

MIDLANDS STATE UNIVERSITY



FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

**EVALUATION OF THE EXTENT OF RELIANCE TO BE PLACED ON AUDITORS BY
THE USERS: CASE STUDY OF AFRASIA KINGDOM ZIMBABWE LIMITED.**

BY

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**THIS DISSERTATION IS SUBMITTED IN PARTIAL FULFILMENT OF THE
BACHELOR OF COMMERCE ACCOUNTING HONOURS DEGREE OFFERED BY
THE MIDLANDS STATE UNIVERSITY.**

GWERU

ZIMBAMBWE: 2014

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DEDICATION

I dedicate this dissertation to my mother Ms Zaujati Phiri who has been my source of inspiration throughout the process. There is no doubt in my mind that without her support I would not be where I am today. I will always appreciate all the financial and emotional support that she has provided.

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MAY GOD BLESS YOU!!!!!!

ABSTRACT

Many world firms like Enron have collapsed while others like Afrasia Kingdom Zimbabwe Limited have gone on the verge of collapsing after auditors have audited without picking any irregularities, for this reason questions are raised on the reliance that can be placed on external auditors. The main objective of this research is to evaluate the extent on which users of the financial statements can rely upon the audit opinion when making economic decisions. Data collection instruments of interviews and questionnaires were used in the research. Secondary sources of data used in the research include published textbooks, journals and the internet. Literature reviewed revealed that auditors can only provide reasonable assurance and not absolute assurance because of the inherent limitations of an audit. Data collected was presented in tables, graphs and pie charts for analysis. Information obtained indicated that users of the financial statements can rely on the audit opinion to a greater extent in making economic decisions since the auditor's objective is to provide reasonable assurance to both the client and third parties. The research also highlighted that upon negligence, the auditor is fully liable for the opinion they express on the financial statements.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter explores the background of the study, statement of the problem, the main research question, sub research questions, research objectives, significance of the study, delimitations to study, limitation of study, assumptions and the summery. Definitions of terms and the abbreviation of terms are also prearranged.

1.2 Background of the problem

In April 2011 Afrasia Kingdom Zimbabwe Limited entered into a debt to equity deal of 80% with Valley Technologies (subsidiary of Spritage Group) through the bank's special purpose vehicle–Lalela tradings and the mobile operator failed to settle its obligations (Monthly Management report 31May 2013).

The management of Afrasia Kingdom Zimbabwe limited concealed the underperforming loans in the financial statement for the year ended 31December 2011 and 2012 and the external auditor failed to pick up and highlight the creative accounting performed by the management. The issue came on the spotlight after Spritage Limited Chief Executive Officer Zach Wazara learnt of the bank's crooked dealings and wrote a letter informing The Reserve Bank of Zimbabwe (Central Bank Order Letter for Forensic auditing 1April 2013) . The bank had entered into a deal with Spritage Limited so as to deceive the Central bank. Afrasia Kingdom Zimbabwe limited covered its true state of financial position so as to prevent the handover of its operating license to the Central bank. From June to August 2011 the bank also used its international financier which

deceived Spritage to pay interest in excess of \$3.4 million (Ernst and Young Forensic Audit Report 31June 2013).

The concealing of underperforming loans on the bank financial statement resulted in unaware investors coming in and investing in a bank already facing liquidity crunches (Management Investor Analysis Report 31December 2013).

Table 1.1 Total number of investors and their percentage increase from 2009-2013

YEAR	TOTAL INVESTORS	PERCANTAGE OF INCREASE
2009	800	
2010	950	18.75
2011	1400	47.37
2012	1900	35.71
2013	1600	-15.79

Source: Kingdom bank Investor Accounts for year 2009 to year 2013

The financial statements mislead the shareholders of Kingdom bank on making judgments on whether to reappoint or replace the board of directors. The shareholders assessed the accountability of the former directors basing on annual reports and the audited financial statements for the year ended 31 December 2011 when deciding whether to reappoint or replace directors on the annual general meeting (Annual General Meeting 28 December 2013).

The former Managing Director of Afrasia Kingdom Zimbabwe bank Francois Molife resigned because of personal reasons (Afrasia Kingdom Zimbabwe Limited Newsletter April 2013). The managing director resigned after learning that the concealed bad loans were no longer hidden to the public (Management Report 31 May 2013).

1.3 Statement of the problem

Scandals of large banks going on the verge of collapsing without any hints to the stakeholders transpire time and again. Those banks will have had external auditors for so long but the external auditors auditing without picking up and highlighting any financial struggles and creative accounting made by management. For this reason questions are raised on the effectiveness of external auditors and the extent on which auditor's opinion can be relied upon by the users of the financial statements.

1.4 Main research question

The researcher seeks to evaluate the extent to which auditor's opinion can be relied upon by the users of the financial statements in making economic decisions after exploring the limitations of an audit.

1.5 Sub-research questions

- 1) What is the main objective of auditing?
- 2) What is an audit opinion and what are the different types of audit opinions?
- 3) What is the impact of the audit opinion?
- 4) What are the responsibilities of the external auditor in respect of fraud?
- 5) What are the inherent limitations of an audit?
- 6) What are the challenges that auditors face in performing their duties?

1.6 Objectives of the study

- 1) To convey the main objective of an audit
- 2) To clearly explain what an auditor's opinion on financial statements is.
- 3) To bring out the impact of an audit opinion.

- 4) To visibly outline the responsibilities of an external auditor with regard to fraud.
- 5) To clarify the inherent limitations of an audit.
- 6) To explain the challenges that auditors face when carrying out their duties.

1.7 Significance of the study

- To the student

The research was done in partial fulfillment of the requirements of the Bachelor of Commerce Accounting Honors Degree.

- To Midlands State University

The research would be used for further reference by other scholars.

- To users of the financial statements.

The research would help the users to be sentient of financial statements and to be acquainted with information of what audits cover and their limitations so that they (users of financial statements) can make decisions fully aware of what the auditor really mean when issuing an auditor's opinion.

1.8 Delimitation of the study

The research is going to be made amongst the bank employees, government, lenders and investors since they are the people who regularly make economic decisions and are assumed to have the knowledge on the topic.

1.9 Limitations of the study

- Financial

Funds to cater for travelling, stationery and printing expenses were not readily available.

However the researcher had to seek funds from family members.

- Time

There was restricted time to carry out the research. Proper time allotment among the research's activities had to be made to make sure that data of proper quality and quantity were gathered.

- Inherent limitations of sampling

The research poses a risk of the inherent limitations of the sampling techniques.

1.10 Definition of terms

Assurance -It refers to the auditor's contentment as to the dependability of an assertion being made by one part for use by another party Hall (2011).

Auditing-It is a form of the independent attestation performed by an expert who expresses an opinion about the fairness of the company's financial statements Hall (2011).

Audit evidence-It represents the information obtained by the auditor in arriving at the conclusions on which his or her audit opinion is based and includes information contained in the accounting records and other information [http:// www.netwrix.com](http://www.netwrix.com) (Accessed on 2 September 2014 at 2:55).

Audit trail-Accounting records that trace transactions from their source documents to the financial statements Hall (2011)

Collusion- Is the circumstance in which two or more people conspire to conduct fraudulent activity in violation of an organisation's internal control policies and procedure Marx, Van Der Watt, Bourne and Hemel (2010).

Creative accounting: It's the exploitation of loopholes in financial regulation nevertheless gives a biased impression (generally favourable) of the company performance Johns (2010).

Financial Statements: This refers to the statement of comprehensive income, statements of cash flows, statement of changes in equity, statement of financial position and explanatory notes as required by the International Accounting Standards (IASs) and Generally Acceptable Accounting Practices (GAAP's) Paterson and Fabozzi (2012).

Financial Statement users- These are the people who rely on the financial statements to make economic decisions. These are taken to be people who understand accounting and are able to analyze financial information to come up with meaningful results and conclusions from the information Paterson and Fabozzi (2012).

Fraud- These are intentional misstatement made by management, those charged with governance, employees or third parties Johns (2010).

Internal Controls- Is the whole system of controls, financial or otherwise, established management in order to carry on the business of the company in an orderly and efficient manner, safeguard the assets and secure as far as possible, the accuracy and reliability of its records, prepare accounts and comply with the legislation Hall (2011).

Materiality-According to ISA 320 misstatements including omissions are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements <http://www.ifac.org> (Accessed on 2 September 2014 at 05:11).

1.11 Abbreviations

CA-Chartered Accountant. In the text it refers to the Auditor or Accountant or Professional Accountant

GAAP-Generally Accepted Accounting Policies

IAS- International Accounting Standard

ISA-International Standards on Auditing

1.12 Chapter Summary

This chapter is an outline of the background of the study, statement of the problem, the main problem, sub research questions, research objectives, significance of the study, delimitation of the study as well as limitations to the study. In the next chapter the researcher reviewed what other authors have contributed with regard to the same study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter the researcher will look at the different types of audit opinions that can be issued by an auditor. The impact of the audit opinion to both the client and the users of the financial statements are explicitly laid out. Responsibilities of external auditors in relation to fraud are clearly stated and the inherent limitations of the audit are explored. Challenges faced by auditors in performing their duties are stated.

2.1 An overview of auditing

In the early 19th century, joint stock companies in which the owners of the entity were not the ones responsible for the governance of the companies emerged and the growth of the railway lines and roads came with the challenge of transporting and accounting for large volumes of goods. The owners needed to have assurance that the management were acting in good faith on their behalf Basu (2009). This issue best explains the agency problem which gave rise to the audit profession. Under the agency theory the owner (principal) of the company delegates the decision making process to those charged with the governance on the company (agent).

The agency problem arises because of the conflict of interest that exists on the goals of the principal and those of the agent Lee and Mdi Ali (2008). The agent may maximize their own utility on the expense of the principal. Because of the agency problem the principle has to endure agency costs. For the principal to eliminate or reduce agency costs there had to employ an auditor who provides assurance to the principal on whether the agent was acting in good faith and ensure that the agent is following the owner wealth maximization only.

2.1.2 Definition of auditing

According to Hall (2011) auditing is a form of independent planned attestation performed by an expert who expresses an opinion about the fairness of the entity's financial statements. Independent personnel are a certified public accountant who are not affiliated to the client and are used so as to avoid the conflict of interest and the expressing of an inappropriate opinion. An Independent auditor enhances the extent of confidence which users of financial statements have on the audited financial statements Jackson and Stent (2010). To this degree, the independence of auditors should be the bedrock of the audit environment Baker (2014). According to <http://www.issai.org> (Accessed on 2 September 2014 at 12.45) auditing of financial statements is done with an objective of expressing an opinion on whether the financial statements have been prepared in all material respects in accordance with the applicable financial reporting framework. Delanny and Wittington (2013) cited that the purpose of the audit is to enhance the degree of confidence of the intended users of the financial statements. The applicable financial reporting framework is a framework adopted by the management which sets forth concepts that underlie fair preparation and presentation of financial statements in view of the nature of the entity that is required by law and regulation Thomas, Elaine and Wendy (2012).

