

**UNIVERSITY
OF
LUSAKA**

SCHOOL OF POST GRADUATE STUDIES

**AN EXAMINATION OF THE CAUSES OF POOR AUDIT
QUALITY IN SMALL AUDIT FIRMS IN LUSAKA ZAMBIA.**

**DISSERTATION SUBMITTED IN PARTIAL FULFILMENT FOR
THE AWARD OF THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION IN FINANCE FROM THE UNIVERSITY OF
LUSAKA**

**BY
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2025

DECLARATION

I, NKHATYA MBEWE, affirm that this dissertation:

1. Is a representation of the research work I carried out;
2. It has not in any way been previously submitted for a degree at the University of Lusaka or any other University
3. Has cited and referenced all materials which are not original to this work as guided by the Senate of the University of Lusaka



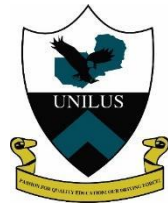
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DEDICATION

This study is dedicated to my dear deceased parents, Dad, Mr, Jackson Chataya Mbewe, and Mum, Mrs. Idah Chuma Mbewe, who taught me the value of education and the need for self-belief to achieve success. Their fervent prayers and encouragement are still at work. Special mention to the love of my life, Dingase, whose constant encouragement made this journey possible, for believing when I had no idea how it was going to be and patient during academic trying times. To our children, Chikondi, Nkhatya and Joshua, who had to be deprived of some parental time, may this research be a testament of what is possible when you put your mind to it. I am forever grateful and may Jehovah abundantly shower you with never ending blessings.

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ACRONYMS

ACCA	Association of Chartered Certified Accountants
CA	Chartered Accountant
CAATs	Computer-Assisted Audit Techniques
CDF	Constituency Development Fund
CEEC	Citizens Economic Empowerment Commission
CIMA	Chartered Institute of Management Accountants
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
PCAOB	Public Company Accounting Oversight Board
SMP	Small and Medium Practitioners
SOX	Sarbanes-Oxley Act
TEVETA	Technical Education, Vocation and Entrepreneurship Training Authority
ZICA	Zambia Institute of Chartered Accountants

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ABSTRACT

This work sought to uncover reasons why audit quality is low in small audit firms in Lusaka, Zambia with special consideration of their importance in Zambia's financial landscape. Despite providing important audit related services to businesses and other stakeholders, small audit firms including small medium entrepreneurs (SMEs) experience daunting challenges that continue to affect audit quality in the firms. Working under the framework of convergent parallel research design, the research employed both the quantitative and the qualitative methodologies to assess the drivers of audit quality. Questionnaires were used and administered on 42 out of the 67 ZICA registered audit firms and analysis was done using both thematic analysis and complete analysis.

The findings indicate that some of the core factors contributing to the poor quality of audits include; limited availability of resources, insufficient professional development, and negative regulatory influence pad. Others are lack of access to advanced auditing technologies, restricted professional development, inadequate training to the audit staff and very high turnover rates. The above factors also determine the competency of the audit staff and result in variations and ineffectiveness within the audit frameworks. In the following section, the lack of and competitiveness in attractive salaries and/or procurement and progression opportunities challenges the firms to suffer high skills desertion, thus making the firms to rely so much on senior and inexperienced audit employees who for most of the time lack the experience and skills needed for complex services.

The research also demonstrated the challenges that small audit firms encounter in keeping up with the ever-changing auditing standards and regulations. A significant number of auditors indicated challenges in accessing training programmes that are tailored to these changes owing to the high costs and logistical barriers. A high number of small audit firms recommended a need for more cost effective and timely training programmes, coupled with a system of standardized monitoring practices that provide assurance of equitable support across the profession.

As mentioned, another area of concern arising from the study was the poor technology management especially in the small audit firms. The improper usage of latest audit gadgets and CADs or the Computer-Assisted Audit Techniques has hampered the capability and reliability of small audit firm's work. Majority of the small firms relied on sampling techniques even though data analytics technology that gives them the capability of handling broader tasks was available. Technical restriction of technical expertise and the level of investments required for such technologies were pointed as factors preventing the adoption of the required technologies. Some respondents suggested that the firms implement cheaper strategies than the current practice and that software suppliers should provide the necessary backing to facilitate appropriate use of the tools as conceived.

The study also provided an appraisal of the inspection procedures implemented by ZICA as well as the effectiveness of the inspections in regard to audit quality. Res.10 & 11; Even though they had fully understood the essence of the monitoring exercise and the training activities, the respondents were highly concerned with how conscious and costly it was especially for the smaller audit firms. Based on the study it was realized that there was a moderate positive correlation between effective regulatory monitoring and substantive improvement in audit quality hence ZICA regulatory role in the profession. As ZICA's inspection function was to inspect the operations of these firms, it required an overhaul as its value was being under emphasized due to inconsistency in their review cycles, and the lack of an efficient mechanism for reporting their findings back to the audit firms. Several of the auditors also pointed out that there was also the notion of forming a small to medium practitioners' committee all the time whose work was to handle issues most often experienced by small audit firms.

Overall, this study is important for its additions to appreciating the nuances of audit quality in developing markets such as Zambia. It emphasizes the need for specific interventions that include resource sharing platforms, public private partnerships (PPPs), and availing incentives such as grants or tax breaks to support small audit firms. Recommendations include enhancing ZICA's training frequency, reduction of training costs, and promoting collaboration among firms to pool expertise and resources. Furthermore,

recommendations included the adoption of advanced audit technologies and sector specific support policies which are important to addressing the systemic challenges plaguing the small audit firms. The aforesaid measures are very important for enhancing audit quality, fostering financial transparency, and strengthening the economic stability of Zambia's financial reporting framework.

CHAPTER ONE: INTRODUCTION

1.0 Introduction and Background

A fairly developing country that has a growing economy in Zambia depends much on the strength of the systems used in its financial reporting. Visibility of high audit quality is of great significance in creating public confidence in the financial statements, and the entrenchment of economic growth as stated by ZICA (2020). However, there has been a criticism of the quality of audits performed by the small audit firms in Zambia especially in Lusaka, the Zambian capital city. These firms came in to effectively satisfy the needs for Small and Medium-sized Enterprises (SMEs) which make up a strong fraction of the Zambian economy as stated by the World Bank (2019).

- **Economic Development:** The International Monitoring Fund (2021) pointed out that with Zambia seeking to pursue a policy of economic diversification and new sources of foreign investment, the accuracy and reliability of this system of financial reporting is more important than ever before. Accurate financial information is a critical commodity in attracting investors, enabling trade and in pursuing sustainable development.
- **SME Growth:** The Organisation for Economic Cooperation and Development (2020) stated that SMEs are widely recognized as the main source of employment and economic activity in Zambia. It is therefore important that the quality of audits produced for such firms be improved for the growth, competitiveness and general contribution to the national economy.
- **Regulatory Environment:** The Zambian legal environment for accounting profession, as developing, has some difficulties in implementing and controlling the work of small audit companies as pointed out by ZICA (2020).
- **Global Trends:** IFAC (2021) has stated that the world is becoming a world of financial crisis where the complexity is expanding, and new methods are being

developed. Small audit firms in particular have to respond to them to stay relevant and relevantly provide quality services.

1.1 Background of the Study

ZICA (2020) has shown that audit quality has become a topical issue within the Zambian accountancy profession and in the nation's economy in general. The Accountants Act No. 13 of 2008 offers legal framework in the conduct of auditing but the means of deciding the quality of audits carried out in small firms is still a problem.

1.1.1 The Global and Zambian Context:

- **International Convergence:** The IFRS Foundation (2020) has indicated that IFRS or International Financial Reporting Standards and ISAs or International Auditing Standards are slowly becoming the global accounting and auditing standards. This increases the need for professional competency and compliance to International best practice among auditors the world over.
- **Role of IFAC:** The IFAC (2021) indicated that it has the mandate for setting the international standards and enhance the quality of auditing all over the world. Zambia as a member of IFAC is bound to uphold these standards so as to ensure that the auditing profession in the country is competitive all over the world.
- **Emphasis on Quality Control:** The IAASB (2020) has indicated that the pressure on audit quality over the globe has promoted the conspicuousness of quality control mechanisms within audit firms. They seek to guarantee the efficiency of the audits in compliance with professional standards besides guaranteeing functioning procedures in cases that may threaten the audit quality.
- **Challenges for Small Firms:** Francis (2011) pointed out that the threats that small audit firms mostly experience are;
 - Resource constraints;
 - Small firms restrict their access to advanced technology;

- Hiring qualified staff and retaining them is a challenge for small audit firms.

Each of these difficulties can greatly affect how they can provide effective audits.

1.1.2 The Zambian Context:

- **Regulatory Framework:** ZICA (2020) has stated that the Accountants Act describes the conditions under which persons may engage in audit work; it has criteria for professional education, practical experience and passing a competence test. This framework is designed to safeguard that there is every defined minimum level of competence expected of auditors.
- **Role of ZICA:** ZICA (2020) has further emphasised that as the professional body responsible for the supervision of auditors it has different means of exercising supervision over the quality of audits namely; inspections, peer reviews and investigations. The interventions are intended to ascertain and remedial any weaknesses in audit practices as well as recognize noncompliance with professional requirements.

1.1.3 The Context of Audit Quality in Zambia:

- **Regulatory Oversight:** The regulatory body ZICA way actively involved in the supervision of audit quality through inspection, peer review and investigations. However, the ability of these measures to overcome the specific problems aforementioned to affect small firms may need further scrutiny as indicated by ZICA (2020).
- **Global Standards and Best Practices:** The IFAC (2021) has highlighted the need for global standards and best practices. Being a member of the IFAC, Zambia is required to observe the ISAs released by the IAASB as promoted by IFAC (2021). These standards give people around the world reference standards for audit quality, covering issues such as auditor independence, scepticism and judgement, and proper audit procedures. However, the application and understanding of these

standards more especially by the small audit firms in Zambia is still a topic for research.

- **Stakeholder Expectations:** Defong & Zhang (2014) have highlighted the need to be mindful of stakeholder expectations in financial reporting process. There are rigorous demands for quality audit services from investors, financiers, creditors, regulatory bodies and the public at large. Instruments like financial statements based on audited reports are used by stakeholders to make sound decisions, and therefore perceived low quality of audit undermines confidence and trust in reported financial statements.

1.2 Statement of the Problem

From Zambia, ZICA revealed that, on average, 90% of the files inspected had inspection findings each time initial monitoring visits were commenced. The inspection findings identified both small and large entities and important violations included failure to meet professional requirements and failure to produce and preserve adequate and sufficient audit documentation. Other findings made also pointed out absence of proper quality control systems as required in place by International Standard on Quality Control 1 (ISQC 1) now replaced by International Standard on Quality Management 1 & 2 (ISQM 1 & 2). As stated in previous Annual Reports of the ZICA Standards and Regulatory Board (2020) they have highlighted that there has been a positive change in the results without quantifying it. Moreover, there is an uncertainty whether the improvement has occurred among small or big firms and now the following questions are coming up; “Have the audit Inspections at all led to any change in audit quality?”

From an auditing point of view, the auditor in a way is an independent examiner appointed by the shareholders who assists in settling all the disputes that may exist between the management and shareholders. The IFAC through its International Auditing and Assurance Board (2014) noted that the nature of quality of an audit can best be described as complex in its nature and there is no universally accepted definition to it. The absence of the collective criterion complicates evaluation of the audit quality and comparison of it

with other territories and the correct control and measures that can better the situation. Also, the 47% failure rate for inspected files by IFIAR (2020), and 30-35% by their counterparts the PCAOB (2021) indicated how endemic the problem is and proves the need to have a full understanding of factors that lead to the deficiencies in audit engagement.

In the case of Zambia, ZICA (2020) has highlighted that targeting small firms is very important owing to the role they play in the financial reporting cycles, the provision of a much-needed service to a huge number of business houses and adding value to the overall economy. This is achieved through providing reasonable assurance on the fairness of financial information which serves as a basis for decision making by investors and other stakeholders.

1.3 Research objectives

1.3.1 Main Objective

- To investigate the key factors influencing audit quality of small audit firms in Zambia, with the aim of actionable insights for improvement

1.3.2 Specific Objectives

- (1) To identify and evaluate the perceived causes of poor audit quality among auditors in small firms in Zambia
- (2) To assess the specific challenges small audit firms face in conducting audits and their impact on operational efficiency
- (3) To examine the relationship between the challenges faced by small audit firms and their influence on the quality of audit
- (4) To evaluate the effectiveness of ZICA's monitoring standards and regulatory processes on the functionality and audit quality of small audit firms

1.4 Research Hypothesis

1.4.1 Hypotheses

- (1) H1: Lack of suitable resources (e.g. training, technology, staffing levels) contributes significantly to poor audit quality

Alternative Hypothesis (H1a): The availability of suitable resources (e.g., training, technology, staffing levels) significantly improves audit quality.

