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Midlands State University



FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

**AN ANALYSIS ON THE APPLICABILITY OF RISK BASED INTERNAL
AUDITING A CASE OF CROWNE PLAZA MONOMOTAPA HOTEL**

BY

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This dissertation is submitted in partial fulfillment of the requirements of the Bachelor of Commerce Accounting Honors Degree in the Department of Accounting. May 2014, Gweru

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DEDICATION

This dissertation is dedicated to my beloved mother, my brother Nicholas and the rest of the family members and the entire Tarinda family for their unwavering support towards the academic upkeep.

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MAY GOD BLESS YOU ALL!!!

ABSTRACT

This study sought to analyse the applicability of risk based internal auditing in Crowne Plaza Monomotapa Hotel. The literature from different authors was reviewed concerning the research topic. The main goal of this research was to analyse if risk based internal auditing can be applied in the hotel, how can it be implemented and is there adequate staff and resources for it to be implemented. The researcher used a descriptive design as a research design. The researcher used stratified random sampling to determine the population and the sample size. Questionnaires and interviews were the research instruments used to gather data for the research. A sample size of 20 respondents was used in carrying out the research study; the management, internal auditors and staff of the hotel were included in the sample. The data was collected and analysed using tables, graphs and pie charts. Basing on the research Crowne Plaza Monomotapa Hotel cannot implement risk based internal auditing since there is no risk management framework though the hotel has other necessary resources. The research recommended that the organization board should devise a strategy that will establish the a risk management framework which will enable he hotel to implement risk based internal auditing that can mitigate the risks being faced by the hotel.

LIST OF TABLES

Table	Description	Page
1.1	Crowne Plaza profit structure	2
2.1	Traditional internal auditing approach versus RBIA	14
3.1	Crowne Plaza population and sample size	26
3.2	Results of pilot testing	31
4.1	Response rate of the targeted population of the research	33
4.2	Positions held by respondents	34
4.3	Respondents work experience	34
4.4	Qualification of the respondents	35
4.5	Functions performed by the management framework	37
4.6	The existence of risk management framework	38
4.7	The participation of the respondents in risk management	39
4.8	Expectations regarding the role of internal audit	40
4.9	The internal audit promotes establishment of risk management	40
4.10	Functions of internal auditors	42
4.11	Resource capacity of internal audit	43
4.12	Resources to implement RBIA	44
4.13	The extent to which RBIA is the best practice to mitigate risks	45
4.14	Interview response rate	46

LIST OF FIGURES

Figure	Description	Page
1.1	Risk based internal auditing framework	6
1.2	RBIA approach described schematically	11
2.1	The stage of enterprise risk management based internal auditing	17
2.2	RBIA implementation flow chart	22
4.1	Qualifications held by respondents	35
4.2	The extent to which the respondents are aware of risk management framework	36
4.3	Functions performed by management	37
4.4	The existence of risk management framework	38
4.5	The participation of respondents in risk management	39
4.6	Internal audit promote the establishment of risk management framework	41
4.7	Awareness of risk based internal auditing	42
4.8	Responses on the resources to implement RBIA	44
4.9	Extent to which RBIA is the best practice to mitigate risks	45

LIST OF APPENDICES

Appendix	Description	Page
Appendix I	Cover letter	56
Appendix II	Questionnaire	57
Appendix III	Interview questions guide	60

ACRONYMS

Acronym	Description
ERM	Enterprise risk management
IIA	Institute of internal auditors
RBIA	Risk based internal auditing

TABLE OF CONTENTS

	Contents	Page
	Approval form	i
	Release form	ii
	Dedication	iii
	Acknowledgements	iv
	Abstract	v
	List of tables	vi
	List of figures	vii
	List of appendices	viii
	Acronyms	ix
	Table of contents	x
	CHAPTER 1 INTRODUCTION	1
1.1	Introduction	1
1.2	Background of the study	1
1.3	Statement of the problem	2
1.4	Research objectives	3
1.5	Research questions	3
1.6	Significance of the study	3
1.7	Delimitation of the study	4
1.8	Theoretical/conceptual framework	4
1.9	Limitations of the study	6
1.10	Definition of terms	7
1.11	Summary	7
	CHAPTER 2 LITERATURE REVIEW	
2.1	Introduction	8
2.2	Internal audit overview	8

2.2.1	Role of internal audit	8
2.3	Risk	9
2.3.1	Risk management	9
2.4	Development of risk based internal auditing	9
2.5	Risk based internal auditing	10
2.6	Objectives of risk based internal auditing	12
2.7	Role and scope of risk based internal auditing	12
2.8	Risk base internal auditing versus traditional internal auditing approach	12
2.9	Enterprise risk management based internal auditing	15
2.10	Enterprise risk management based internal auditing and its stages	15
2.10.1	The stages of enterprise risk management based internal auditing	16
2.11	Role of internal auditing in enterprise risk management	18
2.11.1	Benefits of ERM	19
2.12	Contributions of risk based internal auditing	19
2.13	Implementing risk based internal auditing	20
2.13.1	Is the environment permissible for RBIA	22
2.14	Summary	23
	CHAPTER 3 RESEARCH METHODOLOGY	24
3.1	Introduction	24
3.2	Research design	24
3.2.1	Descriptive research design	24
3.2.2	Case study	25
3.3	Population, sample and sampling techniques	25
3.3.1	Target population	25
3.3.2	Sampling	26
3.3.2.2	Sampling techniques	27
3.3.2.3	Stratified random sampling	27
3.3.2.4	Justification of the method	27

3.3.3	Sources of data	28
3.3.3.1	Primary data	28
3.3.3.2	Secondary data	28
3.3.4.1	Research instruments	29
3.3.4.2	Questionnaires	29
3.3.4.3	Justification of using questionnaires	29
3.3.4.4	Interviews	30
3.3.4.5	Justification of interviews	30
3.3.5	Validity and reliability of research instruments	30
3.3.5.1	Validity	30
3.3.5.2	Reliability	31
3.4	Pilot testing	31
3.5	Data analysis	32
3.6	Summary	32
	CHAPTER 4 DATA PRESENTATION AND ANALYSIS	
4.1	Introduction	33
4.2	Response rate	33
4.2.1	Research findings	34
4.2.2	Work experience	34
4.2.3	Qualifications of the respondents	35
4.3	Questionnaires	36
4.4	Interview response rate analysis	46
4.4.1	Responses on interviews	46
4.5	Interview questions	46
4.6	Summary	47
	CHAPTER 5 CONCLUSION AND RECOMMENDATIONS	48
5.1	Introduction	48
5.2	Summary of chapters	48

5.3	Summary of research findings	49
5.4	Conclusion to the research	50
5.5	Recommendations	50
5.6	Areas of further research	51
5.7	Summary	51
	REFERENCE	52

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter contains the background of the study, the statement of the problem, research objectives for conducting the research, the main topic, and sub research questions to aid information gathering, significance of the study, the delimitations, limitations, definition of terms and summary.

1.2 Background of the study

Internal auditing has gradually shifted from the traditional systems based audit approach to risk based audit approach RBIA. RBIA is an audit approach on the basis of determining the risk profiles of the business, shaping the audit progress according to the risk profile of the business and allocating the auditing resources according to this profile to improve efficiency of the audit. (Keskin 2010)

Based on the view that the managers are operating in an increasing complex and global environment and risk is a central element of corporate governance. In previous year the auditors were focusing more attention to the operational and compliance audit which gave on a blind eye to assessing risks which give rise to financial leakages in the hotel. (Management report June 2012)

The internal audit function is still implementing the traditional audit approach and that high risk areas are not given due attention that is revenue. The internal audit is only focusing on compliance of internal controls. The general manager was concerned about the internal audit that they are not identifying risks which are leading to a low value of the business and this lead to market risk hence low customers during the year (management meeting minutes August 2012)

Crowne Plaza as a well known hotel and also as flagship of African Sun its RevPAR (revenue per available room) is decreasing and there is an increase in cost of sales and overheads leading to a low profit therefore not maximising the shareholders wealth. The revenue of the

hotel is decreasing because the hotel is risk naive (no formal approach for risk management) and as a result there was no risk framework in place and this resulted in the failure by hotel to identify and manage risks. This can be evidenced by the statics below:

Table 1.1 profit structure

	2012	2013
	\$	\$
Revenue	7 396 895	7 296 598
Cost of sale	2 401 588	2 469 800
Gross profit	4 995 307	4 826 798
Overheads -other	4 226 550	4 396 735
-Bad debts	374 540	411995
Profit	394 217	18 068

Source :(Crowne Plaza financial statements 2012 and 2013)

The meeting held on 28 February 2013, the financial controller outlined that the hotel is being continuously being crippled with the market risk and credit risk. The market risk encompasses the foreign exchange, price risk and cashflow and fair value interest rate risk. Foreign exchange risk arises from various currency exposures lead low revenue. The credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions as well as credit exposure to hotel customers including outstanding receivables which are causing the bad debts of the hotel to increase by 10% in 2013 and committed transactions.

1.3 Statement of the problem

Due to the complexity of today's businesses in terms of both structure and operation and numerous cases involving the financial mismanagement, internal management is faced with an obligation to provide additional information such as the evaluation of business risk. The traditional ways of managing and controlling risk at Crowne Plaza are failing to cub the ever increasing risk exposures as the Hotel continues to face financial losses from these risks and

therefore this has prompted the research to be undertaken focusing on the applicability of risk based internal auditing.

1.4 Research objectives

- ❖ To define risk based internal auditing
- ❖ To establish the concepts associated with risk based internal auditing
- ❖ To evaluate the implementation of risk based internal auditing
- ❖ To establish a committee on the implementation of risk based audit
- ❖ To understand the applicability of risk based internal audit in hotels

1.5 Research questions

- ❖ What is risk based internal auditing?
- ❖ What are the core essential contents of risk based internal audit?
- ❖ How risk based internal auditing implemented?
- ❖ Is there an adequate personnel for the implementation of RBIA?
- ❖ How is risk based internal auditing applicable to the hotel?

1.6 Significance of the study

To the Researcher

The study is done in partial fulfilment of the requirements for the Bachelor of Commerce Honors degree in Accounting of the Midlands State University. The research widens the researcher's knowledge through detailed analysis of the problem.

To Midlands State University

The study provides essential material for research for other scholars in future.

To the Crowne Plaza Monomotapa Hotel

The research findings and recommendations will help the organisation improve its risk management processes by adopting a Risk Based Internal Auditing approach

1.7 Delimitation of the study

The study will focus mainly on Crown Plaza in the Tourism industry where the information will be available for the period July 2012 to July 2013 where the researcher's did Industrial attachment.

1.8 Theoretical /conceptual framework

Risk-based auditing is a new approach to the practice whose aim is to improve the quality and effectiveness of audits, since determining the appropriate nature, timing, and extent of substantive testing allows for higher quality audits at shorter time. Risk-based auditing identifies and reports the risk of significant distortions in financial statements. This approach not only increases the value of the product (financial statements), but also makes auditing more profitable. In other words, risk-based auditing satisfies both the managers and the auditors (Smith, 2006; Harrington, 2004).

Every organisation is different, with a different attitude to risk, different structure, different processes and different language. RBIA seeks at every stage to highlight the responsibilities of management and the board for managing risk. If the risk management framework is not very strong or does not exist, the organisation is not ready for RBIA. More importantly, it means that the organisation's system of internal control is poor. RBIA is at the cutting edge of internal audit practice. As a result, it is an area that is evolving rapidly and where there is still little consensus about the best way to implement it. The definition RBIA emphasize that internal audit function can add value to the organization in terms of risk management and corporate governance.

The separation of ownership and management functions and the presence of information asymmetry introduce the possibility of principal-agent conflicts (Haniffa and Hudaib 2006);

it also incurs risks to stakeholders in the organization (management, shareholders, creditors, etc.) Spira and Page 2003. Those agency conflicts, agency costs and risks are now managed within the corporate governance framework through accountability mechanisms, such as internal control and audit.