2.2.1 Audit Opinion

According to Bagshaw (2013) an audit opinion is a statement recorded in the auditor's report in which the auditor expresses an opinion on the extent on which the financial statements are misstated. Where auditors express opinions, other than unqualified opinions, these opinions should be accompanied by the reasons for the qualification and, unless impracticable, a quantification of the possible effects on the financial statements Collings (2012). Dennis (2010) stipulated that dependable financial information is essential for the very existence of the society.

According to Robinson, Henry, Pirie, Broihan and Cope (2012) entities experiencing a step up in their audit opinions disclose their financial results earlier, while those with audit opinion deteriorations report their financial results later and that these effects are related to the magnitude of the opinion change.

2.2.2 Types of audit opinions

2.2.2.1 An unmodified opinion

An unmodified opinion or unqualified opinion is also popularly known as a clean opinion. A clean report is considered to be the standard and most regularly used Vallabhaneni (2013). A clean opinion is expressed when the auditor having found sufficient and appropriate audit evidence concludes that the financial statements are prepared in all material respects in accordance with the applicable financial reporting framework and that the footnotes plus other information in the financial report provide adequate disclosure Jone and Tagg (2014).

2.2.2.2 A modified audit opinion

An auditor expresses a modified opinion when the he/she basing on the audit evidence obtained concludes that the financial statements as a whole are not free of material misstatements or when he/she is unable to obtain sufficient and appropriate audit evidence in order to conclude that the financial statements as a whole are free of material misstatements Johnstone, Cramling and Ritterbberg (2013). There are three types of modified opinions namely qualified, adverse and disclaimer of opinion Gomez (2011).

2.2.2.2.1 Qualified audit opinion

According to Ainapure and Ainapure (2009) a qualified audit opinion is expressed subject to some reservations that do not satisfy the auditor. A qualified audit opinion is expressed when the

auditor finds sufficient and appropriate audit evidence and concludes that the misstatements individually or in aggregate are material but not pervasive or when he/she is unable to obtain sufficient and appropriate audit evidence but concludes that the effects of the undetected misstatements could be material but not pervasive to the financial statements Bragg (2012).

2.2.2.2.2 Adverse audit opinion

An adverse opinion is expressed by an auditor after having obtained sufficient and appropriate audit evidence but concludes that the effects of the misstatements are both material and pervasive to the financial statements Vallabhaneni (2013). For this reason the auditor should include the statement “do not give true and fair view” in the audit report Kan (2013). Stakeholder to an entity that is issued an adverse opinion usually deserts the entity as no one wants to be associated with an entity that has material misstatements in its financial statements.

2.2.2.2.3 Disclaimer of opinion

An disclaimer of opinion is expressed when the auditor is unable to obtain sufficient and appropriate audit evidence but concludes that the effects of the undetected misstatements if any could be both material and pervasive to the financial misstatements Maroney, Compbel and Hamilton (2011). In very rare circumstances involving multiple uncertainties he/she concludes that, having obtained sufficient and appropriate audit evidence regarding each of the individual uncertainties that, it is not possible to form an opinion on the financial due to the potential interaction of the uncertainties and their possible cumulative effect on the financial misstatements Maroney, Compbel and Hamilton (2011). The material scope issue makes it complex to conclude on the precision of the financial statements because the auditor was unable to gather enough audit evidence Tywan (2010)

2.3 The impact of the audit opinion

An audit opinion plays a big role on the users of financial statements and can have a positive or negative impact on them. The users of financial statements are people who have a reasonable knowledge of business and economic activities and who review and analyse the information with diligence Deloitte Global Services Limited (2010).

Audit opinions have a significant impact on the confidence and trust on investor of the client. Of all the users of the financial statements, investors depend upon assurance provided by the auditor in the audit report for them to invest in an entity Attree (2011). An unmodified audit opinion has a positive impact on the investor as it increases investor confidence. A modified audit opinion may cause the investors to perceive that there is a big problem even if the incompliance is very low. If a modified opinion has been issued as a result of fraudulent activities the corporate governance has to take action so as to restore investor confidence Razaee and Riley (2010). Financial lenders use the audit opinion to determine the economic vulnerability of the business and its results. They may impose restrictions to limit overall borrowing limits called loan covenants and these are verified through the audit opinion and the financial statements Razaee (2011).

Management makes use of the unmodified audit opinion expressed by an auditor and the audited financial statements to file income tax returns. Income tax authorities accept without a questioning mind the Statement of profit or loss and other comprehensive income that has been audited by a qualified and independent auditor Marx, Van Der Watt, Bourne and Hemel (2009). The Revenue Authority accepts the financial statements and they do not go into details of the accounts Basu (2009). If management makes use of the audited financial statements with a

disclaimer or adverse opinion to the Income tax authorities, delays will be made recalculating and ensuring that the figures and supportive information are correct and genuine.

Financial statements which have been certified as fairly presented and prepared are considered as reliable by third parties for making their economic decisions. Funds can be borrowed easily on the basis of audited Statement of Financial Position from external sources Attree (2011). These external sources can be other banks or the government. Most of the financial institutions sanction loan on the basis of financial statements which have been audited with independent auditors expressing an unmodified opinion Basu (2009).

In case of unexpected disasters like fire and floods the client make use of the audited financial statements and audit opinion to claim for insurance compensations, insurance companies utilize the audited financial statements of the previous years to settle the claims for loss or damages Kan (2013). The insurance companies make use of the audit opinion be it modified or unmodified in to either rely or not on the audited financial statements in recalculating the compensation claims Anapure and Anapure (2009).

Audit opinions act as corrective measures or life savers of an entity. Management of the client can adopt the correct applicable financial reporting framework after being issued a modified audit opinion Coe (2010). Audit opinions points towards any irregularities for example fraud and error and usually in future no or fewer attempts are made to commit such frauds Basu (2009). It is the responsibility of management to be accountable to the users of financial statements and ensure that they do not mislead them with financial statements with error and fraud Razaee and Riley (2010).

Employees of the client especially management will perform their duties with caution and always be vigilant and as they are aware that the auditors at the end of every financial year are

going to express an audit opinion on their efforts Jackson and Stent (2010). An unmodified opinion encourages the employees to continue with the good work. Unmodified audit opinion indicates to the employees that more effort is still needed Weirich, Pearson and Churyk (2013).

Auditor advice enhances operations of the client as it is from an expert. After auditors have expressed their opinion management can consult the auditor and seek advice on certain technical aspects. Auditors cannot act as employees or management of the client and it is not their responsibility to give advice to the client Graham and Carmichael (2012). It is not the duty of the auditor to give advice to the client, the auditor may give recommendations when asked by the management Skalak, Golden, Clayton and Phil (2011). Auditor advice to the client should be the best advice and should not be influenced by the fact that the client has no choice but to accept it Audit Market Concentration and their Role (2010).

Audited financial statements and the audit opinions offer a basis for the valuation of the business. If the business is to be sold as a going concern, there may not be much difficulty regarding the valuation of assets and goodwill as the assets would have been independently valuated by an independent expert and financial records audited Grantz (2014). The future trend of the business can be assessed with certainty from the audited financial statements and the audit opinion by the users of the financial statements Jackson and Stent (2010)

2.4 Responsibility of an auditor in respect of fraud

“An auditor is responsible for gathering sufficient appropriate audit evidence to be in a position to give an independent opinion on whether the annual financial statements issued by the directors to the shareholders, present fairly the financial position of results of operations of the company in terms of the applicable financial reporting framework” Jackson and Stent (2010: page 15)

Planning and performing of the risk assessment procedures are also carried out by the auditors so as to obtain knowledge about the internal control system and the operating environment of the client Dauber, Shim and Siegel (2012). The auditor uses the information obtained from the understanding of the entity and its environment to make acceptance and continuation decisions about clients and to design and perform audit procedures that address the risks of material misstatement. Test of controls are performed to test the effective functioning of the internal control system in preventing, detecting and correcting material misstatements of an entity. According to Basu (2009) a weak internal control system calls for substantive procedure approach (substantial analytical procedures and test of details) and an effective internal control system calls for the combined approach (additional test of controls and less substantive procedures. Information obtained about the operating environment of the entity enables the auditor to assess the risks associated with the operating environment of the entity Dauber, Shim and Siegel (2012).

According to <http://www.issa.org> (Accessed on 3 September 2014 at 12.21) auditors have a responsibility to maintain an attitude of skepticism throughout the audit process as in accordance with ISA 200. According to Skalak, Golden, Clayton and Phil (2011) professional skepticism includes a questioning mind, making critical assessments and being alert to conditions which may indicate possible misstatements. Professional skepticism calls for considerations to be made on the dependability of information used as audit evidence and the controls over its preparation and maintenance where relevant Weirich, Pearson and Churyk (2013).

Auditors are responsible for evaluating the unexpected relationships identified in performing analytical procedures which may indicate risks of material misstatements due to fraud Dauber, Shim and Siegel (2012).

Auditors plan and for further audit procedures for further investigation into the nature, timing and extent due to fraud at an assertion level <http://glry.unaudit.org.cn> (Accessed on 12 September 2014 at 11:55). Further audit procedures are planned and carried out when the auditor discovers new evidence showing a high risk than initially assessed Vona (2011). “The auditor shall identify and assess the risks of misstatements due to fraud at the financial statement level and at the assertion level for classes of transactions, account balances and disclosure” International Accounting Standard Board (2013: 163).

The auditor is responsible for obtaining written representations from management. According to Flood (2013) management representations confirm oral representations explicitly or implicitly submitted to the auditor by management and they minimize the possibility of misunderstanding concerning matters subject to the representations. Management representations usually include acknowledgements by the management for the design, implementation and maintenance of internal control system as well as the approval of the financial statements Dauber, Shim and Siegel (2012). Management representations are not a substitute but rather supplement to the audit evidence (ISA 580). Auditors issue qualified or disclaimer of opinion if the management refuses to offer management representations.

If auditors detect fraud, the auditor reports to individuals who are in a position to take effective action or ensure that corrective action are taken Cascarino (2012). Auditors are responsible for informing the appropriate management on a timely basis Fearnly, Beattie and Hines (2011). If management is also involved in the fraudulent activities auditors inform those charged with governance (directors through the audit committee) and also discuss the extent of additional audit procedures to be performed to complete the audit <http://www.glry.unaudit.org.cn> (Accessed on 15 September 2014 at 12:35). If there are suspects of fraud by those charged with governance

the auditors may report the case to third parties outside the entity because the auditor has statutory right to report the occurrence of fraud to supervisory authorities Collings (2011). Auditor's legal responsibility overrides the duty of confidentiality.

Auditors report risk management issues and internal controls deficiencies identified are directly to the audit committee and may provide recommendations for improving the organisation's operations, in terms of both efficient and effective performance when asked by the management of the entity Collings (2011).

2.5 Inherent limitations of an audit

Inherent limitations are such features of audit that constrains the auditor to obtain absolute assurance. The inherent limitation of an audit presents an inevitable risk that some misstatements may not be detected by the audit procedures even if the audit is performed in detail and in accordance with the appropriate conventions Marx, Van Der Watt, Bourne and Hemel (2010). It is because of these inherent limitations of audit that the practitioner cannot provide absolute assurance to the users of financial statements. As a result of these limitations auditors are anticipated to provide reasonable assurance which is a level of assurance that is reasonably high but not reaching the levels of absoluteness of perfection Basu (2009). Inherent limitations cannot be entirely eliminated but the effects of such restrictions can be abridged to an appropriate level Grantz (2013).

