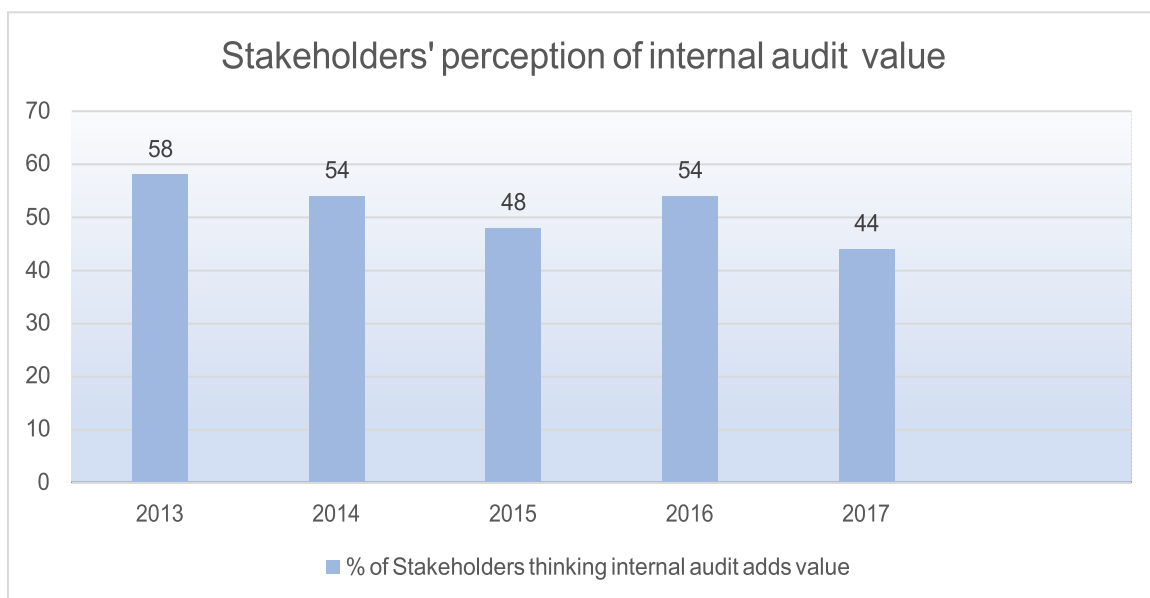
The LVR is a doctrine that can be appropriated to explain and advise organizations leaders to be adaptive to complexities in the operating environment. The LVR found its place in the

corporate governance practice in the wake of multiple high-profile corporate scandals that bedevilled the world in the recent past (Martineau, et al., 2017). The essence of LVR is to challenge organizations to put in place a variety of controls or ethics programs that can match the dynamic and complex factors that characterize organizations operating environment (Martineau, et al., 2017). Relatedly, the internal audit profession is being implored to check the robustness of their organization’s system of governance in handling risk associated with the complexities in the operating environment (Ayuso, et al., 2014).

### 2.10.2 State of internal audit value-add mission

The culmination of the complex and dynamic interactive elements associated with corporate governance fluidity pose great challenges to internal auditing performance (Nuijten, et al., 2015). This is well documented in the state of internal auditing survey report by PWC. Apparently, there is growing concern among internal audit stakeholders over internal audit declining quality of services (PWC, 2017). The five- year successive global surveys were conducted by PWC to assess senior management, audit committee, chief risk officers and other stakeholder’s perceptions of internal audit value-add services mandate (PWC, 2018).

**Figure 7: Global study on the state of Internal Audit Profession**



Source: PwC State of the Internal Audit Profession Study, 2013-2016 (PWC, 2016, p. 1) and (PWC, 2017, p. 2); (PWC, 2018).

In Uganda, a similar concern was alluded to in April 2016 by the Chief Justice of Uganda at the annual convention of the Institute of Internal Auditors- Uganda Chapter (New Vision,

2016). The Chief Justice underscored the importance of internal auditing in both private and public sectors and counselled that internal audit ought to “promote and uphold the highest professional and ethical values” (New Vision, 2016). The Chief Justice also emphasized that internal audit practitioners should ensure that their activities are stakeholder-based and value-driven.

### **2.11.0 Summary and Conclusions**

Corporate governance concept, a domain within which internal auditing is conducted, continues to dominate much of the global management practices and academic literature. The notion is pervasive and important for the stability of all organizations, whether for-profit, charities, public institutions, co-operatives or academic institutions. The global appeal of corporate governance notwithstanding, the notion is still a subject of unresolved complexities such the definitions corporate governance, varied practices and polarized perspectives. Apparently, there is yet no one-size-fit all model of corporate governance.

Developers of global corporate governance policies, guided by the dynamic interplay between the legal, regulatory, supervisory, political, cultural, social, economic and ethical factors in corporate governance have recognized the complexities and the general state of flux that feature in different jurisdictions and organizations operating environments.

In response to the unique context in which corporate governance is practiced, leading world organizations such as the World Bank, NEPAD, OECD, Cardbury Committee, IoD, and others have remained steadfast in promoting corporate governance principles. They have responded to the variations by promulgating governance codes to balance the influence of the different perspectives on corporate governance to ensure that stakeholders’ interests are ethically protected. Despite the plethora of corporate governance codes across the globe, different theoretical concepts underpin the formulation of corporate governance policy.

Internal auditing as a key control mechanism in corporate governance has long been established and continues to evolve. The general view is that internal auditing assists organization to meet its objective. What is clear is that the agency theory has dominated corporate governance policy formulation and relationships between different actors in organizational governance structure.

After more than 70 years of official standardization of internal auditing, criteria for measuring internal audit effectiveness is still a subject of different interpretations. Researchers on corporate governance have also tended to design the research agenda based on the agency theory framework. This has been criticized by some writers who contend that basing research design on the agent-principal relationship construct focus on internal audit attestation and shareholders wealth maximization objective and yet the demand for wider scope is needed to address complex and dynamic nature of organization operating environment.

Evidence from IIA global internal audit surveys on internal audit function core competency studies reveal that in practice, internal audit function conformance to the IIA standards are low. For example, one study reveals that only 46% of internal auditors conform to IIA Standards. Another survey discovered that only 31% of internal auditor function conform to IIA Standards.

Another gap is related to the ambiguity on what constitute assurance and consulting services as defined in the IIA Standards. The Standards have also been challenged for being unclear on what constitute “requisite skills”. For example, Standard 1210 on “Proficiency”, requires internal auditors to possess the requisite skills and competencies required for them to execute their responsibilities. However, all through the 12 Standards with at least 50 guidelines, the knowledge areas and skills have not been clearly stipulated. Lack of clarity on who internal audit function key stakeholders are, also present yet another cross-road situation to the internal audit practice.

Therefore, interrogating governance practices in an institution should be contextualized and the relationship between different parties in governance structure in an institution should be well articulated.

It is believed that using IIA Standards in its current form inherently limits the possibility of aligning internal audit scope with different stakeholders’ diverse interests and prolong the time taken to close stakeholders’ expectation gap.

As earlier noted, the internal audit profession is losing ground as practitioners’ grapple with the combined effect of the highlighted gaps. The way forward is to engage with the practice in an action research project to examine other theories that can supplement the agency theory. This will underpin the formulation of a multi-theoretical corporate governance policy that is practically relevant in the context of the institution.

Engagement with the practice will also offer opportunity to construct a matrix of value- add



activities that will help the internal audit function place stakeholders' interests in the right segments of its value chain.

Literature is rife with the assertion that internal auditing as a key control mechanism in corporate governance offers rich ground for research. However, most research on internal auditing have been framed on the dominant agency theory and labour process theory, which theories have fallen short in explaining how internal auditing should respond to the growing complexities in organization operating environment. This has also been emphasized in several publications.

In its 2014 publication codenamed "the pulse of the profession", the IIA Audit Executive Centre, together with Risk & Business Consulting Firm, Protiviti and professional accounting firms, KPMG and PWC issued a global report on "Enhancing value through collaboration".

The report emphasizes alignment with stakeholders' expectations as one of the key focus areas for internal auditing. This recommendation resonates with the assertion that activities of internal audit function are carried out in complex and dynamic organization environment. Therefore, as the concept of collaboration becomes core in value co-creation, it is also pertinent for internal audit function to go beyond the mechanistic standards and embrace a multi-theoretical approach to the formulation of governance policy and identify where interests of different stakeholders' interests are domiciled in the value chain.

In this research it is recognized that measuring internal audit effectiveness is a subject of organization operating context. Therefore, the focus is to examine other theoretical persuasions that can supplement the agency theory as a foundational construct of internal auditing. Whatever theoretical perspective is at play in a particular organization context, what is clear is that organization leadership is under obligation to be controlled and supported to achieve organization goals. This further supports the notion that internal auditing plays a key role in ensuring societal stability, a view that was advanced earlier by Adam Smith in the 1700s that organizations should promote mutual interests that exist between economics and ethics. However, the IPPF and Internal Auditing Standards are dominated with pronouncements that promote the agency theory which has been criticized as inadequate in addressing complexities in organizations' operating environment, a concern highlighted in one of the principles in the "concept of governmentality", thus supporting a case for formulating corporate governance policy as a subject of multiple theories for it to be practically relevant in different operating context.

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1.0 Introduction**

The next thirteen sections and related subsections of the chapter expound the scaffolding of different elements applied in choosing specific procedures employed to select participants, collect and analyse information about internal audit practice in the institution as part of the research design and implementation.

Section 3.2.0 and its subsections explain the foundation of the research design based on the researcher's: view of the nature of reality, the interpretive framework, set of values and the research approach as the four aspects of the philosophical assumptions adopted in the research design.

In section 3.3.0, qualitative approach is explicated as a dominant method of inquiry in this research. This choice is informed by the researcher's recognition that the nature of the research topic requires interpretive approach to understand the interactive complexities that underpin internal audit stakeholder's perception of value in the institution's operating context.

Section 3.4.0 explains Action Research as a preferred research strategy in this research. Choosing this strategy is motivated by the need to involve purposefully chosen participants from the different stakeholder constituencies in the institution's governance structure in a dynamic interactive process, in order to gain insights into their value propositions. The section also explains the adoption of cross-sectional studies as the preferred time horizon in this research.

Section 3.5.0 gives account of the researcher reflexivity by declaring the intersection between the researcher's set of values and those of the participants. The declaration of this intersection is to introduce transparency in and increase credibility of the research process.

Section 3.6.0 and its subsections present detailed explanations of the story of how: the process of research ethics application was managed, permission to gain primary access to the research site was obtained, the researcher navigated the political dynamics within the institution. It also gives account of how secondary access was managed to secure participants' informed consent after they had been selected as highlighted in below in section 3.7.0.

Section 3.7.0 articulates the researcher's engagement with the process of selecting participants using the 2 x 2-interest-influence matrix. The section also explains how selected participants were grouped into different stakeholder constituencies within the context of the institution's governance structure.

Section 3.8.0 explains the researcher's preliminary engagement with the selected participants to prepare grounds for constructive engagement with them in refining the research topic through the problematization process and the participants involvement in co-developing the action research implementation plan.

Data collection protocol is explained in section 3.9.0 and its subsections. The subsections explain subtopics such as: examination of the institution's reference documents, the refinement of the research problem and how, as co-researchers, the participants' anxiety was handled.

Section 3.10.0 gives account of the enactment of semi-structured interviews based on interview guides and recording the interview notes thereof. The section also explains the researcher engagement with a follow-up interview process to authenticate the participants' representations.

Section 3.11.0 and its subsections explain approaches to data analysis. As part of data analysis, the section also reflects on the challenges encountered when the researcher attempted to use NVivo as a Computer Aided Qualitative Data Analysis Software (CAQDAS).

Section 3.12.0 and its subsections give account of how the quality of this research was established to satisfy the requirements of scientific rigour and practical relevance within the action research strategy. Furthermore, the perspectives and theoretical constructs used in testing the validity of participants' representations are explained as part of the research quality assurance.

Section 3.13.0 explains the conduct of debriefing of participants as part of the research completion process. To disprove the notion created in some literature that debriefing in research could be applied in a research process where deceit is involved, it is explicitly asserted in this research that no deception was applied at any point; before, during and after this research. Participants informed consents were obtained and documented in the Participants Information Sheet (PIS).

Section 3.14.0 presents the summary and conclusions section. In this section, key points on the steps taken to complete this research design and key lessons learnt during the research design and implementation are explained.

### **3.2.0 Philosophical assumptions**

This research is conducted within the social science domain, with a focus on the interpretation of individual meanings, purposes and intentions underlying internal audit stakeholder's perception (Hopper, T. & Powell, A. 1985). The researcher approached internal audit stakeholder's perception, as an organization phenomenon, with both explicit and implicit assumptions about the social nature of organizations and the way the phenomenon can be investigated (Burrell, G. & Morgan, G. 1979).

The aim of the research is to recommend institutionalization of an existing theoretical construct in corporate governance. It is envisaged that enacting such existing theoretical idea in the development of internal audit policy framework will facilitate the optimization of internal audit services to a wide range of stakeholders within the boundaries of the IPPF. In line with the aim of this research, subsections 3.2.1 to 3.2.4 below present discussions on the researcher's view of the nature of reality, interpretive framework, set of values and biases and frames for logical reasoning as foundation for investigating the stakeholder's perception phenomenon.

#### **3.2.1 Researcher's view of the nature of reality**

Over the years, organizational needs have become so dynamic as technological changes, complexities in systems, activities in organizations abound and significantly impact internal audit value-add mission (PWC, 2015). In order to interrogate perception on internal audit effectiveness, the researcher commit to "subjectivism" instead of "objectivism" (Saunders, et al., 2015, p. 131), as a perspective on the nature of reality in regard to organizations as social systems (Nuijten, et al., 2015).

The researcher recognizes that evaluation of internal audit effectiveness as a key control mechanism in corporate governance ecosystem (IIA, 2004) has for many years been influenced by the agency theory as a dominant orthodoxy (Adams, 1994). In keeping with the elements of the sociology of organization behavior, the fundamentals determining the researcher's view of the nature of reality (Burrell, G. & Morgan, G. 1979) is to commit to "subjectivism" (Easterby-Smith, et al., 2012) as a view of the nature of reality.

This is informed by two arguments.

One argument is that although internal auditing derives its authority and responsibilities from internal audit charter and operates within a prescribed governance structure which could be similar to the ones in other organizations, the context in which they operate differ (Aguilera, et al., 2016). It is plausible to commit that internal audit effectiveness is subjectively evaluated based on stakeholders' value propositions within a particular context (Chambers, 2014), and that stakeholders have competing interests and their perception of value vary depending on their view points (Brajesh, 2010). Therefore, stakeholder's perception of value is a result of complex and dynamic interactions between the different actors in the world of business and management (Ayuso, et al., 2014). This view contrasts with the assertion attributed to CIIA perspective, mentioned above in section 1.3.0, that internal audit effectiveness is measured on the basis of auditor's qualification, skills and adherence to the international standards. It is therefore prudent to hold the view that understanding internal audit stakeholders' perception of value can plausibly be achieved by interpreting the way in which they are socially framed (Hopper, T.& Powell, A. 1985).

The second argument is that although management works within their prescribed job descriptions and organizational standard operating procedures, management brings their own meanings to their duties and fuse them with the way they think their duties should be executed, moreover, the structural aspects of their actions vary according to the organization operating context (Saunders, et al., 2012). Therefore, as a management researcher, the researcher commits to the view that meanings in organization settings are socially constructed by the actors and that there are many truths and interpretation of facts depending on the different viewpoints of the evaluators (Easterby-Smith, et al., 2012, p. 23).

Reflecting on the view of nature of reality espoused in this research, reminds the researcher of the shift in the researcher's ontological positioning from the erstwhile "objectivist" (Saunders, et al., 2012) positioning that was built overtime during the researcher's career that spans more than 10 years as an internal auditor and risk management executive. Previously, the researcher held the view that actors in corporate governance formal structure have their duties and responsibilities clearly spelt out in their respective job descriptions and organizational standard operating procedures. Hence, the actors are integral part of the formal structure of the organization and their interpretation of value is not based on their social interactions.

### **3.2.2 Researcher's interpretive framework**

The researcher is emboldened by the assertion that philosophical assumptions do shape the researcher's problem formulation, framing of research questions, data collection (Huff, 2009 cited in Creswell, 2013: p.18) and that these assumptions can change over time (Ritchie, et al., 2014). Therefore, to deeply understand the factors precipitating internal audit stakeholder's expectation gap (Bolger, 2011), the researcher needed to re-examine his interpretative framework from the hitherto presumption that the social world exists and is independent of the actors and their action should be objectively determined (Ritchie, et al., 2014).

It is provident to hold alternative view that stakeholder perception of value requires looking at it through "social constructionist" (Coghlan & Brannick, 2012) lens. This positioning is further supported by the outcomes from the review of literature which asserts that evaluation of internal audit effectiveness is subjective and depends on multiple interpretations by different constituents of stakeholders based on their theoretical, socio-political and economic hindsight (Abdolmohammadi, 2012).

Considering the situation under study, the researcher is compelled to adopt a new paradigm in order to interrogate the different voices of stakeholders regarding the measurement of internal audit function effectiveness. With this retrospection, it is recognized that stakeholders' perception of value is an outcome of an intricate and dynamic experience of organizational players (Silverman, 2016). This does not preclude the fact that during the many years of the researcher's professional practice as an internal auditor, he got socialized within a positivist (Easterby-Smith, et al., 2012) paradigm where internal audit function protocol is scientifically structured along the "Attribute" and "Performance" Standards (IIA, 2017). The researcher is subordinating this standpoint which contends that organizations as social entities exist external to and independent of the social players (Saunders, et al., 2012).

With the passage of time, the researcher realized that evaluating internal audit function performance is increasingly being subjected to the notion of emerging subcultures, lifestyles and general way of life (AAA, 2015). This means that the stakeholders' perceptions influence the way they frame their propositions of what constitute internal audit function value-add role (Allegrini, et al., 2011). The diversity of stakeholders' value propositions can be attributed to the emerging pluralization of the life world where new obscurities keep

emerging and precipitating individualism and biographical patterns (PWC, 2014), which makes using social constructionist interpretive framework in this study more plausible.

Therefore, the researcher chose to engage with organizational members to explore “the black box of internal auditing and to develop a richer understanding of the audit process and the nature of auditor work ” (AAA, 2015) as interpreted by the stakeholders. This position has been further supported by views expressed by authors on qualitative research in management who assert that paradigm shift is needed to challenge the long-held tradition (Burrell & Morgan, 1979) that views internal audit function with positivist lens amidst calls for change in approach by the internal auditing profession (Alvesson & Sandberg, 2014).

### **3.2.3 Researcher’s set of values**

As a strategy for enhancing the quality of this qualitative research, the researcher hereby declares the set of values and bias brought to this research on account of the researcher’s several years of experience in the field of internal auditing.

Achieving validity and reliability in qualitative research features constantly as a challenge because of the baggage of subjectivity that underly data collection and interpretation (Rolfe, 2006). In which case, the research findings and conclusions might be perceived as a projection of the researcher’s self-description rather than the reality (Noble & Smith, 2015). However, promoters of qualitative research assert that researcher’s subjectivity is more of a strength than a limitation in achieving validity and reliability (Dalal & Priya, 2016).

