

UNIVERSITY  
OF  
LUSAKA

**SCHOOL OF POSTGRADUATE STUDIES**

**IS AUDIT A MANAGEMENT AND ECONOMIC TOOL FOR  
DECISION MAKING? A COMPARATIVE STUDY OF TWO  
PRIVATE AND TWO PUBLIC INSTITUTIONS IN ZAMBIA**

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**Thesis Submitted in Fulfilment of the Requirements  
for the Degree of Doctor of Philosophy in Accounting**

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**SEPTEMBER 2019**

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## Table of Contents

List of tables .....	v
List of figures .....	vii
List of tables .....	viii
List of Acronyms .....	xiii
List of Appendices .....	xiv
Abstract .....	xv
CHAPTER ONE - INTRODUCTION AND RESEARCH BACKGROUND .....	1
1.0 Introduction .....	1
1.1 Background of the Research .....	2
1.3 Statement of the Problem .....	7
1. 4 General Objective .....	9
1.5 Specific Objectives .....	9
1.6 Research Questions .....	10
CHAPTER TWO - LITERATURE REVIEW .....	11
2.0 Introduction of Reviewed Literature .....	11
2.1 Definition of Key Terms .....	11
2.2 Empirical Review .....	13
2.2.1 Controversies on Usefulness of Audit Reports .....	13
2.2.2 Audits and Functions .....	16
2.2.3 The Internal Audit .....	17
2.2.4 External Audit .....	21
2.3 Criticisms of External Audits .....	23
2.4 Factors affecting the internal usefulness of financial reporting .....	26
2.5 Review of Empirical Studies .....	28
2.6 Summary of Literature .....	38

CHAPTER THREE - THEORETICAL AND CONCEPTUAL FRAMEWORK .....	40
3.0 Introduction .....	40
3.1 The Policeman theory .....	42
3.2 The lending credibility theory.....	42
3.3 Theory of rational expectations (Theory of inspired confidence) .....	43
3.4 Agency theory.....	44
3.5 Hypotheses used in Previous Research Related to Theories .....	49
3.5.1 The Monitoring Hypothesis .....	49
3.5.2 The information hypothesis .....	51
3.5.3 The Insurance Hypothesis .....	54
3.6 Conceptual Frameworks Used in Previous Research.....	55
CHAPTER FOUR - RESEARCH DESIGN AND METHODOLOGY .....	59
4.0 Introduction .....	59
4.1 Research Design and Justification .....	62
4.1.1 Usage of Inductive Strategy.....	67
4.1.2 Usage of Deductive Strategy.....	70
4.1.3 Usage of Abductive Strategy.....	73
4.2 Operationalisation of the variables.....	76
4.5 Population and Sampling.....	80
4.4 Data Collection.....	83
4.5 Data Analysis .....	85
4.5.1 Quantitative Data Analysis .....	85
4.5.1.1 Reliability of Results .....	87
4.5.2 Qualitative Data Analysis.....	92
CHAPTER FIVE – FINDINGS.....	95
5.0 Introduction .....	95
5.1 Structuring the results .....	95
5.2 Demographic Profiles of Participants.....	96

5.3 Theme I: Structured system of principles the four corporations have embraced in ensuring that finance external audit report and management letters and activities feed into fostering management and economic decisions.	97
5.3.1 Pre-audit preparations.....	98
5.3.2 Reasons for pre-audits.....	99
5.3.3 Periods of audits.....	100
5.3.4 Type of audits.....	101
5.3.5 Contents of audit reports.....	104
5.4 Theme II: Audit problems identified in the last audit.....	107
5.5 Theme III: Ways the four corporations have applied the outcomes of financial audits as management tools.....	116
5.5.1 ZESCO and Management Decisions.....	117
5.5.2 Lafarge and Management Decisions.....	120
5.5.3 Trade Kings and Management Decisions.....	122
5.5.4 Zambia Airports Corporation and Management Decisions.....	125
5.6 Theme IV: Ways the four corporations have applied the outcomes of financial audits as economic tools.....	132
 CHAPTER SIX – DISCUSSION.....	 152
6.0 Introduction.....	152
6.1 Summary of Answers.....	152
6.2 Variations in Decisions.....	158
6.3 Study Significance (Contributions) and Limitations.....	160
6.4 Conclusions and Recommendations.....	165
 References.....	 170
 Appendix I.....	 192
Appendix II - Guide for interviewing officers.....	194

## List of tables

Table 1. Users of public accounting information.....	19
Table 2 Research Design Matrix.....	60
Table 3: Reliability Standards .....	88
Table: 3a. Factor Analysis Results of the Key Constructs.....	89
Table: 3b. Factor Analysis Results of the identified audit problems.....	90
Table: 3c. Factor analysis results of Management Decision Variables .....	91
Table: 3d. Factor analysis results of Economic Decision Variables.....	92
Table 4. Demographic profile .....	97
Table 5a. Identified audit problems - emerging financial challenges.....	108
Table 5b. Identified audit problems – occurrence of fraud.....	109
Table 5c. Identified audit problems - record keeping errors .....	110
Table 5d. Identified audit problems - asset misappropriation.....	110
Table 5e. Identified audit problems - weaknesses in management controls ...	111
Table 5f. Identified audit problems - Assurance.....	111
Table 5g. Identified audit problems - stewardship stimulation of managers ..	112
Table 5h. Identified audit problems - Credibility.....	112
Table 6a: One-Sample Statistics .....	113
Table 6b: One-Sample Test.....	113
Table 6c: Descriptives.....	114
Table 7a Profile of management decisions for ZESCO .....	119
Table 7b Profile of management decisions for Lafarge.....	121
Table 7c Profile of management decisions for Trade Kings .....	124
Table 7d Profile of management decisions for Zambia Airport Corporation....	127
Table 8a: One-Sample Statistics .....	128
Table 8b: One-Sample Test.....	129
Table 8c: Descriptives.....	130
Table 9a Profile of economic decisions for ZESCO .....	134
Table 9b Profile of economic decisions for Lafarge .....	136
Table 9c Profile of economic decisions for Trade Kings.....	138
Table 9d Profile of economic decisions for Zambia Airports Corporation.....	140
Table 9e: One-Sample Statistics .....	141

Table 9f: Descriptives .....	143
Table 10: Multivariate Tests.....	146

## List of figures

Figure 1: Profile of opinions .....	31
Figure 1: Conceptual Framework.....	58
Figure: 2. Process of Inductive Reasoning .....	69
Figure: 3. Process of Deductive Reasoning .....	71
Figure 4: When was the last external financial audit done.....	101
Figure 5: Type of audit done .....	102
Figure 6a: Box plots of medians of audit problems in the four institutions....	115
Figure 6b: Box plots of medians of audit problems.....	116
Figure 7a: Box plots of medians of management decisions in the four institutions .....	131
Figure 7b: Box plots of medians of management decisions .....	132
Figure 8a: Box plots of medians of economic decisions in the four institutions	144
Figure 8b: Box plots of medians of economic decisions .....	145
Figure 9: Conceptual Model of Observed Decisions.....	159

## List of tables

Table 1. Users of public accounting information.....	19
Table 2 Research Design Matrix.....	60
Table 3: Reliability Standards .....	88
Table: 3a. Factor Analysis Results of the Key Constructs.....	89
Table: 3b. Factor Analysis Results of the identified audit problems.....	90
Table: 3c. Factor analysis results of Management Decision Variables .....	91
Table: 3d. Factor analysis results of Economic Decision Variables.....	92
Table 4. Demographic profile .....	97
Table 5a. Identified audit problems - emerging financial challenges.....	108
Table 5b. Identified audit problems – occurrence of fraud.....	109
Table 5c. Identified audit problems - record keeping errors .....	110
Table 5d. Identified audit problems - asset misappropriation.....	110
Table 5e. Identified audit problems - weaknesses in management controls ...	111
Table 5f. Identified audit problems - Assurance.....	111
Table 5g. Identified audit problems - stewardship stimulation of managers ..	112
Table 5h. Identified audit problems - Credibility.....	112
Table 6a: One-Sample Statistics .....	113
Table 6b: One-Sample Test.....	113
Table 6c: Descriptives.....	114
Table 7a Profile of management decisions for ZESCO .....	119
Table 7b Profile of management decisions for Lafarge.....	121
Table 7c Profile of management decisions for Trade Kings .....	124
Table 7d Profile of management decisions for Zambia Airport Corporation ...	127
Table 8a: One-Sample Statistics .....	128
Table 8b: One-Sample Test.....	129
Table 8c: Descriptives.....	130
Table 9a Profile of economic decisions for ZESCO .....	134
Table 9b Profile of economic decisions for Lafarge .....	136
Table 9c Profile of economic decisions for Trade Kings.....	138
Table 9d Profile of economic decisions for Zambia Airports Corporation.....	140
Table 9e: One-Sample Statistics .....	141
Table 9f: Descriptives .....	143
Table 10: Multivariate Tests <sup>b</sup> .....	146

**List of Appendices**

Appendix I..... 209  
Appendix II - Guide for interviewing officers ..... 211

**Declaration of Originality**

**STUDENT'S DECLARATION**

I, **Matthews C Hara**, do hereby declare that this research is my own original work and has not been submitted for a degree in any other university or college for examination/academic purposes. Further, I have acknowledged all sources used and have cited these in the reference section.

Signature: .....  .....

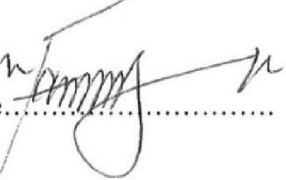
Date: ..... *16/10/2019* .....

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**SUPERVISOR'S DECLARATION**

This research has been submitted for examination with my approval as the University of Lusaka Supervisor.

Signature: .....  .....

Date: ..... *16/10/19* .....

**DR FRANCIS MULENGA MUMA**

## **Dedication**

I dedicate this work to my late father Japhet Majona Hara, a strict disciplinarian who in all essence was a perfectionist in his own way who insisted on everything being done right the first time my late mother Mrs Witness Khuta Zyambo Chisokwe Hara who was not only a humble, loving and caring slet mother, but a friend as well. These four in spite of them not having been to school put me and my brothers through school under very difficult circumstances. My dear wife Mary Lungu Hara a wife extraordinary, quiet and firm always pushing me for excellence. My children Majona, Ndekazi, M'tumbi, Khuta, Salome and Mary Hara Junior, for their patience for sacrificing their time with them for my studies. Further, my brothers Jacob Godwin Hara and Dickson Hara and sisters Dainess Hara and Evelina Hara for constantly encouraging me in the background.

I wish to mention all my fellow lecturers at the University of Lusaka for their support. I would be amiss not to mention Professor Pinalo Chifwanakeni Vice Chancellor of the University of Lusaka who made it possible for me to enter the doctoral study programme as well as former Deputy Vice Chancellors at the University of Lusaka Professor Sinjela now Vice Chancellor of UNICAF Zambia, Professor Ronald Kaulule now at Cavendish University Zambia, who both continue today following up on my progress with the studies. The current, Deputy Vice Chancellor Professor Kazonga at the University of Lusaka equally keenly following and guiding me too.

To you all I say thank you and God bless

## **Acknowledgements**

I take this opportunity to express my gratitude to my supervisor Dr Francis Mulenga Muma on the insightful observation and critic and perseverance with me throughout the time of the research. Sir, without your patience and guidance, I would not have delivered this document the way it is. May God bless you as you continue with your professional guidance and counsel you are rendering to the doctoral students at University of Lusaka.

## **List of Acronyms**

<i>GASB</i>	<i>Governmental Accounting Standards Board</i>
<i>IAASB</i>	<i>International Auditing and Assurance Standards Board</i>
<i>ISA</i>	<i>Standard on Auditing</i>
<i>GAAP</i>	<i>Generally Accepted Accounting Principles</i>
<i>ZESCO</i>	<i>Zambia Electricity Supply Company</i>
<i>NASDAQ</i>	<i>National Association of Securities Dealers Automated Quotations exchange</i>
<i>NYSE</i>	<i>New York Stock Exchange</i>
<i>PCAOB</i>	<i>Public Company Accounting Oversight Board</i>
<i>SEC</i>	<i>Securities Exchange Commission</i>
<i>SE</i>	<i>Standard Error</i>

## **List of Appendices**

<i>Appendix I.....</i>	<i>192</i>
<i>Appendix II - Guide for interviewing officers .....</i>	<i>194</i>

## Abstract

**Purpose/Aim** – The aim of this study was to explore whether there would be differences in the application of audit outputs as tools to make management and economic decisions in two categories of institutions in Zambia.

**Design/methodology/approach** – A mixed methods equal status involving quantitative and qualitative (quan+qual) research design was employed. Cluster sampling and purposive sampling were employed to enlist respondents. One hundred and six employees were surveyed and 21 participated in in-depth interviews. Data was collected using a survey questionnaire and structured in-depth interview guide. Data was analysed using SPSS with a view of analysing, transforming, and producing a characteristic pattern between different data variables. A t-test and ANOVA was used to test if the two samples were statistically different from each other by comparing the means of both samples.

**Findings** – The findings were that based on the immediate previous external audit reports, opinions were all unqualified. However, there were observed differences in the means of identified audit problems in the private and public sectors as shown by one sample t tests  $p = .001$ . There were also statistically significant differences in both management and economic decisions based on the identified audit problems. There was no clarity however in both organisations as to whether the managements' of the two categories of organisations used the external auditors' reports for their management and economic decisions.

**Research limitations/implications** – Very little has been written on why external audit is undertaken annually in organisations, to what end? The fact that the findings of the current study indicate that employees consider themselves to be main users of external audit reports, and that there was a general consensus among the interviewees that auditors mainly serve the interests of the board of directors. Further work on enhancing the content and transparency of the auditor's report is needed particularly in the persistently observed issues left in the Management Letters not being concluded.

**Practical implications** – The practicality of this research is to assess as to whether users of financial information would behave differently if auditor's reporting was changed; particularly if it demanded that management make management and economic decisions using audit report findings among other reports. Currently there is no demand on audit report usage by management.

**Social Implications** – This study is the building block for future research on this topic; in the area of ascertaining the usefulness of an external audit report to management and generally other stakeholders.

**Originality/value** – The study has highlighted the real need for an external audit report beyond the statutory requirements. The originality of this study lies in the fact that there is very little use of the audit report currently beyond satisfying statutory requirements of providing an independent opinion on the accounts of an organisation. The reality however is that the external audit report is intended to foster effective management and economic/investment decisions of the organisation. Rather than serving boards of directors but ensure to meet the needs of all users of the external audit reports.

# **CHAPTER ONE**

## **INTRODUCTION AND RESEARCH BACKGROUND**

### **1.0 Introduction**

In the complex economic world, consisting of different agents – Public Administrations, public and private non-financial firms, financial institutions, etc. – decisions have to be taken constantly. They have to have at their disposal managerial economic and financial information that is exhaustive both in content and in quality, and with sufficient guarantees to make it reliable. The decision-making process tends to be similar in all organizations, even if the decisions concern particular issues either in the public or private sectors. The effectiveness of decision models depends on the circumstances that shape the organization (Tarter and Hoy, 1998).

The importance to strong corporate governance of managing risk has been increasingly acknowledged. Organizations are under pressure to identify all the business risks they face; social, ethical, and environmental as well as financial and operational, and to explain how they manage them to an acceptable level (Singleton and Singleton, 2008). Auditing has been known to play an important role in fostering making management decisions to reduce risk and to make choices thriftily by trying as much as possible to make savings and investments. Meanwhile, the use of audits in enterprise-

wide risk management frameworks has expanded, as organizations recognize their advantages over less coordinated approaches to risk management. Internal and external auditing, in both its assurance and its consulting roles, contributes to the management of an enterprise and making reliable choices in a variety of ways (Sarens and De Beelde, 2006; Buchanan and Gibb, 2008).

### **1.1 Background of the Research**

Context in research is critical in that it provides the circumstances that form the setting for an event, statement, or idea, and in terms of which it can be fully understood.

Historically audit can be traced as far back as 4000 B.C. Record-keeping systems were historically instituted by organized businesses and governments in the Near East to allay their concerns about correctly accounting for receipts and disbursements and collecting taxes. Similar developments occurred with respect to the Zhao dynasty in China (1122-256 B.C.). The need for and indications of audits can be traced back to public finance systems in Babylonia, Greece, the Roman Empire, the City States of Italy, etc., all of which developed a detailed system of checks and counterchecks. Specifically, these governments were worried about incompetent officials prone to making bookkeeping errors and inaccuracies

as well as corrupt officials who were motivated to perpetrate fraud whenever the opportunity arose. Even the Bible (referring to the period between 1800 B.C. and A.D. 95) explains the basic rationale for instituting controls rather straightforwardly: "...if employees have an opportunity to steal they may take advantage of it."

The Bible also contains examples of internal controls such as the dangers of dual custody of assets, the need for competent and honest employees, restricted access, and segregation of duties (O'Reilly et al., 1998). Historically then, the emergence of double-entry bookkeeping in circa 1494 A.D. can be directly traced to the critical need for exercising stewardship and control. Throughout European history, for instance, fraud cases — such as the South Sea bubble of the 18th century, and the tulip scandal, the Enron scandal of 2000 — provided the justification for exercising more control over managers.

As business activities grew in size, scope, and complexity, a critical need for a separate internal assurance function and an external assurance function that would verify the (accounting) information used for decision-making by management emerged. Management needed some means of evaluating not only the efficiency of work performed for the business but also the honesty of its employees. Around the turn of the 20th century, the establishment of formal audit functions to which these responsibilities could be delegated

was seen as the logical answer. In due course, audit functions became responsible for “careful collection and interpretive reporting of selected business facts” to enable management to keep track of significant business developments, activities, and results from diverse and voluminous transactions (Mautz, 1964).

Relating to the use of an external audit as a management or economic decision tool which is the subject of this inquiry, this historical context is linked to the need to emphasise economy, efficiency, and effectiveness of modern enterprises.

A review of literature has shown lesser attention to audit reports helping enterprises and especially managers, creating additional flexibility or autonomy to manage the aftermath of audit by stressing a greater focus on risk management and measuring performance following revelations of audits.

In Zambia, managements are under increased pressure to fully and quickly comply with ever evolving practices in management and not forgetting making the need to make economic decisions in their enterprises. Managers are expected to not only improve process efficiency, thus creating value for shareholders, but also to stay informed about how best to make savings, profits and re- invest in the enterprise (Buchanan and Gibb, 2008; Botha

and Boon, 2003). While corporate governance audits or reviews and compliance audits are regularly performed at a company level, and performance reviews at a management level, it appears that examining the performance of management and economic decisions with respect to a company's strategies are only very seldom done (Higson, 2003).

External audit reports and reviews have generally consisted of checking whether the procedures, tools, funds, and means for achieving a strategy are working effectively at an operational level, thus leaving aside such important management decisions as market positioning and development and allocation of critical resources. However, these management and economic decisions can impact on stakeholders' long-term interests, because they concern overall competitive success and a firm's ability to innovate and grow. The study of these decisions, and whether they contribute to the realization of a company's strategy or are additional sources of firm risk, are often neglected and corrective actions are also missing. The only solution is to conduct audits and use the lessons from them to make management and economic decisions.

To audit therefore is to make an official account of an organization or activity, or to verify the account of others. The 'public and private audit function' involves one or more specialized agencies within the public sector or a private consulting firm in auditing the delivery of policies in an institution (Henczel, 2001 ; Pathak ; 2004). It has four primary purposes. First, it makes visible activities and events in the enterprise that matter to

politicians and the wider public. Second, it distinguishes the legitimate from the illegitimate (Robertson, 1997). In a liberal democracy it is an important mechanism reinforcing the accountability of departments and agencies. The requirement on officials in an enterprise to legitimize its actions in relation to the goals of policy or strategic plan and the rule of law is fundamental to the maintenance of a liberal polity. The rules governing how this function should be carried out are therefore central to the conduct of entrepreneurial life.

The concept of audit is based on a will of good control allowing at first a better management and then a reconciliation of the divergent interests within the firm (Pound et al., 1997). So, the auditor allows to arrange a global vision of the company, to prevent the risks and to incite to set up devices of appreciation, evaluation and control (Brousseau, 1993) intended to confine the chances to delete them. The demand for audit arises from the potential conflict of interest that exists between stakeholders and managers. The contractual arrangement between these parties normally requires that management issue a set of financial information that purports to show the financial position and results of operations of the entity.

Within this context, institutions, which are important financers of public administrations as well as private administrations in general, can be considered as one of the most common user-groups of the financial information provided by auditors, which means that their information-needs

should be catered for with the maximum possible guarantees especially when external audit reports are unqualified.

Since, the inception of the compulsory audit (Beasley, 2012), the external audit report has been under discussion and criticism that it has not helped matters in facilitating management or economic decisions (Papadatou, 2005; Karagiorgos et. al, 2006). This has been an important part of the audit expectations gap (Salehi and Gowda, 2006). There are also in the literature for example, Gwilliam (1987) has argued that a number of studies have suggested that the average investor pays little attention to the external audit report.

### **1.3 Statement of the Problem**

The impetus for this study stems from the gaps in the literature that have shown lesser attention to audit reports helping enterprises both in the public and private sectors and especially managers, creating additional flexibility or autonomy to manage the aftermath of audit by using the audit outcomes to make management and economic decisions. Instead management stresses a greater focus on risk management and measuring performance following revelations of audits.

The problem leading to this study stems from professional debates. There have been inconclusive debates during annual general meetings among Zambian auditors regarding the performance of private and public enterprises. Those in the private sector argue that their managements use

external audit reports to make management as well as economic decisions and disparage public managements of failing to do so. There are also disagreements among auditors with some making claim that there are differences in terms of:

- (a)** Existence of structured systems of principles which public and private enterprises embrace in ensuring that financial external audit reports and activities feed into fostering management and economic decisions
- (b)** Types of audit problems;
- (c)** The application of the outcomes of financial audits as management and economic tools.

In arguing the existence of these differences, ZESCO and Zambia Airports Corporation two well performing public utility enterprises (MoF Monthly Bulletin, 2016) and Lafarge and Trade Kings two emerging private enterprises were brought into the picture for comparison during these debates.

Overall, little is known about how audit reports feed into making management and economic decisions in these four enterprises. The assumption of the study was that an institutional organisational value system of external audit out puts are a key ingredient of the sustainability of an institution and as such should be examined. It would be prudent as such to settle the argument which is un supported by empirical evidence that there are differences between private enterprises and public enterprises in

order to ascertain what financial audit adds as tools in appraising management and economic decisions.

#### **1. 4 General Objective**

The general objective of this study was to explore whether audit is used as a tool to make management as well as economic decisions and whether there are differences in the application of audit outputs as tools to make management and economic decisions in the private and public institutions in Zambia.

#### **1.5 Specific Objectives**

- 1) To determine from verbal accounts what structured systems of principles exist in ensuring that finance external audit reports and activities feed into fostering management and economic decisions.
- 2) To determine using quantitative measures what structured systems of principles exist in ensuring that finance external audit reports and activities feed into fostering management and economic decisions.
- 3) To determine whether a difference exists in the identified audit in the last audit in the four enterprises?
- 4) To determine whether a difference exists in application of outcomes of financial audits as management tools in the four enterprises.

- 5) To determine whether a difference exists in terms of application of outcomes of financial audits as economic tools for decision making in the four enterprises.

## **1.6 Research Questions**

- 1) What structured system of principles have the enterprises embraced in ensuring that financial external audit reports and activities feed into fostering management and economic decisions (induction and abduction)?
- 2) What similar audit problems ~~if any~~ are identified in the last external audit among enterprises? (Induction)
- 3) In what similar ways ~~if any~~ have the enterprises applied the outcomes of financial audits as management tools? (Induction)
- 4) In what similar ways ~~if any~~ have the enterprises applied the outcomes of financial audits as economic tools? (Induction and Abduction).

## **1.7 Hypothesis.**

Research questions 3 and 4 in essence are reducible to test the following hypothesis that looks at differences or similarities:

There is no difference in the enterprises between the population means (i.e.,  $d = 0$ ) following any identified audit problems and the use of external audit outputs (audit report and management letter) in making management as

well as economic decisions. Symbolically hypotheses to be tested are depicted below.

$$H_0: \mu_1 = \mu_2$$

$$H_a: \mu_1 \neq \mu_2$$

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction of Reviewed Literature

The literature review was arranged according to the themes related to the research questions. The review comprises of the definition of key terms, controversies on usefulness of audit reports, audits and functions, criticisms of external audits, factors affecting the internal usefulness of financial reporting, review of empirical studies and summary of literature

#### 2.1 Definition of Key Terms

Audit: Etymologically, the word 'audit' is derived from the Latin word, '*audire*,' which means 'to hear'. Thus, in the beginning, the word 'audit' was meant 'to hear' and auditor literally meant a "hearer" (Salehi, 2008 a, b). The hearing function by the auditor was then aimed at declaring that the accounts kept by the management and the financial statements prepared by

them are 'true and correct'. And his function was to give assurance against fraud and intentional mismanagement (Salehi, 2009).

**Financial Audits:** Those audit actions that focus on the prescriptions of the law and the reporting needs of shareholders. These do not evaluate the company's performance with regards to the cost of production.

**Cost Audit:** Focuses on performance evaluation and the shareholders at large. It helps to improve the performance production efficiencies by detecting deviations from standards and reasons of viable and reasonable losses, inefficiencies, and wastages. Cost audit is internationally considered as a management and economic tool and is strongly related to cooperate governance. Cost audit comes from the maxim "prevention is better than cure."

**External audit:** An external audit is an independent examination of the financial statements prepared by the organisation. It is usually conducted for statutory purposes (because the law requires it).

*Decision* - A decision is a choice made from available alternatives. A decision is a final product of the specific mental/cognitive process of an individual or a group of persons/organisations which is called decision making, therefore it is a subjective concept. It is a mental object and can be an opinion, a rule or a task for execution/application.

Decision making - is the cognitive process leading to the selection of a course of action among alternatives. Every decision-making process produces a final choice. It can be an action or an opinion. It begins when I need to do something but I do not know what. Therefore, decision making is a reasoning process which can be rational or irrational and can be based on explicit assumptions or tacit assumptions.

The definition of these terms clearly indicates that knowledge and hence decisions are not solely rational processes. Authors such as Bazerman (2005) and Daft and Marcic (2003) suggest that there are at least four different approaches to decision making which need to be considered. Although a number of scholars have remarked that the “concept of objectivity in accounting is largely a myth” (Mulligan and Hastie, 2005) performance measurement, accounting and auditing are still seen as objective evaluations of reality by most academics and practitioners (Power, 1997).