Most of the audit evidence is persuasive and not conclusive. Conclusive audit evidence provide concrete evidence in which no other supplementary evidence is required to reach a conclusion for example a current bank statement showing the bank balance of an account Bagshaw (2013). Persuasive audit evidence persuades and do not give an absolute answer to the questions of the

auditor. Persuasive audit evidence forces the auditor to rely on professional judgment and the reasonableness of the audit evidence gathered so as to come to a conclusion Basu (2013).

External evidence is considered to be a more reliable form of audit evidence when compared to internal evidence produced by the management Solomon (2010). Although auditors obtain audit evidence from a range of sources, frequently they have to rely upon management representations in order to obtain audit assurance and express an opinion Tywan (2010). And for the auditors it is difficult to confirm management representations about the appropriateness of their judgments with external evidence.

According to www.issai.org (Accessed on 10 September 2014 at 2.31) there is the possibility that management or others may not provide intentionally or unintentionally, the complete information that is relevant to the preparation of the financial statements or that has been requested by the auditor. Accordingly, the auditor cannot be persuaded of the wholeness of information, even if the auditor has performed exhaustive audit procedures to attain assurance that all pertinent information has been obtained.

By their very nature frauds are intended to be obscured by the perpetrators and therefore pose a very high risk of remaining concealed to the auditors even if they perform appropriate and sound audit procedures Collings (2011). According to Ainapure and Ainapure (2009) discovery of fraud is not the main objective of the auditor. The auditor is neither trained as nor expected to be an expert in the authentication of documents. An audit is not an official investigation into alleged crime. Accordingly, the auditor is not given specific legal powers, such as the power of search, which may be necessary for such an investigation.

In practice, auditors face stringent time constraints within which they have to express their opinion on the financial statements and move on to attend other clients and as a result only, tasks that are essential for effective performance are prioritized for audit Coe (2011). In some cases, mainly where there is legal requirement for an entity to publish its financial reports within a declared period of time, auditors may, in a bid to meet the task deadlines, fail to address essential issues in the finalization of the audit report Patterson and Fabozzi (2012).

The auditor's work is open to subjective judgments especially in terms of obtaining the audit evidence and conclusions on audit evidence gathered Marx, Van Der Watt, Bourne and Hemel (2010). For example what may be considered to be the materiality level in the financial statements of a medium company may vary from one auditor to the other.

Auditors test samples when performing their audit procedures and not all the transactions. Audit procedures are performed on a selected population and not the whole population. Since all the transactions are not tested there is a high probability of finding irregularities in those transactions which are not tested Grantz (2013). The inherent limitations of sample testing limit the auditor to reach conclusions that provide absolute assurance Basu (2009).

2.6 Challenges that auditors face in performing their duties

2.6.1 Low perceived value of the audit profession

Auditors face a challenge of low perceived value of the audit profession by the public. From the agency theory the need for auditors arose as a result of the separation between the owners of the entity and those charged with the governance Delanny and Wittington (2013). According to <http://glry.unaudit.org.cn> (Accessed on 15 September 2014 at 14:02) owners needed to manage

the activities of those charged with the governance of the entity on their behalf. All companies in Zimbabwe are mandated to be audited by an independent auditor every year. Most Zimbabwean companies are private companies therefore owner managed hence they view an audit as a costly and non value adding activity.

2.6.2 Hindsight evaluation of the audit performance

Recent financial scandals (Merchant Bank scandal and Kingdom bank on the verge of collapse) have damaged the heart of the audit profession. Whenever there is a corporate financial scandal the public blames the auditors. This reason is because the public does not have the knowledge and skills to evaluate the quality of one auditor versus another. Md Ali and Lee (2008) cited that the portrayed bad image of the auditors is worse off enforced by the negative publicity of the media when reporting such accounting scandals. The hindsight evaluation of auditors is unfair as auditors are judged using the benefit of knowledge after the event (financial scandal) have taken place to argue that auditors are not adequately performing. The hindsight evaluation brings high level of criticism as it is already supported by the negative publicity. Nevertheless the blame is only cast on the auditors other reasons leading to corporate failure for example mismanagement, industry downturn, competition and certainly not least fraud by top management are left Delanny and Wittington (2013). The number of audit failure in Zimbabwe is fairly small and making dreadful accusations on the audit profession as a result does not seem reasonable at all.

2.6.3 Audit quality versus the audit fee

Currently the audit industry is dominated by the “big five” international audit firms namely Ernst and Young, Pricewaterhouse Coopers, Klynveld Peat Marwick Goerdeler, Deloitte and Touch

and Grant Thornton. Many firms are willing to pay a premium to the big five audit firms as they perceived them to provide “stronger assurance” to the stakeholders as compared to other audit firms Lee and Md Ali (2008). The big five’s provision of stronger assurance is questionable considering the fact that the recent financial debacles have auditors coming from the big five.

Moreover to the issue of the big five in terms of quality assurance is the issue of lowballing of the audit fees. Zimbabwe charges low audit fees as compared to other countries in the Southern Africa. The unrealistically low audit fees have negative implications on the audit quality. In order to remain competitive in the market audit firms end up reducing the audit procedures so as to match the cost to the benefit derived Lee and Mdi Ali (2008). Auditors minimize their audit procedures without any resistance since the client does not concentrate on audit quality or is not able to judge the audit quality. Audit quality is sacrificed for low audit fees while maintaining worthwhile profit margin.

2.6.4 Lack of expertise

An auditor has to seek opinion of experts on certain matters on which he may not have experts' knowledge. Auditors have to depend upon other experts tasks such as valuation of assets. Since the auditor does not possess certain skills and expectes, the auditor has to depend upon such reports which may not always be accurate Basu (2009).

2.6.5 Managing Multiple Compliance Audits

According to <http://www.netwrix.com> (Accessed at 15:31 on 31 August 2014) times have changed, so are the rules by which organizations, businesses, agencies and entire industries are expected to be conformed to. New systems continue to come out of the wood work on a daily

basis, and IT departments are often the ones bearing the burden of the storm. One of the major challenges faced by IT departments looking to audit changes is the need to adhere to multiple compliance standards. Staying HIPAA compliant is hard enough, but many IT departments are responsible for adhering to the demands of HIPAA, SOX, FISMA and a multitude of other audit standards all at once.

2.6.6 Existence of Defective Policies and Diversified Situations

The auditor can only report on the truth and fairness of the financial statements. Other defects, that is defects relating to management and control may not be possibly be covered by the auditor Basu (2009). Auditing is considered to be a mechanical work and auditors may not be in a position to frame the auditing programme which can be followed in all situations Basu (2009).

2.7 Empirical Literature Review

For many years now the efficacy of an auditor has gone under investigation by many researchers. Popular events in the accounting industry such as the Enron collapse have highlighted the event of audit scandals Dennis (2010). It is not difficult to find such events in the current audit practice. But is this a hindsight critic or as a result of other issues? With the increase in the information needed for decision making process by the users of the financial statements, the effects on an inappropriate opinion on the financial statement is certainly a matter of concern Coe (2011). For this reason an investigation has to be made on the extent on which these users have to rely on the opinions expressed by auditors.

2.8 Chapter summary

This chapter highlighted the theoretical and empirical literature review on auditing. The theoretical review has defined auditing and also highlighted the different types of audit opinions

that can be expressed. The empirical literature review has looked at the popular audit scandals. Detailed explanation on the limitations of an audit and the challenges faced by auditors in the course of performing their duties has been specified. The next chapter analyses the various techniques and methods used by researcher to carry out the research. It thus analyses the applicable research methodology that best applies to the research topic for effective data collection.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The research methodology was determined by the researcher's area of study. The selection of methods and their implementation were determined by the questions of the researcher and the research questions were influenced by practical considerations such as availability of resources. The objective of this chapter was to highlight the methods applied in the process of obtaining data. Different data gathering techniques were explored so as to present detailed analysis and evaluation of the research design. Limitations and benefits of the instruments used were also discussed.

3.1 Research design

According to Shea and Yana (2013) research design refers to the basic structure of a research project, the plan for carrying out an investigation focused on a research question that is central to the concerns of a particular epistemic community. He emphasized the need for a planned structure when collecting data and that data should be relevant to the research. The researcher used descriptive research design because of its appropriateness to the study. Descriptive research provided an accurate description of observations of a phenomena and interpreted situations as they were in terms of condition and observable situations.

3.1.2 Descriptive Research

Descriptive research refers to the research that is performed so as to obtain information about the current status of conditions and variables in a situation Sreejesh, Mahopatra and Anusree (2013). It is seen as a means to an end rather than an end in itself and this means that if the researcher

utilises descriptive research, it is likely to be a precursor to the explanations that will follow Sanders, Lewis and Thornhill (2009). The status quo of conditions in the study was obtained through surveys and case study. The data collected from descriptive research presented a number of advantages. Descriptive research provided the different facets of the situations in question Sreejesh, Mohopata and Anusree (2013). Descriptive research surveys gave statistical information about the accounting scandal event as well as an idea about how the users of financial statements actually experienced and how they were affected by the event. Confidentiality was the main disadvantage of descriptive research, interviews participants refused to answer some of the questions as they felt that it was too revealing of other organisation's weaknesses (audit firms).

3.1.3 Justification for using descriptive research

The researcher used the descriptive research design because of its appropriateness to the study topic. Descriptive research design gave an accurate description of the extent on which the users of financial statements can rely on auditor's opinion when making economic decisions. It enabled unique data collection in the form of a case study. Case studies were collected from individuals' personal accounts and data such as internal reports. It removed barriers of strict academic approaches and enabled the researcher to witness how users of financial statements experienced the accounting scandal event. The study was also very flexible as methods were selected depending on what the researcher expected to find rather than selecting the method and then studying Wilson (2010).

3.1.4 Case study

According to Saunders, Lewis and Thornhill (2009) a case study is a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its

real life context using multiple sources of evidence. The essential part of a case study is that it takes all the pertinent aspects of subject under study. The cases studied are those that were in relation or similar to the case that influenced the study for example the Enron accounting scandal and Arthur Andersen audit failure.

3.2 Population and sampling

3.2.1 Target Population

According to Bajpai (2011) target population is the collection of objects, which possesses the information required by the researcher and about which an inference is to be made. The target population was made up of forty respondents who made economic decisions basing on audited financial statements.

Table 3.1 Targeted Populations

User of financial statement	Number of respondents
Investor	10
Lenders	10
Employees	10
Government	10

3.2.2 Research Sampling

Research sampling is a process of selecting units to study and determine truths about a population. Research sampling was carried out in such a way that the results obtained could be traced back from the population where the study units were selected. If the researcher does not use random sampling, it is not allowed to apply the results of the sample to the entire population <http://www.issai.org> (Accessed on 21 September 2014 at 09:11). The researcher used random

(representative) sampling and was able to reach conclusions about the whole population basing on the sample study results. Sampling was done to reduce the workload and the resources in carrying out the investigation.

