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An investigation into management's reluctance in implementing audit recommendations and its effects to risk. A case study of National Railways of Zimbabwe.

By

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Submitted in partial fulfilment of the requirements of Bachelor of Commerce Accounting Honours Degree

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Dedication

I would like to dedicate the dissertation to the Almighty God for thus far you have taken me and my parents Mr and Mrs Chinamasa for the motivation, encouragement and support. Words cannot bring justice to my gratitude to you.

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Abstract

The purpose of this study was to identify the causes of non-implementation of audit recommendations, with the aim of coming up with strategies and best practices for the effective implementation of audit recommendation. The study was inspired by the current position of NRZ's inadequacy to fund projects, remunerate employees and accumulation of losses.

Literature reviewed showed that the organization face high levels of risk which posed as a result of non-implementation of audit recommendations. NRZ management has not been giving due attention to audit recommendations and this has negatively affected the operations in the organisation and has been accumulating a net liability position to date. It is therefore imperative to identify challenges faced by management in implementing audit recommendations.

The research study used a descriptive qualitative case study approach .The research population was drawn from the management and employees of a local based company. A judgemental sampling technique with a sample size of 25 respondents was used. Closed ended questionnaires and interviews were the instruments used to collect data. Tables, graphs and charts were used in presenting and analysing the data collected.The research findings showed that non-implementation of audit recommendations exposed the organisation to risks such as credit risk, fraud risk, and reputational risk. The research recommended that NRZ should adhere to the requirements of ISA 2402 – Audit recommendation and follow up since this standard helps to ensure audit recommendations are implemented before the organization can face high risk levels.

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CHAPTER ONE

INTRODUCTION TO THE STUDY

1.1 Introduction

Audit recommendations vary in scope and complexity, as a consequence the implementation task may require coordination across a range of program delivery and support functions within an entity, Australian National Audit Office (2015) The risks involved and the time taken to implement recommendations within entities vary. If implementation is not progressed promptly, and individual risks remain untreated, the full value of the audit would not be achieved. Pollitt (2013) postulates that on average audit recommendations should take about twelve months for complete recommendations. Zwaan (2009) Internal Audit assists management by assessing exposure to risk and recommending, where appropriate, practical improvements to the control environment as well as ensuring that management has understood and assumed the risk of not taking action. Aikins (2012) This also includes reviewing timeliness and effectiveness of the implementation and its recommendations. However it is management's responsibility to ensure that proper consideration is given to Internal Audit reports. Aikins (2012) argues that when the auditor is committed to the need for action on a recommendation, he/she will do what needs to be done to get it implemented. Without that commitment, a recommendation may not achieve the desired action

1.2 Background of the study

Non implementation of audit recommendations has led to increases in risks of inadequate financing, theft, fraud, cash flow problems and decrease in profitability. Aikins (2012) National

Railways of Zimbabwe is in a net current liability position of US\$ 131 131 446. The National Railways also incurred a net loss of US\$ 31 607 218 in 2014 and US\$ 49 103 769 in 2013 contributing to a cumulative loss of US\$ 235 544 295. This cumulative loss and net current liability position, along with other matters as set forth indicate the existence of a material uncertainty that may cast significant doubt over the National Railways' ability to continue as a going concern. Auditor General Report (2014)

Year	2011	2012	2013	2014
Total number of observations highlighted in audit reports	13	14	18	10
Total number of audit recommendations issued	13	14	18	12
Total number of audit recommendations implemented	0	0	4	2
Implementation Rate	0%	0%	22%	16.6%

Table 1.1 Audit observations and implementation rate of audit recommendations

Source: National Railways of Zimbabwe 2014 Annual Report

The table below shows a sample of internal and external audit recommendations for the years 2011 to 2014 and the risks associated with non-implementation. In 2012 National Railways of Zimbabwe recommended to develop a Business Contuity Plan since it had no back-up facilities for all IT information. The organization's information was stored at each work station without any back up. In the absence of back up facility information may be easily lost should there be a disaster. However the organization failed to implement the recommendation due to financial constraints.

In 2013 National Railways of Zimbabwe was recommended that rental agreements be put in place and rental fees agreed on the current functional currency. NRZ has a total rentals book of \$9 991 874 which constitutes 91% debtors outstanding for more than 90 days. The risk was that debts may not be recoverable resulting in liquidity challenges and NRZ may face financial losses as the organization may not be able to claim amounts in USD currency. However the organization failed to implement the recommendation due to inadequate trained staff and proper segregation of duties.

These study findings revealed that National Railways Zimbabwe (NRZ), which is a Government institution, was not managing risk more effectively as evidenced by the recurrence of same audit observations and the non-implementation of audit recommendations within the agreed time frames. Internal and external audit reports (2011-2014)

1.3 Statement of the problem

National Railways of Zimbabwe is not giving adequate attention to audit recommendations and observations which are issued year after year. Management is doing little to rectify problems which are raised in audit reports as evidenced by the continuous recurrence of the same audit observations and recommendations from year to year. The organization continues to operate inefficiently by not applying the cost benefit analysis concept as per audit recommendations guidelines. Deterioration of service delivery especially the provision of transport services to the civil servants is another issue of concern. Recurrence of misappropriation of public funds from the pensions administration unit and violations of statutory provisions are significant issues at National Railways of Zimbabwe, this is despite the fact that auditors have on many occasions recommended to rectify all the above deficiencies .All these are testimonies which point towards the serious public funds accountability challenges at National Railways of Zimbabwe.

1.3 Main Research Question

What are the effects of management reluctance to implement audit implementations and the risks involved?

1.4 Research Objectives

- To establish the causes of the non-implementation of audit recommendations at organizations.
- To determine whether auditors' recommendations are feasible
- To identify the major management risks being experienced at organizations,
- To determine the responsibilities of the Audit Committee towards the risk management processes and the implementation of audit recommendations.
- To determine the best practices for management's implementation of audit recommendations.

1.5 Sub search question

- Why does it take too long for organizations to implement audit recommendations?
- Are auditors' recommendations feasible?
- To what extent have organizations been affected as a result of noncompliance with audit recommendations?

- Are audit committees responsible for enterprise risk management and implementation of audit recommendations?
- What are the best practices for managements' implementation of audit recommendations?

1.7 Significance of the Study

National Railways Zimbabwe as government run body, has a bureaucratic chain of command system on which the researcher noticed loopholes on misappropriation of funds even in the day to day activities. This was as a result of an ineffective internal control system with poor segregation of duties and collusion. Procurement of assets would be processed without the required signatories in their absence due to increased pressures and uncertainties like sickness and personal life. Other than solutions laid out by many researchers, this research is aimed at unveiling the possible solutions on reducing the non-implementation of audit recommendations in organizations. This research is intended to benefit the public sector mainly and will unveil the risks associated with non-implementation of audit recommendations. This study will help management to formulate strategies of ensuring that audit recommendations are dealt with effectively and also to find economical ways of implementing and addressing audit issues. The customers of railway services will also benefit from the study by being aware of the consequences of dishonesty acts and also the public sector intermediaries. This research is of importance to Treasury to come up with a sound strategies of supervising and monitoring the implementation of audit recommendations in State Institutions.

1.8 Delimitation of the study

- Focus:** The research focused on all the public sector institutions in Zimbabwe but mainly centered on National Railways of Zimbabwe Head Office and its branches.
- Time:** The research will be covering a period of four years commencing 2011 up to 2014.
- People:** The research will be centered on National Railways of Zimbabwe workers in Finance department, Procurement department, Audit department and the management staff.
- Geography:** The research is limited to all public sector institutions in Zimbabwe

1.9 Assumptions

Below are assumptions used to carry out the research?

- The responses taken from senior management will be reliable and will represent the views of the company and the sector in which they operate
- Secondary data relevant to the research will be accessed
- Findings in the sample can be generalized for the whole study area
- Most respondents will cooperate and reply to the questionnaire addressed

1.10 Limitations

There was unavailability of statistics on the risks directly associated with non-implementation of audit recommendations from the local industry on both internet and the Zimbabwe Public Accountants and Auditors Board. The researcher lacks the sufficient theoretical research material

in the library on audit recommendations especially with regards to Zimbabwe. Most of the text books lack clear defined matter on reasons why management shunned implementing audit recommendations.

The researcher also faced difficulties in obtaining certain company information, which was considered to be confidential. Assurance was given to the organization that the information would not be misused and revealed the essence of the research. Some personnel might be unwilling to provide with information being needed especially return on equity and return on asset exact figures. The researcher also was limited to National Railways of Zimbabwe sources only which led her to focus only on accounting information systems used by the company and was limited to software's used in finance department only.

1.11 Definitions of terms

The researcher defined all terms to make it easier for the reader to understand the sense conveyed within the context of the research.

- Audit recommendations – suggestions or proposals as to the best course of action by auditors.
- Misappropriation of funds - the intentional, illegal use of the property or funds of another person for one's own use or other unauthorized purpose.
- Financial Performance - Any of many different mathematical measures to evaluate how well a company is using its resources to make a profit.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter looks at what other authors and researchers say about the causes of non-implementation of audit recommendations and the risks involved in the non-implementation of the audit recommendations in parastatals. The Literature review involves the documentation of a comprehensive review of published and unpublished work from secondary sources of data of specific interest to the researcher. In this chapter the researcher examines and discusses what different authorities say on the methodologies adopted in determining whether management and staff appreciate the significance and roles of the audit function in parastatals as well as determining the responsibility of management towards risk management process and the implementation of audit recommendations.

2.1.0 Causes of non-implementation of audit recommendation in parastatals.

Audit recommendations identify risks to the successful delivery of outcomes consistent with policy and legislative requirements, and highlight actions aimed at addressing those risks, and opportunities for improving entity administration. Aikins (2012) .Entities are responsible for the implementation of audit recommendations to which they have agreed, and the timely implementation of recommendations allows entities to realize the full benefit of audit activity.

2.1.1 Financial constraints

This is the friction which prevents a firm from funding desired investments as a result of credit constraints, inability to borrow, inability to issue equity, dependence on bank loans and illiquidity of assets. Australian National Audit Office (2015) Financial constraints frequently cause delays in implementing audit recommendations, especially where new investments are required. For example in the case of World Health Organization in Juba, compliance with United Nations Minimum Operating Security Standards was initially delayed by insufficient funding. World Health Organization (2012.) Lack of funding can hamper the recruitment of additional personnel to ensure an adequate segregation of duties in the finance area. Cull (2015)should organizations come across financial constraints in implementing audit recommendations, Adeyami etal (2012) states that the audit committee should be able to resolve issues and problems faced by the company and provide a way forward for the entity. However Theriault (2015) argues that recommendations which involve violations of laws and policies must be implemented even if the cost of implementation is very high and the organization have scarce resources. Chiang (2010) agrees with this statement stating non-compliance with audit recommendations for environmental matters like occupational health and safety environment, emissions, waste disposals because of financial constraints becomes a punishable offense. Therefore Australian National Audit Office (2015) states that the management holds the ultimate

responsibility on the implementation or non-implementation of the audit recommendations and prioritization of the recommendations despite the constraints factors. However Zinyama (2012) has also commented stating that legal framework gaps in the current Audit Office Act and the Public Finance Management Act does not give the Auditor General sufficient power and authority to monitor the implementation of auditor recommendations.

AG Report (2012) states that National Railways of Zimbabwe has not been able to remit employee pension fund contributions to NSSA as well as inability to comply with statutory obligations to ZIMRA due to financial constraints. This results in financial loss due to interest and penalties charged by ZIMRA. However the AG Report (2012) also states that NRZ should comply to all statutory obligations when they fall due. Therefore this research seeks to establish strategies that can be employed for the implementation of audit recommendations that are not affected by financial constraints for example effectiveness in the debt collection.

2.1.2 Staffing Issues

The Australian National Audit Office (2015) defines staffing issues as the non-availability of staff with the appropriate expertise and delays in recruitment present challenges that need to be met in order to ensure an efficient response to audit recommendations. World Health Organization (2010) gives an example of a case of the audit report on the WHO Country Office, Teheran, a period of managerial vacuum existed until the new WHO representative was appointed which resulted in a delay in mounting a comprehensive response to the audit. Nash (2013) Staffing changes due to organizational restructuring slow down efforts to resolve audit recommendations. Bell (2010) It becomes challenging for a unit to comply fully with the recommendations of the audit which would have been issued at a time when the unit was operating in a different setting and with a different structure. However International Monetary

Fund (2010) argues that public sectors do not have the capacity to attract and retain qualified staff if it does not have career prospects it can offer to staff. Ziberman (2013) agrees that the public sector salary scale do not compete well to the private sector as well as insufficient career perspective, training opportunities and no systematic mentoring programs in parastatals. www.web.worldbank.org accessed on 31 March 2016 states that public sectors have inadequately supported advertising for vacancies, inadequate interview processes and high post vacancies filled with unqualified personnel as a result of nepotism. However Yamamoto (2014) states that some countries face difficulties in attracting, motivating and retaining high quality employees due to political, economic and environmental instabilities leading to the drainage of brainpower. Herald (2016) agrees that National Railways of Zimbabwe is facing qualified staff stagnancy due to its delays to pay remuneration to employees. This study seeks to determine the relationship between staff competency and implementation of audit recommendations.

2.1.3 Complex Issues

Australian National Audit Office (2015) defines complex issues as matters which require extensive consultations and negotiations as well as approvals involving a wide range of stakeholders. World Health Organisation (2010) gives an example staff health insurance fund in World Health Organization. Although measures were initiated shortly after the audit report, it took 2 years for the new government structure to be designed. Aikins (2012) states that some audit implementations require new policies to be established for them to be compatible. This can be a time consuming process for consultations in the implementation of audit recommendations. Some audit recommendations can be delayed due to linkages with other initiatives. However Ernst and Young Audit Committee Bulletin (2013) argues that it is the Audit Committee's

effectiveness that breaks down the complex components for management since the committee is comprised of people with deep finance, analytical, accounting statutory expertise. Knechel (2015) agrees that it is the Audit Committees responsibility to review with the external auditor whether the recommendation is feasible and how the auditee can implement the recommendation within a certain timeframe. www.accaglobal.com states that governments are conservative in nature and do not want to or rather do not have the capacity to implement change dynamically.