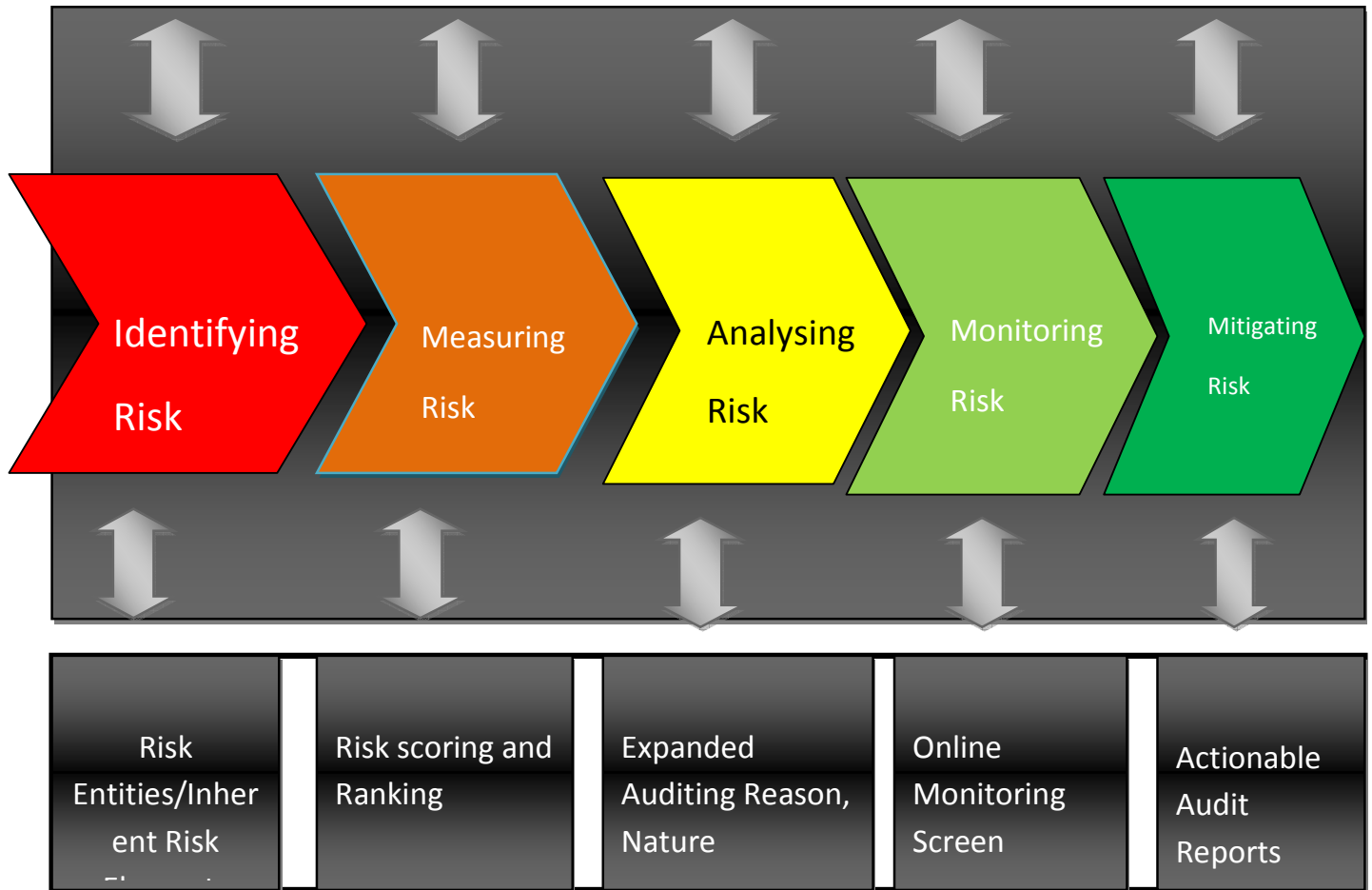
The use of RBIA is positively associated the following components:

1. The level of risk confronting with the stakeholders. The objective of RBIA is to provide independent assurance to the board that there is a sound of risk management framework within the organization, and risks that may affect the organisation's business objectives and strategies are been identified, managed and reduced to a level that is acceptable to the board (IIA 2003) .
2. The existence of a risk management committee and internal control system. As organizations grow in size and complexity, effective risk management becomes increasingly problematic (Fraser and Henry 2007). Marcello, et al. (2005) asserts that increased organizational complexity would result in greater risk and companies facing higher risk will increase their organizational monitoring.
3. The size and the complexity of an organisation.
4. The internal auditors' technical competence.
5. The proportion of independent board members on the board of directors.
6. The level of shareholdings held by institutional shareholders
7. The size of the board.

The implementation of RBIA goes through stages which include (a) assessing risk maturity obtaining an overview of the extent to which the board and management determine, assess, manage and monitor risks. This provides an indication of the reliability of the risk register for audit planning purposes. (b)Periodic audit planning, Identifying the assurance and consulting assignments for a specific period, usually annual, by identifying and prioritising all those areas on which the board requires objective assurance, including the risk management processes, the management of key risks, and the recording and reporting of risks. (c) Individual audit assignment, Carrying out individual risk based assignments to provide assurance on part of the risk management framework, including on the mitigation of individual or groups of risks (Griffiths D 2006)

The diagrammatic representation of risk based internal auditing framework is shown below:

Fig 1.1



Adapted: Azilon Risk Auditor

1.9 Limitations of the study

- Time for conducting the research was limited and hence the researcher intended to work flat out.
- Finances are a major challenge whereby field research has to be undertaken, typing and printing costs to be incurred but however, costs were limited by having telephone interviews and bundling of functions.
- Some respondents to include the competitors reserve information, naturally they cannot disclose.

- The research process reviewed the organization's financial statements, confidentiality of these books was their daily talk and this limited access to their books.

1.10 Definition of terms

Internal audit - an independent, objective, assurance and consulting activity designed to add value and improve organisation operations. (IIA 2013)

Risk management – identification, analysis, assessment, control and avoidance, s minimisation or elimination of unacceptable risks. (www.businessdictionary.com accessed 0335hrs 10/03/14)

Corporate governance - a way in which entities are directed and controlled (www.applied-corporate-governance accessed 2230hrs 17/03/2014)

RBIA - risk based internal auditing (Griffiths 2006)

1.11 Summary

This chapter covered the background of the study, problem statement, main research question, sub research question, research objectives, significance of the study, limitations of the study, delimitation of the study, assumptions and definition of terms. Chapter 2 will look at literature review.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter gives a review of the related literature on the applicability of RBIA. In order to analysis the applicability of RBIA, it is prudent to review what other authors say and this will present a clear case and context of the research questions and objectives by analysing the studies of other authors in the field have carried out.

2.2 Internal auditing overview

Internal auditing is an independent objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.(IIA 2010) Sawyer (2003) states that it is a systematic , objective appraisal by internal audit of the diverse operations and controls within the organisation to determine whether :

- Financial and operating information is accurate and reliable
- Risks to the enterprise are identified and minimised
- External regulations and acceptable internal policies and procedures are followed
- Satisfactory operating criteria are met
- Resources are used efficiently and economically and
- The organisation's objectives are effectively achieved

It is pertinent to note that both definitions incorporate 'risk management'. Internal auditing is not a requirement but a must of modern business.

2.2.1 Role of internal audit

Internal auditors deal with issues that are primarily important to the survival and prosperity at an organisation. (Chartered Institute of Internal Auditors 2014) According to King III (2009) a company should have an effective internal audit that has the respect and cooperation of the board and management. The internal audit should adhere to Institute of internal auditing standard for professional practice of auditing and code of ethics at a minimum. (King III,

2009) KPMG (undated article) states that internal audit has assumed a key role in modern corporate governance. An effective internal audit activity plays an important role in assisting the board to discharge its governance responsibilities. According to www.deloitte.com accessed 17/03/2014, internal audit is responsible for the evaluation and provision of reasonable assurance that risk management control, and governance systems are functioning as intended and will enable the organisation's objective and goals to be met. Other roles of internal audit include reporting risk management issues and internal controls deficiencies identified directly to the audit committee and provide recommendations for improving the organisation's operations in terms of both efficient and effective performance and also evaluate information security and associated risk exposures. (www.deloitte.com accessed 17/03/2014, 1330hrs) IIA Position Statement (August 2003) states that the role of internal audit is to assess the degree to which a robust risk management approach is adopted and applied, as by management across the organisation to reduce risks to a level that is acceptable to the board (the risk appetite).

2.3 Risk

Risk is a set of circumstances that hinder the achievement of objectives. (Griffiths 2006:2) Karagiorgos et al (2010) states that risk is a concept used to express uncertainty about events and or outcomes that could have a material effect on the goals and objectives of the organisation.

2.3.1 Risk management

Risk management covers the identification and mitigation of risks which may prevent an organisation from achieving its objectives. (Karagiorgos et al 2010)

2.4 Development of risk based internal auditing

Internal audit methodologies have evolved over the years as a result of developments in corporate governance, information technology and risk management strategies. The need to manage risks has become a contemporary issue in corporate governance. Organisations have been put under increasing pressure to identify all the business risks they face and to explain how they manage them, (IIA, 2012). The same sentiments were sent by the PWC 2013 State of Internal Audit Profession Study which lamented "internal audit needs to step outside of its

traditional comfort zone and contribute to the organisation in a more meaningful way, or fall into obsolescence as other risk management functions outpace them”.

Internal audit role has shifted from systems based to process based and to risk based auditing, (IIA-UK and Ireland; 2003). Lindow and Race, (2002) also noted that the work of internal auditors has evolved from being control focused to business risk driven. To this end, a professional internal audit activity can best achieve its mission as a cornerstone of the governance process by positioning its work in the context of the organisation’s own risk management framework.

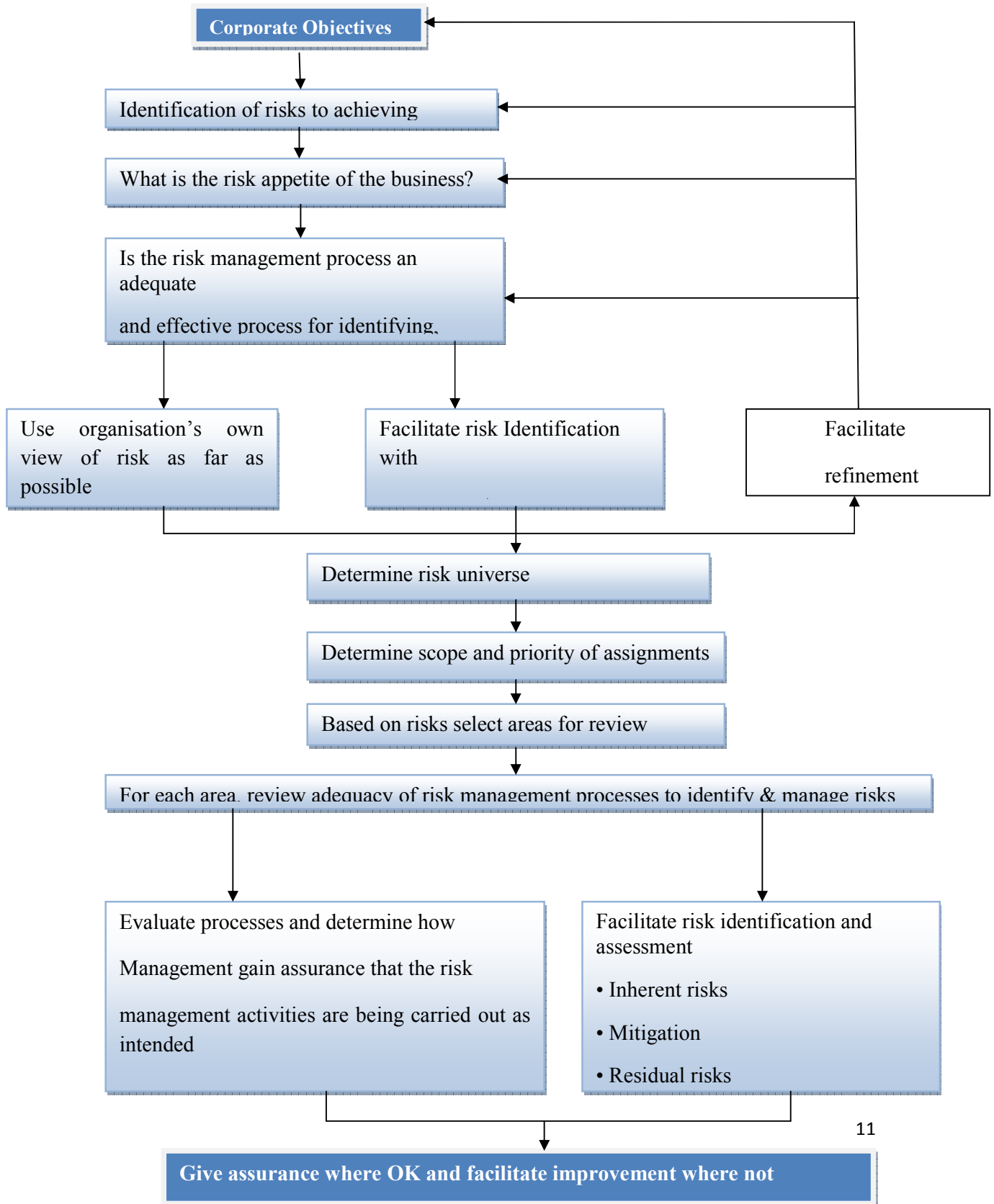
According to Griffiths D (2006), internal auditing has changed from the compliance and review focus, which was its original *raison d’être*. Internal auditors were being tolerated but were deemed not necessary in organisations, (Spira and Page, 2003). Griffiths D, (2006) urged internal auditors to raise the bar and provide much broader assurance and audit issues that really matter. Risk Based Auditing is the latest best practice in the evolution of internal auditing aimed at maximising the impact of audit by focusing on the major strategic, financial and operational risk factors facing an organisation, (Griffiths D, 2006).

