

# MIDLANDS STATE UNIVERSITY



## FACULTY OF COMMERCE

## DEPARTMENT OF ACCOUNTING

AN ANALYSIS OF THE CREDIBILITY OF AN AUDITOR'S REPORT FOR  
COMMERCIAL BANKS IN MAKING FINANCING AND INVESTING  
DECISIONS.

*By*

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*This dissertation is submitted in partial fulfillment of the requirements of the Bachelor of  
Commerce Honours Degree in Accounting at Midlands State University.*

**Gweru, Zimbabwe**

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## **DEDICATION**

This research is dedicated to my parents and all my family members. Thank you for your unwavering support. Your prayers made this project a success.

## **ACKNOWLEDGEMENT**

Firstly I would like to give all the glory and honour to the owner and creator of the universe, God almighty for making this project a success. Secondly, my humble gesture of appreciation goes to my supervisor Mr. J. Satande for his invaluable guidance and support. I would also like to express my sincere gratitude to the staff at BancABC, FBC Bank, ZB Bank and Eco Bank for their corporation during my study. To my family, thank you for your material support during difficult times, may God richly reward you.

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## ABSTRACT

This research was carried out to analyse the credibility of an auditor's report for commercial banks in making financing and investing decisions. The usefulness of the audit report for commercial banks in making financing and investing decisions has been called into question after many banks have been issued with unqualified reports, and still went through liquidation some few months later. The main objective of this research was to analyse the usefulness of audit report for Commercial banks in making financing and investing decisions. In achieving this objective, the research consulted literature from various authorities to gain in-depth knowledge of the subject. The main literature was from Durendez (2003) who suggested that audit reports are failing to address financial risk on banks and rendering them not useful for decision making. Also the conceptual framework model from Gray and Jenkins (2012) who stated that there is a direct relationship between audit report and decision making was considered in developing the hypothesis .The information contained in the audit report is considered inadequate in making financing and investing decisions. This study targeted to explore how important the audit report is for Commercial banks in making financing and investing decisions. The research used a sample size of four commercial banks, where both primary and secondary sources of collecting data were used. The respondents were asked about the usefulness of audit report and how different types of audit reports (Unqualified, qualified, adverse and disclaimer) influence their financing and investing decisions. The research finds out that banks have more confidence in making financing and investing decisions using an unmodified report over modified reports. The research also looked into the various elements of audit report such as audit opinion, and going concern opinion that banks considered to be very crucial for decision making. The results indicated that going concern opinions are not being properly carried out as many banks are being liquidated after a positive opinion has been expressed. The research recommends that the information content provided in the audit need to be adjusted to meet the individual organization needs. To justify the validity and reliability of the finding a chi-square test was used to test the relationship between the two variables of the research hypothesis. A relationship between audit report and financing and investing decisions was established, and the research concluded that audit reports are useful in making financing and investing decisions, but the extend varies with the type of audit report issued.

## LIST OF FIGURES

<b>Figure</b>		<b>Page</b>
1.1	Conceptual Framework	5
2.1	Audit Risk Model	26
4.1	Overall Data Collection Response Rate	45
4.2	Usefulness of Audit Report in Decision Making	47
4.3	Adequacy of Information Provided by an Audit Report	49
4.4	Views of Asset Valuation on Decision Making	54
4.5	Respondents on Incorrect Report	58
4.6	Chi-Square Graph Findings	61

## LIST OF TABLES

<b>Table</b>		<b>Page</b>
3.1	Target Population	32
3.2	Measurement of Variables	40
4.1	Questionnaire Response Rate	43
4.2	Interview Response Rate	44
4.3	Years Occupying the Executive Post	46
4.4	Types of Audit Reports Issued	50
4.5	Views on Unqualified Report	51
4.6	Views on Qualified Report	52
4.7	Views on Adverse Report	53
4.8	Respondents view on Audit Opinion	55
4.9	Respondents view on Going Concern Opinion	56
4.10	Respondents view on Audit Risk	57
4.11	Chi-Square Contingency Table	59
4.12	Chi-Square Expected Frequency Table	59
4.13	Chi-Square Calculation Table	60



## LIST OF APENDICES

### Appendix

A	Questionnaires	71
B	Interviews Guide	76
C	Chi-Square Critical Value Distribution Table	77