## **2.2 Empirical Review**

### **2.2.1 Controversies on Usefulness of Audit Reports**

External audit is promoted as a trust engendering technology (Power, 1999<sup>1</sup>) to persuade the public that capitalist corporations and management are not corrupt and that companies and their directors are made accountable. In an uncertain world, corporate audits are expected to produce comfort by reassuring the stakeholders that the technology “provides an external and objective check on the way in which the financial statements have been prepared and presented, and it is an essential part of the checks and balances required. Audits are a reassurance to all who have a financial interest in companies” (Committee on the Financial Aspects of Corporate Governance, 1992: 36<sup>2</sup>). Accountants, as auditors, have cemented their status and privileges on the basis of claims that their expertise enables them to mediate uncertainty and construct independent, objective, true, and fair accounts of corporate affairs. This expertise, it is claimed, enables markets, investors, employees, citizens, and the state to limit and manage risks. Such claims, however, are precarious as measures of revenues, costs, assets, liabilities, and profits are contested technically as well as politically and also because capitalist economies are inherently prone to crises (O’Connor, 1987<sup>3</sup>). The claims of expertise are frequently punctured by unexpected corporate collapses, frauds, and failures. Such events fuel the suspicions that auditors lack the requisite independence, expertise and incentives to construct the promised ‘true’ and ‘fair’ account of corporate affairs. They also provide an opportunity to reflect and (re)construct the role of auditing in contemporary society. Major Western economies have been going through a deepening financial crisis, given visibility by banking failures and massive state intervention to rescue ailing financial

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<sup>1</sup> Power, M. (1999). *The audit society rituals of verification*. Oxford: Oxford University Press

<sup>2</sup> Committee on the Financial Aspects of Corporate Governance (1992). *The financial aspects of corporate governance* (Cadbury report). London: Gee.

<sup>3</sup> O’Connor, J. (1987). *The meaning of crisis: A theoretical introduction*. Oxford: Basil Blackwell.

institutions. This has called for the need to ensure that managements use external audit reports as an aspect of going concern (Sikkha, 2009).

For more than half a century, the relevance and usefulness of audit reports have been of research interest. The audit report is often criticised for failing to provide informative content to users of financial statements (Church et al., 2008). From a theoretical point of view, the audit report as an independent second opinion should provide additional information that helps financial statement users to make decisions (Guiral and Ruiz, 2014), but in practice, the message conveyed by audit reports has been questioned by regulators and academics alike (Church et al., 2008). The main concern is that the exact message or messages communicated by the audit report are not very apparent to financial statement users (Church et al., 2008; Mock et al., 2009). Indeed, most studies conclude that users do not give additional credence to the qualification/modification in the auditor's report (Bessell et al., 2003). In this context, the International Auditing and Assurance Standards Board (IAASB, 2011) and the Public Company Accounting Oversight Board (PCAOB, 2011) have taken action to change the auditor's reporting model to increase its transparency and relevance for financial statement users<sup>4</sup>.

However, as there is still concern about the quality, relevance and value of auditor reporting on an international basis, academics, practitioners and

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<sup>4</sup> In May 2011, the IAASB (2011) released a consultation paper entitled "Enhancing the Value of Auditor Reporting: Exploring Options for Change". Moreover, in June 2011, the PCAOB (2011) published a concept release on "Possible Revision to PCAOB Standards Related to Reports on Audited Financial Statements."

regulatory bodies have considered changes to the auditor's report to enhance auditors' reporting (Asare and Wright, 2009). There is also a long-standing debate about the usefulness of auditors' going-concern reports.

### **2.2.2 Audits and Functions**

It is barely impossible to conceptualise internal audit considering the diversity of its application in business entities. Even so, one would cite the concept provided by the Brazilian Institute of Internal Auditors (AUDIBRA, 1991: 33). that the institute says that "Internal audit is an activity of independent evaluation and management assistance, directed to the examination and evaluation of the adequacy, efficiency and effectiveness of the internal control system, as well as of the quality of performance of the operational areas in relation to their tasks and plans, goals, objectives, and policies defined for them".

Noteworthy, that effectiveness means adequate exploration of the resources to achieve the desired goals while efficiency means that required indexes are achieved using the minimum and necessary efforts for the maximum output. Thus, the internal auditor's opinion should state whether the entity is being effective and efficient in achieving its goals. According to Vasconcelos and Pereira (2004: 69-70), the scope of binomial efficiency and effectiveness is a functional view that the organisation's stakeholders have of

the Internal Audit work. The Internal Auditor, in my view, should monitor and seek to understand these dynamics and their effects on the economic and financial status. Therefore, I argue that this professional is the best suited to signal the potential risks of going concern of organisations considering operational anomalies. That is, it would be up to him, based on analysis to provide a straight forward assistance in the monitoring of the financial situation. My most important argument rests on the following premise: the internal auditor may propose directives and valuable information based on their historical data and rapport with the organisations' management.

### **2.2.3 The Internal Audit**

Quoting CFC (2005), the Brazilian Federal Council of Accountants, characterizes the functions of Internal Audit as structured with technical, objective, systematic and disciplined procedures that aims to add value to the results of the organisation, providing data for the improvement of processes, management and internal controls through the recommendation of solutions for nonconformities identified in the reports. In this same way, CFC (2011) emphasizes the managerial support that internal audit has to provide so that business objectives are attained in a more adequate manner. This explicitly defines Internal Audit as an advisory body to the management of the entities, aiming to add value by providing data for improvement of management processes.

According to Mendes (1996: 9) the objective of the Internal Audit is, in particular, “forming opinion about the criteria, procedures, methods and quantification, cost rationalization and providing information so that the top management decisions are based on concrete information.” The decisions to be made by management always depend on good information, that is, accurate and timely.

The Internal Audit is an instrument of administrative control and systematic verification of the effectiveness and efficiency of occupational activities in the company; it evaluates the entity’s internal controls and its administrative and occupational processes, analysing the failures and the risk involved and gives broad based recommendations for remediation of anomalies. The Internal Audit work aims to protect the company’s assets against frauds or intentional misstatements. Classified by Moyes et al. (2013) as misstatements resulting from fraudulent financial reporting and ii) misstatement resulting from misappropriation of assets.

The need to provide useful public financial information to the users in these torrid years, many authors and organisations have dealt with the task of identifying the type of users public accounting information should be aimed at (Anthony, 1978; Drebin et al., 1981; GASB, 1985, 1987). This same line has been followed from the 1990s to date and the catalogue of users was extended, as I can see in the work carried out by the International Federation of Accountants (IFAC, 2014) which added international agencies

or governments, along with economic and financial analysts to the other users, or as in the study of Ingram et al (2008) who introduce subsidy granters (see Table 1).

**Table 1. Users of public accounting information**

Users	Anthony (1978)	Holder (1980)	NCGA (1983)	GASB (1987)	AARF (1990)	CICA (1990)	IFAC (1991)	IGAE (1991)	AECA (2001)
Creditors and investors	×	×	×	×	×	×	×	×	×
Resource suppliers		×	×	×	×	×	×	×	×
Financial institutions	×	×	×	×	×	×	×	×	×
Financial analysts					×	×	×	×	×
Managers	×		×	×	×	×	×	×	×
State and other governing authorities	×		×		×	×	×	×	×
Controlling bodies				×	×		×	×	×
Elected representatives	×		×	×	×	×	×	×	×
Employees			×	×	×				×
General public	×		×	×	×	×	×	×	×

Source: Antonio et al. (2004: 119)

Most of the studies that were published along these lines in the 1970s and 1980s contained a common element: they ignored the orientation of public accounting information towards internal and external users with limited access to the information in question (Patton, 1978). However, this trend has been modified in recent years, and these users have been granted a more relevant place (GASB, 1997).

However, different users will have different information needs, according to their interests, functions, and competences, leading to relatively complicated inter-relations owing to the fact that there are users that occupy multiple

roles (Drebin et al., 1981). Thus, identifying the needs of public accounting-information-users has been dealt with in numerous statements and studies carried out by various bodies or authors. Looking at the theoretical studies, I can find general proposals that aim to show the needs of each user group (Anthony, 1978; Drebin et al., 1981; Mautz, 1982; NCGA, 1983; GASB, 1985; Likierman, 1989; Ingram et al., 1991) along with others that attempt to influence the informing organisations, by highlighting the specific needs of certain user groups that they consider to be significant regarding their relevance in the use of this information (FASB, 1985; Henke, 1988).

Jones (1992) points out, taking certain users and certain needs, for which there is no empirical evidence, to establish the objectives of public accounting information, can lead to an output of information that is not as useful as it was expected to be. Mayston (1992) considers that a great step forward would be to study what information is relevant in order to protect the individual interests of each information-user group, instead of analysing the users and their needs. This would allow an optimisation of the financial information that is to be produced.

In this respect, numerous empirical studies have looked into both the needs of different users and the real utility of public accounting information. I would like to refer expressly to some of these studies owing to the close links they have with the research that I am currently involved in. Some of the outstanding studies are:

- Patton (1978). Carried out an empirical research into the effects of financial statement consolidation on local bodies;
- Holder (1980) – in a piece of research done for the NCGA, he limits the study of the information needs of users to those that have the following four characteristics: limited authority over the informing entity and a relatively intense need for financial information;
- Robbins (1984) – analyses the information needs of US municipal stocks or bonds analysts;
- Coy et al. (1997a)–studies the usefulness of public accounting information offered by New Zealand universities for 14 user groups;
- Lin and Raman (1998) – study whether government financial information is useful to citizens residing in metropolitan areas; and
- Tayib et al. (1999) who researched into the needs and demands of local taxpayers in Malaysia.

#### **2.2.4 External Audit**

From a theoretical point of view, the external audit report as an independent second opinion should provide additional information that helps financial statement users to make decisions (Guiral and Ruiz, 2014). But in practice, the message conveyed by external audit reports has been questioned by regulators and academics alike (Church et al., 2008). The main concern is that the exact message or messages communicated by the external audit report are not very apparent to financial statement users (Church et al., 2008; Mock et al., 2009). Indeed, most studies conclude that users do not

give additional credence to the qualification/modification in the auditor's report (Bessell et al., 2003). In this context, the International Auditing and Assurance Standards Board (IAASB, 2011) and the Public Company Accounting Oversight Board (PCAOB, 2011) have taken action to change the auditor's reporting model to increase its transparency and relevance for financial statement users<sup>5</sup>. However, as there is still concern about the quality, relevance and value of auditor reporting on an international basis, academics, practitioners and regulatory bodies have considered changes to the auditor's report to enhance auditors' reporting (Asare and Wright, 2009). There is also a long-standing debate about the usefulness of auditors' going-concern reports. As a contribution to the debate, this study focuses on the factors that affect how institutions use external audit reports. From the point of view of auditors' going-concern reporting, previous research has shown that this is a good example of where the external audit report could serve users of financial information better (Sormunen et al., 2013). The auditing profession was also criticised after the financial crises. Sending a signal to outsiders about the prospects of the firm has been suggested as one of the main incentives for hiring auditing services (Dye, 1993; O'Reilly, 2010) although it has been demonstrated that, more often than not, many observers have been dissatisfied with the ability of the accounting professions to warn against threats of client failure (Citron and Taffler, 2001; Bellovary et al., 2006; Sormunen et al., 2013).

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<sup>5</sup> In May 2011, the IAASB (2011) released a consultation paper entitled "Enhancing the Value of Auditor Reporting: Exploring Options for Change". Moreover, in June 2011, the PCAOB (2011) published a concept release on "Possible Revision to PCAOB Standards Related to Reports on Audited Financial Statements".

There is a long-standing debate about the usefulness of going-concern reporting (Menon and Williams, 2010) and, in turn, this situation has generated a notable feeling of distrust towards the social function that the auditing profession and its audits should fulfil (Guiral-Contreras et al., 2007; McEnroe and Martens, 2001). From the perspective of a user of financial statements, financial institutions lend large sums to companies on a daily basis. In this context, they partly rely on financial statement information, and they are among the main users of private companies' financial statements (Guiral-Contreras et al., 2007; Niemi and Sundgren, 2012). The primary concern of loan officers is to obtain useful, reliable and comparable information, i.e. a guarantee that payments will be made on schedule (Guiral-Contreras et al., 2007; Niemi and Sundgren, 2012; Rodgers and Johnson, 1988). If these aspects are considered together, studies investigating the impact of the external audit report in credit decisions are important (Niemi and Sundgren, 2012). All these are sources of criticisms of external audits which are the subject of the next section.

### **2.3 Criticisms of External Audits**

The external audit function continues to enjoy (or endure) an intense degree of visibility within contemporary society. For more than four decades, Power (1997: 147) wrote that the audit society is a symptom of the times, coincidentally a *fin de siècle*, in which a gulf has opened up between poorly rewarded “doing” and highly rewarded “observing”. Rich rewards accruing to auditors, however, have long been juxtaposed with controversies about the

worth and usefulness of the audit function. Every financial scandal over the past 150 years has reinforced a continuing discourse about the competence of auditors or of bold claims for audit's capabilities. The auditing function has certainly never been reducible to the unproblematic certainties implied by Shakespeare as articulated by the accused steward Flavius: "If you suspect my husbandry or falsehood call me before the exact auditors and set me on the proof" (Timon of Athens, 2, 2, 153). However, as the opening decade of the twenty-first century draws to a close, the greatest financial and economic crisis for 80 years had helped to highlight the problematic and indeterminable nature of statutory external auditing – as well as the underlying financial reporting that its subject matter – as perhaps never before. The reporting in most instances has failed to outline critical areas for managers and directors to concentrate on if they are to make management and economic decisions with frugality (Henderson, 2005; Godfrey et al., 2006; Scott, 2009).

There are numerous contemporary challenges facing the external audit function and it is not straightforward to classify them simply and some are worth pointing out (Citron and Taffler, 2001; Bellovary et al., 2006; Sormunen et al., 2013). External audit faces contemporary challenges both as regards the subject matter audited and the ways auditors carry out their activities. Corporate financial reporting has become juxtaposed with a range of other corporate disclosures-including corporate and social responsibility, corporate governance and risk. These developments prompt questions about

the nature of audit assurance required by stakeholders, while at the same time developments in audit methodologies appear to be faulty and have arguably created an incapacity for auditor engagement with dimensions of the contemporary corporation such as enterprise risk management. However, this does not mean that auditors are not concerned and do not articulate risks in their works (Bellovary et al., 2006; Sormunen et al., 2013).

There are also questions about those mechanisms which mould audit practice; in particular, the formal structures that govern the mandatory requirements for the audit and the form of audit reporting (Guiral-Contreras et al., 2007; Niemi and Sundgren, 2012). Because of this situation, there are some critical questions which are asked like 'is there still a role for the compulsory statutory audit given both the diversity of shareholder and stakeholder needs and the existence of alternative sources and channels of assurance ( Niemi and Sundgren, 2012). Answers are not easy to come by and the most category of business partners that is worried about poor audit functions are creditors.

Creditors are interested in companies' audit state of information to enable them determine whether or not amounts owing to them will be paid when due. Single-person decision theory, which is based on the viewpoint of an individual who must make a decision under conditions of uncertainty. The theory sets out a procedure for allowing additional information to be

obtained from reporting entities to revise a decision-maker's subjective assessment of the probabilities of what might have happened after a decision is made. The theory is promoted by scholars like Raiffa (1968), Demski (1972), Sterling (1979), Ijiri (1983), Solomons (1989), Laffond (1989), Staubus (1999), Cartney (2004), Henderson (2005), Godfrey *et al.* (2006) and Scott (2009).

#### **2.4 Factors affecting the internal usefulness of financial reporting**

The literature on public sector accounting and the above-referred theoretical frameworks, support that the usefulness of financial reporting for the decision-making process of internal users/decision-makers (Pallot, 1997; Paulsson, 2006; Mack and Ryan, 2006; Cohen et al., 2007; Askim, 2008; Yamamoto, 2008; Cohen, 2009; Guthrie, 1998; Grossi and Reichard, 2009; Lee, 2008; Taylor, 2009). The traditional literature suggests that reasons of economic nature (to improve efficiency and effectiveness) have been the main motivation for organizational change, namely the usefulness of the financial reporting for decision-making. However, in the light of the organizational theory, institutional (external) factors – competitiveness, government, professional groups, technology and customers – and cultural (internal) factors – need for efficiency, professionalism, change in the dynamics of autonomy, size and complexity of the organization, and the search for organizational strategies – have a prominent role in explaining organizational change, including that of accounting systems (Scapens, 1994;

Burns and Scapens, 2000; Deegan, 2002; Benito et al., 2010). Regarding changes in the accounting and reporting systems and financial information usefulness, overall, studies a number of studies mention influencing factors such as: institutional and legal pressures, lack of understanding about the new information prepared according to the accrual basis, lack of human resources and resistance to change, among others (Askim, 2008; Yamamoto, 2008; Cohen, 2009; Guthrie, 1998; Grossi and Reichard, 2009; Lee, 2008; Taylor, 2009; Buylen and Christiaens, 2013). Some factors are directly related to the individual characteristics and attitudes of decision-makers, others are the result of certain institutional standards of the respective organizations and others concern outside circumstances. Factors associated with the decision-makers' individual characteristics – such as skills, knowledge and experience of concepts and tools of financial management (familiarity) – seem to be particularly relevant in determining the degree of usefulness they give to financial information (Askim, 2008; Paulsson, 2006; Yamamoto, 2008). The degree of financial reporting data usage for decision-making is also depending on the “decision-usefulness” of the data (see Mack and Ryan, 2006, for this concept), which concerns the potential benefit of data for the user (relevance, congruence with expectations, etc.) but it is also a question of readability and understandability of the financial information. Grossi and Reichard (2009) explain that the demand for certain sets of financial reporting data depends very much on various individual and institutional factors, like knowledge or culture. Generally, the use of financial information is a result of the interplay of several supply-side and demand-side related influencing factors. Considering the literature review

and the conclusions of the studies referred to, generally, external factors are assumed to have a positive effect on the use of financial information, while internal factors have a negative effect (Askim, 2008; Yamamoto, 2008; Grossi and Reichard, 2009). In fact, external (institutional) pressures or contingencies may increase financial reporting usefulness, even generating further (new and different) information needs, given that decision-makers tend to resort to financial reporting so as to show how decision makers and the organizations they run, decide to react to those circumstances. Internal organizational factors and individual characteristics and attitudes may, on the other hand, resist against the external pressures and limit the usefulness of the financial information.

## **2.5 Review of Empirical Studies**

According to Wild (2008) and Fellingham (2005), accounting is considered as the measurement activity that presents financial reports in support of decision makers and their business decisions. The usefulness of accounting information is made up of many factors which, according to Ijiri and Jaedicke (1966), view reliability as having four components: objectivity and bias. Objectivity is defined as the variance in observed measurements objectivity and bias. Objectivity is defined as the variance in observed measurements produced by independent (and truthful) measurers/accountants where higher variance implies less objectivity. Where amounts with low variance in measurement are labelled objective,

amounts with high variance in measurements are labelled as subjective. The FASB's definition of verifiability corresponds closely to Ijiri and Jaedicke's definition of objectivity. Buys (2008) include the timeliness, reliability, relevancy and materiality of the presented accounting data. Financial statements are to provide information for decision making purposes and to show the results of stewardship of the management. Both objectives cannot be achieved by using the same set of accounting standards (Gjesdal, 1981). Generally Accepted Accounting Principles (GAAP) are the accounting rules used to prepare and standardize the reporting of financial statements items, such as balance sheets, income statements and cash flow statements, for publicly traded companies and many private companies (Paul, 2008). Reporting entities have to comply with the provisions of appropriate laws and accounting standards in preparing financial statements. At the same time, they would want to ensure the usefulness of the statements for facilitating effective decision making by all users of the information contained therein.

## **2.5 Qualification of Audits**

To develop this theme, I considered various streams of literature from both accounting and economics and provide data drawn from archival- and survey-based methods. In this way, my paper answers a call by Power and Gendron (2015) for audit research that integrates different research streams

and approaches to provide a variety of perspectives on an audit issue. First, I examine the number of qualified audit opinions issued to US publicly listed companies each year over a recent 16-year period and the severe consequences faced by these companies. Next, I apply a simple game theory – the Rotten Kid Game – to an auditor-client negotiation setting to illustrate how the severe consequences associated with receiving a qualified opinion may result in the issuance of financial statements that do not fully comply with GAAP. Specifically, the severe consequences could be causing audit clients to perceive the threat of a qualified opinion as being non-credible, leaving auditors with little leverage to negotiate GAAP compliance. Consistent with this idea, I note that the number of financial statement restatements each year are relatively high in comparison to the miniscule number of qualified audit opinions and argue that a qualified opinion technically should have been issued for at least some of these company filings. Finally, I look to enforcement agencies presiding over global securities market jurisdictions to provide possible guidance on how the SEC should consider changing its approach toward qualified audit opinions in the US.

**Figure 1: Profile of opinions**

Nature of Matter	Material but Not Pervasive	Material and Pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate evidence	Qualified opinion	Disclaimer of opinion

In the US the qualification of audits is given legal prominence, the Public Company Accounting Oversight Board (PCAOB) describes the auditor’s report as utilizing “a pass/fail model because the auditor opines on whether the financial statements are fairly presented (pass) or not (fail)” (PCAOB, 2011: 3). However, the auditor technically has a third option beyond a strict “pass” or “fail” characterization of the financial statements, which is to qualify his or her opinion. “A qualified opinion states that, except for the effects of the matter(s) to which the qualification relates, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles” (AS 3101.10, PCAOB, 2015). When expressing a qualified opinion, the auditor should disclose, in a separate explanatory paragraph of the audit report, the reasons that led him or she to conclude there was a departure from GAAP. Furthermore, the auditor’s opinion should include the appropriate qualifying language (AS 3101.37, PCAOB, 2015). A qualified opinion may be issued in response to a single, material GAAP violation or limitation of scope that is considered non-

pervasive (i.e., does not impact the overall financial statements). The auditor also has the option of issuing an adverse opinion or disclaiming an opinion (AS 3101.58 – 0.63, PCAOB, 2015). However, these final four reporting options are considered more severe than a qualified opinion as they do not provide any assurance that the overall financial statements are GAAP compliant. Game theory frequently has been used within the auditing literature to model auditor-client interactions due to their strategic nature (Antle and Nalebuff, 1991; Bloomfield, 1995; Fellingham and Newman, 1995). The International Auditing and Assurance Standards Board (IAASB) has adopted a similar standard for conditions when an auditor should issue a qualified opinion (ISA 705.7, IAASB, 2009).

A qualified opinion provides assurance that the overall financial statements are fairly presented in accordance with US Generally Accepted Accounting Principles (GAAP), with the exception of a particular, non-pervasive matter to which the qualification relates (AS 3101.20, PCAOB, 2015). Although the auditing standards give auditors the option to qualify their opinion, the Securities and Exchange Commission (SEC) takes the position that financial statements receiving a qualified opinion fail to comply with filing requirements for publicly listed companies (SEC Codification of Staff Accounting Bulletins, Topic 1E2). Given the SEC's stance, it is not surprising that qualified audit opinions are rarely issued in the US. Despite the fact that nearly all companies receive unqualified audit reports, I still observe a significant number of financial statements that are restated each

year due to GAAP violations. Thus, the question must be asked, is the current “pass/fail” system working?

Presumably, the SEC’s prohibitive stance on financial statements filed with a qualified report is intended to force companies to be GAAP compliant. I argue that the SEC’s stance may actually have the opposite effect. Building on the extant auditor-client negotiation literature (e.g., Gibbins et al., 2001; 2007), I employ game theory (e.g., Dixit and Nalebuff, 1991; Fellingham and Newman, 1995) to contend that the severe repercussions associated with receiving a qualified audit report (e.g., suspension or delisting of securities), coupled with the fact that such reports are virtually non-existent in the US, have caused audit clients to perceive the unqualified opinion as a non-credible threat. I further argue that the inability of auditors to use the threat of a qualification as leverage in auditor-client negotiations severely limits their ability to successfully negotiate audit adjustments, potentially impairing financial reporting quality. Such a result is consistent with the occurrence of financial statement restatements and may indicate that some percentage of the financial statements issued in the US that are subsequently restated likely should have received a qualified opinion when they are initially issued. This brings us to standards used in rendering an opinion.

There are standards governing qualified audit opinions. The PCAOB specifies four conditions when an auditor should issue a qualified opinion (AS 3101.20, PCAOB, 2015):

- a) There is a lack of sufficient appropriate audit evidence or there are restrictions on the scope of the audit that have led the auditor to conclude that he or she cannot express an unqualified opinion and he or she has concluded not to disclaim an opinion.
- b) The auditor believes, on the basis of his or her audit, that the financial statements contain a departure from generally accepted accounting principles, the effect of which is material, and he or she has concluded not to express an adverse opinion (Figure 1). An adverse opinion is a professional opinion made by an auditor indicating that a company's financial statements are misrepresented, misstated and do not accurately reflect its financial performance and health.

According to auditing standards, a qualified opinion differs from an adverse or disclaimer of opinion in that it provides financial statement users with assurance that the overall financial statements are fairly presented in all material respects, except for one particular matter to which the qualification relates (AS 3101.20, PCAOB, 2015). In contrast, an adverse opinion and a disclaimer of opinion, do not provide any level of assurance regarding the reliability of the financial statements. Thus, the purpose of the qualified opinion as a reporting option for auditors is to communicate the existence of

a non-pervasive material misstatement (or the risk of a material misstatement in the case of a scope limitation), while at the same time providing assurance that the remainder of the financial statements is fairly presented.

Despite the qualified audit report's explicit statement that the qualification does not have a pervasive impact on the financial statements, the SEC considers financial statements attached to a qualified report to be generally misleading. As such, receiving a qualified opinion is considered to be a violation of Rule 10b-5 of the Securities Exchange Act of 1934 and a violation of reporting requirements under Rule 2-02 of Regulation S-X (Butler et al., 2004; SEC Division of Corporation Finance, 2012; SEC Codification of Staff Accounting Bulletins, Topic 1E2; SEC Regulation S-X).

Violating securities laws typically leads to an SEC investigation, which depending on the outcome of the investigation, can result in suspension and/or delisting of the registrant's securities by the host exchange (refer to NASDAQ Equity Rules 5200, 5800; NYSE Listed Company Manual 802<sup>6</sup>). Section 12(j) of the Securities Exchange Act of 1934 also authorizes the SEC to suspend or revoke the registration of a security if it finds that the issuer has violated securities laws. As pointed out by the SEC, a trading suspension "may raise serious questions and cast doubts about the company in the minds of investors" and cause the stock to trade at

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<sup>6</sup> While investigating a company, the SEC has the authority to immediately suspend trading of the company's stock for up to 10 business days if it believes the company may have violated securities laws (e.g., by failing to provide current, accurate or adequate financial information) (SEC Office of Investor Education and Advocacy, 2012).

“significantly lower prices” (SEC Office of Investor Education and Advocacy, 2012: 3). When a stock is delisted and “there is no market to trade the shares, they may be worthless” (SEC Office of Investor Education and Advocacy, 2012: 3). Investors who are harmed by a trading suspension or stock delisting resulting from a company’s violation of securities laws can file a complaint with the SEC or take legal action (SEC Office of Investor Education and Advocacy, 2012). Accordingly, a company that files financial statements with a qualified audit opinion (a violation of securities laws), may ultimately have its securities suspended and/or delisted, and possibly face lawsuits on behalf of damaged stakeholders.

For an auditor issuing a qualified report, the consequences are likely to include losing the company as a client or possibly being sued for stakeholder losses resulting from the suspension or delisting of the company’s securities (Cushing, 1999; Hillegeist, 1999). Consistent with this idea, Lys and Watts (1994) report that lawsuits are more frequently filed against auditors when the audit report is qualified compared to when it is not. Thus, it is clear that the issuance of a qualified audit report has the potential to harm the reputation and financial well-being of both the audit firm and its client.