2.5 Risk based internal auditing

Institute of Internal Auditors(2013) defined risk based internal auditing as a methodology that links internal auditing to an organisation’s overall risk management framework that allows internal audit to provide assurance to the board that risk management processes are managing risk in relation to the risk appetite. Jeeban (2011) also states that RBIA is an audit approach designed to provide assurance that the business is appropriately mitigating significant risks to the achievement of objectives. Risk based internal auditing focuses on strategic analysis and business process evaluation and assessing the goals, risks and controls that must coalesce for an organisation success cited in Managerial auditing Journal by Castanheira et al (2010). Generally RBIA is aimed at assessing areas of heightened risk (D Griffiths 2006). RBIA is an audit approach based on the basis of the determination of risk status of enterprise, the audit process in accordance with the risk status of enterprise and allocate audit resources accordingly and is aimed at the audit efficiency. (Celayir and Benli 6-8 January 2014)

Fig 1.2

The Risk Based Internal auditing approach is described schematically below: *Source: Institute of Internal Auditors, Position statement (August 2003)*



2.6 Objectives of risk based internal auditing

According to Suward (2006:5) the objectives are to provide independent assurance to the board that:

- Risk management process are operating as intended
- These risk management processes are of sound design
- The responses to risks are both adequate and effective in reducing those risks to level acceptable to the board
- A sound framework of controls is in place to sufficiently mitigate those risks.

2.7 Role and scope of risk based internal auditing

Risk based internal auditing is separated from the other internal audit approaches with its features such as focusing on fields exposed to high risk rather than the financial field and creating much value. It selects the high-risk fields determined by risk assessment as a crucial point and provides time and cost saving in audit. (Celayir and Benli 2014) Kurunakaran (2013) states that risk based internal auditing should incorporate the assessment and evaluation of the effectiveness of the internal control, risk management and governance systems and processes of the entire organisation including its outsourced activities. Furthermore, RBIA has to review the process by which risks are identified and managed in various areas and analyse shifts in revenue streams from business objectives, risks related to those objectives and controls in place to mitigate the risk.

Risk based internal auditing allows internal audit to provide assurance to the board that management processes are managing risks effectively, in relation to the risk appetite. (Chartered Institute of Internal Auditors March 12 2014) RBIA seeks at every stage to reinforce the responsibilities of management and the board for managing risk. The work of internal audit has shifted from control driven to being business risk driven and plays a key role in monitoring the company risk profile and this emerged as an essential contributor to effective risk management.

2.8 Risk based internal auditing versus traditional internal audit approach

Given the significance RBIA, it is crucial to examine and compare it with traditional approaches (Kratchman.,et al, 2008; Blay et al, 2008). According to the Institute of Internal

Auditors, (2012), Risk Based Internal Auditing is at the cutting edge of internal audit practice. As a result, it is a discipline that is rapidly evolving and where there is still little consensus on how best to implement it. It is a more difficult approach to manage than the traditional methodologies. Monitoring progress against an annual plan that is constantly changing is a challenge. According to Service Matters, (2013) article, the traditional 'tick box' auditing approach does not work anymore. Historically, audit findings may not have focused on elevating performance and improving business practices. Griffiths (2006: 37) states that, theoretically there is not much difference between RBIA and 'internal auditing'. However, IIA Standards require that audit plans are based on risk, (Performance Standard 2010) and that internal audit engagements take risk into account, (Standard 2201). Griffiths, (2006: 37) further suggests that in reality, there may be a considerable difference especially if internal audit activity is carrying out compliance audits or those based on audit programmes. Such engagements are usually confined to finance processes and will not cover many of the major risks threatening the objectives of a company. Griffiths, (2006) states that audit programmes should be abandoned. Also the King III Report, (2009) clearly states that the board should ensure that there is an effective risk based internal audit function. Risk Based Internal Auditing is also consistent with the Turnbull Guidance: *Internal Control: Guidance for Directors on the Combined Code* which requires directors to adopt a risk based approach to establishing a sound system of internal control and reviewing its effectiveness.

According to D Griffiths, (2006), proponents of the traditional approach feel that internal auditors still have to fulfill some of their traditional roles. For instance, by concentrating on audits of inherent risks which are above the risk appetite, some audits previously considered essential by senior management may face extinction. This might include areas such as petty cash. To the above issue, Griffiths (2006: 7) responds; "*It is unfortunate that a \$500 fraud will attract more media attention than the failure of a \$2m project.....*" Also, the public sector is bound by certain statutory rules and regulations. Ignoring compliance issues at the expense of strategic risks might be detrimental. However, Risk Based Internal Auditing does not prevent the use of traditional approaches such as the systems based and or the process based as circumstances may dictate, (IIA Position Statement; 2004). Despite these advancements, current auditing procedures have shortcomings. Auditors are still searching for new and more reliable methodologies with faster and more accurate results. (Moradi, et al, 2009).

Table 1.1 illustrates the between difference the traditional internal audit system and risk based internal audit.

Table 1.1 Traditional Internal Auditing Approach vs Risk Based Internal Auditing

Traditional Internal Audit Approach	Risk Based Internal Auditing
Audit plan on the audit cycle (time duration)	Audit plan based on the results of the business units risk evaluation. Risky areas are covered first and more frequently.
Important risks might not be covered in the audit program	Provides assurance that important risks are being managed properly
Focus on deficiencies in controls and cases of no compliance with laws, rules and regulations	Focus on risks that are not properly controlled and/or overly controlled
An understanding of Business Units operations is built through time consuming process mapping exercises and might rely on outdated manuals	In depth understanding of the business unit operations through risk assessment workshops and with the participation of the Business Units
Internal Audit resources are spread over all business units/activities	More efficient use of the Internal Audit resources by concentrating on risky units/areas
Disagreements with the Business Units management on the importance of the finding raised by internal audit	The importance of risk is established during the risk assessment phase and in agreement between the internal audit and Business Unit management
Disagreement with the business unit management over the action plans leading to delays in implementation	Facilitate consensus with line management on the needed action plans thus improving timely and effective implementation of corrective measures

Source: Grant Thornton Risk based internal audit (2011:9-10)

2.9 Enterprise Risk Management Based Internal Auditing

Committee of Sponsoring Organisation (COSO) enterprise risk management framework emphasise the necessity of evaluating the risk as a whole determining the precaution through considering the whole company and putting them into effect.

Also with the aid of manipulations taking place in international internal auditing standards, ERM framework and BASEL II principles, the risk based internal auditing which was accepted globally, together with Sarbanes-Oxley accepted during the period after Enron, finally gained legal ground in the USA. And in Turkey, in the “Regulation on Internal Systems of Banks” published in 2006,

The aim of internal auditing was stated as getting guarantee on effectiveness and efficiency of internal control and risk management (BDDK, 2006) and the fact that internal auditing has the responsibility on risk management was accepted. In respect to establishing risk management system of internal auditing, running effectively, and auditing its effectiveness, in parallel with maturity level of risk management of companies, this approach, which was accepted on the global scale, suggests to have a leading or consulting role. In this respect, it is clear that a candidate country, which is carrying out adaptation meetings with EU and planning to start to apply BASEL II principles in near future, completing internal auditing application to risk management system and thus it will certainly activate in a more stable and effective period in which capital adequacy is determined more truly, scarce sources of companies are saved and used effectively.

2.10 Enterprise Risk Management Based Internal Auditing and Its Stages

Auditing approaches are generally given 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. ERM Based Internal Auditing is a kind of auditing approach based on determining and evaluating, companies’ risk characteristics, designing the auditing process suitable to enterprise risk range in line with risk matrix or risk map and based on the distribution of limited auditing sources to risk evaluation properly and aims

increasing the effectiveness and auditing the effectiveness of risk management system. (Ayvaza and Pehlivanli 2009) The internal auditing unit in this approach runs the services of trust and consulting for the purpose of risk management activities.(Ayvaza and Pehlivanli 2009)

The ERM based internal auditing, manipulated by enterprise risk management principles, and in addition to traditional auditing functions, determines whether the enterprise risk management can manage the risks in general, within the framework of previously established limits of taking risk desire (The Institute of Internal Auditors – UK & Ireland, 2003). After auditing activities, through comparison between the current situation and desired situation determined by risk management process, it is aimed to eliminate the defaults of the risk management system (Sobel, 2005)

2.10.1 The stages of Enterprise Risk Management Based Internal Auditing

As in the form given in explanation guide at the U.K & Ireland Institute of Internal Auditors, the stages of ERM based internal auditing are arranged as evaluating risk quality, planning the auditing in the frame of auditing strategy, creating individual auditing task and reporting the auditing (The Institute of Internal Auditors – UK & Ireland, 2003).Evaluating the risk management quality and risk recording are their direct connection points with risk management process. Also, the risk and auditing atmosphere are supported by the data of risk management system through risk recording. The ERM based internal auditing, shown below consist of following stages (Griffiths 2006; The Institute of Internal Auditors 2005)

Through studying enterprise control environment and enterprise targets which are also the start point of enterprise risk management, understanding the enterprise structure and evaluating the maturity of the risk management which is parallel with enterprise risk management target determining stage and comprising the activities on understanding the enterprise work processes.

- i. Planning of auditing which consists of preparing risk recording, determining the process of required assurance level, preparing auditing plan and getting the opinions of the management and auditing committee about the plan within the frame of auditing strategy.