## TABLE OF CONTENTS

APPROVAL FORM.....	i
RELEASE FORM.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT.....	iv
ABSTRACT.....	v
LIST OF FIGURES.....	vi
LIST OF TABLES.....	vii
LIST OF APENDICES.....	viii
TABLE OF CONTENTS.....	ix
<b>CHAPTER ONE - INTRODUCTION.....</b>	<b>1</b>
1.1 Background of the study.....	1
1.2 Statement of the Problem.....	3
1.3 Main Objective of the study.....	3
1.4 Main research Question.....	4
1.5 Research Hypothesis.....	4
1.6 Conceptual framework.....	5
1.7 Significance of the study.....	6
1.8 Assumptions of the study.....	6
1.9 Research limitations.....	7

1.10	Delimitation of the study.....	7
	Conclusion.....	7
<b>CHAPTER TWO – LITERATURE REVIEW .....</b>		<b>8</b>
2.0	Introduction .....	8
2.1	Defining Audit.....	8
2.2	The Impact of Audit Report on financing and investing decisions.....	9
2.2.1	Importance of Auditors report.....	10
2.3	Audit Opinion.....	12
2.4	Effects of Modified and Unmodified Audit Report on Financing and investing Decision making.....	14
	Effects of a Qualified Audit Report on Going concern and Decision Making .....	16
2.5	Going concern Opinion .....	18
2.6	Audit Risk (AR) .....	22
2.8	The Effects of Audit Risk Model on Audit Opinion.....	25
2.9	Auditors Liability .....	26
2.10	Summary .....	28
<b>CHAPTER THREE – RESEARCH METHODOLOGY AND DESIGN.....</b>		<b>29</b>
3.0	Introduction .....	29
3.1	Positivism Philosophy.....	29
3.2	Descriptive research .....	30

3.3	Research Design .....	30
3.4	Mixed Research Method .....	31
3.5	Target Population .....	32
3.5.1	Sampling.....	32
3.5.2	Sampling Procedures.....	33
3.5.3	Random Sampling .....	33
3.6	Sources of Data .....	33
3.6.1	Primary Data .....	33
3.6.2	Secondary Data .....	34
3.7	Research Instruments .....	35
3.7.1	Questionnaire .....	35
3.7.2	Interviews.....	36
3.7.3	Document Analysis .....	38
3.8	Validity and reliability of research Instrument .....	39
3.9	Measurement of Variables .....	39
3.9.1	Chi-square .....	40
3.10	Data Collection Procedures.....	41
3.10.1	Data Presentation and Analysis Procedures.....	41
3.11	Conclusion.....	42

<b>CHAPTER FOUR – DATA PRESENTATION AND ANALYSIS</b> .....	43
4.0 Introduction.....	43
4.1 Data Response Rate.....	43
4.2 Findings.....	46
4.2.8 Factors affecting the credibility of an audit report.....	54
4.3 Hypothesis testing.....	58
4.3.1 Expected frequency.....	59
Table 4.13 Chi square calculated.....	60
Conclusion.....	61
<b>CHAPTER FIVE – SUMMARY, CONCLUSIONS AND RECOMMENDATIONS</b> .....	62
5.0 Introduction.....	62
5.1 Summary of the research.....	62
5.3 Conclusions.....	63
5.4 Recommendations.....	65
5.5 Suggestions for future research.....	66
<b>REFERENCES</b> .....	67

## DEFINITION OF TERMS

**Audit Report:** IAASB defines it as the auditor's primary means of communication in which the auditor expresses an opinion about the financial statements of an entity.

**Audit Objective:** This refers to the expression of an opinion on whether the financial statements are prepared in all material respects and in accordance with the applicable financial reporting framework (ISA 200).

**Audit Risk:** According to International Standards on Auditing, audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.

**Going Concern:** SSAP defines it as the assumption that the entity will continue in operational existence for a foreseeable future with its statement of comprehensive income and statement of financial position assume no intention or necessity to liquidate or curtail significantly the scale of operation.

**Expectation Gap:** Monroe and woodliff (1994) defines it as the difference between the beliefs of auditor's and the public about the duties and responsibilities assumed by the auditor, and the message conveyed by the audit report.

**Financing Decisions:** These are decisions made to invest funds in assets or instrument's with the objective to yield the highest return for the company within a desired period of time (Harris, 2011).

**Investing Decisions:** These are decisions made to acquire an asset or an investment with outside means of finance like bonds and or loans (Harris, 2011).



## **LIST OF ACRONYMS**

RBZ	Reserve Bank of Zimbabwe
ISAs	International standards on Auditing
IAS	International Accounting Standards
ICAZ	Institute of Chartered Accountants of Zimbabwe
IFAC	International Federation of Accountants
IAASB	International Audit and Assurance Standards Board



# CHAPTER ONE

## 1.0 Introduction

This chapter provides an introduction to the study and it gives an overview of the research project and discusses the background of the project, the statement of problem, objectives of the study, the main research question and sub questions, delimitations and limitations of the study. It also highlights the justifications of the study and definition of key terms.

