

**MIDLANDS STATE UNIVERSITY**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING**

**The effect of risk based internal auditing on the expectation gap: the case of Ministry of  
Foreign Affairs**

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## **CHAPTER ONE: INTRODUCTION**

### **1.0 Introduction**

This study sought to establish whether risk based internal auditing can be used as a tool to addressing the expectation gap with special reference to the Ministry of Foreign Affairs in Zimbabwe. This Chapter gives the background to the study, the statement of the problem, the objectives and the research questions. Further the limitation and the delimitation of the study are explored together with the assumptions and the significance of the study. Definitions of terms and a summary conclude this chapter.

### **1.1 Background of the Study**

Ministry of Foreign Affairs (MFA) has eight various departments under its wings. The Ministry has also forty three embassies accredited in various countries. The Ministry derives its Mandate from section 204 of the constitution of Zimbabwe Amendment (No.20) Act 2013. The Ministry's mandate is to promote the political and economic interests, image and influence of the Republic of Zimbabwe in the regional and International Community. MOFA also has the responsibility to protect the interest and safety of Zimbabwean Nationals abroad. According to Civil Service Commission (CSC), it is mandatory for every Ministry to have an internal audit department whose main function is to give an assurance on the fairness of the financial statements which they audit. Evaluating the adequacy and effectiveness of internal controls and systems checks for adequacy and efficiency of stock controls is also another function of the internal audit (Institute of Internal Auditors, 2013). This internal audit function is controlled by the directors of the Ministry and the Permanent Secretary. According to Price Waterhouse Coopers (PwC) (2014), the audit profession has undergone a series of transformations and development in a way of addressing the expectation gap right from the balance sheet audit up to the system based audit.

The expectation gap according to Saladrignes and Grañó (2014), is the difference between the expectations of the auditors and those who use the audited financial statements. Furthermore Ijeoma (2014), noted that the expectation gap arises as result of the difference in expectations on the assurance that the auditors gives on the financial statements and those which the stakeholders expect from the work of the auditors.

The expectation of the management of the Ministry of Foreign Affairs, the Ministry of Finance and Economic Development and the Parliament is that the internal auditors together with the Auditor General Department should detect fraud and error .The non-detection of these errors and fraudulent transactions and activities by the internal audit functions has raised questions by management and other users of financial statements as to why they were not initially noted by internal audit. This has piled pressure on the internal audit function such that, what internal auditors can reasonably achieve and what stakeholders expects of them has created an expectation gap. It has been reported that funds have been embezzled and misappropriated within the Ministry (Auditor General's report, 2011-2013). These irregularities are in most cases unearthed by the external auditors.

Ijeoma (2014) defined the expectation gap as the gap between the auditor's actual standard of performance and the various public expectations of required standard of performance. The users of financial statements expect that the auditors will detect fraud and errors in the financial statements under audit, (Bogdanoviciute, 2011). Concerns have been raised as to why the internal auditors fail to unearth these irregularities before the external audit.

According to Agyei et al (2013) , fraud detection was considered the main objective of internal audit until the 20th century, when it was directed towards verifications of the financial

statements in ascertaining the assurance level .Abubakar and Ojemen (2011) further pointed out that the audit expectation gap is critical to the auditing profession because the greater the unfulfilled expectation from the public, the lower the credibility earning potential and prestige associated with the work of auditors .

Extensive content tests are being used by the public sector, according to Hematfar and Hemmati (2013). The technological developments and the complexity of the transactions being handled have however necessitated the transition to risk based auditing, (Messier Jr, 2014).By definition, risk is an internal methodology which is primarily focused on the inherent risk involved in the activities or system and provide assurance that risk is being managed by the management within the defined risk appetite level (Institute of internal Auditors (IIA)). Risk based auditing according to the Institute of Internal Auditors (IIAs) (2014), allows internal auditors to concentrate on reviewing the major risks of the organization. Unlike extensive vouching which is the current practice, team members and resources are concentrated on the areas which need greater attention, Prinsloo (2008).Further Hematfar and Hemmati (2013), noted that risk based auditing goes further than traditional auditing by considering business risks over and above audit risks. However the major question for which this study need to unearth is whether the adoption and implementation of such an audit approach will reduce the expectation gap in the public sector.

## **1.2 Research Problem**

The expectation gap between the auditors and the users of the financial statements within the Ministry of Foreign Affairs has been widening and this has called for the review of the role of the audit approaches in addressing this gap. The various approaches have been tried during the period and some abandoned and while others have been adopted, but the gap has not be

addressed. The purpose of this study is therefore to investigate whether risk based internal auditing approach can reduce the expectation gap in the Ministry.

### **1.3 Research Objectives**

- To determine the factors which gives rise to the expectation gap at Ministry of Foreign Affairs.
- To evaluate the effects of the expectation gap on financial reporting.
- To determine whether risk based auditing can address the expectation gap.
- To evaluate the challenges faced in addressing the expectation gap through the risk based internal auditing.
- To suggest solutions to the challenges faced in addressing the expectation gap through risk based internal auditing.

### **1.4 Main Research questions**

Does risk based approach help in addressing the expectation gap in the Ministry of Foreign Affairs?

#### **1.4.1 Sub-research questions**

- What factors gives rise to the expectation gap at Ministry of Foreign Affairs?
- What are the effects of the expectation gap on financial reporting?
- Can risk based internal auditing address the expectation gap at Ministry of Foreign Affairs?

- What Challenges are faced in addressing the expectation gap using the risk based auditing model?
- How can these challenges be addressed in the public sector?

### **1.5 Delimitation of the study**

The study covered the period 2011-2014 and was based on the internal audit function at the head office of the Ministry of Foreign Affairs in Zimbabwe. The study was carried out between June 2015 to October 2015.

### **1.6 Limitations of the Study**

#### **Official Secrecy Act**

Obtaining information in government is guided by the Official secrecy Act and was a challenge to the research to obtain some very confidential information about the functionality of the audit office within the Ministry. The researcher had to officially request permission from the Head of Ministry, who is the Permanent Secretary in order to carry out this research and also to obtain information required.

#### **Time**

The researcher was a fulltime employee at the time of carrying out this research study. The research had to balance between work and the completion of this project.

## **Financial**

The research wanted finances to cover the cost of printing, travel and communication with the supervisor during the researcher study. The researcher had to dig deeper into her own resources in order to successfully complete the study within the stipulated time.

### **1.7 Significance of the study**

#### **To the Student**

The student gained some important research techniques in carry out researches and also obtained invaluable and in-depth understanding of the audit profession. Furthermore this research was carried out in partial fulfillment of the Bachelor of Commerce Honors Degree in Accounting at the Midlands State University.

#### **To the Government (Ministry of Foreign Affairs)**

The research also brought some very important solutions to the reduction of the expectation gap within the Ministry and its auditors. The acceptance of the recommendations also meant that the results can be used for policy decision making in the public sector.

#### **To the University**

The results of the study will form part of the University library referral material, which can be used by other students. This will be on condition that the recommendations and conclusions of the research are accepted.

## 1.8 Definition of Terms

Expectation Gap	Expectation gap can be defined as the gap between the auditor's actual standard of performance and the various public expectations of required standard of performance.
Risk based Auditing	An Auditing approach in which the auditor focuses of the risk areas of the organization than paying attention to the whole audit process and areas.
Risk Assessment	A systematic process of identifying and evaluating events that could affect the achievement of objectives, whether positive or negative.

## 1.9 Summary

The chapter explored the friction between the expectations of the users of the financial statement and the auditors' role in an audit engagement. The expectations have been widening over the period of time and the uses of various audit methodologies have not yielded the expected solutions. The statement of the problem relating to this background within the Ministry of Foreign Affairs has been given and the related questions and research objectives have been highlighted. The delimitations, limitations and the significance of the study have been given as well together with the definition of terms of this study.



## CHAPTER 2: LITERATURE REVIEW

### 2.0 Introduction

This chapter was aimed at reviewing some literature relevant to risk based auditing and the expectation gap. It was aimed at seeking to critically analyze views of different other scholars on the research objectives, so as to give a theoretical framework to the line of the study. The factors which gives rise to the expectation gap, the nature and meaning of expectation gap, the challenges of reducing the expectation gap through risk based internal auditing and the solutions which could be used to reduce this gap.