- ii. Executing the auditing which consists of preparing individual auditing plan parallel with general auditing plan, creating auditing activities in order to reach auditors' opinion.
- iii. Finalizing and reporting the auditing which consists of the stages of making necessary actualities in auditing and risk environment under the control of the management, and finally, moving from the result, completing the auditing activity summary and report to be presented to the management and auditing committee. (Ayvaza and Pehlivanli 2009 :3-4)

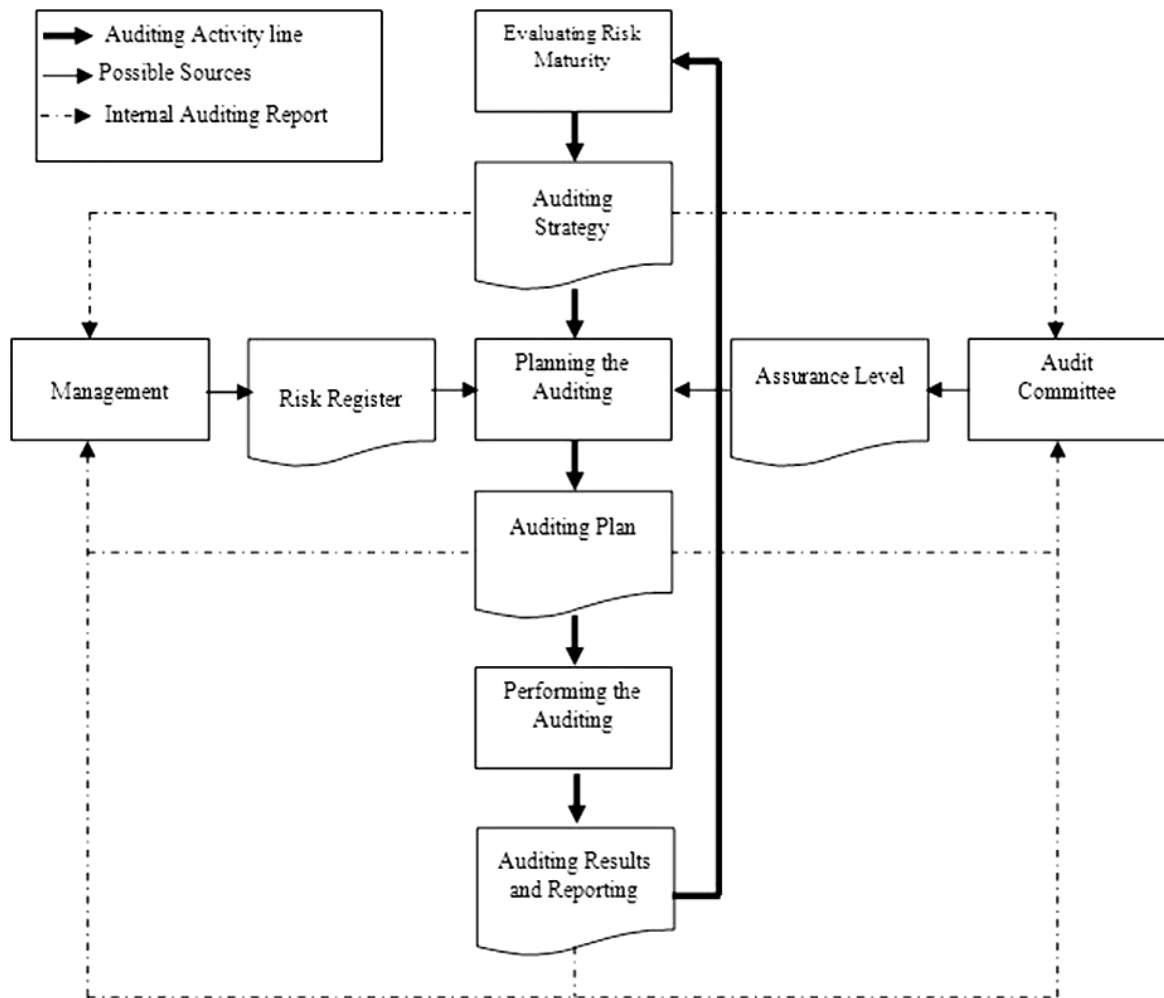


Fig 2.1: The Stage of Enterprise Risk Management Based Internal Auditing
 (Source: The Institute of Internal Auditors - UK and Ireland, *An Approach to Implementing Risk Based Internal Auditing*, Institute of Internal Auditors - UK and Ireland, December 2005.)

Although risk management has aroused scientists' interest for ages, risk based auditing was examined firstly by McNamee in 1997 in his "Risk Based Auditing" (Internal Auditing) named study. In the study, it is stated that when controls are considered at the base of auditing, risk management and auditing should meet at the some point for having the enterprise attain its aim. The process from traditional auditing to risk based auditing was examined, and as a foresight, the risk management based auditing was discussed (McNamee and Georges in 1998).

2.11 Role of internal auditing in enterprise risk management

Enterprise risk management is a structured, consistent and continuous process across the whole organisation for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives. (IIA)

According Institute of Internal Auditors (2004), the core role with regard to enterprise risk management is to provide objective assurance to the board on the effectiveness of an organisation's ERM activities to help ensure key business risks are being managed appropriately and that the system of internal control is operating effectively. The King III report (2009) and the Turnbull Guidance also emphasise the fact that risk management is the board's responsibility and the board responsibility for governance of risk should be set out in a risk management policy and plan. Everyone in an organisation plays role in ensuring a successful ERM but the management's primary responsibility to identify and manage risk. Internal audit should not be involved in any risk management activities that might impair their independence and objectivity. (D Griffiths 2006:10)

The International Standard for the Professional of Internal Audit 2120 states that internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes. However standard 2120.C3 specifically requires that when assisting management in establishing or improving risk management processes, internal auditors should refrain from assuming any management responsibility by actually managing risks.

According to IIA Position Statement(2004), there are also consulting roles that internal audit may undertake for example making available to management tools and techniques used by internal to analyse risks and controls and being a champion for introducing ERM into the

organisation, leveraging its expertise in risk management and control and its overall knowledge of the organisation. The extent of internal auditors' consulting in ERM will depend on other resources, internal or external, available to the board and on the risk maturity of the organisation and it is likely to vary overtime. (IIA Position Paper 2009)

2.11.1 Benefits of ERM

- Greater likelihood of achieving those objectives
- Consolidated reporting of disparate risks at board level
- Improved understanding of the key risks and their wider implications
- Identification and sharing of cross business risks
- Capability to take on greater risk for greater reward

2.12 Contributions of risk based internal auditing

Contribution of RBIA to the business can be grouped into: (Celayir and Benli January 2014)

Strategic benefits

- It helps for easier adaptation to changing conditions by developing a consistent and comprehensive approach for the risk management
- It provides a better understanding and management of the risks

Performance

- It helps increasing the risks of opportunity by reducing negative risks
- It provides the risks to be identified correctly and the existing management and internal control to ensure the best performance.

Aligning the resources

- It creates ability to use resources most efficiently and creates the opportunity to get rid of unnecessary costs
- It eases the alignment between resources

Managing the unexpected

- It creates the ability to give the correct answer to unexpected demands and challenges in the face of deviations from targets
- It eases to understand the risks waiting the business and their actual effects

Disadvantages of risk based internal auditing

- The close relationship with the rest of the organisation may reduce the independence the internal audit function. This can be prevented by making the responsibility of internal auditing clear and by adopting the iron fist in a velvet glove approach
- While the principles are simple, the delivery can be complex
- Existing staff may need training which can be costly
- By concentrating an audits of inherent risks above risk appetite, some audits previously considered important by senior management might disappear

2.13 Implementing risk based internal auditing

According to Lovaas (2009:486) in order for any risk based internal audit framework to be implemented successfully in an organisation, the board of directors and upper management must ensure that the institution has identified all risks for each asset, depending on its criticality level, and falls within the acceptable risk level the board has determined and approved.'

RBIA is a comprehensive approach which can be taken into consideration by the organisation in the internal audit.(IIA 2013) According to Griffiths(2006), in order for risk based audit framework to be implemented successfully in an organisation, the board of directors and management must make certain that the institution has identified all risks.

The implementation and ongoing operation of risk based internal auditing has three stages Griffiths (2006)

Stage 1: assessing risk maturity

This involves obtaining an overview of the extent to which the board and management determine, assess, manage and monitor risks. This offers an indication of the reliability of the risk register for audit planning purposes.

The risk maturity of the organization depends on the following:

- ❖ Risk enabled: risk management and internal control fully embedded into the operations
- ❖ Risk managed: enterprise wide approach to risk management developed and communicated
- ❖ Risk defined: strategies and policies in place and communicated risk appetite defined
- ❖ Risk naïve: no formal approach developed for risk management

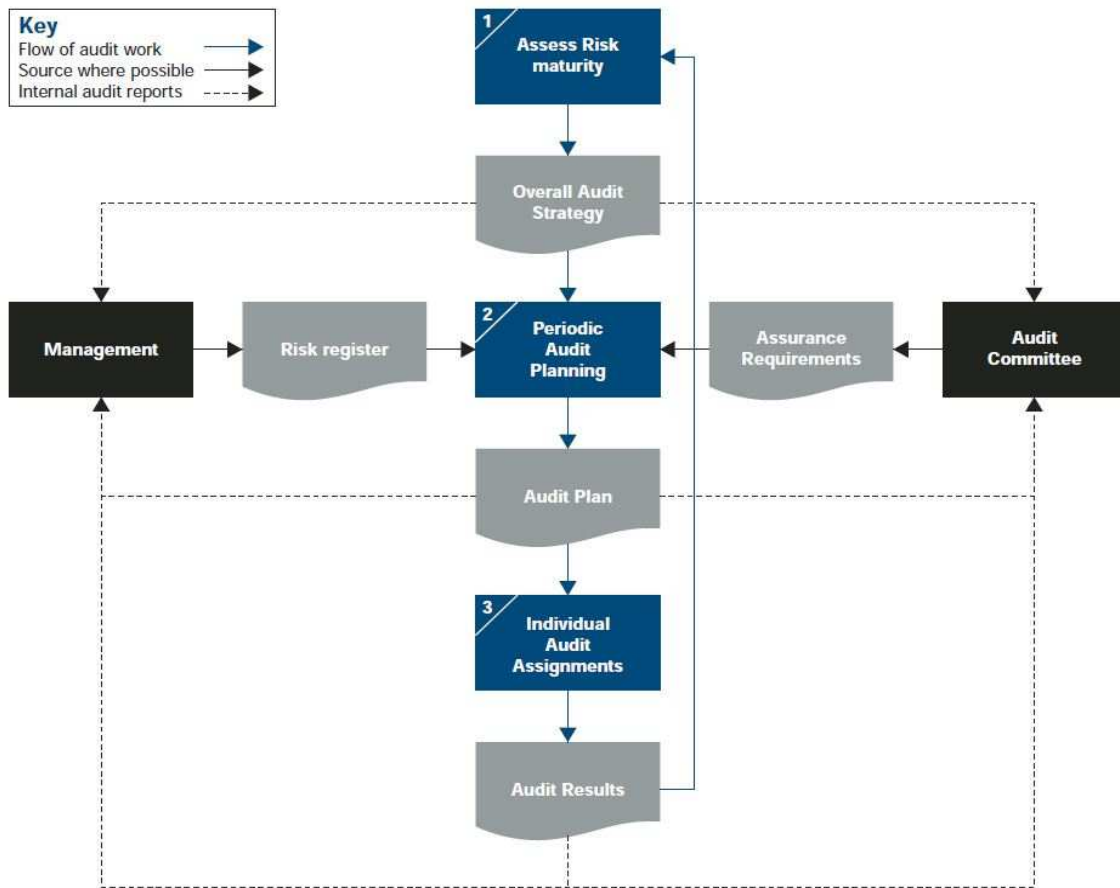
Stage 2: Periodic Audit Planning

It involves identifying the assurance and consulting assignments for a period ,(which is usually a year), by identifying and prioritising all those areas on which management requires objective assurance including the risk management processes, the management of key risks and the recording and reporting of risks.

Stage 3: Individual Audit Assignments

This involves the performance of individual risk based assignments to provide assurance on risk management framework including the mitigation of individual or groups of risks. The aim of this stage is that audit work should be able to provide assurance that management have identified, assessed and responded to risks above the appetite, the responses, especially the system of internal controls treating the risks, are effective in reducing the inherent risks to below the risk appetite and risk management processes are being monitored by management to ensure they continue to operate effectively. (Griffiths 2006:28)

Fig 2.2: RBIA implementation flowchart



Source: www.iaa.org.uk/resources/risk-management/risk-based-internal-auditing accessed 20/03/14 0545hrs

2.13.1 Is the environment permissible for RBIA?

Comprehensive risk based internal auditing depends on a risk management framework being available in an organisation and in particular, on the existence of a complete risk register. (Griffiths 2006:25) Since Crowne Plaza is a risk naive organisation, the prominence must be on internal audit promoting risk management. Internal audit will have to facilitate management’s identification of risk which will involve training, risk workshops, interviews and questionnaires. (Griffiths 2006:25) Audits will therefore take longer time to complete but have the advantage that they will spread an understanding of the risk throughout the hotel.

Therefore the environment of Crowne Plaza is permissible for risk based internal auditing since it has the internal audit function.

2.14 Summary

The chapter explored the literature review on the concept of risk based internal auditing, enterprise risk management, implementation of risk based internal audit, pros and cons of risk based internal auditing. The next chapter will look at the research methodology and research design.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The chapter focuses on the type of research that was used in gathering information for the study. The aspects of the research design and techniques employed are synthesised to bring the purpose for each in the research work. The validity and reliability of the instruments used are also discussed.