The AG Reports (2012) states that National Railways of Zimbabwe has complex systems and it has taken approximately 4 years for its machinery to be fiscalized so that compliance with ZIMRA is achieved. This research aims to enquire whether a time limit control should be established so that organizations do not make the implementation process longer than necessary.

2.2.0 Are auditors' recommendations practical?

Audit recommendations

Audit findings are written explanations of errors, weaknesses, deficiencies, adverse conditions, need for improvements or changes that are disclosed in an audit. Chandler (2014) It is a constructively critical commentary on actions or inactions, which in the auditors' judgement hinder the accomplishment of desired objectives in an effective and efficient manner. Aikins (2012) Audit findings are usually followed by recommendations for specific actions to correct the cited deficiency. Australian National Audit Office (2015) states that auditors are supposed review how programs are being carried out and how activities are managed. This affords excellent opportunities to make recommendations to management that improves their ongoing programs, conserve resources, provide better customer service and ultimately provide the taxpayers expect. However Australian National Audit Office (2015) argues that auditors can provide poor quality recommendations which are nonspecific, unconvincing, imprecise, negative

in tone and content, non-feasible and insignificant with no response to underlying causes of the problems. Aikins (2012) states that recommendations should be action oriented, convincing, well supported and effective. When appropriately implemented they should get the desired beneficial results.

2.2.1 Imprecise audit recommendations.

The Australian National Audit Office (2015) defines imprecise audit recommendations as recommendations which are not clearly labelled, hidden and obscured by text that is they are not readily identifiable nor do they stand out in the report. Aikins (2012) states that these recommendations make use of vague and soft language such as, “consideration should be given to,” therefore it does not suggest significance or conviction that action is required. Habib et al (2013) argue that it is the independence of an auditor that gives rise to uncompromisingly honest and direct recommendations hence mandatory audit firm and partner rotation to achieve audit quality. Narayan (2015) highlights that independence of auditors is of paramount importance to stakeholders relying on the audit report. Al-Nimer (2015) agrees that the scheme of compulsory rotation prevents auditors from becoming too aligned with managers, impacting on their independence. Narayan (2015) When auditors are not independent it becomes difficult for them to be objective in their professional judgments. However Hamilton (2012) notes that audit firm rotation would be an ineffective way to increase audit quality since it reduces chances of the audit firm gaining experience of the audit client organization due to the complexity of modern businesses, necessary knowledge built up by the firm would be lost too soon. ACCA Global (2011) states that only the lead partner would have to change reasonably regularly to help prevent threats to auditor independence. As a result of controversies surrounding imprecise

recommendations, this research seeks to establish whether imprecise recommendations lead to non-implementation of audit recommendations.

2.2.2 Unconvincing and non-specific audit recommendations.

These are recommendations which do not state specifically the action to be undertaken for example, “technicians to receive further training.” Aikins (2012) These recommendations are not well supported by facts or they do not flow logically from the facts. McNellis (2011) states that audit recommendations do not convey how to develop a system, but they should be specific about the system that needs improvement and the objectives that should be achieved by the change. McNellis (2011) Where audit recommendations are not convincing it is only natural that management will not implement the recommendations. Magrane (2010) states that recognizing actions that have been completed or are underway to correct an identified problem adds balance to report and makes it more convincing. However Svanstrom (2016) argues that it is the lack of effective training in the form of workshops and seminars for auditors to understand that audits especially internal audits are systems audits not people audits that lead to poor quality audit recommendations. Gaoliang (2015) agrees that effective auditor training is one of the single greatest value added opportunities companies have with regard to their management systems and help to hone auditor skills in developing detailed audit recommendations. Auditors are kept up to date with the latest in the field and challenged by others under seminars which improve auditor’s motivation. However Ernst and Young (2013) states that the training usually is generic and may not relate well to a specific industry or company especially in internal audit trainings therefore training programs should be tailored to a specific organization. This research seeks to establish the basis for non-specific audit recommendations as well as determining whether it is the

auditors or managements ineffectiveness that lead to non-compliance with audit recommendations.

2.2.3 Negative in tone and content audit recommendations.

Korje (2016) states that poor quality recommendations are negative in tone, content and less likely to get action. Aikins (2012) agrees that these recommendations do not identify a course of action that will correct an acknowledged problem or cause significant improvements that the auditors work as policemen and treat the auditee as the criminal, when results are bad then they would have had worked effectively. Aikins (2012) states that this just results in management shirking the responsibility of implementing audit recommendations because of the approach used. Poor quality recommendations do not recognize or counter systematic problems for example audit work may disclose that an organization's policy is being evaded with demonstrated adverse effects. Australian National Audit Office (2015) Nonetheless if the policy includes requirements that cannot be reasonably met, a recommendation to comply with it will not be effective. Unless the audit findings identifies the underlying cause, the recommended fix will be inappropriate or ineffective. Aikins (2012) states that recommendations such as, "needs to do better" or "needs to be studied further" are not convincing nor are they easily implementable. They signal that the auditor was still not sure of the cause and therefore weasel worded the recommendation. Jordana (2015) This makes it difficult for management to try and implement recommendations for example the case of Pentagon, Defense Department; it has only met a fraction of audit recommendations which could be negatively impacting its efforts to get its financial books in order. However Svanstrom (2016) argues that it is the high levels of time pressure faced by auditors which result in their dysfunctional audit behavior resulting in audit

quality risk. Seidel et al (2015) agrees that limited resources and limited time allocated to perform necessary audit tasks has increased in audit firms and is far higher than optimal. Svanstrom (2015) states that the time pressured auditor would have to prioritize time saving actions and therefore minimize audit steps and procedures which result in poor quality recommendations which do not counter systematic problems. This research will make an inquiry into whether auditors who have gone under training or workshops have actually improved their audit approach to the audit client and audit quality.

2.2.4 Non feasible recommendations.

Aikins (2012) states that poor quality recommendations are not feasible that is they do not take into account legal and practical constraints that would make their implementation possible or likely. Armitage (2011) states that non feasible recommendations are not considerate of the realistic limitations that organizations face such as financial constraints. The audited firm may be constrained by a range of other factors including managerial time, attention and talent. Australian National Audit Office (2015) The audited firm will not be inclined to implement a recommendation unless it is reasonable, proper and will benefit the organization. However Svanstrom (2015) argues that audit quality is associated with the hire of auditors with higher industry experience for work experience basically generates knowledge that is specific to the situation resulting in feasible recommendations. Hamilton (2012) also states that experience also develop through the tenure the audit firm had with the client in terms of years. Adegware (2014) agrees that the repeated work by an auditor over a long period of time would improve the quality of audit. Frequency of audit work leads the auditor to amass client specific experience that is knowledge of the clients business, systems and risks. That experience is necessary for auditors to

present audit recommendations which are feasible to the audit client. However Suyono (2012) states that more client specific experience can result to long auditor tenure which may bias an auditor's judgment and ultimately lead to lower audit quality. As a result of controversies surrounding non-feasible recommendations, this research seeks to establish how auditors can go about constraints faced by an organization like talent and financial constraints to make their recommendations feasible.

2.2.5 Non commitment to results.

A commitment to results is perhaps the most important but least tangible requirement for ensuring that the benefits of audit work are realized. Australian National Audit Office (2015) Getting action on the recommendations depends on such commitment that is, on the individual and organizational mindset, emphasis and priority given to recommendations. Aikins (2012) Both the auditor and the auditee should be active participants in the implementation of audit recommendations but when both entities are not committed audit recommendations remain non-implemented. Korje (2016) Auditors are not committed to results when they do not believe in their recommendations or the need for change, promote action, understand the organizational environment more so cooperate and help the auditee in implementing the recommendations. Aikins (2012) A committed auditor will do what he or she needs to do to make sure that action required for implementation of recommendation is undertaken. However Canadian Public Accountability Board (2010) argues that it is the Audit Firm's responsibility to be committed in enhancing audit engagement supervision and review that is having senior personnel mentoring staff by completing real time engagement file reviews. Daugherty (2012) agrees that the Audit firm should be committed in providing an environment that fosters and reinforces auditors'

commitment to results. Therefore if the Audit firm is not committed to results then its audit staff will follow suit. This research will make an inquiry into whether audit firms are committed to audit quality and the extent they have gone to establish that quality.

2.2.6 Auditors nonbelief in their recommendations and need for change.

Aikins (2012) states that when auditors are not convinced that their recommendations are of the highest quality and if acted upon will bring about the desired improvements, they are unlikely to devote the extra effort needed to get the recommendations implemented. However implementing recommendations may take considerable time maybe even three or more years for some key recommendations. Aikins (2012) When auditors are not determined in the tracking of the implementation status, reasserting the need for action or reevaluating ways to get recommendations done then the whole recommendation process becomes irrelevant. Armittage (2011)

2.2.7 Auditors not promoting action.

This is whereby auditors do not use effective communication channels like face to face approaches in a clear, concise and organized manner to determine how findings and recommendations can best be presented to promote acceptance. Korje (2016) This could mean unwillingness to use imagination and initiative to get beneficial results. Getting results should be central focus of an audit job and should be considered in assignment design; data collection, data analysis as well as recommendation follow up. Aikins (2012). However International Professional Practices Framework argues that audit staff are motivated by having their work recognized therefore relating awards and bonuses to individual and team efforts that produced

significant results helps demonstrate what the organization values the most. Rubin (2011) agrees that appraisal systems and the way they operate in practice should cause auditors to believe that their contributions to getting action on the audit results are a significant factor in appraisals, awards, promotions and other salary decisions. ACCA (2013) states that personnel appraisals should highlight proactive, innovative and creative approaches to be used to get action on recommendations. This research aims to determine whether it is recognition or financial benefits or both that motivate auditors to do better.

2.2.8 Aggressive monitoring and follow up.

Recommendation monitoring is an ongoing responsibility and the status of open recommendations should be determined on a regularly scheduled basis. Aikins (2012) Monitoring and follow up systems can be sophisticated or rather simple depending on a number of factors including size and complexity of the audit client organization. Chartered Institute of Internal Auditors (2015) An effective monitoring and follow up system make it possible to determine improvements made as a result of audit work or whether the improvements achieved the desired results. Zahran (2010) states that follow up systems in place for implementing audit recommendations vary in terms of refinement and effectiveness since only a few organizations have implemented on line systems. Ernst and Young Bulletin (2008) The frequency of follow ups on implementations varies from quarterly to annually and follow up audits are not always regularly conducted. However Daugherty (2012) argues that it is the Audit firm's responsibility to be clear that audit follow up is a significant and valued activity and audit staff should not be made to believe that follow up time must be borrowed from other activities considered more significant. Canadian Public Accountability Board (2010) agrees that the Audit firm should

recognize and provide the time required for recommendation follow up which should be a continuing responsibility for staff that did the audit work. This research will conduct an enquiry whether auditors are facing time pressure such that they do not have much time for audit recommendation follow up and their respective firm policy regarding audits follow ups.

2.2.9 Auditors do not take additional steps to get recommendations implemented.

This is whereby auditors do not fully assess options and strategies that helps to get effective implementation when progress is determined to be inadequate. Aikins (2012) When status monitoring identifies dormant recommendations, follow ups should determine why action is not being taken. The environment could have changed such that the problem no longer exists or that the recommendation is no longer relevant or feasible. Armittage (2011) However Chartered Institute of Internal Auditors (2015) argues that it remains the primary responsibility for top management to implement audit recommendations on a timely basis in as much as auditors may help track the implementation of actions.

However in a nutshell, although auditors are responsible for the follow up and monitoring that organizations implement audit recommendations, it is the Agency managers' responsibility to resolve and implement recommendations promptly and effectively and to ensure that proper consideration is given to internal audit reports. Australian National Audit Office (2015)

2.3.0 To identify major management risks faced by parastatals.

Risk implies future uncertainty about deviation from expected earnings or expected outcome. Risk measures the uncertainty that an investor is willing to take to realize a gain from an

investment. Examples include liquidity risk, credit risk, reputational risk, business risk, default risk and fraud risk. Various risks originate due to the uncertainty arising out of various factors that influence an investment or a situation. Scandizzo (2011)

2.3.1 Reputational risk

Reputation is an expectation of behavior and consumers have expectations when they buy products or services. Sheehan (2010), Reputation risk is the threat to meeting expectations that in turn precipitates a crisis. It is created when expectations are poorly managed and exceed capabilities, or when a company fails to execute. Kraatsetal (2015) states that reputation is conceptualized as a valuable intangible asset and in itself is very hard to measure. Reputation can be created and controlled as soon as its nature is fully understood. Lemke (2013.) It ranges from positive to negative extremes and needs to be managed. Reputation is cumulative that is it is formed over time based on what the organization has done and how it has behaved. Lodhi (2015) states that in Pakistan corruption and misappropriation of funds at government level is continuously destroying parastatals reputation, public trust in the government as well as economic welfare. Inefficiencies in railway transportation in the form of slow services poor maintenance of rail cars and accidents have led to the buildup of poor reputation of rail transportation for example in the case of Canada railways. Daily Bankruptcy Review (2014) More than 250 rail accidents had been unreported and when these issues arise as a result of an audit, the general public loses faith in the service. Cape Times (2012) state that the Passenger Rail Agency of South Africa which owns Metrorail failed to meet International Standards in most respects. This also derails the reputation of such entities. Lemke (2013) affirms that reputational risk can occur through a number of ways that is directly as a result of the actions of

the company itself, indirectly due to the actions of an employee or through other peripheral parties such as suppliers. On the other hand good reputations are not built in a day. SNL Insurance M & A (2013) states that good reputations take time and constant vigilance to maintain. A company can only build trust by matching its words to its actions and responding in a reliable manner to the needs of its stakeholders for honesty, transparency, fairness and social responsibility. Scandizzo (2011) states that senior management, customers and employees are the stakeholders with the greatest influence on corporate reputation and integrity and benefits of strong relationships with these groups are better employee retention and performance, boosting sales and shareholder confidence. Lemke (2015.) However it is indirect stakeholders like Trade Unions, competitors, media and consumer groups that draw the most attention to reputational issues for example in the case of BP Shell oil incident. Kaiser (2015) concludes that knowing that reputation is important to a company's success is only the first step to maximizing value one can gain from managing it properly.

National Railways of Zimbabwe has a reputation of remunerating its employees 5-6 months in arrears. Herald (2016) This results in a stagnant pool of human resources as skilled staff would opt to work in better organizations where salaries are paid on time. Bad reputations have a negative impact on businesses.