### 2.1 Factors giving rise to the expectation gap

The financial scandals of Enron, WorldCom, Global Crossing and the Audit firm Arthur-Anderson, has called on the scrutiny of the role of auditors, (Ebimobowei, 2010). Since then the auditing profession and has been served with a number of litigations for their failure to detect fraud and errors within the financial statements, (Obiamaka, 2014). According to Almeida and Almeida (2011), the general opinion about financial statements is that the audited set should be trusted as a guarantee for solvency and business continuity. A number of factors, however gives rise to the expectation gap have been noted by Saladrigues and Grañó (2014). These include the following of possible causes, the studies coincide in highlighting fraud detection, independence, erroneous expectations, nature of the audit process and the “going concern” analysis.

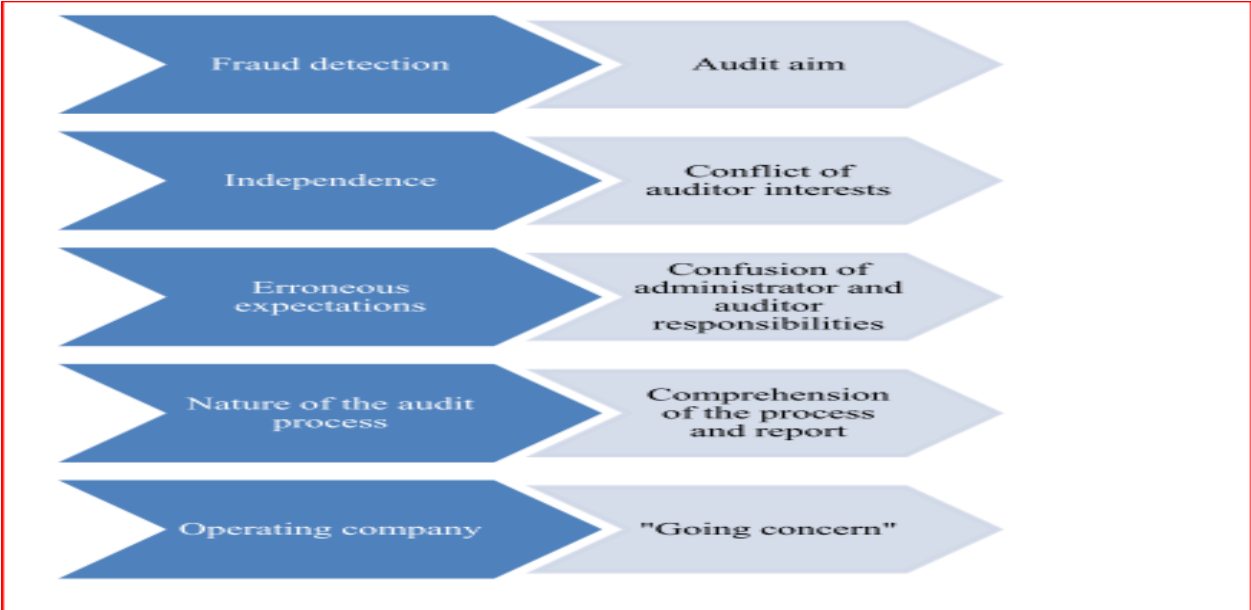
#### 2.1.1 Nature and meaning of expectation Gap

According to Ebimobowei (2010) and Bogdanovičiūtė (2011), expectation gap arises as a misunderstanding between what the users of financial statement perceive to be role of the auditors and what the audit actually do. Furthermore Sorin-Sandu and Sorinel (2012), noted that the

expectation gap is as a result of the discrepancy in demand of the user publics on the audit function and practitioner and the set out roles and responsibilities of the auditor in as much as the financial statement audit is concerned. Salehi et al (2009), argued that, the requirements of having and independent auditor is as a result of agency problem, in which the interests of the managers and those of the owners are not in congruence to each other. Kangarlouei et al (2012), argued therefore that auditing mitigates the accreditation problem arising from the conflict of interest between the respective users and preparers of the financial statements. The auditors using Auditing standards give conformity of financial statements to the Generally Accepted Accounting Principles (GAAP).

**2.1.2 Factors giving rise to the expectation gap**

The figure below gives some of the factors which gives rise to the expectation gap and each of them will be analyzed in turn.



Source: Saladrignes and Grañó (2014).

## **Fraud detection**

Fraud and error detection are in the interest of the users of financial information, as concluded by Almeida and Almeida (2011). According to Agyei et al (2013), in the 20<sup>th</sup> century, fraud detection was the primary purpose of an audit. The funds under the custody of all the government Ministries and departments are public in nature and therefore they should be properly accounted for, (Bardara, 2012). When there is fraud or errors, the public perceive that the auditor has to unearth them.

However, according to Ebimobowei (2010), it is not the role or responsibility of the auditor to detect fraud and errors, because auditors use samples to come up with an audit opinion. Salehi et al (2012), also alluded to the fact that audit has evolved from error detection to providing a reasonable assurance that the financial statements have been prepared in accordance to the appropriate reporting framework. There are however varying perceptions about the assurance obtained from the financial statements as argued by Kassem and Higson (2012).

## **Independence**

Salehi et al (2012), alluded to the fact that, independence, both from a philosophical and historical point of view has been the bedrock of the auditing profession. The professional code of ethics also emphasis the need for independence so as to avert conflicts of interest between the auditor and the Auditee. Stewart and Subramanian(2010) and supported by The Institute of Internal Auditors (IIA)(2011),argued that, the internal auditor has a dual reporting role, in which functionally, they have to report to the management while structurally, they should report to the Audit Committee. Salehi et al (2012), noted that independence is key if the financial statements are to be relied up by the users.

### **Erroneous expectation**

Saladrigues and Grañó (2014), proffered that erroneous expectations arises as a result of excessive expectations by the public. Sikka (2009), noted that erroneous expectation arises because of two factors, namely, excessive perceptions about the auditors, scope and responsibilities and the confusion regarding the responsibilities of the auditor viz those of the administrators. On excessive perceptions of the scope and responsibilities of the Auditors, World Bank (2014) alluded to the fact that, this arises because the user publics believe the auditor examines every documentation under audit. This is despite the fact that the auditor carries out a sampling approach to auditing because of the volumes of the transactions in most cases.

The expectations of the user public need to be well informed based on the auditing standards and the scope of the audits carried out (Salehi et al (2012). Persellin et al (2014) opined that the users of financial statements are concerned mostly by the audit quality, which are accurate, informative and independent. Lee et al (2009), alluded to the fact that the role and responsibilities of the auditors remain a controversial issue to a number of financial users.

### **Nature of the Audit process**

According to Saladrigues and Grañó (2014) and Sikka (2009) noted that many users of the financial statements believe that the nature of auditing process is complicate and laborious. This emanates from the fact that, they are not aware of wat the process involves and what guides that process. Saheli et al (2011), noted that the nature of the audit process is such that auditor strive to achieve reasonable assurance rather than absolute assurance, when they carry out their audit.

From a public user point of view, the auditor is supposed to attest that the financial statements are correct, which is not then in line with the auditing standards, (Vanstraelen et al 2011).

Furthermore the expectation gap brought about by the nature of the audit process, is that the users believe that when an entity has an unqualified report, then its systems of internal controls and accounting bring foolproof financial reporting,(Salehi et al ,2009 and 2011). The internal auditor may miss the critical aspects of fraud and errors because of the nature and timing of an audit because of the sample sizes and collusion among preparers of the financial statements.

### **The Going Concern Analysis**

MPRA (2009) noted that the auditor's role is not to be a watchdog and not a bloodhound. This stems from the fact that the auditors' role is not to detect fraud but to give an opinion on the financial statement did show a true view. The fall of Enron, WorldCom and Tyco International, had the public pointing fingers and instituting litigations against the auditor (Adams and Evans, 2009). The public's opinion is that, the auditor should be able to detect the collapse of the entity. Salehi et al (2011), Ebimobowei (2013) and Dibia (2014), opined that the conflicting role of the auditor in as much as the going concern aspect is concerned has led to the expansion of the expectation gap. Okafor and Otalor (2013), noted that most litigations against auditors is as a result of the perceptions that, the auditor did not properly do their job.

## **2.2 Effects of the expectation gap on financial reporting,**

Okafor and Otalor, alluded to the fact that the expectation gap has some detrimental effects on the financial reporting and auditing process. According to the FASB (2010), financial information must faithfully represent what it purports to represent.

### **2.2.1 Accountability**

Ijeoma and Oghoghomeh (2014), alluded that accountability is a critical factor, when it comes to public funds use the world over. When the financial statements are audited it becomes a critical

step by management that they want to show that they are accountable to the investors and funders of the institutions they lead. Adams and Evans (2011), noted that when audited financial statements are subject to audit, the two important aspects of accountability will be achieved, namely credibility and completeness of reporting. Mock et al (2013), further asserted that, auditors themselves should be accountable to their own work, so that they can avoid litigations over their work. Davis et al (2012) in Mock et al (2013), suggests that where there is greater accountability, the auditors improve audit quality and scrutiny. However the assertion by, Ijeoma (2014), opined that whether the auditors improve audit quality, the expectation gap in as much as accountability is concerned will always exist. The user of financial information will always view financial statements, with skepticism, just like the auditors do.