Promoters of qualitative research contend that qualitative researchers cannot be independent of the context in which they are intimately engaged in interrogating (Sliva, et al., 2015). Declaration of researcher’s subjectivity and constant reflexivity by the researcher, explained below in subsection 3.5.0 is considered a major strength and highpoint of qualitative research (Dalal & Priya, 2016).

### **3.2.4 Research Approach**

A combination of inductive and deductive approaches to reasoning is adopted in research to guide data analysis (Saunders, et al., 2012). This choice is based on the nature of the phenomenon under study and the types of data; qualitative and quantitative data. Due to the nature of the subject of this study and the philosophical assumptions discussed above, qualitative data dominated the volume of information gathered. But there are also instances

where quantitative data were collected with the understanding that the scope and volume of this data collected is not definite. This is also a reminder that espousing one approach in a study like this cannot answer all questions that may arise as the study progresses (Creswell & Clark, 2011), thus the justification for choosing a combination of inductive and deductive approaches to close gaps that may exist in the two approaches.

### **3.3.0 Method of inquiry**

Qualitative approach (Creswell, 2013) is chosen as a dominant method of inquiry in this research. This choice was based on the view point that stakeholder's expectation of value as a phenomenon should be interpreted within the constraints of a combination of different elements such as historical forces, social, cultural, economic and political forces (Andriof, et al., 2017). Therefore, to interrogate these elements, it was pertinent to engage with the stakeholders as participants to volunteer their shared meanings. This facilitated the process of arriving at internal audit policy based on "value-mediated inquiry" (Dalal & Priya, 2016) done in the organization operating context as earlier explained in section 1.12.0. To undertake value-mediated inquiry required the researcher and the participants to interactively influence the inquiry in a certain way (Guba, E. & Lincoln Y. 1994; pp.110) through a dialectic process.

It is acknowledged that there are different perspectives that theorists have used to describe qualitative method of inquiry. Because of the diverse perspectives, it is difficult to try to give a distinct definition or set of methods that are unique to qualitative method of inquiry (Ormston, et al., 2014).

The researcher's preference for qualitative method as a dominant method of inquiry hinges on the nature of the situation being studied (Birnberg, et al., 1990) and the foundational assertion that qualitative inquiry is a set of interpretive, material practices that looks at and transform the world in its reality (Denzin & Lincoln, 2011). This resonates with the aim of this research, which is to examine and synthesize varied perceptions on internal audit function value-add role and design a policy framework that aligns internal audit function value proposition with those of their stakeholders.

The aim is to move beyond the problem description to that of generating a framework for alignment based on theories of internal auditing as a mechanism in organization governance practice (Afza & Nazir, 2014). Developing such a framework is grounded on



the stakeholders lived experiences as they themselves are actors in the governance structure of the institution (Bailey, 2011).

Choosing qualitative approach is further reinforced by the issues that emerged during the literature review which indicate that: the issue at hand transcends the pronouncements of professional standards on internal audit practices (PWC, 2014). The perceptions need to be interpreted by understanding the thinking of the different actors in the institution's corporate governance space (Chambers & Odar, 2015). It is only then can we seize the opportunity to identify variables that cannot be measured or explained by reference to internal audit standards (Soh & Martinov-Bennie, 2011).

Secondly, the study seeks to understand the complexity of the problem relating to the assessment of internal audit function performance by analyzing the participants' views as expressed in their natural language (Easterby-Smith, et al., 2008) within the context of their organization. The use of natural language in social research is referred to a study where the researcher often applies qualitative research methods to engage groups of individuals and the way they communicate and make sense of situation in their context (Crowston, et al., 2012). This also resonates with the notion that "knowledge is contingent" and we can rationally guarantee the truth by interrogating its validity within the context in which its created (Dalal & Priya, 2016, p. 3).

The need to collaborate with purposefully chosen participants to understand their settings is to afford the cogeneration of actions that can improve internal audit function performance; performance that maximizes internal audit function value-add to the organization (PWC, 2015). As a researcher, the focus was on the internal audit function value chain based on the construct of the multidimensional view of quality, with distinctive steps and stakeholders' views regarding each segment of the chain (Soh & Martinov-Bennie, 2011). Interrogation of the situation was taken as a co-generation process meant to introduce rigour and transparency cards to get, as close as possible, to the experiences of the participants (Dalal & Priya, 2016). An account of the different activities carried out as part of the action research strategy is the story line presented below in section 3.6.0.

Qualitative method as an approach to inquiry is extensively expounded in extant literature as an approach that is applied to interrogate and interpret data within the context of socio-cultural framework (Vaismoradi, et al., 2016). Several perspectives/approaches have been advanced to decipher qualitative inquiry. But the code that runs through all the different

perspectives/approaches is that qualitative inquiry is applied in a situation that requires in-depth interrogation and interpretation of complex social phenomenon within a context with the aim of resolving an intractable situation (Easterby-Smith, et al., 2008). This is departure from quantitative method that focuses on the verification or hypothesis testing (Creswell & Poth, 2018). This is underpinned by the view of the nature of reality and interpretive framework explained above. Furthermore, the view point that internal audit stakeholders value propositions transcend compliance with internal auditing standards notion or compliance with organizational standard operating procedures dictates sense making in organizations are basis for choosing qualitative method. This would guide inquiry into the different loci in which each constituency of stakeholders' value propositions are domiciled. It is recognized that this is a departure from the positivist paradigm on which internal audit function effectiveness is evaluated based on pronounced standards and guidelines issued by the IIA (Christoper, 2014).

Therefore, applying qualitative approach to understand perceptions about the value of internal auditing function as reasoned by different stakeholders, under dynamic business conditions (Abdolmohammadi, 2012) is worthwhile. In addition, the method helped interrogate and appreciate the key factors contributing to the value delivered by internal audit function (Al-Akra, et al., 2016). It also afforded the opportunity to understand the different value perspectives of actors in the corporate governance sphere (Chambers & Odar, 2015) and in the context of the institution.

Adopting qualitative approach to inquiry, supported by action research strategy will go a long way in uncovering the meanings behind internal audit stakeholders, and will help in recommending actions to be taken to sustainably address stakeholder's expectation gap. The next section explains action research as a strategy adopted in this research.

#### **3.4.0 Research strategy**

Action research strategy affords a professional action researcher and members of an organization or community, or stakeholders work together to understand their situation and seek to improve it (Greenwood & Levin, 2007, p. 3). This is motivated by the presumption that in a social research, collaborative participation of the affected people in resolving the organization situation create opportunities for a democratic change (Coghlan & Brannick, 2014) , and that it is no longer tenable to ignore the human aspect or separate the research process from the outcomes (Greenwood & Levin, 2007) .

It is also recognized that this strategy leveraged the wealth of experience and reflective capabilities of the stakeholders as participants in the governance structure. This strategy provided the platform for the stakeholders to engage with the researcher in reflecting on their value propositions. It also facilitated the gaining of insights into factors that influence internal audit policy needed to align their expectation of value with those of internal audit function. Furthermore, choosing action research strategy was based on the three conjunctions of “action”, “research” and “participation” (Coghlan & Brannick, 2014), and the knowledge that the existing perspectives on internal audit function effectiveness is a product of day-to-day accumulation, organization and complex synthesis of diverse perspectives of actors in corporate governance space (Cohen & Sayag, G. 2010; El-Sayed Ebaid, 2011).

It is a considered view that aligning the diverse stakeholders' perspectives on performance of internal audit function in the organization is neither a compromise nor reformative, but rather a synthezation of the diverse contradictions from different actors (Yu, et al., 2013). This synthezation is done through a dynamic spiral of interactions and reflection of the actors in the corporate governance space. This is needed to gain insights and synthesize the diverse perspectives through a collaborative approach (Coghlan & Brannick, 2014).

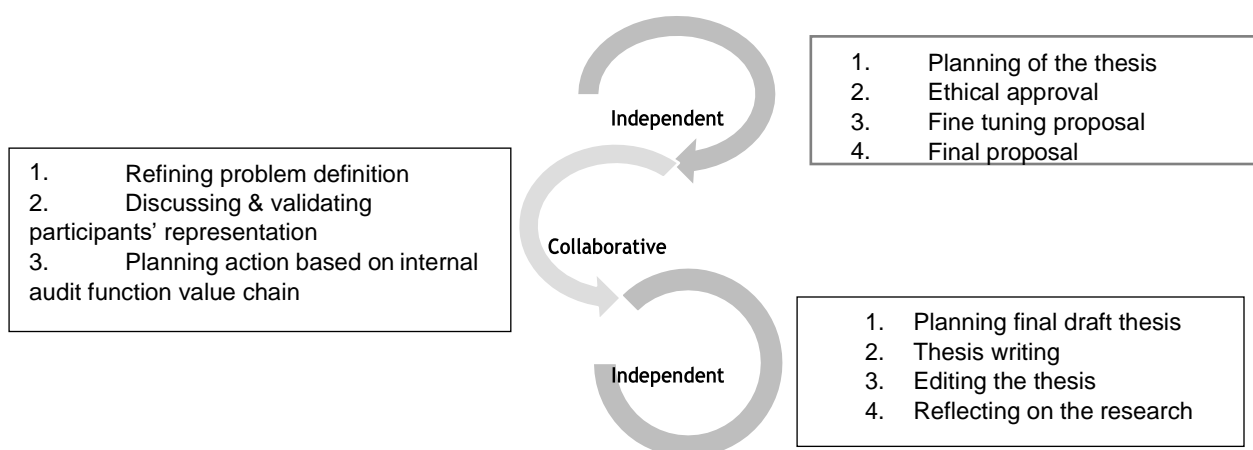
Purposefully chosen participants were drawn from the different constituencies of actors in the corporate governance structure based on their interest and influence explained below in section 3.8.0. The stakeholder's constituencies are the audit committee, as a sub-set of the board of directors, the executive management, staff in internal audit & compliance department, the External Auditors and other staff of the organization. It is considered that this approach not only satisfies the duality of scientific rigour and practical relevance but also delivered increased awareness as part of a democratic social change (Greenwood & Levin, 2007) in the wider context of the internal audit professional standards and organizational governance stakeholders value propositions. While using the conceptual model of Action Research depicted below in Figure 8, three distinct phases in action research cycle (Zuber-Skerritt & Fletcher, 2007: cited in Coghlan & Brannick, 2012: p. 142) were experienced:

In the first phase, the researcher worked independently to plan the research, undertook to secure the approval of ethics research application. This also involved evaluating and focusing the research road map as conclusion of research plan. Engaging with the chosen

participants, in this case, the internal audit function stakeholders from the different constituencies in the corporate governance structure formed the core of this action research project as a collaborative phase (Coughlan, 2011). At the collaborative phase, different stages in the co-generative model discussed in section 3.4.2. were pursued.

The stakeholders/participants were engaged in two cycles that took the researcher and participants through understanding the construct of internal audit function performance evaluation, planning actions that encompass aligning with the varied and diverse stakeholders' perspectives of value-add audit. Within the limitations of this study, the action phase has not been tested. In the final phase of the action research cycle, which fundamentally involves the writing of this thesis, the researcher independently engaged with the planning, drafting of the thesis, validating representations from participants and reflecting on the research process. Through the process, the construct of system thinking theory was kept in mind as explained below in section 3.4.1.

**Figure 8: Conceptual Model of Action Research**



Adapted with modification, from Zuber-Skerritt & Fletcher, 2001: Coughlan & Brannick, 2012: p.42.

### 3.4.1 Linking systems thinking to action Research

As a continuation to the refinement of understanding of the context for this study, the researcher continued to reflect on the linkage between the concept of systems thinking (Hodge, 2017) and action research (Coughlan & Brannick, 2014).

Systems thinking and its practical implications has been part of consideration, although the focus has been on internal audit function in the organization, the importance of a paradigm shift that converts systems thinking to “systems thinking- action” (Homes & Noel, 2015) is

acknowledged in this research. This entailed adopting action research approach and applying a holistic approach by engaging with key stakeholders in resolving the situation that affects them in their organization as a whole to avoid generating suboptimal solutions (Flood, 2010).

This thought-provoking reflection helped frame the situation as systemic and a subject of policy consideration from which other detailed processes can be drawn. The fundamental concept of systems thinking looks at an organization and its interrelated parts or sub-systems that are interdependent (Coghlan & Brannick, 2012), which view is further supported by organization theory (Jo Hatch & Cunliffe, 2015). The congruence between systems thinking theory and organization theory is grounded on the fact that they both draw from science and subjectivity in humanities and the arts (Clarke, 2016). These perspectives encourage intellectual engagement with stakeholders in analysing issues at hand and designing ways of resolving any intractable situation with all systems in the organization in mind (Christopher, 2010).

In this thesis, the focus has been on corporate governance as a metatheoretical concept in which planning, controls, structure, technology and behaviour play out within the bigger organization context (Bottenberg, et al., 2017). Thus, corporate governance taken as basic unit of analysis is supported by several units such as policies, processes, culture, people and practices that are interrelated and interdependent. This is to say that systems thinking, and action research process are not looked at as exclusive but rather supplementary to each other (Coghlan & Brannick, 2012).

### **3.4.2 Enacting action research cogenerative model**

Action research as an iterative process has been described differently by different writers (Greenwood & Levin, 2007). The cogenerative action research model in Figure 9 was adopted to guide the enactment of action research strategy in this study. The model is considered “cogenerative” because the stakeholders who are insiders, are the “owners” of the subject under study and responsible for jointly engaging in resolving the situation (Greenwood & Levin, 2007). This signifies that the researcher’s contributes to the facilitation of a joint learning agenda and implementation of the process in order to cogenerate a framework that can be used to align internal audit function value propositions and those of the stakeholders in a structured framework that can be consistently applied in assessing the continued suitability of internal audit services in an organization context.

**Figure 9: Cogenerative Action Research cycle**



Adapted from Greenwood & Levin, 2007: pp.94.

### **3.5.0 Researcher Reflexivity**

Based on the researcher's engagement with the internal audit profession as a practitioner for many years, this has brought to the fore some long-held beliefs and residual philosophical assumptions that will be treated as part of this study. For example, choosing stakeholders' expectation of value phenomenon, as a subject of this research is informed by the experience and the challenges the researcher encountered as an internal auditor. Those challenges created the motivation to examine the phenomenon.

To interrogate the stakeholder expectation gap phenomenon in internal auditing needed critical awareness of the researcher's experiential biases (Coghlan & Brannick, 2014). The experiential bias informed the basis on which a combination of epistemological and ideological viewpoints that helped to interrogate the phenomenon in a transparent manner was based (Creswell & Poth, 2018).

The constant reflection on the biases and set of values is an explicit and constant reminder that the researcher's long-held belief did not influence the questions asked or overshadowed interpretation of participant's narratives. By being reflexive, the researcher declares that the baggage of attitude, background, experience and perspective would make the research process more transparent as opposed to being biased. This self-reflection and evaluation (Saunders, et al., 2012, p. 679) helped focus on achieving rigour by paying more attention to stakeholders' narratives on their value proposition by leveraging the power of action research strategy (Dalal & Priya, 2016).

Another positive impact of the set of values and bias held by the researcher is demonstrated in the choice of the philosophical assumptions. Due to the passion to cherish personal interactions and discourses around challenging topics, the researcher chose interviews as a dominant tool for collecting data (Easterby-Smith, et al., 2012).

### **3.6.0 The Story**

The story starts shortly after securing the Research Ethics Committee of the University of Liverpool approval of the research ethics application. Approval of the research ethics application gave the green light, as it were, to start the process of gaining primary access to the research site. Authority to access the research site was granted in a formal authority letter from the designated officer in the institution. This triggered a series of activities explained below which include: selection of participants, gaining secondary access to interact with purposefully selected participants, managing political dynamics and relationship between the separate groups in the institution, engaging participants in refining the problem statement, managing relationship between members of the institution and the researcher, resolving emerging ethics & field issues and information & data storage (Creswell & Poth, 2018). The use of semi-structured interviews and review of reference documents as data collection tools are also explained, followed by detailed descriptions of how qualitative data was analysed and interpreted.

#### **3.6.1 Primary access: building rapport with participants at research site**

After securing the research ethics approval, the researcher wrote to the head of the institution seeking permission to carry out the planned research project. The application for primary access (Coghlan & Brannick, 2012, p. 123) gave a brief explanation of the purpose of the research and the main reason for choosing internal audit function at the institution as a unit of study. Commitment by the various teams in the institution in promoting good corporate governance practices was cited as a conducive environment for the research. The request for primary access was formally responded to, in affirmative, by a representative of the chief executive responsible for handling such requests. The authority letter nominated the Chief Audit Executive as the contact and coordinator in the institution until the research is completed. Upon access to the research site, the next step was to embark on appreciating and engaging with the political dynamics in the institution as explained below in section 3.6.2.

### 3.6.2 Navigating the institution political dynamics

It is acknowledged and appreciated that a good brief on the balance of power and politics in the organization are some key principal factors that would affect the quality of data collected through interviews (Coghlan & Brannick, 2014). This motivated the move to navigate the political dynamics to be a key factor in securing trust between the researcher and the participants (Creswell, 2013). Every step taken in the interaction with participants, the researcher reflected on several dimensions of political relationships in the organization that could influence the legitimacy of action research project like this one (Coghlan & Brannick, 2012). The ones that was considered relevant to this research are: managing relationship between the executives, in this case, the relationship between different head of departments in relation to the Chief Audit Executive. To manage this, a rapport was created with the different departmental heads by sticking to the guidelines in the semi-structured interview schedule. This was supported by the researcher's intuitiveness to employ political entrepreneurial skills (Bjorkman & Sundegren, 2005: cited in Coghlan & Brannick, 2012, p. 130) gained over the years as an auditor during which time, creating an atmosphere of ease is important when interviewing auditees.

The other relevant political force dealt with was relationship with the "significant others" (Coghlan & Brannick, 2014, p. 129) in the organization. This was a sensitive balancing act. It was anticipated that the CAE could be protective of his established sphere of influence and would feel unsettled being challenged by stakeholders. In this regard, the CAE was made to appreciate that the action research is not meant to impeach internal audit function but help the internal audit and compliance department identify areas for improvement. The rapport building was founded on the axiological commitment (Saunders, et al., 2012) that is subscribed to in this research. The researcher's ethical commitment was to apply a set of values and biases to understand participants view points as a process of facilitating their personal growth and promoting internal audit value add mission.

The relationship between the executive, board audit committee members and the parent ministry also played out as a key political factor. At the time of this research, the institution was presenting its reports to the parliament. It was therefore difficult to access some members of the executive for a follow up interview to authenticate their presentations in the first round of the action research cycle. It was a challenging time for members of the organization to entertain any kind of inquiries into the activities of management. The atmosphere was tense as members of the media were on the lookout for more information.



The tense situation precipitated anxiety in which organizational members could only make guarded comments instead of freely expressing themselves. It was anticipated that the middle managers would feel uneasy speaking out on perception of value of internal audit function.

