



**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING**

*An analysis of the role of the internal audit function in enterprise wide risk management. A case of Communications and Allied Industries Pension Fund*

By

**ARNOLD MUSIYAZVIRIYO**

**(R111205J)**

*A dissertation submitted to the Midlands State University in partial fulfillment of the requirements of the Bachelor of Commerce Accounting Honours Degree*

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*Gweru: Zimbabwe, 2014*

APPROVAL FORM

The undersigned certify that they have supervised and recommend to the Midlands State University for acceptance; a dissertation entitled: **An analysis of the role of internal audit function in enterprise wide risk management. A case study of Communication and Allied Industries Pension Fund.**

Submitted by: Arnold Musiyazviriyo in partial fulfillment of the requirements of the Bachelor of Commerce (Honors) Degree in Accounting.

.....  
SUPERVISOR DATE

.....  
CHAIRPERSON DATE

.....  
EXTERNAL EXAMINER DATE

**RELEASE FORM**

**NAME OF STUDENT** Arnold Musiyazviriyo  
**DISSERTATION TITLE:** An analysis of the role of internal audit function in enterprise wide risk management . A case study of Communications and Allied Industries Pension Fund  
**DEGREE TITLE:** Bachelor of Commerce Accounting Honors' Degree  
**YEAR THIS DEGREE GRANTED:** 2014

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**PERMAMENT ADDRESS:** 19 Dombeya Crescent ,Msasa Park, Harare  
**CONTACT NUMBERS** +263 775 870 268

**SIGNED** .....

**DATE** .....

## **Acknowledgement**

I would like to express my immense thankfulness to all those who gave me the possibility to complete this project. Especially, I deeply indebted to my supervisor Mr C. Kazembe, whose support, interest, encouragement and stimulating suggestions helped me during the research and writing process of this project

Also, my most profound gratitude goes to my family, friends and relatives for their unconditional love and steadfast support always.

CAIPF staff thank you for the information you gave me to make this piece of work a success.

Above all, thank you Almighty God for all your mercies.

## **Abstract**

The study aims to demonstrate the role of internal audit as a pillar of support for management in enterprise wide risk management . The performance of an internal audit department must function in a manner that is in accordance with applicable professional standards such as Standards for the Professional Practice of Internal Auditing (SPPIA, 2009) and the quality of the internal control systems.

The involvement of internal audit in risk management has gained wide attention in the years from 2008 due to the public scandals which were mainly caused by the world recession. The attention of internal audit with regards to risk management increased which resulted in many internal auditors adopting a risk based audit approach, neglecting the traditional control based approach.

This projects however did not intend to explain the reason for the change from control based to risk based but tried to analyse the role of internal auditing in the management of organizational risk. Reference was given to the case of Communication and Allied industries Pension Fund which has an internal audit that is involved in enterprise wide risk management.

The data collection method in this research used both qualitative and quantitative method to achieve the fore mentioned objective. The major findings of this research indicated that default ,credit and liquidity risk are the main risks that threatens the operations of the pension fund. It was also revealed that the risk appetite of the pension fund was low as compared to the economic activities of the same.

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## **LIST OF ACRONOMYS**

CAIPF	Communications and Allied Industries Pension Fund
IOPS	International Organization of Pension Funds
IPEC	Insurance and Pensions Commission
IIA	Institute of Internal Auditors
COSO	Committee of Sponsoring Organization
EWRM	Enterprise Wide Risk Management
FI	Financial Institutions



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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

The chapter will give the background of the study and statement of the problem. It will also highlight the main research objectives, objectives of the study, the limitations and delimitations of the same, the definition of the functional terms and summary.

### **1.1 Background of the study**

During the last few years from 2010 up-to date there has been great public awareness to enterprise risk management due to explosion of public scandals of Royal bank, Time bank and the recent Interfin Bank corporate failure. As such enterprise risk management has become a top priority for many public and private organizations. In an attempt to minimize or reduce business risk to acceptable levels, the hub of internal audit work has shifted from systems-based auditing to risk-based auditing(IIA-UK and Ireland,2009). Internal Auditors have fervently reacted towards management's concern on business risk (Selim and McNamee, 2009) and to this regard the work of internal auditors has shifted from being control driven to being business risk driven.

The corporate world is becoming progressively more intricate as a result of, growing and emerging risks. Business entities are giving risk management more consideration, but implementation of the same takes time and discipline.

Generally, personnel in the audit profession are accustomed to hearing of systems audit but one of the most important developments in audit profession was the introduction of the risk based internal auditing, which is about the incorporation of business risk into the work of internal auditors. Whilst the responsibility of indentifying and managing risks belongs to management, one of the key roles of internal audit is to provide assurance that the risks that could affect an entity are properly managed.

However the fore-mentioned activities do not give absolute assurance that risk has been minimized to zero. Even with much effort and existence of internal audit, entities have suffered major setbacks due to occurrence of unanticipated events. Reference is made when Communications and Allied Industries lost almost US1million dollars it had invested in money

market investments in Interfin Bank. In his second quarter report of 2012 the Finance Manager, R. Rutambo reported that due to a corporate failure Interfin bank was unable to pay-back the investment on maturity of the same. It happened that on maturity of the money market investment, the bank defaulted. The default payment of Interfin bank resulted in a decrease of cash and cash equivalent by 22% as was evidenced in the financial statement of the same period.

In the same breath the changes in interest rates also affected the operations of the Pension Fund(from 2010 to 2012), as the Fund was not able to generate sufficient cash to honor obligations and unexpected demand for cash. According to his report of 2011 the investments manager V. Kusema reported that due to the liquidity crunch that hit the nation, money market interest rates fell from 14% to as low as 8%. He also reported that some banks, for example Metropolitan and Agri-bank even resorted to suspending money market investments. Coupled with other risks in 2012 the return on capital declined from 45% to a record low of 22% and only increased by 2% the following year.

In his audit report of the second quarter of 2012, the audit manager K.E Masendu reported that the Pension Fund was facing the risk of counterparty as debtors were failing to pay their outstanding balances for use of the Fund’s properties and pension contributions by member organizations. As of 30 June 2013 rent debtors stood at US\$ 1 200 255 who had debtors age of more than 270 days. He also reported that 60% of US\$1 310 277 pension debtors were above 90 days. All the aforementioned risks resulted in a reported decrease of excess income over expenditure by 15% between 2011 and 2012. The table 1.1below shows the effects of the above risks on return on capital and excess income over expenditure.

Table 1. Financial effects of risk at CAIPF( 2011-2013)

<b>Risk measure</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Return on capital employed	45%	22%	24%
Debtors –uncollected rental income(over 270 days )	US\$947 630	US\$1 110 270	US\$1 392 154

Source : CAIPF annual financial statements(2011-2013)

## **1.2 Statement of the problem**

Even with the existence of an Internal auditing department which is responsible for assessing the risk management process and assuring that the risk appetite is maintained at standard levels Communications and Allied Industries Pension has at times been caught offside by some financial risk which threatened the going concern concept. It is upon this background that a research on the role of internal auditing function in Enterprise wide-Risk Management becomes necessary.

## **1.3 Main research question**

What is the role of internal auditing in enterprise risk management at CAIPF?

## **1.4 Sub-Research questions.**

- What kind of risks is CAIPF exposed to?
- What are the risk management controls CAIPF has put in place?
- What impacts has the risk that hit CAIPF had on the financial performance of the same?
- What is the risk appetite of CAIPF?

## **1.5 Main research objectives**

To examine the role of internal auditing in enterprise risk management at CAIPF.

## **1.6 Sub research objectives**

- To determine the kind of risks that threatens CAIPF.
- To examine the risk management control systems put in place by CAIPF.
- To investigate the impacts of the indentified business risks on the financial performance of the Fund.
- To determine the risk appetite of CAIPF



### **1.7 Significance of study**

To the researcher

Apart from partial fulfillment of the requirements of the Bachelors of Commerce Accounting degree at Midlands State University, the research will help the researcher to embrace the theory learnt in class.

To the university

The research will bring more insight on the importance of internal auditing in enterprise risk management and as such can be used in the development of student courses.

To the organization-

The study seeks to explore how the organization can effectively implement risk management controls to reduce the risks that are associated with its operations to acceptable levels.

### **1.8 Assumptions of the study**

The respondents would co-operate and give data honestly and timeously

The population has reasonable knowledge concerning internal auditing and enterprise risk management.

The research also assumes CAIPF is a going concern and has no plans to scale down operations in the near future or during the course of the research.

### **1.9 Delimitations**

The study will be based in Harare and covers the internal auditing activities of CAIPF in enterprise risk management from 2011-2013. The target respondents will be those that are involved in risk assurance and management of the same. The internal audit staff, management and accounts personnel will play important roles in this research.

### **1.11 Limitations of the study**

Time- the research was conducted under a tight deadline and as such the research was not stretched to the maximum. However a lot of hard work curbed this problem and time was allocated effectively.

Financial constraints-relates to the cost of gathering data and preparing the research for submission to the university. However the use of the internet to gather data curbed the problem.

Confidentiality –Not all information that was required, was available as CAIPF has a code of ethics that relate to official secrecy. In order to obtain sufficient information for the study the researcher carried out interviews, questionnaires and reviewed available documents.

### **1.12 Definition of terms**

**Internal auditing**-an independent objective assurance and consulting activity designed to add value and improve an organization's operations.

**Risk based internal auditing**- a methodology that links internal auditing to an organization's overall risk management framework.

**Risk management** –A structured, consistent and continuous process across the whole organization for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives.

**Assurance service**-an objective examination of evidence for the purpose of providing an independent assessment on risk management for the organization.