### **2.2.2 Transparency**

Ball and Plugraht (2012) argues that audited financial statements brings about transparency by government. This was further supported by Ofoegbu (2014) who proffered that, the public's expectation is as a result that they view the audited financial statements as reflecting the preparers and custodians of the funds as being transparent. Therefore the expectation gap is an important barometer of attesting the transparency aspect on the part of the management. The higher the expectation gap, the more management deliver transparency and accountability in funds management. Mock et al (2012), argued that the audit reports should include in them, clarifications and additional information outside the "numbers and figures", so that users are more informed about the operations of entities. Most public sector financial users are not privy to the "hidden" inform about what the numbers portray in the financial statements. And clarifications and additional information can; then be used to aid decision making. Grays et al (2011), opined that for transparency to be achieved in the financial statements, the preparers

should disclose all the important material transactions and changes. Some regulators argue that one way to promote audit quality would be to expand transparency with regard to the governance and professional practices of audit firms, (Vanstraelen et al, 2011). Transparency in business has become topical not only within the accounting field, but in all business aspects and auditing cannot be seen to lag behind. Adam and Evans (2009), also noted that the principles of inclusiveness and transparency are seen as the heart of financial reporting both in the private and public sector.

### **2.2.3 Financial Credibility**

Ijeoma (2014) noted that, the audited financial statements tend to improve the credibility of the financial reporting. The assurance that the public obtain on the financial statements improves the level of credibility, such that, the attest function is clearly understood. Gray et al (2011) noted that the low credibility rating for the audited financial means that they cannot then be used for decision making. Persellin et al (2014), also alluded to the fact that the audit quality in the face of expectation gap, leads to lower reliance of the financial statements for both the investors, funders and general publics. Mohamed (2013), argued that financial statements should be of high quality and reliable so that the users can make decision based on them. Mohammed (2013), further noted that reliability of the financial statements remain one of the most challenging aspect in the world. Credibility especially in the public sector can never be more than emphasized given the expectation of the tax payers and their funds. Further Idris and Ojemen (2014) and Hassan (2011), allude to the fact that, financial report in itself is a sign for transparency and the audited financial statements improve this transparency.

#### **2.2.4 Compliance to standards**

According to Adams and Evans (2009), the audited financial statements should confirm adherence to the accounting principles and standards. The expectation gap therefore has an effect on the adherence of the accounting standards (Musyoka, 2014). Mostly because, the public users of the financial statements are not aware of the requirements of the financial standards to be adhered to by the auditors and preparers of the financial statements, Ijeoma (2014). Vanstraelen et al (2011), concluded that, the audit report conveys the auditor's and management's competences and that the report certifies that the relevant standards have been adhered to in the financial statements. Higson (2012), however opined that if the standards setters are to continually include the requests from users of financial statements, then there is need to continually be shift the standards.

#### **2.3 Risk based auditing and expectation gap,**

Griffiths (2012), asserted that risk base auditing approaches auditing process by concentrating on things that matter and have the greatest risk. Time and effort are devoted to those areas, which can have a greater bearing on the financial reporting framework of the entity. According to Hematfar and Hemmati (2013), extensive content test as in traditional auditing is reduced in risk based auditing. PwC (2012), argued that, because of the volatility and unpredictability of the accounting and auditing environment, extensive vouching may be costly financial and in human capital. Hematfar and Hemmati (2013), opined that auditors have tried to reduce audit risk, by extensive tests so as to improve audit reports quality. It is the quality of the audit reports which can have an impact on the expectation gap both in the public sector and the private sector.



The intended purpose of risk based auditing is to determine the nature, timing and extent of the substantive test to be carried out (Ijeoma, 2014). These aspects of auditing of financial statements enables the auditor to critic and gather information that “points “ to the areas which need “attention” and more resources. These risks areas are initially identified at the planning stages of the audit, but further analysed as the audit progresses, (Moradi and Pourhosseini, 2009). Using the risk based auditing aspect, the detection of fraud, errors and other misstatements could be easier for the auditor (Messier Jr., 2014).

Messier Jr., (2014), further noted that, by using risk based auditing there is a positive correlation between audit reports quality and expectation gap. The higher the audit reports quality, the lower the expectation gap. Sobel (2011), argued that for an enhanced, risk assessment framework, the use of risk based auditing approach can lead to greater risk detection and mitigation. Sobel (2011) and Hematfar and Hemmati (2013), further asserts that there is more holistic risk management focus when using risk based auditing. When risk management frameworks are enhanced, there is greater acceptability of audited financial statements by the users of financial statements and hence the reduction of the expectation gap.

Shifts from the traditional internal auditing framework to risk based auditing has been necessitated by the current trends and corporate governance aspects, (Danescu and Muntean, 2012). However, Griffiths (2012), argued that, although risk based internal audit, helps in enhancing detection and mitigation, the traditional audit’s compliance aspect should be starting point on all audit aspects.

Hematfar and Hemmati (2013),in contrast argued that the approach to auditing based on risk based auditing, enables internal auditors to keep the audit risk at acceptable levels and also

reduces costs and time of audits. In supporting the assertion made by Hematfar and Hemmati (2013), Messier Jr,(2014), allude that, the risk based audit approach creates a linkage between the assessed risks and the nature, timing and extent of the audit procedures used to asses these risks. When risks are kept at acceptable lower levels, then the expectation gap is also lowered.

## **2.4 Challenges faced in addressing the expectation gap through the risk based internal auditing,**

In trying to address the expectation gap, there are a number of issues which need to be resolved, such as capacity issue within the audit profession, legislative inadequacy.

### **2.4.1 Capacity issues**

A number of auditors do not have the appropriate risk auditing skills (Che-Ahmad, 2012). When training and capacitation is not available, then the auditors will not be able to reduce the expectation gap. Zinyama (2013), noted that the public sector's funding capacity for is much weakened because of the constrained fiscal environment. Further (Zhou and Madhekani, 2013), also alluded that capacitation issues have a negative effect on the development of key skills in auditing and finance.

The availability of human capital both in quality and quantity has an effect on the efforts to reducing the expectation gap (IIA, 2012). Eghliaow (2013), supported the notion by IIA (2012), about capacity development, were he asserted that, the audit profession is a specialised and dynamic field were continuous capacity development should be encouraged.

The new technological developments in information technology, means that there is sophistication in preparation of accounts (Laavas and Wenger, 2012). Therefore there is need for auditors to be able to track transactions electronically and design procedures that can best

address IT related systems. Algeru (2013), further asserted that, were training and capacitation is not done the audit mandate cannot be achieved

#### **2.4.2 Lack of audit charters**

The internal audit function within the public sector, lack the internal audit charters (Ridley, 2012). IN support of the observation, Tanko and Dabo (2013), alluded that the work of the auditor should be monitored and evaluated in line with the audit charter. However in the public sector, there is no audit charters (Revive, 2013)

The institute of Internal Auditors (2012), asserted that the absence of a charter, creates challenges on a point of reference to the proper execution of the audit work. PwC (2008), further asserts that, each organization's audit function should be government by the charter, which spells out the process and implementation guides for the audit work.

### **2.5 Solutions to the challenges faced in addressing the expectation gap through risk based internal auditing.**

The expectation gap can be filled using the following appropriate policy measures and best practices, namely legislative, education and awareness and training and development.

#### **2.5.1 Legislation**

Munich (2012), allude that the misunderstandings between the auditor and the users should be solved by legislative board. Salehi et al (2011), argued that, there is confusion at the moment on whether the adequacy of the standards is the responsibility of the courts or the legislators. Financial statements according to Ijeoma (2014), should conform to all statutes and regulations and all the disclosures set out by the law. Agyei et al (2013), then highlighted the need to

improve the standards both the accounting and auditing standards so that the users will not cast a doubt about the profession.