3.2.3 Sample Size

Sample size is the representative of the population in consideration or the quantifiable range Wilson (2009). Sample size does not have any influence on the value of the research. Sample size neither needs to be too large or too small Sekran and Bougie (2010) The sample size chosen was a compromise between the practical issues (time, money and other factors) and the theoretical considerations involved. The sample size chosen was presumed by the researcher to be able to yield a high degree of accuracy. The research sample size is depicted in the table below:

Table 3.2 Population and Sample Size

User of financial statement	Population	Sample Size	Percentage (%)
Investors	10	8	80
Lenders	10	8	80
Employees	10	8	80
Government Institutions	10	8	80
Total	40	32	80

3.2.4 Sampling Techniques

The technique chosen allowed the researcher to pick the samples thought to deliver the best information in order to satisfy the research objectives in question. The primary feature of a “good” sample for research is that the sample actually represents that population from which it

was selected Weathington, Cunningam and Pittenger (2012). The researcher made use of cluster sampling, convenient sampling, judgmental sampling and stratified sampling techniques in obtaining information from the population.

3.2.4.1 Cluster Sampling

Cluster sampling involves the division of the entire population into groups or clusters Saunders, Lewis and Thornhill (2009). For the purpose of this study the researcher clustered the users of the financial statements into lenders, government, investors and employees of the reporting bank.

3.2.4.2 Convenient Sampling

This is the sampling technique in which the population units are selected because they provide a convenient source of data needed by the researcher Jackson (2012). The method was convenient as information was obtained quickly and economically from the available and easily accessible sources Zikmond and Babin (2013). In this research, the researcher used users of financial statements in Gweru as they were readily available and could be easily reached out to.

3.2.4.3 Judgmental Sampling

According to Westfall (2009) judgmental sampling is a technique in which the researcher relies upon personal judgment in choosing the target population to participate in the study. In this research, the researcher used her own knowledge on selecting people who rely on audited Kingdom bank financial statements in making economic decisions.

3.2.4.4 Stratified Sampling

This method involves the division of a population into small population groups called strata Daniel (2012). Stratified sampling technique seeks to restrict sample results from being extreme by minimizing error and group difference Masden and Wright (2010). This was made possible

by ensuring that all parts of the population were represented in a sample, the method increased efficiency. In this research all the main users of the financial statements of a bank were grouped and represented in samples.

3.3 Data Collection

According to Saunders, Lewis and Thornhil (2009) data collection is the systematic collection, analysis and interpretation of the information to address the sub research problems. Collecting credible data is a demanding task and it is worth remembering that one method of data collection is not inherently better than another Bajpai (2011). Various methods of data collection that is personal interviewing, emailing and questionnaires were used in this research.

3.3.1 Sources of data

There are two sources of data namely primary and secondary data. The researcher made use of both primary sources and secondary sources of data to obtain information.

3.3.1.1 Primary data

Primary data is data that is originally collected by the researcher through surveys, interviews and direct observation Guffey (2010). Primary data was more costly to obtain than secondary data. It was more current and more relevant to the researcher as it was first hand information. Primary research enabled the researcher to focus on specific issues and have a higher level of control over the collection of information. Primary data was not always feasible. Some users of financial statements while potentially offering information that could prove to be quite valuable and relevant were not within the reach of the researcher. It was also time consuming as the researcher was involved in booking of appointments.

3.3.1.2 Secondary data

According to Wilson (2010) secondary data involves the analysis of existing data, the use and further analysis of data collected for another purpose and found by means of desk research. Secondary data is data that is collected by others and this involves the use of journals, newspapers, textbooks and the internet Daas and Troth (2012). The secondary data was collected to compliment primary data for the purpose of the research study. Unlike the primary data method, secondary data had no design problems like how to design the survey. It was cheap and less time consuming as compared to primary data. Secondary data was not depicted in great in detail in this research as its level of accuracy is generally low.

3.4 Triangulation

According to Flick (2009) triangulation refers to the combination of different methods, study groups, local and temporal setting and different theoretical perspective in dealing with a phenomenon. Data triangulation involves the collection of data from several different sources at different times Hair, Celsi, Money, Samouel and Page (2011). The researcher employed interviews and questionnaires in order to minimize the effects of limitations inherent to each instrument. Triangulation enabled the researcher to obtain different perspectives on the same issue which enhanced comprehension as it gave more and better explanations. Looking at a thing from different angles leads to same interpretation and this made interpretation more acceptable and valid.

3.5 Data collection methods

3.5.1 Interviews

These are conversations in which participants express their own thoughts using their own words. Interviews are most commonly used method of data collection in qualitative research and this familiarity is an advantage to the researcher King and Harrocks (2010). These interviews can be face to face or telephone conversations. According to Sarstedt and Mooi (2011) face to face interviews prove to obtain high response rate thereby enabling the researcher to collect rich information. In this research face to face interview with the users of financial statements was employed by the researcher. Interviews proved to be effective as in depth feedback was obtained on the spot and emphasis on important aspects could be interpreted by the researcher. Interviews explored differences in experiences of the users of financial statements. However on the other side data analysis of information obtained by the researcher through interviews was complex and time consuming.

3.5.2 Questionnaires

A questionnaire is a data collection instrument used to gather data in survey based studies Wegnor (2010). The questions can be structured or unstructured. Structured questions have anticipated answers and usually make use of the multiple choices and scale question whilst an unstructured questionnaire is open ended Flick (2009). For the purpose of this research structured questions were engaged. The questionnaires were well-designed so as to ensure that the right research questions were addressed and that accurate and appropriate data was collected by the researcher for analysis. Unambiguous questions facilitated effective communication between the researcher and the responded. Questionnaires facilitated the collection of large amount of

information from a number of users of financial statements within a short period of time and in a relatively cost effective way. Questionnaires were researcher designed, and in developing the questionnaire the researcher's judgment was depended upon on selecting crucial issues to be addressed. The main disadvantage associated with making judgments in misjudging and this results in missing crucial information.

3.5.3 Electronic mail

An electronic mail is the transmission and distribution of text, audio or video messages over communication networks Daas and Toth (2012). Electronic mails were economic, fast and they could be stored in the computer of the researcher for future use. However there was a risk associated with the use of emails, they may carry viruses which are harmful to the computer. The viruses may read the email address and transmit themselves to people who communicate with the researcher using electronic mails.

3.6 Validity and Reliability

Validity in quantitative research is necessary but it alone is insufficient. Rubia and Babbie (2009) defines validity as the extend on which an empirical measure adequately reflects the real meaning of the concept under consideration and reliability as a matter of whether a particular technique applied repeatedly to the same object would yield the same result each time. The following measures were taken into account by the researcher in order to improve validity and reliability of the findings obtained. Pilot study was performed by the researcher. The questionnaire were made relatively short, unambiguous and clarifications on how to fill the questionnaire where made. Face to face interviews which enabled effective communication were also employed in gathering data.

3.6.1 Pilot Study

To ensure reliability and validity of the data collection methods used, that is questionnaires and interview guide, a pilot survey was conducted. Lucienne and Chakraharti (2009) define pilot studying as trying out the research approach to identify potential problems that may affect the quality and validity of results. The researcher administered questionnaires to a group of five fellow accounting students. The aim of the pilot survey was to detect flaws in the questioning and correct those prior to the main survey. The pilot test enabled the researcher to amend the questionnaire and interview draft questions so as to gather more reliable and accurate responses. The pilot survey was of great importance to the researcher as it minimized error rate on answers.

3.7 Data presentation and analysis

Data was qualitatively analyzed in order to produce an informative research. Graphs and charts were used in analyzing the findings so as to identify important variables, their significance and easier interpretation of findings. Data presentation leads to data analysis hence most of the work done in presentation compliments the work necessary for data analysis Guerero (2010). A lot of quantitative data was collected and tabulated .The tables provided an easy reference of data collected. The choice of using graphs or charts in this research was mainly based on visibility and their ability to show trends in a variable more clearly. Data from questionnaires was analyzed while interview responses were summarized.

3.8 Chapter Summary

This chapter outlined the methodology which was used by the researcher throughout the research. It outlined the research design which was used, sampling techniques and data collection methods. Strengths and weaknesses of each data collection method where fully explained. The

next chapter focuses on the presentation, analysis and interpretation of findings obtained in order to support recommendations to be given at the end of this research.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

Presentation and analysis of findings uncovered during the course of the study are the cores of this chapter. Data collection instruments were used to gather primary data through the use of questionnaire and interview questions. Presentation of the research findings involved the organizing, analyzing, summarizing, presentation and discussion of the data collected from the respondents. The data collected or gathered was presented using tables, graphs and pie charts as well as other relevant diagrams so as to make the data more meaningful.

4.1 Questionnaire Analysis

According to Lodica, Spaulding and Voegtler (2010) response rate is the percentage of the people in the sample who complete and send back to the researcher. The respondents were the people who made use of audited financial statements to make economic decisions. The higher the response rate, the lesser the chances of significant bias on the findings obtained by the researcher. A response rate of at least 50% is usually considered as sufficient for analysis and reporting, response rate of at least 60% is good and a response rate of 70% is very good Rubin and Babie (2010). Out of the 32 questionnaires sent, 30 participants managed to respond back to the researcher. The researcher's response rate was 94% and was acceptable since it was above 50%. The researcher's response rate is depicted in the table below:

4.2 Questionnaire response rate

Table 4.1: Response to questionnaire

Respondent	Questionnaire Sent	Replies	Response Rate
Investors	8	8	100%
Lenders	8	8	100%
Employees	8	6	75%
Government	8	8	100%
TOTAL	32	30	94%

4.3.1 Responsibility for prevention and detection of fraud

This question sought to determine the parties responsible for the prevention and detection of fraud.

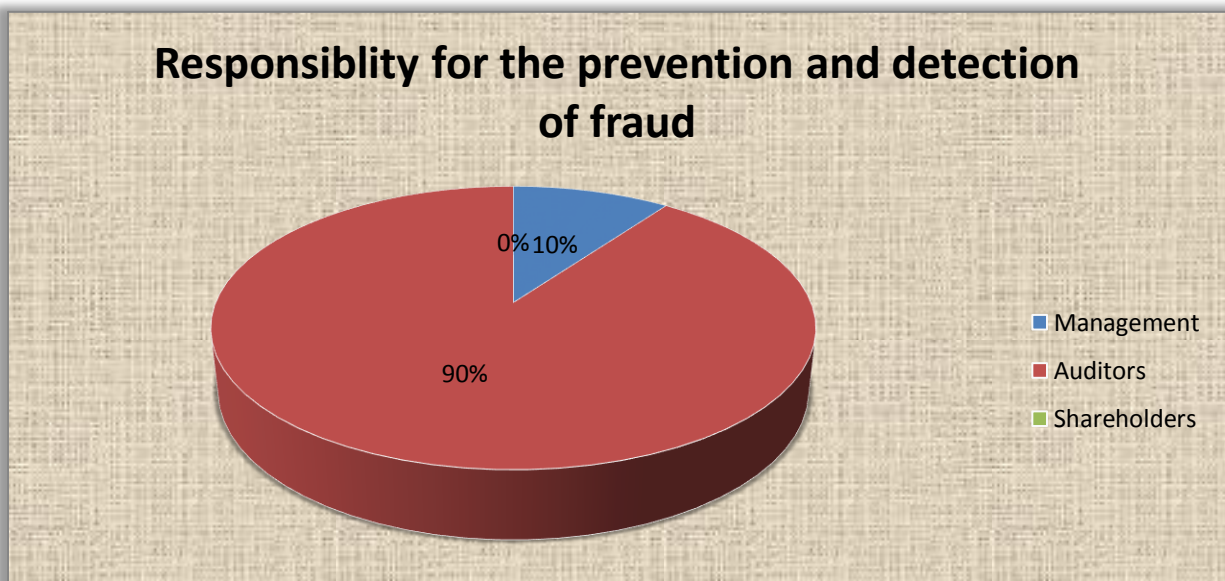


Figure 4.1: Responses from respondents on who is responsible for the prevention and detection of fraud.