### **1.13 Summary**

The chapter covered the introduction where a brief analysis of the whole contents of the chapter were discussed. It also covered the background of the study which highlighted the motive behind this research. Delimitations of the study and limitations of the same where also discussed in the chapter. The next chapter reviews the related literature associated with the role of internal auditing in enterprise wide risk management.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter focuses the literature review that relates to the topic under study namely an analysis of the role of internal auditing function in enterprise wide risk management. Literature review entails the analysis and review of what other authors have written about a particular topic. The chapter consists of overview of role of internal auditing, business risk, risk management, risk based internal auditing risk management controls and summary of the chapter . Theories and academic publications on these topics will be critically examined in this chapter.

#### **2.1 Overview and history of internal auditing.**

On the first stages of appearance (fifth decade of 20th century) internal auditors were seen mostly as revisers of financial information and accounting information. During those years internal auditors were used as external auditors assistants and were called upon financial statements review or other accounting functions (e.g. reconciliation with third parties).

Internal auditors played minimum role within organizations and had only a “limited responsibility in the total managerial spectrum” Moeller and Witt, ( 2009). “Step by step internal auditors started focusing on compliance audits. Later internal auditors started to evaluate effectiveness of internal control systems and assessing operating processes due to increased volume of transactions and complexity of the same, hence new pressure on senior management. Finally, nowadays, the scope of internal audit covers not only compliance audits, evaluating internal controls, fraud investigations, assessment of operating processes, but also consultations to the senior management and participation in risk management.” Staciokas and Rupsys’ 2009 p20

As defined by the Institute of Internal Auditors,2009: p 1 internal auditing is “an independent objective assurance and consulting activity designed to add value and improve organization’s operations.” The board went further to explain that, being independent and objective, internal auditing helps an organization accomplish its objectives and goals by bringing a systematic,

disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal audit is a function within an organization and unlike its counterpart (external auditing) it focuses on the operations of an organization, in the field of internal controls, risk management, and governance.( IAA, 2010). The study will seek to analyze the roles of internal auditing in enterprise auditing.

## **2.2Internal audit Methodologies.**

Auditing approaches or methods are generally driven from the name of the focus point of auditing. The focus point in auditing is defined as “control focused auditing” on which controls are applied. After the change, the sliding of focus point towards risks, the publishing of the enterprise Risk Management framework by COSO in 2004 and the efforts for completing the internal auditing to risk management process have contributed “Enterprise Risk Management (ERM) Based Internal Auditing” to emerge.

From inception of internal auditing up to now there has been many internal audit methodologies that has been used world over by internal auditors. In the early years of evolution the term operational audit was common in internal audit circles. In order to align internal audit activities with organizational objectives, Rose in 1943 developed management auditing. The methodology was mainly centered on functional activities of an organization. The management audit was organized around the functions of management and followed a deductive approach as opposed to the inductive approach of operational auditing. Griffiths (2009), asserted that these two similar but separate concepts were the forerunners of today’s movement toward the extension of the scope of auditing. After the development of the fore-mentioned methodologies other audit methodologies were developed but one notable development was the risk based internal auditing which was developed by the institute of internal auditors in association with the Committee for Sponsoring Organization. (COSO) The methodology has been used in the development of the internal auditing standards which are now more risk centered than the former control centered Sarens et al ( 2009).

### **2.3 Enterprise risk management**

The committee of sponsoring organizations COSO, (2009): p3 defined enterprise risk management as a “process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”

Enterprise risk management (ERM) has received unprecedented international attention from 2008 after the global financial crisis .In response to growing expectations for effective risk management across the entire enterprise, many leading organizations are abandoning their traditional approach to managing risks by silos, where risks areas are managed in isolation from one another, and are adopting an enterprise risk management approach (Lium, 2009; Liebenberg and Hoyt, 2009). Thus, in many organizations, “risk management” is transforming into EWRM.

“It is the responsibility of the management to deal with actions regarding business risks. The management may decide to accept risk, to avoid risk or to mitigate risk. In some cases, the likelihood or the impact of the risk may be so low, that the management decides to accept risk and take no action against it. (Performance standard 2600). In some instances the internal audit may feel management would have accept high risks and in such instances they should discuss the matter with management.

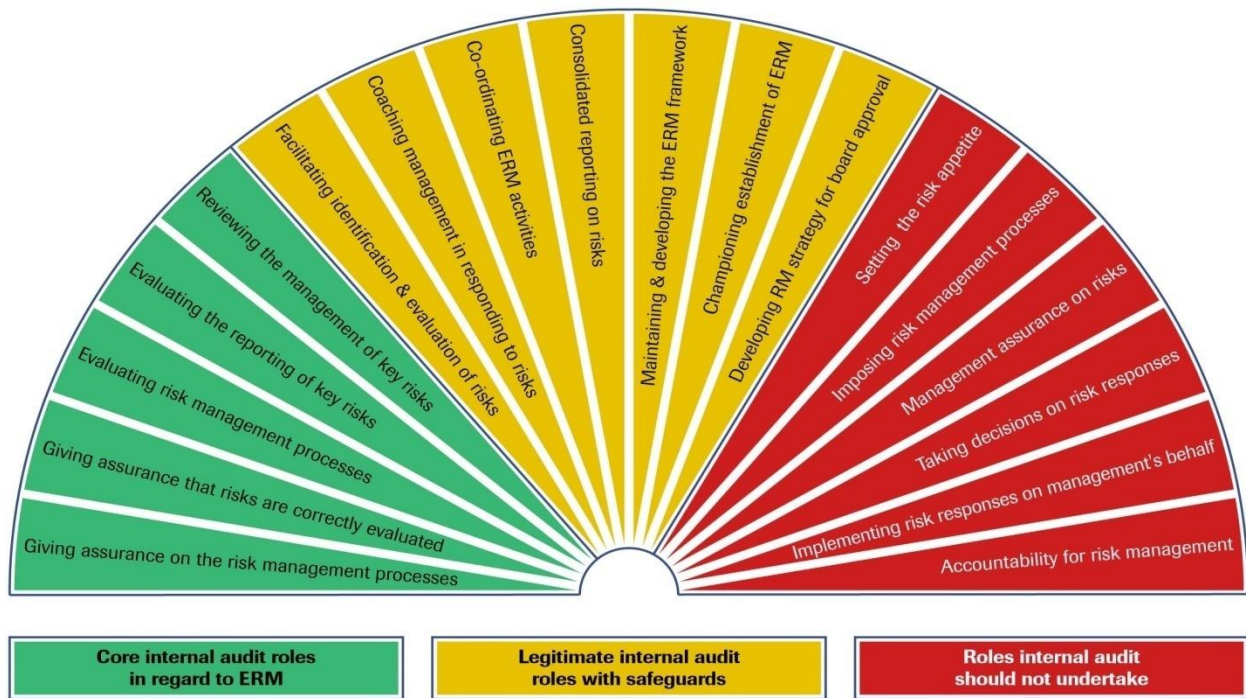
### **2.4 Responsibility for ERM**

The code of professional conduct and King III report as was also supported by IIA, asserted that, the board has overall responsibility for ensuring that the risk appetite is kept at standard levels and that the risk management process is functioning properly . In practice, the board will delegate the operation of the risk management framework to the management. Sarens ,( 2009) asserted that there may be a separate function that co-ordinates and manages these activities and brings to bear specialist skills and knowledge. Everyone in the organization plays a role in ensuring successful enterprise-wide risk management but the primary responsibility for identifying risks and managing them lies with management.

## 2.5 The role of internal auditing in ERM

One of the issues surrounding ERM is the role of internal auditors in ERM processes. Because internal audit professional standards take a risk based approach, the internal audit function has a significant interest in the enterprise's risk management process, as it affects internal audit's professional responsibilities (IASB, 2009). Despite internal audit's natural interest in ERM, there is debate as to the role of the internal audit function in ERM. In fact, the internal audit profession issued a call for research about what internal audit function should do with regards to ERM in its 2009 *Research Opportunities in Internal Auditing* (IIARF, 2009), and the Institute of Internal Auditors (2009) has issued guidance on internal audit's proper role in ERM as shown below in table 2.1

**Fig 2.1. Internal auditing roles in enterprise risk management.**



Source . IIA positional paper (2009,p 4)

According to IPPF, standard 2120 of the regulatory board of internal auditors (IIA) the following are the core roles of internal audit with regard to ERM:

Giving assurance on risk management process, assuring that risks are correctly evaluated, evaluating risk management process, evaluating the reporting of key risks, reviewing risk management controls. According to IIA, (2009) internal audit may provide consulting services that improve an organization's risk management, internal controls and governance hence helping an organization achieve its objectives.

As highlighted by fig 2.1 above the internal audit should not set the risk appetite nor should it impose the risk management process. Setting up risk appetite and risk management processes are the roles of management. The only role of auditing with regards to the fore-mentioned activities is evaluating whether the risk appetite is compatible with the operations of the organization and whether the management processes are adequate to reduce or thwart the effects of risks. Sarens (2009)

Cooper et al (2008) highlighted that, research has shown that board of directors and internal auditors agree that the two most important ways that internal auditing provides value to the organization are in providing objective assurance that the major business risks are being managed appropriately and that the risk management and internal control framework is operating effectively as opposed to being involved in the management of the risks.

Some academia argue that internal audit should play limited roles in enterprise risk management as its full time involvement in the same would compromise objectivity and independence which are the key fundamental principles of internal auditing. Edwards, 2008 in "historical perspectives on the legitimacy of the independent audit" argued that enterprise risk management should be managed by traditional risk overseers from management disciplines such as finance and insurance and risk departments. He went on to say that internal auditing roles should only be limited to monitoring the risk management process.

However authors like Dumidenko and McNutt (2009) had a different view on the roles of internal audit with regards to enterprise risk management. They were of the view that internal audit plays a vital role in overseeing the risk management process. They opined that the internal audit should be involved in the setting up of the risk appetite and should be accountable for the

consequences of risk. This prompted Walker et al, (2012), to declare that there is no precise method or “silver bullet” for the role of internal audit in ERM. In fact the controversy around the role of internal audit in ERM led the regulatory board (IIA) in the United Kingdom and Ireland to issue a position statement addressing the roles internal audit should do and not do in ERM as discussed earlier. This has since become the universally accepted roles though the implementation in some entities has been affected by organizational setups and the position of the internal audit on the organogram.