*Evidence on the negative consequences of issuing a qualified audit report*

In an environment in which qualified audit opinions are extremely rare and result in severe consequences when they are issued, economic theory suggests that audit clients will perceive the threat of a qualified opinion from the auditors as non-credible, as issuing such an opinion is not in the auditors' best interest (Dixit and Nalebuff, 1991; Fellingham and Newman, 1995; Kreps and Wilson, 1982; Selten, 1978). To provide evidence that the SEC's stance toward qualified audit opinions has created such an environment within the US, I first present data regarding the actual number of qualified opinions issued to US SEC registrants over a 16-year period from 2000 to 2015. Next, I document the fates of those US companies that filed financial statements containing qualified audit opinions during this timeframe. I specifically examine the frequency with which company securities are delisted from the stock exchange (arguably the most severe consequence) following the receipt of a qualified opinion.

To determine the extent of qualified audit opinion, used within US capital markets, I gathered data on the total number of qualified opinions issued to US public companies over a 16-year time period beginning in 2000 and ending in 2015. A previous study by Butler et al. (2004) reported the number of qualified opinions issued during the six-year time period preceding mine (1994–1999). Their study found that 33 total qualified audit opinions were issued – 19 due to a scope limitation and 14 due to a GAAP departure. I apply the same methodology used by Butler et al. (2004) to identify the number of qualified audit opinions issued from 2000 to 2015.

## **2.6 Summary of Literature**

Generally, the literature has shown that the position taken by auditors the world over is that their work based on opinions provided will trigger the need for management to act on something. If it is a qualified opinion it is expected that management should review the reasons why the statements are qualified where possible ascertain the responsible individual. This typically means taking a management decision to correct the identified ill. On the other hand, if the opinion is unqualified, management will assess the benefits of that opinion to the company and pick out positive recommendations to change the way things should be done in future. This entails making economic decisions with a view of benefiting from the guidance provided by the auditors. Unfortunately, what has been observed in the literature is that this general standard rule is circumvented by the audit firms as in most instances they avoid issuing a qualified opinion even where it is required for fear of being investigated by authorities. The expected benefits in this case are confused or negated altogether.

The impetus for the literature was to the nature of the audit process and the value of the external audit report whether or not it is used to make management or economic decisions. The reviewed literature has shown that no research has been done that looks at the use of external audit reports in making management and economic decisions. The call that was made more than twelve years ago by Papadatou (2005) and Karagiorgos et. al (2006)

that research ought to be done to outline how management make decisions and for what purposes is yet to be done.

The literature has shown a number of gaps even in the local context. There are no published studies in Zambia and no comparative studies have been done. Research is yet to be done to fill in the gaps especially the structured system of principles which corporations embrace in ensuring that financial external audit reports and activities feed into fostering management and economic decisions, the audit problems, the application of the outcomes of financial audits as management and economic tools for decision making. It is for these reasons that the research was done and further the reason for not thematising the review based on the research questions.

## **CHAPTER THREE**

### **THEORETICAL AND CONCEPTUAL FRAMEWORK**

#### **3.0 Introduction**

A theory is a set of interrelated concepts, definitions, and propositions that explains or predicts events or situations by specifying relations among variables. The notion of generality, or broad application, is important. Thus, theories are by their nature abstract and not content- or topic-specific. Theories vary in the extent to which they have been conceptually developed and empirically tested; however, “testability” is an important feature of a theory. As Stephen Turner has noted in his chapter on “Theory Development,” social science theories are better understood as models that work in a limited range of settings, rather than laws of science which hold and apply universally (Turner, 1994).

Theoretical Framework usually presents a systematic way of understanding events or situations. It is a set of concepts, definitions, and propositions that explain or predict situations or the ways in which change takes place in individuals, communities, organisations and societies (Fain 2004; Parahoo 2006). These events or situations by illustrating the relationships between variables. Theories must be applicable to a broad variety of situations. They are, by nature, abstract, and don't have a specified content or topic area (Croyle, 2005). The application of theory allows a systematic assessment of

the problem, its causes, and possible solutions to be undertaken. Without theory, interventions might easily

- a) Address wrong or inappropriate variables or issues (i.e. miss the target completely).
- b) Tackle only a proportion of the combination of variables required to have the desired effect (i.e. hit only a few of the total number of possible targets) (Green, 2000).

Theories are classified in four categories as either explanatory or change theories. Models on the other hand, provide a looser, often untested, framework to help understand reality and the relationship between concepts. They may draw on one or more theories (Greca and Moreira, 2000:2; Heemskerk, Wilson and Pavao-Zuckerman, 2003:8; Lenker and Pacquet, 2003:1; Meredith, 1995; Puth, 1981:18; Reisman, 1988:215; Van de Ven, 1989:486; Ick, 1989:516; Whetten, 1989:491).

Auditing theory helps explain why auditing is needed in the first place. Auditing theory attempts to explain why some of the postulates and key concepts of auditing are so important (Flint 1988). Auditing theory also uncovers some of the laws that govern the audit process and its activities and it provides us with a framework for understanding the relationships and interrelationships between different parties of a firm. There are several

different theories that may explain the demand for audit services. Some of them are known in research and are based on perceptions.

### **3.1 The Policeman theory**

This was the most widely held theory on auditing until the 1940s (Hayes et al., 1999). The policeman theory claims that the auditor is responsible for searching, discovering, and preventing fraud. In the early 20th century this was certainly the case. However, more recently the main focus of auditors has been to provide reasonable assurance and verify the truth and fairness of the financial statements. The detection of fraud is, however, still a hot topic in the debate on the auditor's responsibilities, and typically after events where financial statement frauds have been revealed, the pressure increases on increasing the responsibilities of auditors in detecting fraud. This theory has been used in audit studies however may not be appropriate in this study.

### **3.2 The lending credibility theory**

The lending credibility theory suggests that the primary function of the audit is to add credibility to the financial statements. In this view the service that the auditors are selling to the clients is *credibility*. Audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management (in the

financial statement). The users 'are perceived to gain benefits from the increased credibility, these benefits are typically considered to be that of the quality of investment decisions that improve when they are based on reliable information (Mautz and Sharaf 1961; Flint 1988). However, Porter (1990) concludes, that "audited information does not form the primary basis for investors' investment decisions." On the other hand, it is often asserted that financial statements have a function of confirming message that was previously issued (Hayes et al., 1999). This theory has been used in audit studies however may not be appropriate in this study.

### **3.3 Theory of rational expectations (Theory of inspired confidence)**

This theory was developed in the late 1920s by the Dutch professor Theodore Limperg (Hayes et al., 1999). Limperg's theory addresses both the demand for and the supply of audit services. According to Limperg (1999), the demand for audit services is the direct consequence of the participation of outside stakeholders in the company. These stakeholders demand accountability from the management, in return for their contribution to the company. Since information provided by management might be biased, a possible divergence between the interest of management and outside stakeholders, an audit of this information is required. With regard to the level of audit assurance that auditor should provide, (the supply side). Limperg(1999) adopts a normative approach. The auditor's job should be executed in such a way that the expectations of a rational outsider are not thwarted. So, given the possibilities of audit technology, the auditor should

do everything to meet reasonable public expectations. However, since this information provided by the management may be biased, and outside parties have no direct means of monitoring, an audit is required to assure the reliability of this information. With regard to the supply of audit assurance, Limperg suggests that the auditor should always strive to meet the public expectations. This theory has been used in audit studies however may not be appropriate in this study.

### **3.4 Agency theory**

*Agency theory* (Watts and Zimmerman, 1986a, 1986b) suggests that the auditor is appointed in the interests of both the third parties as well as the management. Several groups (suppliers, bankers, customers, employees etc.) make some kind of contribution to the company for a given price. The task of the management is to coordinate these groups and contracts and try to optimize them: low price for purchased supplies, high price for sold goods, low interest rates for loans, high share prices and low wages for employees. In these relationships, management is the *agent*, which tries to gain contributions from *principals* (bankers, shareholders, employees etc). The manager and the owners have to realize that the auditor does not have responsibility of the accounting, but only see that the auditing is done properly (Andresson and Cecilia, 2005).

It is argued that in a corporation in which share ownership is widely spread, managerial behaviour does not always maximize the returns of the

shareholders (Donaldson and Davis, 1991). The degree of uncertainty about whether the agent will pursue self-interest rather than comply with the requirements of the contract represents an agent risk for an investor (Fiet, 1995). Given that principals will always be interested in the outcomes generated by their agents, agency theory demonstrates that accounting and auditing have an important task in providing information and this task is often associated with stewardship, in which an agent reports to the principal on the companies' events (Ijiri, 1975). The demand for auditing is sourced in the need to have some means of independent verification to reduce record keeping errors, asset misappropriation, and fraud within business and business organization. However, a survey conducted by Wahdan et al. (2005) revealed that the auditors believe that the auditor's work would be used as a guide for investment, valuation of companies, and sometimes in predicting bankruptcy.

According to Hermanson et al. (1993) there are four conditions in the business environment which create a demand for an independent audit. They are: conflict of interest, consequence, complexity and remoteness.

- a) **Conflict of interest:** A company's financial statements are prepared by its directors and these directors are essentially reporting on their own performance. Users of the financial statements want the statements to portray the company's financial performance, position and cash flows as accurately as possible. However, they perceive that the directors may bias their report so that it reflects favourably on

their management of the company's affairs. Thus, it can be seen that there is a potential conflict of interest between the preparers and users of the financial statements. The auditors play a vital role in helping to ensure that directors provide, and users are confident of receiving information which is a fair representation of the company's financial affairs (Hermanson et al., 1993:5). If in an agency relationship ownership is separated from control and both agent and principal strive to maximize their own utility, this will result in conflict of interests (Hermanson et al., 1993:5),

- b) **Consequence:** If users of a company's financial statements base their decisions on unreliable information, they suffer serious financial loss. Therefore, they wish to be assured that the information is reliable and safe to act upon. In this condition, auditor's works add credibility to financial statements and users of them have peace of mind, when audited financial statements are giving the picture of company (Hermanson et al., 1993:5).
- c) **Complexity:** As the information communicated has become more complex, users of information have found it more difficult, or even impossible, to obtain direct assurance about the quality of the information received. As companies have grown in size, the volume of their transactions has increased. As a result of these changes, errors are more likely to creep into the accounting data and the resulting financial statements. Additionally, with the increasing complexity of transactions, accounting systems and financial statements, users of external financial statements are less able to evaluate the quality of

the information for themselves. Therefore, there is a growing need for the financial statements to be examined by an independent qualified auditor, who has the necessary competence and expertise to understand the entity's business, its transactions and its accounting system (Hermanson et al., 1993:5)

- d) **Remoteness:** Remoteness is caused by the separation of the user of the information and the information source. It prevents the user from directly assessing the quality of the information received. In other words, as a consequence of legal, physical and economic factors, users of a company's external financial statements are not able to verify for themselves the reliability of the information contained in the financial statements. Although for example, if they are major shareholders in company, they have de facto right of access to the company's books and records (Hermanson et al., 1993:5).

In South Africa for instance, in the aftermath of a series of local corporate failures and international governance scandals (Konar et al., 2003; Manuel, 2002; Nel, 2001), the reporting duty was broadened and firmly entrenched in South African auditing practice under section 45 of the Auditing Profession Act No26 (2005) (the APA). Although France, Malaysia, the United Kingdom and U.S.A. have similar reporting requirements, these exist often only in terms of the relevant auditing standards or apply in limited circumstances (Maroun and Gowar, 2012; Nel, 2001). In contrast, South Africa is one of the few jurisdictions where the auditor is faced with a generic duty

to blow the whistle on stipulated client transgressions (Nel, 2001). This has been justified on the grounds that the standard audit report lacks sufficient depth, it being possible for the auditor to issue a clean report despite the occurrence of 'acts' or 'omissions' which may be contrary to the interests of various stakeholders (IRBA, 2006; Nel, 2001).

- e) The European Commission (2010a), International Auditing and Assurance Standards Board (IAASB) (2012) and Solomon (2009) make similar arguments, pointing out that, currently, audit reports ought to provide additional insights into audit findings in the name of enhanced governance. To date, however, there has been little research on the impact of whistle-blowing on the audit profession. However, some researchers have examined whistle-blowing in an internal audit setting (Kaplan and Schultz, 2007) or as part of the internal operations of external audit firms (Brennan and Kelly, 2007). The implications of reporting a client's wrongdoings for audit practice, quality and the standing of the external audit profession have not been examined in detail (Maroun and Atkins, 2014). Consequently, the objective of this research is to explore the perceived relevance of the South African reportable irregularity (RI) provisions for audit reporting and the quality of audit engagements. Using a correspondence analysis and detailed interviews, the research finds that the RI provisions, despite not leading to a significant change in audit practice, have made a positive contribution to the perceived usefulness of the external audit process. In particular, having a duty

to bring transgressions to the attention of the IRBA – backed by sanctions for non-performance – stresses the relevance of auditor reporting as part of the corporate governance machinery. While being relevant, in practical terms, for the local audit profession, the research contributes to the broad need for case-specific investigations of audit practice to complement the majority of audit quality research which tends to rely on inferential testing of quality surrogates (Humphrey, 2008; Power, 2003).

### **3.5 Hypotheses used in Previous Research Related to Theories**

In the previous section four theories of auditing are presented. Related, and to some extent overlapping, within these theories Wallace (1980) proposed three hypotheses for explaining the role of the auditor and audit in free and regulated markets and these are the monitoring hypothesis, the information hypothesis and the insurance hypothesis.

#### **3.5.1 The Monitoring Hypothesis**

The monitoring hypothesis assumes that when delegating decision-making power to one party, as suggested in agency theory, the agent is motivated to agree to be monitored if the benefits from such activities exceed the related costs. This hypothesis is applicable to all co-operative relationships in any organization, not only relationships between owners and managers, but also

in relationships between employers and employees, creditors and shareholders, different levels of management in companies and government and taxpayers (Wallace, 1980; 1987). Beaver (1989) pointed out that the monitoring theory strives to solve problems that arise due to moral hazard and information asymmetry between the agent and the principal. Moral hazard is the problem of the agent possessing superior information and thus having the opportunity to use it self-interestedly at the expense of the principal (Beaver, 1968; 1989). Arrow (1985) calls the four types of principal-agent problems hidden action (moral hazard) and hidden information (information asymmetry).

Public disclosures have been seen as one way of controlling the monitoring hypothesis. They have been seen as restricting the superior information position of management. Further, an independent actor can be contracted to inspect the information environment. From this point of view, auditing is one form of controlling for the monitoring hypothesis. The audit reduces the agent's chances to withhold material information from the shareholders (Beaver, 1989). The relationship between the auditor and the board of directors is one factor that affects the monitoring of management. The auditor and the board of directors usually have a relationship, which is considered to increase the monitoring power of the owners. Furthermore, the independent audit committees are considered to be a mechanism that enhances the auditor's independent position in negotiations and increases the effectiveness and quality of the audit engagement (Ng and Tan 2003). Recent updates in control environment regulation for public companies have

imposed higher demands on the independence and expertise of board members. Similarly, the auditors and the management are now mandated to issue internal control reports, which again increases and strengthens the monitoring role of the auditor over the management.

*Wallace (1980, 1987, and 2004) brings forward many factors implying that auditing is a highly valued monitoring system among stakeholders, creditors, and top management. For example, Chow (1982) finds that companies with a higher ratio of total debt to total assets or companies with more accounting based covenants are more likely to have an auditor, presumably to address the agency relationship of management to creditors. Additionally, evidence suggests that the likelihood of voluntarily hiring an auditor increases with the number of employees (Hay and Davis 2004). The value of auditing of management may also be explained by the management's loss organizational control (Abdel-Khalik, 1993). In companies with more employees or more complex organizational structure, management may benefit from audit in the sense that it is an additional means for improving internal control.*

### **3.5.2 The information hypothesis**

Financial reporting was earlier seen to be central to the monitoring purposes, but since the 1960's the focus moved to needs and the provision of information to enable users to take economic decisions (Higson 2003). Therefore, an alternative or complement to the monitoring hypothesis is the information hypothesis. One argument regarding the demand for audited financial statements is that they provide information that is useful in investors' decision-making. Investment decision models in the finance

literature value a company by calculating the net present value of future cash flows. For example, future cash flows have been observed to be highly correlated with financial statement information. Therefore, the audit is valued by investors as a means of improving the quality of financial information. (Wallace 1980, 1987 and 2004) Some of the same information that is used in monitoring contracts is also useful in making investment decisions. The difference from monitoring purposes, however, is that installing means of monitoring usually requires explicit contracting, as is the case when the agent commits to providing audited financial statements. However, the information hypothesis emphasizes that financial information is needed by investors to determine market values, which are means of making rational investment decisions, even in the absence of an explicit contract with the agent (Wallace, 1980; 2002).

Fama and Laffer (1971) discuss three major benefits of information: reduction of risk, improvement of decision-making and earnings of trading profits. Audited financial statements can be related to each benefit. Investors tend to be risk adverse, so they will demand a higher return for higher levels of risk or they will pay a higher price in the form of a risk premium to reduce the level of uncertainty or risk (Fama et al. 1971). For a simple example let us assume that the risk premium represents an individual assessment of how much an audit will reduce uncertainty concerning reported financial information. The audit can be regarded as cost-effective if the risk premium of each individual investor exceeds the cost of the audit to the company. (Wallace, 1980; 1987; 2004).

An audit is also valued as a means of improving the financial data used by managers in decision-making. An auditor can improve the quality of the input data by finding errors and by making employees more careful in preparing records. More accurate data will improve internal decision-making. External use of more accurate data for credit and investment analysis, labour negotiations or regulation decisions will also improve managers' performance (Wallace 1980, 1987, 2004).

The third use of information refers to gains from trade by investors with private information. According to the efficient market hypothesis asset prices reflect all publicly available information. Hence, no abnormal returns can be gained by using publicly available information. The information benefit of profits from trading is only realized by investors with private access to new information. Therefore, the audit function can be evaluated with respect to the benefit of trading gains. In other words, the announced audit findings may only confirm investors' expectations and existing market valuations. However, the absence of gains from trade on audit results does not imply lack of value for audited information (Wallace, 1980, 1987).

The role of the audited data is confirmed by research results (Beaver et al. 1970) which demonstrate an improvement in the estimation of risk through the use of accounting information. The improved estimation of risk does not mean that abnormal earnings could be gained but suggests that investors have more accurate information for evaluating investments (Wallace, 1980;

2004). The perceived credibility of accounting information has been observed to have an effect on interest costs (Wallace, 2002) under-pricing of initial public offerings (Menon and Williams 1991; Hogan, 1997) and bankruptcy (Menon and Williams, 1994).

### **3.5.3 The Insurance Hypothesis**

The third hypothesis on how the demand for audits evolves relates to management's liability exposure (Wallace, 1980). Under the Securities Act, the auditor and the auditee are jointly and severally liable to third parties for losses attributable to defective financial statements. The ability to shift financial responsibility for reported data to an auditor lowers the expected loss from litigation or related settlements to managers, creditors and other professionals involved in the securities market. As potential litigation costs increase the insurance demand from managers and professional participants for an audit can be expected to grow (Wallace 1980, 1987, 2004).

O'Reilly et al., (2006) show that the going concern external audit report information is assessed less negatively when the environment perceives the auditor to provide some insurance. Similarly, Lennox (1999) concludes that the larger auditors with "deeper pockets" are more prone to litigation despite the higher quality that they provide, and thus this is interpreted as confirming the existence of an insurance effect on the demand for auditing.

Finally, Menon et al. (1994) also find evidence that auditors are seen by investors as guarantors of financial statement quality and of their investments. Furthermore, investors also appear to be willing to pay a premium for the right to recover losses from the auditor.

These theories and their hypotheses, even though they are dominant in audit studies, they have not been used in affirming audit as a management and economic decision tool and they are far away from informing this study . Given this scenario, no theory will be tested in this study and as such no concrete hypotheses could be derived from these theories. Further that, this is a comparative study which does not demand testing cause and effect. It is therefore not expected to test these theories as they are not about management and economic decisions. The making of decisions can only be demonstrated by verbal accounts which do not need any hypothesis as argued by Blaikie (2010).

### **3.6 Conceptual Frameworks Used in Previous Research**

Just like the challenge outlined above relating to theories, there has been no research which has outlined a conceptual framework in auditing and as such, this limits researchers who desire to explore the world of auditing. What seems to be the most available frameworks relate to financial reporting in general. Audit reporting shares to some extent the same principles as financial reporting. Financial reporting is orientated to one of four ways:

towards decision makers (the users who require the information contained in financial statements for particular decisions) or towards the decision models being used to make those decisions, for which that information constitutes the input (Sterling, 1970). Users of financial reports might be able to make direct use of the information contained therein to take various informed decision or they might have to employ the services of some experts to guide them in appreciating the message contained therein and how to utilize it in taking informed decisions. In any case, the beauty of financial report is its decision usefulness and, so, it is ethical for a reporting entity to try and make it very useful to identified users, even where some adjustments to the theoretical financial statements becomes necessary. The purpose of financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions. In their capacity as capital providers, decision usefulness requires relevance and reliability of information (Barth et al., 2001). Seen from the accounting regulators “perspective, relevance is concerned with the economic phenomena of the capital providers” decisions and it is the application of the qualitative characteristics of relevance that will identify the economic phenomena to be depicted in the financial reports. Reliability too is defined in terms of other characteristics although of course it is also dependent on the decision being taken. What might be reliable information for one purpose may be insufficiently reliable for another (Solomons, 1986). This makes it important or necessary for reporting entities to ensure that appropriate adjustments are made to general purpose financial statements with a view to making

financial statements more useful to every target user. Williams (2009) states that accounting research for the past four decades has focused heavily on the concept of decision-usefulness, which then also became the agreed-upon guide for judging the effectiveness of accounting and financial reporting. This connection between;

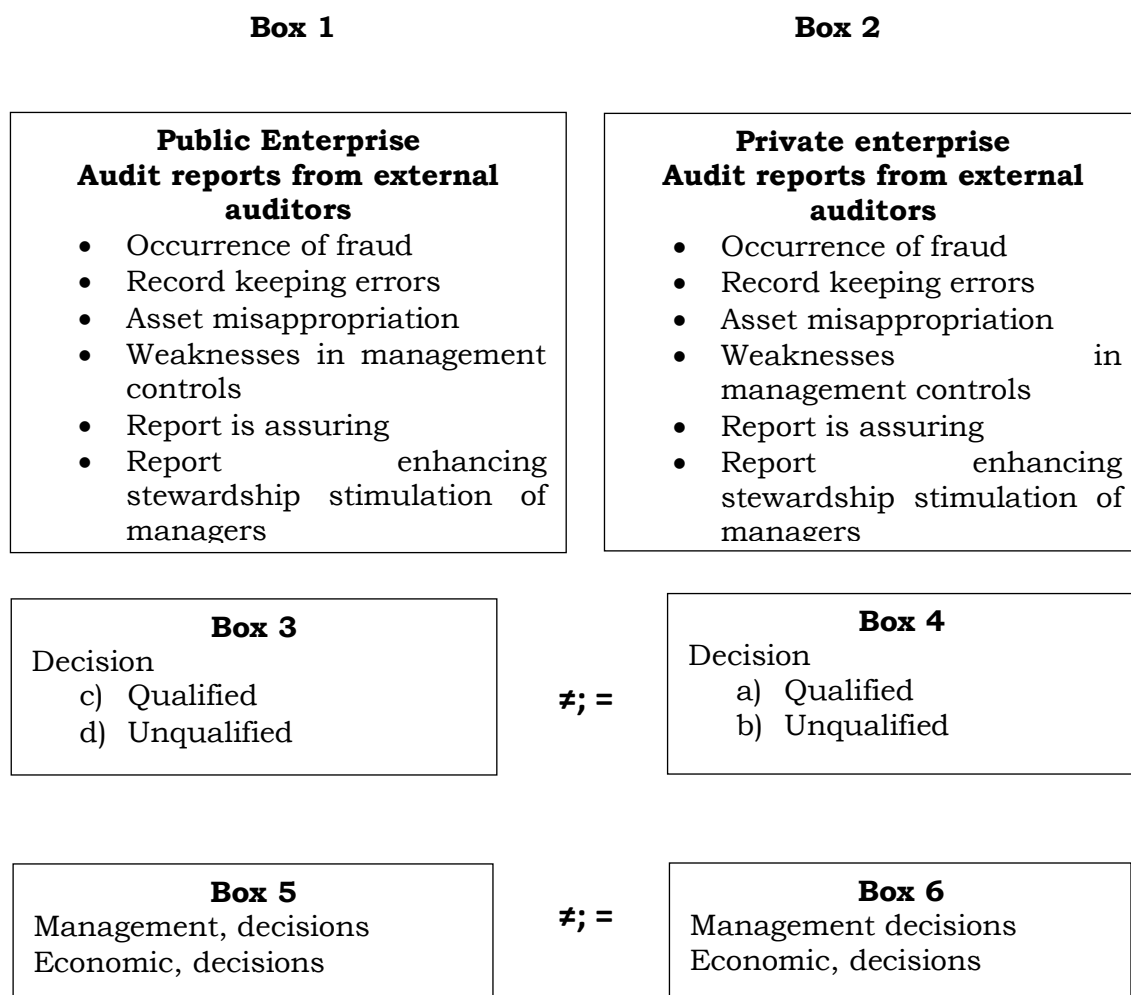
- (i) The users of financial statements,
- (ii) The objective of decision-usefulness and
- (iii) Accounting standard setting was forged fairly recently and was initially quite controversial (Young, 2006).

Given this scenario of gaps in the literature, and noting that the researcher desires to explore whether audit is used as a tool to make management as well as economic decisions and whether there are differences in the application of audit outputs as tools to make management and economic decisions in the private and public institutions in Zambia, a conceptual framework is shown below. The assumption in this study is that audit reports from external auditors could address the occurrence or non-occurrence of:

- Occurrence of fraud
- Record keeping errors
- Asset misappropriation
- Weaknesses in management controls
- Report is assuring
- Report enhancing stewardship stimulation of managers

Following reception of a report from external auditors of the above, management could make decisions from either a qualified or an unqualified report (Box 5 and Box 6) management and economic, decisions) and in all these cases a comparison is made between public and private enterprises with possible outcomes being a difference (≠) or no difference (=) in decision making.

**Figure 1: Conceptual Framework**



**Figure 1: Conceptual Framework**

≠; = this symbolises whether a difference exists or does not exist

## **CHAPTER FOUR**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **4.0 Introduction**

Blaikie (2000) and Cresswell (2003) advise case study researchers to first develop a research design matrix to ground their studies and before they show what their research design is. The research design matrix is essentially a sign post to the methods in the study. The design matrix shows how each research question will be approached and how the whole project will be approached. Following from this, the researcher is in a position to proceed with minimum difficulty.

A research design and research strategy follows from the development of research matrix. The matrix eventually points to the logic(s) or research strategy and the selection of methods that are appropriate for sampling, data collection and analysis in the research. Below, in Table 2 is the research design matrix that points to how each research question was designed to be answered and linking each one ontologically and epistemologically to appropriate objective which inform the sampling, data collection and analysis techniques.