3.2 Research design

According to Kumar (2011:94) a research design is a plan, structure and strategy of investigation so conceived as to obtain answers to the research questions or problems. According to www.businessdictionary.com accessed on 27/03/14, 1100hrs, a research design include how data is collected, what instruments employed, how instruments will be used and the intended means for analysing data. Research design expresses both the structure of the research problem and the plan of investigation that was used to obtain empirical evidence on relations of the problem. In order to collect data that will provide answers to the research questions, descriptive design was used and a case study as a supporting design.

3.2.1 Descriptive research design

A descriptive research design focuses on the rational descriptive or experience of significant aspects of experience, purpose or circumstances. The descriptive design helped to obtain information concerning the current status of the phenomena and to describe ‘what exists’ with respect to variables. (Labaree 2013)

Leedey (2006) defined descriptive research as a design used when one is collecting data through the benefit of questionnaires and interviews. The research design is suitable because it involves interviews and questionnaires which the researcher used as instrument for collecting data from the target respondents. Leedey (2006) also stresses that descriptive

design is more realistic in the sense that it acknowledges whatever is observed at any given time, can be observed again elsewhere under similar conditions. The main advantage of using descriptive research is it uses both quantitative and qualitative data in order to find the solution to the problem statement.

3.2.2 Case study

Yin (2012) defined the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used. The case study was used for descriptive purposes. Case studies are most appropriately used to answer how and why questions. Case studies often provide an opportunity for the intensive analysis of many specific details often overlooked by other methods.

The case study provided a great amount of description and detail and it provided in depth information and intimate details about the problem statement in study. However the case study, the case study tend to only have one researcher collecting the data, this can lead to bias in data collection, which can influence results more than in different designs.

The research design chosen is the descriptive as it is outlined by Saunders, Lewis and Thornhill (2009:74) it can create greater opportunity for the research to retain control process and which is cost effective.

3.3 Population, sample and sampling techniques

3.3.1 Target population

According to Nestfall (2004) population refers to the entire group of targeted people, events or things of interest that the researcher wishes to investigate. Target population is the total collection of elements on which one wishes to make some inferences (Cooper and Schindler 2001:75). This refers to a division of the general population from which a sample was drawn.

In this research the target population will be in following departments: Finance, Management and Internal Audit.

Table 3.1 Crowne Plaza population and sample size

Target	Population	Sample	Sample size
Top Managers	6	5	83%
Managers	5	4	80%
Head of internal audit	1	1	100%
Internal auditors	6	5	83%
Financial controllers	2	2	100%
Other accounts employees	4	3	75%
Total	24	20	83%

3.3.2 Sampling

Rick Yount (2006:7-1) mentioned that sampling is the process of selecting a small portion of the total population where the portions are taken to be true representative of the actual population. Saunders et al (2009:156) stated sampling entails consideration of a variety of methods that aim to condense the amount of data collected from population. Samples are sub groups representing the whole population data. The main objective of sampling is not to make statements about the sample but rather to draw conclusions about the population

3.3.2.1 Sample Frame

According to Saunders et al (2009:214) a sampling frame represents all the population where the sample can be drawn. The sampling frame will consists of five top managers, four managers, six internal auditors, two financial controllers and three employees.

3.3.2.2 Sampling techniques

These are methods in the selection of the sampling that will be utilised so as to justify the results of the research. Saunders, Lewis and Thornhill (2009:54) defined sampling techniques as 'dividing the population into a series of relevant strata means that the sample is more likely to be representative.'

The research used probability sampling technique on all population to ensure that each unit of the population has equal chance of being selected. This was done so as to minimise chances of errors and bias and to make sure that the samples are a true representatives of the target population. The sampling was done using stratified random sampling method.

3.3.2.3 Stratified random sampling

Stratified random sampling is a technique which attempts to restrict the possible samples those which are less extreme by ensuring that all parts of the population are represented in the sample in order to increase efficiency.(Teddlie and Fen Yu 2007:79) stratified random sampling encourages the representation of all groups that make up the population therefore providing data that is all perspectives giving more clarity to the topic under study. This method carries a disadvantage that if the strata is not carefully picked it leads to one sided views coming out of the research nullifying the representation of all groups in the population.

3.3.2.4 Justification of the method

The implementation of this method helped in the reduction of bias on the side of the research for the researcher carries no privileges over the variables that are used. The technique was chosen for it allows for the presentation of the key subgroup that is targeted for the research.

The method has a fairly lower degree of bias since it takes into account significant strata levels of population considered important to the investigation. There is also better comparisons and hence representation across strata. (Saunders, Lewis and Thornhill 2009:224)

3.3.3 Sources of data

According to Kumar (2011), there are two common sources of data which are primary and secondary data. The research used all the sources so as to obtain a deep understanding of the concepts under study and produce quality result.

3.3.3.1 Primary data

According to Burns and Bush (2003), primary data is gathered by the researcher expressly to solve the problem at hand at the particular time. Primary data is data collected for a specific purpose at hand (Kothari 2004). Primary data is data that has not subjected to any processing or manipulation. It is more accommodative because it shows the latest information at hand and it also addresses specific research issues as the researcher controls the research design to fit their needs. Primary data is raw, uncontaminated, recorded as part of the original study and has not been previously published as it is direct from the field. It will be collected from management, clients and employee through interviews and questionnaires. Primary data is of much significant because it allows personal interaction with the problem. It is also very reliable as information is first hand information.

3.3.3.2 Secondary data

According to Brymanan et al (2003), secondary data refers to a viable alternative of data which provides comparative and contextual information that can result in other discoveries. In other word secondary data is the data that has been collected before or at an earlier data for a specific purpose. It is the data that will have been collected by someone before researcher for some other purpose other than that of the research at hand. (Burns and Bush 2003)

Secondary data is easy to obtain because it is readily available since it has been used before. It is important to the researcher because it gives insight of what others think of the problem understudy. It is cheap since the researcher will simply go through company records, literature etc. It saves time and financial resources because of using readily available

resources. The secondary data will be obtained from journals online, internet and partly on textbooks. However there are also some disadvantages of secondary data. Secondary data may be collected for the purpose that does not match the need of the research, no real control over data quality and aggregation and definition may be unsuitable. (Saunders, Lewis and Thornhill 2009:269-272)

3.3.4.1 Research instruments

These are tools or methods used to collect data that is relevant and applicable to accomplish the research objectives. The major research instruments used are the questionnaires and interviews.

3.3.4.2 Questionnaires

After the researcher had established the information to be sourced from the sample, the questionnaire was selected as the main instrument for the data collection. The researcher's questionnaire comprised of structured questions and closed and open-ended questions. The closed type questions were used to facilitate easiness to complete and analyze the data collected. On the other hand, open-ended questions were used and they have the merit of adequately revealing more information, and facilitated content analysis, thus providing a greater depth of responses.

Various advantages can be highlighted to strengthen and justify why the researcher have used the questionnaire as an instrument of data gathering.

3.3.4.3 Justification of using questionnaires

Questionnaire are more accurate as they give the respondent time and chance to answer freely without any pressure. They are user friendly and easy to administer. The questionnaire provides strategic forward responses because they are designed carefully hence relevant information was obtained. Respondents are willing to express themselves in private without pressure and the guarantee of confidentiality will make respondents more willing to express themselves. They is consistency in the results as the questions are structured more carefully and they guideline on how to respond.

3.3.4.3 Interviews

Personal interviews were used in the study. A personal interview is a two-way conversation initiated by an interviewer to obtain information from a participant. The differences in the roles of the interviewer and participant are pronounced. They are generally strangers and the interviewer generally controls the topics and patterns of discussion. The greatest value lies in the depth of information and detail that can be secured. It far exceeds the information secured from telephone and self-administered studies via intercepts and surveys. The interviewer can also do more things to improve the quality of information than with another method. Interviewers can note conditions of the interview, probe with additional questions and gather supplemental information through observation. Interviewers also have more control than with other kinds of techniques. Interviewers can also adjust the language of the interview as they observe the problems and effects the interview is having on the participant. An interviewer can explain what kind of answer is sought, how complete it should be, and in what terms it should be expressed (Cooper & Schindler, 2003:323, 333).

3.3.4.3 Justification of interviews

Interview offered flexibility that is in the interviews there was freedom of repeating or rephrasing questions to make sure that they are understood. Its flexibility made the interviews a far superior technique for the exploration of areas, where there was little basis for knowing either what questions to ask or how to formulate them. An interview offered a better opportunity than the questionnaire to appraise the validity of information given.

3.3.5.1 Validity and reliability of research instruments

3.3.5.2 Validity

According to Kumar (2011), an instrument is valid when it measures what it meant to measure. It ensures that data collected is free from error and bias. In the research all the information was crosschecked to access its validity.

3.3.5.3 Reliability

The extent to which the observable measure represents a theoretical concept that is predictable, accurate and stable. (Kumar 2011) The greater the degree of consistence of the results from the instrument, the greater the reliability

3.4 Pilot testing

In order to validate the questionnaire, the researcher carried out pilot test. Preliminary analysis was carried out before the actual sending of questionnaires. This was done so as to establish clarity, validity and reliability of the instrument employed. The pilot study helped to reveal the misconceptions of the respondents and the need to rephrase some of the questions for clarity and relevance.

A set of questionnaire were given to some selected professional and fellow students for recommendations and changes to some questions which would be confidential and that cannot be answered in the field. The results of the pilot test were as follows:

Table 3.2 Results of pilot testing

Sample	Total number of questions	Number of questions approved
Professional 1	12	11
Professional 2	12	10
Fellow student 1	12	12
Fellow student 2	12	12
Fellow student 3	12	11
Fellow student 4	12	12

3.5 Data analysis

Data analysis is the process of systematically applying statistical and or logical techniques and illustrates, condense and recap and evaluate data. www.ori.hhs.gov/education/products/ (28/03/14 1405hrs) The data shall be presented in various forms and this include bar charts, pies charts, graphs and tables. Conclusions of the overall research study shall be based on the analysis of the data.

3.6 Summary

The chapter has dealt with research methods and techniques use in coming up with the target population and sampling techniques used in data collection have been highlighted also. The merits and demerits of techniques used for gathering data were discussed in this chapter as well as the justification for the methods used. The following chapter will look at the actual presentation, analysis and interpretation of the data collected.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The focus of this chapter is data presentation, analysis and discussion of the findings obtained from field research which was carried out at Crowne Plaza Monomotapa Hotel. Data was presented and analysed using tables, bar graphs and pie charts.

4.2 Response rate

A total of 20 questionnaires were distributed to Crowne Plaza Monomotapa , the questionnaires were distributed as follows, management nine, internal audit six, financial controllers two and accounts staff three.

Table 4.1 shows Response rate of the targeted population of the research

Respondents	Questionnaire issued	Questionnaire answered	Response rate
Management	9	7	78%
Internal audit	6	4	67%
Financial controllers	2	2	100%
Accounts staff	3	3	100%
TOTAL	20	16	80%

Of the questionnaire distributed to Crowne Plaza, the management answered 7 questionnaires and the response rate was 78%, the internal audit answered 4 and the response rate was 67%, financial controllers answered 2 and the response rate 100% and finally the other accounts staff answered 3 and response rate was 100%. The table 4.1 above shows 20 questionnaires which were distributed and 16 were answered and the overall response rate was fairly good since more than 50% of the targeted population participated in the field research. Witlatch (2000) argues that in general a response rate of 70% to 80% is considered good.

4.2.1 Research findings

Table 4.2 Position held by the respondents

Position	Respondent	Percentage
Internal auditors	2	12.5%
Group risk and audit manager	1	6.25%
Senior internal auditor	1	6.25%
Financial controllers	2	12.5%
General manager	1	6.25%
Front office manager	2	12.5%
Food and beverage manager	2	12.5%
Housekeeping manager	2	12.5%
Facilities manager	1	6.25%
Accountant	1	6.25%
Revenue controller	1	6.25%
Total	16	100%

The questionnaires were administered to the managers, financial controllers, internal audit and accounts staffs as the researcher deemed those were the areas of high risk in the organisation.