From the information gathered, 10% of the respondents were of the opinion that management was responsible for the prevention and detection of fraud. As shown in the figure above 90% of the respondents of the respondents were of the idea that it was the responsibility of auditors while none shouldered the responsibility to the shareholders.

Graham and Carmichael (2012) suggested that the prevention and detection of fraud is the responsibility of management and not of auditors.

4.3.2 Responsibility of the auditor

This question sought to ascertain whether the users of the financial statements were aware of the responsibility of the auditor

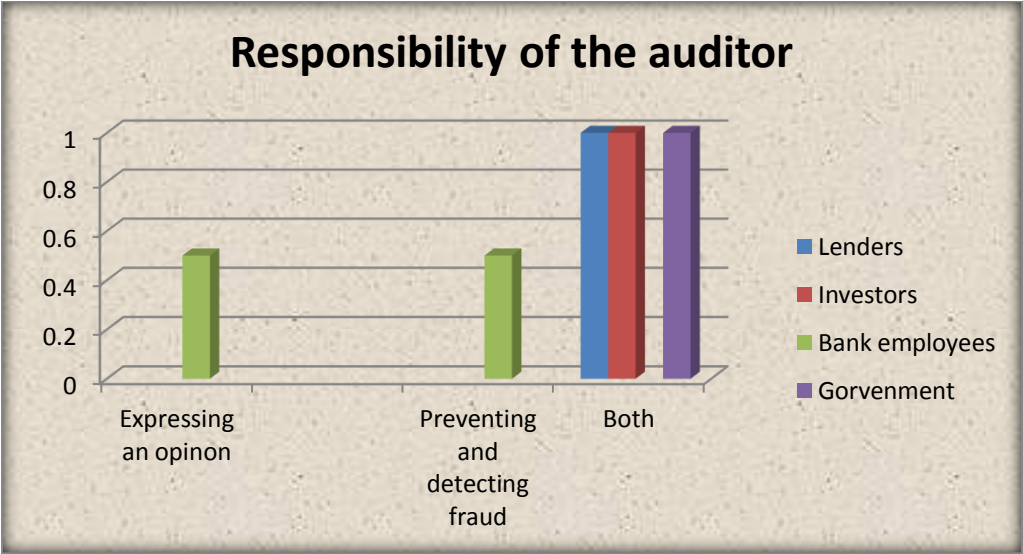


Figure 4.2: Responses on the responsibility of the auditors

The information gathered by the researcher revealed that all the lenders (100%), all investors (100%) and all government officials (100%) were of the opinion that the responsibility of the auditor was to both prevent and detect fraud and express an opinion on the financial statements. Of the respondents, 50% of the employees argued that the responsibility of the auditor was to

express an opinion on the fairness of the financial statements while another 50% of the employees cited that the responsibility of the auditor was to prevent and detect fraud only.

Fernando (2012) suggest that the responsibility of the auditor is to express an opinion on whether the financial statements have been prepared in all material respects in accordance with the applicable financial reporting framework.

4.3.3 Decisions made basing on audited financial statements.

This aim of the question was to identify the types of economic decisions made basing on audited financial statements. Since the targeted respondents were investors, employees, lenders and government officials, this question helped the researcher in reaching conclusions as to whether the target respondents were met.

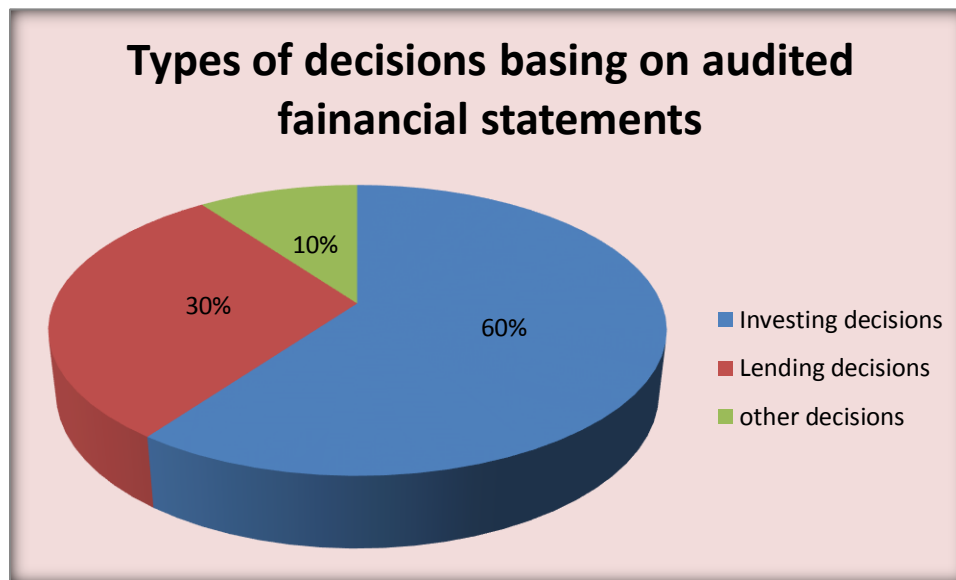


Figure 4.3: Types of decisions basing on audited financial statements.

The demonstration above shows that 60% of the respondents argued that the audited financial statements were used in making investment decisions. While 30% of the respondents were of the opinion that the audited financial statements were merely used in making lending decisions and

10% of the respondents cited that the audited financial statements were used in making other decisions.

Of all the users of the financial statements, investors depend upon assurance provided by the auditor in the audit report for them to invest in an entity Attree (2011).

4.3.4 Impact of the audit opinion on economic decisions made by the users of the financial statements.

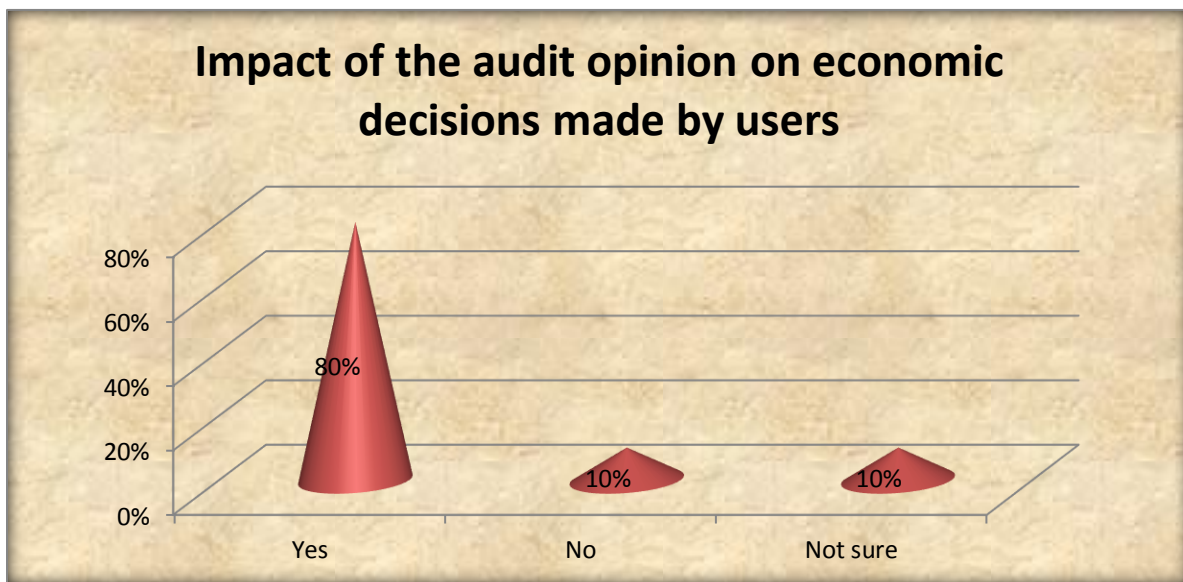


Figure 4:4 Responses as to whether the audit opinion expressed has an impact on economic decisions

From the presentation above, 80% of the respondents were of the idea that the audit opinion expressed by the auditor had an impact on the economic decisions made by users. Only 10% of the respondents cited that the audit opinion expressed in the audit report did not affect one's economic decision. While another 10% of the respondents were not sure on whether the audit opinion expressed in the audit report had an impact in making economic decisions.

Delanny and Wittington (2013) suggested that external audits enhance the degree of confidence of the intended users of the financial statements.

4.3.5 Extent of reliance that can be placed on audited financial statements by the users of the financial statements.

The aim of the question was to determine the extent to which the audited financial statement could be relied upon by the users of the financial statements considering the fact that auditors cannot completely eliminate the detection risk but reduce it to an acceptable level.

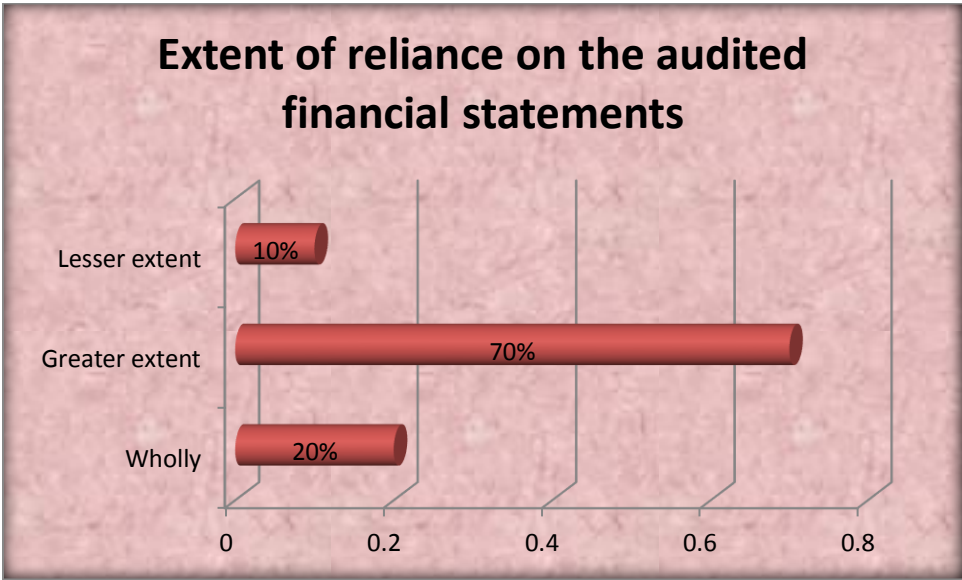


Fig 4.5: Extent of reliance on the audited financial statements

A total of 70% (greater extent) of the respondents supported that the audited financial statements should be relied upon by the users of financial statements. Respondents who were of the opinion that the users of the financial statements should rely wholly upon the audited financial statements when making economic decisions were 20%. They further argued that modification to an auditor’s report may pertain to only a part of the financial statements that may be insignificant to the user and the reasons for modification are only stated in brief and hence they

have to rely on some of their own researches. While only 10% of the respondents suggested that audited financial statements should be relied upon to a lesser extent in making economic decisions.