The mitigating intervention to allay their fears and obtain their informed consent was communicated when presenting details of what their responsibilities and rights are as stated in the PIS. The guidelines posited in Kakabadse (1991) (Coghlan & Brannick, 2012, p. 131) presented continued relevance in identifying stakeholders who have interest in internal audit function value-add role, presenting the topic as a non-threatening venture, building a strong network within the institution, were some of the political entrepreneurial tactics employed to build rapport and navigate the terrain. Continued management of political relationship was extended to the process of participants selection using the 2x2 participant selection matrix model as explained in section 3.7.0 below.

### **3.7.0 Selecting participants using Interest-Influence 2x2 matrix**

The objective of this research as stated earlier in section 1.10.1 and the endeavour to seek answers to research questions, informed the process employed in selecting participants and the identification of internal audit function key stakeholders.

The starting point for participants selection was based on the broad definition of stakeholders as “any group or, individuals who can affect, or who is affected by the activities of an entity” (Freeman, 1984). The stakeholder concept has been a buzz word in the management of environment for a long time, and it continues to attract different perspectives (Bepari & Mollik, 2016). However, in this research, views on stakeholder concept is guided by the power, influence, legitimacy and urgency attributes to describe stakeholders as those considered actors in the corporate governance structure of the institution, at both policy formulation and policy implementation levels (Adriof, et al., 2017). In choosing participants for this research, it is acknowledged that if a broader definition of stakeholders is taken, the number of individuals who consider themselves as potential internal audit stakeholders could be more than those directly involved in the institution’s governance process. Therefore, the suggestion that advises researchers to consider who shouldn’t be the stakeholder and tailor the definition to the research context (Tullberg, 2013, p. 127) was followed.

It was also recognized that sampling in qualitative inquiry is not so much in attaining

population representation, but to focus on generating knowledge from participants' views (Charmaz, 2014: cited in (Dalal & Priya, 2016) and experiences that can be developed into action to resolve the participants' organizational situation. Another important knowledge on sampling in qualitative inquiry that was considered is that the meta-theoretical aspect of internal auditing should be approached pragmatically by recognizing the socio-cultural context (Rubinstein, 2001: cited in (Dalal & Priya, 2016) of the institution. Therefore, selection of participants was based on non-probability techniques (Saunders, et al., 2012) where participants were selected based on their positions in the organization structure and their influence on the governance process in the organization.

The four quadrants 2x2 interest-influence matrix shown in Figure 10 (Reed & Curzon, 2015) was applied to carry out stakeholder mapping. Stakeholder mapping is a mean of ascertaining stakeholder expectations and the influence that the different stakeholder constituencies, as groups, or individual stakeholders have (Johnson et al. 2005; cited in Goergen, M. et al. (2010), pp.10). In taking this judgmental sample selection (Rahi, 2017, p. 3), the idea was clear that judgmental sampling was necessary. The limitations that this approach to sampling may not give a representative sample of all the stakeholders was also consciously considered. The following chronological process was employed to purposefully select participants:

Compiled list of all possible different stakeholders' constituencies in a typical governance structure in a Ugandan state-owned enterprise

Identified individuals to be nominated and gauged their interest-influence based on their position in the organization hierarchy.

Selected individuals and groups with high interest and high influence

The impact of their influence and interest are mapped in a 4-quadrant matrix, A, B, C & D are explained below:

### **3.7.1 Low Interest-Low influence; group "A" stakeholders**

Stakeholders with low influence and low interest are kept on the monitoring tab as their participation in the corporate governance process in the organization are not critical in influencing the institution's internal auditing policy. However, the impact of their activities, which are basically routine, are left to be monitored through the administrative structure. Stakeholders in this category were identified as middle managers and supervisors of

different operational areas in the organization. These groups are mainly engaged in the implementation of policy and procedures of the organization. Their influence on internal audit policy was considered less weighty.

### **3.7.2 High Interest - high influence category- group “B” stakeholders**

Stakeholders in group B have high influence and high interest in the organizational governance process. Their participation is considered critical in bringing about improvements or changes in the internal audit policy and practice in the institution. Stakeholders in this category were involved as active participants in the action research process. This was to ensure that their value propositions and perspectives of internal audit function value-add role are deeply and tacitly captured and considered in developing a policy framework that can be applied to align their needs with those of the internal audit and compliant department. This category included members of the board audit committee, the executive, department heads, external auditors, and committee of the parliament.

### **3.7.3 Low interest- high Influence category- group “C” stakeholders**

Stakeholders in this quadrant have high influence and their interests in the organizational governance process may be moderate to high. However, their influence on internal audit policy is low. Their participation in this research is considered less critical. Members of this group include the media fraternity, politicians and the public. However, it was important to appreciate what they say in the public domain and interpret within the context of the research.

### **3.7.4 High interest - low Influence category- group “D” stakeholders**

The high interest-low influence group of stakeholders have high interest in the organizational governance process and are impacted by the outcomes of the internal audit function activities, but they have low influence in internal audit policy discussions. Stakeholders in this constituency are staff in the lower hierarchy in the organization.

**Figure 10: Participant Selection matrix**

<div style="display: flex; justify-content: space-between;"> <span>IMPORTANCE</span> <span>INFLUENCE</span> </div>	High / Medium	Low / Not known
High / Medium	<b>A</b> These stakeholders are the most important ones for the project. The implementing organization must consider their interests and expectations in order to ensure effective coalition and support for the project.	<b>B</b> These stakeholders are a source of significant risk. They need careful monitoring and management.
Low / Not known	<b>C</b> These stakeholders should be adequately informed about the development of the project, to protect their interest, but they only require limited monitoring and management.	<b>D</b> These stakeholders are of low priority. They require limited monitoring and management.

Adapted from Mills, et al, 2011: cited in Reed & Curzon, 2015: p.27.

### 3.7.5 Selected Participants

A total of Seventeen (17) individuals who are actors in the organization governance structure were purposefully selected from group “B” shareholders, however, two declined to consent without giving reason for their decision. The selected participants were grouped into different constituencies as explained below in section 3.7.6, thus, the Board Audit Committee, the Chief Executive Officer, Senior Management, Internal Audit and Compliance department and External Auditor constituencies. This opened the way for the researcher to engage with the stakeholders with high interest and high influence in the practice. In addition, it facilitated discussions with the chosen participants to appreciate the purpose of the study and explained the contents and purpose of the Participant Information Sheet in order to obtain their informed consent.

The benefits of the study were exhaustively explained to the participants and each participant was informed of their rights and responsibility should they choose to participate, emphasizing the provision that the participants reserve the right to withdraw from the study without adverse effect to them. They were also briefed on the issue of confidentiality and anonymity.

The participants’ informed consent was secured through a formal process using the prescribed informed consent approach (Allegrini, et al., 2011). The moral force of informed consent is central to research involving interpersonal interactions and is deep-rooted ethics

and jurisprudence (Grady, 2015). In keeping with the moral force of informed consent, the decision of two selected participants who declined to participate was respected. The research continued with those who gracefully consented.

### **3.7.6 Grouping selected participants into stakeholder constituencies**

It is common ethical dilemma in qualitative research to experience tension amongst participants regarding their identity (Reid, et al., 2018). Anonymizing interview data would usually pose a challenge to a researcher (Saunders, et al., 2015). Anonymization is broadly considered as one form of ensuring confidentiality where participants' identities are kept a secret (Saunders, et al., 2012, p. 223). The commitment to abide by the Research Ethics guidelines of the University of Liverpool and comply with clause 11 ("Participant's confidentiality") of the PIS was upheld. In this case, it is acknowledged that there are procedures that can be adopted to protect the identity of participants. One such procedure is to assign each participant pseudo names using alphanumeric combination (Sutton & Austin, 2015). Before setting out to start interviewing the selected and consented participants, anonymization of the participants by grouping them under the different constituencies of stakeholders was undertaken. The anonymization did not extend to keeping their comments confidential. The prefix represents the constituency of the participants as shown below in Table 3.

A.C = Audit Committee

CEO = Chief Executive Officer

SM= Senior Management

CAE = Chief Audit Executive

EX = External Audit

**Table 3: Participating constituencies and participants' anonymity table**

Participating Constituency	Total constituency membership	Number of chosen participants	Number of active participants	Participants' Pseudo Names
Audit Committee	3	2	2	AC1, AC2
Officer of the Chief Executive	2	1	0	CEO 1
Senior Management	14	14	10	SM1, SM2, SM3, SM4, SM5, SM6, SM7, SM8, SM9, SM10
Internal Audit Staff	8	6	4	CAE1, CAE2, CAE3, CAE4
External Auditor	Not ascertained	2	1	EX1
<b>Total</b>	<b>27</b>	<b>25</b>	<b>17</b>	

### 3.8.0 Engaging with the Practice

Engaging with the practice took place at four stages; first stage involved securing of primary access to the research site, gaining secondary access to purposely selected participants in order to obtain their informed consent to participate in the research, engaging participants in fine-tuning the research topic through problematization process, during interviews and debriefing.

As stated earlier, the philosophical stance in the methodology section reflects a conscious choice of critical theory as a disruptive approach (Zou & Trueba, 2002) for challenging the long held internal audit character as a standard-driven and inward- looking practice (Peters & Baigen, 2012). Engaging with the practice gave the stakeholders a platform to co-create actions points that can be used to transform the practice that meet their expectation of value (Kemmis, et al., 2014).

In taking this position, the view that management practice and the key characteristics of knowledge management in modern day organization are socially constructed and politically influenced (Easterby-Smith, et al., 2012, p. 5) reigns high. So, it is important to engage with practice as a way of unlocking and interpreting knowledge that is situated with the internal audit stakeholders. Another important consideration in this research is to link theory with practice as it were (McNiff, 2013). The collaborative engagement with members with a

stake in the problem under investigation offered the opportunity to evaluate the practice, identify areas for improvement and formulate framework for improvement (McNiff, 2016).

Subsections 3.8.1 to 3.8.3 explain the benefits derived from adopting the cogenerative model to enact the action research strategy as: engineering success through the problematization process, joint development of action plan and creating opportunity for joint learning (Greenwood & Levin, 2007).

### **3.8.1 Envisioning success through the problematization process**

In the first cycle, after securing authorization for primary access, the researcher collaborated with the CAE as a participant to solicit contributions towards the problematization process. This opportunity was also used to be a guide on what protocol to follow to gain secondary access to secure informed consent from other participants.

The researcher had worked independently to frame the research topic and design the research project as part of the research proposal. Together with the purposefully chosen stakeholders we reflected and refined the nature of the work-based situation. This was taken as a “pre-step” to help understand aim of the research (Coghlan & Brannick, 2012, p. 8). The collaborative problem definition warmed the relationship between the participants and the researcher as an outsider researcher (Gray, 2004) and the different stakeholder groups. At this stage, the chosen stakeholders viewed the study as an opportunity for them to appreciate the role of internal auditing as a group and their organization within the context of their practice (Greenwood & Levin, 2007). This engagement resulted into a revision of the title of the research from “... developing value add matrix to “developing policy...”

### **3.8.2 Co-developing action research implementation plan**

While continuing with the research process, the participants and researcher jointly reflected on the use of action research strategy and realized that by its participatory nature, they could jointly alter the current impasse regarding the contradictions about internal audit function value-add role. The participants got convinced that as a group, they would sustainably change the situation to a more enlightened and greater self- realization (IIA, 2016). During the planning stage, the research topic was evaluated, reviewed the list of chosen participants and inquired from the CAE’s office to give guidance on the internal communication protocol that could be followed to access the selected participants. It is important to recall that the authority to gain primary access designated CAE’s office as the

coordinating point for the purposes of this research. This process was well handled as it enabled easy presentation of the Participant Information Sheet to other selected participants and gave them the opportunity to appreciate their responsibilities and rights before they signed the Informed Consent Form.

### **3.8.3 Key learnings from problematization and action plan cycle**

The participants involvement in the problematization and development of the research action plan enriched learning by the group.

The team took this as a direct way of holding themselves accountable towards the outcomes of the improvement initiatives. Secondly, it gave the group the opportunity to strengthen appreciation of the problem and engage in the practical dialectic process leading to the generation of actions needed to resolve the situation (Pedler, 2008). This step also helped the researcher reframe the research questions that guided data collection and analysis within the framework of the action research cycle. Suffice to assert here that, cycle one provided the opportunity to understand the context and purpose, problematize the situation, draw up implementation plan and take necessary actions to obtain participants informed consent. It also created opportunity for learning and knowledge generation (Coghlan & Brannick, 2012). This cycle was used to further refine the research questions and structure of the interview guides.

### **3.9.0 Data collection protocol**

Rigorous data collection protocol in qualitative research is considered one of the key aspects that gives qualitative study its reliability and trustworthiness (Kallio, et al., 2016). Data collection process in this study included engaging with the participants in refining the research problem as explained below in section 3.9.1. This was an endeavour to make them appreciate the general state of internal auditing as reported and look for a more sustainable approach to reversing the decline. Review of organization's reference documents such as, organization structure, the Standards, the statute/legal framework that established the institution, the internal audit charter, and face-to-face interviews formed part of the data sources.



### **3.9.1 Engaging participants in refining research problem description**

Before delving deep into the data collection process, participants were engaged to reflect on the research problem statement, research questions and research objectives stated earlier in section 1.10.1. This was considered an important stage to allow participants contribute to the clarity of the problem statement in the context of their organization (Gray, 2004). The purpose of engaging participants in the problematization process was pursued in the interest of refining the problem statement by contributing to the identification and challenge fundamental assumptions (Alvesson & Sandberg, 2011) underpinning the highlights reported in the state of internal auditing survey issued by IARF and other professional firms such as the PWC, PwC, KPMG. This process did facilitate “gap spotting” (Alvesson & Sandberg, 2011) by scrutinizing the problem statement within the corporate governance as the domain of the research. This engagement highlighted the importance of the insertion of the word “policy” in the research title and research problem statement.

The initial focus of the research was to develop matrix for internal audit value-add activities. However, it was realized that sustainability of these activities should be grounded on policy and contextual issues in the organization. Engaging in the problematization process at this stage was not to challenge the underlying theory of internal auditing but more of an ‘endeavour to know how and to what extent it might be possible to think differently, instead of what is already known’ about internal auditing; an approach described as necessary to disrupt the dominant institutionalized ways of looking at internal auditing as a standard-driven engagement (Alvesson & Sandberg, 2011, p. 32). Apparently, this process generated anxiety in the participants as they kept asking about how much time they need for the interview process and how their identities were going to be protected. This was interpreted as form of anxiety and motivated the researcher to assuage the situation as explained below in 3.9.2.

### **3.9.2 Assuaging participants’ anxiety**

During the data collection using semi-structured interviews, it was ensured that the participants’ routine duties, potential power imbalance were respected (Coghlan & Brannick, 2012). During interactions with the participants, appropriate language and words were used to build trust. This allayed the participants’ anxiety. More so, the interview was done in locations away from the tension of office environment where they felt relaxed and delighted (Jensen, 2002). It was recognized that the participants’ anxiety would be affected

by choice of interview recording method and venue (Coghlan & Brannick, 2012). Voice recording using smart phone was applied in this case.

The risk of anxiety that could have arisen was minimized by assuring the participants that the recording was meant to reinforce the researcher's listening and give the opportunity to refer to the recordings to avoid misinterpretation and incorrect analysis (Easterby-Smith, et al., 2012). The researcher was aware that several tools exist for collecting qualitative data. Some documented approaches to qualitative data collection include the use of structured interviews, questionnaires and observation to gain insights into a social phenomenon in organizational setting (Easterby-Smith, et al., 2008). This afforded the opportunity to appreciate and gain insights through face-to-face interactions with the participants. This research does not claim that one approach is better than the other, but rather it is acknowledged that the choice of one depends on the nature of the problem being studied (Creswell, 2013). Amongst the approaches widely applied in qualitative research semi-structured interviews was adopted as a tool for data collection (Creswell & Poth, 2018). This was a conscious choice meant to facilitate data relevant to areas of the study and give participants and the researcher the latitude to explore meanings embedded in the narratives obtained from participants (Kallio, et al., 2016). In this case, the researcher had the latitude to choose from available data sources singularly or in combination as explained below in 3.9.3.

### **3.9.3 Examination of reference documents as sources of secondary data**

The study of organizational reference documents such as the Human Resources Policy Manual, Finance Operating Manual, Internal Audit Charter, etc., are increasingly being pursued as data sources in qualitative research (Abdolmohammadi, 2012). The institutional reference documents have been reviewed to address research questions in section 1.10.4. It is opined that use of documents as secondary data sources in qualitative research is inappropriate. The argument in support of this view is that since social science research focuses on analysis of speech and actions, documents can not reveal sufficient insights into social systems in an organization (Miller & Alvarado, 2005, p. 348). In this research, documents are used as secondary source of data for the following reasons:

One is that the institution operates within a legal framework that can only be revealed in a document.

Secondly, policy documents in an institution are often referred to while interpreting

management decisions. The scope, responsibility and authority of Internal audit function in an institution are stipulated in the internal audit charter as a formal document that defines the relationship between internal audit function, management and the board of directors (IIA, 2017).

Furthermore, internal auditing is carried out within the IPPF (Standards). The institutional reference documents that have been reviewed in this research are: The Uganda Revenue Authority Statute 1991, International Standards for the Professional Practice of Internal Auditing (Standards) the Internal Audit Charter and the Organization Structure.

#### **3.9.4 Uganda Revenue Authority Statute (1991)**

As propounded earlier in the background under section 1.8.0, the Statute mandates the authority as a central body mandated to assess and collect specified government revenue, administer and enforce laws relating to the Uganda Central Government revenue. First Schedule of the Statute lists ten (10) different tax Laws to be administered by the Authority. Clause 4 stipulates the establishment of board of directors to oversee the mandate of the authority and Clause 18 (1) of the Statute stipulates the establishment of internal audit function by the board of directors. The conclusion from the review of the Statute answers research question in section 1.10.4 A link to copy of the statute is in Appendix 10. It was important to review the Statute to ascertain the legal foundation that supports the existent of internal audit function in the institution. Results and interpretations of some provisions of the Statute are presented in section 4.1.2 in chapter 4.

#### **3.9.5 Internal Auditing Standards**

The International Standards for the Professional Practice of Internal Auditing, code named “The Standards” and Code of Ethics are essentially the mandatory fundamentals of the International Professional Practice Framework- IPPF (IIA, 2017). They contain set of principles stated as core requirements for the practice of professional internal auditing and for evaluating internal audit function and internal auditor’s performance. This mandate was discussed under literature review, where gaps were identified. Review of the Standards and Code of Ethics is an important part of data collection in this research because of four reasons:

One is that conformance with the two reference documents in internal audit practice is considered a core requirement of the IPPF (IIA, 2017). Another key point is that the

Standards provide for a framework for promoting the provision of a broad range of internal auditing value-added services. The third purpose of the Standards is to establish a basis for internal audit performance evaluation. The fourth purpose is that the Standards is meant to foster internal auditing as a disciplined and structured practice (IIA, 2017). However, as articulated in the background information, empirical research reminds us that internal audit practice is at a cross-road (stakeholders' expectation gap is widening) despite the many years of standardization by the IIA (PWC, 2015). It is therefore important to understand the depth of the Standardization in relation to the growing challenge of stakeholders' expectation gap. Results and interpretation of the different sections of the IPPF and the Standards are presented in section 4.1.3 in chapter 4.

