AN EVALUATION OF THE COSTS AND BENEFITS OF AN INTERNAL AUDIT DEPARTMENT: A CASE STUDY OF LIFEL INVESTMENTS

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ABSTRACT
The main research objective underlying this study was to evaluate the costs and benefits of establishing an internal audit department within an organisation and to explore whether it is more beneficial and cost effective to outsource the audit function or to have a permanent internal audit from within the organisation. To enable a comprehensive data collection on the topic the study took a case study approach. The research was conducted on the internal audit function of Lifel Investments using a sample size of twenty five respondents drawn from four different departments namely the finance and administration department, the internal auditing department, the risk management department and the accounting department. Information was gathered through administration of structured questionnaires and interviews. Results reflected that though the internal audit department is viewed as a major cost component within an organisation and the initial cost of establishing the department and documenting the system of internal control is a significant cost that requires time to be recovered, an effective internal audit department results in substantial benefits that outweigh the costs, though not necessarily quantitatively. Some respondents interviewed highlighted that they have internal audit departments as a statutory requirement. On the other hand, respondents regarded internal controls as critical to the organizations’ ongoing success hence the need for a robust internal audit department. The author recommended for a more proactive approach to tackling fraud and reducing misstatements by efficiently utilizing the forensic accounting expertise at its disposal and also vulnerability analysis involving all departments across various functions of the organization in order to identify areas that are more prone to loopholes and fraud eminences.