Jones (2010) argued that audited financial statements can not be wholly relied upon since only reasonable assurance is provided by the auditor and not absolute assurance.

4.3.6 The extent on which auditors should be made liable to third parties for the opinion they express on the financial statements.

After many lawsuits were pursued by various third parties to sue auditors during the Enron and other world famous accounting scandals, it became necessary to get the users' view of the extent to which auditors must be liable to them as third parties.

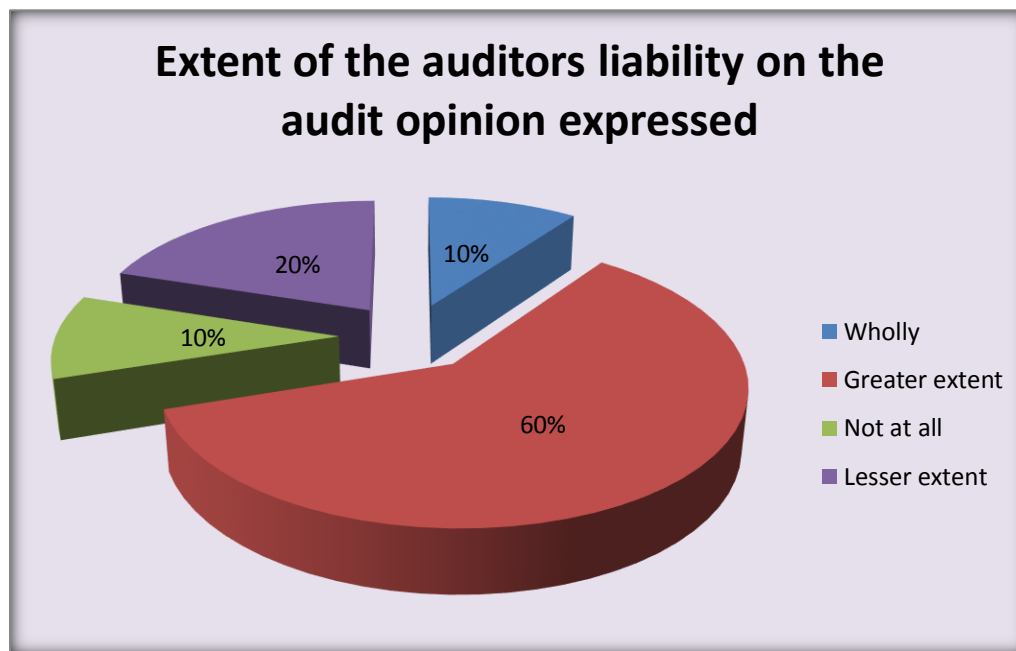


Figure 4.6: Extent of auditor liability on the audit opinion expressed

Of the respondents, 60% suggested that to a greater extent, auditors should be made liable for the opinion that they express on financial statements to the third parties. As shown in the above figure, 20% of the respondents were of the idea that auditors should be made liable for the

opinion they express to a lesser extent since the audit itself has inherent limitations. Only 10% of the total respondents argued that auditors should not at all be made liable for the opinion they express on financial statements to third parties. While another 10% of the respondents cited that auditors should be wholly liable for the opinion they express on financial statements.

Baker (2014) suggests that upon negligence, auditors should be made wholly liable for the opinion they express on financial statements.

4.3.7 Impact of the auditor’s liability on reliance placed by third parties on audited financial statements.

This question sought to address whether the auditor’s liability limit the reliance that can be placed by the users of the financial statements on audited financial statements.

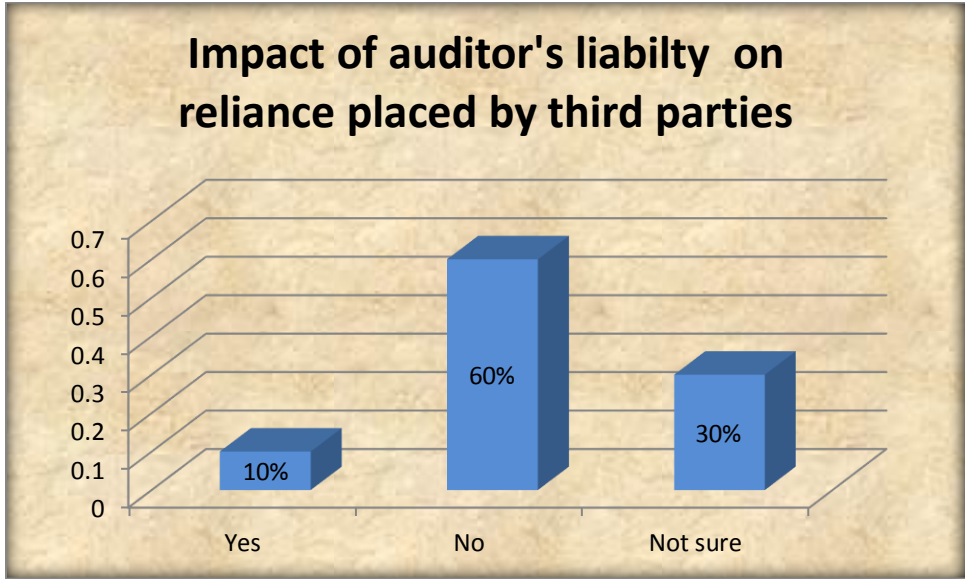


Figure 4.7: Impact of auditor’s liability on reliance placed by third parties.

As illustrated above 60% of the respondents suggested that the extent of auditor’s liability had no impact on the reliance placed by the users on audited financial statements. Only 10% argued that auditor’s liability had an effect on the reliance placed by the users on audited financial statements. While 30% of the respondents were not sure whether auditor’s liability really had an

impact or not on the reliance placed by the users of the financial statements on audited financial statements.

Fearnly, Beattie and Hines (2011) suggested that there is no relationship that exists between auditor's liability and the reliance that can be placed by the users of the financial statements since auditors are fully aware that their work is used by third parties.

4.3.8 Necessity of external audits.

This aim of the question was to determine whether the external audits were necessary.

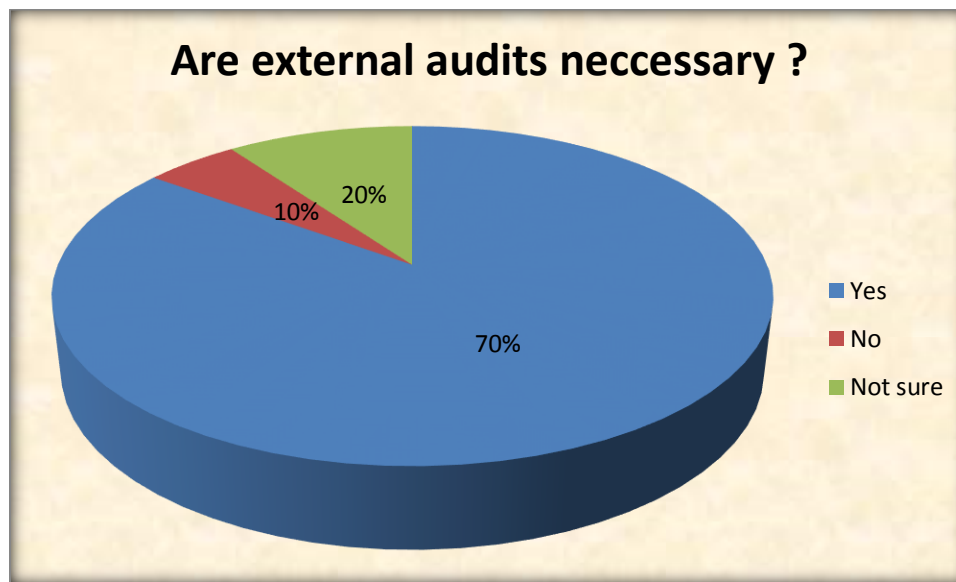


Figure 4.8: Necessity of external audits

Majority of the respondents (70%) of the respondents argued that the external audits were necessary. Of the respondents, 20% were not sure of whether external audits were crucial while only 10% of the respondents did not consider external audits to be of necessity.

According to Dennis (2010) dependable financial information is essential to the very existence of the society at large.

4.3.9 Sufficiency of the information contained in the audit report

The objective of the question was to find out whether the information contained in the auditor's report was sufficient to the users of the financial statements when making economic decisions.

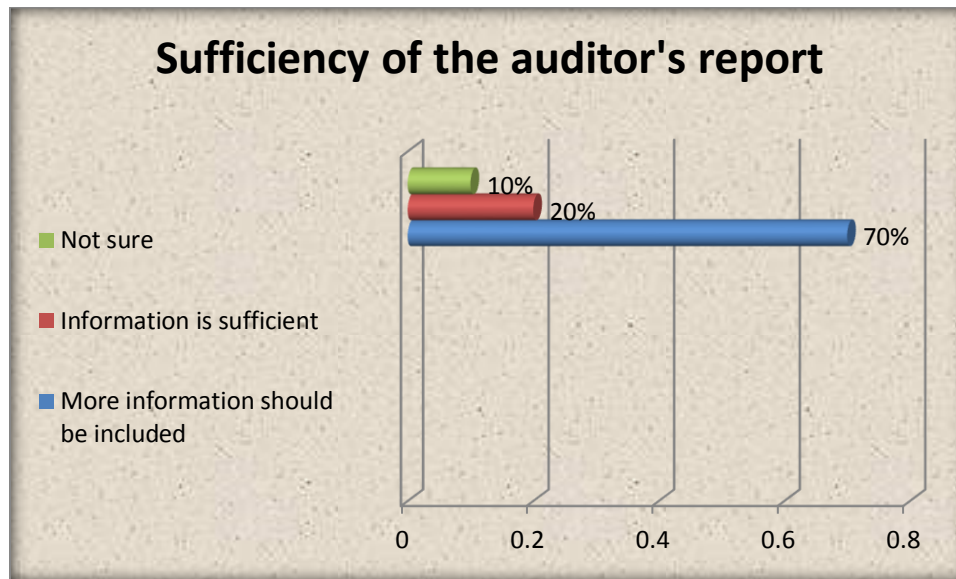


Figure4.9: Sufficiency of the auditor's report

From the information presented above, 70% of the respondents argued that more information should be included in the audit report while 20% were satisfied that the information was sufficient and further argued that more information would become cumbersome and time consuming to study. Only 10% of the respondents were not sure on the sufficiency of the information contained in the audit report.