The U.K. and Ireland proposition was eventually embraced as an IIA global position statement issued in September 2004 (IIA, 2009). The position statement asserts that “organizations should fully understand that those charged with governance remains responsible for the management of risk. Internal audit should provide advice and challenge or support management’s decisions on risk, as opposed to making risk management decisions” IIA, (2009: p2). The IIA’s position allows for numerous types of internal audit activities related to ERM. This allows for extensive variation in internal audit involvement in ERM.

The globalization of the world economy, the revolution of information technology and the brand-new form of enterprise, have led to complexity of risks which are faced by organization and intense day by day. The goals of organizations have been greatly influenced by the emergency of the risks and this has since become a wake up call for many organization. Ghita (2009) noted that the management of the risks and avoiding them has since become the most important thing to management. Arens (2011) echoed the same sentiments as he explained that those charged with governance of an entity or enterprise has to analyze and put in place risk management controls and measures. He further suggested that if the risk is too much and not commensurate to return an entity may choose to avoid the risk. Best enterprise wide risk management practices requires everyone in an enterprise to participate and risk management should be the benchmark in the enterprise strategic plan so as to assure the realization of organizational goals. The managerial staff control the risks and reduce loses, enhance the profit and social effect of the enterprise through the enterprise risk management. “The development of the enterprise needs the risk management, yet the development of the risk management needs the support of the internal audit.”, Sarens, et al (2008), p16 . Bartsiotas ( 2010) pointed out that the internal auditors should put forward suggestions and help the managerial staff fulfill its



responsibility through monitoring the adequacy and the effectiveness of the risk management controls.

## **2.6. Risk Management Requires the Internal Audit**

Rui and Min (2008) pointed out that risk management is incomplete without the input of internal audit. They approved the use of the risk based internal audit approach in the work of internal auditors. According to Liu (2012) the risk driven internal audit facilitates management and control of risk in other departments through effective consulting and evaluating activities. The enterprise risk management requires the internal audit to monitor, control, inspect, evaluate, and report the proceeding of the enterprise risk management. Liu (2012)

Many organizers of enterprise risk management have realized that that there is a close relationship between effective enterprise wide risk management and the goal of an enterprise. Studies have shown that organizations align their risk management controls and behavior with the goals of the organization. As was explained by Mun (2007) organizations with the objective of profit maximization tend to have higher risk appetite. Lasher( 2011) noted that the risk based internal audit targets the enterprise risk management as the main point of the audit, its aspects, evaluates all sorts of the risks they may face in the continuance operation of the enterprise, and appraises whether the enterprise risk management is effective and efficient, whether the strategy of the enterprise risk management is appropriate to the development of the enterprise. Griffiths (2009) asserted that if implemented well the risk based approach internal audit can be an effective tool in enterprise risk management and can enhance the suitability of the same.

## **2.7 Internal auditing requires risk management**

Although internal audit is a wide function, its core roles have recently took the risk based approach and as such risk management cannot be mentioned without the inclusion of internal auditing, Walker, et al (2012). The risk based internal audit is the internal control expanding to the enterprise risk management, which has important influence on the traditional internal audit. Traditional internal audit puts emphasis on direct testing of the internal control, appraising and considering, whether the internal control is sound and effective or not. Liu (2012,p.288) noted that, “it tries to find out the weak links of the internal control in order to achieve the goal of preventing mistakes and frauds. Just because it suggests that some weak links should increase

control points, so that more and more control points lead the business process to slow and no efficiency. Therefore, the traditional internal audit gradually reduced to increasing the business value.”

Liu (2012, p.288) also emphasized that “while the risk based internal audit pays attention to the possibility of all sorts of the risks that maybe faced in the process of the corporate governance, it puts the audit key forward to the present and future program.” Risk based internal auditing selects audit projects by using high risk auditable areas and each audit objective is closely related to the goals of the organization. Rui and Min (2008) explained that the risk based internal auditing begins with risks and ends at risks, and risks connect with the audit process closely from the beginning to the end. It provides more relevant information to the management which is needed to achieve its goal. Internal auditors risk profile auditable areas with respect to the probability of occurrence of the risk.

## **2. 8Risks affecting pension funds**

Even though there is no standard definition for risk it is a common word in insurance ,banking and finance and can be defined in so many ways depending on the person defining it. Dorfman (2007). In the insurance and banking industry, the term risk refers to the exposure to loss. According to (Mun ,2010 ,p. 4,)“risk is any uncertainty that affects a system in an unknown fashion whereby the ramifications are also unknown but bears with it great fluctuation in value and outcome”.

According to ICAEW (2011), risk is defined as real or potential events which can reduce the likelihood of achieving business objectives. Risk has also been defined as: “uncertain future events which could influence the achievement of the organization’s strategic, operational and financial objectives” (IFA, 2011,p.6). Though there are different definitions for risk, all scholars agree that risk involves uncertainty and probability of occurrence is not known.

“Most organizations, even those which have experienced rapid success have suffered from financial crisis, interrupting the growth process of their economies and sometimes setting them back.” (Siayor ,2010 p.15). The International Organization Of Pension Supervisors( IOPS) cited the following as the financial risk that are prevalent in the pension industry:

### **2.8.1 Credit risk/Counterparty risk**

According to Altman et al (2008) credit risk is defined as a loss due to counterparty failing to pay obligations in time or at all or as agreed. Another term for credit risk is default risk. IOPS reported in its 2009 annual report that pensions funds in developing countries are suffering a great deal due to non-payment of banks on maturity of investments. The organization cited the global recession as the major contributor of default payments by banks.

Mekesha (2011) noted that investor losses to credit losses / risk include lost principal and interest, decreased cash flow and increased collection cost. He went on to say adequately managing credit risk in financial institutions (FIs) is critical for the survival and growth of the FIs. In the case of institutional investors, credit risk poses great threat because of the higher levels of perceived risks resulting from some of the customers characteristics and business conditions that they operate in.

#### **Management of Credit risk**

Saunders(2011) defined credit risk management as policies and controls put in place by organizations to reduce the effects of credit risk. He asserted that entities to effectively manage risk they may enter into netting agreements that allows the investing organization to offset receivables and payables with the counterparties. Kiragu( 2014) also advanced the same idea by proposing that there should be credit approval/ authorization( usually by Chief Financial Officer), seeking third party guarantees on the counterpart obligation and adherence to counterparty limits.

### **2.8.2 Market risk**

Saunders (2011) defined market risk as the risk that is incurred in the trading of assets and liabilities due to changes in interest rates, exchange rates and other asset prices. He pointed out interest rate risk as one of the examples of market risk. Interest rate risk was defined by Chorafas. (2008) as the risk that is caused by interest changes due to market fluctuations. “Market risk is the risk of losses due to adverse movements in interest rates and other market prices. The risk may also arise due to investment in unregulated/ unlisted products.” (IOPS,2011, p.4)

With the recession the world is in , coupled with the liquidity crunch institutional investors are heavily affected by the changes in interest rate risk. According to the monetary report of 2011 the interest rates fell from 12% to 8% which resulted in institutional investors holding their investments.

### **Effects of market risk**

Van horne, (2009) asserted that the effects of market risk if not managed properly ranges from decrease in assets against a backdrop of constant or increase in liabilities.

### **Controls over market risk**

Lasher ( 2011) asserted that money market risk cannot be completely avoided, but suggested diversification of investments, monitoring of the economic situation and investing in financial institutions with healthy financial status as the controls that can be put in place to effectively manages market risk

## **2.9 Liquidity risk**

“An institution’s failure to meet its commitments results in liquidity risk. That is, when an institution fails to have cash amount or cash inflows at a certain level and quality that enables it to meet its cash outflows fully and timely because of imbalances in the cash flow.” (Siayor 2008, p.11). In its annual report of 2010, the IOPS stated that since the explosion of the global crisis, many pensions funds have suffered from underfunding against a backdrop of increase in liabilities in form of pension payment.

### **Management of liquidity risk**

According to Chikoko (2011) management of liquidity risk can be in form of rolling cash flow analysis that will show up cash flow gaps, statement of financial position management to ensure right mix of assets and liabilities and economic and strategic management of cash inflows and outflows .

## **2.11 Overall organizational risk management.**

As discussed earlier risk management entails a process of indentifying, assessing and addressing risk as well as reviewing and reporting it. If risk is neglect it may lead to corporate failure. Focusing attention around essential risk factors that may expose the organization can have a significant effect on corporate performance outcomes while the lack of risk management can be detrimental to corporate survival. Allen and Gale (2007)

In as much as internal audit is involved in risk management the overall management of risk lies with management to a certain level beyond which the board of directors/ trustees is held liable. For good corporate practices the board of directors/ trustees is accountable to the stake holders for the total organizational risk.

### **2.10 Risk factors**

They are environmental conditions that give rise to and cause risk exposures to arise.i.e the chance that some identifiable things can happen that may impose economic costs or inflict to the organization. Chikoko (2011)

### **2.11 Risk management process**

#### **2.11.1. Identification**

According to COSO,(2009) identification of risk is a process because risks changes. There are two major process of indentifying risk as stipulated by Chikoko(2011)

Commissioning risk review- coming up with a group of individuals who look at an organization of privations to look at operations which can be risk.

Risk self assessment –each department looks at its operations and indentifies what could be risk factors to them, and then they are managed by the central office.

### **2.11.2 Quantification of risk (measurement)**

Chikoko(2011) suggested the following measurement principles

Recording risk in a way that facilitates monitoring and identification of risk priorities

Be clear about residual risk

Ensure that there is clearly structured process in which both likelihood and impact are assessed.

### **2.11.3. Addressing risk**

According to COSO, there are five ways/ aspects in which an entity can address risk issues i.e.

Tolerate – do not take any action but just tolerate if its within risk appetite .

Treat – take actions that are meant to limit impact of risk to acceptable.