### **3.9.6 Internal Audit Charter**

The International Standards for the Professional Practice of Internal Auditing recognizes internal audit charter as a formal documentation that defines the purpose, authority and responsibility of internal audit function and internal audit staff relationship with the board in an institution (IIA, 2017). It is therefore important to examine the internal audit charter to understand what the charter defines as the mission of internal audit function in the institution. Interrogating the charter was also another way of understanding the robustness of the scope of internal audit activities. It was also important to understand and compare the linkage between the espoused mandate of the internal audit as stipulated in the charter and the what is enacted in practice. The rubric of espoused vs enacted (Howell, et al., 2012) is essential in understanding the perspectives of stakeholders towards the enacted, since that is what they see, feel and interpret. At the end of it all, semi-structured interview questions (explained below in 3.10.0) were relied upon to guide the collection of data needed to gain insights into the expectations of the stakeholders (Ghauri & Gronhaug, 2010 cited in (Easterby- Smith, et al., 2012, p. 140).

Results and interpretation of the different clauses in the internal audit charter are laid out in section 4.1.4 in chapter 4.

### **3.10.0 Data Collection using semi-structured interviews**

Research interviews are considered as focused conversations between a researcher and one or more persons purposefully selected to collect data required to meet the research objectives (Saunders, et al., 2012, p. 372). There are several types of research interviews.

It is not in the scope of this research to articulate the strength and weaknesses of the several types of interviews, suffice to mention them in passing. The broad types of interviews are: structured interviews where they are used to collect quantifiable data like in quantitative research, semi-structured interviews where a researcher uses a set of questions structured under different themes (commonly referred to as qualitative research interviews, unstructured interviews, considered as informal or in-depth interviews (Easterby-Smith, et al., 2012, p. 128).

Semi-structured interviews have been applied as the main data collection tool in this research. This involved engaging organizational members to provide insights into the social realities and organizational challenges as they seek to improve internal audit function performance. It was more of “moving entrepreneurially” (Hjorth & Reay, 2018). An expression that highlights the importance of appreciating that organizational members are essential for the success of a management research of this nature and their buy-in are critical (Fine & Hallet, 2014).

The use of semi-structured interviews in qualitative research conducted through an action research strategy is believed to offer opportunity for the researcher and the participants to reciprocate ideas (Galetta, 2012; cited in (Kallio, et al., 2016, p. 2955). It also provides another opportunity for the researcher to carryout follow-up interviews (Coghlan & Brannick, 2014). It is recognized that a variety of meaning exist that explains the strength and weakness of each within the strategy of survey (Saunders, et al., 2012). The definition adopted in this study refers to semi structured interview as an all-inclusive data collection method where each participant is required to respond to the same set of predetermined questions (deVaus, 2002).

Owing to the small number of participants, the response rate was well managed. To allow the participants tell their own stories, open-ended questions were posed based on interview topic guides (Sanders, M. et al, 2012). This was done through face-to- face interactions with each participant. The different interview topic guides were founded on the areas of internal audit value chain stipulated in the internal audit charter and the Professional Standards of Internal Audit Practices. This was meant to ensure that only essential data are collected, and participants intended representations are captured (Creswell & Miller, 2000).

### **3.10.1 Enacting semi-structured interviews**

In seeking answers to research questions, face-to-face interviews were conducted between February 2017 and March 2017. Each interview sessions lasted between 25 to 30 minutes, but the average duration was 30 minutes. The 30 minutes average was considered to be below average of 48 minutes that similar interviews on corporate governance lasted (Tremblay & Gendron, 2011). This could be attributed to the tense atmosphere prevailing at the time occasioned by the then parliamentary review of the performance of the institution. This was the time the organization was facing some parliamentary probe where senior management, internal auditors and some audit committee members were busy presenting reports to the parliamentary probe committee.

As mentioned earlier in the declaration of researcher's personal bias, the researcher kept challenging his thought process each time a participant tries to challenge value-add role of internal audit function. This was guided by the interview topics to allow the researcher concentrate on capturing the message instead of doing on spot evaluation of the messages (Easterby-Smith, et al., 2008). The purpose of the interview was to afford the opportunity to go beyond what the internal audit charter stipulates. This offered the chance to gain more insights and understand the different dimensions of stakeholders' value propositions.

During the interviews, the researcher had to deal with the issue of trust so that the different stakeholders could talk freely. This entailed presenting the research agenda as that which seeks to explore areas of improvement in the way internal audit services are delivered. The second challenge was to create a rapport with participants who initially viewed the research with suspicion and wanted to get the interview concluded as fast as possible (Easterby-Smith, et al., 2012).

It was also an experience to engage in interviews where questioning, listening to verbal response, write interview notes and observe the body language of the interviewee were simultaneously done. This was meant to ensure that the views, opinions and attitudes of the participants are tied up into their respective meanings.

To ensure credibility of the interview process, interview guide, expounded below in section 3.10.2 was applied that concentrated on the research objectives formulated with the framework of international Professional Practice Framework for internal auditing.

### **3.10.2 The interview guides**

As stated in section 3.10.1 above, the semi-structured interview was guided by predetermined topics based on the different elements in the internal audit function value chain, which comprise; inputs, process, outputs and outcomes. The interview guide provided framework that shaped discussions with the participants. This ensured that the researcher purposefully focus on capturing narratives that are consistent with each element in the value chain (Saunders, et al., 2012).

During the interviews, different issues emerged as questions were asked. In some instances, some questions that were not contextual were skipped depending on the conversation flow. This was accompanied with note taking and audio-recording in some instances. With this approach, the researcher could control timing and direction of the conversations. It also afforded the latitude to sufficiently cover the topics under study. To ensure quality from the interview process the following key elements relating to quality of data were observed:

The interview questions were topic guided and standardized to ensure that the data collected is within a context (Saunders, et al., 2012). It is envisaged that structuring the interview questions based on the themes in the internal auditing value chain would still be able to generate similar data if applied by another researcher (Easterby-Smith, et al., 2008). The researcher remained conscious of the bias based on many years of my experience as an internal audit risk management executive. Leading questions were avoided and the researcher concentrated on asking open-ended questions to allow the participants express their views without restrictions.

The interview themes were developed and supplied to the participants before the face-to-face interview sessions. This was to allow the participants sufficient time to internalize the themes and prepare themselves, as this would foster validity and reliability of their response (Saunders, et al., 2012).

### **3.11.0 Data analysis process**

In this section the procedures applied to analyse qualitative data are explained. It is recognized that there are many ways of framing data for purpose of making sense from such data (Easterby-Smith, et al, 2012). The chosen method of data analysis in this study is consistent with the researcher's commitment to interpretive philosophy (Denzin and

Lincoln, 2005). Commitment to interpretivist paradigm (Creswell, J.W. 2012) is motivated by the need to gain insight into the subjective and socially constructed perspectives of stakeholders towards the measurement of performance of internal audit services in their organization (PWC 2015). This is considered a plausible commitment needed to guide inquiry into the organization natural setting or context (Saunders, M. et al. 2012).

It is further acknowledged that there are numerous ways of analysing qualitative data. For example, content analysis, grounded analysis, social network analysis, discourse analysis, narrative analysis, conversation analysis and argument analysis (Easterby- Smith, et al., 2012), are some of the qualitative data analysis methods that leverage the interconnectedness between data collection and analysis, typical of qualitative research (Creswell, 2013: pp.83). In this research, content analysis (Easterby-Smith, et al., 2008, p. 164) was adopted to guide the different themes in the internal audit value chain as explained below in 3.11.2. This afforded the researcher the latitude to interrogate the data within the organizational operating context as a systematic way of teasing out themes, arrays and sets of views (Coghlan & Brannick, 2012).

### **3.11.1 Approach to data analysis**

It is asserted that data analysis could be based on deductive or inductive approach (Saunders, et al., 2012, p. 548). The deductive approach would imply that the research is based on existing theory. On the other hand, basing data analysis on inductive approach would mean that the researcher seeks to formulate a theory that is grounded on the collected data (Creswell & Poth, 2018).

This research is grounded on existing theories of internal auditing within the corporate governance domain. This mean that the data analysis was conducted using a combination of inductive and deductive approaches. This was done with the knowledge of the challenges inherent in the use of deductive approach in qualitative research (Bryman, 1988: cited in (Saunders, et al., 2012, p. 548). The reasons advanced against the use of deductive approach in qualitative data analysis is that the approach tends to prematurely close the situation under study and that this has the possibility of limiting participants from giving insights. In this research all options were kept open to use both deductive and inductive approaches. This has been demonstrated earlier when the participants were engaged to participate in refining the problem statements that had initially been grounded on existing theory. The other advantage of deductive approach is that internal auditing is based on



theoretical constructs, with established standards and existing body of knowledge (IIA, 2017).

It is therefore necessary to examine other theories that position internal auditing as a multi-theoretical practice. However, it was also important that the descriptive structure of the research highlighted based on the researcher's years of experience as an internal audit executive. While recognizing this point of view, the researcher was reminded of the counsel that "a good interview lays open thoughts, feelings, knowledge, an experience not only of the interviewer but also of the interviewee to be reflexive" (Ptton, 1990 cited in Gray, D.E. 2004, p.225).

### **3.11.2 Applying content and thematic data analysis techniques**

Content analysis and thematic analysis are two broad data analysis techniques that are applied in qualitative inquiry (Vaismoradi, et al., 2016, p. 100). They are the main techniques that are applied in analysing textual data and explicate qualitative information (Creswell, 2013). Applying them in data analysis would entail meticulous coding of data to examine meanings in the social reality contained in the participants' perspectives (Easterby-Smith, et al., 2012). The aim of this research was to interrogate the phenomenon of internal audit stakeholders' expectation gaps in order to understand the stakeholders' perspectives on internal audit value add services within the construct of internal audit value chain and the Standards. The insights obtaining from the interpretive inquiry (Hopper, T. & Powell, A. 1985, p.445) were applied to design policy framework that will improve the delivery of valued added services to a wide range of stakeholders in the corporate governance structure of the institution. Suffice to add here, thematic data analysis is considered a technique that coalesces qualitative narratives into practical results that can be applied to improve practice (Vaismoradi, et al., 2016, p. 101).

Preparation of data for detailed analysis was manually performed as it was pertinent to comprehend the researcher's field notes and personal diary and place them under the different themes within the internal audit value chain. This helped to refocus on the views and insights collected from the participants (Easterby-Smith, et al., 2008).

At the conceptualization stage, the narratives obtained from different participants were examined to identify and code themes as they are presented in the explanatory data. The data analysis progressed through the process of cataloguing of concepts as they occur in the participants' narratives. At this point, the focus was more on codes that were used in

categorizing data that recorded in the researcher's self-memos. Furthermore, terms that are normally used in internal audit practice while linking them to the words used by participants was used.

Attempts to use NVivo computer packages proved difficult and futile as the researcher faced great challenges in the analysis due to the need to "denaturalize" (Easterby-Smith, et al., 2012) the data. The term denaturalization is used as a critical thinking process of understanding the taken-for-granted expressions in a social setting and theorizing (Brinkmann, 2016, p. 520). As a computer aided data analysis tool, NVivo derives its popularity from its ability to help a researcher code, organize and gain insights in qualitative data collected through interview (Woods, et al., 2016). It also helps identify themes that highlight theoretical saturation (Saunders, et al., 2012), or any new point of departure to the established theme (van Rijnsoever, 2017).

Since difficulties were experienced in the attempt to use NVivo, the researcher relied on manual analysis. The iterative process assisted in the process of re-coding data/information. This stage was exploited to double check and identify different interpretations of the same concepts expressed differently by different participants.

As the analytical framework got clearer with the emergence of patterns linking different concepts, 'theoretical codes' were developed (Charmaz, 2006). At this stage, the researcher kept referring to participants' arguments and supporting information to scrutinize and re-verify their representation and confirm their linkages to the theoretical codes and data analysis undertaken to arrive at the story line that align with the internal audit value chain as shown in Table 4. The distinct stages include: "initialization", "construction", "rectification" and "finalization" (Vaismoradi, et al., 2016, p. 103).

Another stage of data analysis undertaken was to reflect on and challenge the researcher's thought process that could impact interpretation of the collected data and information therein. This was rather a mind-boggling stage where it was required to make sense from a huge volume of data with hidden themes. The high volume of data was dealt with by answering questions structured around support and challenge to existing knowledge in internal audit process, giving insights into previously unanswered questions on different perspectives of stakeholders of internal audit services in the organization and finally double

checking to identify any differences.

### 3.11.3 Dealing with ethical issues during data analysis

Comparing participants views openly was avoided, especially those that clash with the researcher’s residual philosophical commitment and interpretive framework that have been built over many years as an internal auditor. The focus was to look for meanings in what the participants stated and place the narratives within the context of the topic guides and the research objective.

Participants’ views were highly respected through categorization and reporting multiple perspectives (Creswell, 2012). In this regard, the researcher focused on categorizing information based on the different stakeholder constituencies. Information that would hurt participants was safely protected from disclosure. Data files stored in the researcher’s computer were all protected from unauthorized access using password that was not shared by anyone.

**Table 4: Segments and activities for theme development**

#	Segment	Purpose	Activities
1	Initialization	Data preparation stage	<ul style="list-style-type: none"> <li>• Reviewing interview transcripts &amp; highlighting of meaning units;</li> <li>• Classifying &amp; searching for concepts in participants’ narratives;</li> <li>• Keeping note of matters arising to facilitate reflexivity and provide audit trail of progress</li> </ul>
2	Construction	Place each collection of similar ideas in line with the research question	<ul style="list-style-type: none"> <li>• Integrating ideas under different elements of the internal audit value chain;</li> <li>• Comparing participants’ ideas to outline theme</li> </ul>

			<ul style="list-style-type: none"> <li>• Confirm ideas under theme by labelling (occasionally referring to the interview notes for confirmation of participants' representations)<sup>1</sup></li> <li>• “Translating &amp; transliterating” to help authenticate participants' beliefs, words and observed behaviours</li> <li>• Defining &amp; describing abstractions based on value chain and topic guides.</li> </ul>
3	Rectification	Check placement of ideas under appropriate themes & identify premature conclusion	<ul style="list-style-type: none"> <li>• Immersion and distancing;</li> <li>• Relating themes to established knowledge areas in internal auditing value chain;</li> <li>• Describe and identify interrelationship between themes and subthemes<sup>2</sup>.</li> </ul>
4	Finalization	Developing the story line	Continue to refine results from segment 3, to develop a intelligible story line

Adapted from (Sandelowski & Leeman, 2012, p. 103).

### 3.12.0 Addressing validity and reliability concerns

Achieving the dual canon of rigour and relevance in management research has been a subject of contention amongst scholars and practitioners (Brinkmann, 2016). Some writers hold the view that neither action research nor any related collaborative research can bridge the rigour and relevance gap because of the different social systems that the researcher and research participants operate (Kieser & Leiner, 2009, p. 516). This view has since been challenged that the rigour and relevance gap is bridgeable in management research. It is proven that in a collaborative research, a researcher and practitioners can work together to produce research that satisfies the duality of academic rigour and practical relevance (Hodgkinson & Rousseau, 2009). This optimism has been reinforced by the fact that collaborative engagement with managers is a plausible way of generating and socializing knowledge that appeals to both scholars and managers in practice (Suvi, et al., 2017, p. 1130).

Relevance does not only connote prescriptive knowledge needed to deliver immediate solution to an existing organizational situation. But also, the creation of insights that practitioners can use in understanding their management and organization situations and applying the insights to improve practice (Dalal & Priya, 2016). On the other hand,

<sup>1</sup> Sandelowski & Leeman, (2012) contend that “a phrase or sentence is much preferred than a word for a label as it captures complete ideas”

<sup>2</sup> Birks et al. (2009) contends that this afford the researcher to stay true to the story line deduced from participants' narratives

rigour can be construed in terms of multiple factors that consistently underpin a theory and whose application is delivered in a structured manner (Panda & Gupta, 2014, p. 158).

The researcher's considered believe is that by applying action research with its collaborative cyclic interactions with the managers in the institution can generate insights that can be applied by the internal audit function to improve its value-add services. In this case, academic rigour can be attained through the application of stakeholder theory by consistently using the 2x2 stakeholder selection matrix (Reed & Curzon, 2015) within the framework of IPPF (IIA, 2017). In this research, practical relevance has been tested using the following criteria:

The starting point for testing relevance was at the problematization stage where the "descriptive relevance" (Panda & Gupta, 2014) of the problem statement was jointly interrogated by both the researcher and the participants. Framing of the problem situation on empirical research on the state of the profession over a period of 5 years reveal that the percentage of stakeholders who perceive internal audit function add value remained low (PWC, 2015).

Relevance of management research can be tested based on the specific nature of the research problem (Cheng & Mckinley, 1983). In this research, stakeholders' expectation of internal audit value is specific and can be exploited as a research problem. The questions that this research sought to answer are context specific and can be generalized with some modification.

The second criteria that renders this research practically relevant is that the goal is relevant and outcomes from the study can be applied in improving internal audit value- add role in the institution (Panda & Gupta, 2014). Another criterion for testing relevance in this research is based on its "operational validity" (Rudolph & Peluchette, 1992) and implementation of the recommendations is based on an existing framework that the board audit committee can manoeuvre by enacting stakeholder management as a key performance area in the internal audit charter and apply the full extent of the internal audit value chain as performance evaluation framework.

### **3.12.1 Testing Validity**

As shown in Table 5, there are nine different validity procedures that are available for application under the different perspectives and interpretive frameworks; these include but

not limited to “triangulation”, “member checking”, “the audit trail”, “disconfirming evidence”, “prolonged engagement in the field”, “thick rich description”, “researcher reflexivity”, “collaboration” and “peer debriefing” (Creswell & Miller, 2000, p. 126).

This study applied a mix of validity procedures, except prolonged engagement in the field and audit trail procedures to establish validity. This makes the understanding and application of the terms a challenge in qualitative research. The description adopted in this study is that which defines validity as a test of accuracy of realities as represented in the participant’s account of the social occurrence (Easterby-Smith, et al., 2008).

The accuracy does not refer to the data but rather the inference that are made from the data by the researcher. It is also recognized in this study that the research is not exempt from demonstrating that the inferences from the study is credible. In keeping with this requirement, several writers, avoided to recommend a one-size-fit-all, but have put forward typical procedures that a qualitative researcher can follow in ascertaining validity in qualitative studies.

**Table 5: Validity Procedures Within Qualitative Lens and Paradigmatic Assumptions.**

<b>Paradigm assumption/Lens</b>	<b>Postpositivist or Systematic Paradigm</b>	<b>Constructivist Paradigm</b>	<b>Critical Paradigm</b>
Lens of the Researcher	Triangulation	Disconfirming evidence	Researcher reflexivity
Lens of Study Participants	Member checking	Prolonged engagement in the field	Collaboration
Lens of People External to the Study (Reviewers, Readers)	The audit trail	Thick, rich description	Peer debriefing

*Adopted from:* (Creswell & Miller, 2000, p. 126)

### **3.12.2 Theoretical perspectives used in testing validity**

Important to note is that choosing some validity procedures is a function of two concepts underpinned by the researcher’s viewpoint of validity and the paradigmatic assumptions that determine choice of a validity test procedures (Creswell & Miller, 2000, p. 124).