**Table 2 Research Design Matrix**

<b>Research Questions</b>	<b>Objectives</b>	<b>Sampling and Data collection</b>	<b>Data collection Tools and Analysis</b>
What structured system of principles have the four corporations embraced in ensuring that financial external audit reports and activities feed into fostering management and economic decisions (abduction)?	To determine from verbal accounts what structured system of principles exist in ensuring that financial external audit reports and activities feed into fostering management and economic decisions	Purposive sampling of Directors, managers and line supervisors. Data collection from them through In-depth interviews.	Thematic Framework Analysis
	To determine using quantitative measures what structured system of principles exist in ensuring that finance external audit reports and activities feed into fostering management and economic decisions	Random sampling of Finance staff and use of a survey questionnaire	T tests and ANOVA
What similar audit problems if any are identified in the last audit in the four enterprises?	To determine whether a difference exists in the identified audit in the last audit in the four enterprises?	Random sampling of frontline workers	Univariate and bivariate analysis and inferential analysis
In what similar ways have the four corporations applied the outcomes of financial audits as management tools in the four enterprises? (Induction and Abduction)	To determine whether a difference exists in application of outcomes of financial audits as management tools in the four enterprises.		
In what similar ways have the four corporations applied the outcomes of financial audits as economic tools for decision making in the four enterprises? (Induction and Abduction)	To determine whether a difference exists based on verbal accounts in terms of application of outcomes of financial audits as economic tools for decision making in the four enterprises.	Purposive sampling of Directors, managers and line supervisors. Data collection from them through In-depth interviews.	Thematic Framework Analysis
	To determine using quantitative measures whether a difference exists in application of outcomes of financial audits as economic tools for decision making in the four enterprises.	Random sampling of frontline workers	Univariate and bivariate analysis and inferential analysis

Source: Inductively designed by researcher

Looking at the research matrix, this was mixed methods study design in that research questions demanded four types of reality. A mixed methods study design is characterized by the combination of at least one qualitative and one quantitative research component (see the research design matrix). A mixed methods design is preferred when the researcher desires to express four types of reality or world views. The researcher used a concurrent and sequential approach in designing the methodology that informed this study.

The combined concurrent–sequential study design is a novel application that adds to Creswell’s (2003) typology of sequential exploratory/explanatory/transformational; and concurrent triangulation/embedded/transformational study designs. Combining both concurrent and sequential methods in this study enabled the researcher to acquire important insights and develop a well-rounded overview of the usefulness of decision making following the generation of an audit report and a management letter which would not have been achieved by using one approach or the other.

One point worth making from a philosophical point of view is that there were four types of realities<sup>7</sup> the researcher was seeking that these are informed by the nominalist ontology (to derive emic or intangible evidence from interviews) and realist ontology (to derive etic or tangible evidence from the survey questionnaire). These types of reality are informed by realism

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<sup>7</sup> When discussing the types of reality based on ontological philosophical assumptions, some researchers take etic to mean from the outside, and emic from the inside. The emic and etic perspectives have to do with viewpoint.

(quantitative) and interpretivism (qualitative). As such, quantitative as well as qualitative sampling, data collection and analytic methods are considered to be appropriate. Four logics one induction and the other abduction drive the methodology based on Norman Blaikie's assumptions of designing social research (Blaikie, 2000:78; 2010:79). The research design matrix (see table 2) shows variations in sampling, nature of data used as well as analysis.

The mixed methods study design as a method, focuses on collecting, analysing, and mixing both quantitative and qualitative data in a single study or series of studies. Its central premise is that the use of quantitative and qualitative approaches, in combination, provides a better understanding of research problems than either approach alone.

#### **4.1 Research Design and Justification**

This section renders the detail relating to the way in which the aims of the investigation are achieved. It involves a description of the method to be used, and a discussion of the logic of those methods.

This was a nonexperimental mixed methods study design- in essence a case study design which was designed to explore and to describe two types of reality surrounding the use of external audit report as management and economic tools for decision making in an enterprise. This concurrent and sequential mixed methods design, offered an equal status to both the

quantitative + qualitative components. Equal status was selected because each paradigm was designed to answer specific questions and, in some cases, overlapping. Within the mixed methods paradigm, an explanatory approach was selected in this study because I needed qualitative data to expand on or explain the initial quantitative findings (Morse, 1991; Morgan, 1998).

Concurrent and sequential mixing enabled the researcher to have insight into the cognitive processes of the participant by collecting quantitative and qualitative data at the same time and bridging the quantitative phase with the qualitative phase. The concurrent component allowed me to analyse both data strands separately, and then merging the data in some instances to render a detailed picture.

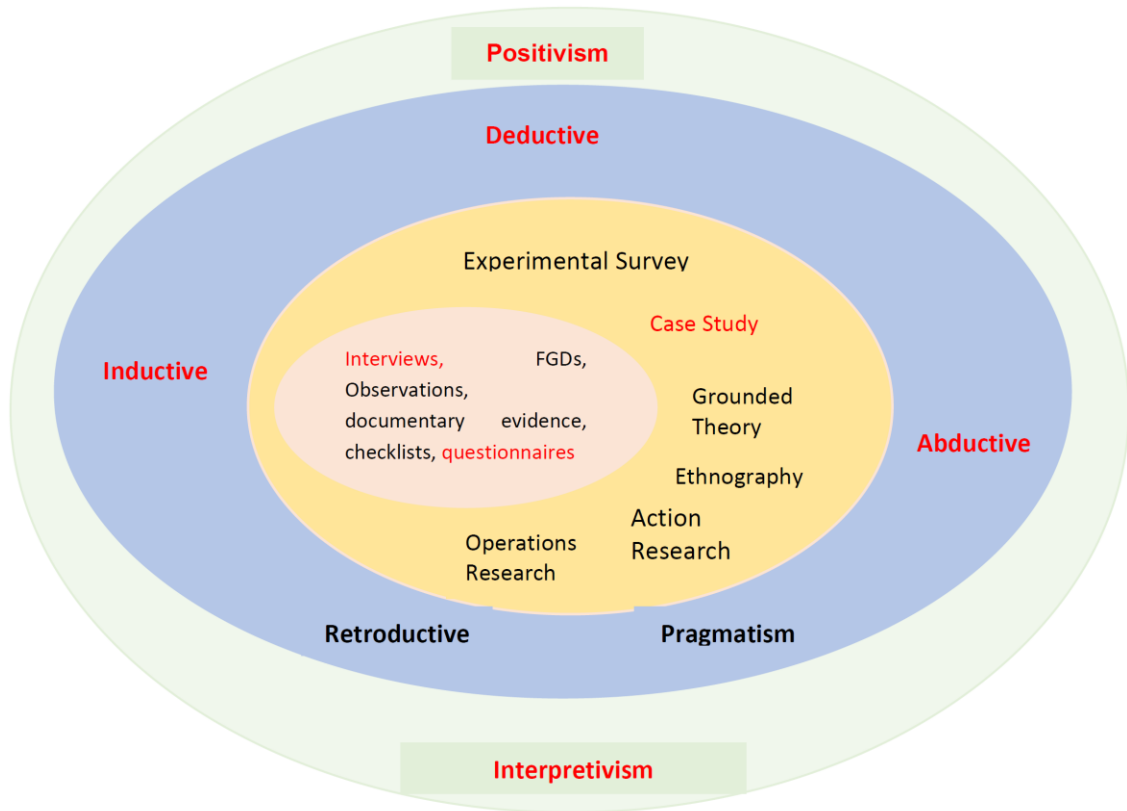
Mixed methods approaches have been employed where the research focuses on different units of analysis, different ontological questions, data collection methods as well as analysis. Random sampling techniques involving survey questionnaires and ethnographic methods have been effectively used to capture rich data on such studies. These data provide a measured and competitive insight into pre-audit, intra audit and post audit enterprise dynamics (Cohen and Hanno, 2002; Gaynor et al., 2006).

A key claim of the thesis is to use a combination of quantitative and qualitative research methods is that the on-going dynamics of post audit phenomena cannot be understood thoroughly through selective surveys alone. It also needs to be understood through interpretive and constructive

approaches which are anchored in interpretivism. Considering the nature of the Research questions and objectives, four different ontologies are appropriate to address these objectives, namely the “nominalist” and the “realist” ontology. This reality is demonstrable in table 1 above and figure 1 below.

Looking at the nature of the research questions that are being asked are about one unit of analysis, which was staff who are involved in accounting and use of accounting information for decision making, a one-shot or cross-sectional embedded mixed study design (QUAN + QUAL model) was chosen. In essence, the QUAN + QUAL model was adopted as it took an explanatory approach where the quantitative data are collected first and are more heavily weighted than the qualitative (Cresswell and Plano Clark, 2011). The qualitative data are collected second to try to amplify the quantitative component and to further bring out phenomena which are mutually exclusive. In this form of QUAN + QUAL model, a dataset of secondary priority, which is, the qualitative data is embedded within a larger, primary design (Bryman, 2006; Cresswell and Plano Clark, 2011). Looking at the onion diagram of research thought (Figure: 1) below, this study’s orientation was therefore positivistic and interpretivist in nature. All this has been described in the sections above and see (Figure: 1) see orientation in red font.

**Figure: 1. Onion logical diagram of research thought**



Modified from Saunders and Thornhill (2012<sup>8</sup>)

Positivism, which is related to the realist ontology and positivist epistemology (embracing induction and deduction) as a model chosen to answer the first and second research question in this inquiry is anchored on an understanding of material facts that reality (audit and making decisions) are objective, singular, tangible and above all value free as argued by (Robson, 2002). Positivism is bent on measuring social facts (Durkheim, 1982) and as such the four research questions require measuring facts. In this case, "a social fact' is taken as an empirical

<sup>8</sup> Saunders, M., & Thornhill, A. (2012). Research methods for business students: Essex: Pearson Education Limited.

observation in form of every way of acting, fixed or not, capable of exercising on the actors in an enterprise being an individual an external constraint; or again, or every way of acting which is general throughout the enterprise." Since I was committed to measure phenomena being a quantitative study, positivism was considered the ideal model (Losee, 1993: 168) for the collection of factual data from which predictions could be made.

On the other hand, the humanist ontology with interpretivism as its epistemology, which are used to answered the third research question, is anchored on the premise that humans interpret their own social reality and that multiple mental interpretations exist to one phenomenon since every social actor has their own viewpoint and some which may be in conflict with each other. In addition, perceptions of reality may change from person to person, from time to time and place to place. In the interpretivist's epistemology, the assumptions are derived from day-to-day life situations where concepts are coined to assign meaning to things (what is done or what is said) (Weber, 1978: 2004; Giddens, 1976; 1984; Blaikie, 2010). The interpretivist stance takes knowledge to be personal, concerned with experience and insights, almost spiritual in nature, and lacking laws. It was for this reason that face-to-face interviews are considered in this study. The justification and operationalisation of the three research strategies are outlined in detail below.

#### **4.1.1 Usage of Inductive Strategy**

This logic was selected to position the three research questions from a positivist perspective which are:

- 1) What structured system of principles have the four enterprises embraced in ensuring that finance external audit reports and activities feed into fostering management and economic decisions?
- 2) In what ways have the four enterprises applied the outcomes of financial audits as management tools?
- 3) In what ways have the four enterprises applied the outcomes of financial audits as economic tools for decision making?

This strategy was employed in analysing qualitative data and reviewing the literature with a view to select constructs that could be used to design the data collection tool. I employed the research strategy ensuring meticulous observations on the evidence cited in the literature which are made on real phenomena of particular interest. This included only phenomena of interest with a view to rigorously measure it. Once a substantial amount of evidence in the literature was meticulously analysed, the researcher then takes a breather from data collection, stepping back from time to time with the purpose of getting a bird's eye view of the evidence. While doing this, the researcher sought and constructed patterns in the data, while working to develop generalizable statements or hypotheses cognitively of what the data was saying (Blaikie,

2010). Personal opinions, beliefs, and values are excluded in this process of inquiry in order to arrive at what was believed to be objective knowledge and these in turn played no influence in determining casually efficacious events (Manicas and Kruger, 1976; Searl, 1995; Blaikie, 2010).

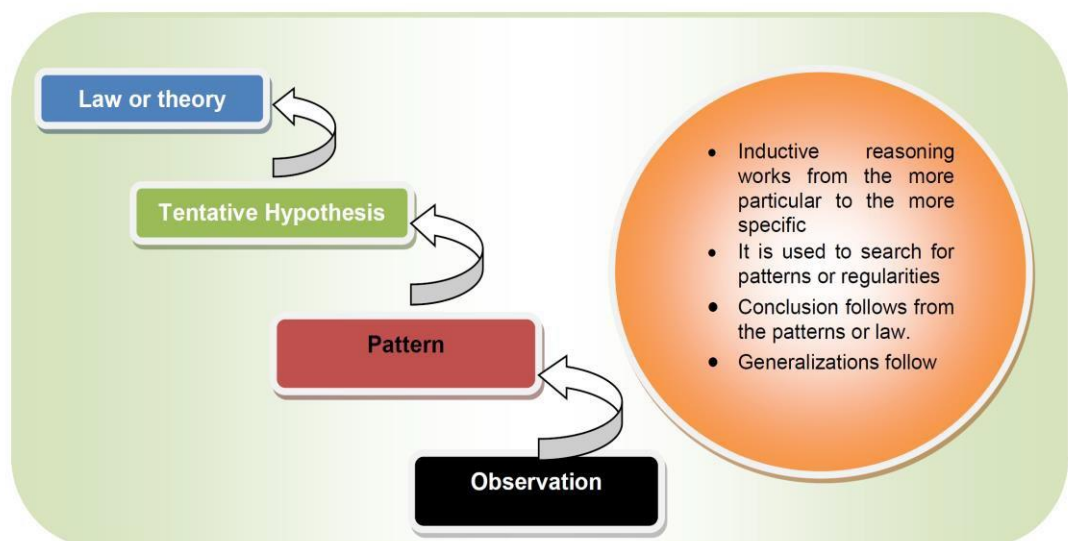
Its epistemology is that “the fundamental base of inquiry, the source of confirming or disconfirming instances, is only a set of observation statements that are established independently of any theory” (Longino, 1990, 26), but from empirics in the literature. In essence, this strategy assumes that explanations about how the world works should be based merely on facts which ought to be gained from pure as well as dispassionate and neutral observations. The observations which would guide the development of the data collection tool ought not to be made on preconceived notions, or theories or values and not even what is presumed to be actual. The inductive strategy operates on the following assumptions:

- 1) That reality does not reside in a person but in a world ‘out there’. This world is impregnated with facts that are regular and could be described as well as be explained. The strategy espouses the *epistemological principle* that reality ought to be empirically derived using the five senses.
- 2) That the social world is orderly and it is made up of discrete and observable events.
- 3) These observations in form of statements are then recorded and

if they are regular, they then become the fulcrum of scientific laws or hypotheses or even theories. These observation statements provide a foundation for conceptual frameworks. Consequently, "what would count as evidence for a hypothesis is determined by the form of the hypothesis sentences and evidence sentences not by their content (Longino, 1990, 48).

4) The inductive strategy tends to operate from particular instances with a view of making generalisations (see Figure: 2).

**Figure: 2. Process of Inductive Reasoning**



Modified from Trochim, (2006)

In essence, to generate questions in the data collection tool that has been employed in this study, all the reviewed data or evidence in the literature was consulted (Barnes, 1974; Honderich, 1995; Blaikie, 2000) and made constant comparisons (Barnes, 1974; Honderich, 1995; Blaikie, 2010). There are four stages that characterised the development and

administration of the data collection tool (to borrow from Blaikie, 2010).

- Stage I: Following a review of the literature, the researcher identified key variables for exploration and description. Blaikie (2000) argues that the choice of the concepts and their definitions tend to predetermine what data would be collected.
- Stage II: Knowledge or all instances of facts are later observed using a survey questionnaire and are recorded without unfavourable selection or biases or guesses in terms of their comparative importance.

While the inductive strategy can be used for such purposes, it also helped in developing patterns of constructs to structure questionnaires.

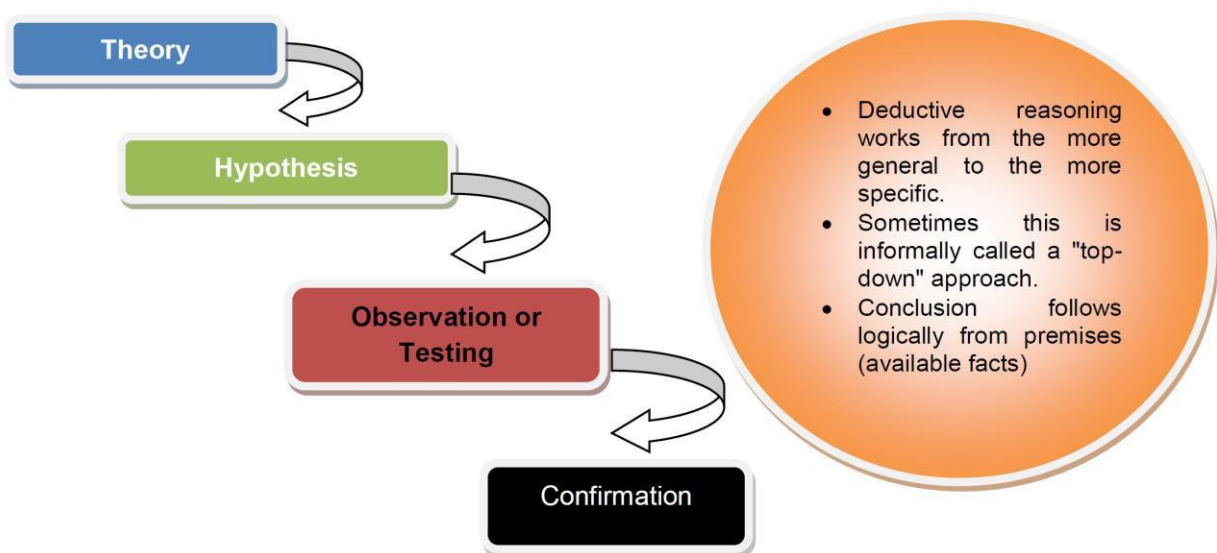
#### **4.1.2 Usage of Deductive Strategy**

This is the logic of deriving assumptions from a premise. This logic could have been used if theories were going to be tested. As such, this logic was not selected in this study. An explanation for its non-selection will suffice particularly for researchers who claim that all research must have some hypotheses from a theoretical framework.

Deduction as a logic employs a rationalist thought concerned with establishing and searching, from the assumptions of a theory, for a

'warranted assertibility', that is, evidence that is valid and sound proof to explain the existence of phenomena, was chosen in this study (Forbes et al., 1999; Popper, 1963; 1969). The deductive strategy in this study is not appropriate as the main thrust of the study is comparison of four enterprises and not to test the assumptions of any audit theory to try to account for the differences in decision making. In essence, the researcher could not employ Karl Popper's (1983) rationalist epistemology. In the deductive strategy, research usually relies on theory to justify starting with propositional pre-commitments to deciphering independent variables, background factors, or structural conditions that could explain varying phenomena, which are treated as dependent, fungible, superficial upshots, or otherwise outcomes (Layder, 1990; 1993; Blaikie, 2007; 2010) (see Figure: 3).

**Figure: 3. Process of Deductive Reasoning**



Modified from Trochim (2006).

Popper(1983) in explaining the hypothetical deductive approach stated

that the only way scientists could appreciate knowledge is by the postulation of general theories by the general method of criticism, the method of finding and eliminating contradictions in them. Drawing on the argument made by Karl Popper (1983) no theory is to be tested (Bartley, 1962; Popper, 1981; Albert, 1685).

Given that deduction was inappropriate in this design, and this study was designed to test the assumptions in research questions 3 and 4 in essence are reducible to test the following hypothesis that looks at differences or similarities:

There is no difference in the four enterprises between the four population means (i.e.,  $d = 0$ ) (ZESCO and Lafarge) following any identified audit problems and the use of external audit outputs (audit report and management letter) in making management as well as economic decisions. Symbolically hypotheses to be tested are depicted below using the hypotheses of interest in an ANOVA.

$$\mathbf{H_0: } \mu_1 = \mu_2$$

$$\mathbf{H_a: } \mu_1 \neq \mu_2$$

Therefore four logics structured the approach of the study and these are abductive logic and inductive logic. The former fits the qualitative part of the study while the latter fits the quantitative part of the study. Below the researcher describe how the four logics as research strategies were used in this study.

### **4.1.3 Usage of Abductive Strategy**

Abduction in this study is used not from the original conception as advanced by Charles Pearce Saunders (Higgs, 2001). Pearce's abduction was a type of non-deductive inference that is different from Norman Blaikie's (2003) abduction as will be described later on. His abduction belongs to what the logical empiricists called the "context of justification"—the stage of scientific inquiry in which the researcher is concerned with the assessment of theories (Schurz, 2008: 205). According Blaikie (2003), abduction is the logic used to construct descriptions and explanations that are grounded in everyday activities of, as well as in the language of the actors (Blaikie, 2007, 2010) which refers to the process of constructing theories or typologies that are grounded in everyday activities. This research strategy is associated with interpretivism and is used to generate social scientific accounts from social actors' accounts (Husserl, 1980, 1989).

The logic entails ontological assumptions that sees social reality and in this case auditing and decision making as socially constructed by social actors, where there is no single reality, but multiple and changing social realities. Its epistemological assumptions regard "social scientific knowledge as being derived from everyday concepts and meanings, from socially constructed mutual knowledge" (Blaikie, 2000: 116). The features that make this research strategy distinctively different from other types of qualitative

research are that it is best suited to answered to 'why' questions from a nominalist ontology and the manner in which answers are obtained (epistemology) are linked with the humanist epistemology where there are no *a priori* theories used or conceptual framework to drive the research (Blaikie, 2010: 116). This is because the social world is interpreted and experienced by social actors from the inside.

People use the largely tacit, mutual knowledge, the symbolic meanings, motives and rules - which is here assumed to provide direction to their actions - to do what they do in daily life. It is for this reason that the interviews that are conducted in this study have no conceptual framework to drive the research (Lincoln and Guba, 1985; 2000). In this logic, mutual knowledge is the everyday beliefs and practices that are mundane and taken for-granted. In other words, it is the background knowledge that is largely unarticulated. Therefore, accounting staff as people, have to interpret their activities singularly or together in order for them to negotiate their way around their accounting world and make sense of it. It is these subjective meanings, embedded in language, that are assumed to produce accounting staff social reality on entrepreneurship and intentions. However, subjective meanings are not private, but are intersubjective, which may be shared together (Longino, 1990: Blaikie, 2004; 2007). Hence, social explanations need to go beyond the specific meanings that people give to their actions. Within the precincts of this logic, this means that accounting staff, managers and directors needs to deal with typical meanings produced by themselves.

This qualitative approach was selected because it fits the nature and context of the study. This is relevant when researchers seek to understand the context of the research matter in terms of how and why something occurs (Bryman, 2007; Bosch-Rekvelde, 2015) and when the research event is emergent rather than prefigured (Cresswell, 2003). Thus, qualitative research concentrates on the details, context and nuances of a specific phenomenon. This increases the depth of the resulting analysis by situating human action within the specific context of its occurrence (Patton, 2002).

Qualitative research is suited to cases where knowledge is fragmentary or inadequate for the purposes of conducting valid and reliable quantitative studies (Johnson and Onwuegbuzie, 2004; Johnson et al., 2007) and the researcher concentrates on the insider's views. It therefore follows that researcher should not impose an 'outsider' view on it (a conceptual framework or theoretical framework) but bring out something from the common stock of knowledge. It is this common stock of knowledge and how it is produced and reproduced by social actors that abductive researchers need to grasp and articulate to provide an understanding of these actions. It is for this reason that in-depth interviews are considered to be ideal in this study.

The qualitative component of the study is rooted in hermeneutic phenomenology and this is because the experiences of both the researcher and the respondents have to be captured in the presentation (Berg et al.,

1995; Abdel-Khalik et al., 1986; Maines, 1995; LaSalle and Anandarajan, 1997; Libby et al., 2002; Lin et al., 2003; Bessell et al., 2003; Libby et al., 2002; Guiral-Contreras et al., 2007; O'Reilly, 2010).

Looking at the descriptions of the four logics above and the nature of the research questions, a sequential design employing mixed methods of data collection strategies involving collecting data in an iterative process whereby the data collected in one phase (Quantitative data from the questionnaire) contributes to the qualitative data collection in the next phase to select respondents and amplify more on phenomena which the survey questionnaire may not deal with succinctly who could best provide data (Cresswell et al., 2003; Tashakkori and Teddlie, 2003).

## **4.2 Operationalisation of the variables**

### *Audit problems*

Audit problems which are measured as the perceived opinion which was expressed by an external audit report and management letter that a company's financial records and statements about a variable. The opinion was presented as a recollection which was measured on a nominal scale as "Yes" for the risk being mentioned to them in a meeting or reading in the management letter as a serious threat or "no" for the risk not being mentioned to them in a meeting or reading in the management letter as a

threat in the external audit report and management letter. Audit problems are measured in eight ways as follows:

- 1) The report highlighted emerging financial challenges
- 2) The report highlighted the occurrence of fraud
- 3) The report highlighted record keeping errors
- 4) The report highlighted asset misappropriation
- 5) The report highlighted weaknesses in management controls
- 6) The report was assuring
- 7) The report enhanced stewardship stimulation of managers
- 8) The report was graded as credible

Expected ideal score for this variable was set as zero (0) no risk. Four categories are created based on a sum of scores as follows: 0 - 3 was perceived as no risk, 4 as some risk and 5 to 8 was perceived as serious risk

### *Management decisions*

Management decisions are operationalised as business decisions that involved designing, building, and managing interactions among employees to overcome audit problems. The decision was measured on a five-point level of agreement Likert scale as follows: 0 for not sure, 1 for strongly agree, 2 for agree, 3 for somewhat agree, 4 for disagree and 5 for strongly disagree. Management decisions are measured in ten ways on a Likert scale as follows:

- 1) From the external audit report and management letter, our organisation developed management-based strategies to address emerging financial challenges
- 2) From the external audit report and management letter, our organisation developed management-based strategies to address the observed fraud
- 3) From the external audit report and management letter, our organisation developed management-based strategies to address record keeping errors
- 4) From the external audit report and management letter, our organisation developed management-based strategies to address asset misappropriation
- 5) From the external audit report and management letter, our organisation developed management-based strategies to address ineffective management controls
- 6) From the external audit report and management letter, our organisation developed management-based strategies to improve management structures
- 7) From the external audit report and management letter, our organisation developed management-based strategies to improve management processes
- 8) The external audit report and management letter was credible it enhanced management to improve processes

- 9) The external audit report and management letter was assuring and it enhanced making management decisions to sustain management processes
- 10) The external audit report and management letter enhanced stewardship stimulation and it enhanced making management decisions to improve practice

The expected maximum score for this variable was set as twelve (12). The range was 0- 12 required no action in making management decisions to the perceived audit problems and 13 to 20 required action in making management decisions.