### **2.5.2 Improve quality control in audit firms**

Quality control aspects of the auditing firms need to be enhanced if the auditing approaches are to solve the expectation gap in the public sector, (Salehi et al (2011). Further, it was concluded by the Institute of Internal Auditors, that when the quality control aspects of auditing are tightly monitored, then the quality of the audit report will be enhanced ,hence the reduction of the expectation gap. Australian Public Policy Committee (APPC) (2013), asserted that there is need to enable the audit reports users to understand what constitute audit quality. Mikko (2009), further noted that audit quality is multidimensional and inherently unobservable and that there is no trace of the auditors' characteristics in it. Auditors need to improve their audit quality in order to reduce the expectation gap in risk based auditing approach

### **2.5.3 Training and development**

The benefits of training and development are not only beneficial to the individual obtaining it, but also for the organisation, (Parvaiz, 2014). Capacity deficiencies that are evident in the public sector Auditors can only be addressed by carrying out a needs analysis, (Achieve, 2013). Education and training in EDP auditing skills improves the general Information technology skills for the auditor, (Al-Farah, 2011). Further, Al-Farah (2011), noted that the consequential challenge of audit expectation gap, requires that the auditor acquires the necessary auditing skills on a continuous basis.

Further, Allani (2014) asserted that, there is need to educate the communities about the role and responsibility of auditors and in particular the misconception about fraud and error detection.

Enyi et al (2012), further noted that, although some of the expectation gap factors can be met by the auditor, the users need to be educated on the responsibilities and the scope of the auditors. According to Adeyemi and Uadiale (2011), the education and awareness programmes for the users of the financial statements can be used as a way of reducing the expectation gap in the public sector. Tanko and Dabo (2013), concluded that education and awareness are correlated to the expectation gape. Tanko and Dabo (2013) further recommended that these educational programmes need to be expanded to all levels of the citizenry.

## **2.6 Conclusion**

The chapter highlighted the causes of the expectation gap, the role of risk based auditing in the face of the expectation gap. The correlation between the expectation gap and risk based auditing, the challenges and solution were also explored. Chapter three covers the research methodology.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.0 INTRODUCTION**

Research methodology refers to the systematic, focused and collection of data for the purposes of obtaining information in order to solve problems. It is the analysis and rational of using a particular method for a given study (Jankowicz 2009: 12). This chapter was set to give a description of how the researches study was executed, embracing all the activities and procedures under taken during the study. The chapter explains the selection of the research subjects and the methods to be used in gathering data.

#### **3.1 RESEARCH DESIGN**

Cooper and Schindler (2003:87), defines a research design as a plan and structure of investigation so concerned as to obtain answers to research questions. The research design therefore is a plan for the entire research study that gives the framework of the research's plan of action research design thus provide answers for such questions what techniques will be used to gain data?, what kind of sampling will be used? And how constraints will be dealt with? The research used a mixed approach in this study .This means that bith qualitative and quantitative methods were used.

##### **3.1.1 Descriptive Research Design**

A descriptive study is used when researchers want to understand the characteristics of certain phenomena underlying a particular problem. Ortinam (2003:330) asserts that descriptive research is typically concerned with determining the frequency with which something occurs or relationship between two variables. Wegner (1999) explains that the aim of descriptive statistics

is to identify the essential characteristics of a random variable and produce a profile of its behaviour.

The main aim of descriptive research is to provide an accurate and valid representation of (encapsulate) the factors or variables that pertain / are relevant to the research question.

Descriptive research design is both qualitative and quantitative as the research seeks to collect data that permits us to describe the characteristics of the phenomena being studied. This design was found to be more suitable for this study as it greatly help in discovering the association of different variables and is easy to apply. This design is cheap and can greatly reduce the financial constraint without negatively affecting the effectiveness of the research. Nonetheless, this design has extensive use of figures that require high levels of accuracy.

The researcher used descriptive research design to gather all necessary information. A mixed approach was used for the research study. The qualitative research approach was used to analysing the interview responses, while a quantitative approached was used for the questionnaires administered.

### **3.2 POPULATION**

In research, according to Seaman (1982:39) a population can be defined as any group of individuals that have some common characteristics that are of interest to the researcher.

### **3.3 TARGET POPULATION**

The population under study constitutes the management and employees of the institute. Therefore the researcher targeted: 15 Internal Auditors, 20 Accountants, 3 Chief Accountants, 1 chief internal Auditor, 1 Director Finance.

### 3.4 TOTAL SAMPLING

According to Livin (1994:52), “A sample is a collection of some, but not all of the population under study used to describe the population.” Oxford dictionary also defined a sample as a small part or quantity intended to show what whole is like; specimen or illustrative or typical example.

**Table 3.1 Population, sample and research Instruments**

<b>Respondents</b>	<b>Population</b>	<b>Stratified Sample</b>	<b>Sample (%)</b>	<b>Research instrument</b>
Internal Auditors (MOFA)	20	15	75%	Questionnaires
Chief Internal Auditor	1	1	100%	Interviews
Chief Accountants	3	3	100%	Interviews
Director Finance	1	1	100%	Interviews
Accountants	25	20	80%	Questionnaires
<b>Total</b>	<b>50</b>	<b>40</b>		

Source: Primary Data

#### **Sampling Technique Used**

The researcher used judgemental and convenience techniques to draw out the sample. Polit and Hungler (1997:11), pointed out that judgemental sampling is applicable where the researcher wants a sample of experts, which was in this case. Convenience sampling was used for the management and finance staff as time was of essence to the researcher so only those managers and accounts clerks who were readily available and accessible were chosen.



The number of respondents was limited in order to reduce costs and to make data collection manageable. The researcher wanted to include only those individuals who, if randomly selected would give relevant information in line with the problem at hand.

### **Sampling Procedure**

In coming up with the sample size of 50, judgmental and convenience sampling was used for employees and management as the researcher knew those who are directly involved with tasks that affect the auditing function.

### **Justification of the sampling methods used**

Judgmental samplings enabled the researcher to purposefully pick specific respondents who were aware and had the knowledge of all the elements of risk based auditing. Convenience sampling enabled the researcher to get information regardless of the non-availability of the other directors; information was sought from those who were around at the time, thus a cut on costs of travelling and booking of other appointments. Used to collect relevant data, reliable data and to adjust data to suit the problem.

## **3.5 DATA TYPES AND SOURCES**

Cooper and Schindler (2003:87) define data as the fact presented to the researcher from the study environment. It is from the study that the researcher draws conclusions to the research study. Data is divided into two main sources namely primary and secondary data.

### **3.5.1 Data Types**

**Primary data** refers to data structures of variables that have been specifically collected and assembled for the current research problem. In this case, it is the data specifically collected to investigate the effectiveness of risk based auditing principles.

**Secondary data** is data at hand prior to the research. The data would not have been collected to serve answers to the research questions but information can be drawn from such source. Secondary data already exist at the time of the research and was not originally gathered to answer the problem at hand.

### **3.5.2 Data Sources**

The main media of data collection for primary data was questionnaires. Interviews were also conducted to get clarifications on areas on which they were needed, and also to enable some concerns, which could not be addressed well in the questionnaires to be clarified and attended to. Each component of risk based auditing and the expectation gap, were separately addressed in the questionnaire and in the interviews. Secondary data was obtained from the internal financial statements, policy documents and other internal records.

## **3.6 DATA COLLECTION INSTRUMENTS**

The researcher used interviews, questionnaires and documentary analysis as information needed was diverse and needs these methods to come up with comprehensive results.

### **3.6.1 Primary Data**

#### **Questionnaires**

Questionnaires have been used to capture the responses from the administered questions. Close ended questions have been used as they guide the respondents on the focus of the researcher. A questionnaire is a set of systematically structured questions used by a researcher to get needed respondents from the respondent. They are written instruments that present respondents with a series of questions or statements to which they are to react either by writing out their answers or selecting from among existing answers,(Brown 2001:6). It is the main data collection method in surveys and yield to quantitative data, (Oppenheim 1992:100). Also, due to the provision of open endedness, the instrument may be used to generate qualitative and exploratory data (Dornyei 2007:101).

The researcher observed that the use of the questionnaires enabled the gathering of factual information in a guided way. Further, the researcher noted that it was easier and cheaper to administer. However, some respondents did not return the questionnaires and the research had to make continuous follow ups until a considerable number of questionnaires had been returned.

More closed ended questions were used because they are easier to administer and faster for data tabulation. Open ended questions required respondents to answer in their own words and are designed to obtain qualitative information. They were used because they do not restrict the respondent thus widening the scope of the response obtained. They were however few because they give information, which is difficult to categories, and summarize.

The respondents' perceptions are coded according to the preliminary categories and the scaled responses like, (strongly agree, agree, unsure, disagree and strongly disagree) - are converted to

numerical values in the form of (5, 4, 3, 2 and 1 respectively). To analyse open-ended questions, the comments have been copied to the individual cards and those comments of a similar nature are grouped together.

### **Interview Schedule**

This is list of questions on which information is solicited from the selected respondents. The interviewer fills out a schedule, responding to respective questions. It serves as a suggestive reference or prompter during interview. It aids in focusing attention on salient points relating to the study and in securing comparable data in different interviews by the same or different interviewers.