Transfer – transferring to someone willing to accept the risk’ eg insurance companies.

Terminate –operations that organizations assume unacceptable levels of risk.

Effective defective controls –controls that organizations put in place to reduce the risk that activities are done in an appropriate way.

### **2.12. Risk appetite and investment of Pension Funds**

“Risk appetite articulates the level of risk a company is prepared to accept to achieve its strategic objectives. Risk appetite frameworks help management understand a company’s risk profile, find an optimal balance between risk and return, and nurture a healthy risk culture in the organization. It explains the risk tolerance of the company both qualitatively and quantitatively.” (Shang and Chen,2012,p. 3). Chikoko(2011), advanced the idea that risk appetite represents the willingness and ability to take risk.

Generally pensions funds are risk conservative hence their risk appetite is low as opposed to being aggressive. They invest in markets that are not risky and aggressive in nature. This is indirectly provided by the pensions and provident act of Zimbabwe chapter 24,Section 18 which

stipulates that , “a registered fund that is not an insurance company scheme shall at all times hold not less than thirty-five per centum of the aggregate cost value of all its assets in Zimbabwe in—

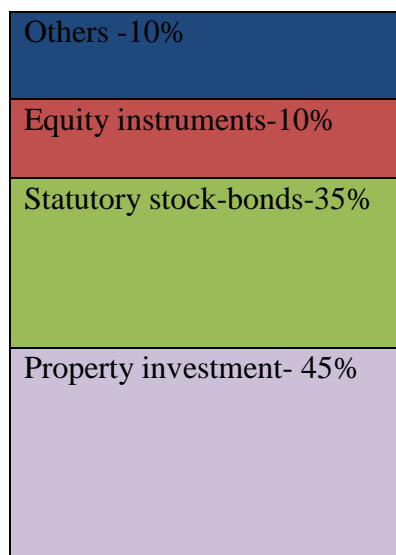
local registered securities which are issued or guaranteed by the State or which are issued by a local authority or statutory body; or

(ii) loans approved by the Commissioner to a local authority or statutory

Body”

One major factor that influences pension funds risk appetite is legislation . “Investments follows some general guidelines and there are even some quantitative limits in investments imposed by legislation. For example, at least 35% of the assets have to be invested in low risk assets such as government bonds. Also, there are legislation limits regarding the investments in equities.” (Nellopouloun ,2013 p13) . In order to minimize investment risk pension funds diversify their portfolios with different classes of assets. The figure2.2 below shows the average investment portfolios of pensions fund in Zimbabwe for the year 2013.

**Fig 2.2. average investment portfolio of pension funds in 2013**



Source: Insurance and Pensions Commission annual report 2012.

It can be seen from the figure above that property investment is broadly chosen by pension funds as it provides a stable and less unpredictable return to cover benefits obligation. Moreover, the more the short-term payments obligations the more risk-averse a pension fund will be because of the need for liquidity. A survey carried by the Insurance and Pensions Commission(2012) indicated that most pension funds actively participates in the highly risk(though stable) money market investment to cover up for possible opportunity costs incurred in investing in less risky markets

The investment portfolio trend has not changed with higher margins for the past five years owing to the nature of the economy and legislation.

### **2.13.Summary**

The chapter reviewed literature review on internal auditing, enterprise risk management and the roles of internal auditing in enterprise risk wide risk management. In the next chapter the research analyze the method used in data and information gathering. The research design and the population study will be discussed in the next chapter.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

The chapter will focus on the research method used in conducting the research and gathering data in the field of research. It will set out how the research will be conducted and the activities that were undertaken by the researcher. The chapter will also focus on data analysis, research philosophy and a summary of the chapter at the end.

#### **3.1 Research design**

By definition research design is a grand plan of approach to a research topic which takes into consideration the research objectives and seeks to achieve the overall research process, Greener, (2008). He went on to say that it is a plan that promotes data and information management. The purpose of research design is to provide in the collection of information and relevant evidence with minimal expenditure of effort and resources.

#### **3.2 Research methodology**

The method used by a researcher in getting data and information is referred to as research methodology. This was defined by Fisher (2010) who explained that research methodology is the studying of methods which involves questions that are philosophical in nature concerning possibilities to the researchers in an attempt to ascertain how valid curtailed hypothesis are and in the process adding to the existing body of knowledge.

Kumar (2010) advanced the same idea and asserted that research methodology could take many forms which include case study and descriptive research. Selecting a methodology depends on several factors which include objectives of the research and the amount of information available on the subject area.

### **3.3 Descriptive Case study research method**

Mitchel and Jolley (2010) explained that descriptive research is more to do with direct testing and description of events. It is most suitable when the researcher wants to understand the characteristics of a certain phenomenon as in the case of this study where the researcher intends to analyze the role of internal audit function in enterprise risk management. Descriptive research can also be referred to as diagnostic. As far as Bhattacharyya (2008) is concerned, descriptive researches can take the form of being concrete or abstract.

In an attempt to critically examine the role of internal audit function in enterprise wide risk management descriptive research was used. Descriptive research allowed the researcher to get reliable and accurate information based on events, situation and responses by people on the ground. Another reason why the researcher chose descriptive case study research was because it allows a reasonable conclusion to be made on the general behavior of the population.

Achterberg et al (2007) asserted that descriptive researches can either be qualitative or quantitative. Unlike its counterpart (quantitative) qualitative generates data that is written in words and is more subjective in nature than quantitative. It involves examining and reflecting on the less tangible aspects of a research, for example values, perception and attitudes. Quantitative research produces numbers. According to Achterberg et al (2007) qualitative research often seeks to test the theories or in some cases hypothesis while qualitative focus on explorative.

#### **Advantages of descriptive case study research**

Descriptive research allows the gathering of raw data and in the case of this study examples of risks that affected the pension fund can be retrieved from management reports. Since the data is going to be collected using questionnaires and interviews descriptive research was found to be the best method to use as it allows full description of a phenomenon. Another reason why descriptive research was chosen is because it is less expensive to implement compared to other designs.

### 3.4 Research approach

According to Ericksson and Kovalaiven (2008) as was supported by Neville (2007) there are two approaches that a researcher can take. These are deductive and inductive. They further argued that these are the only two ways to bring about knowledge in this world and are popular in social sciences.

#### 3.4.2 Deductive research

This is when a researcher develops a conceptual structure prior to the testing of the research, that is abstract conceptualization which then is tested to create new experiences Gill and Johnson, (2012). Ericksson and Kovalaiven (2008) further explained that deductive reasoning involves formulation of hypothesis and theories and theories from which a particular matter of study is explained. In their research they establish and explained that the theory is the first source of information then these theories are subjected to empirical test.

### 3.5 Study population

Population is “the total group of persons/ people or events that met the designated set of criteria established by the researcher.” (Bryman and Hardy, 2008:12) Yount (2008) echoed the same definition of population and explained that simply put population can be viewed as group of people under study. The sample of this study is drawn from the employees of the CAIPF and below is the statistics about the population.

Table 3.1 Questionnaire population

Category	Frequency
Board of trustees	9
Finance Manager	1
Audit Manager	1
Assistant Accountant	1
General Employees	15
<b>Total</b>	<b>27</b>

### **3.6 Census**

For the purpose of this study data will be gathered from a census. This is because of the small size of the population of CAIPF. Burns and Burns( 2008:181) defined a census as a complete enumeration of the whole items of the whole population. The census method allows all items to be covered and no element of chance is left hence it increase the level of accuracy and credibility

### **3.7 Data collection approach**

Data concerning a problem or a phenomenon can be collected in two ways, i.e. primary and secondary data. “None of the methods of data collection provides 100 per cent accurate and reliable information. The quality of the data gathered is dependent upon a number of other factors.” (Kumar 2011:139)

#### **3.7.1 Primary Data**

Saunders(2011) defined primary data as, data organised and collected for the first time. Primary data is raw and fresh data that is going to be collected by the researcher mainly through interviews and questionnaires.

#### **3.8.2 Secondary data**

Secondary data is data that is readily available that has been collected by other people ,Neville (2007). Secondary data that is going to be used in this research would be either internal or external data. Internal data will be retrieved from management reports and annual financial statements whereas external data will be taken from reports of third parties, for example the Insurance and Provident Commission.

### **3.9 Data collection methods (research instruments)**

The following are the data collection methods that were used in the research, questionnaires, interview and observations. It should be noted that this research mainly used questionnaires interviews though in some instances observations were used.

### **3.10.1 Questionnaire.**

Khothari (2009) explained a questionnaire as a document produced by the researcher with different types of questions which are filled in by the respondents. He further specified that questionnaires can be structured (with predefined responses) or non –structured ( without possible answers). Kumar (2011) noted that it is important that the questions are clear and easy to understand as there is no one to understand the meaning of the questions.

One of the major reasons that drove the need to use questionnaires was that, they are easy to analyze, hence they enable a reasonable conclusion to be reached at. Questionnaires are also cost effective and they cover a wide geographical areas, Saunder (2011)

However there are also demerits of using questionnaires . Response is not guaranteed. Kothari(2009) argued that incomplete questionnaires are prevalent in areas where the respondent fail to understand the research area. Also only the literate can participate and respondents may misinterpret questions.

### **3.10.2 The interview**

An interview is the collection of information from respondents through asking questions that are related to a particular study, Patton (2008) as was the case in this study were respondents were asked about questions concerning internal audit and enterprise risk management.

To gather data for this research, semi structured personal interviews will be used to gather information. These were used for the senior managers who often do not have time to fill in the questionnaires.

The advantages of using interviews are many, one being “semi and un-structured interview allow flexibility in data collection allowing for clarification, verification, probing and adjustments to suit circumstances.” Pawar, (2008:67). Another merit of using interviews is that the researcher can also control the data processing with ease.

On the flip side of the coin interviews have their disadvantages which include time consuming and high costs in conducting interviews. This is especially when respondents are scattered over a wide geographical location.