2.3.2 Risk of fraud from employees

CPA Australia (2011) defines fraud as behavior that is deceptive, dishonest, corrupt or unethical. For fraud to exist there needs to be an offender, a victim and an absence of controls or safeguards. Mohamed (2014) states that fraud is generally described in three categories which are asset misappropriation, fraudulent accounting and financial reporting as well as corruption.

Fraudulent activity is motivated by one or more of the factors that are pressures, opportunity and rationalization.

2.2.3 Asset misappropriation.

Etheridge (2012) defines asset misappropriation as the intentional, illegal use of property or funds of another person for one's own use or other unauthorized purpose, particularly by a public official, a trustee of a trust or by any person with a responsibility to care for and protect another's assets, in short a fiduciary duty. Examples include theft of plant, inventory or cash, falsifying invoices, accounts receivable fraud and payroll fraud. An example is a case of Pakistan Railways, Right vision news (2015), which points out that massive financial irregularities, embezzlement and misappropriation of funds in the accounts of Pakistan Railways have been pointed out by the audit in the audit report for the year 2013-2014. Right vision news (2015) states that audit reports reflects a sum of R27.64 million which was embezzled by the commercial and civil staff through fake receipts which were sold , and the money was pocketed. Imtiaz (2014) Asset misappropriation has left Pakistan Railways with huge budget deficits running in billions of rupees leading to a deteriorating condition in operational, financial perspective and a question mark on its sustainability. Ball (2013) states that the Association of Certified Fraud Examiners estimated that organizations lose approximately 5% of their revenue to occupational fraud and abuse. The Association of Certified Fraud Examiners (2015) also indicated that organisations that have managers and employees attend regular training on fraud are less likely to be victims of fraud and suffer fewer losses than organisations which do not provide fraud training. However Youssef (2010) argues that the greater the effectiveness of the Audit Committee and the higher the percentage of independent members, then the lower the

incidence of misappropriation of assets, case study of USA, Australia and New Zealand. Asset misappropriation cases are more common than fraudulent reporting, accounting for nearly 80% of reported fraud, making it a significant problem for many organisations. Caliyurt (2012) cited in ACFE (2015) estimated that fraud costs US organisations more than \$600 billion annually.

In the AG Report (2012) there was a case of cash fraud where passenger tickets issued whose operator numbers did not exist on the list of management allocated operator numbers. In the (2013) AG Report, there were negative fuel quantities amounting to \$1 554 781 which was never recovered. This shows the degree to which assets are misappropriated at NRZ. This study therefore seeks to determine the relationship between non-compliance with audit recommendations and the risks possibly faced by an organization.

2.3.4 Fraudulent accounting and reporting

Strischek (2010) highlighted that this is the intentional preparation of misleading financial statements and can result from distorted records, falsified transactions and misused accounting principles to deceive others by misrepresenting events, transactions for personal or organisational gain. The most major financial statement frauds have involved senior management who are in a unique position to perpetrate fraud by overriding controls and acting in collusion with other employees. Centre for Audit Quality (2010) An entity is motivated to commit fraudulent financial reporting due to political connection factors for example The Pakistan officials who caused millions of rupees losses to the national exchequer account pursuing their personal interests. Right vision news (2016) Firms with political connections have more tendencies to misreport and overstate earnings since they may need to suppress firm specific information to hide expropriation activities by politicians and their cronies. A Centre for Audit Quality (2010)

Politically connected firms might care less about the quality of the information they disclose and are more likely to engage in fraudulent financial reporting because the benefit of committing fraud is higher than the expected cost and penalty that follows upon detection. Mardiana (2015) also states that managerial ownership can motivate companies to involve in fraudulent financial reporting especially when it is family of foreign owned. Fraudulent reporting is caused by corporate governance failure to stop corrupted management and associated destruction of company value for example the WorldCom case. Persons (2012) New York Railroad Retirement Board has been involved in a \$1 billion scam whereby former Long Island Rail Road employees lied about being disabled retired in six figure pensions after claiming they were in too much pain along with their orthopaedists and 2 former union officials. Bennett.(2011) However Striscek (2010) questions the practicality of the Audit Committee whether they even assess the risk of fraudulent financial reporting, whether they have a sceptical view of management and also if they use internal audit as its eyes and ears. He continues to affirm that the Audit Committee should accept responsibility of assessing fraud risk and to actively assess the management integrity and the pressures and opportunities to commit fraud. Examples of fraudulent reporting include creation of ghost employees and ghost supplies, faking time sheets and manipulating financial data to receive performance bonuses. NRZ is losing a lot of money as a result of fraud cases as stated by the AG Report (2013) whereby there was negative fuel quantities amounting to \$1 554 781 which was never recovered. This research will investigate on possible measures like training to mitigate the fraud risk.

2.3.5 Corruption

Corruption is defined as a form of dishonesty or unethical conduct by a person entrusted with a position of authority often to acquire personal benefit. Activities may include bribery, favouritism, extortion, abuse of discretion, conflict of interest, nepotism and embezzlement as well as practices that could be legal in other countries. Roelofse (2014) Corruption has been identified as a complex, endemic and multilayered problem that threaten the very existence of Nigeria and various efforts have been made to curb the menace. Tajudeen (2013) The issue of corruption has been considered one of the most fundamental problems common to human society. Khakbaz-Poor (2015) The problem of corruption is not just in third world countries although the statistics are higher in developing countries than in developed countries. Corrupt employees are oftenly protected by government officials and even though Anti-corruption units are successful in their endeavours to root out corruption, it remains unfathomable because of political interference. Roelofse (2014) Police and courts through bribery, followed by government officials involved with wrangling with state contracts are singled out as the most corrupt institutions. The Association of Certified Fraud Examiners have noted that government regulations worldwide have increased criminal penalties that can be levied against companies and individuals who participate in fraud schemes at a corporate level. CIMA Global (2008) estimates the cost of corruption to be \$1.5 trillion each year and only a small percentage of losses from fraud is recovered by organisations. However corruption has been believed to help a country's growth in several ways that is bribes are seen as a way to reduce bureaucratic inefficiencies especially in developing countries. Tajudeen (2013) Despite the controversies listed above, this research is aimed at determining whether corruption has resulted due to noncompliance with audit recommendations and the possible strategies to mitigate the risk.

2.3.6 Obsolescence risk

Obsolescence risk can be regarded as a decline in utility that is not directly related to use, action of elements or passage of time. It is not the result of the wearing out of an object as obsolete items can still be in good working order. Grover (2015.) It is due to the object becoming outdated or declining in usefulness, thereby bringing its life to a premature end. Obsolescence is unpredictable because it occurs as a result of an unforeseen change in demand. It affects profits attributable to shareholders, but not what the business may describe as its underlying profits. Mansfield (2008.) Managing obsolescence is a total business commitment that requires processes that cross over many organizational boundaries. Grover (2015) states that obsolescence is categorized in physical, functional and economic aspects. Physical obsolescence is where the cost of repairing, reconditioning or refurbishing the asset to make it useable exceeds the cost of a modern equivalent. NRZ has faced obsolescence risk whereby its carriages are outdated and no longer functioning effectively. Takundwa (2014).

2.3.7 Liquidity Risk

Xiaopeng (2011) defines liquidity as an asset's ability to be sold without causing a significant movement in the price with a minimum loss of value. The unpredictable change in liquidity is then called liquidity risk. European Central Bank (2009) also defines liquidity risk as the risk that a company may be unable to meet short term financial demands which occurs due to the inability to convert a security or hard asset to cash without a loss of capital or income in the process. Liquidity risk arises from situations in which a party interested in trading an asset cannot do it because nobody in the market wants to trade for that asset. Xiaopeng (2011) It becomes particularly important to parties who are about to hold or currently hold an asset since it affects

their ability to trade. However if one party cannot find another party interested in trading the asset, it becomes a problem for market participants to find each other hence liquidity risk is usually found to be higher in emerging markets or low volume markets. Chikoko (2013) Liquidity risk can also be described as financial risk due to uncertain liquidity. Ukrainine Business Weekly (2013) states that a decrease in rail and freight transportation volumes has imposed further on Ukrainian Railways Operations which has led to its business risk profile assessed as weak and its financial risk profile highly leveraged. Ukraine Business Weekly (2013) states that the weakening sovereign credit quality would constrain Ukrainian issuers access to the financial markets. This increases Ukrainian Railways liquidity risk in light of its sizeable debt amortization of about 5.3 billion in the domestic currency. The weak domestic banking system where Ukraine Railways holds its cash has a high proportion of nonperforming loans which adds to the entity's liquidity risk which makes Ukraine Railways reliant on operating cash flows from the currently ailing transportation markets. An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash flows or some other event causes counterparties to avoid trading or lending to the institution. Venkiteshwaran (2014) Because of liquidity risks tendency to compound other risks, it is impossible to isolate liquidity risk; hence comprehensive metrics of liquidity risk do not exist. NRZ in 2014 was in a net current liability position of \$131 million as stated by the AG Report (2014) which indicated the existence of a material uncertainty that may cast significant doubt over the National Railways' ability to continue as a going concern. This research is aimed at determining whether there is a relationship between the non-compliance of audit recommendations and the risks faced by the organization.

2.3.8 Credit risk

This is the risk of default on a debt that may arise from a borrower failing to make required payments and includes lost principal, interest disruption to cash flows and increased collection costs for example a business does not pay an employee earned wages when due or trade invoices when due. Apostolic (2015) The Chinese Railways, information from Government data have shown that the ministry's debts have exceeded \$313 billion raising its debt ratio to 51.53% in 2011. BBC Monitoring Asia Pacific (2011), to resolve the inability to repay, the Chinese Railways have reduced the cost of tickets to attract more passengers and lowered the train speeds to reduce maintenance costs. European Central Bank (2009) states that liquidity and insolvency are frequently indistinguishable that is an illiquid entity becomes whilst an insolvent entity is illiquid.

2.4.0 To determine the responsibilities of the Audit Committee towards the risk management processes and the implementation of audit recommendations.

The audit committee is a committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, receipt of audit results both internal and external. King Report (2009) The audit committee is responsible for overseeing the financial reporting process, enterprise risk management, system of internal controls and compliance with laws and regulations. www.kpmg.com accessed on 25 March 2015. Lenghel (2014) states that the Audit Committee is composed of only Non-Executive administrators' independent from the executive government and reports to the Management Board every year

regarding activities carried out during the previous year and whenever it considers necessary for the fulfilment of its responsibilities

2.4.1 Audit committees' role to financial reporting

Audit committees play a crucial role in the financial reporting process of firms and have been the focus of corporate governance regulation in the wake of spectacular accounting scandals. Chandini (2012) Audit committee's characteristics such as independence and financial expertise have found that they are positively related to a firm's financial reporting quality. Lenghel (2014) Audit committee members are expected to have a certain level of financial expertise. Buckstein (2012) defines financial expertise as the ability to prepare financial statements. Buckstein (2012) states that it is not something one can learn once appointed to an audit committee but rather it comes from a professional designation and working for years with financial statements. Maine (2013) stated that being a financial expert means understanding the financial statements and GAAP, the ability to assess the application of GAAP in connection with the accounting for estimates, accruals, reserves, experience preparing , auditing, analyzing, evaluating financial statements and an understanding of internal controls. Mustafa (2010) continues to state that the effectiveness of the Audit Committee's financial expertise, that is accounting and non-accounting financial expertise reduces the occurrence of misappropriation of assets. Mustafa (2010) considers the cases of fraud as a result of the failure of the Audit Committee part to mitigate those risks. However Ghazali (2012) considers Audit Committee effectiveness as a significant factor also in ensuring timely submission of audited financial statements. Therefore it is the responsibility of an audit committee to reduce the yielding of misstated financial reports by management.

2.4.2 Audit committee's role in enterprise risk management.

Buckstein (2012) states that in this 21 century, the Audit Committee skills and expertise are being put to wider use to prevent future disasters. Organization boards are now asking the audit committee to place a higher emphasis on risk appetite and tolerance. Alzharani (2015) states that audit committees with non-executive independent members, more members on the audit committee, financially expert audit committee members are more likely to combine the risk management and audit committee activities. Chi (2011) affirms that Audit Committees and senior corporate managers should work together to build a strong tone at the top to combat fraud risks, which includes an accessible whistle blower hotline. Mustafa (2010) concludes stating that fraud risks, liquidity risks are a result of the failure of the audit committee. However Young (2014) argues that some board members are dead set against separate risk committees and point out that risk oversight is a full board responsibility. Young (2014) states that a board level risk committee is critical and in the absence of a board level risk committee, it becomes the responsibility of audit committees to oversight all sorts of risks.

2.4.3 Audit committees as a bridge between external auditors and management.

In many a times auditors have been viewed as watchdogs by the management and this has caused friction between the two parties. Dobroteanu (2011) The audit committee bridges the gap between management and the external auditor especially when misunderstandings arise. Buckstein (2012) This realises the full benefits of the audit, implementation of recommendations.

2.5. Establish the best practices for management's implementation of audit recommendations.

2.5.1 Establishment of an effective Public accounts committee

This is a committee that is responsible for the following up of the implementation of audit recommendations of the Ministries and Government departments and bodies to determine the extent to which they have responded to the Auditor General's recommendations. Makamure (2015) Implementation of PAC recommendations is one measure of the committee's usefulness and effectiveness. Enforcing Section 11 of the Audit Office Act 22:18 can assist in the implementation of recommendations. This provision says if at any time it appears desirable to the Public Accounts Committee that any matter relating to public monies or State property should be reported to the Auditor General, the Committee shall direct the Auditor General to prepare a special report thereon for transmission to the Minister of Finance. Parliament should review the Audit Office Act and Public Finance Management Act to determine if the provisions are adequate to ensure implementation of PAC recommendations and corrective action for Auditor General Findings in accordance with the Public Finance Management Act 22:19. These statutes must be aligned to reflect the letter and spirit of the constitutional provisions on principles of sound public finance management. There must be penalties for non-compliance with financial reporting requirements. The PAC should establish a follow-up schedule, for example 3 or 6 months after the report is tabled.