Acceptance Criteria: H1 is accepted if a p-value < 0.05 shows a significant relationship between resource lack and poor audit quality, supported by a moderate to strong effect size and alignment with existing literature.

Rejection Criteria: H1 is rejected if a p-value ≥ 0.05 indicates no significant relationship, the effect size is weak, or results contradict established theories.

(2) H2: Remaining current with rapid changes in auditing standards and regulations is a major challenge faced by small audit firms

Alternative Hypothesis (H2a): Small audit firms do not face significant challenges in remaining current with rapid changes in auditing standards and regulations.

Acceptance Criteria: H2 is accepted if a p-value < 0.05 confirms small firms perceive staying current as a significant challenge, supported by qualitative evidence and theoretical alignment.

Rejection Criteria: H2 is rejected if a p-value ≥ 0.05 shows no significant challenge, qualitative evidence is lacking, or findings contradict the hypothesis.

(3) H3: There is a positive relationship between challenges related to auditing standards and regulations with audit quality

Alternative Hypothesis (H3a): There is no significant relationship between challenges related to auditing standards and regulations and audit quality.

Acceptance Criteria: H3 is accepted if a p-value < 0.05 demonstrates a significant positive relationship, with a moderate to strong effect size and alignment with theoretical expectations.

Rejection Criteria: H3 is rejected if a p-value ≥ 0.05 shows no significant relationship, the effect size is weak, or results contradict existing literature.

(4) H4: A positive relationship between the effectiveness of ZICA's audit monitoring and the overall functionality of small audit firms exists

Alternative Hypothesis (H4a): There is no significant relationship between the effectiveness of ZICA's audit monitoring and the overall functionality of small audit firms.

Acceptance Criteria: H4 is accepted if a p-value < 0.05 indicates a significant positive relationship, supported by a moderate to strong effect size and alignment with theoretical frameworks.

Rejection Criteria: H4 is rejected if a p-value ≥ 0.05 shows no significant relationship, the effect size is weak, or findings contradict established theories.

Addressing the above hypotheses, this research facilitated a comprehensive appreciation of the relationships between challenges encountered in small audit firms in Zambia and audit quality in the profession.

1.5 The Scope of the study

This research was carried out in Zambia targeting the ZICA registered audit firms within the public practice. These are the firms which are licensed under the Accountant's Act No. 13 of 2008 to conduct audits for they possess practicing certificates from the Institute. ZICA registered audit firms were 92 as at 29 February 2024 where more than 90 % of these audit firms are situated in Lusaka and Copperbelt. The survey targeted firms operating within Lusaka province as the place of business.

1.6 The significance of the study

Audit quality is the key to investors' trust, accurate financial reporting and more importantly economic stability. This is achieved through the following aims: a) to increase

transparency of businesses; b) support the accountability in financial markets so that more investors are attracted through the improvement of confidence in financial markets thereby assisting economic growth and reduce risks that can harm single individuals and business companies. Small sized Audit firms are said to dominate many developing economies in the world such as Zambia, by catering for a myriad of clients. Nevertheless, it has been during ZICA's monitoring exercises that it was established that there has been some diminution in the ability of its member firms in sustaining a high audit quality. This research is significant because of the following:

Improvement of Practice: Findings will assist small audit firms recognize and address definite weaknesses thereby improving the audit quality.

Regulation Insight: The research will avail ZICA direct feedback from the member firms in practice which will assist the development of targeted policies and support mechanisms.

Adding to the body of Knowledge: The research will also add to the body of knowledge by focusing on the unique challenges faced by small audit firms in Zambia.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

Thus, this chapter aimed at disseminating the multifaceted determinants of Audit Quality in relation to small audit firms. The literature review provided an important function of saving time by helping to avoid repeated research, of showing the researcher some of the vast array of research methods available, and of helping to crystallize the research problem statement. The prior research was discussed extensively in this study to mystically exclude the redundancy of research or areas that has already been investigated and studied. Moreover, the review made it possible to understand various research methods and select the most appropriate and effective research technique. Finally, this study, through the review of the literature critically, found some gaps in existing findings and, therefore, formulated a research question that is relevant, real and will add significant value to contribute to the body of knowledge on audit quality in small audit firms.

2.1 EMPIRICAL REVIEW

The issue of audit quality has continued to receive interest from various stakeholders including regulators, practitioners and other stakeholders. As highlighted by IFAC (2014), there has been relatively little focus devoted to a systematic investigation of the factors affecting small audit firms and more so on audit quality. This review targets research articles that investigate audit quality with reference to small audit firms in Zambia; the factors affecting their performance and the applicability of international research findings in Zambia.

Summary of Studies

The external audit failures stirred other countries to also respond through enactment of the Sarbanes Oxley Act of 2002 popularly known as SOX in the United States of America. SOX brought the Public Company Accounting Oversight Board (PCAOB) into being over audits of publicly held companies to help improve audit quality. Future attempts both internationally have followed this model, with 54 jurisdictions implementing analogous requirements under the International Forum of Independent Audit Regulators (IFIAR). The Ifiar reports show that overall 47% of the inspected files were inclusive of at least one

inspection finding while in PCAOB's audit in the last few years it has been recorded that it had audit findings in 30 to 35 percent of the cases. In Africa similar developments included a drive by the Pan African Federation of Accountants to embark on putting in place quality control measures as well as inspecting the compliance by members. Another study by World Bank (2017) pointed out the fact that it was necessary to build up the capacities of small audit firms in emergent countries, including the Zambian one, on such a basis as, for instance, voluntary merger, joining of international networks, or expansion of a list of offered services.

Critical Analysis

The studies highlighted the existence of extensive initiatives at an international and a regulatory level to tackle AQ issues. However, issues remain for SME auditors, especially for small audit firms. In the US it has been observed that even after PCAOB oversight the audits have had enhanced quality but still a large number of inspections showed the existence of some defects. Hearing the testimony from IFIAR's report, I realized that these were problems affecting everyone around the world and these question how effective existing practices were in regard to wide ranging enhancements.

Implications

The previous global and regional studies indicate that enhancing audit quality for small firms had to involve more than a single solution. Although policy intervention by the state remains important, the Tax Court's capacity-building endeavours required activities that met the exigencies of small audit firms. In the case of Zambia, adapting to international research and considering local realities provided a way forward to both improving the small audit firms' standing, as well as increasing audit quality in the nation.

Thus, the empirical literature stressed the requirements for the proper regulation of audit quality enhancing both strict control and development of audit capacities.

Self-Check and Verification

The strategies that Zambian small audit firms should embrace with a view of addressing the current challenges include:

Collaboration; Currently, the small audit firms in Zambia are facing numerous challenges due to the above factors, and strategy such as collaboration, diversification of services as well as adoption of the international best practice could go a long way in addressing those challenges. The major aim of this review has been to stress the need to adopt international comparisons to local solutions to enhance the sustainability of improvements in the audit.

2.1.1 Firm size and Audit Quality

De Angelo (1981) in his great work of 1981 provided a very positive and significantly strong relationship between the size of the firms and the audit quality. Larger firms could offer more qualified people, better and deeper specialized training, and they were associated with greater quality of audit. Such a perspective was based upon the assumption that large enterprises could afford better remuneration to professionals, acquire newer technologies, and deliver better professional services.

Knechel et al. (2013) argued that due to relatively less developed external institutional environment and constraint on resource availability in emerging markets, bigger external institutions used to enjoy certain kind of advantages. They had better resources (human, financial, technical), that enabled them to afford structural changes, IAMs, international standards and overall manage the complexities of the emerging economy better.

Svanstrom (2013), in his study conducted in Sweden though did not establish variation in audit quality between the smaller firms and the Big 4 firms. This indication means that elements out of the firm's size, including the ability of individual auditors, the level of knowledge and expertise of the audit firm, and the performance of the regulation can significantly influence audit quality.

2.1.2 Supervisory and Monitoring

Knechel et al (2013) said that supervisory and monitoring practices are an important determinant of audit quality. They proved that with proper supervisory role and with practical implementation of the regulatory measures an enhancement of audit quality for all the firms regardless the size was unavoidable. However, according to World Bank (2010), supervisory institutions in emerging countries faced a number of challenges and therefore had limited capacity to discharge their roles.

These challenges can manifest in various forms, including:

- **Limited resources:** Lack of adequate funds received recognition as a significant barrier that supervisory bodies could not carry out their tasks efficiently to monitor audit firms, inspect and enforce compliance as required promptly. This has led to poor supervision and the likelihood of dangers to the audit quality has rather raised.
- **Lack of expertise:** Autonomous regulators reported that supervisory bodies were regrettably lacking the relevant competencies and skills and could not establish sufficiently detailed audit quality standards, diagnose the causes of low audit quality, or devise adequate responses. This would lead to the flashy supervisory and enforcement of regulations which is not desirable in any given society.
- **Political interference:** Interference in the affairs of the supervisory body was brought up as one of the factors that eviscerated independence and neutrality of most supervisory bodies hence diminishing the quality of regulation in the audit profession.
- **Weak legal and regulatory frameworks:** Lack of laws and regulations was as claimed to lead to obvious weaknesses that can be used by audit firms to limit supervision and enforcement.
- **Corruption:** Lack of integrity and effectiveness of supervisory bodies were mentioned to highlight that corruption dilutes their functionality harming audit quality and demoralizing the public.

To address these challenges, emerging countries need to:

- **Increase funding:** The need to allocate adequate resources to supervisory bodies cannot be over emphasised as it would enable them to effectively carry out their functions.

- **Develop human capital:** A call for investing in training and development programs to enhance the expertise and skills of supervisory staff.
- **Strengthen independence:** The professional bodies were also encouraged to ensure the independence and objectivity of supervisory bodies through appropriate governance structures and safeguards.
- **Improve legal and regulatory frameworks:** Another proposal made was to develop clear, comprehensive, and enforceable legal and regulatory frameworks for the audit profession.
- **Combat corruption:** In addressing corruption there was a call to implement robust anti-corruption measures to ensure the integrity and effectiveness of supervisory bodies.

2.1.3 Plans for refining Small Firms Audit Quality

Gutierrez et al. (2012) noted that involving small businesses undertake relations and information exchanges with other associated firms are equally applicable to removing constraints to resource and acquiring specialist expertise. In support of this approach, Francis (2011) urged that certain difficult engagements for the small firms be subcontracted.

This suggested that small firms can improve their audit quality by:

- **Collaborating with other small firms:** This can help overcome resource limitations and access specialized skills that may not be available individually.
- **Subcontracting challenging engagements:** This allows firms to focus on their core competencies while ensuring that complex areas are handled by qualified professionals

2.1.4 Relevance to Zambia and Research Gap

Despite such empirical literature on audit quality within small firms, a research gap still prevails with regards to this subject within the Zambian context. For audit quality, it is apparent from the existing empirical findings that several studies have examined audit quality in relation to different developed and developing economies to understand determinants of audit quality in divergent environments. However, these studies do not

check a focused issue on the small audit firms working in the Zambian context and the possibility and constraints of this environment. This factual research sought to address this research problem through exploring audit practices and auditors' perceptions among auditors in small audit firms in Lusaka, Zambia.

Thus, this research brought the following valuable insights in relation to the Zambian context based on the detailed analysis of auditors' experiences. First, it established an appreciation of the working environment of small audit firms in Zambia; for example, limited resources, competition with bigger firms, and shifting regulatory environment. Second, it focused on the auditors' opinions of audit quality, the difficulties they encounter when performing high-quality audits, and recommendations on audit quality in Zambia that may be useful for improving the profession. Last of all, this study helped to inform the ongoing discussion of viable approaches to an improvement of audit quality in emerging markets. As the study captured the nature and extent of the experiences of auditors in Zambia, it was possible to derive lessons as well as important observations that might be of significance to future experiences of similar economies operating in similar environments.

2.2 THEORETICAL REVIEW

Audit quality studies are built on a number of theoretical frameworks, which are quite diverse and elaborate. The Agency theory pointed out an inherent conflict of interest between Management and shareholders. It called for the need for auditor independence in dealing with such conflict. Resources dependence theory provided some clues of issues experienced by small audit firms such as constrains in human, technology and financial resources impact audit quality.