According to Collins (2012) a modified opinion should be accompanied by reasons for modifying and the possible effects on the financial statements so as to enhance comprehension of the users of the financial statements

4.3.10 Sufficiency of the audit profession on the expectations of the users of the financial statements

The question sought to determine whether the audit profession met the expectations of users of the financial statements.

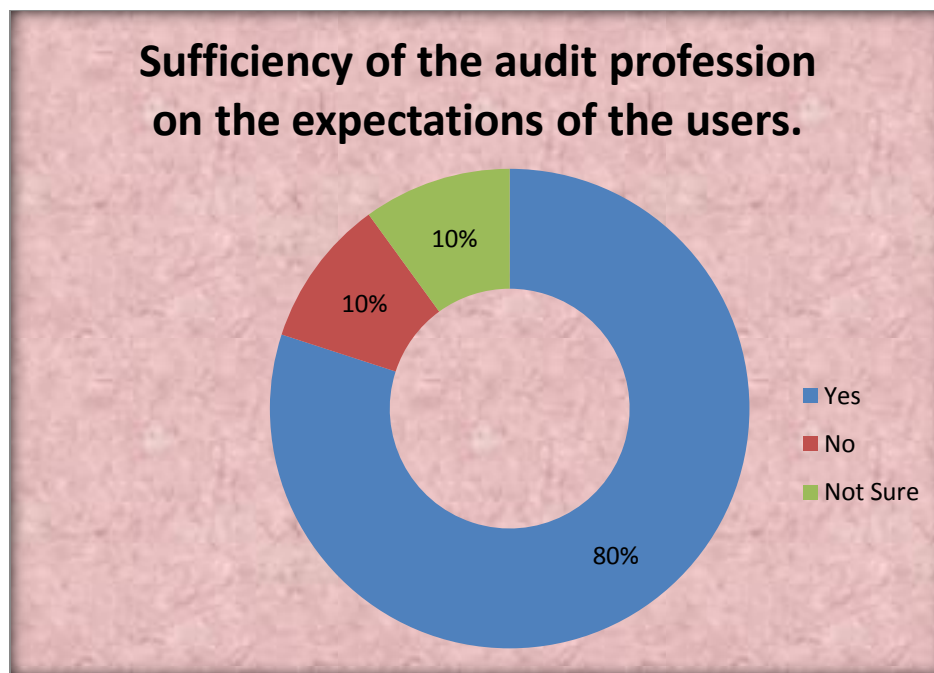


Figure 4.10: Sufficiency of the audit profession on the expectations of the users.

As shown in the figure above, 80% of the respondents supported the idea that the audit profession met the expectations of the users of the financial statements. However 10% of the respondents were in disagreement to the fact that the expectations of the users of the financial statements were being met through the audit profession. While another 10% of the respondents were not sure.

Bagshaw (2013) suggest that an audit opinion expressed by the auditor can be seen as a certificate of assurance which is needed by the stakeholders of the reporting entity.

4.3.11 Major causes for not detecting corporate scandals

This question sought to determine causes that made auditors not to detect corporate scandals.

The respondents cited various factors that caused auditors not to detect corporate scandals.

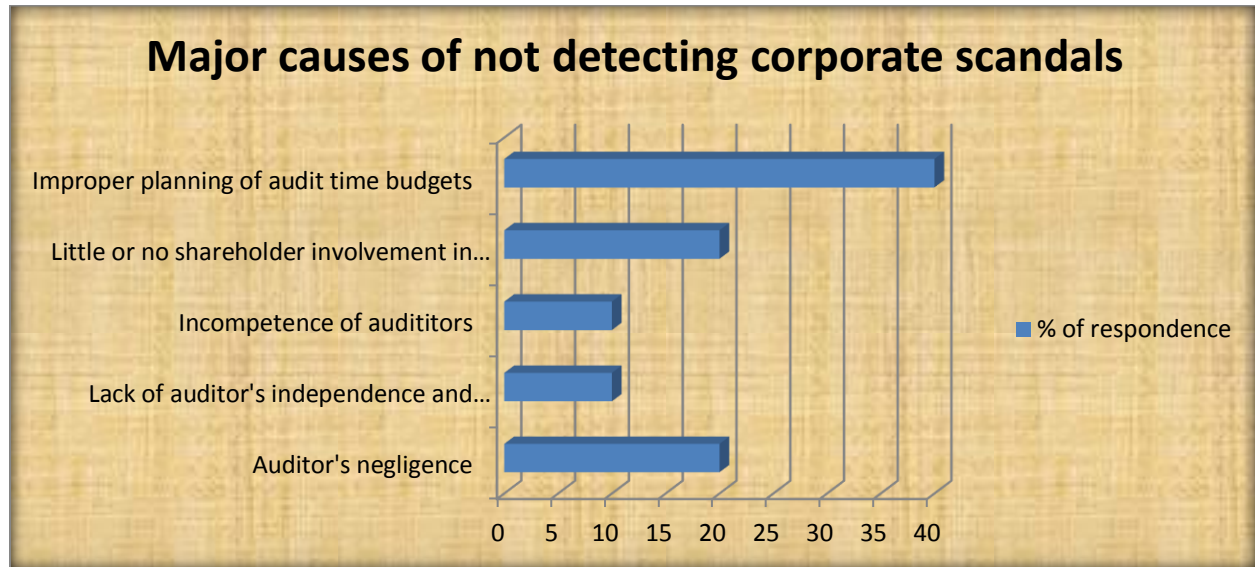


Figure 4.11: Causes for not detecting corporate scandals

The causes suggested by the respondents included the auditor's negligence which was cited by 20% and improper planning of audit time budgets was cited by the 40% of the respondents, lack of auditor's independence which was suggested by 10% of the respondents, Incompetence of auditors was also cited by 10% of the respondents and Little or no shareholder involvement in the company's affairs was suggested by 20% of the respondents.

Johnson, Cramling and Ritternberg (2013) supported the minority of the respondents and suggested that there is need of professional competence for audits to be effective. They also cited that professional competence can be divided into attainment and maintenance of professional competence.

4.4.1 Interview analysis

The researcher had planned to interview 12 users of financial statements but managed to interview only 10 interviewees. The remaining two bank employees were busy attending clients and could not be interviewed. The interview response rate was 83%. The response rate was considered to be very good considering the fact that interviews were time consuming, they tended to take more time of the users of the financial statements. The interviews response rate is shown in the table below.

4.4.2 Interview response rate

Table 4.2: Response to Interviews

Respondent	Number of users to be interviewed	Successful interviews(Responses)	Response rate
Investors	4	4	100%
Lenders	4	2	50%
Employees	2	2	100%
Government	2	2	100%
TOTAL	12	10	83%

4.5.1 What is an audit opinion and what are the different types of audit opinions?

The above question aimed at assessing whether the users of the financial statements were well versed with the different types of audit opinions that can be expressed by the auditor.

All the interviewees, 100 % of the respondents managed to define an audit opinion and generally defined it as a paragraph in the audit report where the auditor expresses an opinion on whether the financial statements showed a true and fair view of the reporting entity. All of the

respondents managed to name all the different types of the audit opinion but only 90% managed to explain all the types of audit opinions. Only 10% of the respondents named the types of audit opinions that could be expressed by the auditor but could not explain the message that they conveyed about the financial statements.

According to Bagshaw (2013) an audit opinion is a statement recorded in the auditor's report in which the auditor expresses an opinion on the extent on which the financial statements are misstated. Jones (2014) suggested that an unmodified opinion is expressed when the auditor having found sufficient and appropriate audit evidence concludes that the financial statements are prepared in all material respects in accordance with the applicable financial reporting framework and that the footnotes plus other information in the financial report provide adequate disclosure.

4.5.2 Does the audit opinion have an impact on the economic decisions made by the users of the financial statements?

The question sought to establish if the audit opinion expressed by the auditor had an impact on the economic decisions made by the users of the financial statements.

From the interview conducted by the researcher all investors (100%), all lenders (100%), all government officials (100%) and (50%) of the employees suggested that the audit opinion expressed in the audit report by the auditors had an impact on economic decisions that they make. They cited that the opinion expressed by auditors has a positive or negative effect on determining whether to continue as a stakeholder of the reporting entity. They also argued that they would not want to be associated with an entity that has been issued a modified audit

opinion. While another 50% of the total number of employees was in disagreement and augured that the audit opinion expressed had no effect on the economic decisions that they make.

From the information gathered on figure 4.4, 90% of the respondents were of the idea that the audit opinion expressed in the audit report had an impact on the economic decisions made by the users of the financial statements, 90% of the interviewees also supported the same idea. Only 5% of the respondents to the questionnaires cited that the audit opinion expressed by auditors had no impact on the economic decisions made by the users of the financial statements while 10% of the interviewees were in support of the same idea. Only 5% of the respondents interviewees were indifferent and none of the respondents to the questionnaire were indifferent.

According to Jackson and Stent (2010) the audit opinion expressed on financial statements has an impact on the economic decisions of the users since the trend of the reporting entity can be measured with certainty from the audited financial statements.

4.5.3 Do you think that the auditors that audited the entity with accounting scandals performed their duties with due diligence?

The objective of the question was to establish the major causes for not to detect accounting scandals.

Table 4.3: Cause of not detecting corporate scandals

Causes	Cited	Not cited
Improper planning of audit time budgets	60%	40%

From the interviews conducted by the researcher, all of the interviewees (100%) agreed that the auditors who audited the entity and failed to pick up misstatements did not perform their duties

with due diligence due to a number of reasons. Of the interviewees, (60%) cited that improper planning on audit time budgets was the major causes while 40% did not cite it as a major cause for not detecting creative accounting of financial statements.

Improper planning of audit time budgets was suggested by 60% of the interviewees as depicted in figure 4.11 and 40% of the respondents of the questionnaire. Improper planning of audit time budgets was the only cause that was mentioned by the interviewees. Of the questionnaire respondents 20% suggested that it was auditor negligence while another 20% cited that it was lack of shareholder involvement in the company's affairs. Incompetence of auditors was cited by 10% of the respondents and another 10% suggested that lack of auditor independence and objectivity was the major cause why auditors did not detect material misstatements in financial statements.

Baker (2014) cited that auditor's independence is the bedrock of financial statements has on the audited financial statements while Dauber, Shim and Siegel (2012) argues that proper planning should be carried out before the audit so that the audit can be carried out on a timely basis.

4.5.4 Are you aware of the inherent limitations of an audit, if yes can you explain to me some of the limitations.

The question sought to gather information as to whether the users of the audited financial information were aware of the inherent limitations of an audit.

From the results gathered 80% of the interviewees were aware of the inherent limitations of an audit while only 20% of the interviewees had no idea about the inherent limitations of an audit. All of the interviewees who were aware of the inherent limitations of audits were able to explain quite a number of the limitations which included the nature of financial reporting, nature audit

procedures and the need for the audit to be carried out within a reasonable period of time and at a reasonable cost.