2.5.2 ISO 2402 – Audit follow up guideline

This is an audit implementation standard developed as a guide to the minimum level of acceptable performance required to meet professional responsibilities. ISACA Code of

Professional Ethics (2014) The follow-up activity performed by professionals is a process by which they determine the adequacy, effectiveness and timeliness of actions taken by management on reported observations and recommendations, including those made by external auditors and others. Aikins (2012) A follow-up process should be established to help provide reasonable assurance that each review conducted by professionals provides optimal benefit to the enterprise by requiring that agreed-on outcomes arising from reviews are implemented in accordance with management undertakings or that management recognizes and acknowledges the risk of delaying or not implementing proposed outcomes and/or recommendations. Korje (2016) The implementation of all the management responses may be followed up on a regular basis that per every 3 months. As a part of the follow-up activities, professionals should evaluate whether unimplemented recommendations are still relevant or have a greater significance. Professionals may decide that the implementation of a particular recommendation is no longer appropriate. This could occur where application systems have changed, where compensating controls have been implemented or where business objectives or priorities have changed in such a way as to effectively remove or significantly reduce the original risk

2.6 Chapter summary.

Audit recommendations are not implemented as a result of financial constraints, staffing issues, complex issues, non-feasible recommendations made by auditors as well as management's ignorance as to how their organizations can be affected as result of non-implementation of audit recommendations. The literatures provide enlightenment to the possible risks that can be incurred by an entity as a result of non-implementations of audit recommendations as well as the audit committee responsibilities.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

In the previous chapter a literature review relevant to this study was undertaken. As stated earlier the objective of this study is to identify the risks associated with noncompliance with audit recommendations and evaluating strategies put in place to mitigate those risks. This chapter sets out the research methodology that will be used in gathering information for the purposes of this study .The chapter looks at the research design, the research population and sampling techniques, research instruments as well as strategies that will be put in place to ensure validity and reliability of data.

3.1 Research Methodology

Research methodology is a systematic way of solving a problem and according to Kumar (2011), it is not concerned about research methods only but also the logic behind the methods to explain why a particular method is used and not the other methods. This chapter will focus on the research methodology used to collect data as well as sampling design and population target to solve the problem and examines various data sources which were used and also the presentation and format of data. Therefore data collected is reliable to support the recommendations that will be made for the project. This chapter therefore provides a description of, and arguments for the design, techniques and methods that will be used in collecting data for this research. Thus it looks at how the gap in the existing body of knowledge identified in the subsequent chapter was bridged.

3.1.1 Research Design

Research design is the overall strategy chosen to integrate the different components of the study in a coherent and logical way thereby ensuring that the research problem is effectively addressed. Kumar (2013). It can also be described as a plan that portrays how, when and where data is to be collected and analysed. Identifying a study's research design is important because it communicates information about key features of the study, which can differ for qualitative, quantitative, and mixed methods. According to Zikmund (2013), it is essential to have a clear picture of the phenomenon on which you want to collect data on prior to the collection of data.

The researcher will use descriptive research methods to get an in-depth understanding on the causes of non-implementation of audit recommendations at National Railways of Zimbabwe.

3.1.2 Descriptive Research Design

Springer (2010) describes descriptive research as a method that describes distinctiveness of organisations, groups, natives, substance or phenomena being studied. According to Jolley (2012) the key to descriptive research is to compute and document variables accurately using a representative sample. Creswell (2012) states that this approach is used to describe variables as well as to test a predicted relationship between variables. According to www.unisa.ac.za a descriptive approach in data collection gives the ability to collect accurate data on and provide a clear picture of the phenomenon under study. Williaman (2009) argues that instead of scrutinizing records or artefacts, descriptive research depends on observation as a means of collecting data, it attempts to examine situation in order to establish the norm, thus what can be predicted to happen again under the same circumstances. The researcher will use descriptive research so as to demonstrate the relationship that exists between the non implementation of audit recommendations and risks faced in the parastatals. Descriptive research design was used because it offered a reasonably comprehensive representation of what is happening at a particular time and in the same breath it permits the improvement of questions for further study.

3.1.3 Mixed research approach

This research will use the mixed approach that is combination of qualitative and quantitative approach which provides a more complete understanding of the research problem as supported by Kumar (2013). The mixed methodology allows researchers to administer questionnaires and

to gather statistical data about responses so as get an insight about the research (Creswell: 2012). Qualitative research will use the experiences, suggestions and observation used by people in the industry using their opinions to bring out data. The researcher will acquire more information in conjunction with information observed as valid to identification of fraudulent activities through the use of quantitative research. Quantitative research qualifies the results of the observation from people responses and reactions as well as meaning of words as defined by Kumar (2013). Interviews will also be used to gather data and get a clear insight about the responses. The numerical results are important as they test hypotheses to draw conclusions from data. This research design will add to expressions used with statistics that will be easy to comprehend. It will also help to enhance generalized results with greater numbers of results given. The researcher adopted the mixed method because it helps to unveil complex aspects from people's experiences and aspects. It also highlights causes behind a phenomenon that cannot be identified; observations can only be described and reported.

3.1.4 Case study research

According to Saunders et al (2012), case study research is an empirical inquiry of a problem within the real life situation and has considerable ability to generate answers to the questions such as why, what and how? Yusuf et al (2015) states that the case study is the most dominant in the government field since they offer a chance to get a snapshot of real life making the most appropriate in dealing with a subject that is context dependant, complex and unusual. According to Woodside (2010) the usefulness of case study research lies in the fact that it encourages research methods that help measure thinking over an ongoing period, for example by multiple

interviews. However Walshe (2011) states that the main problem of a case study research is that it is not sufficiently rigorous hence the possibility of partiality or the inability to generalise from the findings when there is subjectivity, inaccuracy or bias within the case study. The author does not leave the clear audit trail detailing his or her research and explaining the conclusions. The researcher adopted used National Railways of Zimbabwe as a case study to represent public sector operations to identify risks associated with non compliance to audit recommendations and come up with strategies for managing auditor – client relationships.

3.2 Research population

Saunders et.al (2012) defines research population as a set of cases or group members that are under research. The population in this research is made up of management and employees of National Railways of Zimbabwe. The research population will comprise a well-designed group of people with common, binding and similar traits. Castillo (2011). Population refers to the whole of the phenomena that is of interest to the researcher. The targeted population in this research was made up of both male and female Directors, Chief Accountants, Accountants, Internal auditors, External auditors, Accounting Assistants and Accounting Clerks who will be able to understand the effects of non compliance with audit recommendations in order to make valuable conclusions.

Table 3.1 Population

National Railways of Zimbabwe

Employee Grade	Population
Finance Director	1
Other Directors	5

Chief Accountants	2
Accountants	5
Accountants Assistants	8
Chief Internal Auditors	1
Internal Auditors	5
Accounting clerks	8
TOTAL	35

3.2.1 Sample

A sample is a proportion of the whole population which represents the whole population enabling the researcher to foretell distinctiveness upon a target population. Webster (2013). The researcher will use both stratified and judgmental sampling methods explained in depth below.

3.2.2 Stratified sampling

The population is partitioned into homogeneous subgroups which best represents the population being studied and sampling is performed separately within each stratum and is used when the population comprises of different sub-groups which are of interest to the researcher. Saunders et al (2012). The researcher had to use stratified sampling because the method allows the researcher to obtain a sample that best represents the entire population being studied.

3.2.3 Judgmental sampling

Judgmental sampling as defined by Saunders et.al (2012) is a non-probability sampling procedure whereby the researcher chooses the sample based on who they think would be

appropriate for the study that is people that have expertise in the area being researched. Due to the nature of the research study purposive sampling will be used. The technique will allow the researcher to focus on a population that is in a position to give valid and reliable responses to the research questions presented. The researcher used judgmental sampling because it is the only viable sampling technique that obtains information from a specific group of people by using researcher discretion.

Table 3.2 Population and sample size

Targeted population	Population	Sample size	% representation
Finance Director	3	3	100%
Finance Officers	5	3	60%
Chief Accountants	2	2	100%
Accountants	8	8	100%
Accountants Assistants	8	3	37.5%
Chief Internal Auditors	1	1	100%
Internal Auditors	5	3	60%
Managing Directors	3	2	66.6%
TOTAL	35	25	71.4%

The table above has summarized the sample process done in the research. The researcher will be basing on the respondents who are available and valuable to give opinions. The researcher will focus also on respondents who are likely to respond to questions in which the researcher will be asking. For example the use of auditors and managing directors who will be measuring risks faced by an entity as a result of non compliance with audit recommendations. Saunders et al (2012) stated that at least 30% of the population should be represented such that even if some

respondents will not respond, the sample size will still be above 30%. This research targeted 71.4%.

3.3 Data Sources

These are the techniques used to gather data information from the selected population sample Barker (2011). Identifying appropriate data sources to answer research questions is challenging. The data source must be chosen carefully to ensure that it can address the study question, that it has a sufficient number of observations, that key variables are available, that there is adequate confounder control, and that there is a sufficient length of follow up. The researcher used the primary sources in data collection as the research objective.

3.3.1 Primary data

Kothari (2012) defines primary data as data collected expressly for research for the first time for a particular problem being researched. Primary data helps answer questions which cannot be answered by analyzing secondary data. The researcher made use of interviews and questionnaires as the data collection methods. Saunders et al (2012) states that primary data has the advantage of being able to address a specific study question or problem at hand, it is cheap and convenient as there is direct response from the respondent. However it may create false results when people are aware of being observed and data observed will take time to be analysed and evaluate therefore researcher expert and skills will be also required as supported. Creswell (2010).The researcher made use of primary data because it is more current, pertains to the problem being researched and is more reliable since the researcher is actively involved in the data gathering process.

3.4.1 Data Collection Instruments

Research instruments refer to the tools which were used by the researcher to collect data. The tools included the use of interviews, questionnaires and direct observations. According to Kuersteiner (2009). The researcher executed a mixture of primary data such as interviews and questionnaires and prior approval will be required before administering the data collection instruments.

3.4.2 Questionnaire method

Kumar (2011) defines questionnaires as a tool for collecting and recording information about a particular issue of interest with a list of questions printed or written with a choice of answers for the purposes of statistical study. Questionnaires are the most commonly used primary data method for collecting data. A questionnaire is made for the purpose of understanding the experiences, beliefs, perceptions, motives for behavior and feelings of a given group of people. Questionnaires can be administered by mail, telephone or using face-to-face techniques. Saunders et al (2012) states that they are cheap and often have standardized answers which make it simple to compile the data. However the questionnaire method can be biased since there is little control over the person who completes the questionnaire and they are more time consuming than other methods that is the time a respondent takes to complete the questionnaire. The researcher made use of the Likert scale to measure the level of agreement to the asked questions, this also measure the attitude of respondents of the questionnaires.

3.4.3 Likert Scale

Bertram (2014) describes a likert scale as a psychometric response scale primarily used in questionnaires to obtain participant’s preferences or degree of agreement with a statement or set of statements. Likert scales are a non-comparative scaling technique and are one-dimensional in nature. Respondents are asked to indicate their level of agreement with a given statement by way of an ordinal scale. John (2010) The Likert scale also shows the level of the answer how they agree or disagree as shown in a table below and have five variables which are shown below:

Table 3.3 5 Pointer Likert scale

Item	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
Points	5	4	3	2	1

Source: Bertram (2014)

The main advantage of Likert Scale questions is that they use a universal method of collecting data, which means it is easy to understand them. Liu (2015) Furthermore, because Likert Scale questions use a scale, people are not forced to express an either-or opinion, rather allowing them to be neutral should they so choose. Once all responses have been received, it is very easy to analyse them. Last but not least, it is very quick and easy to run this type of survey and it can be sent out through all modes of communication. However results are easily faked where individuals want to present a false impression of their attitudes. The researcher made use of the Likert scale method since they are quick and economical to administer and score.

3.4.4 Interviews

These are verbal interactions between two or more people with the objective of collecting relevant information for the purposes of research. Saunders etal (2012) Interviews are the most commonly used data collection method in qualitative research as they provide an in depth

analysis of the research area. Kolthari (2012) Interviews are particularly useful for getting the story behind the participants' experiences Interviews used by the researcher include personal /depth interviews and also telephone interviews. The researcher chose this method since it is very flexible, questions can be rephrased and the respondent can be probed on any aspect of the survey. The researcher also gets idea and truth through the facial expressions, voice tone and gesture. The interview method is cost effective and data collection is reliable since respondents answers can be cross examined to get accurate information. Barker (2011) The researcher used case interview questions and opinion questions to gather information from management. However the interview method does not give respondents time to respond to questions hence respondents may give answers which are incorrect. Interviews are often interrupted with tight schedules leading to rescheduling of the interview dates. The researcher made use of the semi structured interview approach. Interviews were mainly targeted for senior management staff that was considered to have vast experience in the operation of the organization as well as greater knowledge in the affairs of the company. Saunders etal (2012) Semi structured interviews were used since they provide the opportunity to probe interviewees to explain or build up their responses. The researcher used a sample of 3 interviewees.

3.5 Reliability and validity

Reliability is defined as the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology. Gray (2014) Saunders etal (2012) defines validity as the extent to which the data collection method employed accurately measures that which it purports to measure. To ensure validity of data to be collected, the researcher relies with

academic supervisor's revision of the instrument before it is distributed to the targeted population and takes care in structuring the questions. Peer review of questionnaires and interview questions will be used to ensure that the wording of the questions is simple and understandable and also to ensure that the research objectives are adhered to. The questions which were asked were direct and easy to understand in such a way that all terms were clearly defined so as to have the same meaning to the respondents as postulated by Kumar (2011) Questionnaires will only be distributed to company employees who have a reasonable knowledge of audit recommendations and business risk. Bertram (2012) states that respondents should be made aware of the purpose of the questionnaire so as to deal with untruthful responses and suspicions. Interviews will be carried out first but on the date of issue of the questionnaires, interviewees will be asked to fill in the questionnaires.

3.6 Data analysis and presentation

Data analysis is the application of reasoning to understand the data that may have been gathered. Zikmund (2011) Data presentation is the arrangement of data in the way understood by the user. It may be in the form of graphs, tables, pictures or diagrams Gray (2014). The obtained data is presented using tables, graphs and pie charts with the aid of Microsoft excel for the easy interpretation and analysis of facts showing the responses and suggestions that were quoted verbally and through questionnaires as supported by Oppenheim (2011). Comments for both interviews and questionnaires were given after presentation of collected data on each graph, pie chart and table to analyse qualitative data from closed ended questionnaires. The research also incorporated the measures of central tendency that is the mean, mode and standard deviation for the analysis of data.