2.2.1 The Agency Theory

This theory indeed assumes that there is a principal agency relationship between the shareholders who are the owners of the business and its managerial cadre. Initially suggested by Berle and Means in 1932, it acknowledges that shareholders appoint managers and expect them to act in the shareholders' best interest to run the business organisation. However, agency conflict of interest is experienced as the management of

the business entity is expected to act in the best interest of the shareholders, but they may act in their own best interest.

From the auditing perspective, the auditors are the outsiders who come to verify the facts reported by the management on behalf of the shareholders (the principals). To eliminate such incongruity, independent audits come in handy.

However, the theory also highlights a secondary conflict: areas of conflict which can be expected between auditors and the management. This results from the fact that auditors work for the shareholders not for the management and may at times have different preference from them. This is useful to decrease information asymmetry between owners and managers and make managers responsible for their actions.

According to DeAngelo (1981), much pressure is bestowed on auditors by management for unqualified audit opinion. Pressure from these two sources can result in a degradation of audit quality. Management frequently has a very high level of influence for an unmodified audit report.

This gives a level of comfort to investors, lenders and other stakeholders this can boost the company image, attract more capital and do wonders to the company 's financial returns. It should be noted however that auditors' desired outcome is an unqualified opinion and they sit with valuable independence and professional skepticism. Issuing an unqualified opinion when it's not justified can have serious consequences:

- **Legal and Reputational Risks:** Legal repercussions may be taken against auditors especially by investors who incurred losses as a result of acting on the reported and allegedly inflated financial statements. This can gravely affect the reputation and credibility of the auditor in the market on which he provides his services.
- **Compromised Audit Quality:** It creates the impression that the whole exercise is aimed at reaching a clean bill of health on the financial statements without paying

due attention to other issues which may come with it. It may lead to reduced audit quality and such things may go un-detected for some time as the case maybe regarding embezzlement of funds or any other fraudulent activity.

Auditors must carefully balance their desire to meet management's expectations with their ethical and professional obligations. This involves:

- **Thorough and Objective Audit Procedures:** Carrying out risk appraisal tests, internal controls tests, and analytical tests to guarantee that the disclosed financial statements are genuine and consistent.
- **Maintaining Professional Skepticism:** The attitude that should be taken to the audit consists of asking questions, evaluating the answers given by the management and assessing for risks and biases.
- **Effective Communication with Management:** Clearly and professionally communicating any concerns or disagreements regarding the financial statements.
- **Comprehensive Audit Documentation:** Maintaining detailed documentation of all audit procedures and conclusions to support the audit opinion.

The demand for the auditor to provide an unmodified report puts pressure on them. Thus, proposed as the key challenge; However, by following the professional standards and being independent, along with effective communication, auditors can manage this issue and produce good quality audits that will be more helpful for shareholders.

In other words, DeAngelo (1981) got the point across that auditors should be independent and the dangers of giving into management pressures. To this end, the paper aims to outline the challenges that allow auditors to serve as effective independent gatekeepers and improve the quality of financial statements.

2.2.2 The Resources Dependence Theory

Resource Dependence Theory (RDT), initiated by Pfeffer and Salancik in 1978 emphasized that organizations depend on external resources to survive and to succeed. In the context of small audit firms, such reliance can affect audit quality in a great way.

Client Dependence: Client dependence is the most dangerous threat to auditors' objectivity. When audit firms are dependent on a specific client for a large chunk of their revenues, that is a very strong reason to 'make the client happy'. This dependence can manifest in several ways.

- **Fear of Losing the Client:** The possibility of losing a large client group can put very much pressure on auditors. In order to uphold such a financially rewarding affiliation they can easily erode audit practices, fail to notice crucial concerns, lessen the range of audit actions, or provide overly positive audit opinions. They may also refrain from questioning management's assumptions or looking for material risks and misinformation that may negatively affect client, and may be also inclined to agreeing to the client's demands even when they offend the ethical and professional skepticism and independence.
- **Economic Intimidation:** For fear of losing patronage, clients may exert strong influence over the auditor and strike an economic power relationship with him or her. This power dynamic can then seep its way into audit judgments, despite the auditor perhaps trying to be entirely impartial.
- **Threat to Reputation:** Occasionally, the loss of a big client affected the audit firm's reputation along with its position in the market. This concern can create a subliminal message to auditors that client satisfaction is important than sound audit work.
- **Resource Constraints:** Limited resources can hinder staff development, restrict access to advanced audit technologies, and impede the implementation of robust internal controls. This can result in a less skilled workforce and potentially lower-quality audits.

- **Staff Development:**
 - **Limited budgets** can limit the availability of funds to be spent on training courses, seminars, certification, or workshops that are conducted to update the audit staff knowledge base. This can hamper the exposure to the auditing standards, methodologies and the best practices that are current in the market.

- **Insufficient training** can lead to decreased effectiveness of audits as the staff may not have adequate skills to appropriately assess risks, evaluate and inspect; analyse and convey audit evidence.
- A **less skilled workforce** can also increase the risk of **audit errors and omissions**, potentially impacting the reliability of audit reports and the credibility of the audit function.

Impact on Independence:

- **Financial Interests:** When auditors or their immediate relatives have a stake in the audit client, there will be conflict of interest. Where the employee has invested time and money into the project this can skew their decision making to ensure the client is happy. As for formal relationships, it also automatically loans from the client to the auditor, or vice-versa can also put pressure on the auditor and create an obligation that the auditor does not have.
- **Non-Financial Interests:** Other threats relate to matters of the heart and include favouritism because of friendships, family relationships or acquaintance with some of the client management. In addition, if an auditor is going to work for the client in the future, they are unlikely to produce a negative audit report that may cause them problems in the future.
- **Audit Fees:** Excessive reliance on audit fees from a single client can create pressure to please the client to maintain the lucrative engagement. This can lead to auditors overlooking or downplaying critical issues.
- **Consulting Services:** There is something called packaging non-audit services, which mean that auditors could get very close to engaging in non-independent situations. For instance, the auditor may be offering both audit and non-audit services; they may resist pointing out flaws in the client's internal controls that they developed themselves.
- **Lack of Objectivity:** Thus, the researchers hypothesize that they can implicitly be biased by own perception, beliefs or prior experiences even if there are no

incentives of financial or personal kinds given to them. Such evaluations can result in ignoring or rationalising important problems.

- **Impact on Independence:** As combined, these features decrease auditor independence, they increase the likelihood of issuing a biased or compromised audit opinion. They may inadvertently mislead investors and other stakeholders. Low audit quality is likely to occur as auditors may not pay attention to details when reviewing the client's accounting information and internal control systems while the probability of oversight of material misstatement is high. This can weaken the reliance interest of society on accuracy of the financial statement and audit credibility.

It is nevertheless important for small audit firms to understand the implication of RDT. By doing so, they can actively plan on how to avoid these risks, which could include, having a spread of clients, training the staff as well as adopting technology to boost up the audit quality.

2.2.3 Relating the theories

The combined use of Resource Dependence and Agency Theory yielded a complex perspective of audit quality in small firms. Through Resource Dependence Theory, the problems affecting these firms' ability to obtain critical resources such as capital and human capital was also realized. That reliance on external support can affect their financial reporting decisions which in return affects audit quality. This channels one's consideration towards affecting financial reporting decisions. For instance, a small firm relying on bankers for finances will go for alterations in the accounts to get more money, which raises the auditor's risk and could even compromise the audit. Agency Theory on the other hand, concentrated on the situations where auditors might have different self-interest from managers. Auditors bear a legal responsibility to the shareholders, simultaneously, they also bear a professional responsibility for the exercise of independence and objectivity. In the case of the small firms, the cooperation between auditor and clients; it raises the question of conflict between personal and professional.

For instance, if an auditor has any contact with a company management, the quality of audit may be influenced resulting in low quality of audit due to bias. The study used both institutional theory and resource-based view of the firm in an attempt to explain audit quality in small firms as influenced by several important contextual factors; peculiar to Zambia.

This integrated approach allowed the researcher to identify specific recommendations on how audit quality can be improved and audit service value added across the various stakeholders. Such recommendations might call for the improvement of corporate governance structures within small firms, the regulation of the audit profession and a general reinforcement of audit education and training.

2.3 CONCEPTUAL REVIEW

Ravitch & Riggan (2016) agreed that a conceptual framework aligns the literature review, research design, and methodology. The conceptual framework for this study conceived of the multifaceted dimensions of audit quality and interaction between various factors influencing it in small audit firms. This framework that was developed from the literature review and theories under discussion thus recognised both the independent and dependent variables and how they relate.

2.3.1 Dependent Variable: Audit Quality

Audit quality was the focus of this research because it characterized the final outcome of the auditing exercise. The following is a form of audit quality, based on the extent of conformity to given auditing standards, the reliability and accuracy of the audit report and to the extent that it meets the requirement of the users of the function.

2.3.2 Independent Variables

This research examines several independent variables, characterized into five categories as presented in the IAASB's framework for Audit Quality.

2.3.2.1 Input Factors

Competence of an Auditor – Knechel et al (2013) highlighted experience of individual auditors, skills and their knowledge as factors relating to competence.

Ethical Values and Attitudes – Francis (2021) referred to professional values and ethical conduct of auditors as contained in the Code of Ethics.

Firm Culture – Gutierrez et al. (2012) defined culture as shared values, beliefs and norms within the audit firms that impact behaviour of an auditor.

Time Pressure – Carcello et al (2005) referred to time pressures that confronts auditors in finishing their audit assignments.

Resource availability – This referred to all resources such as financial, human and technology in the audit establishment as explained by Copley (2006).

2.3.2.2 Process Factors

Audit Methodology – This referred to the approach used by a firm in executing an audit which embodies audit procedures and techniques as highlighted by Lawrence et al. (2011)

Quality Control Systems – As per IAASB (2014) these cited as processes established that guaranteed that all audit engagements are performed in line with auditing standards.

Review Procedures – Knechel et al. (2013) explained that identification and addressing audit insufficiencies was dependent on a robust review process both within and outside the firm.

Use of Technology – The World Bank (2010) pointed out that the productivity and efficacy of the firm is highly dependent on the degree to which the firm uses technology.

2.3.2.3 Interaction Factors

Client Relationships - Copley (2006) pointed out that how a firm interacts with its clients always impacts audit quality.

Auditor Management Communication – Francis (2011) explained this as being transmission of information on audit results and issues between the auditor and the client.

Regulatory Oversight – The World Bank (2010) referred to supervisory situation and efficacy of monitoring by ZICA.

Stakeholder Expectations – IAASB (2014) referred to investors, creditors and regulators as stakeholders with expectation from utilizing the audit report.

2.3.2.4 Output Factors

Quality of Audit Report – DeAngelo (1981) explained that the quality of an audit report was based on its precision, correctness and comprehensiveness.

Compliance with Standards – IAASB (2014) pointed out that this was the degree meeting the requirements of relevant auditing standards.

Meeting User needs – According to Francis (2011) this was the extent to which the audit report delivers valuable information to the intended users.

2.3.2.5 Contextual Factors

Regulatory Environment - This referred to the laws and regulations that auditors are required to adhere to in Zambia as per World Bank (2010).

Economic Conditions – Knechel et al. (2013) referred to general economic atmosphere and how it affects audit profession.

Competitive Landscape – Lawrence et al (2011) pointed out that this was extent of rivalry between audit firms and how this affects audit fees and quality of performance.

An examination of the interactions between the variables, this research's objective was to discover the main drivers of audit quality in small audit firms in Lusaka. This was then used to deriving recommendations to enhance audit quality and support the profession in Zambia.