The researcher used a great deal of flexibility, his ingenuity to stimulate managerial staff to reveal more of whether, the risk based auditing can be used to address the expectation gap.

The interviewer was able to make follow up questions and to get clarity on some pertinent issues relating to the study area. Furthermore the interviewer managed to capture the non-verbal aspects of communication. However the interviewees are busy people and obtaining an appointment was difficult for the interviewer. Respondents sometimes would hold back information because of the level of sensitivity.

In designing the interview schedule the researcher tried to ensure that it was free from bias by using the same schedule with each respondent. The interview schedule was also constructed in such a way, so as to facilitate for easy administration.

### **3.6.2 Secondary Data**

#### **Documentary Schedule**

This is a list of items of information to be obtained from documents, records, financial statements, annual reports and other materials. In order to secure measurable data, the items included in the schedule are limited to those that can be uniformly secured from a large number of case histories or other records.

To use this secondary source of data is cheap than to set up an investigation but care was taken to administer.

### **3.7 Validity and Reliability**

According to Streiner and Norman (1996), validity in relation to research is a judgement regarding to the degree to which the components of the research reflect the theory, concept or variable under study.

Reliability of an instrument reflects its stability and consistency within a given context. To be useful, all measures must be valid and reliable. Both validity and reliability judge how good the various components and processes of research are. According to Polit and Hungler (1997:467) states that an ideal instrument is one “that results in measures that are relevant, accurate, unbiased, sensitive, unidimensional and efficient”.

A pilot study on the questionnaire was carried out using some experts and fellow students and work colleagues before it was sent out. This helped to ensure that the wording of questions was clear and free from mistakes. It also helped the researcher finding out how long it took to complete the questionnaire and whether all the instructions and questions were clear.

### **3.8 ETHICAL CONSIDERATIONS**

A high degree of independency, integrity, competence, confidentiality and maintenance of secrecy was used by the researcher. All information collected was kept confidentially, for the researcher was allowed to access private and confidential information of the institute. Information was not divulged under any circumstance. Furthermore, the voluntary consent of the human subject was absolutely essential.

### **3.9 CONCLUSION**

Descriptive research method was used in this research. The chapter outlined sampling issues, types of data obtained and the methods of data collection and analysis procedures. The researcher now moves to the next chapter of data presentation, analysis and discussion of the research findings.

## CHAPTER 4 DATA ANALYSIS AND PRESENTATION

### 4.0 Introduction

This chapter presents and analyses the data collected using tables, graphs and charts in order to come to conclusions and hence give recommendations to policy makers. The results of which will form the basis of the recommendations in the next chapter. The results were analyzed using Statistical Package for the Social Sciences (SPSS) version 16.15

### 4.1 Question 1: Questionnaire response rate

The questionnaire response rate is intended to establish whether the responses merit further analysis of the data gathered.

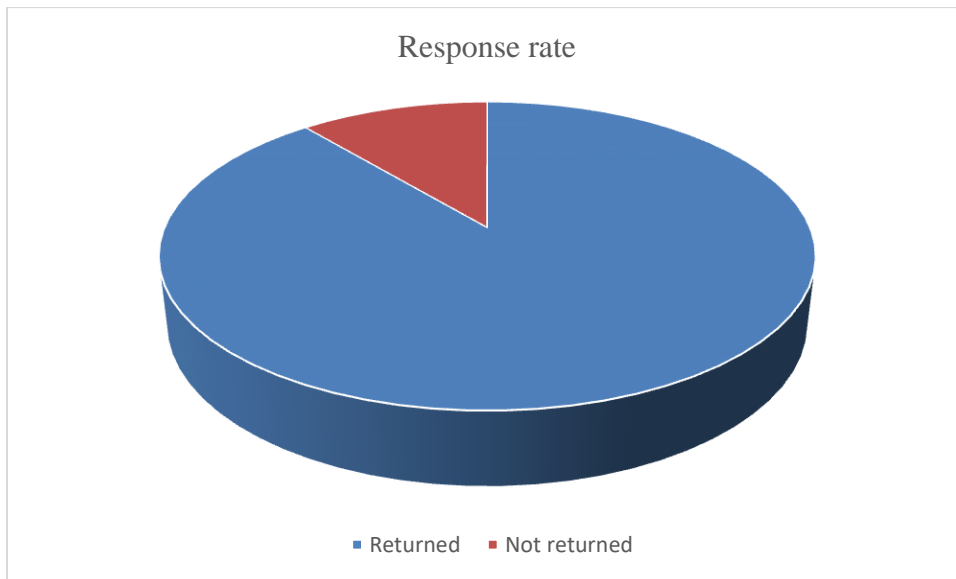


Figure 4.1: Questionnaire rate

Source: Primary data

A total of 45 questionnaires were distributed and in turn only 40 were returned, which give a response rate of 88.8%. This response rate is satisfactory to merit further analysis of the data.

## 4.2 Question 2: Respondents gender

The intention of this question is to establish whether there has been an appropriate mix between the males and females in the sample selected

**Table 4.1 :Gender**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	31	68.9	77.5	77.5
	Female	9	20.0	22.5	100.0
	Total	40	88.9	100.0	
Missing	System	5	11.1		
Total		45	100.0		

Source: Primary data

31/40(77.5%) of the respondents were males, while 9/40(22.5%) were women. The results shows that a significant number of respondents in accounting and auditing within the Ministry are males.

## 4.3 Question 3: Respondents' position in the Organization

To establish the levels of respondents within the sample on whether they are of the appropriate expertise and positions of authority to answer the questionnaires and interviews on behalf of the organisation.

**Table 4.2: Position in Organization**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Top Management	17	37.8	42.5	42.5
	Middle Management	7	15.6	17.5	60.0
	Finance	10	22.2	25.0	85.0
	Other	6	13.3	15.0	100.0



Total	40	88.9	100.0
Missing System	5	11.1	
Total	45	100.0	

Top management constituting 42.5% of the valid percentage (17/40) had the highest mode of respondents, followed by Finance and Administration (25%) and middle management (15%). Other levels of Management only consists of (15%) of the valid responses. This shows that the majority of respondents were of top management levels in their organizations and are responsible for decision making.

#### 4.4 Question 4: Respondents level of Education

The intention of this question was to establish whether the respondents have the appropriate educational qualifications to understand the intention of the research study and to answer as expertly as possible to the questions proffered.

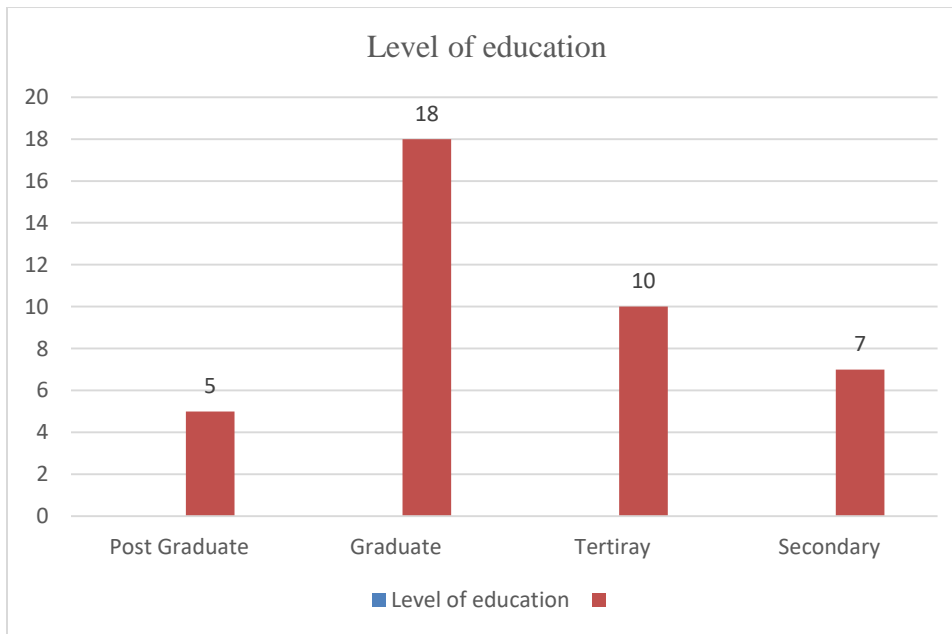


Figure 4.2 Level of Education

Source: Primary data

18/40(45%) of the respondents were graduates, 10/40(25%) had tertiary education while 7/40(17.5%) had secondary education and 5/40(12.5%) had Post Graduate qualifications.