#### *Economic decisions*

Economic decisions are operationalised as business decisions that doing what with resources to produce goods and services the allocation of scarce resources to grow resources, overcome and mitigate audit problems. The decision was measured on a five-point level of agreement Likert scale as follows: 5 for strongly disagree, 4 for disagree, 3 for somewhat agree, 2 for agree, 1 for strongly agree and 0 for not sure. Economic decisions are measured in five ways on a Likert scale as follows

- 1) From the external audit report and management letter, our organisation developed strategies to conduct a credit analysis

- 2) From the external audit report and management letter, our organisation developed strategies to determine market values and means of making rational investment decisions
- 3) From the external audit report and management letter, our organisation developed strategies to determine payment of risk premium to reduce the level of uncertainty or risk
- 4) From the external audit report and management letter, our organisation developed strategies to determine where to make investments
- 5) From the external audit report and management letter, our organisation developed strategies to determine expenditure decisions,

The maximum score for this variable was set as twenty (20). The ideal range was 10- 20 and it required an action in making economic decisions to the perceived audit problems and less than or equal to 9 required no action in making economic decisions.

#### **4.5 Population and Sampling**

One hundred and twelve survey questionnaires were self-administered. The process of conducting and collecting questionnaires was not an easy one. It took five months (ZESCO) and four months (Lafarge) for me to get approval from managements of the four institutions as the study appeared to be sensitive. the researcher followed respondents for three months to collect

the 106 survey questionnaires. the researcher made an average of more than three visits to collect the questionnaire as some respondents are unwilling to answered while others are out of office for various reasons. The targeted sample using Yamane formula presented below (Yamane, 1967: 886) was employed to calculate sample sizes in each stratum as it embraces matters of confidence interval, margin of error and variability.

$$n = \frac{N}{1 + N(e)^2}$$

Where: **n** is the anticipated sample size

**N** is the known population size (122 for both ZESCO and Lafarge)

**e** is 95% confidence level and

**p** = 0.5 was assumed for this equation.

The response rate in this study was high and stood at 82%. This rate ensures that survey results are representative of the target population. A survey must have a good response rate in order to produce accurate, useful results. Seventeen in-depth interviews are conducted with staff across departments and across positions.

When this formula is applied to the four populations the sample sizes are (73; 39) for Lafarge and (85; 67) for ZESCO.

Using the sampling list, the researcher drew members from the populations by applying simple random sampling. Random samples are selected for the survey tool. Purposive sampling was applied to enlist key informants who are deemed to be appropriate to render reliable details about audit and the decisions made. These are people who are believed had access to both the audit report and the management letter.

The respondents for the in-depth interviews are determined *a posteriori* using maximum variation sampling. This is a purposeful sampling strategy. The aim is to sample for heterogeneity. Heterogeneity, arises in describing the properties of a dataset, or several datasets. They relate to the validity of the often-convenient assumption that the statistical properties of any one part of an overall dataset are the same as any other part. When using a maximum variation sampling method the researcher selected a small number of units or cases that could maximize the diversity relevant to the research question. The categories for maximum variation sampling are determined following a preliminary exploratory analysis of survey questionnaires. The justification for this determination was meant to select the best informative cases – those in agreement and those in disagreement. Instead of seeking representativeness through equal probabilities, maximum variation sampling seeks it by including a wide range of extremes. The principle is that if you deliberately try to interview a very different selection of people, their aggregate answers can be close to the whole population's. The sample comprised in variation the following:

- a) Representation by department.
- b) Those who pointed out audit problems and those who did not.
- c) Men and women
- d) Supervisors and supervisees.

#### **4.4 Data Collection**

The data used for the purposes of this study are collected from January 2017 to March 2017 by means of a self-administered standard structured questionnaire and a semi-structured interview schedule (See Appendix I and II). A survey questionnaire was selected to obtain comparable data between the four institutions as well as to have a descriptive and explanatory profile of the four institutions. The survey questionnaire was administered by the human resource department in each enterprise because the institutions did not wish the researcher to spend time in their premises as this would affect work.

As for interviews, a semi-structured interview schedule was used to interview managers or directors. A semi-structured approach was selected because it was expected to ensure flexibility in the interview design and conduct, which results in a rich data set for purposes of understanding (Dang-Duc et al., 2006; Horton et al., 2004). Moreover, semi structured interviews offer a unique opportunity to explore the different points of view on the topic in question (Miller and Glassner, 1997). The interview allowed me to understand the context of the research matter in terms of what

happens, why things happen and how things are done (Cassell and Symon, 1994) and when the research phenomena is emergent rather than prefigured (Cresswell, 2003; Hopper and Hoque, 2004). This qualitative aspect of the research design is in the form of both abductive and inductive naturalistic inquiry and is part of the conceptualizing process of audit namely conceptual framing (Llewelyn, 2003).

The interviews started with general questions about the interviewee's professional characteristics. These questions are based on the career of the interviewee and served to break the ice by discussing a neutral subject before moving to the heart of the interview (Patton, 2002). Questions based on the role and uses of the external audit report and management letter are then presented to obtain a general view of the interviewees' use and understanding of an external audit report and management letter. The purpose of these questions was to allow interviewees to answer the questions freely, express their own ideas, and reduce the risk of response bias (Dicken, 1987; Dang-Duc et al., 2006). Follow-up questions are then asked that addressed the main objectives of this study.

All the interviews are conducted in English and mostly took place in a place which the respondent felt was ideal. Most of the interviews lasted between 30 minutes and 1 hour, and the average length of interviews was 40 minutes. Several steps were taken to improve the reliability of the data collection.

First, the semi-structured interview schedule was used to ensure a consistent framework and coverage of topics. Some of the interviews focussed more on certain questions rather than others, depending on the answers given by the interviewees. However, in general, the semi-structured interview schedule served as a basic checklist to ensure that all the relevant themes were covered during the interview.

All interviewees were given an assurance of anonymity to encourage open and honest responses. Interviews are taken in form of notes to promote anonymity and an open dialogue on the matters being discussed.

## **4.5 Data Analysis**

Since this study collected both quantitative and qualitative data, and the four data sets are structurally mutually exclusive, the details of the analysis are presented separately below.

### **4.5.1 Quantitative Data Analysis**

Quantitative data was first decoded and entered as it is normally collected to after the inquiry save time (Onwuegbuzie and Combs, 2011: 3). The coding for the quantitative part was determined *a priori* as shown in the operationalisation section of the methodology. The following constituted the analyses. The first was exploratory data analysis to summarize the main

characteristics of the data and to provide a framework for selective statistical analysis. Statistics involving mean, standard deviation and frequencies are computed for each survey item when necessary. The second constituted statistical analyses (association tests and analysis of variance).

Recognising that most of the questions relating to the independent variables are framed in a Likert manner, from a statistical viewpoint, this in essence was an interval level type of measurement. In this study, the researcher first analysed the individual items or Likert-type items, and later on combined the individual items called the summated Likert scale to get an overall position. This helped to create numeric intervals particularly when Stevens'(1946) measurement framework is used as was the case in this study (Sheskin, 2007). This process helped in determining the arithmetic mean of the Likert scale. People who get higher-level scores in the natural variable are expected to get higher scores than those persons from lower properties. Further than this, the underlying phenomenon of interest within the theory derived hypotheses could be measured by an individual's responses to the entire set of items. Uebersax (2006) and Carifio and Perla (2007) called this as the sum score. In addition, the three domains of resources could also be measured based on an interval scale (non-categorical variable) (Sekaran, 2005). The derived acceptable scores for the three domains of analysis are determined *a priori* and are stated below.

- a) For the audit problems, a score of 3 was considered acceptable and a score over 3 was unacceptable.

- b) For management decisions, a sum score of 0 was considered acceptable as it required no action relating to the 10 Likert items.
- a) For economic decisions, a sum score of 0 was considered acceptable as it required no action relating to the 5 Likert items.

Association tests and correlation tests like Pearson, Spearman and chi square tests of significance are done first before regression analysis to identify independent variables that would be significant for further causal analysis. In this study, the bivariate correlation coefficients based on Spearman's assumptions was used to determine the strength and direction of correlation. A **p** value  $\leq .05$ <sup>9</sup> was used as the cut-off point to determine the presence of statistical significance on all statistical tests.

#### **4.5.1.1 Reliability of Results**

##### ***Internal validity***

In order to verify the reliability of the questionnaire as being internally consistent, the researcher applied the pattern of internal consistent called Cronbach alpha ( **$\alpha$** ) method. Cronbach's alpha is the most common measure of internal consistency ("reliability"). It is most commonly used when you have multiple Likert questions in a

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<sup>9</sup> The **p**-value: in ANOVA is a term used in hypothesis testing to indicate how likely it is that the items being compared are the same. A low **p**-value – often anything below 0.05 – indicates that it is very unlikely the items are the same.

survey/questionnaire that form a scale and you wish to determine if the scale is reliable. Berander (2007), Damm (2007) and Wohlin, et al. (2000) point out that internal validity is guaranteed by way of mitigating against the general discomfort around revealing personal information. In this respect, all the respondents are assured about the confidentiality and anonymity of their responses, and that they would be used only for the purpose of this research. This was covered as shown in the ethics section of this thesis. By doing so, some of the potential threats to the validity of the conclusion was reduced. Recognising that this was a novel tool, and this was a survey-based research, it is expected that the reliability of the scale of measurement that are developed be reasonable for further validation. For survey research it is appropriate that the reliability of the scale developed must be reasonable for further statistical analysis. Exploratory factor analyses are conducted to examine the underlying reliability patterns of the measurement scales. Cronbach's  $\alpha$  as a reliability coefficient analyses are applied tend to measure internal consistency of the constructs. A commonly accepted rule of thumb for describing internal consistency is as follows as shown in table 3:

**Table 3: Reliability Standards**

<b>Cronbach's alpha</b>	<b>Internal consistency</b>
$\alpha \geq 0.9$	Excellent
$0.9 > \alpha \geq 0.8$	Good
$0.8 > \alpha \geq 0.7$	Acceptable
$0.7 > \alpha \geq 0.6$	Questionable
$0.6 > \alpha \geq 0.5$	Poor
$0.5 > \alpha$	Unacceptable

Very high reliabilities (0.95 or higher) are not necessarily desirable, as this indicates that the items may be redundant (Cortina, 1993; Nunnally and Bernstein, 1994; Schmitt, 1996; Streiner, 2003; Cohen and Swerdlik, 2010). The goal in designing a reliable instrument is for scores on similar items to be related (internally consistent), but for each to contribute some unique information as well. Following the analysis, inter item consistency was found to fall within the range of 0.80 – 0.94 and this is interpreted as either excellent, good or acceptable (See Tables 2-5). Although the standards for what makes a “good”  $\alpha$  coefficient are entirely arbitrary and depend on the researcher’s theoretical knowledge of the scale in question, the researcher opted to use the recommended minimum  $\alpha$  coefficient between 0.65 and 0.8.  $\alpha$  coefficients that are less than 0.5 are usually unacceptable, especially for scales purporting to be unidimensional (Cortina, 1993; Nunnally and Bernstein, 1994; Schmitt, 1996; Cohen and Swerdlik, 2010). The meaning of these values is that the question items in the questionnaire reliability, or internal consistency. In other words, the manner the variables are measured are consistent with the defined meaning of the concept. Looking at the factor loading ranges for the variables in each domain shows that the scores of the participants are consistent across subsets of items on the single test/scale form.

**Table: 3a. Factor Analysis Results of the Key Constructs**

<b><i>Factors</i></b>	<b><i>Factor loading range for each variable</i></b>	<b><i>Variance Explained</i></b>	<b><i>Reliability</i></b>
Identified audit problems	0.86 - 0.97	45.67	0.895
Management decisions	0.80 - 0.96	34.81	0.835
Economic decisions	0.81 - 0.94	15.65	0.892

Looking at the values in this study, the researcher can conclude that these items or subsets of items came from the same content domain and are constructed according to the same specifications of the concept. the researcher has some confidence that this performance would generalize to other possible items in the content domain.

**Table: 3b. Factor Analysis Results of the identified audit problems**

Identified audit problems	<b>Factor loading for each variable</b>	<b>Variance Explained</b>	<b>Reliability</b>
		<b>45.67</b>	<b>0.895</b>
The report highlighted emerging financial challenges	0.94		
The report highlighted the occurrence of fraud	0.88		
The report highlighted record keeping errors	0.86		
The report highlighted asset misappropriation	0.90		
The report highlighted weaknesses in management controls	0.89		
The report was assuring	0.92		
The report enhanced stewardship stimulation of managers	0.97		
The report was graded as credible	0.87		

*p*<0.00; Total variance explained = 45.67

**Table: 3c. Factor analysis results of Management Decision Variables**

	<i>Factor loading range for each variable</i>	<i>Variance Explained</i>	<i>Reliability</i>
<b>Factors</b>		<b>45.67</b>	<b>0.895</b>
From the report and management letter , our organisation developed management based strategies to address emerging financial challenges	0.94		
From the report and management letter , our organisation developed management based strategies to address the observed fraud	0.88		
From the report and management letter , our organisation developed management based strategies to address record keeping errors	0.86		
From the report and management letter , our organisation developed management based strategies to address asset misappropriation	0.90		
From the report and management letter , our organisation developed management based strategies to address ineffective management controls	0.89		
From the report and management letter , our organisation developed management based strategies to improve management structures	0.92		
From the report and management letter , our organisation developed management based strategies to improve management processes	0.97		
The report and management letter was credible it enhanced management to improve processes	0.85		
The report and management letter was assuring and it enhanced making management decisions to sustain management processes	0.89		
The report and management letter enhanced stewardship stimulation and it enhanced making management decisions to improve practice	0.91		

**Table: 3d. Factor analysis results of Economic Decision Variables**

<b>Management decisions variables</b>	<b>Factor loading for each variable</b>	<b>Variance Explained</b>	<b>Reliability</b>
		<b>15.65</b>	<b>0.892</b>
From the report and management letter , our organisation developed strategies to conduct a credit analysis,	0.90		
From the report and management letter , our organisation developed strategies to determine market values and means of making rational investment decisions,	0.88		
From the report and management letter , our organisation developed strategies to determine payment of risk premium to reduce the level of uncertainty or risk.	0.81		
From the report and management letter , our organisation developed strategies to determine where to make investments	0.86		
From the report and management letter , our organisation developed strategies to determine expenditure decisions,	0.94		

**p**<0.00; Total variance explained = 15.65

#### **4.5.2 Qualitative Data Analysis.**

Qualitative data was analysed using qualitative content analysis. Content analysis was chosen because the researcher was going to analyse textual data by way of reduction to make replicable or valid inferences into units (Shapiro and Markoff, 1997; Graneheim and Lundman, 2003; Hsieh and Shannon, 2005). Content analysis was chosen to allow me to be objective, systematic in the process of analysis (Iber, 1990; Kirchhoff, et al., 2003; Krippendorff, 2013).

The author independently opened the coded texts. The coding was done inductively and deductively. The unit of analysis was considered in the analysis was either a word or phrase or sentences that pointed to a competitive state. A coding scheme was compiled after the first round of reviews and then refined throughout subsequent rounds until no further changes are needed. During the process of analysis, the researcher focussed on differences and similarities in the texts of the communication content. This allowed me to code intentions of particular actions, trends of an individual or groups relating to particular behaviours and beliefs in business practices. In this thesis, qualitative data was coded in themes, categories and sub categories. These codes are used in the thesis to account for the findings.

It is recognised that the meaning of the information imparted by the transcribed words is relevant, rather than the words themselves (Dang-Duc *et al.*, 2006; Miles and Huberman, 1994). With this in mind, the coding process was performed as a “looking-for-information” process, rather than a mere breakdown of paragraphs. The coding process also served as a way of grouping summaries into a smaller number of sets, themes or constructs. This feature was useful in identifying the patterns arising from the interviews. Accordingly, the coding process helped to construct coding models (Strauss, 1987; Berg, 2004) and served as a tool for identifying and analysing new themes arising from the interviews. N Vivo software was used to help in the analysis. N Vivo is a comprehensive qualitative data analysis software package. The software can be used to organize

and analyse interviews, field notes, textual sources, and other types of qualitative data including image, audio and video files.

## **CHAPTER FIVE – FINDINGS**

### **5.0 Introduction**

In this section, the researcher presents the results under four themes and these are:

- 1) Theme I: Structured system of principles the four enterprises embraced in ensuring that financial external audit report and management letters and activities feed into fostering management and economic decisions.
- 2) Theme II: Similar/dissimilar audit problems identified in the last external audit in the four enterprises.
- 3) Theme III: Similar/dissimilarities of application of outcomes of financial audits as management tools
- 4) Theme IV: Similar/dissimilarities of application of outcomes of financial audits as economic tools.

### **5.1 Structuring the results**

Following the demographic profile, the results in this chapter are organised in four ways. The first relates to a structural arrangement. Here the researcher treats the four data sets (quantitative and qualitative) separately and each is covered in a separate section. The second one

relates to organising answers as demanded by the research questions. The researcher used the following themes to organise the results and the following are the notable themes:

- a) Theme I: Demographic Profiles of Participants
- b) Theme II: Structured system of principles the four corporations have embraced in ensuring that finance external audit report and management letters and activities feed into fostering management and economic decisions.
- c) Theme III: Ways the four corporations have applied the outcomes of financial audits as management tools?
- d) Theme IV: Ways the four corporations have applied the outcomes of financial audits as economic tools for decision making.

## **5.2 Demographic Profiles of Participants**

This study drew respondents from five departments and these are, accounts, audit, human resource, procurement, and administration. These are the departments which are considered to be appropriate to participate in the study. The sample in this study was rather youthful. The youngest was 21 and the oldest was 61 years. The sample mean age was 38 (SD  $\pm 9.1$ ). The mode and medians were 38. Just more than half  $n = 79$  (59.4%) were males females accounted for  $n = 54$  (40.6%). Within the sample, ZESCO accounted for half of the respondents  $n = 67$  (50.4%) respondents as compared to the

three that accounted for n = 66 (49.6%). There are more respondents' n = 792 (69.2%) who had attained college education as compared to those n = 41 (3.8%) who had attained university education (Table 4).

**Table 4. Demographic profile**

<i>Sex</i>	<i>Frequency</i>	<i>Percent</i>
Male	79	59.4
Female	54	40.6
<i>Institution (place of work)</i>		
ZESCO	67	50.4
Lafarge	39	29.3
Zambia Airports	14	10.5
Trade Kings	13	9.8
<i>How far have you gone in school?</i>		
College	92	69.2
University	41	30.8
<i>Department</i>		
Accounts	27	20.3
Audit	26	19.5
Human resource	37	27.8
Procurement	24	18.0
Administration	19	14.3

**5.3 Theme I: Structured system of principles the four corporations have embraced in ensuring that finance external audit report and management letters and activities feed into fostering management and economic decisions.**

This section covered the following subthemes:

- 1) Pre-audit preparations
- 2) Reasons for pre-audits
- 3) Period when audits are done

- 4) Type of audits
- 5) Contents of audit report and management letters

### **5.3.1 Pre-audit preparations**

Interviews revealed that the audit process in the four institutions are rather similar in structure and where in three phases. The phases are the pre-audit, audit and post audit phases.

A pre-audit was the first step in the process of an audit. The officers averred that during a pre-audit, the enterprises are expected to prepare financial documents that are to be examined to ensure that all information was correct before the company undergoes an official audit. The pre-audit process was in most instances undertaken by employees of the company being pre-audited. The following are the key things that are mentioned which seemed to be cross cutting.

#### *Segregation of Duties*

Recognising that audit was rather a complex activity, the four institutions tended to segregate duties. The following excerpts render a testimony of segregation of duties.

*One of the most important aspects of a general pre-auditing process is the segregation of duties when it comes to finances. What I do each year is that ...for instance, payroll checks are issued by a different employee than the one who approves time cards and cash should not be deposited by the same employee who balances bank statements. So, I ask these employees to prepare documentation and to be available during the audit process.*

### *Types of Transactions*

There are some variations in pre-audits relating to the types of transactions that should be examined in the four institutions and probably this relates to the size, organisational culture and the type of business. For example, the pre-audit manual of one enterprise suggests that pre-auditors review such transactions as travel expenses, meeting expenses, payments for personal services, invoices, checks and taxes paid. While in another, there was no mention of such.

### **5.3.2 Reasons for pre-audits**

Audits are process in which the financial records of a business or individual are examined for accuracy. A pre-audit was considered necessary in the four enterprises as it was the first part of the auditing process. The pre-audit process were undertaken by employees of the enterprises in there instances and by the external audit firm in one instance. Pre-auditing was used to describe both a single instance of review directly preceding an official audit as well as the continuous process of monitoring finances throughout the

year. When respondents were asked the reasons for pre-audit, the following reasons were advanced:

One auditor in ZESCO had this to say

*I have been preparing for external audits so that there is a smooth audit for our staff, and for the auditors. Having documentation ready for the auditors has been saving us time (and money) and has resulted in less distraction for our staff during the audit process... in addition, engaging in pre-auditing practices helps us to have a clear picture of our financial situation just before auditing.*

One auditor in Lafarge had observed and said

*For us, most importantly, pre-auditing has given us a chance to catch and correct accounting errors on their own before they are caught by an independent auditing agency. This may lessen the likelihood that an auditing agency will assume that accounting errors are intentional and illegal instead of honest mistakes.*

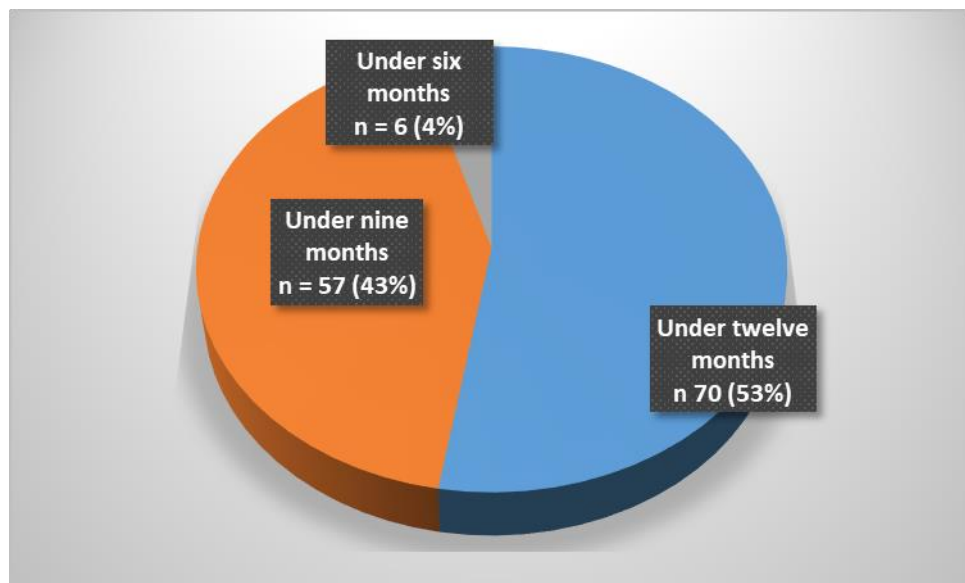
One auditor at Trade kings had this to say

*We normally prepare ourselves before the audit...as you may know, a pre-audit is the first step in the process of an audit. During a pre-audit, we make sure that our company's financial documents are examined to ensure that all information is correct before the company undergoes an official audit.*

### **5.3.3 Periods of audits**

Respondents could remember that audits were done under one year ago. However, there were differences in recollection within an enterprise. This dependent on how quick the information was disseminated to the participants. In this study, just over half  $n = 70$  (52.6%) claimed audits were done twelve months prior to the study,  $n = 57$  (42.9%) just under nine months and  $n = 6$  (4.5%) under 6 months (Figure 4).

**Figure 4: When was the last external financial audit done**



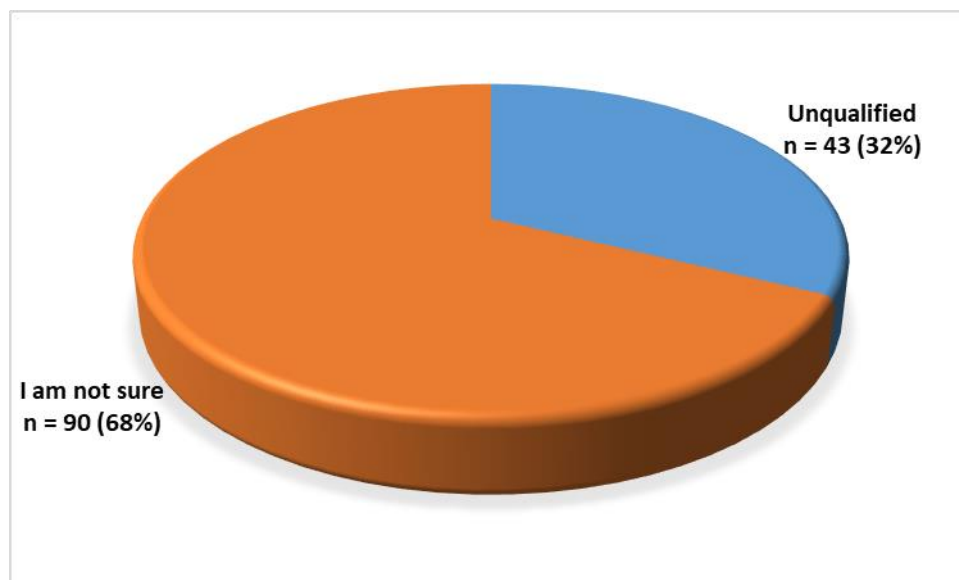
From the figure above, the researcher can deduce that decisions took quite some time to be made following the issuance of an audit report and management letter to management. Obviously, this meant that the decisions are not timely and may have lost lead time in taking advantage of immediate expected benefits.

#### **5.3.4 Type of audits**

When the respondents are asked to indicate whether the reports are qualified (A qualified opinion is a statement issued after an audit is done by a professional auditor that suggests the information provided was limited in scope and/or the company being audited has not maintained GAAP accounting principle) or unqualified (An unqualified opinion is a statement issued after an audit is done by a professional auditor that suggests the

information provided was sufficient in scope and/or the company being audited has maintained GAAP accounting principle), the responses are that a third of the respondents  $n = 43$  (32%) affirmed that the report was unqualified whereas two thirds of the respondents  $n = 90$  (68%) were not sure about the type of external audit report and management letter (Figure 5). A review of documentation and conformation with the directors of finance showed that the reports were unqualified. We can assume that there was no instance of a qualified report. A qualified opinion is a statement issued after an audit is completed by a professional auditor, suggesting that the information provided is limited in scope and/or the company being audited has not maintained GAAP accounting principles.

**Figure 5: Type of audit done**



From the above figure, the researcher can deduce that most management members did not understand the audit terminology or that information was not communicated to them resulting in them responding 'I am not sure'.

In order to establish the type of audit that was done, a confirmatory interview was done with an auditor in the four enterprises. The interviews revealed that the audits were unqualified. An unqualified opinion is an independent auditor's judgment that a company's financial records and statements are fairly and appropriately presented, and in accordance with Generally Accepted Accounting Principles (GAAP). An unqualified opinion is the most common type of auditor's report. In this study, there are no marked differences in terms of the structure of what the audit report and management letters contained. Respondents rendered the following details when prodded to vouch more.