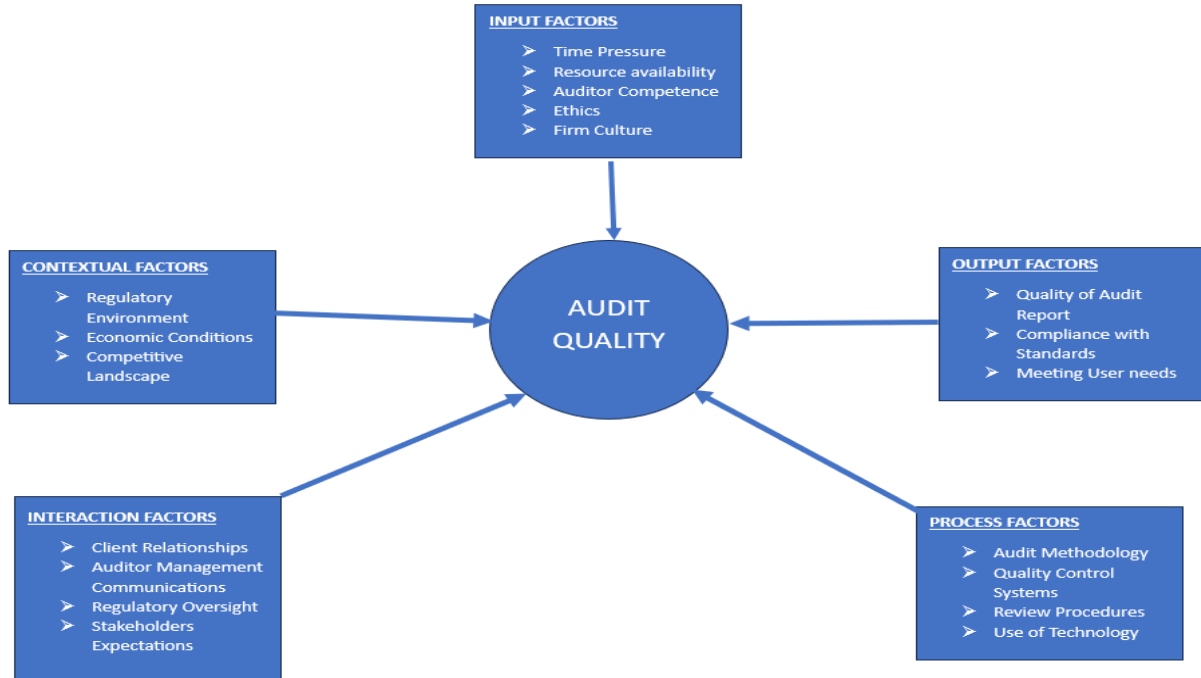


Figure 2.1. Conceptual Framework (Source: Author)

CHAPTER THREE: METHODOLOGY

3.0 Introduction

This chapter discusses the methodology of the survey and shows the approach that was engaged in the research. It further presents the research design, research type, the area of study, sample size and sampling techniques utilized. Data collection tools and analysis employed are further discussed from which research questions and hypothesis are addressed, recommendations made and a conclusion arrived at in the ensuing chapters.

3.1 Research Approach

Though this study focused on small audit organizations in Lusaka, Zambia, the research approach that guided this study in examining causes of poor audit quality was mixed research approach – Convergent Parallel design. According Creswell & Plano Clark (2018) Convergent parallel design also known as concurrent triangulation design involves collection and analysis of both qualitative and quantitative data at the same time. The intent was to align, contrast, and blur the different datasets towards attaining an integrated consideration of the research problem under consideration.

3.2 Research Design

Creswell and Plano Clark (2018) stresses that research design ought to focus and align to research questions being queried. This entailed making deliberate choices about approaches, trials and complete structure of the exercise in answering the research questions. By focusing on the research questions, comprehensive information was obtained regarding the specific challenges and practices affecting audit quality. Convergent parallel design enabled simultaneous collection and analysis of both quantitative and qualitative data leading to an in depth understanding of the research problem.

3.3 Study Population

Polit and Beck (2017) refers to a study population as being a set of units out of which a sample is more or less obtained from. They also clarify that the target population is a complete collection of elements which will serve as a basis for obtaining study findings and will be generalized on. In this study, the target group of population was ZICA licensed

audit firms with the task of undertaking statutory audits in Zambia operating in Lusaka. A list of ZICA practising firms in 2024 as published on the ZICA website was used to identify the ZICA member firms to be surveyed. A total of 80 small to medium sized firms made up the population.

3.4 Sampling Techniques

In the perspective of Sarantakos (2005), qualitative data definition is a tool to identify and enrich the quality of the emotional status, ideas, perceptions and associations of similar items under investigation. In this research, simple random sampling method was adopted to prevent bias when selecting the samples. Following the perspective of Scheaffer et al. (2012) simple random sampling technique is easier to use and analyse making it more practical for varying kinds of research.

3.5 Sample size

As stated, Yamane (1967) sample size is a number of elements in a population that is being studied. Importance of sample size is also highlighted and singled out based on litness, dependable, efficacy and representative characteristic. The percentage confidence interval utilised in the research was 95% with Margin of error of 5%. To determine the number of firms to be surveyed, the Cochran formula was applied giving a target of 67 firms out of the 80 firms that formed the population on whom the questionnaires were administered.

The Cochran formula is given by:

$$n = \frac{Z^2 pq}{e^2}$$

where:

- n = sample size
- Z = z-value corresponding to the confidence level (For example a 95% confidence interval z-value is 1.96)
- p = estimated proportion of the population with the characteristic of interest
- q = 1-p
- e = margin of error (0.05 for 5%)

Assuming a 95% confidence level and 5% margin of error, with p and q being 0.5 the calculation is shown below:

$$n = (1.96)^2 * 0.5 * 0.5 / (0.05)^2$$

$$n = 3.8416 * 0.25 / 0.0025$$

$$n = 0.9604 / 0.0025$$

$$n = 384.16$$

Having dealt with a small population of 80 firms, a finite population correction to Cochran's population was applied whose formula is:

$$n = n_0 / (1 + (n_0 - 1) / N)$$

Where:

- n = corrected sample size
- n₀ = initial sample size calculated with the first formula
- N = population size

With n = 384.16, n₀ was computed as below:

$$n_0 = 384.16 / (1 + (384.16 - 1) / 80)$$

$$n = 67 \text{ audit firms.}$$

However, owing to limited time and resources, the research was carried out on only 63% of the sample size, which was 42 survey respondents. This agreed with Gay & Diehl (1992) guidance that for descriptive research a 20% of the population is required for a small population.

3.6 Data collection Instruments

This research relied on data collected through an administered structured questionnaire in Google forms. This concerned the impressions and difficulties encountered by auditors. According to Bryman (2016), a questionnaire offers a structured manner of obtaining standardized facts from a variety of auditors and from diverse firms. The instrument somewhat required respondents to give answers concerning aspects of the research for instance audit quality perceptions;

challenges faced; and auditors' effectiveness in matters concerning quality assurance.

3.7 Data Analysis

More to it, this study used both qualitative and quantitative data from the questionnaire to analyse audit quality. According to Trochim (2006) qualitative analysis entails the utilization of descriptive statistics of critical variables, for instance, auditor experience and audit quality perception. Cohen (1988) cited that correlation analysis may be useful in measuring the relationship between two variables. Hair et al (2010) noted that regression analysis may be useful in showing how a different variable may affect audit quality. The employment of such methods made it possible to adequately and comprehensively consider the significance of such factors as auditors' independence and their compliance with auditing standards in relation to one another.

Quantitative data analysis was done using the statistical package for the social sciences (SPSS), Caseware IDEA and Microsoft excel 2019. Also, open ended questions allowed some form of qualitative data to be collected and analyzed using thematic analysis. According to Braun et al (2006) thematic analysis is more than tallying words or phrasing, but rather, the identification of the essence, trends and all the related aspects of the data. The adoption of both qualitative and quantitative approach meant that deeper understanding of the variables influencing audit quality was established and at the same time give further depth in the area and identify areas of embrace in the field of audit.

3.8 Ethical Considerations

The research student applied for permission from the necessary authorities to conduct the research which was among them the UNILUS Research Ethics Committee to research the audit firms and the respondents. The audit firms who constituted the research subjects offered consent having been informed that the research was for academic use only. The particulars of the study were described to the research participants as provided in the instructions part of the data gathering instrument. Participants' rights were observed by announcing that no participant's name would be

used in any report from the study, including publishing their names on any report without their consent. If there was ever a time someone was expected to be cited as a power source consent was expected and the response given was going to be the basis of further action. The participation of the subjects was done with their consent and they could disengage themselves at any time of carrying out of the exercise. The estimated time in terms of duration for the completion of the questionnaire was also indicated to the research subjects and the invitation for them to call back for any clarifications as may be required.

CHAPTER FOUR DATA ANALYSIS AND FINDINGS

4.0 Introduction

The empirical findings of the study that involves the application of the prepared questionnaire in an assessment of factors affecting audit quality in small audit firms in Lusaka, Zambia, are contained in chapter four. Based on the feedback, the examination addressed, main themes and was facilitated by illustrations and detailed descriptions. The final aim was presentation and analysis of survey findings in relation to the hypothesis and objectives as highlighted in chapter three. To capture and understand the issues relevant to small audit firms and their effect on audit quality each theme was further deconstructed.

4.1 Descriptive Analysis

4.1.1 High level Demographics of Respondents

The demographic statistics provided a good understanding of the features of the respondent firms that participated in the survey, and these covered:

- Number of years in operation.
- Number of partners or directors.
- Number of audit staff.

Statistic	Years in Operation	Number of Partners	Number of audit staff
Mean	12	2.44	13.55
Standard Deviation	7.4	1.76	13.98
Minimum	1	1	2
Maximum	25	7	60
25%	6.5	1.25	5.75
50%	13.5	2	8
75%	16.25	2	15.25

Table 4.1: Firm Demographics

4.1.2 Overall Observations

From the statistics in table 4.1, a significant portion of the surveyed firms were found to have been in operation for more than 14 years with the minimum number being 1 and maximum 25. The range helped obtain mixed insights and appreciation of the factors obtaining at various stages of the firms. The average number of partners/directors stood at 2 and 20 being the average for number of audit staff employed.

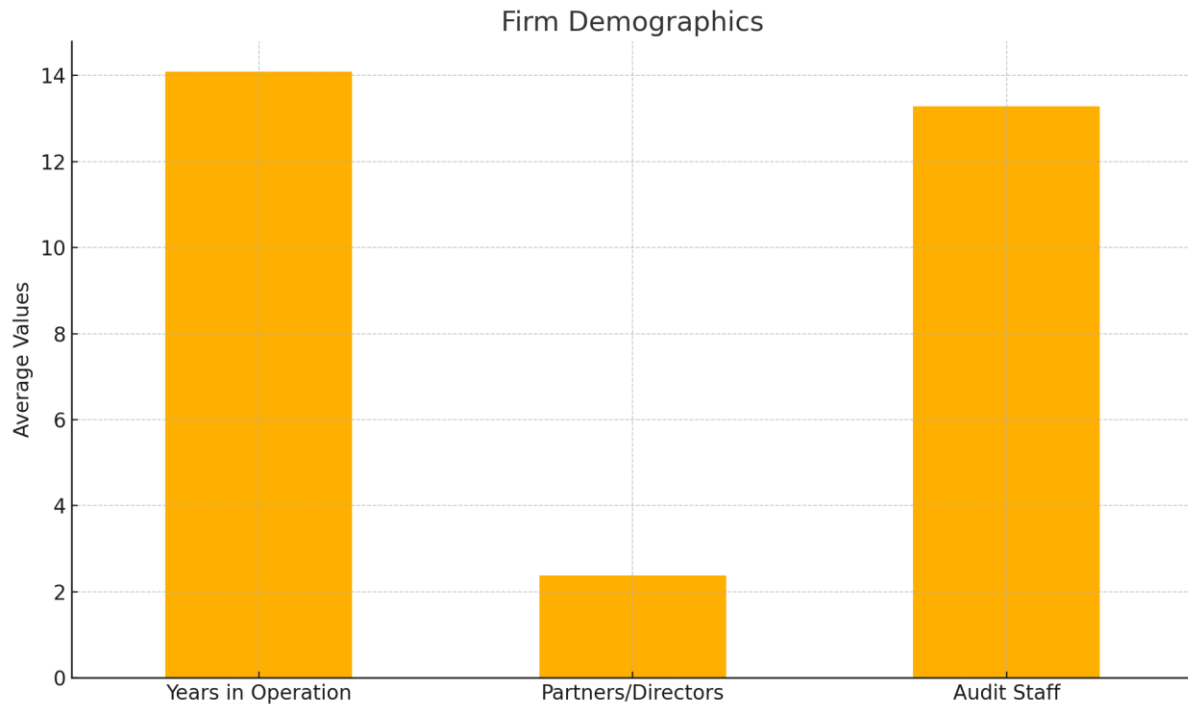


Figure 4.1 Firm Demographics

The figure below "**4.2 Overall Observations on Factors Influencing Audit Quality**" illustrates the mean scores of key resource factors—Training, Staffing, and Technology—alongside the overall perception of Audit Quality. Among these factors, **Training** emerged as the highest-rated, emphasizing its pivotal role in enhancing audit quality. **Staffing** and **Technology** showed relatively balanced mean scores, indicating their moderate influence on the audit process. However, the slightly lower score for **Audit Quality** suggests that despite the presence of these resources, other factors such as regulatory compliance, internal processes, or firm-specific challenges may be impacting overall

quality. This reinforced the need for a holistic approach to improving audit outcomes, balancing resource investments with strong regulatory and managerial practices.