The results shows that, the majority of Management levels were graduates. 57.5% of these respondents were either graduates or post graduates.

#### 4.5 Question 5: Factors giving rise to Audit expectation Gap

The intention of asking this question was to establish the factors that gives rise to the expectation gap, within the public sector and to gauge whether the respondents are aware of such factors

Table 4.3: Factors giving rise to Audit Expectation Gap

		<b>Fraud detection Expectation</b>	<b>Audit Independence</b>	<b>Erroneous expectation</b>	<b>Nature of Audit</b>	<b>Going Concern</b>
75Valid	Strongly Disagree	1	3	1	3	3
	Disagree	2	3	2	4	7
	Unsure	8	4	10	7	8
	Agree	12	10	12	14	12
	Strongly agree	17	20	15	12	10
	<b>Total</b>	<b>40</b>	<b>40</b>	<b>40</b>	<b>40</b>	<b>40</b>
Missing	System	5	5	5	5	5
<b>Total</b>		<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>

Source: Primary data

17/40 of the respondents strongly agreed that fraud detection expectation by the users on the part of the Audit is a factor giving rise to the expectation gap. 12/40 agree, while 8/40 were unsure and 2/40 disagreed. 1/40 strongly disagreed to fraud detection as an expectation gap factor.

29/40 agreed, while 11/40 disagreed that the expectation that the users expects the auditors to detect fraud and error.

Of the total respondents, 20/40(50%) strongly agreed, 10/40(25%) agreed, while 4/40(10%) and 3/40 (7.5%) were unsure and disagreed respectively. 3/40 (7.5%) of the respondents strongly disagreed.

75% (30/40) of the respondents were in agreement and the remaining 25 % ( 10/40) were in disagreement that lack of audit independence, gives rise to the expectation gap.

15/40(37.5%) of the respondents strongly agreed that erroneous expectation by the users gives rise to the expectation gap. 12/40(30%) agreed, while 10/40(25%) were unsure. 2/40 (5%) disagreed and 1/40 (2.5%) of the respondents strongly agreed.

27/40(67.5%) agreed, while 13/40(32.5%) disagreed that erroneous expectation by the users gives rise to the expectation gap.

10/40(25%) strongly agreed that the detection of the going concern status of an organization by the auditors is a factor which gives rise to the audit expectation gap, 12/40(30%) agreed, while 8/40(20%) were unsure. 7/40(17.5%) disagreed and 3/40(7.5%) strongly agreed, that even if the auditor determines the status of the going concern, the audit expectation gap will not rise. 55% of the respondents (22/40) agreed while 18/40 (45%) disagreed that the going concern status an expectation gap factor.

The results from the interviews shows that, both lack of audit independence, erroneous expectation, fraud detection expectation and detecting the going concern status of an organization all gives rise to the expectation gap in the public sector. However the levels of their effects are varied in intensity, with a significant 70% noting that expectation to fraud detection ranking the highest, followed by lack of audit independence and erroneous expectation.

The conclusion is that the four factors, namely lack of audit independence, erroneous expectation, fraud detection expectation and detecting the going concern status, gives rise to audit expectation.

#### 4.6 Question 6: Effects of Expectation Gap on financial reporting

By asking this question, the intention was to establish the respondents’ understanding of the effects that could be caused by the expectation gap within the public sector financial management.

Table 4.4: Effects of Expectation Gap on Financial Reporting

		Accountability	Transparency	Financial Credibility	Compliance to Standards
Valid	Strongly Disagree	2	1	1	5
	Disagree	3	4	6	5
	Unsure	5	5	7	4
	Agree	12	9	10	6
	Strongly agree	18	21	16	20
	Total	<b>40</b>	<b>40</b>	<b>40</b>	<b>40</b>
Missing	System	5	5	5	5
Total		<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>

Source: Primary data

On the effects of expectation gap on financial reporting, 18/40(45%) of the respondents, strongly agreed that accountability is affected. 12/40 agreed, while 5/40 were unsure. Of the remaining 5/40, 3/40 disagreed and 2/40 strongly agreed that accountability of financial statements is affected. In total 30/40(75%) of the respondents agreed, while 10/40(25% disagreed on the effect of expectation gap on accountability.

On the issue of the effect of expectation gap on transparency, 21/40(52.5%) strongly agreed, 9/40(22.5%) disagreed, while 5/40(12.5%) were unsure. 4/40(10%) disagreed and 1/40(2.5%), strongly disagreed that expectation gap has some effects on transparent financial reporting. A total of 30/40(75%) of the respondents agreed while 10/40(25%) were in disagreement.

16/40(40%) of the respondents strongly agreed that expectation gap affects financial credibility, 10/40(25%) agreed and 7/40(17.5%) were unsure. 6/40(15%) of these respondents disagreed and 1/40(2.5%) strongly disagreed that financial credibility is affected by the expectation gap. In total, 26/40(65%) agreed, while (14/40)35% were in disagreement.

Expectation gap affects compliance to standards. A total of 20/40(50%) of the respondents strongly agreed that expectation gap affects the compliance to standards. 6/40 (15%) agreed while 4/40(10%) were not sure and 5/40(15%) disagreed. The final 5/40(15%), strongly disagreed, A combined 26/40(65%) were therefore in agreement while 14/40(35%) of the respondents disagreed.

The results from the interviews shows that, the major effect of expectation gap of financial reporting is accountability. The respondents noted that, were the users have a differing view with the work of the auditor, accountability of the financial statements is lost. Secondly, the effect has a greater bearing on the credibility of financial statements, because if the users lose faith in the work of the auditor, then credibility is also lost. Transparency and compliance to standards ranked lower than the first two in terms of effects of expectation gap. It can be concluded that expectation gap has some effects on financial credibility, financial accountability, compliance to standards and transparency in the public sector.

#### 4.7 Question 7: There are risk assessment policies within the organization

The intention is to get an understanding of whether there are risk assessment processes and procedures within the respondents' organisation, such that the appropriate action can be taken to establish these if they are not in place.

Table 4.5 Availability of risk assessment policies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	15.6	17.5	17.5
	Unsure	10	22.2	25.0	42.5
	Agree	9	20.0	22.5	65.0
	Strongly agree	14	31.1	35.0	100.0
	Total	40	88.9	100.0	
Missing	System	5	11.1		
Total		45	100.0		

Source: Primary data

14/40 (35%) of the respondents strongly agreed that there were risk assessment policies within their organizations. 9/40(22.5%) agreed, while 10/40(25% were unsure whether there were risk assessment frameworks and policies within their organizations. 7/40(17.5%) disagreed while 0/40(0%) strongly disagreed.23/40(57.5%) of the responses agreed ,while the remaining 17/40(42.5%) disagreed that there were risk assessment frameworks within their organizations

The results from the Interviews shows that organizations have risk assessment frameworks which are disseminated to all the employees, but a few employees do not understand them, because of their daily nature of their activities.

It can be concluded that risk assessment frameworks are available in organizations.

#### 4.8 Question 8: Challenges faced in reducing the expectation gap using risk based Internal Auditing

In carrying out risk based internal auditing, there are some challenges which the respondents notes. The intention of the question on challenges is to establish whether the respondents are aware and/or have met such challenges within their organisations