4.2.2 Work experience

Table 4.3 Respondents work experience

Work experience	Under 1year	1-5 years	5-10 years	Over10 years	Total
Responses	1	4	7	4	16
Percentages	6.25%	25%	43.75%	25%	100%

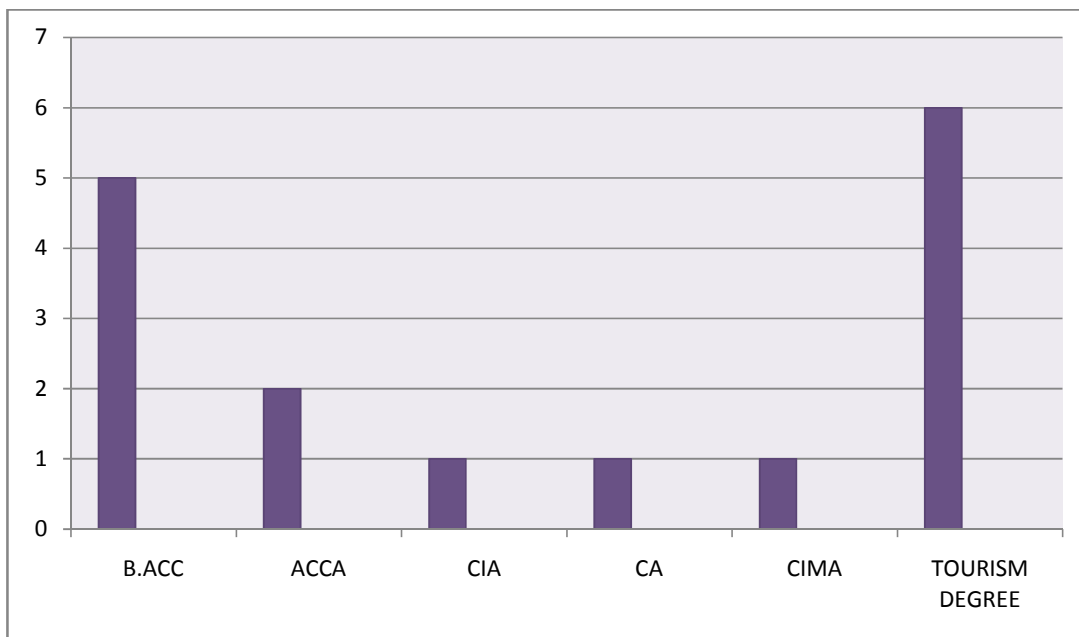
Of the 16 questionnaires answered from positions held as illustrated above , 6.255% (1/16) had under 1 year of experience, 25% (4/16) had 1- 5 years, 25% (4/16) had over 10 years and 43.75% (7/16) had 5-10 years of experience. The respondents had enough work experience to provide information for the research.

4.2.3 Qualifications of the respondents

Table 4.4 showing the qualifications of the respondents

Education level	B.ACC	ACCA	CIA	CA	CIMA	TOURISM DEGREE	Total
Respondents	5	2	1	1	1	6	16
Response %	31.25	12.5	6.25	6.25	6.25	37.5	100

Fig 4.1 Qualifications held by respondents



The fig 4.1 shows 5/16(31.5%) B.ACC, 2/16 (12.5%) ACCA, 1/16 (6.25%) CIA, 1/16 (6.25%) CA, 1/16 (6.25%) CIMA, and 6/16 (37.5%) Tourism degree. On the whole 100% of

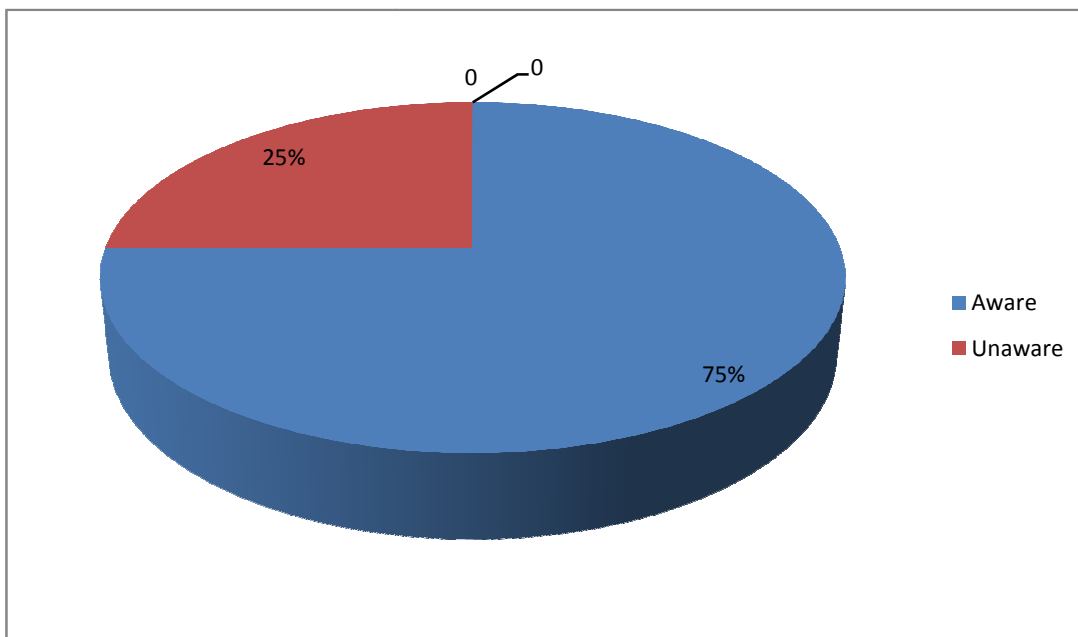
the respondents were qualified. This shows that the respondents were able to understand and answer question being asked.

4.3 Questionnaires

Question 4: Awareness of risk management framework

The managers, financial controllers, internal auditors and the other accounts employees were asked if they were aware of risk management framework.

Fig 4.2 shows the extent to which the respondents are aware of the risk management framework.



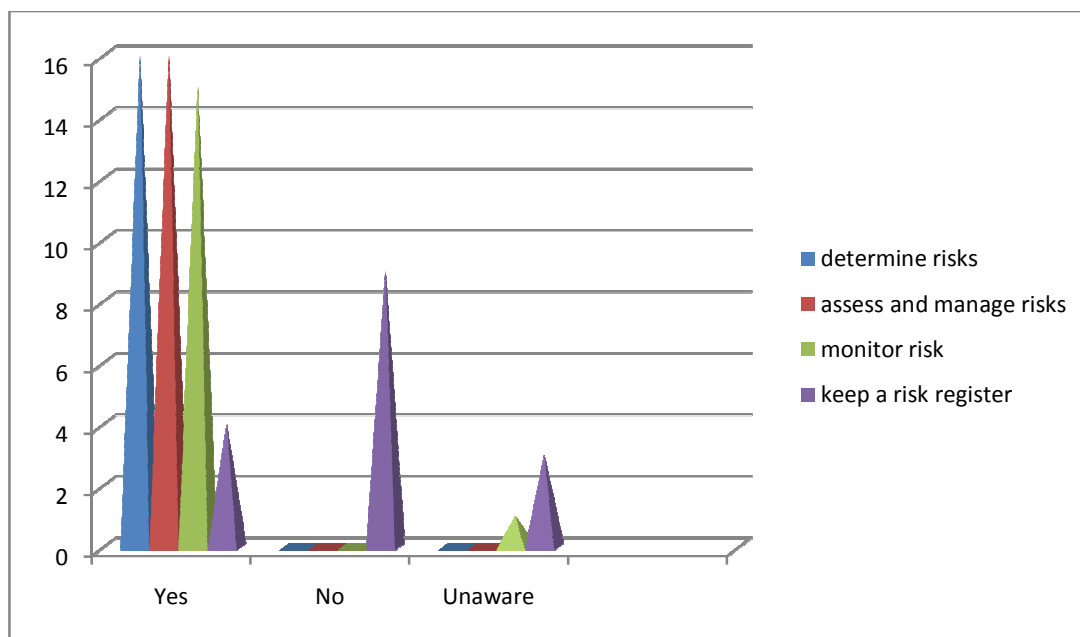
Of the 16 respondents at Crowne Plaza, 12 of them were aware of the risk management framework hence representing a level of awareness of 75% whilst 4 respondents with a percentage of 25% were not aware of the risk management framework.

Question 5: Functions performed by the management

Table 4.5 shows the functions performed by the management

Duties of management	Number of responses			Total
	Yes	No	Unaware	
Determine risks	16	-	-	16
Assess and manage risk	16	-	-	16
Monitor risk	15	-	1	16
Keep a risk register	4	9	3	16

Fig 4.3 shows the functions performed by the management



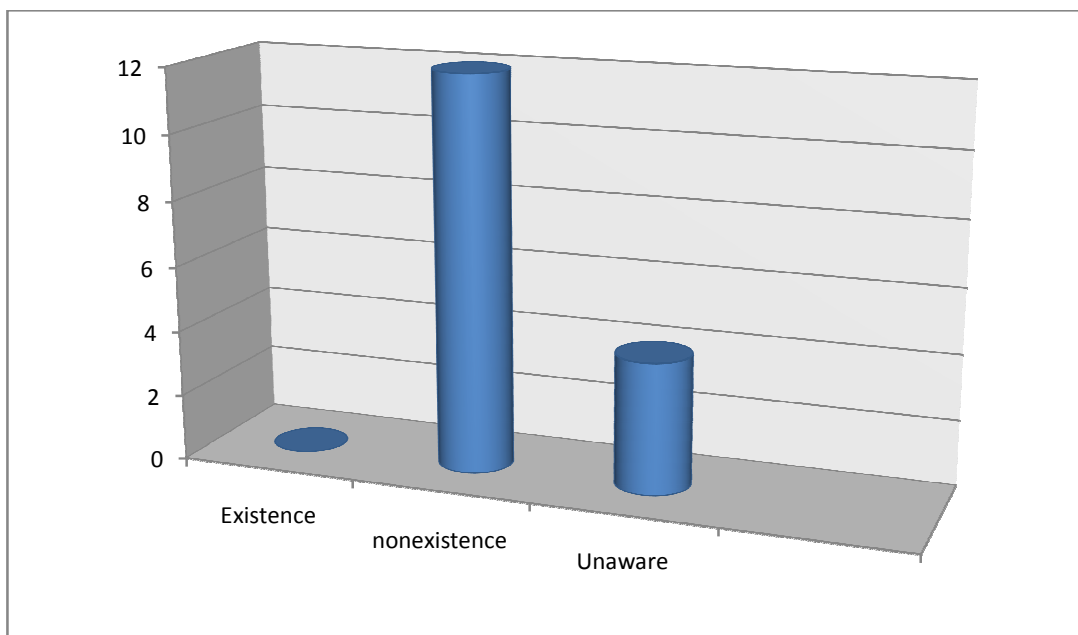
The respondents confirmed the duties performed by management in their role of determining, assessing and managing risks and monitoring risks though only 1(6.25%) respondent was not aware if the management monitors risks. 4 (25%) respondents answered that they keep a risk register, 8 (50%) highlighted that the managers do not keep a risk register whilst 4 (25%) of them were unaware of whether they kept or not. These roles are also supported by Griffiths (2006:10) who said that management is responsible for determining internal and external risks.