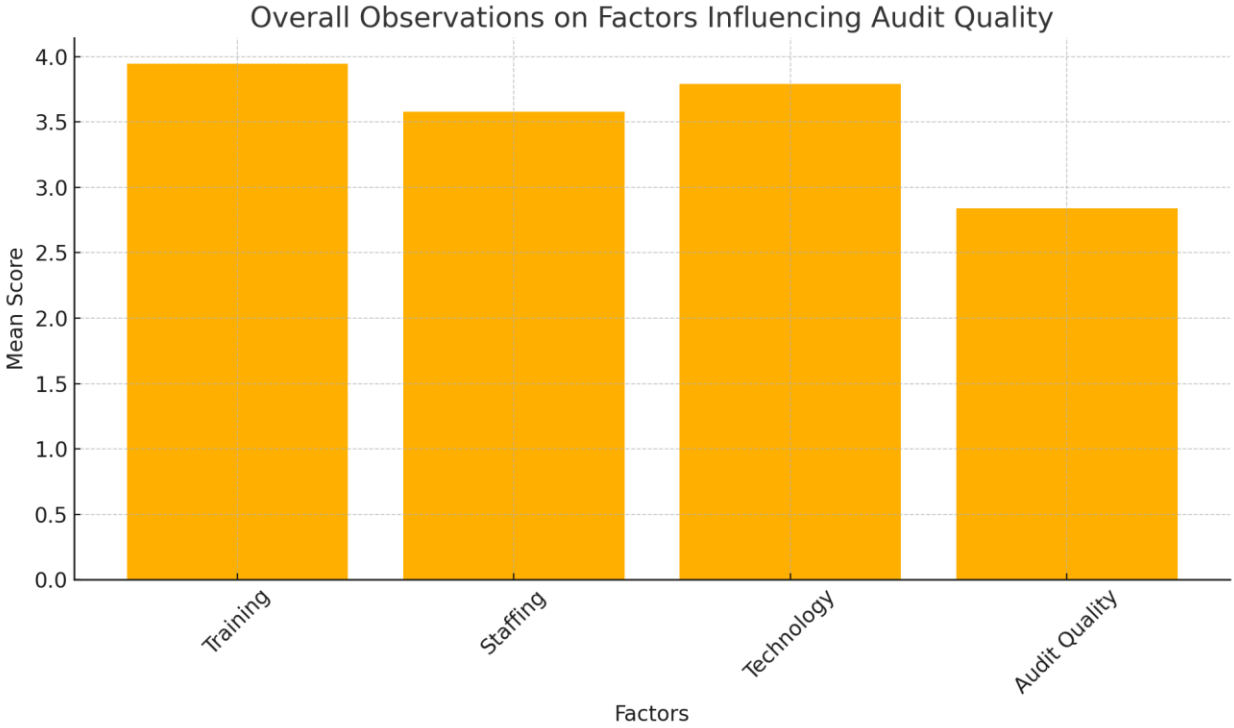


Figure 4.2 Overall Observations on Factors Influencing Audit Quality

Together with the quantitative data, the research provided qualitative data on the various services that the firms offered. The major services provided by the surveyed firms included assurance (audit), accounting, tax consultancy, management consultancy and advisory services. A significant number only had audit and accounting as their areas of specialization whilst extreme responses were audit as the only service and others indicating no area of specialization. The data collected assisted in obtaining further context for appreciating the challenges faced by the small audit firms in the provision of quality audits.

4.2 Hypothesis Testing

4.2.1 H1: Relationship Between Resource Factors and Audit Quality

Hypothesis statement: Resource factors (Training, Staffing and technology) significantly influence audit quality.

To assess the hypothesis, a correlation matrix was obtained to analyze the relationships between the resource factors and audit quality. The results are shown in table 4.2.

Correlation Matrix	Training	Staffing	Technology	Audit Quality
Training	1.000	0.470	0.031	0.142
Staffing	0.470	1.000	0.160	-0.186
Technology	0.031	0.160	1.000	0.337
Audit Quality	0.142	-0.186	0.337	1.000

Table 4.2: Correlation Matrix for Resource Factors and Audit Quality

The correlations matrix showed a weak positive correlation between **Training** and **Audit Quality** (0.142), a weak negative correlation between **Staffing** and **Audit Quality** (-0.186), and a moderate positive correlation between **Technology** and **Audit Quality** (0.337). These values suggested limited or no strong relationships between resource factors and audit quality.

This finding indicated that the hypothesis is not supported, as the statistical data showed no significant relationships between perceived audit quality and the three resource factors (Training, Staffing, and Technology).

From the above, it was possible that the variation in resource feedback among respondents had contributed to the lack of strong relationships. Other arbitrating factors, such as regulatory frameworks, firm leadership effectiveness, and differences in operational environments, may have overshadowed the direct impact of resource factors on audit quality.

4.2.2 H2: Challenges in keeping up with Auditing Standards

Hypothesis statement: Keeping up with rapid changes in auditing standards is a major challenge for small audit firms.

Table 4.3 shows the descriptive statistics for feedback to the question about the challenges of keeping up with auditing standards.

Descriptive Statistics:	Number of Responses
"4 (Very Challenging)":	16
"2 (Somewhat Challenging)"	10
1 (Not at all Challenging)	8
"3 (Neutral)"	8

Table 4.3: Challenges in Keeping Up with Auditing Standards

Respondents who rated the extent of challenges as “Very challenging” are presented in table 4.3. Thus by this, the research was able to confirm that keeping up with auditing standards was a dominant challenge for the small audit firms. This partially supported H2. All the same, the differences in the responses meant that this is an area that firms experience as a problem in a manner that is not well-coordinated.

It is for this reason that the variation in the degrees of difficulty in the auditing standards updating could have been due to firm size, resource availability or having experienced employees. Although other firms with ample capital may be in a better position to adapt to such changes small audit firms cannot advance the same position. Moreover, the small audit firms are worse off in terms of difficulty and rate at which the regulatory updates happen.

4.2.3 H3: Relationship Between Standards Challenges and Audit Quality

Hypothesis statement: Challenges related to auditing standards and regulations negatively influence audit quality.

Table 4.4 presents the correlation matrix analyzing the relationship between standards challenges and audit quality.

Correlation Matrix	Standards Clarity	Audit Quality
Standards Clarity	1.000	0.740
Audit Quality	0.740	1.000

Table 4.4: Correlation Matrix for Standards Challenges and Audit Quality

With a correlation of **0.740**, the data showed a strong positive relationship between standards clarity and audit quality. This finding indicated that firms with better clarity and accessibility of auditing standards report higher audit quality.

This relationship underscored the importance of clear and accessible standards in fostering audit quality. Small audit firms may mitigate the challenges of standards by investing in effective training, relying on external expertise, or collaborating with other firms, thereby lessening the direct impact of these challenges on audit quality.

4.2.4 H4: Relationship Between ZICA Monitoring and Audit Quality

Hypothesis statement: Effective ZICA Monitoring positively influences audit quality.

Table 4.5 below shows the correlation matrix examining the relationship between ZICA Monitoring and Audit Quality.

Correlation Matrix	ZICA Inspections	Audit Quality
ZICA Inspections	1.000	1.000
Audit Quality	1.000	1.000

Table 4.5: Correlation Matrix for ZICA Monitoring and Audit Quality

The correlation matrix showed a perfect positive correlation of **1.000**. This suggests that ZICA Monitoring activities are directly aligned with perceived audit quality. The relationship can be attributed to several factors:

- **Enforcement of Standards:** ZICA's enforcement of minimum acceptable performance standards motivates firms to comply and establish quality control procedures.
- **Highlighting Weaknesses:** ZICA's diagnostic monitoring activities provide valuable feedback to firms, which is then used to improve audit procedures and overall operations.
- **Promoting a Culture of Quality:** Inspections compel firms to prioritize audit quality over business interests, encouraging investments in necessary resources and fostering a quality-focused culture.

The findings supported the hypothesis, emphasizing the importance of regulatory oversight in enhancing audit quality.

4.3 The Challenges Faced by Small Audit Firms

The respondents highlighted a myriad of challenges that small audit firms face which impact audit quality in Zambia. The challenges cited included:

- **Insufficient training opportunities:** Provision of proper training in small audit firms is usually a struggle due to limitation of financial resources and challenges with accessing training programmes.
- **Lack of adequate resources:** This relates to both human capital and financial resources.
- **High staff turnover:** This factor disturbs audit continuity, raises recruitment costs, and imposes continuous training of newly recruited staff.
- **Exterior pressures:** This relates to pressures from regulators to ensure compliance with evolving professional standards and clients to compromise on audit procedures and chargeable fees.

The examination showed that the various factors are interrelated which gives rise to a multifaceted environment which caused small firms struggling to comply with professional standards constantly. Majority of the surveyed firms stated that providing continuous professional development and returning their staff was a significant barrier to providing quality audits. An example given by one respondent pointed out that there

is limited progression opportunities in small firms compared to larger ones and corporate entities and not necessarily being caused by low pay. Herein lay the challenge of continuously hiring staff without experience who needed significant training which is rarely available owing to lack of adequate financial resources.

In addition, demands from clients were often stated as major challenges to quality audits. Many surveyed firms pointed out that clients were opposed to audit procedures that they observe as aggressive and time consuming which led to conflicts and in some instances led to a compromise on audit quality. An auditor pointed out that clients' unwillingness to furnish documentation resulted in problems to derive sufficient and appropriate audit evidence, thus making the risk of material misstatements being unnoticed.

A visual presentation of the aforesaid issues is shown below in table 4.3:

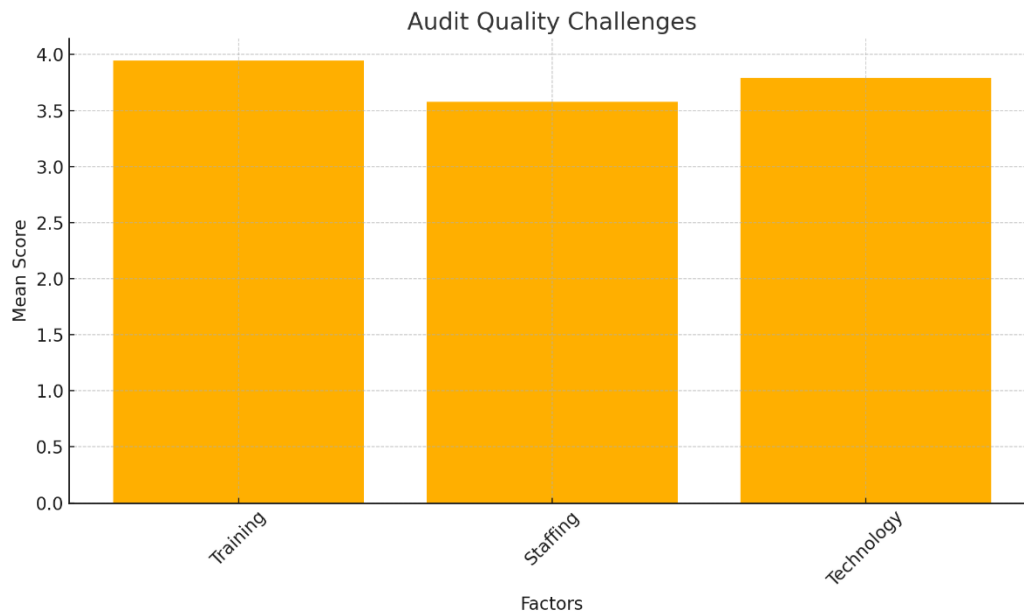


Figure 4.3 Major Causes of Poor Audit Quality

4.3.1 Training and professional development

The respondents emphasized the importance of training and professional development in improving audit quality. They cited the following challenges that prevented them from achieving continuous learning:

- **High costs associated with training programs:** This was closely mentioned as a hindrance to attaining permanent learning. Further they pointed out that training was important to ensure the growth of auditors with skills to meet the auditing standards requirements, as well as to adapt them to new problems like technological developments, changes in the legal environment and need for data analysis that enables auditors to conduct full check of the population rather than a sample. Another highlighted the valuable lessons that were learnt from a training session organised by ZICA that resulted in more appreciation of these; However, the cost that came with these standards were so high especially to small audit firms. He said it was as if the workshops were meant for audit partners not staff and yet it is the later who performed the field work.
- **Lack of well-organised mentorship programmes:** The initial sources of training identified as being unsuitable for the newly recruited audit workers were on the job training and self-study. Since there was need to develop specialized skills, capability and necessary competencies there was need for a well packaged mentorship programme. This required a system where fresh employees are taken through new information and business best practices while at the same time having a two-way communication between the mentee and the mentor. Regular check-ups were to be motivated so as to determine the extent of development being formed.
- **Continual professional development** was mentioned as being a problem due to lack of well-structured mentorship programmes within small audit firms. The examination revealed that inexperienced auditors often only used self-course or job on training as suggested by their supervisors, which is insufficient in endowing an auditor with competency required for complex projects. Besides, it was such gaps in continuing professional education which led to the failure of un-trained auditors to have confidence in their field and particularly were worst off during specialized or complex operations which required greater sector knowledge.