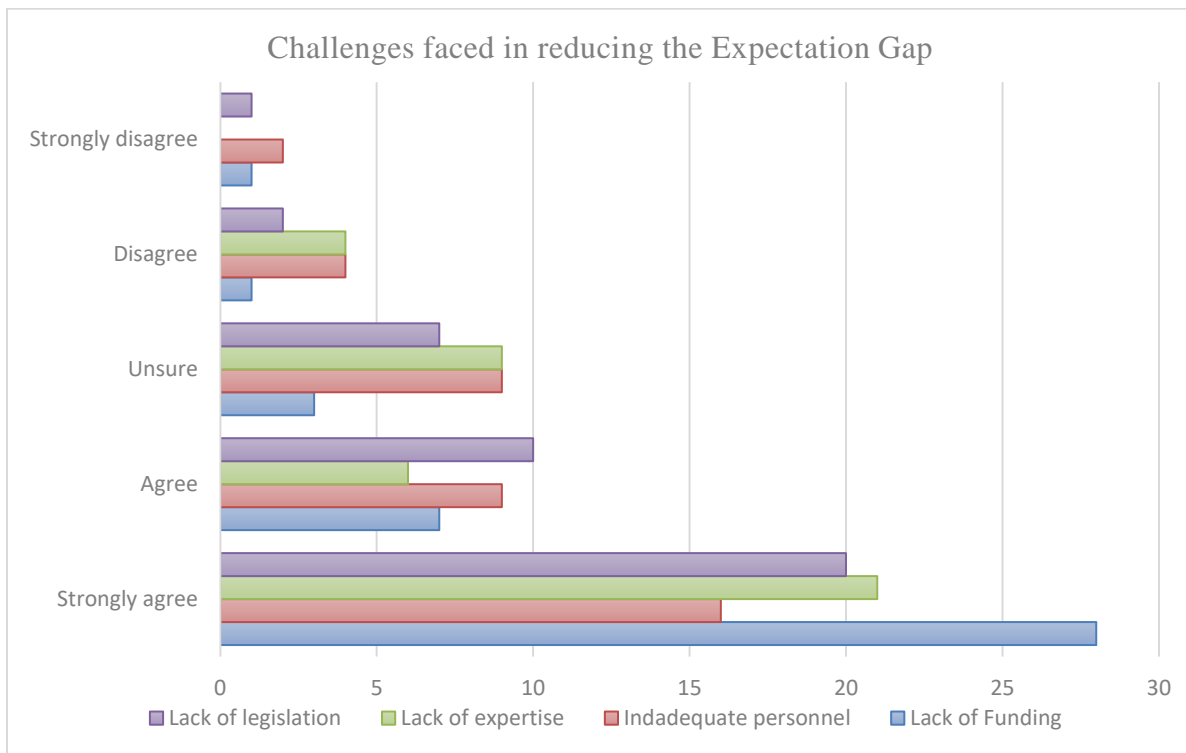


Figure 4.3: Challenges to reducing the expectation gap

Source: Primary data

On the challenges to reducing the expectation gap, 28/40(70%) of the respondents, strongly agreed funding is a challenge. 7/40(17.5%) agreed, while 3/40 were unsure.1/40(2.5%) disagreed and 1/40(2.5%) strongly disagreed that lack of funding is a challenge of addressing the expectation gap. In total 35/40(87.5%) of the respondents agreed, while 5/40(12.5% disagreed on lack of funding as a challenge to addressing the expectation gap.

On the issue of inadequate personnel as a challenge to addressing the expectation gap, 16/40(40%) strongly agreed, 9/40(22.5%) disagreed, while 9/40(22.5%) were unsure. 4/40(10%) disagreed and 2/40(5%), strongly disagreed that inadequate personnel is a challenge in addressing the expectation gap. A total of 25/40(62.5%) of the respondents agreed while 15/40(37.5%) were in disagreement.

21/40(52.5%) of the respondents strongly agreed that lack of expertise in the public sector is a challenge in addressing the expectation gap, 6/40(15%) agreed and 9/40(22.5%) were unsure. 4/40(10%) of these respondents disagreed and 0/40(0%) strongly disagreed that lack of expertise in the public sector is a challenge to addressing the expectation gap. In total, 27/40(67.5%) agreed, while 13/40(32.5%) were in disagreement.

20/40(50%) of the respondents strongly agreed that lack of supportive legislation is a challenge in addressing the expectation gap, 10/40(25%) agreed and 7/40(17.5%) were unsure. 2/40(5%) of these respondents disagreed and 1/40(2.5%) strongly disagreed that lack of supportive legislation is a challenge to address in the expectation gap. In total, 30/40(75%) agreed, while 10/40(25%) were in disagreement.

The results from the interviews shows that, lack of supportive legislation, lack of expertise in the public sector, inadequate funding and inadequate personnel are the major challenges in addressing the expectation. The respondents noted that, a supportive legislation is not in place, the role clarity and definition of the work of the auditor is hamstrung.

It can be concluded that the four factors are the challenges to addressing the expectation gap in the public sector.



#### 4.9 Question 9: The following are solutions to reducing the expectation gap?

By asking this question, the intention was to establish whether, the researcher’s solutions are also the thinking of the respondents and that they are appropriate for the reduction of the expectation gap within the public sector.

Table 4.6: Solutions to reducing the expectation gap

		Legislative reforms	Institutional Reforms	Capacity Development	Funding
Valid	Strongly Disagree	0	2	0	2
	Disagree	0	3	1	3
	Unsure	7	7	12	7
	Agree	16	13	8	10
	Strongly agree	17	15	19	18
	Total	<b>40</b>	<b>40</b>	<b>40</b>	<b>40</b>
Missing	System	5	5	5	5
Total		<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>

Source: Primary data

17/40(42.5%) of the respondents strongly agreed that legislative is a solution to addressing the expectation gap challenges, 16/40(40%) agreed and 7/40(17.5%) were unsure. 0/40(0%) of these respondents disagreed and 0/40(0%) strongly disagreed that legislative is a solution to address in the expectation gap challenges. In total, 33/40(82.5%) agreed, while 7/40(17.5%) were in disagreement.

On Institutional reforms as a solution to addressing the expectation gap, 15/40(37.5%) strongly agreed, 13/40(32.5%) agreed and 7/40(17.5%) were unsure. 3/40(7.5%) of these respondents disagreed, while 2/40(5%) strongly disagreed that institutional reforms is a solution to address in the expectation gap challenges. In total, 28/40(82.5%) agreed, while 12/40(17.5%) were in disagreement.

On capacity development as a solution to addressing the expectation gap, 19/40(47.5%) strongly agreed, 8/40(20%) agreed and 12/40(30%) were unsure. 1/40(2.5%) of these respondents disagreed, while 0/40(0%) strongly disagreed that capacity development is a solution to address in the expectation gap challenges. In total, 27/40(67.5%) agreed, while 13/40(32.5%) were in disagreement.

18/40(45%) of the respondents strongly agreed that funding is a solution to addressing the expectation gap challenges, 10/40(25%) agreed and 7/40(17.5%) were unsure. 3/40(7.5%) of these respondents disagreed and 2/40(5%) strongly disagreed that funding is a solution to address in the expectation gap challenges. In total, 28/40(70%) agreed, while 12/40(30%) were in disagreement.

The results from the interviews noted that the legislative reforms especially in the auditing field is a key solution to addressing the expectation gap. They further noted that the institutional reforms, especially in the reporting structure and the creation of independence on the part of the audit function is also a fundamental solution to addressing the expectation gap. These two reforms however requires substantial financial and human capital support, therefore funding is required and capacity development to meet the expectations of the users of the financial statements.

In conclusion, funding, institutional reforms, legislative reforms and capacity development are key in addressing the expectation gap.

#### **4.10 Summary**

Data was analyzed for the various sections from demographical and audit expectation factors, the challenges. The solutions to the challenges of addressing the expectation gap were also explored

in this chapter. The next chapter looks at the conclusions, findings and recommendations for policy making.

## **CHAPTER 5**

### **MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter focuses on the summary and conclusions drawn from the research findings. Recommendations were reached from the conclusions with the intention finding the effects of risk based internal auditing on solving the expectation gap within the public sector.

#### **5.1 Chapter Summaries**

The intention of the research was to establish the effects of the using the Risk based Auditing technique in solving the audit expectation gap in the public sector with focus on the Ministry of Foreign Affairs. The chapter summaries are highlighted below.

Chapter one looked at the background of the study in which the challenges of the audit expectation gap were explored, in which various auditing approaches have been used to reduce the gap, between the users of the financial statements and the auditors, either the internal or the external. It was observed that there are some errors, mistakes and fraudulent activities which arises in the public sector, for which the internal audit function fails to detect and correct. These errors, fraudulent activities are then noted or picked by the external auditors, raising suspicion within the users of the financial statements that, the auditors fails to carry their mandates professionally. The main research question was whether the use of the risk based internal auditing can reduced the expectation gap in the public sector with particular focus on the Ministry of Foreign Affairs. Under discussion in this chapter was the statement of the problem, research objectives, and significance of the study, delimitations of the study, limitations, definition of terms and the summary.

Chapter two was a review of literature on the subject of expectation gap, risk based auditing and the effects of expectation gap on the financial statements. Further literature was reviewed on the challenges of using the risk based internal auditing approach on the expectation gap. These includes the lack of funding, the lack of appropriate legislation and the inadequacy in personnel in dealing with the risk based auditing within the public sector. Solutions such as the improvement of the auditor independence, legislative and institutional reforms were suggested for the reduction of the audit expectation gap.

Chapter three reviewed the research methodology to be used. Stratified sampling technique was used. Research instruments used to gather primary data from were questionnaires and interviews, their validity and reliability are also discussed.

Chapter four presented data collected, its analysis and the interpretation of data to give information. Data was presented as raw and yielded percentages in its presentation. Data was presented in form of tables and figures and further analyzed and the mode was used to reach conclusions. Conclusions and recommendations were based on the on information found in this chapter.