In this study, the option to select from these lenses was available. Choice of one lens would require that the researcher remains for a longer time in the field and keep “going back to the data” as in the effort to confirm if the data was saturated enough to ascertain distinct categories (Patton 1980: cited in Creswell & Miller, 2000, p.125). The other lens would

require that the participants' involvement in assessing validity of the researcher's inference from their narratives be considered. The latter lens was chosen and follow up interviews of participants who graciously confirmed the themes/ categories that were inferred from their responses during the interviews.

The researcher also had the option to choose from three paradigmatic assumptions to inform the choice of validity procedures; 'Postpositivist', 'constructivist' and 'critical researcher' (Easterby-Smith, et al., 2008). In keeping with the interpretive perspective, constructivist interpretive framework was chosen in combination with my world view to carryout validity procedures (Saunders, et al., 2012). Choosing the constructivist framework is grounded on the researcher's long held believe of pluralistic, interpretive and contextualized view of the nature of reality (Saunders, et al., 2012).

Considering the researcher's long engagement with internal audit activities as an internal auditor one would have argued that 'critical interpretive' model (Guba & Lincoln, 1994) should have considered to disclose any situational baggage that the prolonged stay in internal audit would bring in the study. This was brought to bear as a "residual bias" discussed above. Moreover, the researcher's residual biases were subordinated by asking open-ended questions and left it for the participants to freely express themselves as the researcher remained reflexive.

### **3.13.0 Debriefing participants.**

A judgement call was taken to consider debriefing as a key step in a research involving human participation. Literature on debriefing in research involving human participants tend to hold the view that debriefing is synonymous with a research process where deception has been applied to obtain data from participants (APA, 2011). It is explicitly asserted here that no deception was applied at any point; before, during and after the research. Participants informed consent were obtained after each one of them was taken through the Participants Information Sheet (PIS). The PIS gave sufficient information to chosen participants regarding the purpose of the study, why they have been chosen to take part in the study.

Additional information such as voluntary participation and liberty to withdraw from the research was brought to the attention of chosen participants before obtaining their consent. The risk to each participant was ranked as mild and each participant was informed that their identity would be kept confidential and data collected from them would be grouped to maintain their anonymity.

Debriefing was carried out in this research purely as an important learning tool (Crookall, 2014). The issues regarding residual ethical concerns of the participants, possible distress and misunderstanding that could have continued to linger in the minds of participants were dealt with during the debriefing. It was also emphasized during the debriefing that reflection on what we have all learned as individuals and as a team. We shared our experiences and transformed the exercise into in-depth learning and experience sharing.

### **3.14.0 Summary and Conclusions**

The research design is grounded on the philosophical commitment that reality in a social setting is socially constructed and assigned meaning by the people in that context. This was further reinforced by insights that emerged from the review of literature that perceptions about the value of internal auditing are subjects of different perspectives of key organizational actors. Therefore, the focus of this research was to gather insights into different value propositions/expectation of internal audit stakeholders based on their experiences in the institution operating context. This required critiquing the internal audit charter of the institution and examining the robustness of the internal auditing standards as we engage with the practice, and enlist diverse groups of stakeholders in the governance structure to participate in the discourse about their perception of internal audit value-add mission using action research strategy.

Action research was chosen as a plausible strategy for championing change through a democratic process where purposefully chosen organizational members collaboratively participated in the process of understanding issues relating to internal audit value-add mission in their organization. The underlying strength of action research hinges on its focus on learning about an entity as a social system and the involvement of organizational members affected by the issue, their participation in the search for solutions and implementation of any change agenda. The stakeholders' discourses and experiences were analysed and interpreted to generate new insights and actions to improve internal audit value-add mission. This was achieved as a product of thematic and content data analysis that culminated in compiling the story line presented in chapter 4 on results and interpretation.



## **CHAPTER 4: RESULTS AND INTERPRETATIONS**

### **4. 1.0 Introduction**

This chapter presents results and interpretations thereof from the review of reference documents and analysis of participants' responses obtained from the enactment of semi-structured interviews. These are laid down in two broad sections. The first section, 4.1.1 and its subsections presents result and interpretations from the review of assorted reference documents. The second section, 4.2.0 and its subsections present results and interpretation of narratives from different stakeholder constituencies derived from stakeholder mapping and selection process, explained earlier in section 3.8.6 in chapter 3. Participants narratives are interpreted within the boundaries of the internal audit value chain framework.

The chapter summary and conclusions present a synthesis of the results from the review of reference documents and responses to the interviews of participants. A linkage between theory and practice is then presented to inform framework for influencing internal audit policy review within the context of the institution.

#### **4.1.1 Examination of reference documents: Results and interpretation thereof**

The results from review of the institution reference documents are important to understand the legal and institutional framework in which the organization operates. The reference documents that were reviewed from the purpose of this research are the URA Statute-1991, IA Standards and Internal Charter. Results from the review are laid down in sections 4.1.2 to 4.1.3 below.

#### **4.1.2 Results from the examination of URA Statute, 1991**

As earlier stated, the aim of this study is not to interrogate or challenge the Statute. The establishment, powers and function of the institution are well stipulated in the Uganda Revenue Authority Act, (Cap196) 1991. Section 18 of the Act gives a broad statement of the responsibilities of internal audit function in the institution, with strong emphasis on the audit of accounts of the institution by the internal audit department as the core responsibility of the internal audit department. The emphasis in the statement of responsibility for internal audit function in the institution, as stated in the statute, can be interpreted as a manifestation of the Shareholder supremacy (Bottenberg, et al., 2017), this constructively positions internal auditing as more of assurance service provider; a perspective that is already being

criticized for underserving other stakeholders (Al-Akra, et al., 2016). Furthermore, rapid changes in the organization environment have rendered the agency theory and institutional theory frameworks of accountability less robust in addressing ensuing complexities (Tricker, 2012) in the operating environment. Some writers have also expressed concern that defining the mandate of internal auditing purely on the agency theory tends to ignore the inclusion of ethics, and therefore other stakeholder's interests (Martineau, et al., 2017).

In response to the restriction obtaining from grounding internal audit policy purely on agency theory, some promoters of corporate governance have suggested that the inadequacy inherent in the agency theory of the firm can be addressed if internal auditing is viewed as a "multi-theoretical" dispensation (Christopher, 2010: cited in (Mihret, 2014, p. 772).

Therefore, it is of interest to find out what the internal audit charter stipulates in the context of the institution and reflect on the state of internal auditing within the framework of the Standards. Before I present results from the review of the internal audit charter, section 4.1.3 below presents results from the review of the International Professional Practice Framework and a reflection on how the set of principles in the standards address complexities in the operating environments in which internal audit activities are carried out.

#### **4.1.3 Results from the examination of internal auditing Standards**

The Standards stipulate mandatory and core requirements that guide the professional practice of internal auditing at the global level. The Standards recognize the diverse legal and cultural dynamics that characterize the context in which internal auditing is conducted (IIA, 2017). In presenting results from review of the Standards it is recognized that the current Standards comprise two broad sections containing a total of 12 Attributes and Performance Standards (IIA, 2017), with each section addressing distinct aspects of internal audit practice.

The section on Attribute Standards is concern with the aspects of organizations and individual internal auditors in an organization. The section on Performance Standards addresses the nature and the criteria for evaluating the performance of internal auditing. In this research, the review concentrated on some selected standards under the Performance Standards section because they address the issue of performance against which internal audit value add mission is evaluated.

Attribute Standard number 1210 on "proficiency" stipulate that internal auditors must

possess knowledge, skills, and other competencies for effective performance of their responsibility. However, the standard does not mention the specific knowledge areas and skills. The decision to determine the requisite knowledge, skills and other competencies have been left to be taken by the institution's internal audit department, or the Chief Audit Executive. Without a clear definition of the knowledge areas and skills, internal audit function performance evaluation is left to the whim of diverse and conflicting perspectives and a subject of metatheoretical configuration (Mihret, 2014).

Furthermore, the Standards is not clear on the criteria for measuring the performance of internal audit function. Standard number 1300, gives guidance on "Quality Assurance and Improvement Program" as a guide for evaluating performance. However, it does not stipulate the criteria or key performance indicators to be used in assessing performance. One would expect this gap to be addressed by Performance Standards number 2000 "Managing the Internal Audit Activity". Standard number 2010-A2 requires the Chief Audit Executive to identify and consider the expectations of the executive management, the board and other stakeholders for informing internal audit opinion and conclusions (IIA, 2017). This seems to suggest the consultation with these groups of stakeholders should be taken at the end of an audit project.

The Standard also does not give the framework to be applied for identifying who the "other stakeholders" are. Moreover, the standard suggests that stakeholders' views can only be considered at the end of the audit activity when the auditor is forming internal audit opinions and other conclusions. It would be expected that the internal audit charter would be robust enough to keep pace with organizational dynamics and be more specific on performance evaluation criteria unique to their context. The next section (4.1.4) reflects on the results from the review of the internal audit charter and points out how far it goes in addressing the issue of stakeholder expectation of value from a policy point of view and within the context of the institution.

#### **4.1.4 Results from the examination of Internal Audit Charter**

Internal audit charter is a formal document that is recognized in the International Standards for Internal Auditing as a formal document that stipulates the purpose, authority and responsibilities of internal audit function in an organization (IIA, 2017).

As stated earlier, within the framework of the IPPF, the Standards recognize internal audit

charter as the official document that defines the purpose, authority and responsibility of internal audit function. The institution’s internal audit charter comprises 14 sections. Five out of the 14 sections are the focus of this study; sections 2, 6, 8 (and its subsections), 9 and 10. Results from the review of the five sections and related interpretations are laid out in **Table 6**.

**Table 6: Results from the review of internal audit charter**

Section	Title of the section	Review Comments/Interpretation
2	Organization Status & Policy	This section only focuses on the relationship between the internal audit department and the board audit committee. It also emphasizes assurance services as a mechanism for ensuring the effectiveness of the board oversight role. This is still founded on the Agency theoretical construct that is being challenged as more Shareholder-focused than being Shareholder-focused <sup>3</sup> .
6	Scope of Work	The section paraphrases the definition of internal auditing and modifies some of the guidance on assurance services stipulated in the Standards <sup>4</sup>
8	Planning	Modification of the guidance on Performance Standards number 2010. S.2010.A2 stipulates that “other stakeholders” should be considered when forming internal audit opinion and other conclusions. No specific standard stipulates framework for identifying the “other stakeholders” and including their concerns in the audit plan
9	Audit Methodology	Mentions consultation with management as part of planning process but does not mention a framework for evaluating effectiveness of this approach.
10	Competence	Modification of the guidance in Standard number 1200. Moreover, this standard does not stipulate the key knowledge areas that internal auditors’ performance can be evaluated.

**Source: URA Internal Audit Charter**

The review commentaries in Table 6 highlight the following points regarding the robustness of the internal audit charter in addressing stakeholder’s expectation gaps in a structured and consistent manner. The statement of scope of work in the internal charter is a rearrangement of the wordings contained in the definition of internal auditing as stipulated in the International Professional Practices Framework (IIA, 2017).

Subsections (i) to (xii) of the charter attempted to widen the scope of internal auditing by giving breakdown of some activities to be carried out by the internal audit function in the institution to operationalize the definition of internal auditing.

<sup>3</sup>(Christopher, 2010, p. 684) -agency-oriented governance no longer aligns interests of many stakeholders with diverse value propositions and perspectives of performance

<sup>4</sup>(Head, et al., 2010, p. 42)- Internal auditing is not just about assurance, it is a state of servicing two-masters through assurance and consulting service continuum.

However, relating the scope of work to the audit methodology in section 9.0 of the charter indicates that internal audit function consultation with stakeholders during audit planning is only restricted to consultation with management. Moreover, the phrase “Management” is not defined in the charter.

Furthermore, in the charter subsection 10 (d) - “use of sample” puts the burden of reviewing and assessing the entire systems of internal control of the institutions in the hands of management. The state of internal auditing report produced by PWC lists eight foundational attributes that internal audit functions should enact. One attribute relevant to this study relates to “service culture” (PWC, 2016).

It is the researcher’s considered view that statements used in relation to the “use of sample” undermines the adoption of the service culture attribute. Outcomes from the review of the charter were discussed with the CAE to link what is espoused in the charter with the practical realities as far as stakeholder identification and involvement in audit activities are concerned. This incongruence is manifested in some of the narratives (in sections 4.2.2 to 4.2.5) expressed by participants who responded to interview questions seeking to assess their perception of value.

#### **4.2.0 Analysis of participants narratives**

Participants responses to the semi-structured interview questions gave narratives that point to a combination of themes. The narratives were coded, analysed and precipitated to the stakeholders’ value propositions before placing them within the construct of the internal audit value chain as shown on Table 7. The deductive analysis of the different themes provided insights into the multiplicity of the different theoretical perspectives that underpin stakeholders value propositions (Hernanson, et al., 2012).

#### **4.2.1 Mapping stakeholders’ narratives within internal auditing value chain**

Research question number- Q.4 sought to establish value propositions espoused by the five constituencies of stakeholders; Internal audit department, the audit committee, senior management, external auditors and the chief executive officer’s office. Narratives from the stakeholders’ constituencies reproduced in sections 4.2.2 to 4.2.5 were categorized into distinct themes based on the topic guides and mapped to different segments of the internal audit value chain.

The themes generated from the categorization of the contents embedded in the different narratives formed the final products of the qualitative data analysis (Vaismoradi, et al., 2016, p. 101). This was followed by the process of matching the themes with the elements in the internal audit value chain (IAASB, 2011) as a consistent framework that can be applied in measuring the scale and scope of social performance (Ibrahim & Rangan, 2014).

Although all the five groups of stakeholders consider outcomes from internal audit activities as their common value propositions, four of the constituencies of stakeholders do not consider some aspects of the inputs and internal audit process as critical in meeting their expectation of value. Their value propositions are dominated by the perception of outputs and outcomes, which are in the different loci of the internal audit value chain as shown in Table 7 (the checked (√) and shaded boxes).

**Table 7: Stakeholders value propositions within internal audit value chain.**

		<b>Elements in the Value Chain</b>			
	<b>Stakeholder Constituency</b>	<i>Inputs</i>	<i>Process</i>	<i>Outputs</i>	<i>Outcomes</i>
1	Internal Audit department	√	√		√
2	Audit Committee			√	√
3	Senior Management			√	√
4	Chief Executive Officer			√	√
5	External Auditors	√			

For the purposes of comparison, the internal audit value proposition is maintained as a control. The distribution of value propositions within the value chain resonates with and reinforces the assertion contained in the PWC survey report that internal auditing is experiencing increasing pressure to review their approach to align their value propositions, which predominantly are inward looking, relative to those of their stakeholders (PWC, 2018). This call to action was also resounded when reflecting on the stakeholders competing interests (Abbot, et al., 2010) as one of the challenges modern time internal auditors face, and that this has resulted into underserving stakeholders (Chambers & Odar, 2015).

To align with these competing stakeholders' interests reflecting in different value positions would necessitate the enactment of an internal audit policy framework that can effectively

deal with these complexities. Commentators on corporate governance have weighed in on the critical perspective on accounting.

They assert that internal audit value add role should now be framed on metatheoretical practice that transcends the hitherto inward-looking approach based on the agency theory (Christopher, 2010).

The tension between internal audit function value proposition and those of their stakeholders is manifested in the emphasis put on inputs and processes segments of the value chain by both the Standards and the internal audit charter. In the inputs segment of the value chain, internal and external auditors tend to rely on qualifications and experiences of individual staff, the degree of independence and level of objectivity of the internal audit department and its staff as guarantee of quality. The two constituencies of stakeholders rely more on assessing conformance as a measure of quality. This has been described as inward looking or “inside-out” assessment of value (Lenz & Hahn, 2015) by internal auditors and external auditors.

Referring to Drucker, 1985 counsel, we are reminded that “quality in a product or service is not what the supplier puts in. It is what the customer gets out and is willing to pay for” (Lenz & Hahn, 2015, p. 8). For too long the inward-looking perspectives of assessment of internal audit effectiveness has dominated the scene. There is a sense in which this perspective has challenged internal auditing value-add mission and its continued relevance in the governance is being questioned (PWC, 2015).

Therefore, the motivation for internal audit function to adopt a service configuration that ties up their obligation, action and consequences if IAF value add activities is to deliver a balance benefit to the diverse stakeholder constituencies (Chambers & Odar, 2015). This call to action resonates with “stakeholder thinking” that continues to dominate models applied in dealing with complexities in organization operating context (Adriof, et al., 2017). It is a concept that helps in-depth understanding of how value is created and traded (Parmar, et al., 2010).

The progressive perspective highlights the prospect of stakeholder management as a function of adaptation and transformation (Verbeke & Tung, 2013). This means that as key stakeholders continue to exert pressure on an entity like internal audit function, it becomes imperative for the entity to transform and adapt to the complexities for it to remain practically relevant. This is in consonant with the concept of finding the “true north” (PWC, 2015). Other

views look at this as a new vision imperatives and advocate for transformation as an opportunity for internal audit function to transcend the boundaries that internal audit standards subject the internal auditing processes, rendering internal audit function value-add activities as merely ritualistic and inward-looking performance focus (Chambers & Odar, 2015).

#### **4.2.2 Narratives from participants in the internal auditing department**

Within the internal audit department, members of the internal audit fraternity consider processes as the single most important measure of the internal audit function effectiveness. This could be grounded on their strong inclination towards compliance with the requirement of the “International Professional Practice Framework (IPPF) for Internal Auditing” (IIA, 2004).

For all practical purposes, the Standards, much as it recognizes that internal auditing is performed in diverse organizational context, gives very limited latitude for internal audit function transformation. Moreover, the Standards are explicit on the importance of internal audit function meeting its responsibilities and undertaking appropriate activity to fulfil those activities. The standards are silent on the expected outcomes or consequence of internal audit action but express adherence to the standards as mandatory (IIA, 2017). Some of the responses from the participants from the internal audit function constituency contend that their stance on process as the most important measure of their performance are clear. Some of the responses are reproduced, thus;

“My position is that adherence to internal audit standards increases my confidence in the internal audit function value add activities as required by the Standards” (CAE1)

Another response from the internal audit department that reinforces their stance on process segment as most important goes that,

“Internal audit activities should focus less on consulting audit, less on proactive audit” (CAE2).