*What would you say was the type of external audit report?*

*I actually got an unqualified external audit report...*

*Director 1*

Ours was unqualified

*Finance director*

*Could you elaborate?*

*Any way there are key things one needs to know about the type of external audit reports which are made. In an audit engagement, the auditor gives his opinion on the financial information disclosed by a business. The auditor's report is an integral element of your business' audited financial statement. At the culmination of the audit engagement, the auditor is expected to express his opinion and this is reflected in the report.*

*Director 1*

Reacting to the question ‘Do auditors just write a report?’ The researcher appreciated that apart from the report, there are guidelines that are followed.

*Not really, there are International Standards on Auditing (ISA) principles which must be followed in rendering a report. ISA deals with the auditor’s responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with ISA 700.*

*Director 3*

### **5.3.5 Contents of audit reports**

The auditors that are interviewed are asked to describe the contents of an external audit report and this is how an auditor from ZESCO alleged when asked a question ‘*So what are attributes of External audit reports?*’ It was noted by respondents from the four institutions that that report should embrace the scope and opinion paragraph whether the report is qualified or unqualified.

#### *The scope of the report*

*The auditor’s report should describe the scope of the audit by stating that the audit was conducted in accordance with generally accepted auditing standards or in accordance with relevant national standards or practices as appropriate. The report should include a statement that the audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. As you can see in this paragraph...The auditor’s report should describe the audit including:*

- a) Examining, on a test basis, evidence to support the financial statement amounts and disclosures;*
- b) Assessing the accounting principles used and significant estimates made by management in the preparation of the financial statements; and*
- c) Evaluating the overall financial statement presentation.*

*Director 1*

### *Opinion paragraph*

The report should include a statement by the auditor that the audit provides a reasonable basis for the opinion. The opinion embodies the assumptions that the enterprise observed compliance with generally accepted accounting principles and statutory requirements. This in essence implies that the report is clean. This opinion does not tell that the enterprise is in good economic health. It merely states that the financial report is transparent and thorough and has not hidden important facts.

The opinion paragraph of the auditor's report should clearly state the auditor's opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles and, where appropriate, whether the financial statements comply with statutory requirements.

### *Unqualified Report*

*In an unqualified report, the auditors ought to have obtained sufficient appropriate audit evidence to conclude that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements, or the auditor was unable to obtain sufficient appropriate audit evidence on which to base the opinion but ended up concluding that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.*

*Human resources practitioner 3*

### *Qualified Report*

*A qualified report is one in which the auditor concludes that most matters have been dealt with adequately, except for a few issues. After having obtained enough good audit evidence, the auditor concludes that misstatements, individually or when grouped with other misstatements, are both material and pervasive to the financial statements. What we are*

*trying to say is that, an auditor's report could be qualified when there is either a limitation of scope in the auditor's work, or when there is a disagreement with management regarding application, acceptability, or adequacy of accounting policies. For auditors, an issue must be material or financially worth consideration to qualify a report. The issue should not be pervasive, that is, the issue should not misrepresent the factual financial position. A qualified external audit report does not mean that the enterprise is suffering, and it doesn't mean that the financial statement isn't transparent. It merely reflects the auditor's inability to give a clean report.*

*Management Accountant 1*

In amplifying the earlier point, other auditor added

*.... however, in either case that is whether or not the external audit report is qualified or not, the details of what management ought to do – make decisions to work on are contained in the management letter. This is because external audit reports do not mean that the enterprise is suffering, and it doesn't mean that the financial statement isn't transparent. It merely reflects the auditor's inability to give a clean report.*

*Auditor 2*

*The management letter*

the researcher was not availed any management letters in the four institutions in that management letters contain details of observations and what management ought to do based on the expert opinion of auditors. Respondents in key positions are quick to point out that the external audit report is normally accompanied by a management letter which communicates audit matters with those charged with governance. When asked the details of the letter, they just gave a frame of contents:

*Like I told you, though I have read the management letter, it would be unethical for me to divulge the details. Ideally the letter may cover the following areas:*

- a) Views about the qualitative aspects of the enterprise's accounting practices and financial reporting;*

- b) *The final draft of the letters of representation;*
- c) *Unadjusted misstatements;*
- d) *Matters specifically required by other auditing standards to be communicated to those charged with governance (such as fraud and error);*
- e) *Material weaknesses in the accounting and internal control systems; and*
- f) *Any other relevant and material matters relating to the audit.*

*Auditor1*

An auditor from Lafarge had this to say about the management letter

*What I know about the management letter is that it serves to identify for some organization areas in which the auditor has determined certain issues that an enterprise may want to improve operations. It actually points out better practices. These "better practices" fall into four categories:*

*Material Internal Control Issues:*

*It may cover internal controls which in fact are about processes, systems and procedures that help to ensure that all transactions are recorded and recorded properly. It may point out the need to correct issues listed in order to provide additional integrity to the financials presented and may help to reduce audit costs in the future.*

*Operating Efficiencies:*

*Sometimes it takes an independent or outside eye to identify inefficiencies that could be improved or new technologies that will improve operations. Management letters serve to identify the area and to propose improvements to resolve problems and strengthen operations.*

*Auditor 2*

#### **5.4 Theme II: Audit problems identified in the last audit<sup>10</sup>**

Identified audit problems which are presented in this section are based on what some staff may have read in the management letter or what was

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<sup>10</sup> What similar audit problems were identified in the last external audit in the four enterprises? (Induction)

reported to them by their superiors in departmental meetings. They are based on the audit report and the contents in the management letter. Respondents were asked to indicate “Yes” or “no” as a position to show the presence or absence of an audit problem. Eight audit problems were assessed as will be shown below.

***Emerging Financial Challenges as an Audit Problem***

Audit reports and management letters highlighted emerging financial challenges of which n = 52 answered ‘Yes’ as compared to n = 81 who answered ‘No’. Trade Kings appeared not to have emerging financial problems following the previous audit whereas the other three appear to have to some extent emerging financial challenges (See Table 7a).

**Table 5a. Identified audit problems - emerging financial challenges**

Enterprise	The report highlighted emerging financial challenges		Total
	No	Yes	
ZESCO	37	30	67
Lafarge	21	18	39
Zambia Airports Corporation	10	4	14
Trade Kings	13	0	13
Total	81	52	133

### ***Fraud as an Audit Problem***

Audit reports and management letters highlighted non-occurrence of fraud in all four enterprises (See Table 5b).

**Table 5b. Identified audit problems – occurrence of fraud**

	The report highlighted the occurrence of fraud		Total
	No	Yes	
ZESCO	67	0	67
Lafarge	39	0	39
Zambia Airports Corporation	12	0	12
Trade Kings	13	0	13
<b>Total</b>	<b>133</b>	<b>0</b>	<b>133</b>

### ***Record Keeping Errors as an Audit Problem***

Audit reports and management letters indeed highlighted the occurrence of record keeping errors of which n = 49 answered 'Yes' as compared to n = 84 who answered 'No'. In all the enterprises there were more respondents who acknowledged the presence of record keeping errors except for Lafarge (See Table 5c).

**Table 5c. Identified audit problems - record keeping errors**

	The report highlighted record keeping errors		Total
	No	Yes	
ZESCO	49	18	67
Lafarge	15	24	39
Zambia Airports Corporation	12	2	14
Trade Kings	8	5	13
Total	84	49	133

***Asset Misappropriation***

Audit reports and management letters highlighted non-occurrence of asset misappropriation in all four enterprises (See Table 5d).

**Table 5d. Identified audit problems - asset misappropriation**

	The report highlighted asset misappropriation		Total
	No	Yes	
ZESCO	67	0	67
Lafarge	39	0	39
Zambia Airports Corporation	14	0	14
Trade Kings	13	0	13
Total	133	0	133

Audit reports and management letters indeed highlighted the occurrence of weaknesses in management controls of which n = 36 answered 'Yes' as compared to n = 97 who answered 'No'. In all the enterprises there were more respondents who declined noticing weaknesses in management controls (See Table 5e).

**Table 5e. Identified audit problems - weaknesses in management controls**

	The report highlighted weaknesses in management controls		Total
	No	Yes	
ZESCO	51	16	67
Lafarge	27	12	39
Zambia Airports Corporation	10	4	14
Trade Kings	9	4	13
Total	97	36	133

**Report Assurance**

Audit reports and management were assuring. N = 99 answered ‘Yes’ as compared to n = 34 who answered ‘No’ claiming that the reports were not assuring. For the Zambia Airports Corporation, the report was rather less assuring (See Table 5f).

**Table 5f. Identified audit problems - Assurance**

	The report was assuring		Total
	No	Yes	
ZESCO	21	46	67
Lafarge	5	34	39
Zambia Airports Corporation	8	6	14
Trade Kings	0	13	13
Total	34	99	133

**Stewardship Stimulation of Managers**

Audit reports and management letters highlighted in all four enterprises that the report did not enhance stewardship stimulation of managers noting that n = 41 answered ‘Yes’ as compared to n = 92 who answered ‘No’.

**Table 5g. Identified audit problems - stewardship stimulation of managers**

	The report enhanced stewardship stimulation of managers		Total
	No	Yes	
ZESCO	38	29	67
Lafarge	35	4	39
Zambia Airports Corporation	10	4	14
Trade Kings	9	4	13
Total	92	41	133

### **Credibility**

Audit reports and management letters highlighted more respondents in all four enterprises claiming no credibility. N = 101 answered 'No' as compared to n = 32 who answered 'Yes' claiming that reports were not credible.

**Table 5h. Identified audit problems - Credibility**

	The report was graded as credible		Total
	No	Yes	
ZESCO	48	19	67
Lafarge	34	5	39
Zambia Airports Corporation	10	4	14
Trade Kings	9	4	13
Total	101	32	133

In order to render a holistic picture regarding the identified audit problems, an ideal sum score of the eight audit problem variables was determined beforehand. The population score was set at 11. The decision rule was that even if the external audit report was unqualified and a respondent scored less than 11 or more than 12, it meant that the audit report and

management letter had some elements which were outstanding that needed management to attend to.

One sample t test was done to compare the four enterprises groups noting that they are not related in any way. In this test, the alternative hypothesis assumes that some difference exists between the true mean ( $\mu$ ; which is 11 in this case) and the comparison value ( $m_0$  which will be computed), whereas the null hypothesis assumes that no significant difference exists. In this study, the sample comparison mean was 10.32 and was lower than the population's true mean which was 11. There was a statistically significant difference  $p = 0.01$  between the two means (See tables 6a and 6b).

**Table 6a: One-Sample Statistics**

	N	Mean	Std. Deviation	Std. Error Mean
Total score of audit challenges	133	10.32	1.444	.125

**Table 6b: One-Sample Test**

	Test Value = 11					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Total score of audit challenges	-5.406	132	.000	-.677	-.92	-.43

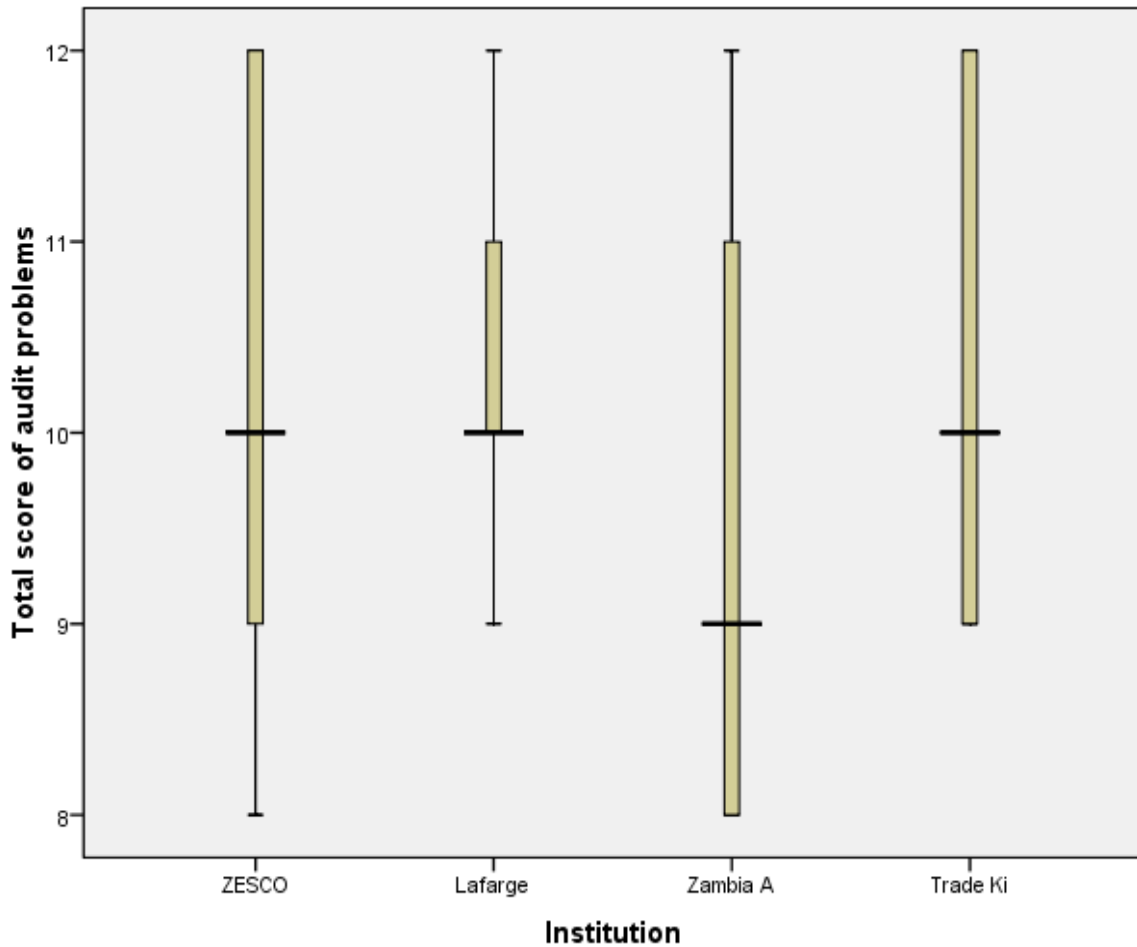
Table 6c and figure 6 below show that the means of the four enterprises were all lower than the population mean 11.

**Table 6c: Descriptives**

	Institution		Statistic	Std. Error	
Total score of audit problems	ZESCO	Mean	10.36	.186	
		95% Confidence Interval for Mean	Lower Bound	9.99	
			Upper Bound	10.73	
		Median		10.00	
		Minimum		8	
		Maximum		13	
	Lafarge	Mean	10.49	.190	
		95% Confidence Interval for Mean	Lower Bound	10.10	
			Upper Bound	10.87	
		Median		10.00	
		Std. Deviation		1.189	
		Minimum		9	
	Maximum		13		
	Zambia Airports Corporation	Mean	9.71	.450	
		95% Confidence Interval for Mean	Lower Bound	8.74	
			Upper Bound	10.69	
		Median		9.00	
		Std. Deviation		1.684	
		Minimum		8	
	Maximum		13		
	Trade Kings	Mean	10.31	.398	
		95% Confidence Interval for Mean	Lower Bound	9.44	
			Upper Bound	11.18	
		Median		10.00	
Std. Deviation		1.437			
Minimum		9			
Maximum		13			

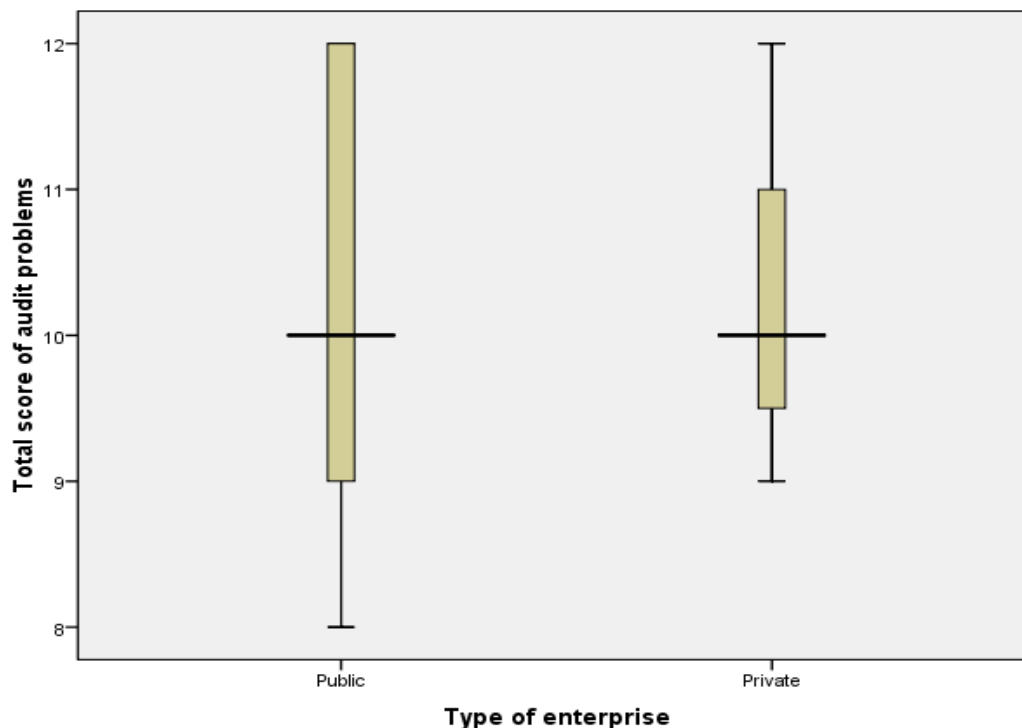
In the figure below, the standard error (SE) bars do not overlap except for that of Zambia Airports Corporation which is lower than the rest and it is evident that  $\mu$  error bar for Trade Kings is higher than the other three (Figure, 6). The medians almost lie on the same plane and this shows a marked difference in the challenges the four enterprises experienced in the year under review.

**Figure 6a: Box plots of medians of audit problems in the four institutions**



When the scores were aggregated between the two categories private and public, exploratory analysis shows that there were no differences in the medians and means (see Figure 7- the box plot below. The audit problems mean score for the two private enterprises was 10.33 where's for the public enterprises was 10.20. The mean scores were lower than, the sample comparison mean which was 11 and this was expected. The median scores in the two types of enterprises appear to be in the same plane lies in the same plane.

**Figure 6b: Box plots of medians of audit problems in the two Categories of institutions**



### **5.5 Theme III: Ways the four corporations have applied the outcomes of financial audits as management tools<sup>11</sup>**

Respondents are asked to indicate the extent to which management decisions were made following an audit report and management letter. A five-point Likert level of agreement regarding the ten identified audit problems was employed. A Likert scale was used as follows: 0 for no action necessary, 1 for some action necessary, 2 for action necessary, 3 for action very necessary, and 4 for action very, very necessary. Below is a description of each enterprise and an aggregated position follows later on.

<sup>11</sup> In what similar ways have the four enterprises applied the outcomes of financial audits as management tools? (Induction)

### **5.5.1 ZESCO and Management Decisions**

Out of 10 management decision variables, ZESCO employees considered only five variables that they saw required action as very necessary or very, very necessary (see table 7a). The variables included:

- a) Developing management-based strategies to address record keeping errors.
- b) Enhancing management to improve processes.
- c) Enhancing management decisions to sustain management processes.
- d) Enhancing stewardship stimulation and making management decisions to improve practice.

However, employees considered no action or some action in five of the following management variables:

- a) Developing management-based strategies to address asset misappropriation.
- b) Developing management-based strategies to address ineffective management controls.
- c) Developing management-based strategies to improve management structures.
- d) Developing management-based strategies to improve management processes.

- e) Developing management-based strategies to address record keeping errors.

This therefore implies that ZESCO was doing rather well in the last five variables.

**Table 7a Profile of management decisions for ZESCO**

	<i>No action necessary</i>		<i>Some action necessary</i>		<i>Action necessary</i>		<i>Action very necessary</i>		<i>Action very, very necessary</i>	
	<i>F</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>
1) From the audit report, our organisation developed management-based strategies to address emerging financial challenges	0	0	41	61.2	13	19.4	13	19.4	0	0
2) From the audit report, our organisation developed management-based strategies to address the observed fraud	67	100	37	0	0	0	0	0	0	0
3) From the audit report, our organisation developed management-based strategies to address record keeping errors	0	0	0	0	67	100	0	0	0	0
4) From the audit report, our organisation developed management-based strategies to address asset misappropriation	15	22.4	52	77.6	0	0	0	0	0	0
5) From the audit report, our organisation developed management-based strategies to address ineffective management controls	22	32.8	45	67.2	0	0	0	0		0
6) From the audit report, our organisation developed management-based strategies to improve management structures	16	23.9	51	76.1	0	0	0	0	0	0
7) From the audit report, our organisation developed management-based strategies to improve management processes	8	11.9	59	88.1	0	0	0	0	0	0
8) The audit report was credible it enhanced management to improve processes	0	0	17	25.4	6	9	19	28.4	25	37.3
9) The audit report was assuring and it enhanced making management decisions to sustain management processes	0	0	0	0	25	37.3	6	9.0	36	53.7
10) The audit report enhanced stewardship stimulation and it enhanced making management decisions to improve practice	0	0	0	0	24	35.8	9	13.4	39	100

### **5.5.2 Lafarge and Management Decisions**

Out of 10 management decision variables, Lafarge employees considered only four variables that they saw required action as very necessary or very, very necessary (see table 7b). The variables included:

- a) A credible report which enhanced management to improve processes.
- b) An assuring report which enhanced making management decisions to sustain management processes.
- c) A report which granted stewardship stimulation and enhanced making management decisions to improve practice.

However, employees considered no action or some action in five of the following management variables:

- a) Developing management-based strategies to address asset misappropriation.
- b) Developing management-based strategies to address ineffective management controls.
- c) Developing management-based strategies to improve management structures.
- d) Developing management-based strategies to improve management processes.
- e) Developing management-based strategies to address record keeping errors.

This implies that Lafarge was doing very well in five of the above management variables.

**Table 7b Profile of management decisions for Lafarge**

	<b>No action necessary</b>		<b>Some action necessary</b>		<b>Action necessary</b>		<b>Action very necessary</b>		<b>Action very, very necessary</b>	
	<b>F</b>	<b>%</b>	<b>f</b>	<b>%</b>	<b>f</b>	<b>%</b>	<b>f</b>	<b>%</b>	<b>f</b>	<b>%</b>
1) From the audit report, our organisation developed management-based strategies to address emerging financial challenges	0	0	26	66.7	13	33.3	0	0	0	0
2) From the audit report, our organisation developed management-based strategies to address the observed fraud	0	0	0	0	22	56.4	17	43.6	0	0
3) From the audit report, our organisation developed management-based strategies to address record keeping errors	100	37	0	0	0	0	0	0	0	0
4) From the audit report, our organisation developed management-based strategies to address asset misappropriation	25	64.1	14	35.9	0	0	0	0	0	0
5) From the audit report, our organisation developed management-based strategies to address ineffective management controls	5	12.8	34	87.2	0	0	0	0	0	0
6) From the audit report, our organisation developed management-based strategies to improve management structures	19	48.7	20	51.3	0	0	0	0	0	0
7) From the audit report, our organisation developed management-based strategies to improve management processes	8	20.5	31	79.5	0	0	0	0	0	0
8) The audit report was credible it enhanced management to improve processes	0	0	0	0	0	0	19	48.7	20	51.3
9) The audit report was assuring and it enhanced making management decisions to sustain management processes	0	0	0	0	0	0	23	59.0	16	41.0
10) The audit report enhanced stewardship stimulation and it enhanced making management decisions to improve practice	0	0	0	0	0	0	0	0	37	100

### **5.5.3 Trade Kings and Management Decisions**

Out of 10 management decision variables, Trade Kings employees considered only four variables that they saw required action as very necessary or very, very necessary (see table 7c). The variables included:

- a) From the report and management letter, our organisation developed management based strategies to address record keeping errors.
- b) The report and management letter was credible it enhanced management to improve processes
- c) The report and management letter was assuring and it enhanced making management decisions to sustain management processes
- d) The report and management letter enhanced stewardship stimulation and it enhanced making management decisions to improve practice

However, employees considered no action or some action in six of the following management variables:

- a) From the report and management letter, our organisation developed management based strategies to address emerging financial challenges
- b) From the report and management letter , our organisation developed management based strategies to address the observed fraud
- c) From the report and management letter, our organisation developed management based strategies to address record keeping errors

- d) From the report and management letter, our organisation developed management based strategies to address asset misappropriation
- e) From the report and management letter, our organisation developed management based strategies to address ineffective management controls
- f) From the report and management letter, our organisation developed management based strategies to improve management structures
- g) From the report and management letter, our organisation developed management based strategies to improve management processes

This implies that Trade Kings was doing very well in six out of ten of the above management variables.

**Table 7c Profile of management decisions for Trade Kings**

	<b>No action necessary</b>		<b>Some action necessary</b>		<b>Action necessary</b>		<b>Action very necessary</b>		<b>Action very, very necessary</b>	
	<b>F</b>	<b>%</b>	<b>f</b>	<b>%</b>	<b>f</b>	<b>%</b>	<b>f</b>	<b>%</b>	<b>f</b>	<b>%</b>
1) From the report and management letter , our organisation developed management based strategies to address emerging financial challenges	0	0	7	53.8	5	38.4	1	0	0	0
2) From the report and management letter , our organisation developed management based strategies to address the observed fraud	0	0	0	0	5	38.4	8	61.5	0	0
3) From the report and management letter , our organisation developed management based strategies to address record keeping errors	8	61.5	0	0	3	23	2	15.3	0	0
4) From the report and management letter , our organisation developed management based strategies to address asset misappropriation	13	100	0	0	0	0	0	0	0	0
5) From the report and management letter , our organisation developed management based strategies to address ineffective management controls	9	69.2	0	0	4	30.7	0	0	0	0
6) From the report and management letter , our organisation developed management based strategies to improve management structures	4	30.7	9	69.2	0	0	0	0	0	0
7) From the report and management letter , our organisation developed management based strategies to improve management processes	9	69.2	4	30.7	0	0	0	0	0	0
8) The report and management letter was credible it enhanced management to improve processes	0	0	0	0	0	0	13	100	0	0
9) The report and management letter was assuring and it enhanced making management decisions to sustain management processes	0	0	0	0	0	0	13	100	0	0
10) The report and management letter enhanced stewardship stimulation and it enhanced making management decisions to improve practice	0	0	0	0	4	30.7	5	38.4	4	30.7

#### **5.5.4 Zambia Airports Corporation and Management Decisions**

Out of 10 management decision variables, Lafarge employees considered only four out of ten management variables that they saw required action as very necessary or very, very necessary (see table 7d). The variables included:

- a) From the audit report, our organisation developed management-based strategies to address the observed fraud
- b) The audit report was credible it enhanced management to improve processes
- c) The audit report was assuring and it enhanced making management decisions to sustain management processes
- d) The audit report enhanced stewardship stimulation and it enhanced making management decisions to improve practice

However, employees considered no action or some action in five out of ten management variables (see table 7d). The variables included:

- a) From the audit report, our organisation developed management-based strategies to address emerging financial challenges
- b) From the audit report, our organisation developed management-based strategies to address record keeping errors
- c) From the audit report, our organisation developed management-based strategies to address asset misappropriation

- d) From the audit report, our organisation developed management-based strategies to address ineffective management controls
- e) From the audit report, our organisation developed management-based strategies to improve management structures

This implies that Lafarge was doing very well in five of the above management variables.