Question 6: Existence of risk management framework

Table 4.6 shows the existence of risk management framework

	Yes	No	Unaware	Total
Respondents	-	12	4	16
Percentage response received	-	75%	25%	100%

Fig 4.4 shows the existence of risk management framework



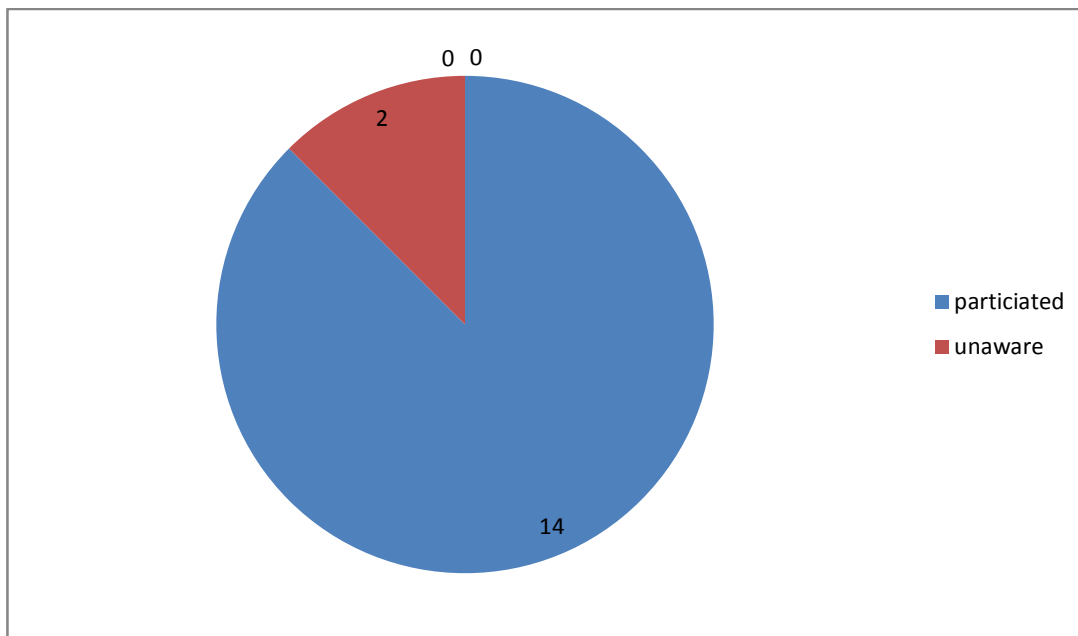
The 75% respondents highlighted that there was no risk management framework in place at the hotel whilst 25% were not aware of whether it existed or not. As part of the respondents the management only explained that the risk are identified, assessed, managed and monitored but no formal procedure and no register was kept therefore it indicates that the hotel is risk naïve. When an organisation is risk naïve , it means no formal approach developed for risk management.(Griffiths 2006:17) The auditors went on to say that there is no risk management framework but they manage their risks through the audit committee and risk meetings where mitigatory measures risk is analysed and put in place.

Question 7: The participation of respondents in risk management

Table 4.7 shows the participation of the respondents in risk management

Responses	Number	Total	Percentages
Yes	14	16	87.5%
No	-	16	0%
Unaware	2	16	12.5%
Total	16	16	100%

Fig 4.5 shows the participation of the respondents in risk management



The majority of the respondents that is 14 (87.5%) shows that they participated in the risk management and only 2 (12.5%) were unaware of risk management participation. The management confirmed that, even if they participated in risk management it was not formal. Since the participation was informal, the management have little knowledge on risk management.

Question 8: Does the company have an internal audit department?

All the respondents confirmed the company has an internal audit department and only two of the respondents confirmed that it is at group level not as a unit.

Question 9: Expectations regarding the role of internal audit

Table 4.8 shows the expectations regarding the role of internal audit

Role of internal auditors	Number of responses	Total	Percentage
Risk management	7	16	44%
Internal control systems	15	16	94%
Corporate governance	2	16	12.5%
Fraud detectors	4	16	25%

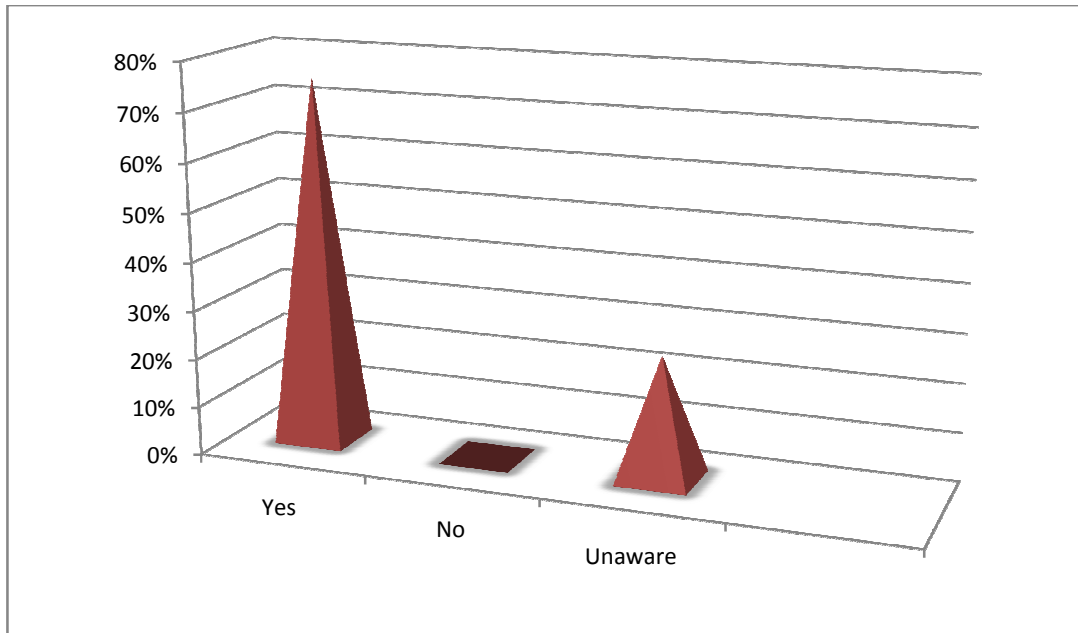
44% of the respondents show that the internal auditors are expected to perform risk management but according to Griffiths D (2006:10) says that the management is responsible for risk management and not the internal audit. 94% of the responses shows that the internal auditors are responsible for internal control systems, 12.5% for corporate governance and 25% of the respondents confirmed that internal audit is fraud detectors. Therefore the internal audit work is consultancy.

Question10: Does the internal audit promote the establishment of risk management framework

Table 4.9 shows the responses that internal audit promote establishment of risk management

Responses	Number	Total	Percentages
Yes	12	16	75%
No	-	16	0%
Unaware	4	16	25%
Total	16	16	100%

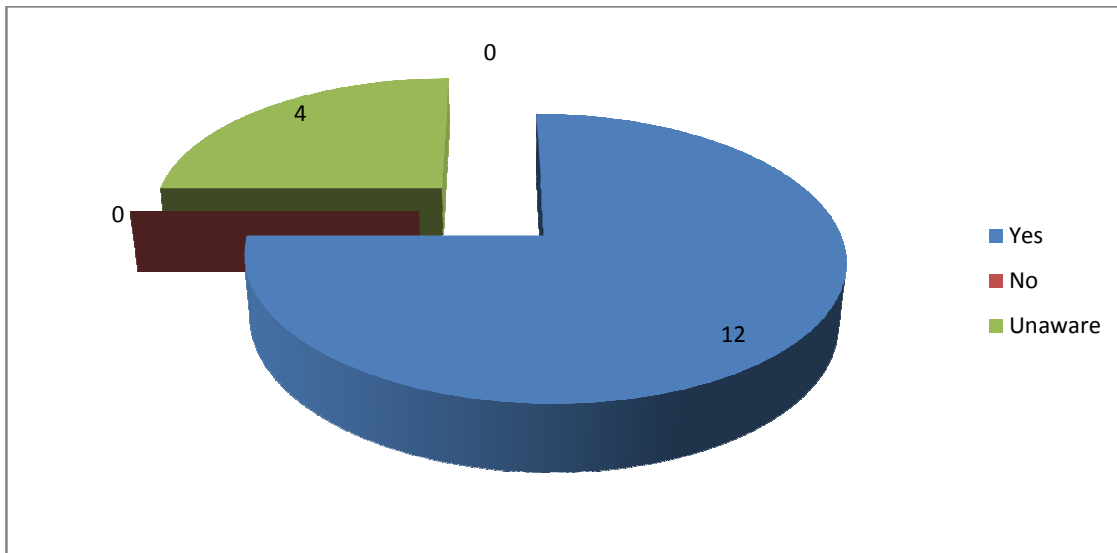
Fig 4.6 shows the responses that internal audit promote establishment of risk management framework.



75% of the respondents show that the internal audit promotes the establishment of risk management framework whilst 25% shows that the other respondents were unaware. The internal audit give assurance in risk management (Griffiths 2006) therefore it promotes the establishment of risk management.

Question 11: Awareness of risk based internal auditing

Fig 4.7 shows the awareness of risk based internal auditing



Of the 16 respondents, 12 of them were aware of risk based internal auditing though some have a little knowledge about it whilst 4 respondents were unaware of risk based internal auditing. The respondents seem to have a little knowledge on what is RBIA and Institute of Internal Auditors (2013) defined RBIA as a methodology that links internal auditing to an organisation’s overall risk management framework that allows internal audit to provide insurance to the board that risk management processes are managing risk in relation to the risk appetite.

Question 12: Functions of internal auditors

Table 4.10 shows the functions of the internal auditors

Functions of internal audit	Number of responses			Total
	Yes	No	Unaware	
Internal control systems	16	-	-	16
Risk management procedures	10	6		16

16 respondents confirmed that the internal auditors have a duty of internal control systems. Concerning risk management procedures, 10 respondents answered that the internal auditors are responsible for risk management procedures whilst 6 respondents said it is not their duty. Griffiths (2006) says it is the role of internal auditors to check internal control systems of an organisation and this is a consultancy work.

Question 13: How would you rate the resources capacity of the internal audit?

Table 4.11 shows the resource capacity of the internal audit

Resource capacity	Number of responses			Total
	Adequately	not adequate	unaware	
Staff	8	4	4	16
Response %	50%	25%	25%	100%
Computer :office equipment	6	8	2	16
Response %	37.5%	50%	12.5%	100%

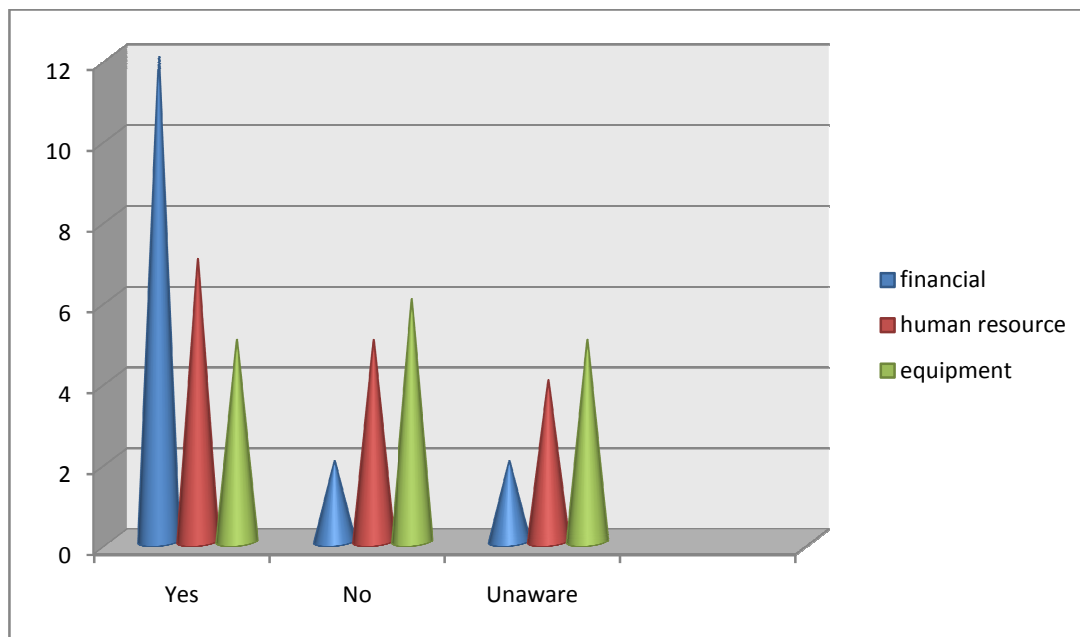
50% of the respondents show that the internal audit staff is adequate, 25% shows that the internal staff is not adequate whilst 25% shows that the respondents were unaware if the staff is adequate or not adequate for the internal audit. 37.5% shows that the office equipment is adequate for internal audit, 50% shows that the equipment is not adequate and also 12.5% shows that the respondents were unaware if the equipment in the internal audit is adequate or not. This also answers the interview question that there is adequate staff to implement RBIA though it is limited.