3.7 Chapter Summary

The use of questionnaire and interviews gave a basis on which conclusions and recommendations were drawn basing on the research findings. Analysis and interpretations of the findings is performed in the following chapter.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter focuses on the presentation, interpretation and analysis of data relating to managements reluctance to implement audit recommendations and its effects to risk conducted at National Railways of Zimbabwe through questionnaire and interview administration. The data so presented and analyzed will provide a basis for answering the sub-research questions appropriately, and assist the researcher in deriving research conclusions.

4.1 Questionnaire Response Rate

Response rate is the number of valid responses as a percentage of the total respondents who should have answered. The researcher handed over 25 questionnaires to the targeted population. In total only 22 of the 25 questionnaires were responded to since some of the targeted respondents were absent with no eligible persons behind to fill them on their behalf. This gave rise to a response rate of 88% and according to Saunders et al (2012), a response rate of at least 35% is acceptable. The response rate is illustrated in table 4.1 below.

Table 4.1: Questionnaires Respondent Results

Position of the person	Number of people	Questionnaires distributed	Questionnaires returned	Percentage returned
Finance Director	3	3	2	66.60%
Finance Officers	5	3	3	100%
Chief Accountants	2	2	1	50%
Accountants	8	8	8	100%
Accountants Assistants	8	3	3	100%
Chief Internal Auditors	1	1	0	0
Internal Auditors	5	3	3	100%
Managing Directors	3	2	2	100%
TOTAL	35	25	22	88%

Source: Primary data

This can be argued to be a satisfactory response rate as more than three quarters of the target population participated in the field research that is 88% of the targeted respondents. Overallly the response rate became (22/35) 63%.

4.2 Background Information

4.2.1 Qualifications of NRZ Finance and Internal Audit staff.

Academic qualification enhances the reliability of information produced by interviewees as it gives them a background of the specific information required by the interviewer in this research. It is a benchmark that confirms the level of the respondents in comprehending the questions used for the study. Below is a table that shows an analysis of the academic qualifications of NRZ employees.

Table 4.2 Academic qualifications

Academic Qualifications	Responses			Response rate(%age)
	Internal Audit staff	Accounts staff	Directors	
Diploma	1	7	0	36%
Undergraduate degree	1	3	3	32%
Masters	0	0	3	14%
ACCA	1	2	1	18%
Total	3	12	7	100%

Table 4.2 portrays that 8/22 (36%) are holders of Diplomas only, with 7/22 (32%) having an undergraduate degree, 3/22 (14%) with masters and the remaining 4/22 (18%) holders of ACCA. The results show that 22/22 (100%) respondents are competent as they have qualifications in line with their post and are capable of handling job challenges. Alkafaji *et al* (2010) confirms that highly educated personnel were found to be more capable of dealing with job challenges in a more skilled and competent way than the less educated hence reliability of the data collection was based on the qualifications of the respondents.

4.2.2 Professional experience

The respondents were questioned to specify the time they had spent employed by National Railways of Zimbabwe so as to assist the researcher to evaluate their acquired knowledge of operations against their knowledge on non-implementation of audit recommendations. Employees who had been with the organization for long had got a better understanding about the operations of the business and this helped the researcher to get in-depth information about the corporation's dealings and how non implementation of audit recommendations had led to high risk as shown on the table below.

Table 4.3 Professional experience

Time Period	Responses			Response rate(%age)
	Internal staff	Audit	Accounts staff	
1 - 5 years	0	0	0	0
6 - 10 years	1	4	2	32%
11 - 15 years	1	3	5	41%
over 15 years	1	5	0	27%
Total	3	12	7	100%

From table 4.3, it can be noted that 7/22 (32%) of the respondents have less than 6-10 years' worth of experience, whilst 9/22 (41%) have 11-15 years in the organization and finally 6/22 (27%) with over 15 years' experience in the organization. This implies that there is sufficient experience for staff to know exactly how to carry out their duties. Due to their long duration with NRZ, they were able to give valuable and reliable information to the research. Kolthari (2012) states that that the time spent by the employee with the organization plays a vital role when undertaking a research as it guarantees the reliability and validity of the data.

4.3.0 Responsive Question 1: Causes of non-implementation of audit recommendations.

Question 1 of the questionnaire as well as question 1 on the interview guide sought to gather information on the causes of non-implementation of audit recommendations. The findings are presented in Table 4.4 and discussed below.

Table 4.4 Causes of non-implementation of audit recommendations.

Possible solution	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Financial constraints	10	7	5	0	0	22
Staffing Issues	10	9	3	0	0	22
Complex issues	15	5	2	0	0	22

4.3.1 Financial constraints

Table 4.5 Financial constraints

Financial Constraints	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Findings	10	7	5	0	0	22
Frequency	45%	32%	23%	0%	0%	100%

According to the results shown above, 10/22 (45%) of the respondents strongly agreed that financial constraints cause non implementation of audit recommendations along with 7/22 (32%) agreeing and 5/22 (23%) of the respondents were uncertain if financial constraints were an eligible cause for non-implementation of audit recommendations. No respondents disagreed. The total of 17/22 (77%) respondents agreed that financial constraints caused non implementation of audit recommendations. This was supported by Australian National Audit Office (2015) which stated that financial constraints cause delays in implementing audit recommendations especially where new investments are required. The 5/22 (23%) of the respondents who were uncertain were supported by Ernst and Young Bulletin (2013) which stated that it is corrupt management which delays implementation of audit recommendations

and nothing to do with finance. The mode for the above stated data is 10/22 (45%) of the respondents who strongly agree that financial constraints cause non implementation of audit recommendations as supported by Cull (2015)

Therefore financial constraints are a major cause for non-implementation of audit recommendations. The AG Report (2012) states that NRZ had no backup facility for storage of data and the implementation was delayed due to lack of funds.

4.3.2 Staffing Issues

Table 4.6 Staffing issues

Staffing Issues	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Findings	10	9	3	0	0	22
Frequency	45%	41%	14%	0%	0%	100%

10/22 (45%) employees strongly agreed along with 9/22 (41%) employees who agreed that staffing issues lead to non-implementation of audit recommendations. No respondents disagreed. The questionnaires depicted that 19/22 (86%) of the respondents agreed to the above stated opinion. Ziberan (2013) supports the 19/22 (86%) by stating that the public sector find it difficult to retain highly qualified staff due to its unattractive remuneration, insufficient training perspective and no mentoring programs as compared to the private sector. This results in low qualified staff in the public sector that are not fully aware of risks that may befall an organization due to non-implementation of audit recommendations. 3/22 (14%) of the employees were unsure of the causes of non-implementation of audit recommendations. This is because Yamamoto (2014) states that if qualified staff unavailability has become a national crisis not just a public

sector outcry. Therefore if other companies with the same staff crisis are implementing audit recommendations there has to be another relevant cause.

The mode for the data presented above is 10/22(45%) respondents who strongly agree that staffing constraints cause non implementation of audit recommendations as supported by Australian National Audit Office (2015). In relation to NRZ, staffing constraints actually do cause delays in the implementation of audit recommendations organizational restructuring changes.

4.3.3 Complex Issues

Table 4.7 Complex Issues

Complex Issues	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Findings	15	7	0	0	0	22
Frequency	68%	32%	0%	0%	0%	100%

15/22 (68%) of the respondents strongly agreed that complex issues caused non implementation of audit recommendations with their acquired experience with NRZ. 7/22 (32%) agreed with the same notion. Therefore overallly 22/22 (100%) agreed to the above stated fact and were supported by Aikins (2012) who stated that some audit recommendations would require new policies to be established for them to be compatible which becomes time consuming for their overall implementation process. The mode for the findings illustrated above is 15/22 (68%) respondents who strongly agree that complex issues cause non implementation of audit recommendations and were supported by the AG Report (2012) which stated that NRZ has complex systems and it took 4 years for its machinery to be fiscalised to ensure compliance with ZIMRA was achieved.

4.4.0 Question 2 Impractical auditor recommendations.

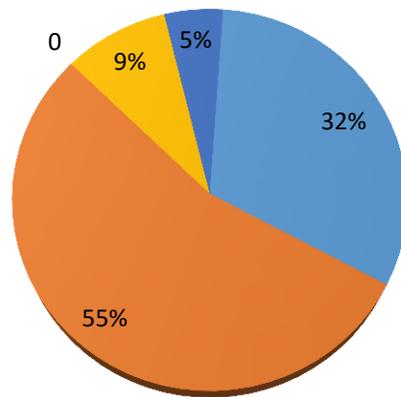
Question 2 of the questionnaire as well as question 2 on the interview guide sought to gather information on whether the auditors caused non implementation of audit recommendations by presenting impractical recommendations. The findings are presented in Table 4.9 and discussed below.

Table 4.9 Impractical audit recommendations

Impractical recommendations	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Imprecise recommendations	7	12	0	2	1	22
Unspecific recommendations	8	11	0	3	0	22
Nonfeasible recommendations	11	8	0	1	2	22
Non commitment to results	10	9	0	3	0	22
No aggressive monitoring, follow up	9	10	0	3	0	22

4.4.1 Figure 4.1 I Imprecise audit recommendations

imprecise audit recommendations

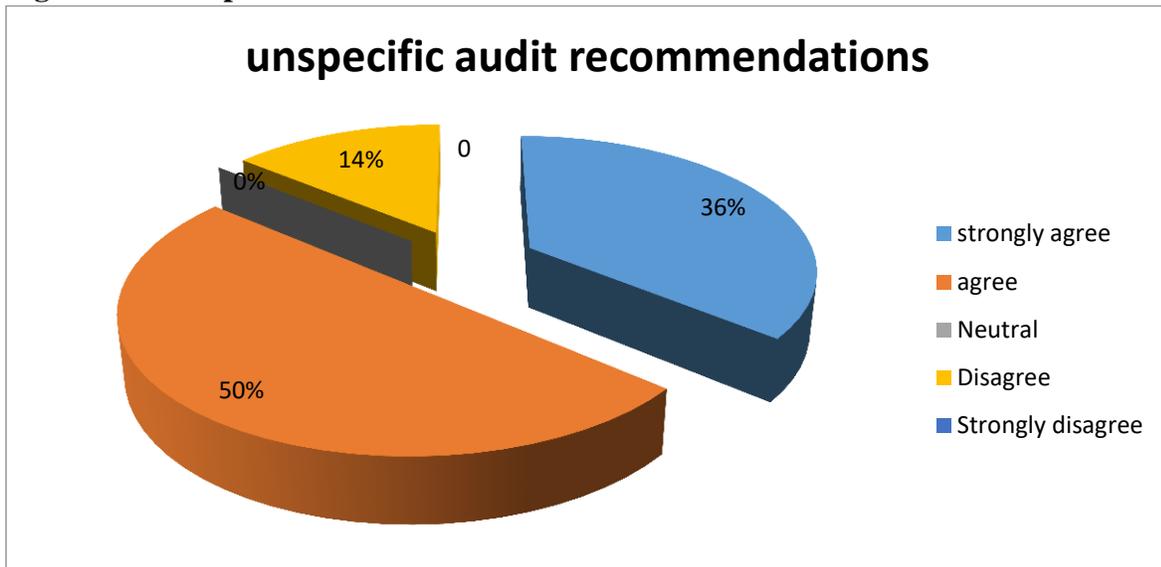


■ strongly agree ■ agree ■ neutral ■ disagree ■ strongly disagree

Research findings show that of 7/22 (32%) employees strongly agree and 12/22 (55%) agree that auditors present imprecise audit recommendations which are not readily identifiable nor clearly labelled. However 2/22 (9%) disagreed whilst 1/22 (5%) strongly disagreed that auditors gave imprecise audit recommendations. The 19/22 (86%) employees who agreed with the fact that auditors are not precise in their recommendations were supported by Habib et al (2013) who stressed that imprecise recommendations were caused by reduced independence on the auditor's part to the extent that they use vague and soft language. A total 3/22 (14%) of the respondents disagreed. Most of these respondents were internal auditors. Svanstrom (2011) stated that auditors were faced with extreme time pressure which then reduced audit quality. The mode for the above findings is 12/22 (55%) respondents who agreed that auditors presented imprecise audit recommendations supported by Aikins (2012).

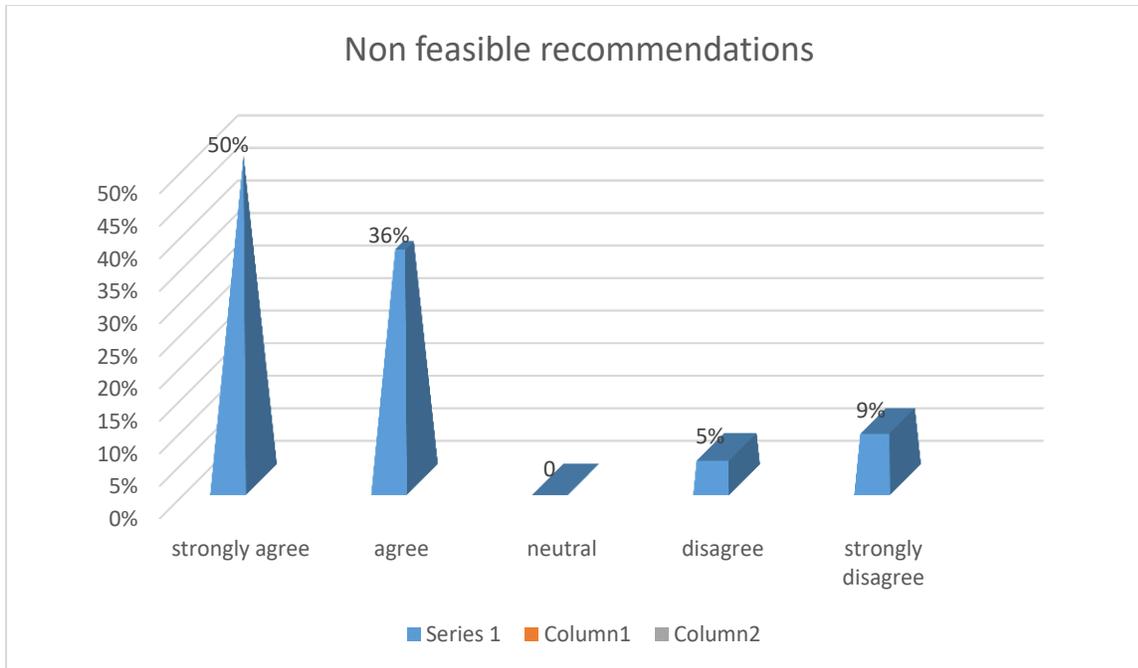
4.4.2 Unconvincing and non-specific audit recommendations.