### **3.11 Data analysis and presentation**

Data analysis describes the statistical design used and the statistical analysis undertaken. Data collected from the respondents through interviews and questionnaires was analyzed qualitatively and quantitatively by means of graphs and pie charts in chapter four. Data presentations methods such as pie charts and graphs were used to analyze the data that was collected.

#### **3.11.1 Reliability**

The way in which the measures are conducted determines the reliability of data. The researcher should be accurate to enable the measures to be reliable. Reliability also entails description of conduct of events and the levels of precision and accuracy.

Another requirement is that everything related to the research should be documented . This is because in retrospect other researchers will be able to use the data gathered for comparison purposes. In short, reliability is how consistent a researcher's measurements are, Cook and Campbell,(2008).

#### **3.11.2. Validity**

Validity of data is determined by the strength of conclusions, inferences or propositions,

Saunders (2009). Data is measured in order to have relevance and validity for the issue that is examined. Validity of data is strengthened if the data gathered or collected is relevant to the problem being researched and whether an answer to the problem can be derived from the survey. In this study the researcher will say that the theoretical understanding of risk management and internal auditing function is the same as in the operational sense and to that extent, there is consistency between these.

### **3.12 Likert scale**

A likert scale was defined by Bertram,(2008) as a psychometric response scale used in questionnaires to obtain respondent's knowledge on the subject matter. The likert scale helped to a great extend as the researcher was able to asses the extend to which the respondents knew about internal auditing and risk management.

### **3.13 Summary**

The chapter discussed issues relating to the research methodological framework, research design, data sources and collection methods. Having outlined how data is going to be collected , the next chapter reviews he results and discussion thereof.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.0 Introduction**

The main aim of this chapter is to analyze and present the major findings that were collected through interviews and questionnaires. The chapter through analysis of qualitative and quantitative data will give the basis on which conclusions and recommendations will be reached at in chapter five. Data presentations tools such as bar graphs, pie charts and tables will be used to present data in this chapter.

#### **4.1 Response rate analysis**

##### **4.1.1 Questionnaire response rate**

Twenty seven questionnaires with twenty two questions each were sent to respondents. Of the twenty seven, 25 questionnaires responded giving a 93% questionnaires responds rate. Yount (2009) explained that a respondent rate of not less than one third of the population allows an effective analysis of results hence making reasonable conclusions on the subject under study. The high response rate was necessitated by the fact that the researcher had a good working relationship with the staff at CAIPF as he is a former student attaché of the same. Below is table 4.1 depicting the questionnaire response rate.



**Table 4.1. Questionnaire response rate**

<b>Responded</b>	<b>Expected</b>	<b>Actual</b>	<b>Rate</b>
Audit Manager	1	1	100%
Board of trustees	9	8	89%
Finance manager	1	1	100%
Assistant Accountant	1	1	100%
Pensions controller	1	1	100%
Payments controller	1	1	100%
Employees	13	12	91%
<b>Total</b>	<b>27</b>	<b>25</b>	<b>92%</b>

#### **4.2.0 Data analysis and presentation**

Data gathered from the field of study through questionnaires and interviews was analyzed objectively, that is to say there was no room for undue influence and bias towards one part and against another.

#### **4.2.1 Response analysis: Preliminary questions**

The questionnaires were characterized with preliminary questions which sought to establish the period in which the respondents had served the organization under study. The main aim of the preliminary questions was to attain an understanding of how the respondents understood the business activities and cycles within the organization. Educational background related questions

were also asked. Majority of the respondents indicated that they attained degree level or were working towards the same. Below are tables 4.2 and 4.3 showing numbers of years in service and educational background respectively.

**Table 4.2 number of years in service**

Duration	Respondents	Percentage
Less than one year	---	---
1-5 years	---	---
6-10	15	60%
More than 10 years	10	40%

From table 4.2 above it can be noted that majority of the employees have been with the organization for more than 5 years. Holding other things constant the high number of years in service allows in depth knowledge of the organization's operations hence validating the findings of this research. Furthermore, the findings of this research were strengthened by the educational background of the respondents.

**Table 4.3 Education background**

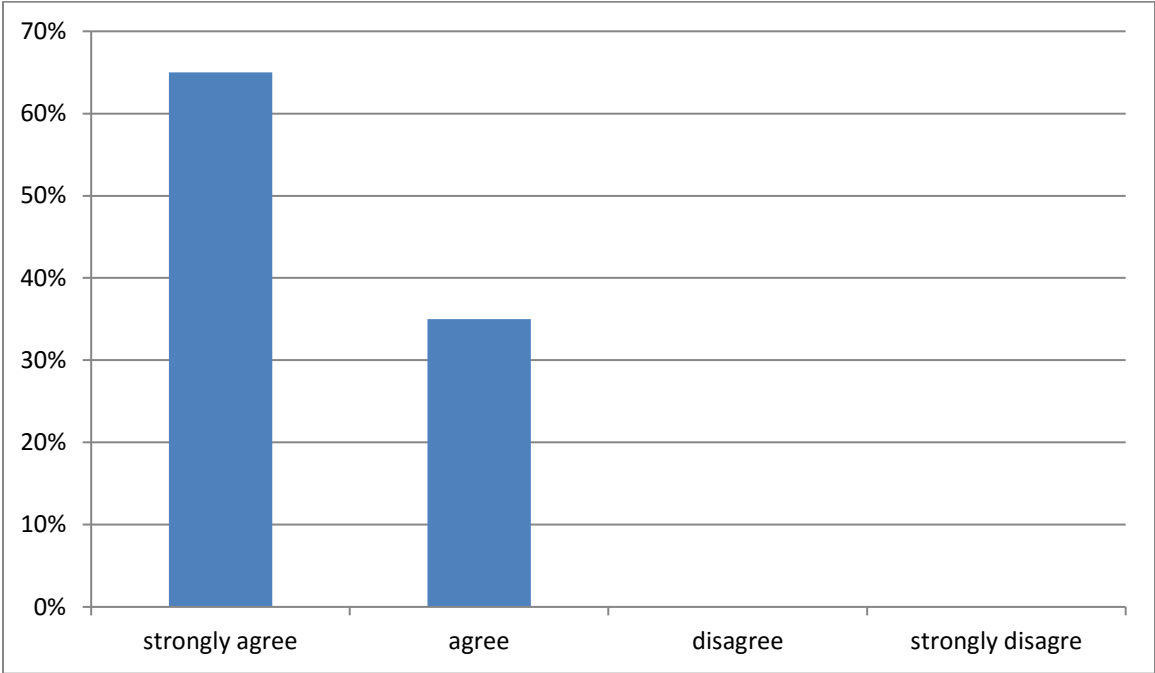
Highest level of education	Number	Percentage
High school education	3	12%
Certificate level	1	4%
Diploma level	1	4%
Degree level	15	60%
Masters level	5	20%
<b>Total</b>	<b>25</b>	<b>100%</b>

#### **4.2.2 Importance of internal audit in achievement of organizational goals/ objectives**

The intention of the question was to assess the extent to which the respondents knew about the importance of internal audit in the achievement of organizational goals. The outcome of the

responses came out as follows. Sixty five percent (65%) strongly agreed that internal audit department at CAIPF is important, in the achievement of the objective of the same. The remainder made up the 35% who agreed to the same notion. Griffiths(2007) explained that the internal audit function is one of the key department that helps an entity achieve its objectives. However he raised concern about how the importance has been undermined by many organizations.

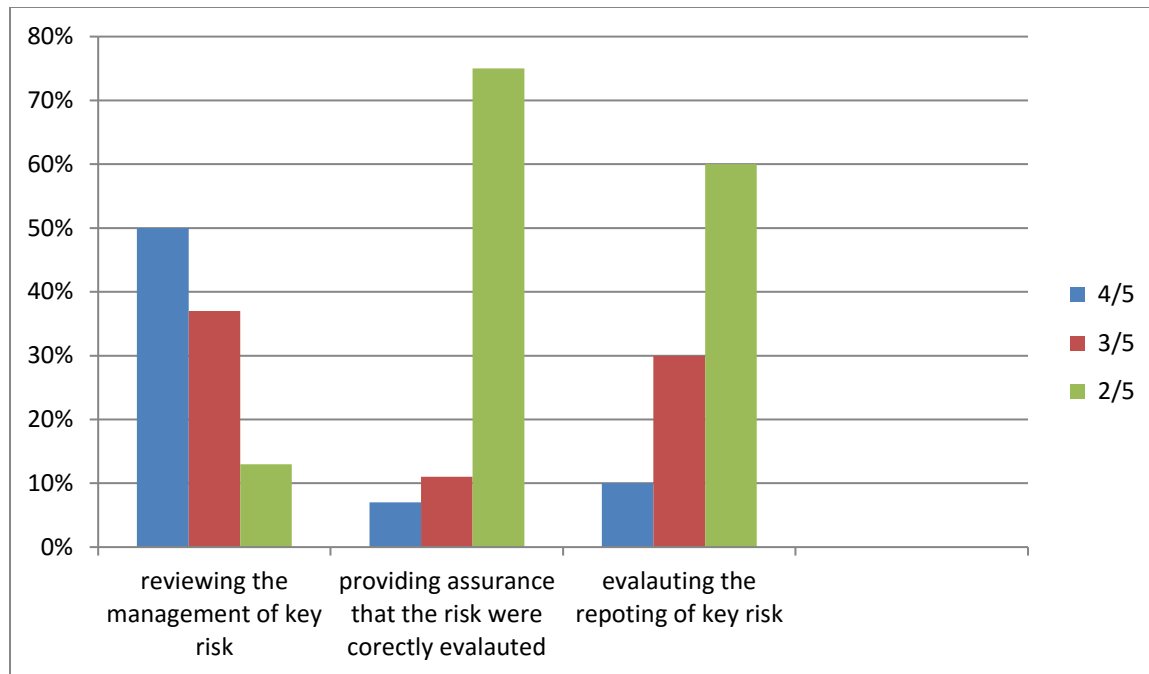
The figure 4.1 below shows the results obtained



.Source: Primary Data- responses on the importance o internal audit at CAIPF

### 4.2.3 Ranking of audit activities

Respondents were asked to rank the audit activities that were carried out by the internal audit in respect to risk management. The mentioned activities are the prescribed core roles by the institute of internal auditors, internal audit should do with regards to risk management. Fig 4.2 below shows the results got



### **Reviewing the management of key risks**

From the data collected it was noted that the internal audit was more effective in reviewing the management of key risks. On this question 50% of the respondents gave the internal audit a four out of five ranking, whilst 37 % settled for three out five. The remaining percentage (13%) gave the internal audit a ranking of two out of five. According Coetze (2007) internal audit should play a supervision type of a role in the risk management process and provide recommendations on grey areas.