The response continues to advocate for more of compliance audit. This is confirmation of internal audit function preoccupation with responsibility enshrined in the Internal Audit Charter and consequences of their action. This focus tends to underserve the Audit Committee, Senior Management and the CEO who are mindful of outputs as well as outcomes to be most important measure of value add by internal audit. However, during



the follow up interviews I noted that the senior management and the CEO value propositions are based on their desire to have a balanced reporting as opposed to internal audit function “exception reporting”, which tends to show senior management deficient performance. The notion of exception reporting puts management in a defensive stance because the report tends to “identify transactions or events that occur outside of normal parameters” (Wanyama, 2014). The adherence to exception reporting by the internal audit function as an approach to risk-based auditing is clearly at parallel with value proposition of senior management who look forward to being appreciated for their efforts using “appropriate words”. This was picked up in a suggestion by a participant from the senior management constituency who responded, thus;

“Internal audit should balance their reports by highlighting improvements as well as, areas for further improvement. Use of words such as loopholes, findings, opinion, should be reserved for investigators. Internal audit should avoid reporting by exception.” (SM2)

Another response by a member of the senior management challenged use of the word “opinion” in internal audit report. The participant argued that internal audit function is part of the organization and should not use opinion, for this is an indication of lack of commitment to what the internal audit function is reporting on. It will be recalled that section 10 (d) of the internal audit charter, distances internal audit function from taking responsibility for reviewing the entire system of control in the organization. This could be a source of gap between management expectation of value from internal audit function. This was succinctly stated in the PWC report on the “state of internal auditing”. The report posits that while there are indications that internal audit is making efforts to add value to their organizations, there is still room for more value add since stakeholders’ perception has remained flat at below 60% satisfaction (PWC, 2016, p.1).

Considering the growing pressure on internal audit function to transform, adapt and align with complex changes in stakeholders’ value propositions (Verbeke & Tung, 2013), criticisms have continued to stream from different commenters. Some writers opine that the definition of internal auditing is utterly very broad and exposes the internal audit performance to a wide range of interpretations (Roussy, 2013).

#### **4.2.3 Narratives from Participants in the Audit Committee constituency**

Participants from the audit committee constituency consider outputs as the most important

measure for assessing the internal audit function value addition. This value proposition is well supported by the sentiments embedded in the response from participants who are existing independent members of the audit committee. For example, one participant response to why they consider output as a major element in their assessment of internal audit function value addition role was thus;

“As members, we approve annual audit plan of the department but do not get involved in scrutinizing the implementation process. Our measure of value is on the report.”  
(AC1)

Another participant reinforced this proposition by stating that;

“We look at management response to audit report and judge how well and audit was carried out.” (AC2)

The above are sentiments that underpin the perception of value among the members of the audit committee constituency. This resonates with the view that audit committee, as a subset of the board of directors, is responsible for overseeing the organization’s governance and risk management process. They get assured if both the senior management and internal audit function are working together to resolve issues that affect the institution. To emphasize this point, one participant from the audit committee constituency responded thus;

“Internal audit function, especially the head of internal audit and compliance needs to work in partnership with senior management. They need to work in such a way that they bring to the committee solutions they are implementing to address risk management.” (AC1)

Perhaps this explains the responses from a participant in the senior management group who stated that:

“The Chief Audit Executive sits in the executive management committee.” (SM-1)

This narrative appears vague. However, it was clarified during a follow up interview. The participant clarified that she meant that being in the executive management committee, the CAE should add value to management decisions.

#### **4.2.4 Narratives from participants in the Senior Management Constituency**

In defining the different constituencies, the Chief Executive Officer was treated as a separate constituency from the other senior management. The stakeholder analysis matrix

indicate that this group has a strong combination of high influence and high impact on the value-add activities of internal audit function in the organization. In terms of influence senior management team maintains the day-to-day operating activities that support the organization strategy implementation plan. Any change in internal audit approach will have significant impact on them. It is a constituency that needs to be actively involved in the internal audit function improvement drive. This group bases their value propositions on the outputs and outcomes segment as shown in Table 8.

Accordingly, they derive value when internal audit function outputs presented in their reports lead to improvement in business processes. Responses from participants from senior management constituency suggest that they have no issue with internal auditors reporting on areas for improvement, but they value the quality of insights therein that can help improvement in the institution's operation. When asked to clarify how internal audit value-add is judged based on audit report, comments such as:

“Quality of judgement based on recommendations in the report that went through meticulous analytical process using the most state-of-the-art tool is not the issue. What matters are the insights that such analysis produces and their practical relevance to business process improvement.” (SM4)

Another response from another participant from the senior management constituency reinforces the outputs and outcome themes as analysed.

“Internal audit findings are a given. What is important is how the institution operations can be improved. Internal audit function needs to discuss the implications of the findings, and jointly agree on what needs to be done to address the deficiency in the system. In this way, internal audit is helping the institution improve.” (SM2)

Yet another response from one of the participants from the senior management constituency was that:

“Internal audit should not tell us what we already know. They should advise what interventions will help us sleep at night, knowing things are being addressed in a positive manner.” (SM5)

The sentiments expressed in responses from the senior management constituency place their value position within the outputs and outcomes segments of the internal auditing value chain as earlier highlighted in Table 7. The participants contend that what is important is not how well an audit project is carried out, value comes from the insights and how these

insights and actions therefrom help management and the overall organization improve governance and risk management processes in the institution.

Another participant responded to the interview question seeking to know more about what they value in internal audit report has this to say.

“If it is audit that we know of, it should be an audit. Audit and investigation have two very distinct focus; audit is for improvement not for disparagement” (SM3).

Asked to explain the differences between audit and investigation, the participant continues that an audit as defined mentions value-add as the mission of the internal auditing. The participant continues to put it more strongly that the word “investigation” is not mentioned in the definition of internal auditing;

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” (IIA, 2017).

It is clear from the definition that the mission of internal audit function is to “add value”, “improve an organization’s operations” helps an organization accomplish its objectives...” The misalignment with this proposition seems to reside in the overly process-focused audit approach.

In summary, the senior management constituency value proposition looks forward to internal audit function adding value by identifying opportunities for costs reduction, and positively bring to the attention of management issues that are not previously known. All these should lead to improvements in organization’s business processes and systems. Other value adds attributes that senior management expect of internal audit function outputs value chain are findings and recommendations that are of practical importance. It is only then that senior management will take internal audit function as a partner who understands the mission and challenges of the organization.

#### **4.2.5 The external auditor stakeholder constituency**

External audit assesses internal audit function effectiveness as a function of inputs. Attributes and structural configuration of internal audit function count most to the external auditor in assessing internal audit function performance. For example, internal audit

functional independence and internal auditor competence are rigorously assessed by external auditors (Roussy & Brivot, 2016). External audit places great emphasis on independence as an attribute that it can rely on. Here it is presumed that the greater the level of independence, the more credible the assurance outputs (Lint, et al., 2011). This proposition is very strongly enshrined in the internal audit charter that reviewed during this study.

The IIA Standards number 1100 under the “Attribute Standard”, treats independence of internal auditor as a non-negotiable requirement. The IIA refers to attribute standards as requirements that are mandatory (IIA, 2017). The extract from the IIA interpretation of independence is a clear manifestation of the attribute. Thus;

“Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels” (IIA, 2017), and

“Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.” (IIA, 2017).

In my discussion with participants in the Internal audit function constituency during the follow up interviews it became apparent that this constituency has taken this as a barrier for them to involve stakeholders in understanding their action and involvement in cogenerating improvement initiatives. Response from a participant from the external audit constituency reinforces the external audit strong reliance on independent. Thus;

“The Chief Audit Executive is not seen as a member of the organization’s senior management team because he is not supposed to be involved in the daily running of the organization, since it may jeopardize his independence.” (EX1)

Important to remember that external auditors continue to interpret the mission of internal auditing within the construct of the agency theory, and this continues to preoccupy the framework external auditors base their assessment of internal audit function quality attribute on, and yet internal audit function value-add role has attracted the interests of many stakeholders in the corporate governance space (Roussy, 2013) as opposed to the conventional principal-agency notion. Some writers have opined that internal audit function has now moved from merely being a “watchdog” to a “partner and protector” of senior management” (PWC, 2015). One theme that emerged during the interview is that, as much as the assessment of internal audit function value- add by the external audit has existed for many years, other stakeholders have no idea what the external auditors of this institution has since opined as their ranking of the IAF.

One participant from the senior management stakeholder constituency explained, thus; “Not sure whether external audit assesses internal audit function in this organization as competent” (SM1).

The participant explained that they have never been briefed on the results of external auditors’ assessment of internal audit function in the organization.

The different constituencies of stakeholders made their representations by describing the factors they lookout for in the different loci to judge internal audit function value add. These factors under the different dimensions are shown in Table 8.

**Table 8: Attributes stakeholders use to judge internal auditing value-add**

Quality Factor	Stakeholders Constituency			
	Chief Audit Executive	Senior Management	Audit Committee	External Audit
Inputs	Attributes of IA personnel & structure			Attributes of internal audit personnel & structure
Process	Audit assignments completed in accordance with laid procedures			Internal audit processes

	Outputs		Internal audit findings, implications and recommendations	Quality of internal audit report	
	Outcomes		Improvement brought about by internal audit activities	Improvement in risk management	

#### 4.3.0 Summary and Conclusions

Internal audit function can change the pulse and determine the impacts of its value-add activities by enacting strategies that foster adaptation through a cycle of innovation. The results obtaining from review of reference documents show that corporate governance in the institution is grounded on shareholder supremacy paradigm within the construct of agency theory.

Accordingly, the shareholder supremacy and agency theory have strong influence on the Internal auditing policy in the institution. However, results from the semi-structured interviews show that that different stakeholders' expectations of internal audit function effectiveness reside in the different loci of inputs, process, outputs and outcomes in the internal audit function value chain.

It is therefore important that the audit committee should champion internal audit policy change in the institution. The committee should start by reviewing the internal audit charter of the institution with the aim of stipulating stakeholder management as a key performance area. At operational level, the internal audit function should reflect on balancing components of quality that is domiciled in the different segments of the internal audit value chain. This does remind the internal audit function to not only focus on outcomes but also apply soft skills to ensure that their communication with stakeholders is effective as evident in the value-add activity matrix in Appendix 5.

## **CHAPTER 5: DISCUSSIONS AND RESEARCH IMPLICATIONS**

### **5.1.0 Introduction**

This chapter presents discussions on the meaning, importance and relevance of the research results. The discussions reflect on corporate governance state of flux, the diverse perspectives on the measurement of internal audit performance as a basis for recommending a policy framework anchored on an existing theory.

### **5.2.0 Discussions**

Corporate governance principles are universal and underpin the moderation, delegation of authority and the execution of duties by organizational leaders (Carcello, et al., 2011). Although the principles are universally applied, different authorities across the world continue to espouse different corporate governance codes that appeal to the uniqueness in their operating context (OECD, 2017). The code that dominates discussion on corporate governance is the 1992 Cadbury Code (Cuomo, et al., 2016). Since the Cadbury Committee pronouncement, the concept of corporate governance has evolved. The evolution has given rise to different themes driven by the quest to harmonize the shareholder conventional profit maximization with ethical considerations (Dias, et al., 2017).

Despite corporate governance global prominence, high-profile corporate scandals that reverberate across the globe continued in recent times (Tricker, 2015). The trauma, occasioned by some of the corporate scandals, heightened societal expectations and reinforced the demand for corporates to be more responsible to a wide range of stakeholders (Mallin, 2013). In the mix of corporate scandals and other operating complexities is internal auditing as a key control mechanism (Berger, et al., 2016). Before these developments, the agency theory dominated theoretical foundation of governance and accordingly informed internal auditing policies and performance evaluation in organizations (Mihret, 2014). This is evident by the several researches on corporate governance that are positioned within the construct of the agency theory (Goranova, et al., 2017, p. 416).

Critics of the agency theory, as a dominant construct of governance, now hold the view that the agency theory has fallen short in addressing the growing complexities that characterize contemporary organizations' operating environments (Afza & Nazir,



2014, p. 258). The IIA on its part as the champion of knowledge management in internal auditing, has continued with its efforts to ensure that internal auditing remains practically relevant and has issued several standards and guidelines for the professional practice of internal auditing (Zanden & Zanden, 2013). However, despite continued standardization of internal auditing by the IIA, threat of indictment continues to emerge over internal auditing quality of service because of persistent suboptimal delivery of value-add services to its stakeholders as highlighted in the five successive PWC global surveys carried out from 2013 to 2017 to evaluate the state of internal auditing as viewed by their stakeholders (PWC, 2018).

Informed by the need to address stakeholders' expectation gap, this research adopted qualitative approach to interrogate stakeholder expectation gap as a phenomenon that can threaten the stability of an institution. Choosing qualitative approach supported by action research strategy was informed by the need to provide a platform for different stakeholder groups in the institution's governance structure to participate in a dynamic interactive process. This facilitated to extraction of insights on the stakeholder's perception of internal audit value-add role in the context of their operating environment and within the realm of theories and philosophies of Corporate Governance (CG).

### **5.2.0 Research Implications**

The threat of indictment to the practical relevance of internal auditing is an alarm bell to all stakeholders in corporate governance arena. As a key control mechanism in corporate governance, internal audit function needs to address itself to it declining quality of service as evidenced by the growing stakeholder expectation gap (Chambers & Odar, 2015). Furthermore, the low percentage of stakeholders who perceive that internal auditing adds value offers opportunity for internal audit function to enhance its practical relevance. Internal audit function within the context of their organizations can seize this opportunity to position itself as a partner in promoting governance and risk management processes that meet the expectations of a wide range of stakeholders (Christensen & Hirth Jr, 2014).

It should be noted that complexities in organizations operating environments will continue to challenge corporate governance actors (Lenz & Sarens, 2012). The complexities this research brought to bear are attributed to the complexities in allocating internal audit resources to meet the requirements in the definition of internal

auditing, tension between the internal auditing standards and the “spirit” (my view) of the definition; these have all been exported to the internal auditing policy. Competing interests of stakeholders is yet another complexity that internal auditing faces as it pursues value added mission. The different areas of complexities are further articulate below.

### **5.2.1 Complexities in evaluating internal audit function effectiveness**

The relationship between quality of service, customer satisfaction and value has long been a subject of discussion in both theory and service marketing practices (Al-Matari, et al., 2016). In all this, value has majorly been taken as a moderator between service quality and satisfaction (Caruana, et al., 2000). In practice, there has been cases where the three elements of service quality, customer satisfaction and value have been used interchangeably (Abbott, et al., 2016).

Principally, there are three components in a quality model that can be applied in evaluating internal audit function quality of service; the inputs, processes and outputs that are not necessarily casually interlinked with each other (Ilgen, et al., 2005) shown as a value chain model in Table 7. It is posited that a similar model can be applied by external audit to assess their reliance on the work of external audit function (Francis, 2011). Apart from using it to evaluate audit services, the process-oriented model has been considered in evaluating quality of other services (Johnson, 1995).

In organization setting, different stakeholders put varying emphasis on each segment of the model depending on the organization context (Badara & Saidin, 2013). This support the growing call for stakeholder thinking (Adriof, et al., 2017), which implores internal audit function to adopt a stakeholder approach as an “enlightened” value maximization framework that will afford the requisite balancing of stakeholders varied perspectives of value in the continuum of value chain framework (Jensen, 2002). The propositions, based on stakeholder theory, stipulate five analytical and rational approaches on which auditors’ effectiveness can be evaluated (Cohen & Sayag, 2010). The first proposition requires auditors to recognize the diverse set of stakeholders and their relevance to audit work. The second proposition challenges auditors to observe both explicit and implicit fulfilment of stakeholders’ value and interests. The third imperative requires auditors to adopt a mix of process criteria which may include economic, legal, or moral dimension while evaluating risk management practices in their organization. The fourth proposition implores auditors to balance the interests and value propositions of various stakeholders beyond the owners’

interest as is the dominant practice under the “theory of inspired or rational expectations” (Cohen & Wright, 2010). The theory of inspired expectations appeals to internal auditing by providing a general framework that is contextually constructed. Which means internal audit function ought to reorient its approach in such a manner that internal audit function collaborates with multifunctional teams and key stakeholders in determining a framework that works for balancing different value perspectives (Homes & Noel, 2015) as part of Total Quality Management (TQM) agenda (Carroll & NaËsi, 1997, p. 49).

Whatever the case, internal audit function needs to be responsive to changing circumstances as the function delivers value to its stakeholders in an integrated manner and controlled deviations (Moyes, et al., 2016). This assertion is further supported by quality management principles that apply to internal audit function role in delivering value add services to stakeholders (Luburic, 2017), as internal audit function in organizations consider themselves as “internal consultants” “advisors” and “counsellors” who are responsible for ensuring that strategic objectives of organizations are achieved (Roussy, 2015). In the next sections describe views on the influence of organization context on internal audit performance as complex and dynamics that requires a robust approach for value-add mission by harnessing internal audit privileged position in the governance structure.

### **5.2.2 Dealing with complexity in the definition of internal auditing**

Reflecting on the IIA definition of internal auditing highlights the metatheoretical underpinning of internal auditing. The definition presents a cluster of concepts cobbled together with inspirational sentences. Some analysts opine that this is the first stage, in the several stages, where conceptual confusion about the exact core responsibility of internal auditing function in an organization starts (Schillemansa & Twist, 2016).

Other analysts assert that “there is no precise agreement about what auditing really is, as compared with other types of evaluative practice, such as inspection or assessment. They posit that it is prudent to speak of a cluster of definitions which overlap but are not identical.” (Power, 1997: cited in (Schillemansa & Twist, 2016, p. 259). The cluster of concepts in the definition presents internal auditing function as multidimensional discipline that should champion integrative approach to support their organization in subduing the whims of complexities. In the earlier review of literature and theoretical concepts, PWC’s suggestion that internal audit function needs to “find the true north” (PWC, 2017) was cited and given emphasis. This is a stark reminder that “interactive complexity” (Nuijten, et al., 2015, p. 20)

lurks in every organization operating environment, bringing with them the need for internal audit function to be ready to serve more than two masters (Abbot, et al., 2010), adapt to these complexities amidst unclear boundaries and stay the course of the IIA Standards.

Moreover, such are the factors in the operating context that shapes stakeholders' perspectives on value propositions (Bepari & Mollik, 2016). In this regard, internal audit function in the institution is at the centre of tension between the stipulated mission as enshrined in the robust definition of internal auditing, the restricted scope of work stipulated in the institution's internal auditing policy framework (the internal audit charter) and the statute. For example, there is enduring debate whether the internal auditing risks crossing the independence and objectivity "red line" by engaging in consulting services (Aghghaleh & et al, 2014). Extensive articulation on the internal auditing attribute standards numbers 1112 through 1130.C2 introduce the boundaries mentioned above (IIA, 2012). The situation is not helped by the absence of framework on stakeholder management in the internal auditing policy that should have mediated the tension in a structured fashion.

### **5.2.3 Impact of operating environment on stakeholders' value propositions**

It can be argued that stakeholders value propositions are underpinned by the different complex relationships they have with the different elements of complexities in their operating environment (Aguilera, et al., 2018). Similarly, difficulties in realizing total quality in internal auditing can be discussed in terms of IAF complex interactive relationships with the elements in organization operating environment (Nuijten, et al., 2015). In this discussion, the meaning of complexity is used to describe a context where elements in the environment consist of several components that interact with each other in dynamic and fast paced manner (Collander & Kupers, 2014).