Figure 4.2 – unspecific audit recommendations



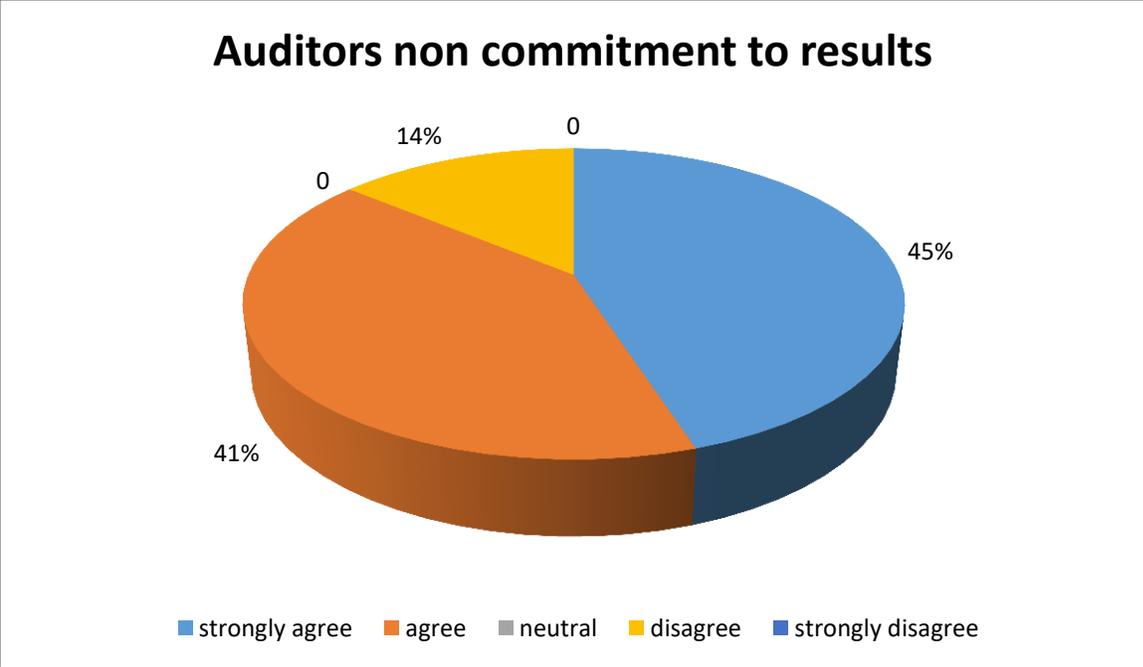
8/22 (36%) strongly agreed that auditors presented unconvincing and non-specific audit recommendations. 11/22 (50%) agreed and the remaining respondents, 3/22 (14%) disagreed with the above stated opinion. Overallly 19/22 (86%) employees agreed that they were not convinced by the auditors recommendations and were supported by Aikins (2012) and McNellis (2011) who highlighted that these recommendations were not supported by facts and they did not flow logically. They stated that where audit recommendations were not convincing, it was only natural that management did not implement. Ernst and Young Bulletin (2013) stated that though auditors may be experienced in the firm, they should receive industry specific training tailored to their particular organisation to achieve quality recommendations. The mode for the above presented data is 11/22 (50%) respondents who agree that recommendations presented by auditors are unconvincing and non-specific as supported by Magrane (2010).

4.4.3 Figure 4.3 Non feasible recommendations.



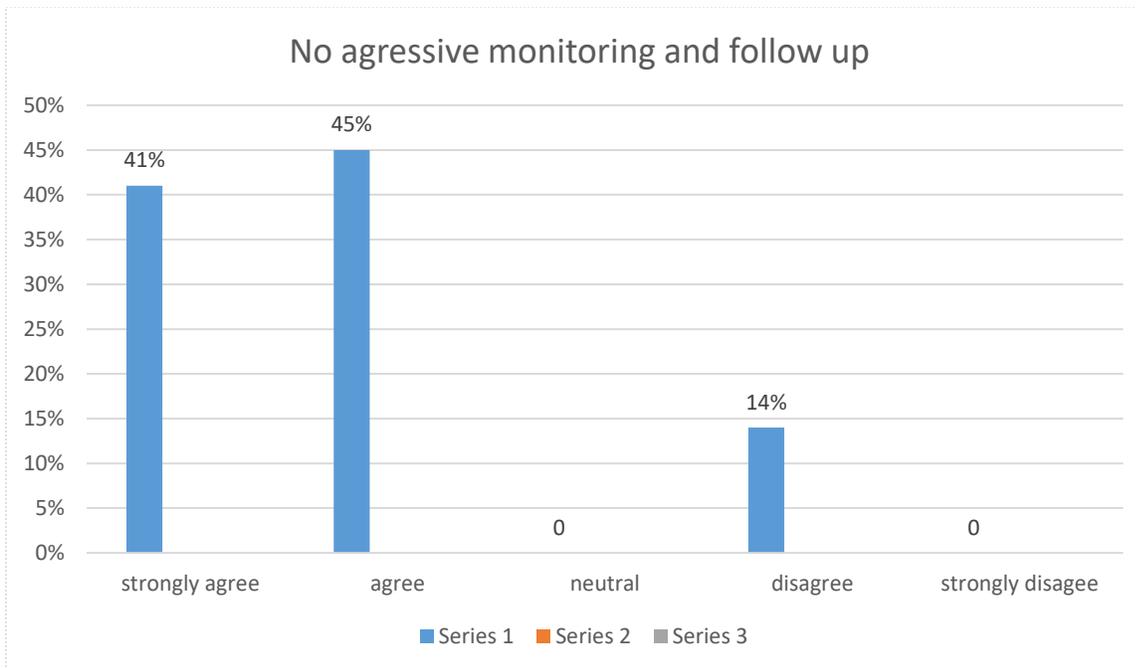
Research findings showed that 11/22 (50%) employees strongly agreed along with 8/22 (36%) also agreeing that auditors’ recommendations were not feasible whilst 1/22 (5%) were disagreeing and 2/22 (9%) strongly disagreeing. 19/22 (86%) of the respondents agreed to the above stated notion and were supported by Armittage (2011) who stated that these recommendations were not considerate of the realistic limitations organizations face. A total of 3/22 (14%) disagreed and were supported by Theriault (2015) who stated that recommendations which involve violations of laws and policies should be implemented even if the cost of implementation is very high. The mode for the illustrated data is 11/22 (50%) who strongly agree that auditors present non feasible recommendations and are supported by Aikins (2012) who agrees that recommendations are not feasible if they do not take into account legal and practical constraints that would make implementation likely.

4.4.4 Figure 4.4 Auditors non-commitment to results



According to the questionnaire results, of 10/22 (45%) respondents strongly agreed and 9/22 (41%) agreed, whilst remaining 3/22 (14%) disagreed with the notion that auditors were not committed to results after they gave recommendations. This gave a total of 19/22 (86%) respondents who agreed and were supported by Korje (2016) who stated that auditors were not committed to their results since they did not believe in their recommendations or the need for change so as to help in the implementation process. The remaining 3/22 (14%) disagreed and were supported by Buckstein (2012) who stated that it is the Audit Committee’s responsibility to bridge the gap between management and the auditor so that recommendations are implemented. The mode for the data illustrated above is 10/22 (45%) respondents who strongly agreed that auditors were not committed to audit recommendations as supported by Korje (2016).

4.4.5 Figure 4.5 No aggressive monitoring and follow up



9/22 (41%) of the respondents strongly agreed along with 10/22 (45%) who agreed and 3/22 (14%) who disagreed that auditors were not aggressively monitoring and following up the implementation of audit recommendations. This made a total of 19/22 (86%) respondents who agreed and were supported by Lewin (2011) who stated that the unavailability of an effective monitoring and follow up system made it impossible to determine whether desired results were achieved. The remaining 3/22 (14%) respondents who disagree to this opinion were supported by Makamure (2015) who stated that it is the duty of the Public Accounts Committee to follow up on the implementation of recommendations. The mode for the data presented above is 10/22 (45%) respondents who agreed that auditors do not aggressively monitor and follow up the implementation of recommendations as supported by United Nations Geneva (2010).

4.5.0 Question 3 Major risks that are faced by parastatal directly or indirectly as a result of non-implementation of audit recommendations.

The researcher had 20/22 (90%) of individuals strongly agreeing that the major risks that befall an organization as a direct result of non-implementation of audit recommendations include reputational risk, fraudulent accounting and reporting, misappropriation of assets and credit risk with the 9/22 (10%) disagreeing by stating that non implementation of audit recommendations indirectly causes risk. This means that most of the risks in organisations as a result of non-implementation of audit recommendation are in the form of reputational risk, fraudulent accounting and reporting, misappropriation of assets and credit risk.

Table 4.9 Risks faced by organizations directly and indirectly as a result of non-implementation of audit recommendations.

Risks faced by organizations	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Reputational risk	9	6	3	4	0	22
Fraudulent accounting and reporting	13	5	0	5	0	22
Misappropriation of assets	10	8	0	4	0	22
Obsolescence risk	7	10	0	5	0	22
Credit risk	3	13	2	4	0	22

4.5.1 Reputational risk

Table 4.10 Reputational risk

Reputational risk	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Findings	9	6	3	4	0	22
Frequency	41%	27%	14%	18%	0%	100%

The findings show that 9/22 (41%) strongly agreed to the fact that reputational risk arises gradually as a result of non-implementation of audit recommendations along with 6/22 (27%) also agreeing to the above opinion. 3/22 (14%) of these respondents were neutral whilst 4/22 (18%) disagreed that reputational risk arises directly as a result of non-implementation of audit recommendations. These respondents give a total of 15/22 (68%) individuals who agreed and were supported by Daily Bankruptcy Review (2014) which stated that inefficiencies in the railway transportation in the form of slow services, poor maintenance of rail infrastructure and accidents have led to the build up of poor reputation in the railway transportation industry. The 4/22 (18%) respondents who disagreed were supported by Lemke (2015) who stated that it is indirect stakeholders like the media, consumer groups and competitors that draw the most attention to reputational issues. The mode of the data presented above is 9/22 (41%) respondents who strongly agree that reputational risk is faced by organisations due to non-implementation of audit recommendations as supported by Lodhi (2015).

4.5.2 Fraudulent accounting and reporting.

Table 4.11 Fraudulent accounting and reporting

Fraudulent accounting and reporting	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Findings	10	5	3	4	0	22
Frequency	45%	23%	14	18%	0%	100%

10/22 (45%) of the respondents strongly agreed fraudulent accounting and reporting is a risk faced by parastatals along with 5/22 (23%) of the respondents. 3/22 (14%) of the respondents were neutral whilst 4/22 (18%) disagreed that fraudulent accounting resulted from non-implementation of audit recommendations. A total of 15/22 (68%) respondents agreed that NRZ is facing fraud risk in the form of accounting and reporting and were supported by Strischek

(2010) who stated that major financial statement fraud have included senior management who are in a unique position to perpetrate fraud by overriding controls and acting in collusion with other employees. The 4/22 (18%) who disagreed were supported by Strischek (2010) who stated that it is the impracticability of the Audit Committee that results in fraudulent risks. The mode for the data above is 10/22 (45%) respondents who strongly agreed that fraudulent accounting and reporting resulted from non-implementation of audit recommendations and were supported by Centre for Audit Quality Bulletin (2010).

4.5.3 Misappropriation of assets

Table 4.13 Misappropriation of assets.

Misappropriation of assets	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Findings	8	12	0	2	0	22
Frequency	36%	55%	0	9%	0%	100%

The research findings showed that 8/22 (36%) of the respondents strongly agreed that misappropriation of assets was a form of fraud risk faced by NRZ as well as 12/22 (55%) respondents who agreed along with 2/22 (9%) respondents who disagreed. A total of 20/22 (91%) respondents agreed with the above stated notion and were supported by Imtiaz (2014) and Right Vision News (2015) which has highlighted massive financial irregularities and misappropriation of funds in the Pakistan Railways accounts. Those who disagreed 2/22 (9%) were supported by Youssef (2010) who argued that the greater the effectiveness of the Audit Committee and the higher the percentage of independent members, then the lower the incidence of misappropriation of assets, case study of USA, Australia and New Zealand The mode for the illustration above is 12/22 (55%) respondents agreeing that asset misappropriation is a major risk

faced by NRZ and are supported by the AG Report (2013). In the (2013). It stated that there was negative fuel quantities amounting to \$1 554 781 which was never recovered. This shows the degree to which assets are misappropriated at NRZ

4.5.4 Obsolescence risk

Table 4.13 Obsolescence risk

Obsolescence risk	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Findings	10	7	1	4	0	22
Frequency	45%	32%	5%	18%	0%	100%

10/22 (45%) of the respondents strongly agreed that obsolescence risk was a major risk faced by NRZ along with 7/22 (32%) respondents who agreed with the above stated opinion. 1/22 (5%) of the respondents were uncertain whilst 4/22 (18%) disagreed with the notion that obsolescence risk resulted directly from non-implementation of audit recommendations This gave a total of 17/22 (77%) respondents agreeing and supported by Grover (2015) who highlighted that physical obsolescence is where the cost of repairing, reconditioning or refurbishing the asset to make it useable exceeds the cost of a modern equivalent. The mode for the data outlined below is 10/22 (45%) respondents who agree that obsolescence risk is a major risk faced by NRZ in the form of assets becoming outdated and declining in usefulness as supported by Takundwa (2014) who stated that NRZ has faced obsolescence risk whereby its carriages are outdated and no longer functioning effectively.