Question 14 resources to implement risk based internal auditing

Table 4.12 shows the responses resources to implement risk based internal auditing

Resources	Number of responses			Total
	Yes	No	Unaware	
Financial	12	2	2	16
Human resource	7	5	4	16
Equipment (hardware and software)	5	6	5	16

Fig 4.8 shows the responses on the resources to implement RBIA



12 respondents show that the organisation can be able to implement RBIA in terms of financial resources, 2 respondents suggested that the organisation cannot implement and 2 respondents were unaware. In terms of human resource, 7 respondents show that the organisation can implement RBIA, 5 respondents show that there is no human resource in the implementation of RBIA and 4 respondents were not aware if there RBIA can be implemented. Of the 16 respondents, 5 confirmed that the organisation have equipment to implement RBIA, 6 confirmed that the equipment are not enough to implement RBIA and 5

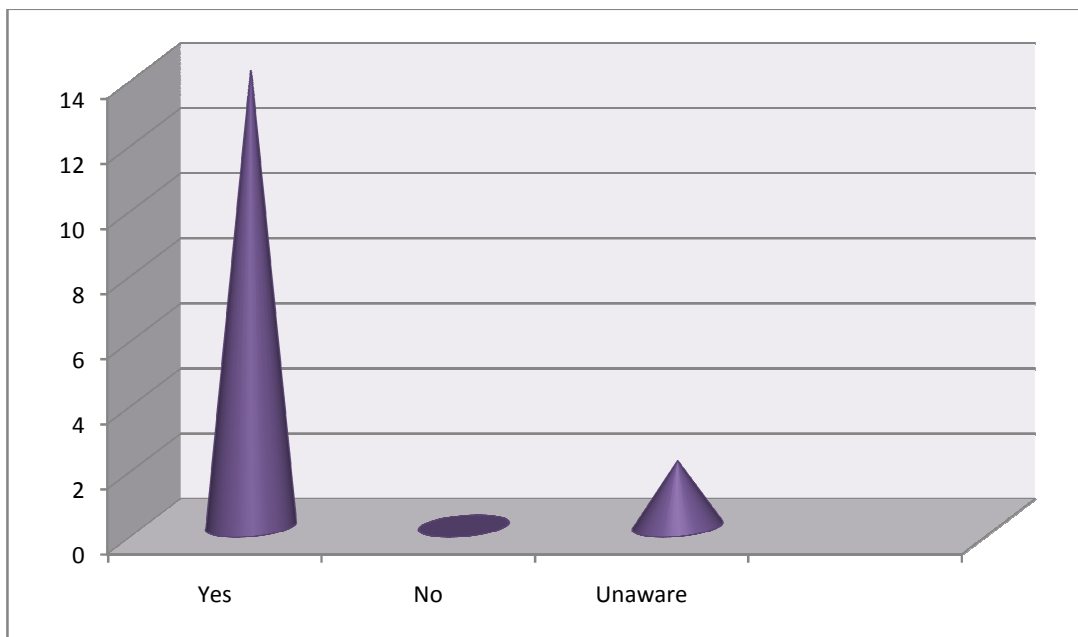
were not aware if there is equipment to implement RBIA. On average it is possible for the organisation to implement risk based internal auditing.

Question 15: risk based internal auditing is the best practice to mitigate risk

Table 4.13 shows the extent to which RBIA is the best practice to mitigate risks

Responses	Yes	No	Unaware	Total
Respondents	14	-	2	16
Percentage %	87.5%	-	12.5%	100

Fig 4.9 shows the extent to which RBIA is the best practice to mitigate risk



14 (87.5%) of the respondents confirmed that risk based internal auditing is the best practice to mitigate risks whilst 2 (12.5%) were unaware. This can be concluded that RBIA is the best practice to mitigate risks. Griffiths (2006:53) supported RBIA as the best practice to mitigate risk.

4.4 Interview response rate analysis

4.4.1 Responses on interviews

The researcher carried out interviews with respondents. Table 4.3 shows the responses on interviews in gathering data.

Table 4.14 Interview response rate

Respondents	Number	Percentage
Head of Internal Audit	1	25%
General Manager	0	0%
Financial controller	1	25%
Senior auditor	1	25%
Total	3	75%

The results on the table above shows that the researcher managed to conduct 3 interviews with the head of internal audit, financial controller and senior auditor and the response rate was 75%. Before the interview was conducted, the interviewees were made to know what was being researched by the researcher.

4.3 Interview questions

Question one: *What do you understand by risk management?*

The interviewees understood risk management as the identification and mitigation of risks which may prevent the hotel from achieving its goals. Also Karagiorgos et al (2010) in literature support that. The interviewees gave the same thought on this question.

Question Two: *Who are responsible for managing risk between management and internal auditors?*

The interviewees responded that internal auditors are responsible for managing risk in the hotel. Kapur (2005:18) supports internal audit team to manage risk but according to

Griffiths (2006:10) management is responsible for determining internal and external risks. Risks should be identified and managed by managers for the organisation.

Question Three: *What do you understand by risk based internal auditing?*

The interviewees understood that it is an auditing technique that determines and mitigate risks in high risk areas and is the responsibility of internal audit team. However Jeeban (2011) in literature support that as he defined RBIA as an approach designed to provide assurance that the business is appropriately mitigating significant risks to the achievement of the objectives. This brings in the evidence of lack of understanding on RBIA.

Question Four: *Is it possible for your company to implement risk based internal auditing?*

The interviewees answered that it is possible for the organisation to implement the RBIA though it does not have a risk management framework but considering that they have an internal audit they will be able to implement.

Question Five: *What are the major risks areas in the organization?*

The interviewees felt that the hotel is being crippled with credit risk and market risk and these are the major risks areas. The market risk encompasses the foreign exchange and price risk and the credit risk is arising from credit exposure to hotel customers including outstanding receivables which are causing an increase in bad debts.

4.5 Summary

This chapter focused on data presentation, interpretation and discussion of the research findings. It also gave a brief analysis of the responses of the respondents. The next chapter reviews the summary, conclusions and recommendations of the study.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summaries the research and presents major findings and draws up recommendations and conclusion of the research.

5.2 Summary of chapters

Chapter one covered the background of the study, the statement of the problem, research questions, research objectives, significance of the study and also limitations of the study. Delimitation of the study, assumptions and definitions of terms was also looked at in this chapter.

Chapter two focused on the related literature review on the applicability of risk based internal auditing at Crowne Plaza Monomotapa Hotel. Literature by authors was used to analyse the applicability of RBIA. The literature review gave a clear internal auditing overview, he role of internal audit , development of RBIA, a clear definition of RBIA, comparing RBIA and traditional internal audit approach, enterprise risk management base internal audit, merits and demerits of RBIA, implementation of risk based internal auditing and how the environmental at Crowne Plaza is permissible of RBIA. Theoretical and empirical literature reviews were the main focus on this chapter.

Chapter three dealt with research methods and techniques used in coming up with the target population and sampling techniques used in data collection have been highlighted also. The targeted population was the finance, management and internal audit. Questionnaires and interviews were used as the research instruments and a sample size of 20 persons was used.

Chapter four presented and analysed the data obtained from questionnaires and interviews conducted by the researcher. The response rate of the questionnaires was 80% and the interview response rate was 75%. It also gave a brief analysis of the responses of the respondents. The data was presented using tables, graphs and pie charts.

5.3 Summary of research findings

- The management was aware of risk based internal auditing but have a little understanding of this audit approach
- The internal audit was aware of risk based internal auditing
- The management have no risk management framework
- The management participated in the risk management though they participation was not formal
- The management determines risks, assess and manage risks and monitor but they do not keep a risk register.
- The hotel have resources to implement risk based internal auditing but the equipment (hardware and software) is limited
- The research reviewed there was adequate personnel for the implementation of risk based internal auditing
- Risk based internal auditing is the best practice to mitigate risks in the hotel
- The risk based internal audit approach is applicable in the hotel since the hotel have an audit department but there is need for a risk management framework

5.3 Conclusion to the research

The research was a success as this can be supported by the results from the findings. The results clearly show risk based internal audit cannot be applied in the hotel since the management do not have a risk management framework but as they have an internal audit the hotel can apply risk driven audit. Moreover, the hotel management do not keep a risk register and this make it impossible for the RBIA approach to be applied.

5.4 Recommendations

- ❖ The board to devise a strategy that will establish a risk management framework.(formal approach of mitigating risks)
- ❖ To implement risk driven audits will be possible since there is no formal approach of mitigating risks but the internal audit should not determine risk without management involvement nor maintain their own list of risks (Griffiths 2006)
- ❖ The hotel should facilitate RBIA training to all the management and internal auditors for them to gain knowledge on how the approach can be implemented and be used in the organisation
- ❖ The management should keep a risk register (risk profile) that will enable them to mitigate them since they will be documented. Griffiths (2006) supports this.
- ❖ Should establish a formal participation for risk management
- ❖ The hotel should facilitate risk workshops. Workshops helps the management and the staff to understand all about risk management
- ❖ The hotel should increase the equipment for the resources to be adequate for the implementation of RBIA

5.5 Areas of further research

The research did not explore all the areas of risk based internal auditing. The researcher proposes future research on how other organisations in the same line of business are managing the use of RBIA approach in auditing.

5.6 Summary

The chapter covered the chapter summaries, major findings, conclusion, recommendations and suggested areas of further study.

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APPENDIX I

COVER LETTER

Midlands State
University
Established 2000



MIDLANDS STATE UNIVERSITY
PRIVATE BAG 9055
GWERU

10 April 2014

Dear Sir/Madam

RE: Research on the Applicability of Risk Based Internal Auditing in Crowne Plaza Monomotapa

I am a final year student at Midlands State University studying for a Bachelor of Commerce Accounting Honors Degree. I am doing a research project on the Applicability of Risk Based Internal Auditing in Crowne Plaza Monomotapa Hotel. To make the research a success, I kindly request you to respond to my questionnaire. The data will solely be used for academic purposes and a high level of confidentiality shall be maintained over the data.

Your contribution to this research is greatly appreciated.

Yours Sincerely

Primerose R Marufu

Reg No: R102953A

Cell No: 0775930334

APPENDIX II



Questionnaire

This questionnaire has been administered by Primerose Rosemary Marufu a student from the Midlands State University. The student needs to analyse the applicability of risk based internal auditing within the organization. The information obtained will strictly be used for academic purposes and high level of confidentiality shall be maintained over the data. Your cooperation is highly appreciated.

Instructions

- 1. Do not write your name on the questionnaire
- 2. Show response by ticking the respective answer box where applicable and or filling in the spaces provided.
- 3. If not certain of your response omit the question.

PART A

- 1. Position.....
- 2. Work Experience
 - a) Below 1yr b) 1-5yrs c)5-10yrs d) over 10yrs
- 3. Qualifications
 - B.ACC ACCA CIA CA
 - Other
specify.....

PART B

4. Are you aware of the risk management framework?

Yes No Unaware

5. Are the following functions performed by the management?

Determine risk Yes No Unaware

Assess and manage the risks Yes No Unaware

Monitor risks Yes No Unaware

Keep a risk register Yes No Unaware

6. Does the management have a risk management framework?

Yes No Unaware

If no explain how you manage the risk

.....
.....
.....

7. Do you participate in risk management? Yes No Unaware

8. Does your company have an internal auditing department?

Yes No Unaware

9. What are your expectations regarding the role of internal audit?

Risk Management Corporate Governance

Internal Control Systems Fraud Detectors

10. Does the internal audit promote the establishment of risk management framework?

Yes No Unaware

11. Are you aware of risk based internal auditing?

Yes No Unaware

12. Does the internal audit perform the following?

Internal control systems Yes No

Risk management procedures Yes No

13. How would you rate the resource capacity of the internal audit?

Staff: Adequately Staffed Not Adequate Unaware

Computer: Office Equipment Adequate Not Adequate Unaware

14. Does your company have the following resources to implement Risk Based Internal Auditing?

Financial Yes No Unaware

Human Resource Yes No Unaware

Equipment (Hardware and Software) Yes No Unaware

15. Do you think risk based internal auditing is the best practices to mitigate risks

Yes No Unaware

APPENDIX III

INTERVIEW QUESTIONS GUIDE

1. What do you understand by risk management?
2. Who are responsible for managing risks between management and internal auditors
3. What do you understand by risk based internal auditing
4. Is there adequate staff for the implementation of risk based internal auditing
5. Is it possible for your company to implement risk based internal auditing
6. If risk based internal auditing is implemented what is the role of internal auditing in the implementation
7. What are the major risks areas in the organization?