## **5.2 Major findings**

The research findings disclosed that;

- The main cause is the erroneous expectation of the users of the financial statements and the expectation that the auditors' role is to detect errors and fraud, within the financial statement.
- Risk based auditing, is scarcely used in the public sector hence the rise of the expectation gap.

- The major challenges faced in using risk based auditing as a tool to addressing the expectation gap is the lack of a supportive legislation to support the Audit Office Act and Public Accountant and Auditors Board (PAAB) Act in Zimbabwe.
- Lack of expertise in terms of the broader risk based auditing is also a challenge in addressing the audit expectation gap.

### **5.3 Conclusion**

The research study has explored the effects of using risk based internal auditing in reducing the audit expectations gap. A number of findings have been noted and the following were the recommendations suggested by analysing the findings of the research. Information gathered from previous scholars, primary data and secondary data were of immense help to the success of this research study.

### **5.4 Recommendations**

The following measures were recommended,

- A supportive legislation should be adopted and implemented to reduce the erroneous expectations of the users. This legislation should be used as a supporting tool to the existing Audit Office Act.
- Government should carry capacity building initiatives for the auditors in the public sector in order to keep abreast with technological and structural development of the field.
- Institutional reforms should be spearheaded for the transformation of the internal audit function within ministries. The creation of the internal audit committees, the adherence to audit charters and the scrapping of dual reporting structures will help in this regard.

- The audit independence should be enhanced in the public sector in order for internal auditors to freely carry out their mandate without influence and interference from the top management.

### **5.5 Further Research Areas**

The areas of further research will be to explore the effects of the internal audit function's dual reporting structure in the public sector.

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**APPENDIX I**  
**Cover Letter**

Midlands State University  
Bag 9055  
Gweru  
Telephone +263 54 227 411

September 2015

The Human Resources Director  
Ministry of Foreign Affairs  
HARARE  
Dear Sir

**RE: AUTHORITY TO CONDUCT RESEARCH WITH YOUR ORGANISATION**

I am a final year student at Midlands State University, pursuing a Bachelor of Commerce Accounting Honors Degree. As part of the prerequisite of the programme, I am supposed to carry out a research project which is in partial fulfillment of the degree.

My research topic is entitled **“The effect of risk based internal auditing on the expectation gap: The case of Ministry of Foreign Affairs”**

I hereby apply for authority to carry out this study in your organization. Information gathered shall be used for academic purposes and will be treated with utmost confidence. For further clarity you may contact the University using the above numbers.

Your assistance will be greatly appreciated.

Yours faithfully,

Auxilia Muswaka (R13471B)

Approved / Not approved  
For Secretary for Foreign Affairs

DATE STAMP

## APPENDIX II

### QUESTIONNAIRE COVER LETTER

Midlands State University  
Bag 9055  
Gweru  
Telephone +263 54 227 411

October 2015

#### **RE: Request to collect data through questionnaire**

I am a final year student at Midlands State University, pursuing a Bachelor of Commerce Accounting Honors Degree. As part of the prerequisite of the programme, I am supposed to carry out a research project which is in partial fulfillment of the degree.

My research topic is entitled “**The effect of risk based internal auditing on the expectation gap: The case of Ministry of Foreign Affairs**”

I hereby request the sparing of a moment of your valuable time to respond to the questions in the questionnaire provided. May you please kindly assist by providing relevant information to this research study. There are no correct or wrong answers, it is only your factual response that matters. Information gathered shall be used for academic purposes and will be treated with utmost confidence. For further clarity you may contact the University using the above numbers.

Your cooperation will be greatly appreciated,

Yours faithfully

Auxilia Muswaka (R13471B)

### APPENDIX III

## GENERAL INFORMATION: QUESTIONNAIRE TO RESPONDENTS

### Instructions

1. Do not write your name on the questionnaire
2. May you please attempt all the questions
3. Please tick (✓) in the box of your preferred answer and or a narrative answer in the space provided below each question.

### SECTION A: Demographics and general information

1. Gender: Male  Female

2. Age: Below 25 Years  25 to 30 Years

31 to 40 Years  Above 40 Years

3. Position in your organization

Top Management  Middle Management  Finance and Administration  Other

4. Level of education

Post Graduate  Graduate

Tertiary  Secondary

Others (ACCA, CIMA, etc.)

### SECTION B: Factors giving rise to Audit Expectation Gap

**Question:** The following factors give rise to the audit expectation gap?

**Key:** Strongly Agree (SA); Agree (A); Unsure (U); Disagree (D); Strongly Disagree (SD)

Category	[ SA]	[ A]	[ U]	[ D]	[SD]
1. User expectation of Fraud detection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Audit Independence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Users' Erroneous expectation	[ ]	[ ]	[ ]	[ ]	[ ]
4. The Nature of the Audit process	[ ]	[ ]	[ ]	[ ]	[ ]
5. The Going Concern Analysis	[ ]	[ ]	[ ]	[ ]	[ ]

**SECTION C: Effects of expectation gap on financial reporting.**

**Question:** The following are the effects of the expectation gap on financial reporting?

**Key:** Strongly Agree (SA); Agree (A); Unsure (U); Disagree (D); Strongly Disagree (SD)

Category	[ SA]	[ A]	[ U]	[ D]	[SD]
1. Lack of Accountability	[ ]	[ ]	[ ]	[ ]	[ ]
2. Lack of Transparency	[ ]	[ ]	[ ]	[ ]	[ ]
3. Inadequate Financial credibility	[ ]	[ ]	[ ]	[ ]	[ ]
4. Failure to Comply to standards	[ ]	[ ]	[ ]	[ ]	[ ]

**SECTION D: Availability of risk assessment policies within the organization.**

**Question:** There are risk assessment policies within the organization?

**Key:** Strongly Agree (SA); Agree (A); Unsure (U); Disagree (D); Strongly Disagree (SD)

Category	[ SA]	[ A]	[ U]	[ D]	[SD]
1. There are risk assessment policies	[ ]	[ ]	[ ]	[ ]	[ ]

**SECTION E: Challenges to reducing the expectation gap.**

**Question:** The following are the Challenges faced in reducing the Expectation gap using risk management tools?

**Key:** Strongly Agree (**SA**); Agree (**A**); Unsure (**U**); Disagree (**D**); Strongly Disagree (**SD**)

Category	[ SA]	[ A]	[ U]	[ D]	[SD]
1. Lack of Funding	[ ]	[ ]	[ ]	[ ]	[ ]
2. Inadequate personnel	[ ]	[ ]	[ ]	[ ]	[ ]
3. Lack of expertise in public sector	[ ]	[ ]	[ ]	[ ]	[ ]
4. Lack of appropriate legislation	[ ]	[ ]	[ ]	[ ]	[ ]

### **SECTION F: Solutions to reducing the expectation gap auditing.**

**Question:** The following are the solutions to the challenges cited above?

**Key:** Strongly Agree (**SA**); Agree (**A**); Unsure (**U**); Disagree (**D**); Strongly Disagree (**SD**)

Category	[ SA]	[ A]	[ U]	[ D]	[SD]
1. Legislative reforms	[ ]	[ ]	[ ]	[ ]	[ ]
2. Institutional reforms	[ ]	[ ]	[ ]	[ ]	[ ]
3. Capacity building	[ ]	[ ]	[ ]	[ ]	[ ]
4. Funding	[ ]	[ ]	[ ]	[ ]	[ ]



## APPENDEIX IV

### RESPONDENT'S INTERVIEW GUIDE

#### Dear Respondent

I am a final year student at Midlands State University, pursuing a Bachelor of Commerce Accounting Honors Degree. As part of the prerequisite of the programme am supposed to carry out a research project which is in partial fulfillment of the degree. My research topic is entitled **“The effect of risk based internal auditing on the expectation gap: The case of Ministry of Foreign Affairs”**.

I hereby request the sparing of a moment of your valuable time to respond to the questions in the interview guide provided. Information gathered shall be used for academic purposes and will be treated with utmost confidentiality.

- 1) What factors gives rise to the expectation gap at Ministry of Foreign Affairs?
- 2) Of these factors which one do you think ranks highest and why do you think so?
- 3) What are the effects of the expectation gap on financial reporting?
- 4) How will the financial reporting framework be aligned to the user expectations?
- 5) Can risk based internal auditing address the expectation gap at Ministry of Foreign Affairs?
- 6) How internal risk based auditing affect the control environment within your organization?
- 7) What Challenges are faced in addressing the expectation gap using the risk based auditing model?
- 8) How can these challenges be addressed in the public sector?
- 9) Any other comment to say regarding risk based?

*Thank you for your responses given to me*

Auxilia Muswaka (R13471B)