4.5.5 Credit risk

Table 4.14 Credit risk

Credit risk	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Findings	5	13	4	0	0	22
Frequency	23%	59%	18%	0	0%	100%

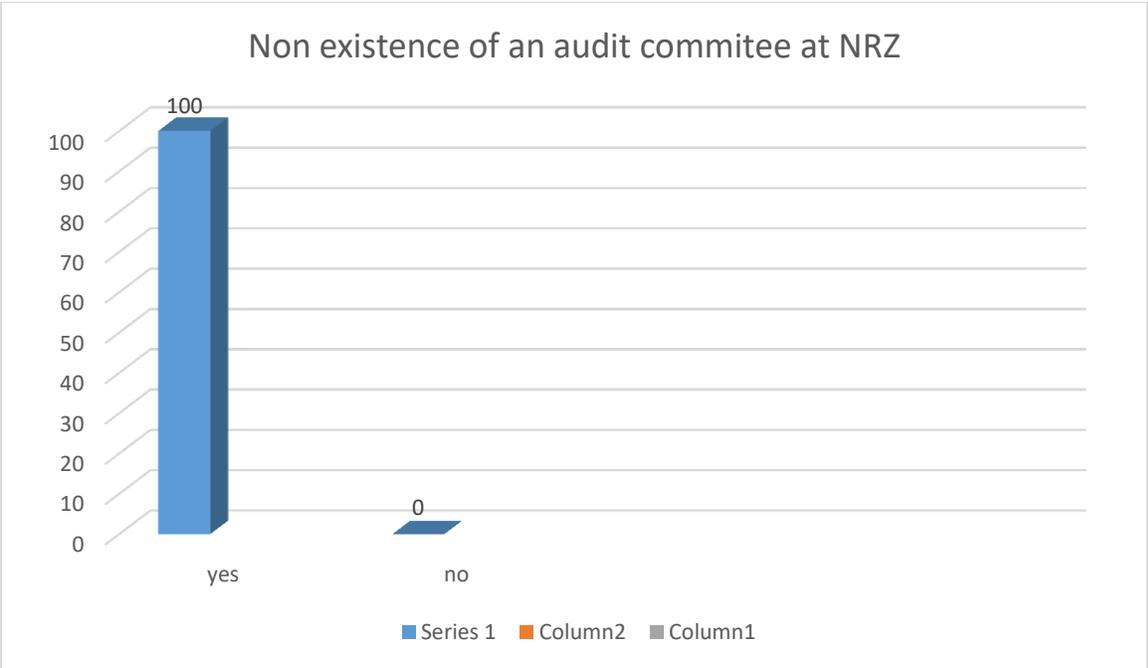
The research findings show that 5/22 (23%) respondents strongly agree that credit risk has been a major risk faced by NRZ along with 13/22 (59%). 4/22 (18%) of the respondents were uncertain about the causes of credit risk. This gave a total of 18/22 (82%) respondents who totally agreed that credit risk is a risk faced by the parastatal as supported by Apostolik (2015) who stated that credit risk occurs when an entity become unable to pay employee earned wages or failures to pay required payments. The mode for the table above is 13/22 (59%) respondents who agreed that credit risk is a major risk faced by the organization. This is supported by the AG Report (2013) which states that NRZ has a cumulative loss of \$203 937 077 which brings the question whether the organization is still a going concern.

4.6.1 Question 4 – Non-existence of an Audit Committee function at NRZ.

The audit committee is a committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, receipt of audit results both internal and external. King Report (2009) The audit committee is responsible for overseeing the financial reporting process, enterprise risk management, system of internal controls and compliance with laws and regulations. However the staff at NRZ confirmed the absence of an Audit Committee function at the organisation as shown on the table below.

22/22 (100%) of the respondents confirmed the non-existence of an audit committee function at NRZ as depicted on the figure below.

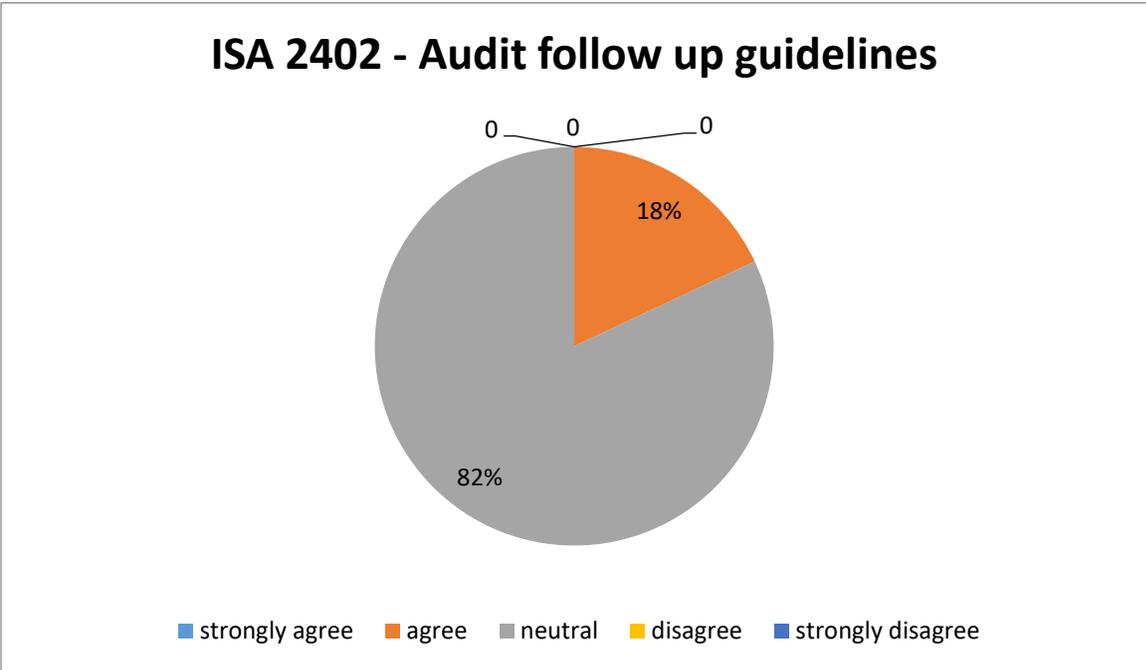
Figure 4.6



From the data above, 7/22 (32%) of the respondents agreed that the audit committee should be involved in the risk management for the organization to prevent future disasters as supported by Buckstein (2012). 15/22 (68%) respondents were uncertain about the audit committees' responsibilities. This was because there was no audit committee function at NRZ and most respondents had never interacted with an audit committee before hence the uncertainty. The mode for the presented data is 15/22 (68%) respondents who are uncertain about the function of the audit committee.

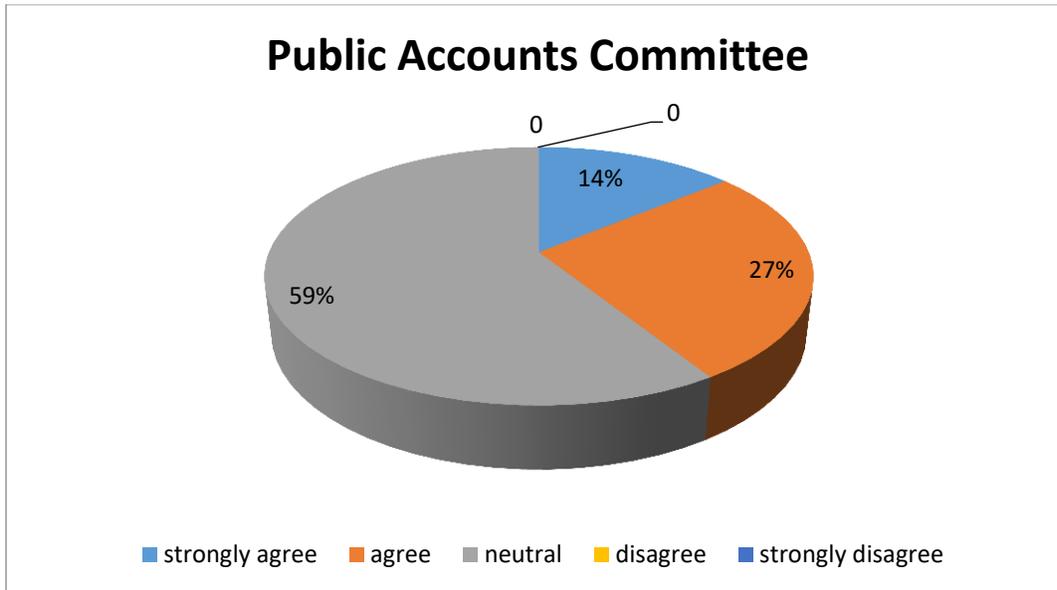
4.7 Best practices for ensuring management’s implementation of audit recommendations.

4.7.1 Figure 4.8 ISA 2402 – Audit follow up guidelines



The research findings show that 4/22 (18%) respondents agreed with the use of IS 2402 being the best measure for the implementation of audit recommendations as supported by the ISACA (2014) Professional standards. The remaining 18/22 (82%) were uncertain about the use of IS 2402 as the best practice or ensuring the implementation of audit recommendations. This is because it is widely used in the United States. The mode of the data presented below is 18/22 (82%) respondents who are unsure about best practices that can be used to ensure implementation of audit recommendations

4.7.2 Figure 4.9 Public Accounts Committee



From the research findings, 3/22 (14%) respondents strongly agreed that the use of an effective Public Accounts Committee was a best practice for ensuring the implementation of audit recommendations along with 6/22 (27%) respondents who also agreed. 13/22 (59%) respondents were not certain about the function of a Public Accounts Committee since they had never had professional contact with them. A total of 9/22 (41%) respondents were supported by Makamure (2015) who emphasized the use of an effective Public Accounts Committee as the best practice for ensuring implementation of audit recommendations. The mode for the data is 13/22 (59%) respondents who are unsure about the functions of a Public Accounts Committee which barely highlights a under qualification skills set at NRZ.

4.8 Is there a relationship between non implementation of audit recommendations and risk?

Table 4.16

Relationship	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Findings	3	5	12	2	0	22
Frequency	14%	23%	54%	9%	0%	100%

3/22 (14%) of the respondents strongly agreed that there is a relationship between non implementation of audit recommendations and risk along with 5/22 (23%) respondents who agreed. The remaining 12/22 (54%) were not certain and 2/22 (9%) respondents disagreed that there is a relationship between non implementation of audit recommendations and risk. This gave a total of 19/22 (37%) of the respondents agreed and were supported by ISACA (2014) which states that a reported condition implies the existence of an underlying risk. The mode for the data is 12/22 (54%) respondents who were not certain that there is a relationship between non-compliance of audit recommendations and risk.

Interview Response rate

A total of 3 interviews were targeted at management and accounts staff as well as internal audit personnel. Two of them were successful producing a response rate of 2/3 (67%). Saunders et al (2012) supports this outcome by stating that the acceptable response rate for face to face interviews should be at least 60%.

4.9 Interview responses

The researcher made use of the interview method to gather data especially to the Accountant and Internal Auditor, since the Directors were busy and most absent. The interview sessions improved researcher understanding on specific questions given by the staff. The researcher

aimed to carry out at least three interviews but was able to carry out two, which gives response rate of 66.6%. From the interviews carried out the response were as follows to respective questions:

4.9.1 What are the main causes of non –implementation of audit recommendations.

1st respondent

The causes of non-implementation of audit recommendations include financial constraints. For NRZ to start dealing with incorporating strong internal control systems, a lot of money is required to make that possible for example employing more staff members for adequate segregation of duties. With the current situation of employees strike as supported by Herald (2015) it becomes harder for the organization to timely implement the audit recommendations due to lack of adequate staff. This is supported by 19/22 (86%) respondents in Table 4.5 who agree to the same notion as well as World Health Organization (2012) which stated that lack of funding can hamper the recruitment of additional personnel to ensure adequate segregation of duties in the finance area.

2nd respondent

He stated that the cause for non-implementation of audit recommendations was in the form of complex issues whereby the conditions had to be resolved but due to their very nature takes long before implementation is possible. He was supported by the Australian National Audit Office (2015) and 100% (22/22) respondents in Table 4.7 who agreed that complex issues were a main hindrance in the implementation of audit recommendations.

4.9.2 Are auditors' recommendations feasible enough to be implemented?

1st respondent

Most of the auditors' recommendations are not feasible enough for practical implementation. They do not state specifically the proper action to be undertaken but rather hide between lines of texts for example the internal audit recommendation which stated that the engineers had to receive further training after the elevator fault. Internal audit report (2015). The accountant was supported by 19/22 (86%) respondents in Table 4.8 who agreed that auditors' recommendation were not practical enough and Aikins (2012).

2nd respondent.

All audit recommendations represent a condition that is a potential risk to the organization and due to the differences of the functions of the Accountants and Internal Auditors, it is unavoidable that clashes would occur. He further explained that it would be the duty of the audit committee to bridge the gap between management and the auditors for fruitful results after the audit recommendations. He was supported by Buckstein (2012) who emphasized the responsibility of an audit committee as well as 3/22 (14%) respondents in Figure 4.3 who disagreed that auditors gave non-feasible recommendations

4.9.3 To what extent have organization been affected by risk

1st respondent

The reputation of NRZ is now in tatters because of unavailability of funds to pay workers their earned salaries as well as inefficient services. Employees have up to 15 months salaries in arrears as indicated by Herald (2016) hence the strike. This is supported by Kraatz et al (2015) and 15/22 (68%) of the respondents in Table 4.9. The organization has also faced credit risk, unavailability to pay its suppliers on due dates hence the question of going concern viability for NRZ. Management meeting minutes (2016).

2nd respondent

NRZ major risks are asset misappropriations and fraudulent accounting and reporting which makes the organisation lose approximately 6% of the total revenue as indicated by the Internal Audit Report (2015). This has left NRZ with a huge budget deficit leading to a deteriorating condition in operational, financial viability. He explained that most of these frauds involve senior management who are in a unique position to perpetrate fraud by overriding controls and acting in collusion with other employees. This is supported by 15/22 (86%) of the total respondents in Table 4.11 who agree that the organisation is facing high levels of fraud risk as well as Centre for Audit Quality (2010).

4.9.4 Are audit committees responsible for enterprise risk management?

1st respondent

The audit committee should be involved in mitigating risks faced by the organisation as well as prevention of future disasters. This was supported by Alzharani (2015) who stated that financially expert audit committees were more likely to combine risk management and audit committee activities and 7/22 (32%) respondents in Figure 4.6 who agreed that the audit committee is responsible for enterprise risk management.