**Table 7d Profile of management decisions for Zambia Airport Corporation**

	<i>No action necessary</i>		<i>Some action necessary</i>		<i>Action necessary</i>		<i>Action very necessary</i>		<i>Action very, very necessary</i>	
	<i>F</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>
1) From the audit report, our organisation developed management-based strategies to address emerging financial challenges	0	0	8	57.1	6	42.8	0	0	0	0
2) From the audit report, our organisation developed management-based strategies to address the observed fraud	0	0	0	0	1	7.1	13	92.8	0	0
3) From the audit report, our organisation developed management-based strategies to address record keeping errors	12	85.7	0	0	2	14.3	0	0	0	0
4) From the audit report, our organisation developed management-based strategies to address asset misappropriation	14	100	0	0	0	0	0	0	0	0
5) From the audit report, our organisation developed management-based strategies to address ineffective management controls	10	71.4	2	14.3	2	14.3	0	0	0	0
6) From the audit report, our organisation developed management-based strategies to improve management structures	10	71.4	4	28.6	0	0	0	0	0	0
7) From the audit report, our organisation developed management-based strategies to improve management processes	10	71.4	0	0	2	14.3	2	14.3	0	0
8) The audit report was credible it enhanced management to improve processes	0	0	0	0	0	0	6	42.8	8	57.1
9) The audit report was assuring and it enhanced making management decisions to sustain management processes	0	0	0	0	0	0	0	0	14	100
10) The audit report enhanced stewardship stimulation and it enhanced making management decisions to improve practice	0	0	0	0	0	0	4	28.6	10	71.4

Noting that management decisions are structured in form of Likert items, in order to determine the existence of similarities or differences, the Likert items are summed up to get a comparative score. In this way, it was possible to compare the four enterprises. The population men score for the management decision domain was set *a priori* at 16.

One sample t test was done to compare the means of the four enterprises groups noting that they are not related in any way. In this test, the alternative hypothesis assumes that some difference exists between the true mean ( $\mu$ ; which is 16 in this case) and the comparison value ( $m_0$  which will be computed), whereas the null hypothesis assumes that no significant difference exists. In this study, the sample comparison mean was 9.90 and was lower than the population's true mean which was 16. There was a statistically significant difference  $p = 0.01$  between the four means (See tables 8a and 8b).

**Table 8a: One-Sample Statistics**

	N	Mean	Std. Deviation	Std. Error Mean
Total score of audit challenges	133	9.90	3.639	.316

**Table 8b: One-Sample Test**

	Test Value = 16					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Total score of management decisions	-19.326	132	.001	-6.098	-6.72	-5.47

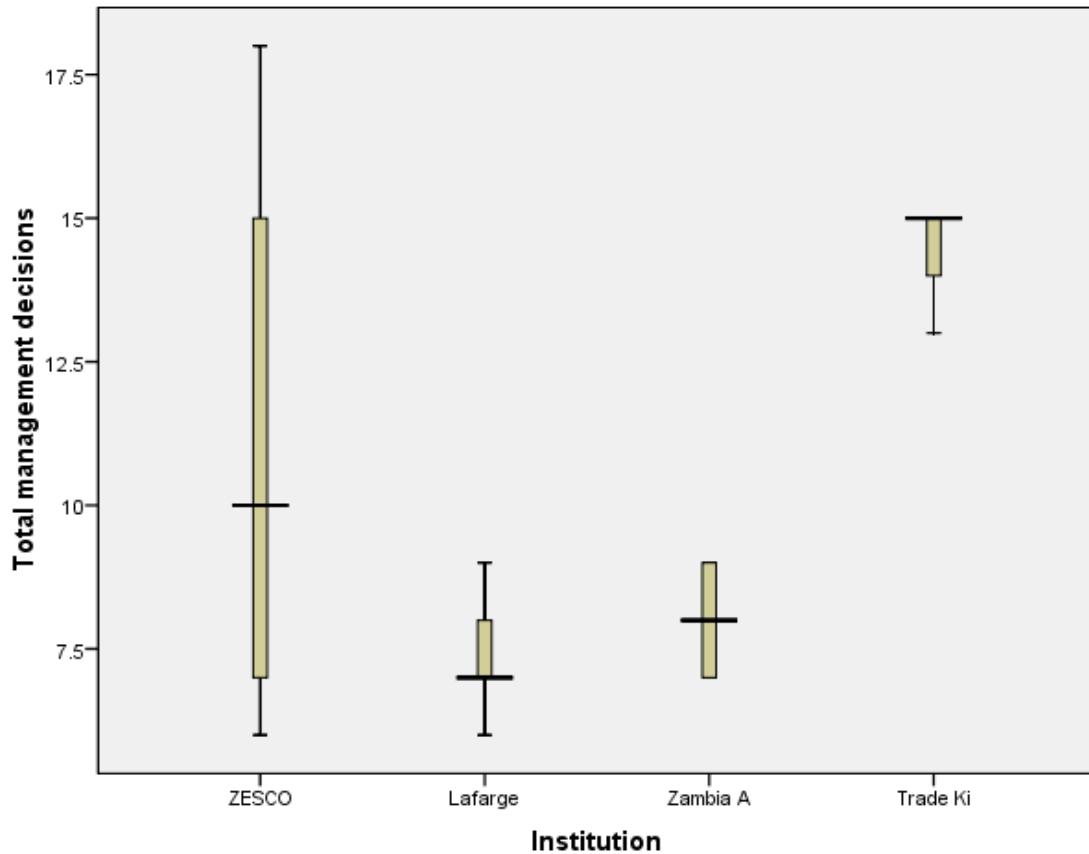
Table 12c below show that the means of the four enterprises were all lower than the population mean 16 and it was expected.

**Table 8c: Descriptives**

	Institution		Statistic	Std. Error	
Total management decisions	ZESCO	Mean		10.96	.481
		95% Confidence Interval for Mean	Lower Bound	9.99	
			Upper Bound	11.92	
		5% Trimmed Mean		10.84	
		Median		10.00	
		Minimum		6	
		Maximum		18	
	Lafarge	Mean		7.54	.151
		95% Confidence Interval for Mean	Lower Bound	7.23	
			Upper Bound	7.84	
		5% Trimmed Mean		7.54	
		Median		7.00	
		Std. Deviation		.942	
		Minimum		6	
	Maximum		9		
	Zambia Airports Corporation	Mean		7.86	.542
		95% Confidence Interval for Mean	Lower Bound	6.26	
			Upper Bound	8.60	
		5% Trimmed Mean		7.70	
		Median		8.00	
		Std. Deviation		2.027	
		Minimum		1	
	Maximum		9		
	Trade Kings	Mean		14.62	.323
		95% Confidence Interval for Mean	Lower Bound	14.22	
			Upper Bound	15.01	
		5% Trimmed Mean		14.68	
		Median		15.00	
Std. Deviation		1.166			
Minimum		12			
Maximum		15			

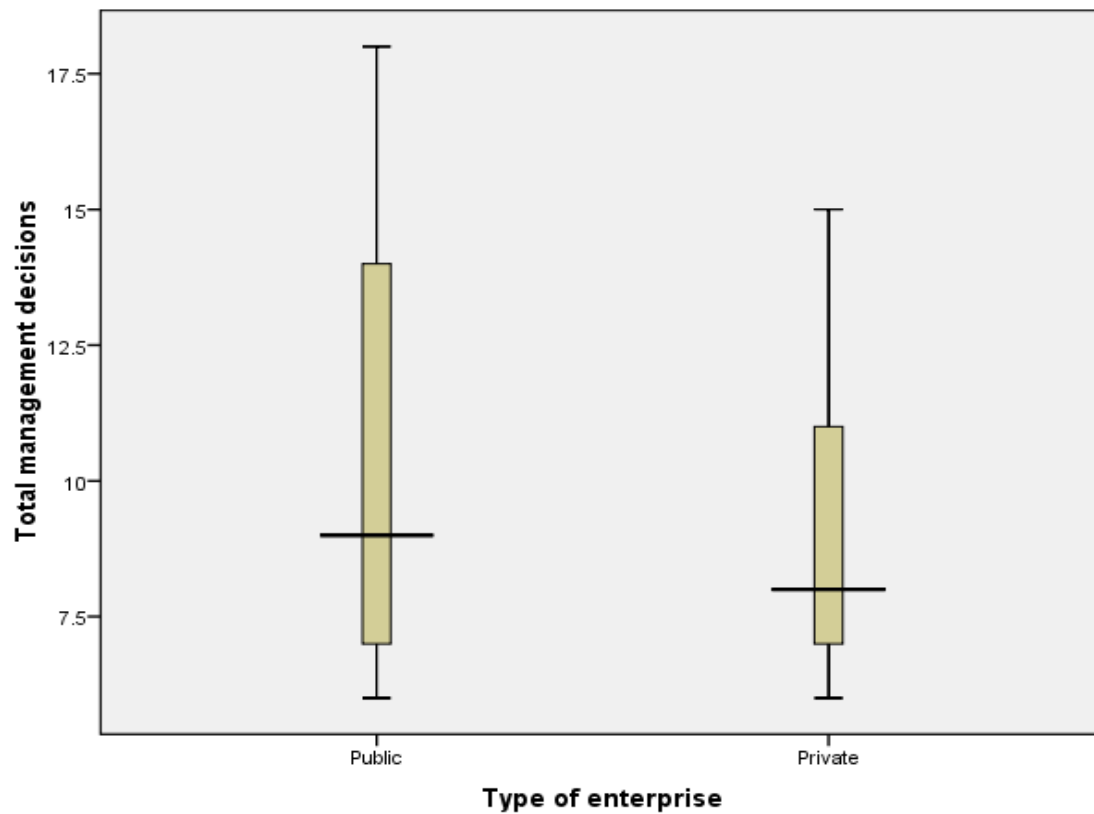
In the figure below, the standard error (SE) bars do overlap and it is evident that  $\mu$  error bar for Trade Kings is higher than the three (Figure, 7). The medians did not lie on the same plane and this shows a marked difference in management decision making when looking at challenges the four enterprises experienced in the year under review (see figure 7).

**Figure 7a: Box plots of medians of management decisions in the four institutions**



When the scores were aggregated between the two categories of institutions private and public, exploratory analysis shows that there were no differences in the medians and means (see Figure 8- the box plot below) in terms of management decisions. The management decisions mean score for the two private enterprises was 9.31 where's for the public enterprises was 10.42. The mean scores were lower than, the sample comparison mean which was 16 and this was expected. The median scores in the two categories of enterprises do not lie in the same plane. However, the decision making in this area is lower than expected.

**Figure 7b: Box plots of medians of management decisions in the two categories institutions**



### **5.6 Theme IV: Ways the four corporations have applied the outcomes of financial audits as economic tools**

This section, relates to the research question: “in what similar ways if any have the four enterprises applied the outcomes of financial audits as economic decision making tools?” The answers are presented quantitatively and qualitatively.

Quantitatively, respondents were asked to indicate the extent to which economic decisions are made on a five-point level of agreement regarding the ten identified audit problems. A Likert scale was used as follows: 0 for no action necessary, 1 for some action necessary, 2 for action necessary, 3 for

action very necessary, and 4 for action very and 5 for very necessary. Below are profiles of economic decisions made by the four enterprises.

### **ZESCO and economic decisions**

In this study, ZESCO employees considered all five economic decision variables that they saw required some action or action which was considered to be very necessary (see table 9a).

**Table 9a Profile of economic decisions for ZESCO**

	<b>No action necessary</b>		<b>Some action necessary</b>		<b>Action necessary</b>		<b>Action very necessary</b>		<b>Action very, very necessary</b>	
	<b>F</b>	<b>%</b>	<b>f</b>	<b>%</b>	<b>F</b>	<b>%</b>	<b>f</b>	<b>%</b>	<b>f</b>	<b>%</b>
1) From the audit report, our organisation developed strategies to conduct a credit analysis,	8	11.9	28	5	7.5	26	38.8	0	0	0
2) From the audit report, our organisation developed strategies to determine market values and means of making rational investment decisions,	9	13.4	27	40.3	5	7.5	26	38.8	0	0
3) From the audit report, our organisation developed strategies to determine payment of risk premium to reduce the level of uncertainty or risk.	35	52.2	2	3.0	30	44.8	0	0	0	0
4) From the audit report, our organisation developed strategies to determine where to make investments	20	29.9	17	25.4	30	44.8	0	0	0	0
5) From the audit report, our organisation developed strategies to determine expenditure decisions,	16	23.9	12	20.9	15	22.4	4	6.0	0	0

## **Lafarge and economic decisions**

In a related matter, Lafarge employees considered only four variables that they saw required some action as necessary, action as necessary and action as very necessary (see table 14b). The variables included:

- 1) From the audit report, our organisation developed strategies to conduct a credit analysis,
- 2) From the audit report, our organisation developed strategies to determine market values and means of making rational investment decisions,
- 3) From the audit report, our organisation developed strategies to determine payment of risk premium to reduce the level of uncertainty or risk.
- 4) From the audit report, our organisation developed strategies to determine expenditure decisions,

However, employees considered no action or some action in the economic variables which was looking at developing strategies to determine where to make investments.

**Table 9b Profile of economic decisions for Lafarge**

	<i>No action necessary</i>		<i>Some action necessary</i>		<i>Action necessary</i>		<i>Action very necessary</i>		<i>Action very, very necessary</i>	
	<i>F</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>
1) From the audit report, our organisation developed strategies to conduct a credit analysis,	0	0	13	33.3	6	15.4	20	51.3	0	0
2) From the audit report, our organisation developed strategies to determine market values and means of making rational investment decisions,	0	0	18	46.2	6	15.4	15	38.5	0	0
3) From the audit report, our organisation developed strategies to determine payment of risk premium to reduce the level of uncertainty or risk.	0	0	12	30.8	10	25.6	17	43.6	0	0
4) From the audit report, our organisation developed strategies to determine where to make investments	17	43.6	5	12.8	5	12.8	0	0	0	0
5) From the audit report, our organisation developed strategies to determine expenditure decisions,	0	0	13	33.3	10	25.6	16	41.0	0	

## **Trade Kings and economic decisions**

In this study, Trade Kings employees considered two economic decision variables that they saw required some action or action which was considered to be very necessary in developing strategies to conduct a credit analysis and developing strategies to determine where to make investments. However, employees considered no action or some action in the economic variables which was looking at developing strategies to determine where to make investments and developing strategies to determine expenditure decisions (see table 9a).

**Table 9c Profile of economic decisions for Trade Kings**

	<i>No action necessary</i>		<i>Some action necessary</i>		<i>Action necessary</i>		<i>Action very necessary</i>		<i>Action very, very necessary</i>	
	<b>F</b>	<b>%</b>	<b>f</b>	<b>%</b>	<b>F</b>	<b>%</b>	<b>f</b>	<b>%</b>	<b>f</b>	<b>%</b>
6) From the audit report, our organisation developed strategies to conduct a credit analysis,	0	0	0	0	9	69.2	4	30.7	0	0
7) From the audit report, our organisation developed strategies to determine market values and means of making rational investment decisions,	3	23	6	46	4	30.7	0	0	0	0
8) From the audit report, our organisation developed strategies to determine payment of risk premium to reduce the level of uncertainty or risk.	9	69.2	4	30.7	0	0	0	0	0	0
9) From the audit report, our organisation developed strategies to determine where to make investments	1	7.6	2	15.3	2	15.3	8	61.5	0	0
10) From the audit report, our organisation developed strategies to determine expenditure decisions,	0	0	9	69.2	4	30.7	0	0	0	0

## **Zambia Airports Corporation and economic decisions**

In a related matter, Zamia Airports Corporation employees considered only three variables that they saw required some action as necessary, action as necessary and action as very necessary (see table 9d). The variables included:

- a) From the audit report, our organisation developed strategies to conduct a credit analysis,
- b) From the audit report, our organisation developed strategies to determine market values and means of making rational investment decisions and
- c) From the audit report, our organisation developed strategies to determine expenditure decisions.

However, employees considered no action or some action in the economic variables which was looking at developed strategies to determine where to make investments.

**Table 9d Profile of economic decisions for Zambia Airports Corporation**

	<i>No action necessary</i>		<i>Some action necessary</i>		<i>Action necessary</i>		<i>Action very necessary</i>		<i>Action very, very necessary</i>	
	<i>F</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>
1) From the audit report, our organisation developed strategies to conduct a credit analysis,	0	0	0	0	0	0	0	0	14	100
2) From the audit report, our organisation developed strategies to determine market values and means of making rational investment decisions,	0	0	0	0	5	35.7	0	0	9	64.2
3) From the audit report, our organisation developed strategies to determine payment of risk premium to reduce the level of uncertainty or risk.	0	0	5	35.7	9	64.2	0	0	0	0
4) From the audit report, our organisation developed strategies to determine where to make investments	14	100	0	0	0	0	0	0	0	0
5) From the audit report, our organisation developed strategies to determine expenditure decisions,	0	0	0	0	5	35.7	9	64.2	0	0

Noting that management decisions are structured in form of Likert items, in order to determine the existence of similarities or differences, the Likert items are summed up to get a comparative score. In this way, it was possible to compare the four enterprises. The population men score for the economic decision domain was set *a priori* at 20.

One sample t test was done to compare the means of the four enterprises groups noting that they are not related in any way. In this test, the alternative hypothesis assumes that some difference exists between the true mean ( $\mu$ ; which is 20 in this case) and the comparison value ( $m_0$  which will be computed), whereas the null hypothesis assumes that no significant difference exists. In this study, the sample comparison mean was 9.32 and was lower than the population's true mean which was 20. There was a statistically significant difference  $p = 0.01$  between the four means (See tables 9e and 9f).

**Table 9e: One-Sample Statistics**

	N	Mean	Std. Deviation	Std. Error Mean
Total economic decisions	133	9.32	3.48	.302

**Table 9f: One-Sample test**

	Test Value = 20					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Total economic decisions	-35.31	132	.001	-10.67	-11.27	-10.07

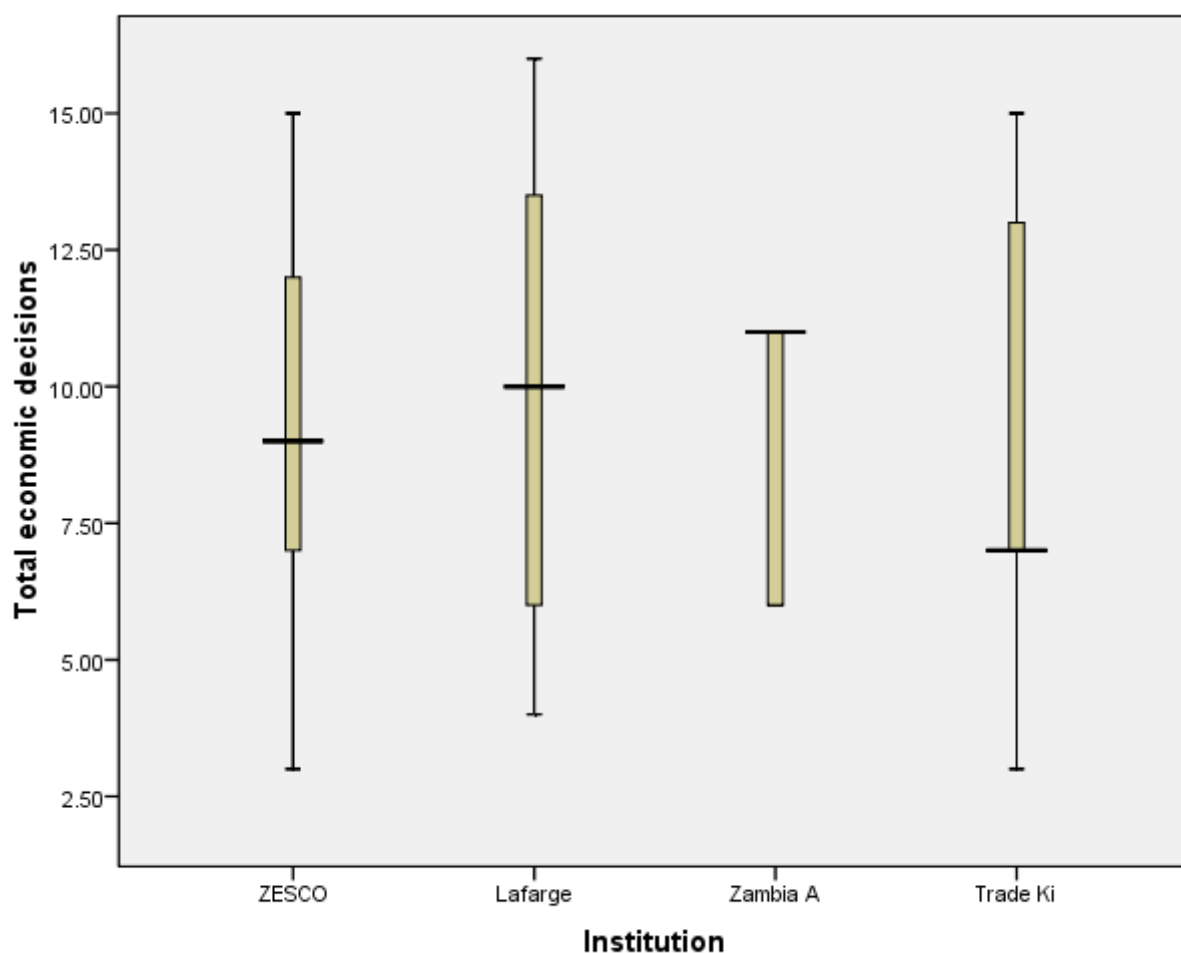
Table 9c below show that the means of the four enterprises were all lower than the population mean 20 and it was expected.

**Table 9f: Descriptives**

	Institution		Statistic	Std. Error	
Total economic decisions	ZESCO	Mean		9.26	.402
		95% Confidence Interval for Mean	Lower Bound	8.46	
			Upper Bound	10.07	
		5% Trimmed Mean		9.29	
		Median		9.00	
		Std. Deviation		3.29	
		Minimum		3.00	
		Maximum		15.00	
	Lafarge	Mean		9.71	.636
		95% Confidence Interval for Mean	Lower Bound	8.43	
			Upper Bound	11.00	
		5% Trimmed Mean		9.68	
		Median		10.00	
		Std. Deviation		3.97	
		Minimum		4.00	
		Maximum		16.00	
	Zambia Airports Corporation	Mean		9.21	.664
		95% Confidence Interval for Mean	Lower Bound	7.77	
			Upper Bound	10.64	
		5% Trimmed Mean		9.29	
		Median		11.00	
		Std. Deviation		2.48	
		Minimum		6.00	
		Maximum		11.00	
	Trade Kings	Mean		8.53	1.112
		95% Confidence Interval for Mean	Lower Bound	6.11	
			Upper Bound	10.96	
		5% Trimmed Mean		8.48	
Median		7.00			
Std. Deviation		4.01			
Minimum		3.00			
Maximum		15.00			

In the figure below, the standard error (SE) bars do overlap and it is evident that  $\mu$  error bar for Trade Kings is the lowest among the three (Figure, 8). The medians do not lie on the same plane and this shows a marked difference in economic decision making when looking at challenges the four enterprises experienced in the year under review (see figure 8).

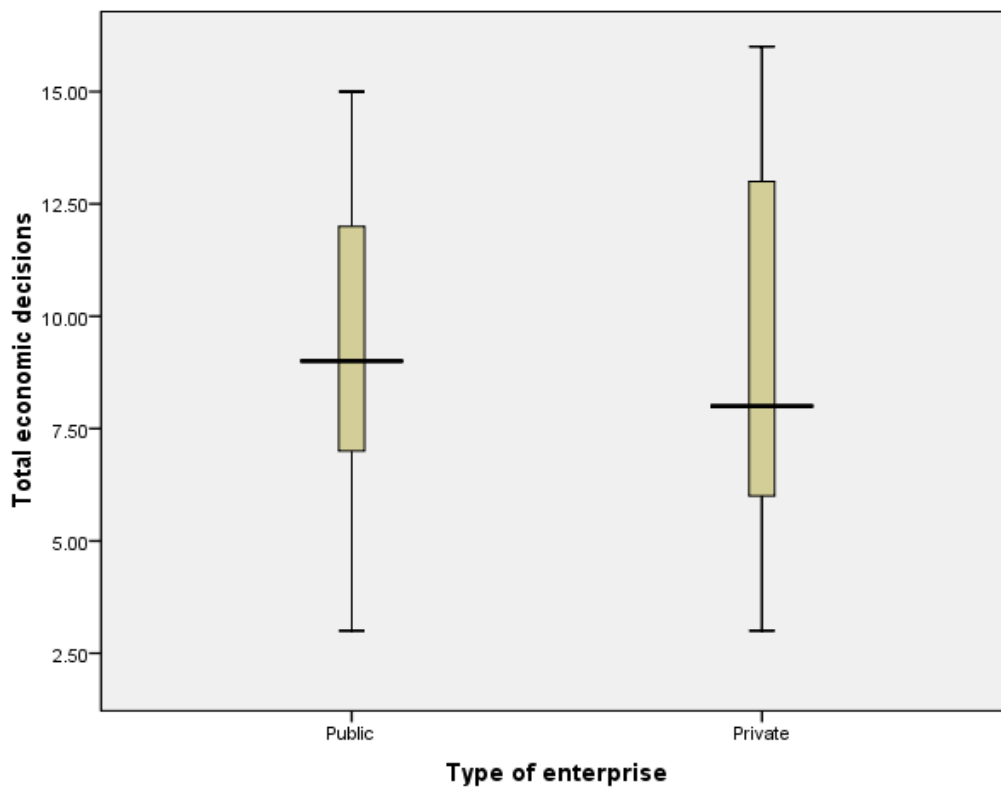
**Figure 8a: Box plots of medians of economic decisions in the four institutions**



2.0 When the scores were aggregated between the two categories private and public, exploratory analysis shows that there were no differences in the medians and means (see Figure 8- the box plot below) in terms of management decisions. The management decisions mean score for the two categories was 9.42 for the public where's for the private enterprises was 9.25. The mean scores were lower than, the sample comparison mean which was 16 and this was expected. The median scores in the

two categories of enterprises do not appear to lie in the same plane. However, the decision making in this area is lower than expected.

**Figure 8b: Box plots of medians of economic decisions in the two categories institutions**



### ***Multivariate Tests***

In the Multivariate Tests table, one would see the actual result of the one-way ANOVA. The researcher need to look at the second Effect, labelled “Institution,” and the Wilks' Lambda Rho (in bold). To determine whether the -way ANOVA was statistically significant. Looking at the "Sig." column, one can see from the table that there is a "Sig." value of .000, which means  $p <$

.001. Therefore, one can conclude that in these four institutions the management and economic decisions were dependent on which institution one worked for ( $p < .001$ ) and the challenges audit challenges they faced.