Marx, Van Der Watt, Bourne and Harmel (2010) highlighted that the auditor's work is open to subjective judgments especially in terms of obtaining the audit evidence and conclusions on audit evidence gathered. While Basu (2009) cited that the inherent limitations of sample testing limit the auditor to reach conclusions that provide absolute assurance.

4.5.5 What do you benefit from external audits?

The question sought to determine whether the users of the financial statements were aware of the benefits derived from external audit.

Of all the interviewees, 90% cited that external audits gave them comfort as they are the only independent check performed on the financial information and results of financial operations of an entity. They further explained that independent audits on financial information prepared by an entity's management created credibility of the financial statements. Only 10% of the respondents argued that there were not benefiting from external audits since the auditors could not provide them with absolute assurance.

As cited in figure 4.8, 70% of the respondents were of the opinion that external audits were necessary even if there were limitations to the audit. These respondents were supported by 90% of the interviewees who cited that they benefited from external audits. Of the respondents to the interview only 10% cited that they were not benefiting from external audits. While 10% of the respondents to the questionnaire agreed that they did not benefit from external audits. Only 10% of the interviewees were not sure whether they were benefited from external audits.

Hall (2011) cited that audits are essential as they are an independent attestation that expresses an opinion about the fairness of the entity's financial statements.

4.6 Secondary Data Analysis

Table 4.4 Total number of investors and their percentage increase from 2009-2014

YEAR	TOTAL INVESTORS	PERCANTAGE OF INCREASE
2009	800	
2010	950	18.75
2011	1400	47.37
2012	1900	35.71
2013	1600	-15.79
2014	1300	-18.75

Source: Kingdom bank Investor Accounts for year 2009 to year 2014

Information presented in the table above shows the trend of investors coming to invest in Afrasia Kingdom Zimbabwe Limited. As shown in the table above investors increased in 2011 and deserted the bank from 2012 to current. Investors continued to leave the bank at an increasing rate. This is supported by Attree (2011) who suggested that investors depend upon the assurance provided by the auditor in the audit report to for them to invest in an entity. Investors of Afrasia Kingdom Zimbabwe Limited were leaving the bank after the bank had been issued a modified audit opinion.

4.7 Chapter Summary

The chapter served to present and analyse the information gathered from the respondents. The

responses obtained show a relationship to the information that was found from the review of literature in chapter two. The next chapter focuses on recommendations and conclusions.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter focused on conclusions and recommendations based on findings gathered by the researcher through data collection, presentation and analysis.

5.1 Summary of chapters

The main aim of the research was to evaluate the extent of reliance that can be placed on the auditor's opinion by the users of the financial statements when making economic decisions. Chapter one highlighted the background of the study and the statement of the problem. Limitations to the study, delimitations to the study and the definition of terms used in the study were also looked at.

Chapter two provided a review of literature already published by other authors relating to this study. It clearly conveyed the diverse limitations of an audit and the present day challenges that auditors face when discharging their duties. Comprehension of these limitations and challenges was perceived by the researcher to help the users of financial statements assess the extent of reliance that they can place on auditor's opinion.

The research subjects were users of the financial statements who were viewed as the ones who normally base on audited financial statements in making economic decision. A sample size of thirty two was designed and data was obtained through descriptive research. Data was collected by way of questionnaires and interviews. The merits and demerits of data collection methods used were explained in chapter three.

In chapter four data was gathered and presented for analysis. A small number of respondents failed to return the questionnaires sent to them, some partially answered the questionnaires and a few were not present for the interviews. However, in spite of these limitations, remarkable results were gathered and conclusions were made. Data gathered from the respondents was presented on graphs, pie charts and tables.

5.2 Overview of research findings

5.2.1 To clearly convey the main objective of an audit

- Users of financial statements are of the idea that the objective of the auditor is to prevent fraud, detect fraud and also express an opinion on the financial statements. Whilst the objective of the auditor is to express an opinion on the financial statements and not to prevent and detect fraud. Prevention and detection of fraud is the responsibility of the management. If auditors prevent fraud, detect fraud and also express an opinion on the financial statements, the audit ceases to be independent as they will be attesting their own piece of work.

5.2.2 To clarify what an audit opinion on financial statements is

- An audit opinion refers to a paragraph in the audit report in which the auditor expresses an opinion on whether the financial statements have been prepared in all material respects in accordance with the applicable financial reporting framework. An unmodified audit opinion is expressed if the financial statements have been prepared in accordance with the applicable financial reporting framework and an unmodified audit opinion is expressed when the auditor is unable to obtain sufficient and appropriate audit evidence

so as to conclude that the financial statements are free of material misstatements or when the financial statements as a whole are not free of material misstatements.

5.2.3 To establish whether the audit opinion expressed by an auditor had an impact on both the client and the users of the financial statements

- The type of the audit opinion expressed by the auditor in the audit report has either a positive or negative impact on both the client and the users of the financial statements. The type of audit opinion expressed by an auditor influences the economic decisions of users as the different types of audit opinions communicate different messages and are therefore considered differently by the users of financial statements.

5.2.4 To cite the responsibility of an auditor in respect of fraud

- Users of the financial statements perceive that the objective of auditors is to detect fraud and error however the responsibility of prevention and detection of fraud is of management of an entity. External auditor is responsible for obtaining reasonable assurance that the financial statements as a whole are free of material misstatements whether caused by fraud or error. Therefore the external auditor's responsibility in respect of fraud is to consider the risk of material misstatements due to fraud.

5.2.5 To outline the inherent limitations of an audit

- The inherent limitations of an audit cause auditors to provide reasonable and not absolute assurance. However, regardless of the various limitations to the auditor's work, external audits still add value to companies and the society at large.

5.2.6 To explain the challenges that auditors face when discharging their duties

- The challenges that auditors face in performing their duties influence the opinion that they express on the financial statements. Audit quality may be sacrificed for low audit fees by audit firms which are not in the “big five”. Low audit quality affects the opinion that is expressed by the auditor. Challenges that the auditor faces have to be communicated by the auditor to the users of the financial statements in the audit report. Knowing the challenges that auditor’s face would be of assistance on the users of the financial statements in assessing the extent of reliance that they can place on the audit opinion expressed.

5.3 Conclusion

The main objective of the research was to evaluate the extent on which users of the financial statements can rely upon the audit opinion when making economic decisions. Users of financial statements cannot rely wholly upon the auditor’s opinion since auditors cannot provide absolute assurance but reasonable assurance, users can therefore rely on the audit opinion to a larger extent. The extent of reliance to be placed on the auditor’s opinion therefore can only be enhanced but can never reach total reliance. Reliance placed on the audit reports can be enhanced if auditors, in their audit reports, communicate certain enhanced information to the users. The objective of the research was successful because it managed to fulfill all the study objectives.

5.4 Recommendations

In light of the decisions usefulness of the audit report, the following recommendations were made:

5.4.1 Communication of business risks associated with the client

- The auditor has access to relevant information about the feasibility of the audit client and specific risks faced by that client. Planning and performing of the risk assessment procedures are also carried out by the auditors so as to obtain knowledge about the internal control system and the operating environment of the client Dauber, Shim and Siegel (2012). Risks associated with the client's business activities have to be communicated to the users of the financial statements in the audit report. Knowledge of that information would be an essential input into user's analysis of the financial statements and hence has to be incorporated into the auditor's report.

5.4.2 Education of the Users of the financial statements

- The research showed that there were misconceptions on who was responsible for the detection and prevention of fraud and error. Education has a fundamental role to play in resolving user misconceptions regarding the role and responsibilities of external auditors. It was thereby proposed that the audit profession should take a strong initiative in making users of the financial statements aware of contentious areas like nature and limitations of an audit.

5.5 Suggestions for future research

Information contained in the audit is not sufficient for users of financial statements when making economic decisions. Therefore there is need to consider the adequacy of the information contained in the audit report for the benefit of the users of the financial statements. Supplementary information like risks associated with the client's business should be disclosed for the users of financial statements to gain more insight into the reporting entity. Further studies

can be carried out to find ways to disclose additional information for the users of the financial statements and at the same time retaining confidentiality on the client information.

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Appendix I

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Gweru

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Harare

Dear Sir

RE: RESEARCH ASSISTANCE

I am a fourth year student at Midlands State University studying towards a Bachelor of Commerce Accounting Honors Degree. I am seeking approval to carry out my research at your organization on the topic: An evaluation of the extent on which auditors 'opinion can be relied upon by the users of financial statements in making economic decisions a case study of Afrasia Kingdom Bank Limited.

Be guaranteed that all the information will be treated with confidentiality as the research is strictly for academic purposes only.

Your assistance in this matter will be greatly appreciated

Yours faithfully

Zondo Sherrylyne

R112132P

Appendix II

Dear respondent

My name is Sherrylyne Zondo, I am a final year student undertaking a Bachelor of Commerce Accounting Honors Degree at Midlands State University. I am doing a research titled: An evaluation of the extent on which auditor's opinion can be relied upon by the users of financial statements. Please feel free to answer the questions below by ticking in the box which you think is more appropriate. Your responses are confidential and are being solicited for academic purposes only.

1. Gender

Male Female

2. Qualifications

O' Level A' Level Diploma
Degree Post Graduate PHD

3. Who do you think is responsible for the prevention and detection of fraud?

Auditor Management Shareholder

4. What is the responsibility of the auditor?

Expressing auditor's opinion Preventing and detecting fraud

Both (mentioned above)

5. What type of decisions do you make basing on audited financial statements?

Investing decisions

Lending decisions

Other decisions

7. Does the type of audit opinion (modified and unmodified) issued in the audit report affect your decision in some way?

Yes No Not sure

8. To what extent do you think the audited financial statements should be relied upon by the users of financial statements?

Wholly Greater extent Lesser extent

9. To what extent should auditors be made liable to third parties for the opinion they express on financial statements?

Wholly Greater extent Lesser extent

10. Does the extent of the auditor's liability affect the reliance that can be placed on auditor's opinion by third parties?

Yes Not Not sure

11. External audits have been seen to have various limitations, do you feel they are really necessary?

Yes No Not sure

12. Is the information contained in the auditor's report sufficient or you feel more information should be included so that users of financial statements can have more insight on the reporting entity?

Information is sufficient

More information should be disclosed

Not sure

13. Do you think the audit profession is meeting your expectations as a user of the financial statements?

Yes

No

Partially

14. When auditors do not to detect corporate scandals, what do you think is the cause?

Auditor negligence

Lack of auditor competence

Little or no shareholder involvement in entity's affairs

Improper planning on audit time budget

Question/s.....

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Comments.....

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Thank you!

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Interview Guide Questions

- 1) What is an audit opinion and what are the different types of audit opinions?
- 2) What impact does the audit opinion have on the economic decisions that you make?
- 3) Do you think that auditors that audited the entity with accounting scandals performed their duties with due diligence?
- 4) Are you aware that there are limitations inherent to the audit? And if yes can you explain to me some of the limitations.
- 5) What do you benefit from the external audits?

Question/s.....

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Comments.....

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Thank you!