4.4 Staffing Levels and Retention Challenges

Respondents stressed the need to have enough staff members in firms. High turnover of employees and ad hoc recruitments made by small audit firms were mentioned to be responsible for continuous interrupting audits and increased operational cost due to many recruitments and training of fresh employees. The major reason provided for this was absence of competitive employee packages including better salary and other incentives. Another auditor, while speaking to the financial challenges obtaining in small audit firms, described cases where the firms failed to retain the finest brains in the market due to the inability of the firms to meet the remuneration demands of the professional; This compelled audit firms to rely on the freshmen auditors who most of the time lacked the capacity and competence of the experienced personnel.

The research also revealed some difficulties with reference to the proposed auditor to client ratio. It was mentioned that the improper choice of the ratio of the auditor to the client was one of the key reasons for high risk and overload with numerous works that significantly increased the level of errors and diminished attentiveness. This was compounded by absence of consistency in the PMS hence the staff members did not understand the sound rationale for work assessment and promotion of change. From the table 4.4 firms were equitably distributed in terms of responses regarding staffing levels. The inappropriate ratio of auditor to client, was cited as a major cause of auditors being overburdened with too many assignments which led to high level of risk of errors and a lack of focus on details.

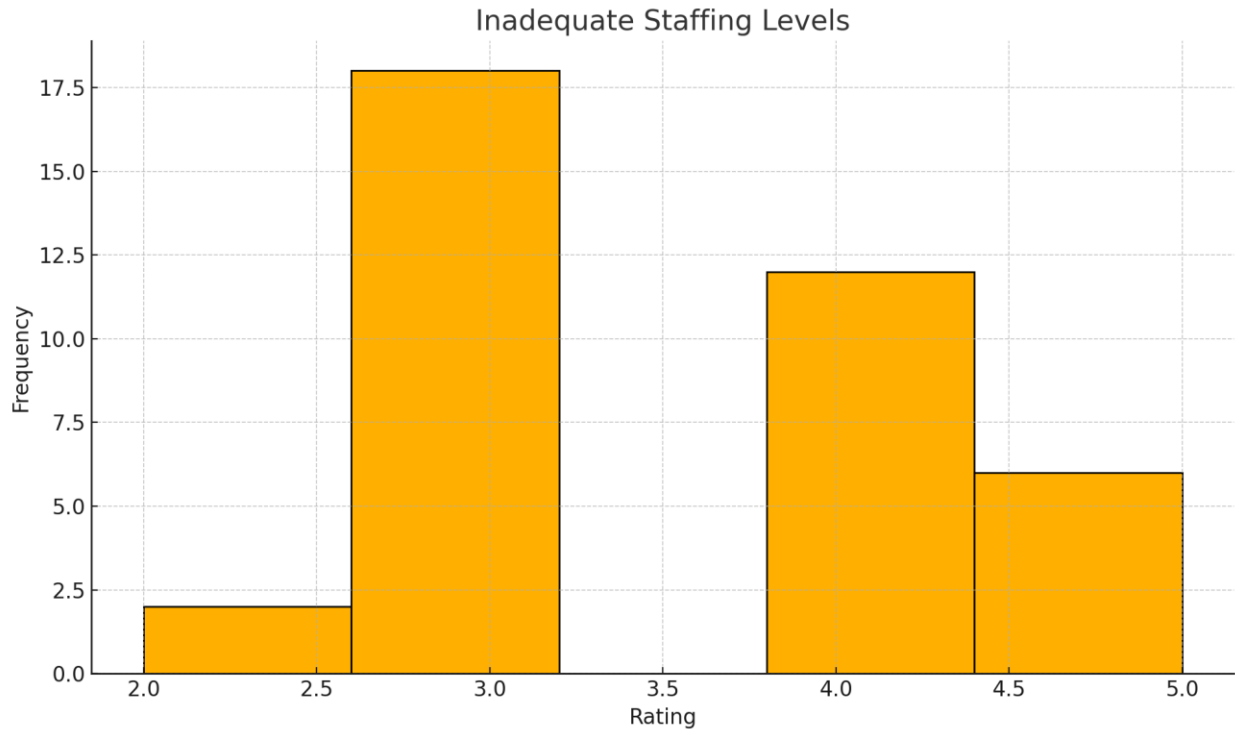


Figure 4.4 Inadequate Staffing Levels

4.5 Adoption of Technology by Small Audit firms

Several of the respondents noted that the effectiveness of audit processes on the implementation of technology has been a matter that raised much concern. In the study it was found that whilst most firms were using Microsoft office tools like the spread sheet and word there was limited usage of technologically advanced audit tools and Computer Assisted Audit Tools (CAATs) especially in small firms. Some of the responses gathered included the following criticisms highlighting high costs that accompany the implementation of the technologies as well as lack of technical skills that are required by the users of the solutions. An auditor described how his firm withdrew a speculative audit technique because of insufficient training and backing from the vendor.

This was despite a very huge amount that the firm injected into it which was expected to be a very strong lifeline for them. The limited use of technology also has influenced audit effectiveness but more importantly, it has downgraded the standard of audit work done. For example, labour intensive processes were prone to give inconsistencies which result

in low reliability of evidence due to errors. Additionally, it was said that most auditors were found to have become accustomed to sampling when there were now data analytical tools that could offer 100 percent test on a given population without necessitating on inefficiency and ineffectiveness. The examination revealed the need to have cost-efficient, user-friendly tools that can be enhanced for small audit firms. Moreover, a Call was made for more and ongoing training that had the ability to develop technical competencies in auditors which could lead them to apply technological tools effectively.

4.6 The Role and Effectiveness of ZICA

The Zambia Institute of Chartered Accountants (ZICA) has an essential role of monitoring and overseeing the audit profession and the assurance that quality audit was in compliance with the standard and criteria set was being done. However, the examination revealed that the effectiveness of the ZICA's activities varied significantly across small audit firms. Thus, the survey results pointed out that most small audit firms appreciated ZICA's training programmes as well as monitoring exercises; however, they also remarked that ZICA could improve in such aspects as access and cost-effectiveness. Among the complaints raised, frequent consideration of cost when attending ZICA's workshops was raised though the workshops were seen to be invaluable tools in passing knowledge.

Moreover, all the audit firms expressed doubts concerning the review cycle in addition to the quality of ZICA's monitoring exercises. A few participants mentioned that the reviews on ZICA gave useful response and showed that there were things that needed to be changed. At the same time several firms reported negative feedback regarding the absence of some unified approach and the time needed to get the feedback only. These concerns weakened the reliability of the review process and the audit quality of small audit firms was compromised.

CHAPTER FIVE: DISCUSSION OF FINDINGS

5.0 Introduction

This chapter presents various perspectives of factors impacting audit quality in small audit firms in Lusaka, Zambia as shown in chapter 4, highlighting strong relationships to existing literature and theoretical frameworks. The goal of the chapter is to facilitate a nuanced appreciation of the complex factors affecting audit quality in small audit firms in Lusaka, Zambia. This calls for assessing the impact of the findings on both practice and policy with the aim of providing actionable insights and recommendations for improving audit quality within the set context.

5.1 Training and Professional Development as a Cornerstone of Audit Quality

Reviews in the literature acknowledged the notion of training as a tool to enhance the quality of audit. Carcello et al. (2005) established the fact that CPD is a necessity as auditors should be on the Lookout for anticipated or expected changes in standards and regulations. IFAC (2024) also stresses the importance of training and updating through pointing out that adequate arrangements to provide the auditors with information on current issues in the field and to facilitate training on existing and new accounting, auditing and regulatory standards. The research findings supported this narrative and established the large gaps that prevailed in the need for affordable and effective training for small audit firms in Zambia.

This was in line with the Pfeffer and Salancik (1978) resource dependency theory which provided a useful background for thinking about the issue of training and professional development. The theory posits the firms' use of outside resources to accomplish goals. Applying this to small audit firms: The lack of adequate financial capital limited their ability to establish in-house training programmes thus they largely relied on ZICA and other external trainers. The outside trainers also did not do much as they were very expensive and could hence not be hired. As a result, the trainers available in the market were local and some of the good ones were out of reach due to high charges. This led to small audit firms being able to operate with little or no training especially for junior staff effectively stunting their growth.

The problem was compounded by the so called “brain drain” effect. For example, one respondent paid attention to the exploration of to train or not to train dichotomy. To train auditors one needed to spend some resources and to do it would take some time. What was raising much concern was the fact that once trained, the staff were soon coveted by other more well-endowed bigger firms or corporate organizations and poached over. The major concern with practitioners then therefore shifted to lack of investment in training of that same human resource and retaining them for longer time. Since there was a case made for training, it became each practitioner’s responsibility to find a way of how this could be done.

5.1.1 Audit Firms Call to Action

To overcome these challenges a multi-pronged approach was needed which brought together contributions from the firms themselves, professional bodies and policymakers. Possible strategies for small audit firms to consider included the following:

- **Retention Strategies:** The firms should rank staff retention as a priority by providing good pay which is competitive. This should go hand in hand with putting in place a sound career progression framework which had prospects for growth and which provided for an empowering workplace. Feedback from the employees should be appreciated and more concern shown to work life balance. For an organization to achieve a high retention rate even further, the following ought to be put in place, well-structured training programmes, to assist the staff to acquire professional qualifications as well as availing promotion opportunities within the firm for the deserving staff.
- **Mixed Training Models:** Some of the cost-effective methods include; purchasing online courses, one on one with peers, providing training activities conducted by senior staff, and carrying out some with other firms. Besides self-directed learning should be promoted and seeking access to any available and relevant topic over the internet or any library to be promoted.

- **Mentorship Programmes:** Formal mentorship programmes to facilitate guidance and support to inexperienced staff which focused on professional development and inculcating technical skills and knowledge were needed.

5.1.2 Professional Bodies Role

- **Provision of Cost-Effective Training Programmes:** Besides guaranteeing compliance to standards, professional bodies were also very important when it came to training. Here, I recommend that ZICA ought to offer cheap training to its members and or offer grants or scholarships to the small audit firms. Being a body of members, ZICA should also provide knowledge for sharing among firms as well as promotion of linkages among firms. The Institute could offer graduated rates which are more easily met by small audit firms, friendly payment terms and leading an effort to negotiate for memorandum of understanding with bodies that can sponsor reduced training rates for small audit firms. This can be further done by calling for developing country pricing from international organizations and not developed country pricing.
- **Online Learning Platforms:** The Institute should develop competency-based courses that address issues and difficulties experienced by small audit firms. The matter of the course can be aimed at the management of audit practices, the control of quality, the application of technology in audits, the practical application of the auditing standards and the risk management. Regarding work accomplished by IFAC by coming up with ISA Guide Volume 1 and 2 a leaf can be taken by having case studies which demonstrate how auditing standards are applied with special reference to the Zambian situation.
- **Tailored Training Content:** Small audit firms should be able to easily get to and afford ZICA recommended online learning platform. The various courses can also be made available on-demand, and this provides flexibility in terms of access. Due to the number of members ZICA have, they itself can approach vendors and convince them to employ favourable terms for its members.

5.1.3 The Role of Policymakers

- **Financial Incentives:** Small audit firms need support for them to thrive when faced with resource constraints. Policy-makers can do this through interventions such as tax breaks or subsidies, to stimulate investment in training and professional development by small audit firms.
- **Targeted Support Programs:** It does suggest that policy-makers could use persuasive methods to get the professional bodies to play their part by providing support to small audit firms via interventions that focused on surmounting challenges. The involvement of key stakeholders in the training area would result in repositioning of programmes that are within the reach of the small entities.

Some of the recommendations include: By forging a positive working relationship policy-makers professional bodies and small audit firms can enhance learning and development therefore support improvement in audit quality of small audit firms.

5.1.4 Improving Training Efficacy: A Focus on Relevance and Practical Application

Therefore, besides the training programmes in auditing standards and regulations there was need to foster the development of specific training interventions appropriate to small audit firms. This could include translating theoretical ideas that have been learned as well as practical problems encountered in day-to-day life.

- **Real World Simulations:** Training should address a case study of audits that are conducted by small firms rather than just giving theoretical knowledge. They should be able to call for the trainees to apply this knowledge and skills in working papers and completing audit file as the situation warrants.
- **Collaborative Workshops:** Workshops to be carried out should facilitate engagement between facilitator and trainees whilst providing opportunities for peer-to-peer learning and cross information sharing.
- **Sector-Specific Training:** Training programmes that cover specific sectors serviced by small audit firms equip auditors with the much-needed knowledge and skill set to effectively execute assignments in the areas.