**Table 10: Multivariate Tests<sup>b</sup>**

Effect	Value	F	Hypothesis df	Error df	Sig.	
Intercept	Pillai's Trace	.939	7.970 <sup>a</sup>	2.00	103.00	.000
	Wilks' Lambda	.061	7.970 <sup>a</sup>	2.00	103.00	.000
	Hotelling's Trace	15.47	7.970 <sup>a</sup>	2.00	103.00	.000
	Roy's Largest Root	15.47	7.970 <sup>a</sup>	2.00	103.00	.000
Institution	Pillai's Trace	.22	14.49 <sup>a</sup>	2.00	103.00	.000
	<b>Wilks' Lambda</b>	<b>.78</b>	<b>14.49<sup>a</sup></b>	<b>2.00</b>	<b>103.00</b>	<b>.000</b>
	Hotelling's Trace	.28	14.49 <sup>a</sup>	2.00	103.00	.000
	Roy's Largest Root	.28	14.49 <sup>a</sup>	2.00	103.00	.000

a. Exact statistic

b. Design: Intercept + Institution

When statistical tests are done, the researcher decided to have a follow-up discussion. One interesting finding was that some managers or directors perceived their enterprise to be riskier when the external auditors issued a going-concern report, as explained below:

*“I would say that first-tier auditors report going-concern problems more easily, because I know they have more responsibility. There is a slight difference between first- and second-tier auditors when they issue a going-concern report because a first-tier auditor will do it earlier.”*

*Director 2*

Furthermore, another commented:

*“I do believe that auditors who audit large companies know their job. However, auditors who audit smaller companies like us may make exceptions to document audit problems when they are doing the audit.”*

#### *The use of the external audit report*

To begin with, and consistent with previous studies (Niemi and Sundgren, 2012) managers than directors are one of the main users of enterprise financial reports. The main use of audit reports is to meet basic requirements for making day to day and investment decisions. The primary concern of most of the managers was to obtain reliable information, and the main role of audit report is to provide assurance to managers and the boards, as commented as follows:

*As for me, once I read the audit report, I notice that it's to increase confidence.*

*Manager 3*

*“The role of the external audit report is to increase confidence. I put more trust in the financial statements when they are audited. I read the financial statements four or three times more carefully if the external audit report is missing.”*

*Auditor 4*

Accordingly, the interviews revealed that external Audit reports and management letters make the documents valuable to users and that almost none of the interviewed would accept state of unaudited financial

statements. Despite this, relatively little consideration was given to the external audit report in an institution's environment. As an example, one interviewee explained:

*"I could imagine that an ordinary person who reads an unqualified external audit report would appreciate it more than a specialist. An ordinary person would read the external audit report very carefully and conclude afterwards that everything is all right. But I know what's behind the report. In this kind of job, you notice that it's enough when the external audit report just exists. I don't think that the audit report is informative. Someone else may think something else, but this may be because the person doesn't know how auditing works."*

*Manager Risk*

Another one lamented

*"Though I as employees consider ourselves to be main users of external Audit reports and management letters , I do not see the whole report...I do not even have sight of the management letter...It is like the report is for the board of directors."*

In contrast, another interviewee commented:

*"I feel that external audit report and auditing are significant also for us, since it is a second opinion. You get support from the bosses for your own understanding and operationalisation of the findings."*

*Relationship manager*

In general, most of the interviewees stressed that the information content provided by the external audit report was fairly limited. As an example, one interviewee emphasised:

*"Sure, the external audit report is important in the sense that it's a guarantee of quality. But the content of the report tells us more about how the audit is done, rather than goes into details about what is auditor's opinion of the audited enterprise."*

*Auditor 4*

Interestingly, none of the line managers actually read the external audit report. When asked about the general use of the external audit report, four major elements emerged. First, in one of the institutions, the interviewees looked at the third paragraph of the external audit report to see whether the report contained an unqualified opinion:

*“I check that the external audit report is not qualified. If the external audit report is unqualified, it is fine and I will leave it like that. It is more or less like an OK stamp.”*

*Credit manager*

Second, the interviewees highlighted the importance of the audit firm conducting the audit. In Zambia, the audit market is dominated by the Big 4 audit firms like Deloitte, KPMG, PWC, Ernst and Young and accordingly, most of the managers or directors paid attention to who had conducted the audit:

*“Sure, I have to mention in the credit proposal who has audited the enterprise. In the bigger cases I certainly notice that the auditor is a first-tier auditor and preferably someone from those big audit firms.”*

*Investment manager*

Only a few interviewees highlighted the importance of auditor qualifications. If the audit report was unqualified and signed by a Big 4 audit firm, the participants did not consider the report again. That is, all participants stressed that they appreciated the positive role of the Big 4 firms. A signature by a Big 4 firm was seen as a significant mark of quality that

communicated something positive to the managers or directors. Quality in this regard can be presumed to emanate from the reputation of the institutions involved in the field of audit:

*“When the audit is done by a Big 4 firm, I don’t put that much value on the auditor itself. I know that Big 4 companies have good quality standards and they do a good job. I know I can look at them more seriously” ....I mainly look at the third paragraph of the report to see whether it includes an unqualified opinion and who has conducted the audit –*

*Director 2*

If the external audit report had not been signed by a Big 4 audit firm, the managers or directors did not necessarily try to assess the reputation of the audit firm and the auditor. A few of the interviews seemed to know most of the auditors and could judge the quality of the audit from the name of the auditor. One manager explained:

*“Generally, enterprises probably trust all external Audit reports and management letters but I personally pay attention to who has signed the external audit report and with what kind of qualification. In fact, in this town you know people and you know who does a good job.”*

Bankruptcy is one aspect which must be addressed in the audit report. While it has been argued that auditors’ going-concern reporting is linked to bankruptcy, the findings in this study do not indicate that bankruptcy was an issue in the four institutions. It is evident that this is not a foreseeable problem in the four firms. In addition, the interviews show that sophisticated and informed groups, such as finance industry officers, are not really sure what the external audit report is intended to communicate.

The users mainly look at the third paragraph of the report to see whether it includes an unqualified opinion and who has conducted the audit. The following testimonies are related to this observation.

*“You have asked whether the report covered bankruptcy, I do not remember it as one aspect which was addressed in the audit report. While it has been argued that auditors’ going-concern reporting is linked to bankruptcy, there was no mention of it at all.”*

*Director 1*

*“Why should the auditors talk about it when our finances are ok....this is not a foreseeable problem”.*

*Auditor 3*

*“Just look at the opinion page, you will know everything about solvency...especially when it is an unqualified opinion and who has conducted the audit”.*

*Auditor 1*

## **CHAPTER SIX – DISCUSSION**

### **6.0 Introduction**

In this section, the researcher outlines in summary form the answers to the four research questions. The results of the study lead to the achievement of the research objectives and the validation of the formulated working hypotheses. These claims are demonstrated below.

### **6.1 Summary of Answers**

Relating to research question number 1: “What structured system of principles have the four enterprises embraced in ensuring that financial external Audit reports and management letters and activities feed into fostering management and economic decisions?” Generally, this study found that though the four corporations have employed structured systems in ensuring that financial external audit reports and activities feed into fostering management and economic decisions, there are qualitative similarities in structure in three phases of auditing (the pre-audit, audit and post audit phases). Auditors in the four corporations did prepare financial documents that are to be examined to ensure that all information was correct before the company undergoes an official audit. There are some variations in pre-audits relating to the types of transactions that should be

examined in the four institutions and probably this relates to the size, organisational culture and the type of business.

There are a number of interpretations the researcher can render based on the results of this study looking at structuring audits and these border on the application of audit theories qualitatively and these are supported by empirical evidence vouched in this study. The study has affirmed that the claims of the policeman theory hold in this study. From the interviews, it is clear that external auditors are responsible for searching, discovering, and preventing fraud. There is evidence to show that external auditors in the four corporations had provided some reasonable assurance and verified the truth and fairness of the financial statements. Though the detection of fraud is, however, still a hot topic and in this study, it was not a problem and as such did not call for any management or economic decision to be made.

The results of the study have shown that the auditors rendered credibility points noting that the reports in the four institutions are assuring and as such enhanced stewardship which was a stimulation to managers. It could be inferred that audited financial statements had elements that increased the financial statement users' confidence in the figures presented by the management (in the financial statement) in spite of the observed audit problems.

Though the reports about the four institutions are unqualified, the 10% sampling test which is usually done by external auditors does not provide adequate validation information of what could be happening on the ground. This explains why there are some perceived audit problems. In an enterprise, for an auditor to render a valid opinion, the auditor ought to be given a large sample of documentation and ought to be conversant with the type of trade, knowledge of the internal environment with relevant ethnographic picture. This scenario coiled with the possibility of familiarity of the auditor with the enterprise which influences the recurrent changes of auditors could be a factor in the issuance of the unqualified report.

The evidence however points to the facts that audit reports and management letters have the relevance and usefulness. Though the audit report has often been criticised for failing to provide informative content to users of financial statements (Church et al., 2008) this study has shown the contrary. From a theoretical point of view, the audit report as an independent second opinion in this study tended to provide information that helps financial statement users to make decisions as shown in previous studies (see Guiral and Ruiz, 2014) even though in practice, the message conveyed by audit reports has been questioned by regulators and academics alike (Church et al., 2008). Though the researcher did not have access to audit reports and

management letters, it is not possible to wholly believe what the respondents stated (Church et al., 2008; Mock et al., 2009).

As in previous studies (Gray *et al.*, 2011), the findings in this study provide some credible evidence that users have some information they could use if they are to make decisions. However, dissimilar to the findings of Bessell *et al.* (2003), managers or directors in the four enterprises seem to give additional credence to the qualification in the auditor's report.

While it has been argued that auditors' going-concern reporting is linked to bankruptcy (Gaeremynck and Willekens, 2003), the findings in this study do not indicate that bankruptcy could be a problem in the four firms. The going concern principle is the assumption that an entity will remain in business for the foreseeable future. Conversely, this means that the entity will not be forced to halt operations and liquidate its assets in the near term at what may be very low fare-sale prices. In addition, the study findings show that staff and management as users of the report are not really sure what the external audit report is intended to communicate. The users mainly look at the third paragraph of the report to see whether it includes an unqualified opinion and who has conducted the audit. This is a finding also made by Gray et al. (2011). Further, the empirical findings of the current study find some indications that general knowledge about auditors' going-concern

reporting is fairly limited among the respondents who are enlisted in this study.

It is argued that in a corporation like the four in which share ownership is widely spread, managerial behaviour does not always maximize the returns of the shareholders (Donaldson and Davis, 1991). The degree of uncertainty about whether the agent will pursue self-interest rather than comply with the requirements of the contract represents an agent risk for an investor (Fiet, 1995). Given that principals will always be interested in the outcomes generated by their agents, agency theory demonstrates that accounting and auditing have an important task in providing information and this task is often associated with stewardship, in which an agent reports to the principal on the companies' events (Ijiri, 1975). The demand for auditing is sourced in the need to have some means of independent verification to reduce record keeping errors, asset misappropriation, and fraud within business and business organization. However, a survey conducted by Wahdan et al. (2005) revealed that the auditors believe that the auditor's work would be used as a guide for investment, valuation of companies, and sometimes in predicting bankruptcy.

Agency theory does not offer guidance on what an "expert" is and how claims of expertise are enacted since these are shaped by broader social

power and politics. It is widely acknowledged that through a variety of strategies accountants have mobilised the state to advance their credentials as experts and secure control of the external auditing jurisdiction (Larson, 1977; Johnson, 1982; Robson and Cooper, 1990). As independent experts, auditors claim to be able to mediate uncertainty and construct an objective account of business affairs to enable shareholders and significant others to manage risks. This construction of reality is legitimised by appeals to a variety of standards, benchmarks, techniques and bodies of knowledge, but such claims are precarious as they are routinely undermined by periodic scandals, crisis, frauds, emergence of new technologies, patterns of trade and changes in capitalist economies.

Referring to the second research question, “what similar audit problems if any are identified in the last external audit in the four enterprises”, It was noted that the population means in the four institutions are rather different in terms of observed audit problems though from the t tests the researcher cannot affirm as to which corporation is better than the other and as to render an opinion. The researcher must state beforehand that it is not expected to pinpoint any audit problems since the reports are unqualified in all the domains lie emerging financial challenges, occurrence of fraud, record keeping errors, asset misappropriation, and weaknesses in management controls. The reports are as such assuring, enhanced stewardship stimulation of managers and credible.

Considering the third research question, “Ways the four corporations have applied the outcomes of financial audits as management tools”, the answer is that ZESCO was doing rather better than Lafarge. The mean scores are 10.96 and 7.38 for ZESCO and Lafarge respectively  $p < .05$  (and in this case it is  $p = .001$ ). The four institutions actually have different management decisions when one looks at the ten decision areas.

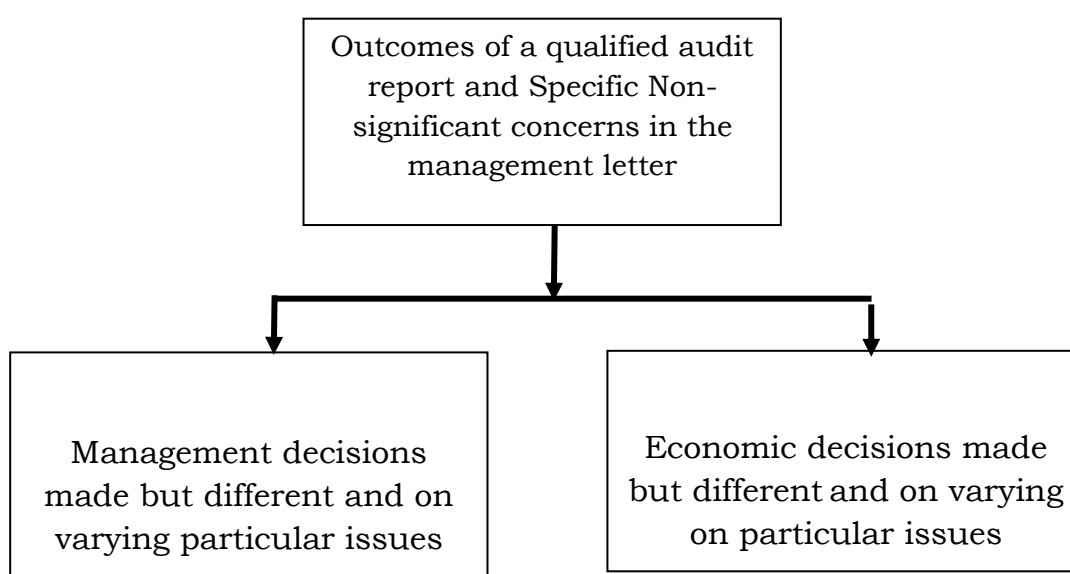
Considering the third research question, “Ways the four corporations have applied the outcomes of financial audits as economic tools”, the answer is that the four institutions actually have different management decisions when one looks at the ten decision areas.

## **6.2 Variations in Decisions**

The researcher can conclude that in these four corporations the domains of management and economic decisions that are made, affected the interpretation of financial information differently. Management and board members in the four corporations may have made different decisions because the audit qualifications and management letters (and particularly for the latter) are not homogeneous, as some appear to be potentially more significant than others, and some provide clearer information than others, the researcher expects that the relation between audit opinions and the

asymmetry in observed means depends on the different type of emphasis in the management letter following the un qualified audit reports. Figure 8 shows that decisions are made but are different in the four corporations and are based on different issues as outlined in the management letters.

**Figure 9: Conceptual Model of Observed Decisions**



Source: Inductively designed by the researcher

Finally, in contrast to studies that suggest that the impact of unqualified external audit report may depend on the desire by the auditor whether to author a management letter highlighting positives and how to sustain them, depended on the reason for issuing a management letter following the submission of an unqualified report (Firth, 1980). Ideally, auditors issue a management letter for management to make adjustments and corrections

where need has been observed. However, in an event that there are expected non-significant corrections have not been made at the time, but they may be significant later there may be need to emphasise their existence.

This then brings us to consider going concerns. The going concern concept is a fundamental principle of accounting. It assumes that during and beyond the next fiscal period a company will complete its current plans, use its existing assets, and continue to meet its financial obligations. Though the four companies did make decisions, this study finds some signs that reactions to the going-concern report depended on who had conducted the audit and what was emphasised. In this context, the reaction to the going-concern report is less stimulating when a second-tier or non-Big 4 auditor has signed the report. This is due to the fact that such auditors are viewed as credible. Therefore, corporations who receive a qualified audit report may embark on business as usual or innovate depending on the type of auditor and comments in the Management letter.

### **6.3 Study Significance (Contributions) and Limitations**

This study is one of the first on audit quality looking at the use of external audit reports for management and economic decisions in and not only from a Zambian setting but from a global perspective. The study simultaneously

sheds light on the relationship between external regulation, whistle-blowing, and external audit.

There are potential benefits and significances arising from this comparative study that was asking whether audit was used as a management and economic tool for decision making in a private and public institution in Zambia.

The first significance relates to originality. The researcher first shows the significance of this study by quoting Burney Glaser the author of Grounded Theory in his seminal work “PhD training is training for autonomy. One becomes the doctor, so to speak. One claims one’s own pacing. One claims one’s own ideas and the connections between them. One becomes the theorist and/or research author. Therefore, one must stand on what one has said and achieved (From a keynote presentation given to the 3<sup>rd</sup> International Qualitative Research Convention, Johor Bahru, Malaysia 23<sup>rd</sup> August 2005)<sup>12</sup> According to Glaser (1993), PhD candidates are supposed to produce original research with originality of ideas and *where possible* (italics mine) methods. There is seldom an idea that hasn’t been said before somewhere else. Originality comes with the putting together of ideas into new connections.”

From this quotation the researcher can say this study is significant. Yes, the researcher studied audit and authored this thesis. This study is one of few,

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<sup>12</sup>Available from [www.groundedtheoryreview.com/2006/06/30/1435/](http://www.groundedtheoryreview.com/2006/06/30/1435/)

if not the first, to examine the reliability of the disclosure of external controls in an emerging market in a third world, where not only are international finance regulation standards are not regulated and unqualified audit reports are employed to inform managements in what areas they are to make decisions for management purposes or economic purposes. In Zambia, there is no study which has looked at these four constructs as a management and economic tool.

The second one relates to adding to the pool of knowledge in audit practice. In sum, this study contributes to prior research by providing both qualitative and quantitative data to study the role of audit reports in decision making. In particular, the study went beyond the initial question of whether users find the audit reports that have been qualified or unqualified for going-concern reasons useful. Through the survey questionnaire and interviews, the current study has conceptualise perceptions and uses of going-concern reports in both private and public sectors and that there are significant differences in the use of audit reports. By focussing on the usefulness of audit report information, this study makes a contribution to this under-researched area. This study is one of the first studies on audit quality looking at audit as management tool and an economic tool in both an African and Zambian setting. This study contributes to the external audit control literature in several ways. It shows what could be done following an external audit.

The third relates to audit practice implications. This study speaks to the need for broader sectorial and jurisdictional analysis research other than sticking to the four enterprises which are studied. The net for research should be widened. Sectoral analysis, also known as sectorial analysis, is a statistical analysis of the size, demographic, competitive, and other economic dimensions of a sector of the economy (private or public for instance). This study proposes analyses which could be done by industry. This is an area this study is proposing since previous researchers have not emphasised it when looking at audits as management and economic tools (Brennan and Solomon, 2008; Humphrey et al., 2011).

Fourth and finally, due to interest in expanding existing external auditor reporting duties by numerous regulatory bodies like the SOX Act (2002), European Commission (2010a) and IAASB (2012), understanding how a complementary reporting requirement in a number of countries like Zambia, ZICA could pick up topical areas for study since ZICA is associated with audit quality and the results would prove interesting for regulators and practitioners. Overall, the study is likely to be a stimulant for more research.

The researcher now turns to limitations of this study. Like all research, this study has its own limitations related to the selected research design.

The first limitation relates to the case study approach which was used in this study. A case study research of this nature has limitation value in that cause and effects of the management and economic decisions that are made by directors and managers or supervisors could not be established particularly when the audit report was unqualified. It would be ideal to consider another research design in this case.

Second, given that the study is based on four enterprises, the research findings are limited and cannot be generalised to other private and quasi institutions.

Regarding delimitations, the context and boundaries of this research are set within strategic business management with finance audit as the cornerstone. This is a mixed methods study. The study is confined only to four corporations – one private and one quasi-government and takes a comparative approach.

It should be stated from the beginning that there are four institutions to be studied and compared. Comparison is inherent in all science, including the

business studies, where comparative research has historically played a significant role in their development as scientific disciplines (Hantrais 2009:5-9; Pennings et al., 1999: 21-26). Sartori (1991:243) stated categorically that comparative politics is a “field characterized by a method.” The idea that comparative business research is no different from any other form of social science and that it does not have any unique methodological issues is attractive from a positivist perspective because it suggests that all comparative studies use basically the same methods and because it underlines the “scientific” nature of comparative social science (Ragin 1987:2).

The study is restricted to the use of audit reports as economic and management tools. Induction, and abduction are the philosophical logics structuring this mixed methods design.

#### **6.4 Conclusions and Recommendations**

This study has reported the findings of the first mixed methods inquiry on the uses of external audit reports with the main focus on decisions that have been made for management and economic purposes. Accordingly, the primary contribution of this study was to illustrate the extent to which external audit reports are used as tools to make management and economic decisions in a private and a public institution in Zambia. The study has

shown they are used and a difference exists in the four corporations only in the making of economic decisions. The external audit report mostly has information content for the managers or directors and does not point out critical economic and financial decision points. It is left to the managers and directors to interpret the report and management letter.

From the results of the study, it can be concluded that there is a “more decision-making usefulness” perspective of going-concern reports of the four institutions. Accordingly, managers or directors tended to use external audit reports to make decisions. The empirical findings of the current study provide a richer and more complex understanding of how the external audit report of a smaller and larger enterprise are used. In general, the findings of the study suggest that the external audit report is of limited value if the management letter is not availed to all who are concerned with the life of an enterprise.

In the *Zambian* context, the findings encourage the auditing profession and standard setters to enhance the public’s awareness of the nature, meaning, and implications of the external audit report. Despite the fact that the findings of the current study indicate that employees consider themselves to be main users of external audit reports, there was also a general consensus among the interviewees that auditors mainly serve the board of directors.

Overall, what could be said about this study on external audit as a management and economic tool for decision making which took a comparative approach of a private and public institutions in Zambia, is that, it has highlighted some problems – and at best, possible approaches to future improvement. In so doing, the study points to the desired shape of future auditing praxis that could embrace some aspects of management letter observations not satisfactorily respondent to at the time of concluding the audit even when the report is unqualified.

The results of the research speak to and buttress the need for broader sectorial and jurisdictional analysis as has been argued before by Brennan and Solomon (2008) and Humphrey et al., (2011). Finally, due to the recent interest in expanding existing auditor reporting duties by numerous regulatory bodies (European Commission, 2010a; IAASB, 2012), understanding how a complementary reporting requirement in a number of countries like Zambia is associated with audit quality, will prove interesting for regulators and practitioners.

The researcher therefore make the following recommendations.

**Policy and Practice Recommendation 1:**

Taken together based on the results, there is need for the audit profession to be more proactive about meeting the needs of all users of their reports, rather than merely serving boards of directors. They could point the need for making decisions in the four areas. Moreover, this is consistent with SOX act (2002), the IAASB (2012) consultation paper and the PCAOB's (2011).

**Policy and Practice Recommendation 2:**

Further work on enhancing the content and transparency of the auditor's report is needed particularly in the persistently observed issues left in the Management Letters not being included. These should also relate to the need for making decisions in the four areas.

**Future Research Recommendation 3:**

Some perspectives for future research are based on the limitations suggested. First, subject to the elicited limitations in this study, further research using experimental methods is needed to examine whether users of financial information would behave differently if auditor's reporting was

changed. This is an important issue because any change is associated with audit problems, practices, and costs. It would be research prudent if the next logical step in future, a much wider study is done to collect data from a much more representative sample of different enterprises stakeholder to reach more quantifiable and generalised results. The quantitative survey tool that has been used in this study could suffice.

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### Appendix I

*From your recollection of the last external audit report, what came out whether it was a serious threat (Indicate Yes if it was and No if it was not)*

	Yes	No
1) The report brought out emerging financial challenges.		
2) The report brought attention to identified audit problems		
3) The report highlighted corruption		
4) The report highlighted fraud,		
5) The report highlighted waste,		
6) The report highlighted financial abuse,		
7) The report highlighted misuses of resources		
8) The report highlighted record keeping errors,		
9) The report highlighted asset misappropriation,		

### Management Decisions

*From the last external audit report, indicate the degree of necessity that was considered regarding any identified audit problems in making management decisions. Please indicate as follows: 0 for not necessary, 1 for somewhat necessary, 2 for necessary, 3 for very necessary, and 4 for very very necessary. Management decisions are measured in ten ways on a Likert scale as follows:*

	1	2	3	4
1) From the external audit report, our enterprise developed management based strategies to address emerging financial challenges.				
2) From the external audit report, our enterprise developed management based strategies to address the identified financial management audit problems				
3) From the external audit report, our enterprise developed management based strategies to address corruption				
4) From the external audit report, our enterprise developed management based strategies to address fraud,				
5) From the external audit report, our enterprise developed management based strategies to address waste,				
6) From the external audit report, our enterprise developed management based strategies to address financial abuse,				
7) From the external audit report, our enterprise developed management based strategies to address misuses of resources				
8) From the external audit report, our enterprise developed management based strategies to address record keeping errors,				
9) From the external audit report, our enterprise developed management based strategies to address asset misappropriation,				
10) From the external audit report, our enterprise developed strategies to address effective controls,				

**Economic Decisions**

*From the last external audit report, indicate the degree of necessity that was considered regarding any identified audit problems in making economic decisions. Please indicate as follows: 0 for not necessary, 1 for somewhat necessary, 2 for necessary, 3 for very necessary, and 4 for very very necessary. Management decisions are measured in ten ways on a Likert scale as follows:*

	1	2	3	4
1) From the external audit report, our enterprise developed strategies to guide where to make investments,				
2) From the external audit report, our enterprise developed strategies to conduct a credit analysis,				
3) From the external audit report, our enterprise developed strategies to determine market values and means of making rational investment decisions,				
4) From the external audit report, our enterprise developed strategies to determine payment of risk premium to reduce the level of uncertainty or risk.				
5) From the external audit report, our enterprise developed strategies to determine expenditure decisions,				

## **Appendix II - Guide for interviewing officers**

Organisation:

Date:

Starting time:

Finishing time:

Location:

- 1) Interview introduction
- 2) Interviewee thanked for taking part in the research.
- 3) Brief explanation of the interview process and response to interviewee's questions.
- 4) Professional characteristics of interviewee: Questions relating to the respondent's career are asked at the beginning of the interview. This breaks the ice by broaching a neutral subject before moving onto the heart of interview (Patton, 2002).  
What is your current position in the firm?  
How long have you held this position?  
Education? Highest level of education obtained?  
Please provide a brief summary of your career to date:
  - Number of years of experience.
  - Main positions held.
  - Your age.
- 5) Please describe for me the types of audits.
- 6) Please confirm if it was qualified, unqualified or modified?
- 7) What is your understanding of the previous external audit report?
- 8) What are the quality criteria for the external audit report?
- 9) In what ways was the external audit report used in this institution?
- 10) Comment on the factors that impact the actual decision, and what is the average importance of the external audit report?