### **Providing assurance that the risk were correctly evaluated**

The responses got indicated that the internal audit was ineffective in providing assurance on the evaluation of organizational risks. This activity had 75% responses ranking it two out of five. Not too far from the fore-mentioned ranking was 11%, in the three out of five categories. The remaining percentage was shared equally between ranks one out of five and four out of five. Where there is no or ineffective assurance from the internal audit organizations risk themselves from engaging in high risk activities. Mekesha( 2011)

## **Evaluating the reporting of key risk**

The intention of the question was to establish whether the internal audit performed the activity. As confirmed by the questionnaires it was noted that the internal audit performed the activity but its effectiveness was a cause for concern. About 90% of the respondents indicated that the internal audit was less effective in evaluation of the reporting of key risks. A follow up interview on the matter after the questionnaires were completed indicated that, there was no formal way of reporting risk to top management. Fig 4.2 below shows the audit activities ranking as per the questionnaires.

### **Fig 4.2 Responses on audit activities ranking**

#### **4.2.4 Question. - How is your level of knowledge in terms of enterprise risk management.?**

The question was asked to determine the extent to which the respondents knew about enterprise wide risk management issues. Majority of the respondents indicated that they knew about risk management practices, with 33% indicating that there were very good. Additionally 9% reported that they were excellent, 48 % were good and 10% were moderate as shown by figure 4.3 below. The results are attributed to the fact that employees at CAIPF are trained regularly on risk management issues.

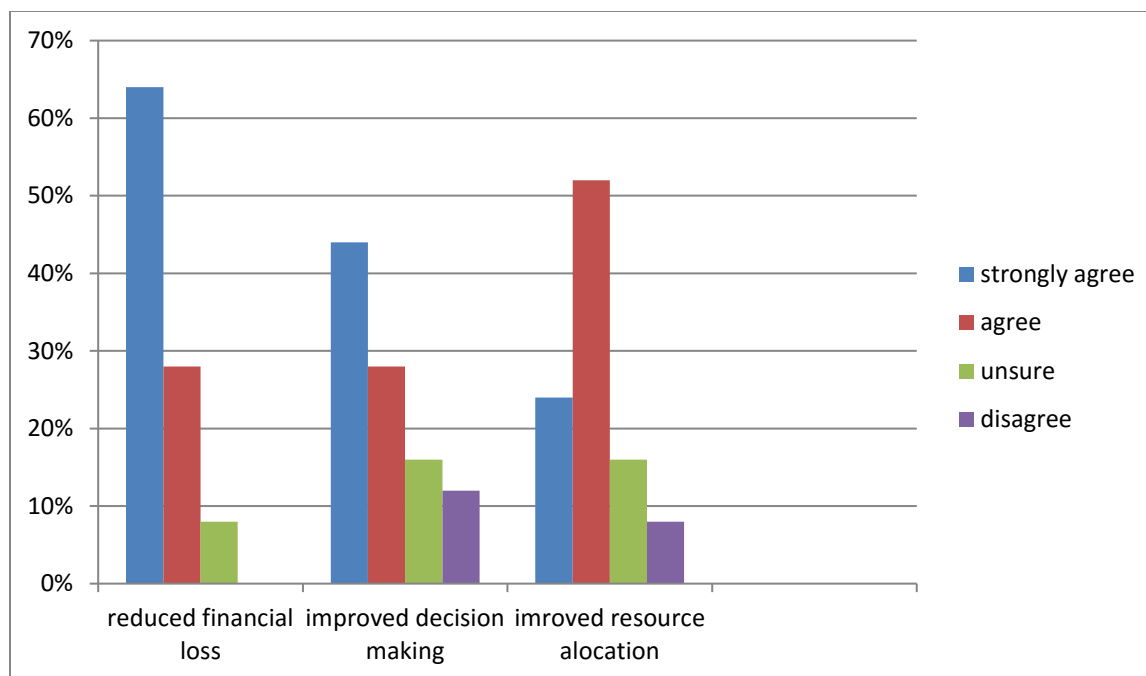
**Fig 4.3.Response on risk management knowledge.**



**4.2.4 Question- in your opinion do you agree effective risk management in your organization has improved the following:**

**Table 4.4 effectiveness of risk management**

<b>Responses</b>	<b>Reduced financial loss</b>	<b>Improved decision making</b>	<b>Improved resources allocation</b>
Strongly agree	16	11	6
Agree	7	7	13
Unsure	2	4	4
Disagree	-	3	2
<b>Total</b>	<b>25</b>	<b>25</b>	<b>25</b>



**Fig 4.4 results of good risk management**

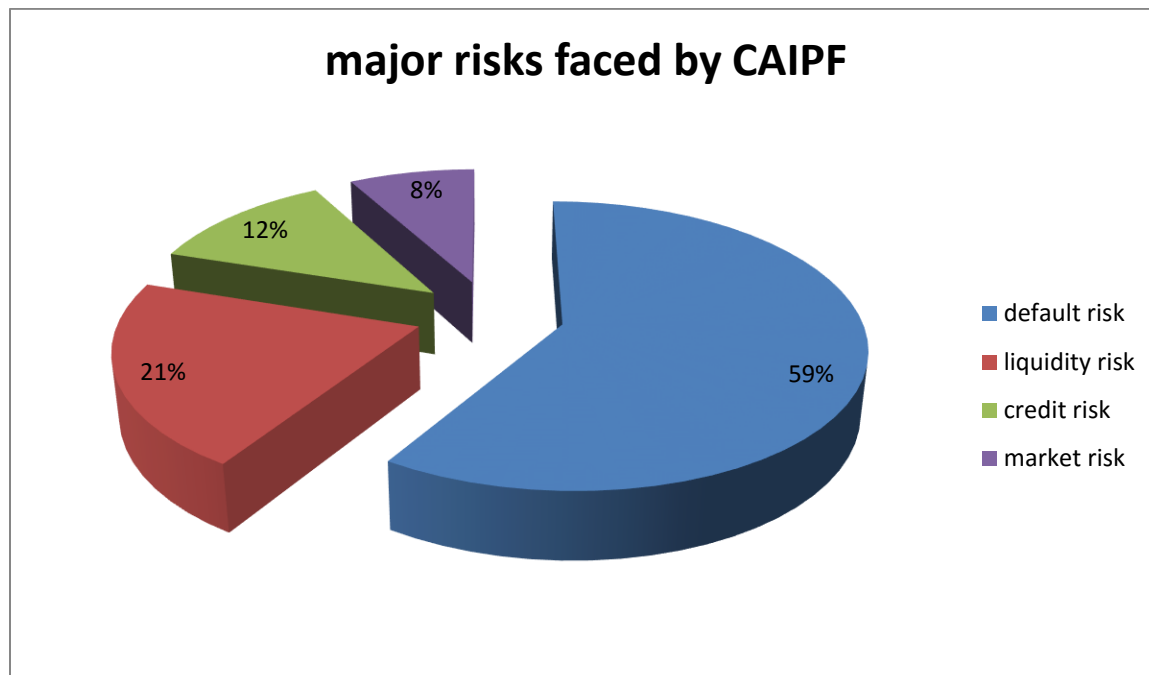
#### **4.2.4 Responses on effectiveness of risk management**

The results indicated that effective risk management has reduced possible financial losses as (64%) respondents strongly agreed that it was effective. On improving decision making 44% strongly agreed that effective risk management has improved decision making at CAIPF and only 16% were unsure about the effects of effective risk management with regards to decision making. A total of 13 respondents agreed that effective risk management improved resource allocation. Sarkar (2009) noted that when organizations practice risk management the benefits range from improved resource planning, improved resource allocation and improve financial performance.

#### **4.2.5 Question –Are you aware of the financial risks your organization is exposed too?**

All the respondents noted that they were aware of the financial risk their organization is exposed to. Employees at CAIPF are engaged in training workshops from time to time on matters concerning the operations of the Fund and as such they know the possible threats to their organization.

#### 4.2.6 The major risks CAIPF is exposed to.



Respondents were provided with four risks that are liquidity risk, default risk, credit risk and market risk and were asked to determine biggest threat to their organization. As anticipated majority(59%) of the respondents cited default risk as the organization’s biggest threat. As was reviewed in Chapter Two , default risk pose a great threat to pension funds especially in Zimbabwe where the economy is in the recovery mode and the prevailing liquidity crunch. IPEC (2013) Liquidity risk was next in line with 21% followed by credit risk (12%) and market risk (8%) as shown in fig 4.5 above.