- **Integration of Technology:** Practical hands-on training programmes that incorporate technology is what should be encouraged. These could cover audit software and data analytics solutions that the firm uses or are widely used by the profession.
- **Soft Skills learning:** Indeed, most of the training activities address the skills which are tangible and fundamental to making the trainees endowed with multifaceted skills hence making the training challenging for situations, which require soft skills. Complementing audit-related technical skills with teamwork, communication, creativity and adaptability – skills necessary to complete audit engagements and work with both team members and clients.

Improving training efficacy and addressing real world scenarios in training interventions, professional bodies would be assured of their impact and contribution to improvement in audit quality.

5.2 Staffing and Retention Challenges: A Complex Matter Requiring Creative Solutions

Knechel et al (2013) argued that small to medium practices are always operating under conditions of restrictive staffing regulations and high labour turnover that significantly affects audit quality. In the article they showed that these challenges faced by small audit firms are as result of career structure of staff, employment package such as salaries and leadership positions. This is made worse by the enticing opportunities found in large audit firms and business organizations, that are well endowed and reduce the difficulties faced by small firms to non-existent on their part.

The survey results corroborated these challenges, and one of them presented a scenario whereby small audit firms had qualified and experienced partners while junior staff with no experience were expected to complement them. The cited challenges resulted in poor audit quality and unwanted outcomes such as:

- **Disruption of Audit Continuity:** High labour turnover is known to affect continuity of audit assignment whereby clients move from firm to firm and contracts are frequently changed. Audit clients turn out to be inconvenient as matters that were dealt with in the initial audit arise in the subsequent engagements making it difficult to constantly control audit issues. Essential historical information formulation of the organization would be wiped out and client relations becomes straining as the new team would take some time in getting used to the learning curve.
- **Increased Risk of Errors and Mistakes:** Inadequate staffing that was compounded by the absence of qualified and experienced human resource was even more prone to make mistakes. This eventually resulted in high instances of non-compliance with the professional, approved standards as well as the regulations thus giving rise low audit quality. According to IFAC, professional judgement entails qualification and experience. A junior lacking one of these will not exercise proper judgement or professional scepticism which will lead to significant omissions and inability to deal with specialized complex situations. The overall effect is low audit quality, and questionable audit opinions in engagements.
- **Overburdened Staff and Low Enthusiasm:** When there is high turnover, firms reduce the number of qualified and/or experienced employees who become overworked, thus reducing chances of focusing on details and potentially decrease audit quality. All these inadvertently contribute to achieving high stress levels, lack of enthusiasm in doing their work and low self-confidence which ultimately fuels labour turnover.

Addressing aforesaid challenges called for a complex but creative solution especially when simple salary adjustments would not do. The focus for small audit firms was to create a positive work place that enticed and maintained talent within the practice by establishing the following:

- **Developing a Strong Firm Culture:** Audit firms should ensure that they have a sound firm culture embracing working together, being excellent, working in teams and personal development. This could be through moderating or even organizing

team building sessions, friendly wording in the practice and embracing diversity and inclusion.

- **Career Progression:** It also calls for audit firms to provide channels for progression of their personnel together with career guidance and training. This would involve developing training programs that are closely associated with the goal of the team members, providing help to pursue professional courses and ensuring that the options for promotion in the practice are available.
- **Succession Planning:** Succession planning is cardinal for seamless transition of leadership and knowledge transmission within the practice. The audit practice should ensure this is established by recognizing and upskilling staff members to lead the practice. The development should be accompanied with opportunities for mentorship, transmission of knowledge and launching clear procedures for a change of leaders.
- **Provision of Staff Recognition and Rewards:** When organisations acknowledge and compensate efforts of workers; employees are likely to feel valued and appreciated. The firms should want to establish structured-based system of congratulating employees with regards to the output they have produced and this will correspond to incentives such as bonuses. Moreover, an element of group decision making could be included which would benefit the team in decisions which are made within the practice.
- **Focus on Work Life Balance:** The practice should show concern for individuals and not only work. This calls for encouraging a healthy work life balance and putting the well-being of employees as a priority which may build loyalty and consequently curtail labour turnover.

These survey results correspond with the World Bank (2017) ROSC report on staffing difficulties faced while operating in small audit firms in developing countries. The report also took a further step of calling on firms to pursue membership or affiliate to international networks as a means of dealing with these challenges as this would accord them a chance to access a broader pool of talent and capital. While there are opportunities most firms remained unenthusiastic as they deemed that this system gave them limited control

over their practice and new exposures to avoidable costs including subscriptions, culture disparities and division of fees.

5.3 Adoption of Technology to Improve Efficacy and Attract Talent

Technology has not only been viewed as a tool for service delivery, it should also be employed in managing staffing issues in small audit firms. This could be done by applying data analytical tools, rationalization of tasks which can be mechanized and to a good extent can overload the auditors to devote time on difficulty work which needs professional discretion. The application of technology would not only help with effectiveness, it would help with the load, increase satisfaction with the job then increase staff morale thereby increasing the staff retention level.

Moreover, business technology makes it possible for employees in the small audit firms to work remotely and this makes it possible for the firms to access a larger number of resources and also offer work flexibility. This ultimately benefits the practice because the use of work life balance and remote staffing targets experienced personnel who seek to have work life balance or who are located far from the area of operation.

The above can be achieved by utilizing technology in the following areas:

- **Routine Tasks Automation:** Normal or manual tasks should be mechanized through audit software like data capture, sorting and production of financial statements, performing castings, to allow auditors enough time to engage on tasks requiring professional judgement as in computation of materiality, advanced analysis and risk profiling and assessment.
- **Workflow streamlining:** Practices required software that enable the use of flows in order to increase team work and improvement amongst teams.
- **Remote work facilitation:** There are those applications that would facilitate secure execution of engagements remotely and they include; cloud-based applications, virtual meeting applications and applications for sharing of files among others should be encouraged and put to practice.
- **Data analytics utilization:** Auditing round the computer and sampling are no longer the best options for auditing. With analytics, systems can now be probed and unlimited data sets examined to generate insights which were not possible with the human mind.

- **Employing Artificial Intelligence:** Artificial intelligence enables firms gain access to sophisticated technologies and analytical capabilities that were inaccessible owing to higher costs associated with such technology.

5.4 ZICA Regulatory and Monitoring Role

ZICA, as the regulatory body for the audit profession in Zambia, has a critical role to play in supporting the growth and development of SMPs. However, the current approach may not be fully effective in addressing the unique needs and challenges faced by these firms.

The following are recommendations for Enhancing ZICA's Support for SMPs:

5.4.1 Establish a Dedicated SMP Committee: The establishment of a dedicated Small and Medium Practitioners (SMP) Committee within ZICA is crucial. This committee would specifically focus on the needs and challenges of SMPs, providing a platform for dialogue and collaboration between ZICA and SMP representatives. The committee would play a vital role in:

- **Advocating for the interests of SMPs:** Representing the concerns and perspectives of SMPs in discussions with policymakers, regulators, and other stakeholders.
- **Developing targeted support programs:** Designing and implementing programs tailored to the specific needs of SMPs, such as mentorship programs, peer-to-peer learning initiatives, and access to specialized resources.
- **Providing input on regulatory matters:** Providing valuable input on the development and implementation of regulations that impact SMPs, ensuring that the regulatory burden is proportionate and that the needs of smaller firms are considered.
- **Promoting best practices:** Sharing best practices and knowledge among SMPs through workshops, conferences, and online platforms.

5.4.2 Enhance Training and Development Programs: ZICA should take steps to make its training programs more accessible and affordable for SMPs. This could involve:

- **Offering tiered pricing structures:** Implementing tiered pricing structures for training programs based on firm size and revenue, making them more affordable for smaller firms.
- **Providing scholarships and financial assistance:** Offering scholarships and financial assistance to SMP staff to support their participation in training programs.
- **Developing innovative training delivery methods:** Exploring innovative training delivery methods, such as online learning platforms, webinars, and blended learning approaches, to increase accessibility and flexibility for SMPs.
- **Tailoring training content:** Tailoring training content to the specific needs and challenges of SMPs, covering topics such as risk management in small businesses, the use of technology in auditing, and the application of international auditing standards in the context of smaller engagements.

5.4.3 Improve Monitoring and Supervision: ZICA should enhance its monitoring and supervision activities to ensure that SMPs adhere to quality standards and ethical guidelines. This could involve:

- **Increasing the frequency of monitoring visits:** Conducting more frequent monitoring visits to SMPs, particularly those identified as high-risk.
- **Improving the quality of monitoring reports:** Providing more detailed and constructive feedback to SMPs following monitoring visits, identifying areas for improvement and providing guidance on how to address identified deficiencies.
- **Utilizing technology to enhance monitoring:** Leveraging technology to enhance monitoring activities, such as conducting virtual inspections and utilizing data analytics to identify potential risk areas.
- **Promoting a culture of continuous improvement:** Encouraging a culture of continuous improvement among SMPs by providing ongoing support and guidance, and by recognizing and rewarding firms that demonstrate a commitment to quality and professional development.

5.4.4 Embrace Technology: ZICA should actively embrace technology to enhance its support for SMPs and improve the efficiency and effectiveness of its own operations. This could involve:

- **Developing an online platform for SMPs:** Creating an online platform that provides SMPs with access to a range of resources, including online training courses, regulatory updates, technical guidance, and peer-to-peer networking opportunities.
- **Utilizing data analytics:** Utilizing data analytics to identify trends and patterns in the audit profession, and to target support programs and resources to the areas where they are most needed.
- **Streamlining administrative processes:** Streamlining administrative processes, such as membership renewals and license applications, through the use of online portals and automated systems.

5. 5 Collaboration and Partnerships:

ZICA, should engage the government agencies, other professional bodies and education institutions, international organisations and industry associations for collaborations and partnerships that promotes the well-being of its audit firms. Some of the opportunities to pursue include:

5.5.1 Government Agencies:

- **Jointly develop and implement programs:** Partner with government agencies to develop and implement programs that provide support to SMPs, such as business development programs, access to finance programs, and capacity-building initiatives.
- **Advocate for favourable policies:** Influence policy to increase government support for SMPs through policies aimed at supporting SMP growth that may include tax-exempt status, financial assistance and eased regulatory requirements.
- **Data sharing and information exchange:** As the first recommendation, the 'procedures for collecting and exchanging data with government

agencies should be developed; these include the identification of primary difficulties and prospects for SMPs’.

5.5.2 Professional Accounting Bodies:

- Develop joint standards and guidance: Consult with other professional accountancy bodies to produce a consistent framework for auditing and accounting by SMPs.
- Share resources and expertise: Exchange relevant products including training and research information, consulting and other services with other professional accounting bodies.
- Jointly address ethical and professional issues: Co-operate with other professional body of accountants to deal with ethical and professional matters concerning auditing and accounting in SMPs.

5.5.3 Educational Institutions:

- Develop joint standards and guidance: Cooperate with other professional accountancy bodies in order to develop a stable framework that SMPs apply to auditing and accounting.
- Share resources and expertise: Exchange relevant products – training and research information, consulting and other services – with other professional accounting bodies.
- Jointly address ethical and professional issues: The nature of decision-making with respect to ethical and professional issues relating to auditing and accounting in SMPs needed to co-operate with other professional body of accountants.

5.5.4 International Organizations:

- Engage with international organizations: Engage with international organizations such as the International Federation of Accountants (IFAC) and the World Bank to learn from best practices and access international resources.
- Participate in international forums: Participate in international forums and conferences to share experiences and learn from other countries.

- Advocate for international cooperation: Advocate for international cooperation on issues related to auditing and accounting for SMPs.

5.5.5 Industry Associations:

- Collaborate with industry associations: Engage with industry associations likely to contain SMPs with the aim of identifying their wants and displeasures.
- Jointly develop and deliver services: Co-provide training and support to SMPs including; training, consultancy, and financial services.
- Promote best practices in corporate governance: Enhance the levels of corporate governance standards practices among SMPs.

It would mean that engaging stakeholders in the process of active cooperation, ZICA could efficiently utilize the experience and materials which can help in the further development of SMPs.