Organizations that survive in this intricate and dynamic network of factors are those that co-evolve and effectively manage the risks that emerge from the interaction with the environment (De Toni, et al., 2016). As a key player in the organization governance, internal audit function also needs to deal with the changing operating landscape as it endeavours to add value to organization operations. The eras when internal auditors take their role as "business as usual" is no longer sustainable (Mihret, 2014). The "interactive complexity" (Maguire, et al., 2011, p. 32) that internal audit function faces are not merely the sheer number of stakeholders and their different value propositions, or due to the myriad of factors, but rather due to the emerging consequences of the interactions between

stakeholder and factors in the organization operating environment (Nuijten, et al., 2015). The functional/reporting relationship that the internal audit charter confers upon internal audit function and the audit committee presents a different challenge (Lary & Taylor, 2012). In addition to functional relationship, the informal interaction between the internal audit function and the audit committee also poses interpersonal relationship that internal audit function needs to manage (Zaman & Sarens, 2013).

The need for internal audit function to perform tasks such as complex analysis, using complex methodology and procedures present great challenge to internal audit function that is not well resourced with technology and people with expert knowledge. However, limitations due to technological advancement come in many forms; by making outputs from complex analysis, complex methodology and procedures difficult to appreciate (Vasarhelyi & Romero, 2014). CAATs or several “generalized audit software” limit internal audit task to mere analysis without much value to stakeholders. Some internal audit functions simply do not have access to such tools (Ahmi & Kent, 2013, p. 88).

Another complexity that internal audit function is compelled to manage in its delivery of value is related to reporting (Darus, et al., 2014). For example, internal auditors occasionally find it difficult to comments on the impact of Corporate Social Responsibility Activities (CSA) that management strongly believe are beneficial to achieving organizational goals. This creates a mismatch in value proposition with senior management (Ackers & Eccles, 2015).

### **5.3.0 Contribution to theory and Practice**

In this study, a multi-theoretical approach to dealing with the diverse expectations of the different groups of stakeholders in the corporate governance structure was taken. It is envisaged that this will contributions to theory as explained in sections 5.3.1 to 5.3.4.

#### **5.3.1 Value chain concept as end-to-end IAF performance evaluation**

Evaluating internal audit effectiveness is currently dominated by the model applied by external auditors (ICAA, et al., 2012). The external auditors only uses some segments of the value chain to help them assess their reliance on the work of internal auditors for purposes of expressing their opinion on financial statements (Bame-Aldred, et al., 2013). This thesis recommends the adoption of value chain as an end-to-end model that aggregate all segments in the internal audit value chain. This will add another dimension that involves incorporating the views of other stakeholders in measuring value add role of internal audit

(Desai, et al., 2011) in the institutional context. Context is an important consideration because it influences the stakeholders' perceptions as they differ in their value propositions (Mihert, et al., 2010).

### **5.3.2 Institutionalizing stakeholder management in internal audit policy**

Recommendations from this research will influence internal audit policy makers to rethink their current policy on internal audit value-add roles in their organization. The importance of involving audit committee, senior management, and middle management in the exploitation of opportunities to improve their practice is well emphasized in literature on action research (Coughlan, 2011). This has the potential of affording stakeholders the opportunity to participate in cogenerating actionable knowledge that resolves the challenges in their situation (Coughlan, 2011, p. 53).

In this thesis, the issue to the audit committee, senior management and middle management in understanding, and getting involved in resolving the situation that affect their organization was emphasized. It is also acknowledged that they are impacted by the multiple interpretations of the effectiveness of internal audit function in the organization. This view resonates with the four fundamentals of action learning of bringing peoples to dialogue, support and challenge one another as they learn together (Pedler, 2008). The view is further reinforced by their voluntary participation which helped them create options as they act from the effect of their learning. This study highlights the recognition of the importance of stakeholders' diverse value proposition in designing framework for measuring internal audit value addition in an organization (PWC, 2015) as a performance area.

### **5.3.3 New frontier for context-based research in corporate governance**

The findings and discussions in this thesis will unveil prospects for more research and the development of a platform for empirical testing of internal audit value add role in organizations. In so doing, this study outspreads the frontier of modern research in corporate governance beyond compliance to a more information-based leading to the development of composite measure of value-add role of internal audit (Lint, et al., 2011). This will open the prospect of undertaking experimental research in a controlled environment which can be simulated in other settings.

#### **5.3.4 Open up debates on continued suitability of internal audit standards**

This research gave individuals who are themselves highly experienced actors in the corporate governance space in their organization and members of professional associations in accounting and auditing to reflect on the limitations inherent in the Standards. It is envisaged that this study will provoke debates around the robustness of the Internal Auditing Standards. The debates could spread and compel the Institute of Internal Auditors Research Foundation to call for a review of the standards to include stakeholder management as a new knowledge area in internal auditing.

#### **5.3.5 Disseminating knowledge about internal auditing**

It emerged from the follow up interviews that the research encouraged members of the internal audit and external audit fraternity to be reflexive. The two constituencies went beyond what the IIA internal audit standards and external audit standards stipulate. The research afforded them the opportunity to realize the existence of alternative approach to coalescing different stakeholders value proposition into a value chain framework that maximizes value add services to stakeholders in a balanced manner.

The research also invoked participants to view internal audit as a service through the identification, understanding, and actions regarding their personal, professional and political dynamics that play out in real practice. The in-depth appreciation of the role of internal audit function and its value-add dimension culminated in designing activity matrix. From a wider perspective, members from the different constituencies of stakeholders could appreciate the importance of each elements in the internal audit function value chain. The understanding receded any tension occasioned by the diverse perceptions on internal audit function value add role.

#### **5.3.6 Formalising stakeholder management as a key performance area**

The recommendations from the research has identified stakeholder management as a key knowledge area that internal audit function should espouse. Institutionalizing this theory will go a long way in improving internal audit value-add services. Key stakeholders will have the opportunity to participate in identify areas of interest and agreeing with the CAE on the deliverables as part of the consulting services.

### **5.3.7 Improved Communication**

The importance of involving stakeholders in the exploitation of opportunities to improve their practice is well articulated in literature on action research (Coughlan, 2011). Action research has the potential to offer stakeholders the opportunity to participate in cogenerating actionable knowledge that resolves the challenges in their situation (Coughlan, 2011, p. 53).

In this thesis, the research questions were addressed to the key actors in the institution's governance framework. The four fundamentals of action learning of bringing peoples to dialogue, support and challenge one another as they learn together (Pedler, 2008) help improve communication between members of the institution. The participants' voluntary participation, in relation to their respective responsibilities in their organization also helped them create options as they act from the effect of their learning (Coughlan & Brannick, 2014) such as compiling of the value- add matrix.

Improved communication is premised on the understanding that the key stakeholders to internal audit services had the opportunity to appreciate each other's perception and value propositions. This will improve inter personal effectiveness in the institution, and will help internal audit function address their diverse demands. Furthermore, the framework will also guide the audit committee of the board in improving their oversight role (Haniffa & Hudaib, 2007) as internal audit function endeavours to address the issue of expectation gap (Abbot, et al., 2010) across the institution.

### **5.3.8 Linking theory to Practice**

The research revealed gaps that exist between the internal audit standards and the internal audit charter. Recommendations from this research highlighted the need to review the internal audit charter to make it consistent with the Standards. For example, Standards 1000.A1 and Standards 1000.C1 advise that the nature of assurance and consulting services should be clearly spelt out in the internal audit charter. This will make more sense if done within the construct of stakeholder management.

This will facilitate internal audit function to:

- Appreciate standpoint for each the stakeholders' value assurance or consulting audit projects



- Explain the objectives of each project and jointly agree with respective stakeholders on prioritization of the planned projects
- Plan audit activities with the constructive participation of concerned stakeholders
- Agree on internal audit resource and process management
- Continuously monitor impact of all audit activities and take necessary corrective actions to address any performance related issues. This ensure that deficiency and emerging issues are captured and dealt with promptly.

#### **5.4.0 Internal auditing value-add matrix Implementation Framework**

The activities in the activity matrix table in appendix 5 were generated from the stakeholders' presentations and fused into IIA Attribute and Performance Standards. The suggested value add activities would be implemented within the framework of internal audit value chain.

The assertions expressed by the groups of stakeholders encourage internal audit function to undertake consulting assignments and balance it with the conventional assurance in a blended engagement arrangement (Head, et al., 2010). The International Standards for the Professional Practice of Internal Auditing (Standards) describes consulting services in internal auditing in terms of "advisory and related client service activities". The Standards stipulate that internal audit function should agree on "the nature and scope of consulting services with their client" (IIA, 2017). Internal audit function can champion action learning cycle (Pedler, 2008) as an espoused method of operation.

#### **5.5.0 Areas for Potential Value addition in the tax administration system**

The internal audit and compliance function could add value by advising on the strength and weaknesses in the tax administration system within the context of the institution. Principles of an effective tax management system have long been established since the 18th century and continue to evolve with time (Kogan, et al., 2016). The four pioneering principles of a good tax system advanced by Adam Smith were based on moral philosophy and economic concepts (Kogan, et al., 2016). Although with developing economies, some five other cannons have emerged and added to the already complex interplay of the earlier cannons of taxation. These are equity, certainty, convenience, economy, productivity, elasticity,

simplicity and diversity, briefly explained below (Isa, 2014, p. 52):

- i. **The equity/equality principle**- meant to harmonize the social spectra of a country where the rich pay more taxes than the poor. Suffice to state here that this is outside the mandate of the Uganda Revenue Authority as an implementing agency to decide on this canon. It is the mandate of the Legislature to enact Tax laws that ensure equity and equality based on the national development plan.
- i. **The principle of certainty** holds that the purpose, the nature and method of payment should be predictable. Again, the tax law clearly stipulates these in the different clauses that spell out dates, tax rates and source codes needed to guide bases for the computation of different taxes, submission of tax returns, and method of payment.
- i. **The principle of convenience** seeks to ensure that the canon of certainty is enhanced. Convenience seeks to simplify processes. Now, this is where URA's system of governance and risk management plays a key role in reducing leakages. By extension, the internal audit function can add value by advising management on process efficacy.
- iv. **The canon of economy** relates to a tax system that seeks to ensure that cost of tax collection is kept to a bare minimum. Management of cost of tax collection in a tax system is also within the domain of URA's corporate governance practice. This presents an area in which the internal audit function can add value through its consulting services continuum.
- v. **The canon of productivity** in a tax system touches on the tax base of a tax system. I am aware that the tax base is defined in the tax law. However, internal audit function can undertake research and present its proposals to increase the tax base that can be considered as a basis for amending the tax laws. Opportunity for value addition by the internal audit function is to advise management on more efficient ways of improving productivity based on the tax base.
- vi. **The principle of elasticity** seeks to make it easy to amend the tax laws in accordance with evolving socio-economic dynamics of a country. This area is handled by the line ministry.
- vi. **The canon of simplicity** seeks to ensure that the underlying processes in the

tax management systems are as easy as they are properly controlled.

- vi. **The principle of diversity** seeks to institute a tax system with a broad tax base that can ensure that every individual in the country contributes to national development.
- ix. **The canon of flexibility** seeks a tax system that is responsive to the national demands and ability to raise public revenue.

Since tax incidences affect every spectrum of the community in a country, it is imperative that the government and its agencies, such as the Legislature needs to enact tax laws that satisfy the requirements of the different canons for efficient tax management system (Kangave, et al., 2016). And URA as the implementing agency should ensure that the governance and risk management systems process within its systems align with the principles that can be controlled through systems design; thus, a fertile ground for internal audit function to sow the seeds of value (Kangave, et al., 2016, p. 3).

#### **5.6.0 Stakeholder management as a new knowledge area in the Standards**

Stakeholder management concept has been professionalized in disciplines such as engineering projects, environmental management and medical practices (Yang & Shen, 2015). Although its relevance in management sciences has come off age, very little has been done in management to champion stakeholder management as a vital knowledge area, more especially in corporate governance and therefore internal audit profession effectiveness (Allegrini, et al., 2011).

Stakeholder management in management sciences has over the year been mutedly discussed as a minor subject (Ayuso, et al., 2014). A scheme for systematic management of stakeholders in internal audit activities is long overdue and ought to be given its place in modern internal auditing. It would be a worthwhile endeavour to adapt what other disciplines have done to professionalize stakeholder management. For examples, as indicated in Table 9, assessing precondition for stakeholder engagement within the organization's economic, legal framework, and cultural context is a good starting point for stakeholder management.

This can be followed by constructive stakeholder identification and collecting information that can be used to align activities of internal audit function with the stakeholders'

objectives. The third stage- stakeholder assessment; needed to analyse and establish the prevailing relationships between different stakeholders' constituencies. The next stage is for the internal audit function to champion the decision-making stage to decide the level of engagement with each constituency of stakeholders. After the decision stage is the enactment stage. This is a stage where internal audit function implements the stakeholder engagement strategies and evaluate their satisfaction index. This is to be supported by entrenching the culture of continuous support.

### **5.7.0 Stakeholder Management theory and Corporate Governance**

Stakeholder management concept has been professionalized in disciplines such as engineering projects, environmental management and medical practices (Yang & Shen, 2015). Although its relevance in management sciences has come off age, very little has been done in management to champion stakeholder management as a vital knowledge area, more especially in corporate governance and therefore internal audit profession effectiveness (Allegrini, et al., 2011).

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Internal audit function can adopt the stakeholder management schemata because of the function will strengthen its capability to:

- i. influence stakeholders' buy-in and support where required;
- ii. maximize the influence of loyal stakeholders and neutralize the sceptical stakeholders.

### 5.8.0 Implementing stakeholder management schemata

Key questions to ask when enacting stakeholder management schemata can address specific area concerning the following:

- iii. What impact will the planned activities have on the stakeholders, and what is the level of severity?
- iv. What are the stakeholders' expectations?
- v. What will be the likely reaction of the stakeholders?
- vi. What influence do the distinct categories of stakeholders have?
- vii. Who will engage the different stakeholder groups?

**Table 9: Schemata for stakeholder management by Internal audit function**

#	Process	Input (s)	Output (s)
1	Delineate operating context as a precondition	Identify the social, economic, cultural and legal responsibility of the institution as a precondition for understanding the institution operating context.	Organization's Responsibility Matrix
2	Stakeholder Identification	Identify and collect information on the different constituents of stakeholders	• Stakeholder list

			<ul style="list-style-type: none"> <li>• Stakeholder information sheet</li> <li>• Stakeholder expectations sheet</li> </ul>
3	Stakeholder Analysis	Analysing and group stakeholders in terms of their priority, relationship and influence	<ul style="list-style-type: none"> <li>• Stakeholders priority index</li> <li>• Relationship matrix</li> <li>• Stakeholder map<sup>5</sup></li> </ul>
4	Decision	Decide on the strategies for stakeholder engagement depending on the outcome(s) from number 3.	<ul style="list-style-type: none"> <li>• Stakeholder Management Plan (SMP)<sup>6</sup></li> </ul>
5	Implementation	<ul style="list-style-type: none"> <li>• Implement the SMP in designing audit plan, execution and reporting.</li> <li>• Obtain stakeholders feedback at end of every audit activity to obtain stakeholders satisfaction levels.</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholders Satisfaction Index (SSI)</li> <li>• Improvement Initiative(s)</li> </ul>
6	Performance Management	<ul style="list-style-type: none"> <li>• Internal Audit function performance evaluation to include SSI as one of the KPIs</li> <li>• Continuous support for the Stakeholder Management policy</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholder Relationship Management Policy: E.g. Frequent interactions with stakeholders</li> </ul>

Adapted from (Ayuso, et al., 2014, p. 7)

### 5.9.0 Limitations and suggestions for future research

Within the constraint of time the participants and I leveraged insider knowledge and initiatives and generated additional information that can be applied in improving internal audit practices in the organization, or inspiring future research in the areas of internal audit and corporate governance. However, within the limitation of this study, the following should be taken into consideration when interpreting the results of this study: The implementation of the suggested action matrix is yet to be tested in the organization against the background of power and politics at play. The study was undertaken in a single institution. The recommendations may be modified depending on an organization contextual dynamic.

<sup>5</sup> (Reed & Curzon, 2015, p. 26)- Pay attention to “interest” vs “influence”. Stakeholders with high interest and high Influence are key stakeholders in deciding internal audit resource allocation.

<sup>6</sup> This is a document that should be regularly updated to make it a living document.

### **5.10.0 Suggestions for Future Research**

Within the construct of value chain, there are glaring vagueness of what constitute internal audit value add activities within the different loci of input, process, in the value chain. Ambiguity about what purpose internal audit serve also still lingers. To clear these ambiguities calls for a context-oriented study for in-depth appreciation and understanding of the purpose of internal audit function under varying organizational operating context as a way of building context relevant performance evaluation criteria. In this regard, future research in corporate governance should pursue a metatheoretical approach to corporate governance in order to get a deeper understanding of the socio-economic dynamics underpinning the design and expectations from the different actors in the corporate governance space (Hoque, et al., 2017).

### **5.11.0 Summary and Conclusions**

To continue grounding internal auditing policy and practice on shareholder perspective of corporate governance with its underlying agency theory is no longer tenable. Internal auditing policy makers in organizations, Internal auditing standards setters and researchers should now appreciate the need to advance stakeholder perspective of corporate governance and pay attention to emerging theories that are relevant to the field of internal auditing. Self-reflection is needed if internal audit function is to entangle itself from the dominant paradigm of inwardly assessing their performance, it should develop impetus for change. Notwithstanding the fact that the contemporary internal auditing traces its evolution to 1941 when it was considered as an intra- organizational control mechanism. Internal audit should assess stakeholders' value proposition on a regular basis and design its plan accordingly.

Global survey by the Institute of Internal Auditors suggests that many organizations in both the developed and developing countries have made noticeable reforms in the way internal audit function play pivotal role in governance. For example, internal audit is being challenged to do more to partner with senior management in scanning business environment as part of the consulting engagement. It is imperative for internal audit

function to position itself as a contributor of substantial value to the institution by maximizing value offered in the eyes of the audit committee, the executive management, senior management and other stakeholders. Internal audit function can strengthen its capabilities by focusing on the eight foundational characteristics by staying focused and advising on both operational and strategic risks, building a pool of talented shrewd business professionals, aligning with the institute overall risk profile, using the right technology to carry out analysis in a cost-effective way, entrenching a service culture that encourages quality and innovation that are of practically relevant.

Practical ways suggested in the matrix of value-add activities that internal audit function is required to build on to deliver the most value to its broad spectrum of stakeholders are:

- i. Active involvement in organization process improvement and strategy implements by advising of “impactful business imperatives” (PWC, 2015)
- ii. Internal audit function should proactively offer advice on all business risks such as strategic, compliance, financial, and operational risks
- iii. Internal audit function should provide practical and context relevant recommendations on risk mitigation measures before the risks crystallize.

Designing strategy that positions internal audit as a partner in organization requires a complete paradigm shift by policy makers and standard setters. Internationalization and standardization of internal audit can only work up to a level where context underpinning the design of an organization corporate governance structure and practice begins. Discourses on accounting research has been dominated by causal quantitative relationship between governance and performance. Little attention has been given to understand the worldview and paradigm that have developed overtime. It is therefore important that research in corporate governance needs to deploy a broader socio-economic and organizational context as an integral part of research in accounting.

The introduction to the International internal auditing Standards acknowledges the diverse context in which internal auditing is conducted. The introduction also recognizes that organization purposes, sizes, complexity and structure vary. Therefore, it is prudent to appreciate that diverse context impact internal auditing activities. It is further recognized corporate governance as a domain in which internal auditing is premised in evolutionary its implementation varies across the globe.