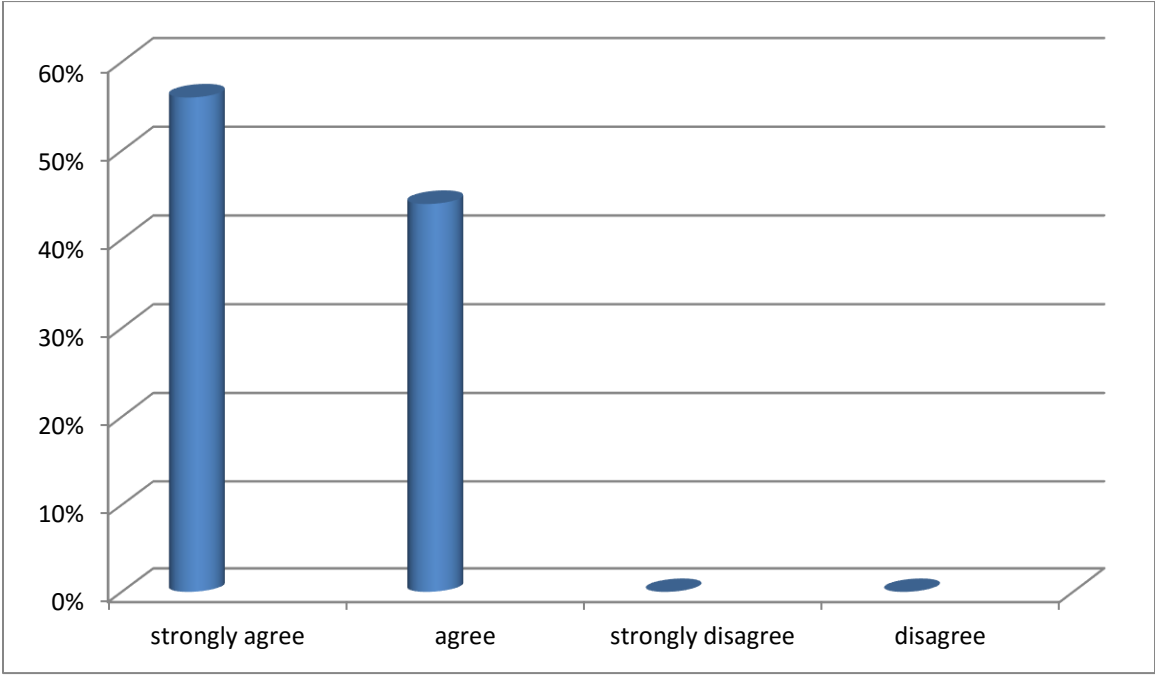
**Table 4.5 Existence of risk management internal controls**

Response	Number	percentage
Yes	23	92%
No	2	8%
<b>total</b>	<b>25</b>	<b>100%</b>



The objective of the question was to determine the existence of sound risk management controls and the adequacy of the same. As highlighted by table above 92% of the respondents acknowledged the existence of risk management controls with only 8% indicating that they were not aware of existence of the controls.

Furthermore the respondents were asked to rate the risk management controls. The aim of the question was to determine the effectiveness of the controls in reducing and curbing the effects of the risks. Of the 22 respondents who acknowledged the existence of internal controls 12(56%) strongly agreed that the existing internal controls were adequate to mitigate the effects of the risks and 8(36%) only agreed.



**Fig 4.6**responses on adequacy of risk management controls

**4.2.7**Can you suggest any controls that could be put in place to reduce the risk that face CAIPF

Respondents were asked to provide any other controls they thought were necessary to curb the effects of the risks. Below in table 4.6 are some of the responses that were provided.

**Table 4.6 possible controls to curb the impacts of the risk faced by CAIPF**

Risk	Control/measures
Default /counterparty risk	Charging of reasonable rates which are below market rates on property tenants Monitoring of financial performance of banks ( only awarding money markets investment to banks with sound financial resources Credit ratings on property tenants Counterparts limits Payments plans
Liquidity risk	Increasing the risk appetite of the fund to allow exposure to high return investments Strategic and economic management of cash inflows and outflows
Market risk	Ongoing monitoring of the economic environment and the financial markets portfolio structure should be approved before implementation by taking into account the maximization on return on investments

#### **4.2.8 Establishment of risk management policy or procedure**

The objective was to establish whether there were good corporate governance practices in relation to risk management at CAIPF. The responses got, conformed to the requirements of the Kings 3 report and the Reserve Bank of Zimbabwe’s corporate governance guidelines which stipulates that the board of directors /trustees in consultation with stake holders is responsible for establishing a risk management framework. All the respondents indicated that the board of trustees has the authority of establishing a risk management policy.

**Table 4.7 Are you aware of the risk appetite of your organization**

<b>Response</b>	<b>Number</b>	<b>Percentage</b>
Yes	17	68%
No	8	32%
Total	25	100%

Respondents were asked if they were aware of the risk appetite of the pension fund. A notable number (68%) of the respondents indicated that they were aware of the risk appetite whilst 32% noted they were not. Those aware of the risk appetite were asked if the risk appetite was compatible with the operations of the organization and the following results in fig 4.7 below were obtained

**Fig 4.7 compatibility of risk appetite of CAIPF with its operations**

	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
<b>Number of respondents</b>	<b>12</b>	<b>3</b>	<b>0</b>	<b>2</b>	<b>0</b>
<b>Percentage (%)</b>	<b>70%</b>	<b>17%</b>	<b>0%</b>	<b>13%</b>	<b>0%</b>

It can be noted from the information above that the risk appetite of pension funds is not compatible with the operations of the same. Scholtens (2010) noted that, world over pensions funds are underfunded against a backdrop of high pension commitments. To augment this gap he asserted that pension funds should increase their risk appetite to allow for high return investments.

## **Part Two**

### **4.3 Interview questions**

#### **4.3.1 Interviews response rate**

Interviews were conducted with top management and middle management. They were all successfully conducted, thus there was a 100% response rate in strategic interviews with top management and middle management. The objective of the interviews were to gain an understanding of the activities carried out by the internal audit at CAIPF in relation to risk management and to analyze risk management practices of the same and of the organization as whole.

The following are the results of the interviews.

#### **4.3.2 Question – in your opinion to what extend is the internal audit department involved in the management of enterprise risk.**

There was a match of response from all interviewees. They reported that the internal audit was to a greater extend involved in the management of risk but highlighted the fundamental principle of independence. They highlighted that though the internal audit was involved in the risk management process, independence of the same on the other hand was not compromised.

#### **4.3.3 Question –what can you say about the risk appetite of pension funds and specifically of your organization.**

Except for the Head-Finance who in my opinion is risk averse/ conservative, all the managers noted that the risk appetite of the pension fund was very low. They explained that the low risk appetite approach adopted by pension fund pose a great liquidity threat in future especially in light with the rate at which pension committments were increasing. An interview with the investments manager indicated that the fund was negotiating for a reduction of the ratio of assets hold by pension funds to enable better exposure to more profitable instruments. According to the requirements of the insurance and provident act, Chapter (24) 35% of the assets should be statutory stock.

**4.3.4 Question –what investment strategies have you put in place to earn high returns in respect of the stringent investment guidelines of pension funds.**

As noted earlier it was reported that the fund is negotiating with the regulators for a reduction of the prescribed asset ratio held to allow better exposure to more profitable instruments. The investments manager also indicated that the Fund is now concentrating more on money markets investment as they give higher return compared to other available investments options. As was agreed by all the respondents the fund is also considering to invest in residential property investments, where they would buy land, develop, build and sell the houses or to let out on contract basis.

**4.3.5 Question –what challenges have you faced as an organization in risk management?**

All the respondents indicated that the major challenge was the willingness of the employees to participate in the enterprise wide risk management process. They highlighted that the employees felt that enterprise wide risk management was only for management yet it requires everyone from every position to participate.

Furthermore they noted that some of the challenges included lack of experienced risk management personnel in all departments, lack of technology to manage asset portfolio data, implementation of policies at the grass root level, misinterpretation of policies, uncertain of the exact feature of customers especially new tenants, inadequate human capacity, and problem of collateral registration.

**4.3.4 Question- what were the impacts of the risk that hit your organization on the financial performance of the same?**

It was reported that in 2012 the fund was at some point not able to pay pensions obligations due to the effects of liquidity risk and in the prior year( 2011) the excess income over expenditure decreased by 15%. The default payment or delay of payment by debtors in 2013 resulted in the fund foregoing some investments, for example money markets investments( considering rates as high as 13% were obtainable)

#### **4.4 Analysis of Secondary Data**

Secondary data sources were analysed and most of the information conformed to that provided in questionnaire and interview responses. An evaluation of the secondary data revealed the following.

##### **4.4.1 Audit activities**

Though the pension fund audit department uses a risk based audit approach, it was noted from the audit reports that little to no attention was given to the Pension Fund investment activities. Investment such as Equity and Money market were only reviewed bi-annually or in some cases once per year. Griffiths (2008) asserted that there should be high frequency of audit in high risk areas.

##### **4.4.2 Financial performance of the Fund**

It was observed that due to non payment of pensions contribution by member organizations for the period under review(2011-2013) the return on investment of the organization was severely affected. Also affected was the liquidity position of the pension fund, with the cash and cash equivalents of the fund decreasing from Us \$ 7 345 277 to Us\$ 6 543 230 in 2011 as was reflected in the annual financial statements of 2011 and 2013

#### **4.5 Summary**

The chapter focused on presentations and analysis of data collected through interviews and questionnaires. The chapter provided the basis on which the conclusions and recommendations of the study were made. The next chapter ( five) will look at the summary , research findings and recommendations

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0. Introduction

The main aim of this chapter is to draw up conclusions and recommendations basing on the findings of the research. Results from research interviews and questionnaires will form the basis of the conclusions and recommendations that will be highlighted. The chapter will also recap summary of chapters one to four and the summary of this chapter as well.

#### 5.1. Summary of chapters

Chapter ONE reviewed the background of the study where the researcher explained a brief analysis of internal auditing with regards to enterprise risk management and the risk that faced CAIPF from the years 2011 to 2013. The impacts of the risk were also explained in the chapter. The chapter also gave the main research question, main research objective, significance of the study, delimitations of the study, limitations of the study and definition of functional terms.

The second chapter outlined the literature revolving around the area of the role of internal auditing in enterprise wide risk management. Areas such as the evolution of internal auditing, internal audit methodologies, enterprise risk management practices and risk facing pensions funds were also explored. To validate the findings on this chapter authors like Griffith, 2009 ( risk based internal auditing) and Ghita (2009) were referred to.

The research methodology of this research was discussed in Chapter Three. The research adopted a descriptive case study approach, as the problem under research is particularly for CAIPF. A review of data sources was also done in this chapter.