2nd respondent

The interviewee affirms also that high levels of fraud risks and credit risks in an organization are a result of the failure of the audit committee function as supported by Mustafa (2010). Chi (2011) also supports this notion by stating that audit committees and management should work together to build a strong tone at the top to combat fraud risks as well as 7/22 (32%) respondents in Figure 4.6. However the internal auditor indicated that there is no audit committee function at NRZ.

4.9.5 What are the best practices for ensuring that managers implement audit recommendations?

1st respondent

The accountant was not sure about the best practices of ensuring implementation of audit recommendations and was supported by 18/22 (82%) respondents in Figure 4.8. This is because the practice of IS 2402 is used widely in the Western developed countries and have not yet been widely adopted in Africa.

2nd respondent

The internal auditor stated that in parastatals the use of effective Public Accounts Committees would actually lead to the implementation of audit recommendations if their authority was enforced to demand of ministries and government bodies results of implementations of audit recommendations on behalf of the Auditor General as supported by Makamure (2015) and 13/22 (59%) respondents in Figure 4.9.

4.9.6 Is there a relationship between non-implementation of audit recommendations and risk?

1st respondent

The respondent did not agree that there is a relationship between non implementation of audit recommendations and risk and stated that the auditors made ambiguous recommendations which were difficult to implement. He was supported by 2/22 (9%) respondents in Table 4.15 who disagreed that a relationship exists between non implementation of audit recommendations and risk.

2nd respondent.

The respondent agreed that there is a relationship between non implementation of audit recommendations and risk. He stated that when an auditor makes a recommendation it represents a condition which indicates an underlying risk area. He further explains that when these recommendations are not implemented by management, then the risk remains and with experience at NRZ, management has many times accepted a level of risk that is inappropriate for the organisation. He was supported by ISACA (2014) as well as 8/22 (37%) in Table 4.15 respondents who agreed that there is a relationship between non implementation of audit recommendations and risk.

Conclusion

This chapter presented the findings of the research study based on data collected from 22 respondents from National Railways of Zimbabwe. The data analysis made use qualitative research approach focusing on the causes of non-implementation of audit recommendations and risks associated .The next chapter will consider the implications of the data analysis in relation to the research objectives.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0.0 Introduction

This chapter concludes the research study and gives a summary of all preceding chapters. The chapter will go on to highlight the conclusions drawn from the research findings in line with each research objective as well as give appropriate recommendations to firms that are facing non implementation of audit recommendations challenges and to National Railways of Zimbabwe.

5.1 Chapter summaries

5.1.1 Chapter 1

The chapter focused on the background of the study which revealed the trends of non-implementation of audit recommendations using National Railways of Zimbabwe as a case study. The chapter's crucial point was to prove that NRZ was facing non implementation of auditors' recommendations challenges using facts and figures. This chapter had the buildup of objectives used throughout the entire research, research questions as well as the limitations and delimitations to the study and finally the significance of the study.

5.1.2 Chapter 2

This chapter reviewed literatures available and relevant to causes of non-implementation of audit recommendations. These included financial constraints, staffing issues and complex issues.

Australian National Audit Office (2015) highlighted that lack of funding hampered the recruitment of key personnel and frequently caused delays in implementing audit recommendations especially where new investments were required. Other causes of non-implementation were auditor related whereby they did not give feasible or practical audit recommendations. Adeyami (2011) It also brought up the risks associated with non-implementation of audit recommendations. These included fraud risks, credit risks, reputational risks and obsolescence risks as stated by Scandizzo (2011). This chapter explained the role of the Audit Committee in Enterprise Risk Management, reducing risks faced by corporations as stipulated by Alzharani (2015) It ended by looking into strategies and best practice for managing implementation of audit recommendations. ISACA (2014) highlighted that ISA 2402 – Audit recommendation follow up would be an effective practice for the implementation of audit recommendations. The major aim was to have a thorough understanding of previous research relevant to this research study as well as identify gaps in the literature through the use of internet, journals and books.

5.1.3 Chapter 3

This chapter presented methodology used in the data gathering procedure for the purposes of the study. The researcher made use of a descriptive case study research approach along with the mixed research approach. Out of a population of 50 employees, a sample of only 35 employees was used by making use of judgmental sampling. Participants were chosen based on the appropriate persons considered to give reliable feedback. The research made use of both primary and secondary data to ensure validity and reliability of data. The researcher made use of interviews and closed ended questionnaires as instruments for data collection. The research

incorporated the use of correlation in an attempt to establish relationship between non implementation of audit recommendations and risk.

5.1.4 Chapter 4

Chapter 4 presented the data that was collected during the research. The data was presented on tables, bar graphs and pie charts. The data presentation attempted to analyze, interpret and discuss the findings. The data was analyzed using mode that is the measure of central tendency representing the highest frequency. The findings of the research study were based on data collected from 22 respondents from National Railways of Zimbabwe. This chapter gave the researcher detailed analyzed information about the study since data collected from questionnaires was compared against information gathered from interviews and secondary data sources.

5.2 Major findings

5.2.1 Causes of non-implementation with audit recommendations

Table 4.5 shows that 10/22 (45%) of the respondents strongly agreed and 7/22 (32%) agreed that financial constraints cause non-implementation of audit recommendations. The remaining 5/22 (23%) were uncertain. None of the respondents disagreed nor strongly disagreed that financial constraints caused non implementation of audit recommendations. Table 4.6 indicated that 10/22 (45%) of the employees strongly agreed lack of adequate staff led to non-implementation of audit recommendations. 9/22 (41%) employees agreed, 3/22 (14%) were neutral whilst 0% disagreed. Table 4.7 illustrates that 15/22 (68%) respondents strongly agreed whilst 7/22 (32%) agreed that complex issues caused delays in the implementation of audit recommendations. None

of the respondents were neutral, disagreed nor strongly disagreed. The interviews also agreed that the above stated factors were causes of non-implementation of audit recommendations.

5.2.2 Are auditors' recommendations practical?

Figure 4.1 indicates that 7/22 (32%) employees strongly agree, 12/22 (55%) agree that auditors present imprecise audit recommendations which are not readily identifiable nor clearly labelled. The remaining 2/22 (9%) disagreed whilst 1/21 (5%) strongly disagreed that auditors gave imprecise audit recommendations. Figure 4.2 illustrates that 8/22 (6%) strongly agreed 11/22 (50%) agreed and that auditors presented unconvincing and non-specific audit recommendations. 3/22 (14%) disagreed with the above stated notion. Figure 4.3 shows that 11/22 (50%) strongly agrees along with 8/22 (36%) respondents agreeing whilst 1/22 (5%) disagrees and 2/22 (9%) strongly disagreeing to the opinion that audit recommendations are not feasible. Figure 4.4 exhibits that 10/22 (45%) respondents strongly agree and 9/22 (41%) agree whilst the remaining 3/22 (14%) disagree that auditors are not committed to results after presenting recommendations. According to figure 4.5 9/22 (41%) of the respondents strongly agreed along with 10/22 (45%) agreeing that auditors were not aggressively monitoring and following up the implementation of audit recommendations. The remaining 3/22 (14%) disagreed. 50% of the interviewees agreed that the auditors' recommendations were impractical whilst the remaining 50% disagreed.

5.2.3 Major risks faced by parastatals

Table 4.11 show that 9/22 (41%) strongly agreed with 6/22 (27%) agreeing whilst 3/22 (14%) of these respondents were neutral and 4/22 (18%) disagreed to the fact that reputational risk arises gradually as a result of non-implementation of audit recommendations. Table 4.12 illustrated that 10/22 (45%) of the respondents strongly agreed fraudulent accounting and reporting is a risk faced by parastatals along with 5/22 (23%) who agreed. 3/22 (14%) of the respondents were

neutral whilst 4/22 (18%) disagreed. Table 4.13 indicates that 20/22 (91%) agreed whilst 2/22 (9%) disagreed that that asset misappropriations was a direct result of non-implementation of audit recommendations. According to table 4.14 5/22 (23%) respondents strongly agree along with 13/22 (59%) whilst 4/22 (18%) of the respondents were uncertain that credit risk has been a major risk faced by NRZ about the causes of credit risk. The interviewees agreed that all the above risks were faced by NRZ at present date.

5.2.4 Audit committee involvement in mitigating risks.

Figure 4.7 indicates that 7/22 (32%) of the respondents agreed that the audit committee should be involved in the risk management for the organization to prevent future whilst 15/22 (68%) respondents were uncertain about the audit committees' responsibilities. The interviewees agreed that the audit committee should be involved in mitigating risks.

5.2.5 Best practice for ensuring managements' implementation of audit recommendations.

According to figure 4.8 4/22 (18%) respondents agreed with the use of IS 2402 being the best measure for the implementation of audit recommendations as supported by the ISACA (2014) Professional standards whilst the remaining 18/22 (82%) were uncertain. This corresponded with the interview responses because only the auditors knew about the practices for implementing audit recommendations whilst the other members were clueless.

5.2.6 Relationship between non implementation of audit recommendations and risk

Table 4.15 illustrates that 14% (3/22) of the respondents strongly agreed along with 5/22 (23%) respondents who agreed whilst the remaining 12/22 (54%) were not certain and 2/22 (9%) respondents disagreed that there is a relationship between non implementation of audit

recommendations and risk. They were supported by interviewees who also affirmed the relationship.

5.3 Research conclusions

The research successfully established the causes of non-implementation of audit recommendations and the practices with which to curb the non-implementation challenge. Non implementation of recommendations results in the organization facing high levels of risk beyond which it can bear.

5.4 Recommendations.

National Railways of Zimbabwe should have an Audit Committee function to help it regulate the risk levels and place a higher emphasis on risk appetite and tolerance. The Committees presence also tightens internal controls at the organization.

The organization should also achieve to adhere to the requirements of IS 2402: Audit recommendations follow up. The model can help the company follow up audit recommendations and ensure they are implemented before non-implementation of the recommendations become risky.

Management should formulate and implement internal control systems so as to safe guard the corporation's assets and to reduce embezzlement and pilferages.

5.5 Areas of further study

The research outlays the possible solutions and there is need to further study to show effectiveness of these solutions to the insurance company and best practices to implement these solutions.

5.6 Conclusion

The chapter focused on summaries of chapters, major findings, conclusion, recommendations and area of further study was also included in the chapter.

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APPENDICES

APPENDIX A

Midlands State University

P. Bag 0955

Gweru

Date /..... 2016

The Regional Manager

National Railways of Zimbabwe

603 Parkade Centre, Fife street/9th

Bulawayo

Dear Sir

REF: RESEARCH PROJECT ASSISTANCE

I am a final year student at the Midlands State University, pursuing a Bachelor of Commerce Honours Degree in Accounting. It is a requirement that I must carry-out a research during the final year, to be issued to the faculty for approval. The research project is a partial fulfilment for the granting of the Bachelor of Commerce Honours Accounting Degree. My research topic is entitled; **an investigation into management's reluctance in implementing audit recommendations and its effects to risk.** "A case study of NRZ"

I would be most grateful if you could avail some time to answer truthfully this questionnaire. All the information and views given in response will be treated with utmost confidence and for academic purposes only. Your responses will be anonymous and you will not be identified by name in any subsequent reports.

Thank you in advance for your time and assistance.

Yours faithfully

.....

Tariro Chinamasa

0779 932 666

Email: tarichinamasa@gmail.com

APPENDIX B

RESEARCH QUESTIONNAIRE (strictly confidential)

Instructions on filling the questionnaire

- **N.B** Where it applies, kindly indicate your answer to the following by ticking in the appropriate box
- Names are not required on the questionnaire
- Answer all questions

SECTION A: Demographic and personal details

1) **Academic Qualifications:** Diploma Undergraduate Masters

2) **Professional Qualifications:** ACCA CIMA/ CIS None

3) How long have you been attached to this department?

Below 2 years 2 - 5 years 5 – 10 years above 10 years

SECTION B: Responsive questions

Questionnaires to National Railways of Zimbabwe finance and audit staff.

To what extent would you agree with the following statements on a scale of **1-5** where applicable?

(5=strongly agree, 4=agree, 3=uncertain, 2=disagree and 1= strongly disagree)

1) The following are the causes of non-implementation of audit recommendations at National Railways of Zimbabwe. Do you agree?

Causes of non-implementation of audit recommendations.	1	2	3	4	5
Financial constraints					
Staffing issues					
Complex issues					

2) The following are the impractical auditor recommendations which result in non implementation of audit recommendations. Do you agree?

Impractical auditor recommendations	1	2	3	4	5
Imprecise audit recommendations					
Unconvincing and non-specific audit recommendations					
Non feasible recommendations					
Auditors non commitment to results					
No aggressive monitoring and follow up					

3) The following are the major risks that are faced by organizations as a result of non implementation of audit recommendations. Do you agree?

Risks faced by organizations	1	2	3	4	5
Reputational risk					
Fraudulent accounting and reporting					
Misappropriation of assets					
Obsolescence risk					

4a) Does NRZ has an audit committee function?

YES **NO**

b) In your own opinion, do you think the Audit Committee should be actively involved in mitigating the risks listed above?

Strongly agree	Agree	Not sure	disagree	Strongly disagree

5a) Do you think the establishment of an effective Public Accounts Committee would ensure managements’ implementation of audit recommendations?

Strongly agree	Agree	Not sure	disagree	Strongly disagree

5b) Do you think ISO 2402 is the best practice for ensuring managements’ implementation of audit recommendations?

Strongly agree	Agree	Not sure	disagree	Strongly disagree

6) Is there a relationship between non implementation of audit recommendations and risk?

Strongly agree	Agree	Not sure	disagree	Strongly disagree

--	--	--	--	--



Midlands State University

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APPENDIX C

INTERVIEW GUIDE

Date conducted

1. What are the main causes of non –compliance with audit recommendations at National Railways of Zimbabwe?

.....

2. Are auditors’ recommendations feasible enough to be implemented?

.....

3. To what extend have organizations been affected as a result of noncompliance with audit recommendations?

.....

4. Are audit committees responsible for enterprise risk management and implementation of audit recommendations?

.....

5. What are the best practices for ensuring that managers implement audit recommendations?

.....
.....
6. Is there a relationship between non implementation of audit recommendations and risk?
.....
.....

Thank you for taking your time in answering this questionnaire!