5.6 The Role of Policymakers in Supporting Small and Medium-Sized Audit Firms

Policymakers also have a crucial role to play in creating an enabling environment for SMPs to thrive. This could involve:

- **Improving digital infrastructure:** It also means that proper availability and accessibility of affordable internet connectivity and cloud solutions, cybersecurity is vital for the proper work of SMPs. This could include funding broadband networks and rural internet connection, continuing to broadcast information technology and computer illiteracy awareness as well as subsidizing the implementation of safe online platforms for audit data sharing.
- **Developing robust data infrastructure:** SMPs could use services that focused on creating secure and stable data storage facilities and data-sharing platforms for increased access to industry data and to enhance their research skills. It may entail funding of big data analytics solutions and educating programs together with the advancement of standards that make data interoperable.

- **Strengthening professional infrastructure:** Investing in the development of strong professional infrastructure, such as training institutions, professional development programs, and mentorship networks, could help equip SMPs with the necessary skills and knowledge to compete effectively. This could involve supporting the establishment of centres of excellence for audit research and training, and promoting partnerships between academia and industry.
- **Improving access to finance:** Addressing the challenges faced by SMPs in accessing affordable financing could be critical for their growth and development. This could involve creating credit guarantee schemes, providing access to microfinance institutions, and promoting alternative financing models such as crowdfunding.
- **Promoting collaboration and knowledge sharing:** Engaging SMPs with other members of the network, industry participants, and regulators can address issues and come up with suitable solutions with the outstanding potential for improving practice. This could involve planning and/or the provision of support for industry forums, the sponsorship of working professional groups, and the exchange of knowledge and best practice.

By addressing these infrastructure gaps, policymakers could create a more supportive and enabling environment for SMPs to thrive, contributing to a stronger and more resilient audit profession.

5.7 Limitations of the Study

Although the research has provided very important understandings of challenges faced by small audit firms in achieving the desired audit quality, it is not without limitations. Having focused on Lusaka based small audit firms affects the generalizability of the results to the various parts of Zambia. Further, there was potential for bias emanating from self-reported data since respondents may have given socially desirable answers. Research in the future could manage these restrictions by enlarging the geographic space of the survey and introducing more objective measures of audit quality.

CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS

6.0 Introduction

This research has illuminated the challenging landscape faced by small audit firms in Lusaka, Zambia, as they strive to maintain and enhance audit quality. Financial constraints, limited resources, resistance to change, and the relentless pace of technological advancement all contribute to a complex environment where firms must constantly adapt and innovate to survive. The impact of these challenges on firm performance is significant, potentially leading to reduced productivity, increased staff turnover, and a loss of competitiveness.

However, this is not a tale of despair, but rather a call to action. By acknowledging these challenges and embracing proactive solutions, small audit firms could not only weather the storm but thrive in this dynamic environment. This chapter outlines a roadmap for enhancing audit quality, with recommendations targeted at audit firms, ZICA as the regulatory body, and policymakers.

6.1 For Audit Firms: Embracing Change and Investing in the Future

- **Know Your Needs:** Any training should come with an analysis of the existing skills and their deficit to determine the kind of training to offer, this entails defining those activities where training is required, the knowledge, skills, and abilities required for successful performance in those activities. Minimize the use of criticism/value judgments by conducting surveys, performance reviews and job analyses to identify potential problem areas. A focused approach is that training investments made depend on the development of the strategic map and correspond to the key gaps.
- **Invest in the Human Capital:** Training should be done in moderation, although technical and soft skills training are very important. In the technical division there must be analysis, risk evaluation and sufficient understanding of technology. This list includes hard skill areas as well as soft skills like communication, leadership, or empathy. All the above skills promote teamwork, creativity as well as handling clients that are very important in today's world.

- **Explore Cost-Effective Training:** This is a call to optimise resources by incorporating distance learning education, seminars and training sessions at places of work. Other resources, including free webinars and/or writing industry publications, are also available outside of traditional educational mechanisms. This means that firms can source good training grounds without necessarily having to spend much of their money in the process.
- **Cultivate a Learning Culture:** Transform the workplace into a continuous learning environment. Encourage employees to actively seek out learning opportunities, provide access to industry publications and events, and recognize those who prioritize professional development. Leadership commitment is key, with managers demonstrating visible support for employee growth. By embedding learning into the firm's culture, a dynamic and adaptable workforce can be cultivated.
- **Embrace Technology:** Technology is not just a challenge; it's also a powerful tool for enhancing audit quality. Invest in audit software that automates repetitive tasks, facilitates data analysis, and streamlines workflows. Cloud-based solutions offer improved accessibility, scalability, and security, while data analytics tools provide deeper insights into client data. By embracing technology, firms can improve efficiency, reduce costs, and enhance the value they provide to clients

6.2 For ZICA: A Guiding Hand for the Profession

ZICA plays a crucial role in supporting the development of the audit profession in Zambia. To effectively serve small audit firms, it must ensure its initiatives are accessible and affordable to all members.

- **Enhance Accessibility of Programs:** Provide examples of establishing mentorship, training particular fields, and provide translated material in local languages. These best practices include: look for mobile learning solutions and explore gamification for training. It is recommended that the project engages educational institutions in a partnership so as to benefit from their knowledge and assets. The need to set general training centres across the regions and a centralized knowledge database for practitioners.

- **Leverage Membership Benefits:** Negotiate group insurance plans and access to international networks. Establish a business development platform to connect members with potential clients and encourage participation in pro bono programs. Facilitate industry-specific networking events and international exchange programs to foster collaboration and knowledge sharing.

6.3 For Policymakers: Creating an Enabling Environment

Policymakers have a vital role to play in creating an environment where small audit firms can thrive.

- **Simplify the Regulatory Landscape:** Streamline regulatory requirements, such as reducing paperwork and simplifying reporting, to ease the burden on small firms. Fund research and development to address emerging challenges in the audit profession.
- **Foster Collaboration and Innovation:** Collaborate with ZICA and other stakeholders to develop a national audit strategy. Establish a regulatory sandbox to allow small firms to experiment with new technologies and audit approaches in a controlled environment.
- **Support Small Firms:** Prioritize small firms for government contracts, subject to appropriate quality controls. Provide grants or subsidies for technology adoption to bridge the digital divide.
- **Promote Financial Inclusion:** Partner with small audit firms to provide financial literacy training to SMEs. Support access to finance and promote government initiatives aimed at financial inclusion.

6. Future Research

The author wishes to propose the following areas for future research; there is need to examine the impact of technological advancements on audit quality and interrogate client perceptions of audit quality in small audit firms. Similarly, research that analyses audit quality covering different regions in Zambia would provide a more comprehensive appreciation of the challenges and opportunities in the audit profession.

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APPENDICES

Appendix 1 INFORMATION SHEET

My name is Nkhatya Mbewe, I am a student at the University of Lusaka pursuing a Master of Arts Degree in Business Administration – Finance. I am currently undertaking a study on an examination of the causes of poor audit quality of small audit firms in Lusaka, Zambia.

Information on Research

I am requesting that you spare 30 minutes of your valuable time to participate in the study by answering the following questionnaire.

Potential Risks

If some of the topical questions in the questionnaire unsettle you, please be assured that your responses will be treated with the utmost confidentiality as they are meant purely for Academic purposes. However,

Potential Benefits

Please be informed that there are no direct benefits for your participation in the study. However, the information that you will provide is important to improving audit quality in small audit firms in Zambia through reviewing their current practices and identifying areas of improvement. Further, the information will also provide a benchmark for firms that have none.

Additional Information

If you have any queries about the study, please do not hesitate to contact me on +260977721891 or email nkhatya@gmail.com.

Consent

Participation in the study is voluntary. Please take your time to decide whether or not you would like to participate. If you decide to participate, please note that you are free to withdraw at any time. Your decision made in the study will not affect you in any way.

Do you wish to participate in the study?

Yes ()

No ()

Respondent's signature:..... **Date:**.....



Appendix 2 STRUCTURED QUESTIONNAIRE

Respondent Demographic data

Date of Interview

Place of Interview

Name of Firm

Number of years in operation

Number of partners/directors

Number of audit staff

Main areas of specialization

1. Gender of respondent

Male ()

Female ()

2. Age of respondent

20 – 29

30 – 39

40 – 49

50 – 59

60 and above

3. Education Level

Tertiary

Professional

Section 2: Causes of Poor Audit Quality

Please rate the following factors on a scale of 1 to 5 with 1 being not at all a cause and 5 a major cause in terms of how they affect poor audit quality in your firm

Cause	1	2	3	4	5
Lack of adequate training and professional development opportunities					
Inadequate staffing levels					
Insufficient use of technology in the audit process					
Pressure to reduce audit fees					
Client pressure to overlook certain issues					
Lack of independence from clients					
Inadequate understanding of industry-specific risks and regulations					
High staff turnover					
Other (please specify):					

Section 3: Challenges Faced by Small Audit Firms

Please rate the following on a scale of 1 (not at all challenging) to 5 (extremely challenging) in terms of their contribution to poor audit quality in your firm.

Challenges	1	2	3	4	5
Keeping up with changes in auditing standards and regulations					
Attracting and retaining qualified staff					
Competing with larger audit firms					
Managing client expectations					
Maintaining independence from clients					
Accessing adequate financial resources					
Investing in technology and infrastructure					
Other (please specify):					

Section 4: Impact of Challenges on Audit Quality

To what extent do you believe the challenges identified above influence the quality of your audits? (Please provide a brief explanation for each challenge rated 4 or 5 in Section 3)

Section 5: Effectiveness of ZICA's Monitoring and Regulatory Processes


Please rate the following facets of ZICA's monitoring and regulatory processes on a scale of 1 (not at all effective) to 5 (extremely effective) in terms of their impact on your firm's functionality and audit quality.

Impact	1	2	3	4	5
Clarity and accessibility of ZICA's standards and regulations					
Frequency and quality of ZICA's inspections and reviews					
Timeliness and effectiveness of ZICA's feedback and enforcement actions					
Availability and quality of ZICA training and support programs					
Overall effectiveness of ZICA in promoting audit quality in small firms					

Section 6: Open Ended Questions

- What are your main strengths in your firm in terms of ensuring audit quality?
- What are the main areas of improvement for your firm in terms of audit quality?
- What recommendations would you make to ZICA to enhance its support for small audit firms and improve audit quality?
- Do you have any other comments or suggestions related to audit quality in small audit firms in Zambia?

Appendix 3 SIMILARITY REPORT

 PLAGIARISM
CHECK.ORG

0%

SIMILARITY OVERALL

12.93%

POTENTIALLY AI

SCANNED ON: 16 JAN 2025, 1:29 PM

AI Detector Results

Highlighted sentences with the lowest perplexity, most likely generated by AI.

● LIKELY AI 12.93%	● HIGHLY LIKELY AI 0.00%	
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Report #24442673

CHAPTER ONE 1.0 Introduction A fairly developing country that has a growing economy in Zambia depends much on the strength of the systems used in its financial reporting. Visibility of high audit quality is of great significance in creating public confidence in the financial statements, and the entrenchment of economic growth. However, there has been a criticism of the quality of audits performed by the small audit firms in Zambia especially in Lusaka, the Zambian capital city. These firms came in to effectively satisfy the needs for Small and Medium-sized Enterprises (SMEs) which make up a strong fraction of the Zambian economy. **Economic Development:** When, therefore, Zambia is now seeking to pursue a policy of economic diversification and seeking new sources of foreign investment, the accuracy and reliability of this system of financial reporting is more important than ever before. Accurate financial information is a critical commodity in attracting investors, enabling trade and in pursuing sustainable development **SME Growth:** SMEs are widely recognized as the main source of employment and economic activity in Zambia. It is therefore important that the quality of audits produced for such firms be improved for the growth, competitiveness and general contribution to the national economy. **Regulatory Environment:** The Zambian legal environment for accounting profession, as developing, has some difficulties in implementing and controlling the work of small audit

Appendix 4 ETHICAL CLEARANCE LETTER



SCHOOL OF POSTGRADUATE STUDIES

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UNILUS-RESEARCH ETHICS COMMITTEE

Ref no: FWA00033228-2412/24

Date: 1st December 2024

STUDENT NAME: Nkhatya Mbewe

AN EXAMINATION OF THE CAUSES OF POOR AUDIT QUALITY OF SMALL AUDIT FIRMS IN LUSAKA, ZAMBIA.

The above research was submitted to the research ethics committee for review. The study has no major ethical problems and is approved subject to the following:

1. The study cannot be changed without express permission of the UNILUS research ethics committee.
2. Approval from the necessary authority should be sought.

The committee wishes you success in your work.



Professor Kasonde Bowa

MSc(Glasgow),M.Med(UNZA),FRCS(Glasgow),FACS,FCS,DPH(LSTMH),MPH(UCL)

Chairman- UNILUS REC

Professor of Urology and Consultant Urologist

Deputy Vice-Chancellor – Research and Innovation

Executive Dean - School of Medicine and Health Sciences