Chapter Four focused on the data presentations methods and analysis of the same. Data presentations instruments such as bar graphs, pie charts and tables were used. To analyze data the results of the findings were matched with the existing theories on the subject matter.

## **5.2 Conclusions**

The conclusions of this were based on the following which where the research objectives.

### **5.2.1. To examine the role of internal auditing in enterprise risk management at CAIPF.**

Questionnaires and interviewees with management indicated that the internal audit department at CAIPF was an independent department whose roles with regards to enterprise wide risk management included evaluating the reporting of risks, providing assurance on the risk management process, reviewing the management of key risks and evaluating risk management processes.

### **5.2.2 To determine the kind of risk that threatens CAIPF.**

It was noted that default risks, credit risk, market risk and liquidity risks were the main risks that threatens the operations of the pension fund. Studies on the risks affecting pensions funds also agreed to the same sentiments, for example in their annual report of 2011 the IOPS noted the same risk as the major risks affecting pensions funds. Though the report did not point out the major risk that affects pension funds, the research proved beyond reasonable doubt that default risk( counter party risk) is the biggest threat to the operations of CAIPF.

### **5.2.3 To determine the risk appetite of CAIPF.**

The study revealed that the risk appetite of the pension fund is low. CAIPF follow a conservative approach in their operations as was evidenced by the asset mix of the same. The pension fund mainly trade in low return investment which is a reflection of unwillingness to take/ accept higher risk. Ideally low return investments entails low risk and vice- versa. From the research it was noted that legislation is one factor that influence pension funds risk appetite.

It was noted that though the approach adopted by CAIPF is less risk, the organization was digging its own grave. With this approach and if not rectified well in future the fund will incur liquidity problems. This is attributable to the fact that the pension fund pension payroll commitments are increasing year by year against a background of underfunding and increased liabilities. Currently member organizations are not remitting their pension contribution citing



shortages of hard cash and poor cash inflows. The conclusion made therefore on this objective is that the pension fund's risk appetite is low and is not compatible with the operations of the same.

#### **5.2.4 To investigate the impacts of the indentified risk on the financial performance of the Fund**

An analysis of the Pension Fund's financial reports for the period 2011 to 2013 indicated that the fund was severely affected by the risk it suffered in the same period. The research concluded that the decrease in cash and cash equivalents in 2012 by 15% was due to liquidity risk. The liquidity risk was caused by underfunding and increase in liabilities.

#### **5.2.5. To examine the risk management control systems put in place by CAIPF**

It was noted that risk management controls existed at CAIPF. Internal control is considered to be an instrument in handling risks that could prevent the organization from attaining its objectives. The organization has developed internal models that analyse and calculate the risk of operations, including credit, market and liquidity risks, was indicated in the financial statements of 2011. Some of the risk management measures included the following, credit rating on tenants, assessing the economic outlook before major investments, assessing financial performance of banks before money markets investment and diversification of investments.

### **5.3 Conclusion from study**

From the above analysis it can be concluded that there is a distinction between management roles and internal audit roles. The overall management of risk lies in the hands of board which in turn delegate the task to management. The role of internal auditing in risk management is to provide reasonable assurance on the risk management process. The study was able to achieve its objective hence it was successful.

### **5.4 Recommendations**

CAIPF should put in place a risk department that specializes on the management of all the risk that affects the organization. The current practice is that departmental heads are responsible for the management of the risk in their department and functionally report to the chief executive officer. The department can be merged with audit. Rui and Min (2008) noted that the complexity

of risk needs experts and as such organizations should employ risk experts to deal with the risk's that threatens them.

Management roles in risk management should be identification of risk, setting up the risk appetite, continuous assessment of risk and management of the same.

It was also revealed that some personnel in some departments do not fully understand how their activities relate to other units of the Fund. Therefore, meetings, programmes or seminars should be organized often, where information would be given, showing how each area of work relates to each other and to the overall success of the organization. Siayor (2008)

The pension fund should increase its risk appetite to allow for better exposure to more profitable investment.

Sufficient resources should be provided for personnel to carry out effective risk\_management. These personnel should also be well equipped to enable them carry current and proposed activities of the institution. Moeller (2011) suggested that effective risk management entails proper allocation of resources, and effective use of the available resources.

### **5.5 Suggestions for further studies**

The research explored many avenues for further researches. The following are the areas the researcher felt have not been fully researched.

Factors influencing the risk appetite of pension funds.

An analysis of the use of system based audit approach versus risk based audit approach

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**Midlands State University**  
Established 2000

*Our Hands, Our Minds, Our Destiny*

**Midlands state university**

**Department of accounting**

**P. Bag 9055**

**Gweru.**

**The Human Resource Manager**

**Communications and Allied Industries Pension Fund**

**14<sup>th</sup> Floor Causeway Building**

**Corner 3<sup>rd</sup> street and Central Avenue**

**P.O Box 1067**

**Harare**

RE: APPLICATION TO CARRY OUT AN ACADEMIC RESEARCH AT YOUR ORGANIZATION.

My name is Arnold Musiyazviriyo a former attaché at your organization. I do hereby apply for permission to carry out an academic research at your organization on the topic, “ **An analysis of the role of internal auditing in enterprise wide risk management, a case of CAIPF**” This is in line with the fulfillment of the Bachelor of Accounting Honours Degree (Midlands State University)

The respondent’s responses will be treated with high levels of integrity, professionalism and confidentiality. Therefore your cooperation is greatly appreciated in advance. The researcher is contactable on mobile number 0775870268.

Thank you in advance for your assistance in this matter.

Regards

Arnold Musiyazviriyo( R111205J)



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**Department of accounting**

**P. Bag 9055**

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**14<sup>th</sup> Floor Causeway Building**

**Corner 3<sup>rd</sup> street and Central Avenue**

**P.O Box 1067**

**Harare**

Dear sir/madam

Re: REQUEST TO RESPOND TO THE QUESTIONNAIRE

My name is Arnold Musiyazviriyo. I am carrying a research on the topic “ **An analysis of the roles of internal auditing in enterprise risk management, a case of CAIPF**” May you kindly assist by answering the questions below. Your honest cooperation is greatly appreciated and your information will be treated with utmost confidentiality and will be used for academic purposes only .

Regards

Arnold Musiyazviriyo

Registration number (R111205J)

**Instructions for completion**

1. *tick where appropriate and use ticks only in each given box*
2. *Where appropriate fill in the space provided.*

**1. What is your position at Communications and Allied Industries Pension Fund?**

a. Head finance	
b. Head pensions and properties	
c. Audit manager	
d. Investments manager	
e. Finance manager	
f. Assistant accountant	
g. General staff	

**2. For how long have you been working at CAIPF?**

Less than one year

1-5 years

6-10 years

More than 10 years

**3. Of the following qualification what is your highest level of education:**

a. High school education

b. Certificate level

c. Diploma level

d. Undergraduate degree level

e. Masters degree level



f. Other  . Specify .....

**4. In your opinion how important is internal audit department in the achievement of the organizational goals ?**

Very important  important  moderately important

of little importance

**5. On a scale of 1-5 ,( 5 being the highest)how would you rank the following audit activities in terms of performance.**

	1	2	3	4	5
Providing assurance that risk are correctly evaluated.					
Evaluating risk management processes					
Reviewing the management of key risks					
Evaluating the reporting of key risk issues.					

**6. How is your level of knowledge in terms of enterprise risk management?**

Moderate  Good  very good  Excellent  Poor

**7. In your own opinion do you agree effective risk management in your organization has improved the following:**

**7.1 Reduced financial loss**

Strongly agree  agree  Unsure  strongly disagree  disagree

**7.2 Improved in the attainment of organizational goals.**

Strongly agree  agree  Unsure  strongly disagree  disagree

### 7.3 Improved decision making

Strongly agree     agree     Unsure     strongly disagree     disagree

### 7.4 Improved resource allocation

Strongly agree     agree     Unsure     strongly disagree     disagree

### 8. Are you aware of the financial risks your organization is exposed to?

Yes     No

### 9. Of the following risks which one do you consider to be your organization's worst threat?

Liquidity risk     default default risk     credit risk     market risk

### 10. Are you aware of the risk management controls in place at your organization?

Yes

No

### 11. If yes how would you rate the existing risk management controls

Excellent     Good     Average     Poor

### 12. If your answer to question 10, is Yes, do you agree the existing controls are adequate to reduce the impacts of the financial risks.

Strongly agree     Agree     Disagree     Strongly disagree

**13. Can you suggest any controls that could be put in place to reduce the risk that face your organization:**

.....

.....

.....

.....

.....

**14. Who has the authority to establish risk management policy or procedure at your organization?**

- Chief executive officer(CEO)
- Board of Trustees/ committee
- Executive management committee
- Internal auditor
- Staff

**15. On a scale of 1-5( 5 being the highest) how effective are the organisation's risk management activities/ controls?**

1  2  3  4.  5

**16. Your organization carries out a comprehensive and systematic risk identification process on an on going basis**

Strongly agreee  agree  disagree  strongly disagree

**17. You understand the limits to risk your organization may take in the achievement of its organizational objectives?**

Strongly agree  Agree  Disagree  Strongly disagree

**18. The risk appetite of your organization is compatible with the operations of your organization.**

Strongly agree  Agree  Disagree  Strongly disagree

**19. How often does your organization change its guidelines or policies to manage risks?**

Once per year

Once per two years

Once in more than two years

Never

## **APPENDIX C**

### **INTERVIEW GUIDE**

1. In your opinion to what extent is the internal audit department involved in the management of enterprise risk?
2. What can you say about the risk appetite of pension funds and specifically of your organization?
3. What risk management controls has CAIPF put in place to curb enterprise risks?
4. What investment strategies have you put in place to earn high returns in respect of the stringent investment guidelines of pension funds ?
5. What challenges have you faced as an organization in risk management?
6. What were the impacts of the risk you faced on the financial performance of CAIPF ?