The key recommendation in this research are grounded on existing theoretical concept to recommend policy framework for formulating governance policies and procedures that are align to the dynamics at play in different jurisdictions as a way of addressing stakeholders' varied interest.

The recommended action points in this thesis are based on the concept of policy framework and they are intended to suggest theoretical concept upon which other policies and procedures should be developed to empower internal auditing align its value-add mission with its stakeholders' expectations. The idea behind a policy is to enunciate the principle of prudence and ensure consistent application of guidelines that align with the uniqueness of a context in a structured manner and clarify the relationship between the different groups in an organization governance ecosystem.

The key recommendations in this research are that:

Stakeholder management should be introduced in the internal audit charter as a key performance area,

The full extent of internal audit value chain should be applied in evaluating internal audit performance,

IIA is advised to considering including stakeholder management as a key knowledge area in internal auditing performance standards.

## **CHAPTER 6: RESEARCHER'S SELF-REFLECTION AND LEARNING**

### **6.1.0 Introduction**

This journal presents my personal account of key learnings that I picked throughout the DBA programme.

Key areas that my research dairy retrospect on are my development as: a leader, a researcher and scholar-practitioner over the entire period of my study programme. The dairy further lays down a reflection on my interactions with the participants, a “co- researcher” during the research phase of the programme and. The research journal contains more of my comments and judgements around situations that were challenging and situations that worked in my favour. It is not in the scope for this chapter to attempt to interpret the behaviour of participants beyond what have already presented and discussed in chapter 5 and validated within the framework of internal audit value chain. The dairy also reflects on how ethical issues we handled.

### **6.2.0 Developing as a scholar-practitioner**

After graduating with an MBA, I set out to look for a study programme that would present me with the opportunity to configure my faculty of reasoning and liberate my mind to a whole new intellectual level. In my search for such opportunity, I found out that pursuing DBA would afford me the opportunity to face new challenges that extend the frontier of practical knowledge that I have accumulated over the years as an Accountant and Enterprise Risk Management executive.

Indeed, the DBA programme prepared me into being a researcher; a researcher that would look at organizational situations from many dimensions and relate to the context and together with stakeholders, cogenerate actions with practical relevance that bring change in individuals and organization systems (Pedler, 2008). By this I envisaged leveraging the stakeholders as a collection of individuals with a stake, desire to understand their situation, and learn how to improve and innovate for the future through regular interaction (Wenger, et al., 2011) with each other as a “community of practice” (Wenger, 2000). This motivation was further reinforced by the view that DBA is emerging as a platform for bridging the theory-practice divide; thus, giving a fruitful challenge that would inspire me to learn through reflecting on my “practical experiences with theoretically based concepts” (Per F., 2015).

I must restate my pleasure that the DBA programme, opened doors for me to a new world of knowledge creation platform where I prolifically debate and reflect on the various paradigms that underpin interpretation of knowledge. This has equipped me with the intellect to endeavour to look for separate ways of getting insights into management and organization practices (Johnson & Duberly, 2012).

As I reflect on my journey, I assert that my thinking, problem solving and leadership capability have been enchanted and hugely influenced by critical thinking pedagogy of the DBA programme. I contend that this growth has liberated my thinking and introduced me to a whole new-found knowledge of organizational problem-solving approach and developed my skills in practicing impactful scholarship (Antonacopoulou, 2009). This overarching objective and approach to knowledge creation underpinned this research project. It is an aspiration that will characterize my scholar-practitioner with impact; a journey that I will continue to stride as I influence policies and change agenda in organizations (Pettigrew, 2011).

My recognition and appreciation of the significance of the dynamism and complexity inherent in “practice” and “practicing” (Antonacopoulou, 2009) are what shape my inquiry as I collaborate with individuals, facing organization and leadership situations, in co-creating actionable knowledge that can be applied in demystifying metaphors, puzzles and paradoxes that constitute the complexity and dynamism of knowledge management in organizations as social systems (Morgan, 1980).

### **6.3.0 Dealing with ethical issues during research**

I realized that promising confidentiality is much easier in the PIS (to obtain participants informed consent), in which I pledged to anonymize the identity of participants. But in practice I realized that as a researcher, it was much easier to handle anonymization at two points; at data coding and data analysis stages where I had to group data under the different stakeholders’ constituencies. I substituted participants’ names with alphanumeric pseudo names with the prefix representing stakeholder constituency and the number, not in any order of importance. At the beginning, my overarching goal was to ensure complete confidentiality. Ideally, anonymization is considered the most dominant approach to confidentiality in social research (Kaiser, 2009). However, “complete anonymization” in a small population of participants is a big challenge. This is because the participants constituency can represent a context that still point to a group but not identity of individuals

in the constituency, which does not pose a significant risk to both the researcher and the participants.

In my case I allayed tension around complete confidentiality on myself and the participants by adopting the following approaches:

I assessed what the impact would be on the participants if their identity were unintentionally disclosed. The risk was mild because the nature and subject of the research did not expose the participant to discussing uncomfortable and highly sensitive and offensive subjects. I found it easier to manage the confidentiality tension by ensuring that participants are well briefed and allowed to ask as many questions as possible before obtaining their consent. This included informing them how their responses will be handled.

#### **6.4.0 Transcription during interview**

Although I used semi-structured interview guided by key topics, I had to deal with a deluge of utterances that were very difficult to place under specific themes. I took repeated process of regrouping, refining and interpreting data and insights contained in the natural language (Easterby-Smith, et al., 2008). Through the process of “re-coding”, “linking” and “re-evaluation” which was rather chaotic and mind-boggling engagement with qualitative data. Guided by a set of questions I was able to refine data by categorization and placing data within the different element of Inputs, Processes, Outputs and Impact in the internal audit value chain. The questions played significant role in this mind boggling and rather “boring” stage in making sense of data.

#### **6.5.0 Engaging Participants as “Co-researchers”**

The concept of referring to participants in a research as “co-researchers” revolves around the idea of “participatory method of research that situates participants as joint contributors and investigators to the findings of a research project” (Coghlan & Brannick, 2014). In this research, participants, who are key members of the organization and actors in the organization’s corporate governance structure, were engaged to give insights and contribute to resolving the stakeholder expectation gap phenomenon.

My experience with the practice of engaging participants as “co-researchers” happened at two stages:

The first stage was while I endeavoured to obtain their informed consent and the second stage was during their participation to generate internal audit function value-add activity

matrix where their contributions were pertinent. The notion of co-researcher appeared to have startled a considerable number of participants. I could receive expression such as “will I also be required to write a thesis”? Another participant expressed fear that as a co-researcher, her anonymity would be compromised. Faced with this challenge, I drew from the concept of “constructivist evaluation” (Rodwell, 2015) to explain to the participants that the constructivist approach (Greenwood & Levin, 2007) is simply an approach where I involve the individuals faced with organizational issues at hand to participate in resolving the situation. And that this would allow them to use their organization knowledge to make sense of the internal audit processes, and diverse stakeholders perspectives. This explanation demystified the notion of “co-researcher” that had become contentious.

Reflecting on this experience, I challenged myself that I shouldn’t have used the term to such participants. However, the apparent confusion presented opportunity for me to explain the importance of “constructivist evaluation” (Greenwood & Levin, 2007) as an element in action research that brings democratic change in social setting (Alvesson & Sandberg, 2011).

#### **6.6.0 Framing organization and management situation as a researchable topic**

Looking back through my research proposal and comparing it with the experiences and outcomes registered during the enactment of the research, I take due note of the following:

As I begun on the journey to undertake this action research project, I initially approached it with a mindset to generalize the results of the study, theorize the underlying concepts in internal auditing, amongst others. However, as I embarked on the field study, I realized that I needed to refine the research ideas many times in accordance with the conclusions drawn from review of literature, finetuning some dimensions of the methodology and a joint problematization engagement with the research participants. This reminded me that formulation and clarification of a research topic is not a one-off engagement, but involves the adaptation of techniques involving rationalized thinking and creativity (Saunders, et al., 2012, p. 59).

I had written the proposal with the view that I knew the complexities internal audit function faces. However, enacting action research revealed that what I thought I knew was not the reality in organization environment. I immediately became conscious of the fact that my capacity to challenge my thought process had been boosted and the possibility of generalizing my study became slimmer as the organizational context started playing out.

For example, it took me time to convince some section of the chosen participants that internal audit status quo could be a subject of debate because of the highly standardized and regulated internal audit profession. This eventually changed for the better as the concerned participants found out that their participation in the research project would give them opportunity for self-realization, knowledge that can improve their situation and the sense of responsibility (Greenwood & Levin, 2007).

### **6.7.0 Summary and Conclusions**

A rich experience gained through a series of activity I participated in during my study programme, my key learning from the experiences and how the experiences have shaped my development as a leader, a researcher and am member of community. The notable Key Personal Development Indicators (KPDI) that I continue to manifest in my social and work life are:

My capacity to problematize leadership and organizational issues both in my social life and workplace and rally those affected to collaborate in resolving the situation has been enhanced. I invariably challenge my thought process by questioning my assumptions, common knowledge and assertions made by others.

Coupled with my positive attitude to active listening, I continue to leverage my problematization capability to continually attract solicitations from people asking me to help them with their problems. I have since adjusted from my initial positivist mindset and began to live with multiple paradigms and understand how they interplay to shape knowledge creation in a social setting.

My competence in facilitating work teams through process improvement initiatives and problem resolution has been applauded. For example, during the last quarter of 2016 I successfully facilitated, through an action learning process, a strategy planning session by helping organization members realize that they have the capability to craft a strategic plan for their organization. I have registered remarkable achievements because of the leadership and problem-solving capabilities I have accumulated both in practice and in scholarship.

The DBA journey has been a worthwhile experience. My objective of becoming a scholar-practitioner with ability to leverage scholarly knowledge in resolving leadership and organizational situations has been strengthened and will continue to grow stronger. At this point, I have the competence and confidence to be a change agent that champions the advancement of individuals, communities and organizations.

## APPENDICES

### Appendix 1: Interview Guides

Because of the different constituencies of stakeholders, the topic-guided interview questions were tailored to each constituency and the role they play in the organization governance structure. The interview questions were structured to gain insights into the institutional context and value propositions espoused by the separate groups of stakeholders and their expectation regarding value-add activities of internal audit function in their organization. Below is the abridged version of the outline and structure of the topic-guided interview:

#### **A. Institutional context assessment questions: -**

- i. Where does the Internal audit function derive its mandate from?
- ii. What is the Internal audit function line of responsibility?
- iii. Are internal audit services in-house or outsourced?
- iv. What is your cumulative experience and engagement with the internal audit function?
- v. How long has internal audit function been in existence in the organization?

#### **B. Stakeholders**

The questions below guided the semi-structured interview sessions with participants drawn from other stakeholder constituencies in the institution's governance structure.

- vi. Based on your experience, explain your understanding of the role of internal audit function in your organization.
- vii. From your experience, what is your perception of the value internal audit function adds to your institution operation?
- viii. Based on you answer to ii above, cite examples of what you think constitute value in internal audit activities.
- ix. Do you say internal audit function is meeting your expectation of value? Explain.
- x. What do think would constitute essential elements of quality that are important for internal audit function to deliver value to your institution?
- xi. Suggest ways by which internal audit function can align with the expectations of other stakeholders, including your department.

## **Appendix 2: The Standards (Extract)**

The IIA “International Standards for the Professional Practice of Internal Auditing”, code named, The Standards (IIA, 2017), recognizes that internal audit activities are conducted in diverse legal, cultural and social settings.

The “Standards are principles-focused and mandatory” and “internationally applicable at organizational and individual levels” (IIA, 2017). The Standards consist of two broad sections:

**“Attribute Standards”**. The Attribute standards give guidance on the characteristics required of the internal audit staff and the structural set up of the internal audit department.

**“Performance Standards”**. The section emphasizes elements that fit within the “Process” segment of the internal auditing function value chain. The performance standards give guidance on the conduct of internal audit activity such as; planning communicating audit activity, internal audit resource management, quality of communication, etc.

Both the Attribute and Performance standards make no specific mention of organizational context which was considered important in designing audit assignments that optimize value add.

Some important terms that have been widely mentioned in this research are defined in the glossary of the standards. Some of the terms are:

**“Value-add”**. Refers to internal audit activities that contribute to effective and efficient governance, risk management and control processes.

**“Assurance Services”**. Discussed earlier in this thesis, the term refers to “An objective examination of evidence for providing an independent assessment on governance, risk management, and control processes for the organization.”

**“Charter”**- The internal audit charter is a formal document that defines the internal audit activities, purpose, authority, and responsibility. The internal audit charter establishes the internal audit position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.



**“Consulting Services”** – Advisory and related client service activities, the nature of which are agreed with the client, are intended to add value and improve an organization’s governance, risk management, and control processes without internal auditor assuming management responsibility. Examples include, counsel, advice, facilitation, and training.

### **Appendix 3: Debriefing Statement**

I thank you so much for participating in this study. Your participation was very valuable in shaping the results of this study.

The study focused on a collaborative engagement between myself as a researcher and yourselves as stakeholders in the corporate governance structure of your organization. Strategically the study is design so that we jointly recommend a policy develop framework for aligning internal audit value-add services with their stakeholders’ value proposition. In this study, I grouped participants as stakeholders according to the stakeholder constituency such as senior management, the audit committee, and the Commissioner General who is the Chief Executive Officer.

Selecting you to participate in this research was informed by the fact that you are a seasoned professional with good track record in corporate governance. My intention, to select your organization as a site for this research was informed by fact that your organization is distinguished for its adherence to and the promotion of good corporate governance practices. In this study, you were asked to identify the key foundational value-add activities within the audit assurance/consulting service continuum and ascertain the fundamental factors that align these activities with the company’s strategic initiatives. The results from this study will be used to recommend for an enriched internal audit policy founded on theories whose relevance to internal audit practice today can no longer be ignored. Your contributions to the research enabled us to construct a value-adding proposition matrix (score card) based on the value-add activities rankings by different stakeholder groups.

It will be my pleasure to address any concern that you may have regarding the use of your personal information or direct quotation of statements attributed to you that formed part of the data collected during the research.

Once again, thank you for your participation. If you have further questions or concerns about

any aspect of the study, please contact Julius Peter Kinyera on  
+256784425360/+256712944926.

Best Regards,

Julius

**Appendix 4: Uganda Revenue Authority Statute 1991 (CAP 196).**

<https://www.ura.go.ug/Resources/webuploads/GNRART/URA%20Act.pdf>

## Appendix 5: Proposed Internal audit activity matrix for value addition

Quality Assessment	Value Add activity	Theme	Stakeholder
Inputs	<ul style="list-style-type: none"> <li>Internal audit function dual reporting relationship: Functionally to Audit Committee and to the CEO on administration matters as per current charter.</li> <li>Include stakeholder management section in the internal audit charter as a key performance knowledge area. This will address complexities in the institution's operating environment <sup>7</sup></li> <li>Annual audit plan, budgets, remuneration to be approved by Audit committee (Chambers, 2014: p.202).</li> <li>Internal auditors should avoid situations that impair their objective judgement</li> </ul>	Independence <sup>8</sup>	External Auditors, IIA, Senior Management,
	<ul style="list-style-type: none"> <li>Internal audit staff must be adequately skilled and knowledgeable enough to professionally conducts audit assignments.</li> <li>Internal audit should involve professionals in other disciplines to advise in areas where internal audit has no knowledge. E.g. Legal teams, engineers, health and safety, etc.</li> <li>Recruit other professionals as part of internal audit team. Break the tradition of recruiting accountants only!</li> <li>Internal audit staff must enhance their knowledge, skills through continuous professional</li> </ul>	Competency <sup>9</sup>	Internal Audit Function

<sup>7</sup> (Pitt, 2014)

<sup>8</sup> IIA Attribute Standard No. 1100, maintains that IAF must be independent and objective in form of structure and action (IIA, 2017).

<sup>9</sup> IIA Attribute Standard No 1210, Strongly advocates that Internal auditors must possess sufficient knowledge and skills to conduct audit assignments

	education by attending workshops, conventions, etc.		
<b>Processes</b>	<ul style="list-style-type: none"> <li>• Internal audit function should clearly understand the organizational activities and the contextual factor &amp; use appropriate audit approach and knowledge such as stakeholder management.</li> <li>• Use CAATs to conduct analysis of complex transactions.</li> </ul>	<b>Quality Assurance</b> <sup>10</sup>	External Auditors, Internal Audit Function, IIA, Senior Management
	<ul style="list-style-type: none"> <li>• Chief Audit Executive must conduct regular internal assessment of the IAF performance by involving other departments in the process</li> <li>• Peer review by independent reviewers</li> </ul>	<b>Stakeholders satisfaction evaluation</b>	
	<ul style="list-style-type: none"> <li>• Build strong work relationship with management to obtain reliable information and enlist the commitment of management.</li> <li>• IAF and Senior Management should identify areas for consulting activities and regularly review the list for continued suitability.</li> </ul>	<b>Stakeholder Engagement</b> <sup>11</sup>	
	<ul style="list-style-type: none"> <li>• Internal audit should be ready to help senior management in addressing ad hoc occurrences by undertaking blended engagements<sup>12</sup>.</li> </ul>	<b>Internal Audit Resource Management</b>	
	<ul style="list-style-type: none"> <li>• Internal audit report should not put management on the defensive. Avoid use of words such as “opinion”, “findings”, “recommendations”, etc.</li> </ul>	<b>Communication</b>	Senior Management, Audit

<sup>10</sup> IIA Performance Standard 2000 gives guidelines on managing internal audit activity. CAE is expected to ensure that internal audit activity adds value to the organization (IIA, 2017)

<sup>11</sup> Proponents of Stakeholder Theory contend that entities offering services to their clients should undertake to ensure sustainability of their service through the observance of “greater social and environmental wellbeing” (Bepari & Mollik, 2016). This approach has the potential to harmonize stakeholders’ interest with those of shareholders (Ackers & Eccles, 2015).

<sup>12</sup> Proponents of “Blended Engagement can yield significant value to internal audit stakeholders (Head, et al., 2010)

	<b>Outputs</b>	<p>Words such as “Matters arising, agreed action”, should be appropriate</p> <ul style="list-style-type: none"> <li>• IAF should discuss their report with management and agree and only present agreed position to the AC.</li> <li>• Internal Audit report should inspire change instead of invoking defensive reaction from management</li> </ul>		Committee, Internal Audit Function
	<b>Outcomes/ Impact</b>	<ul style="list-style-type: none"> <li>• Improved risk management and governance process, such as prompt detection of process inefficiencies, self-assessment, etc.</li> <li>• The executive management relies on internal audit function as a trusted partner.</li> <li>• Internal audit should now start evaluating how effectively the tax system is addressing the cannons of taxation. For example, the cannon of productivity, simplicity, economy and convenience</li> </ul>	<b>Real Impact</b>	Senior Management, Audit Committee, IAF, Other stakeholders
	<b>Stakeholder management</b>	<ul style="list-style-type: none"> <li>• Make stakeholder management a key part of annual audit plan</li> </ul>	<b>Practical-relevant</b>	Internal Audit Function, Audit Committee and senior management

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