## 1.1 Background of the study

The need for auditing arose because of the separation between ownership and control, where management is appointed to run the business on behalf of the shareholders and report on the operating and financial performance of the business (Jackson and Stent, 2010). There was always an uncertainty with regards to the accuracy and completeness of the information reported by management and whether they were carrying out their duties in good faith. Auditors are therefore appointed to verify, on behalf of shareholders, the truth and fairness of the reports issued by management. The work of the auditors is at the disposal of every stakeholder, and is used by the stakeholders in making investing decisions, loan facility offer decisions by banks, tax computations by tax authorities and assessment of the going concern of the company by the general public.

Commercial banks in Zimbabwe play a crucial role in economic growth. Rose (2010) stated that commercial banks are the dominant financial institutions in most economies. Holman, (2010) stipulate that commercial banks play a critical role to emerging economies where most borrowers have no access to capital markets. Therefore the decisions made by commercial banks have a greater impact on economic growth. Reed and Gill (2009) pointed out that the need for

experienced auditors in the banking sector is of great importance so as to avoid suicidal economic strategies. In commercial banks the high risk areas which the auditors must look at when expressing an opinion are the going concern effect and a healthy financial muscle (Innes, 2005). However the use of auditor's report became of great importance in regards to decision making. Expressing an opinion is not giving absolute assurance and should not be taken as such (ICAZ Publication, 2004). Therefore, the usefulness of the auditor's report is sometimes called into question, the validity of the information it contains for users when making decisions therefore criticized (Durendez, 2003:4).

In 2011, ReNnaissance Merchant bank was placed under curatorship after the auditors; Ernst & Young had been auditing the bank for years without picking up any financial struggles faced by the bank and after a merger with Century Holdings in July 2004, CFX holdings discovered, only after six months, that the latter's financial position was bad. Questions were raised on the effectiveness of their auditors, Ernst & Young, since they had been expressing a qualified audit opinion and they had failed to detect creative accounting that was being done by Century holdings management. Although auditors are not investigators, they have a secondary duty to discover the errors and fraud and report on them (Ongocho, 2010:12).

Royal bank Zimbabwe limited in 2012 surrendered its banking license to RBZ after an onsite inspection by RBZ which shows that the bank was in serious liquidity crises yet its financial statements and audit report shows a favourable result. Shaw (2011) pointed out that auditors are failing to signal the financial reporting risk in the banking sector since they are expressing unqualified opinion on banks that do not have a going concern.

Audit failure has been widely criticised following the accounting scandals and high profile bankruptcies (Holman, 2010). But there is also an expectation gap that exists between what the auditors can deliver and what the users of financial statements expects the auditors to deliver. 'Investors seem to expect that an audit is an assurance of a company's financial health, but there is only so much that auditors can do' (Parrett 2008).

## **1.2 Statement of the Problem**

After more than four banks were closed since the zim-dollar era up to date and the auditors of these banks had been expressing unqualified reports on the financial statements without finding any irregularities or properly assessing the going concern effect or detecting any fraud, the way the auditors discharge their duties and the correctness, reliability and accuracy of auditors' reports has become obviously questionable. The concern of the researcher is to explore and clearly bring out the credibility of auditors report for commercial banks in making financing and investing decisions.

## **1.3 Main Objective of the study**

- To explain whether the audit report is useful when making financing and investing decisions.

### **1.3.1 Sub Objectives**

- To explain the meaning of audit report and how different types of audit reports affect financing and investing decisions in Commercial banks.
- To explain the effects of qualified auditor's report on going concern.
- To investigate the Audit risk that influences the credibility of audit report.

- To use the findings to recommend how best, Commercial banks can use an auditor's report in making financing and investing decisions.

#### **1.4 Main research Question**

- Of what significance is the auditors' report in making financing and investing decisions in Commercial banks.

##### **1.4.1 Sub Questions**

- 1) What is an audit report and what are the different types of audit reports?
- 2) What is the liability of an auditor if an incorrect opinion is expressed?
- 3) What are the remedies that can be applied to reduce audit risk?
- 4) Are auditors capable of providing a signal on going concern?
- 5) What are the indicators of going concern?
- 6) What is the importance of auditor's report in making financing and investing decisions?

#### **1.5 Research Hypothesis**

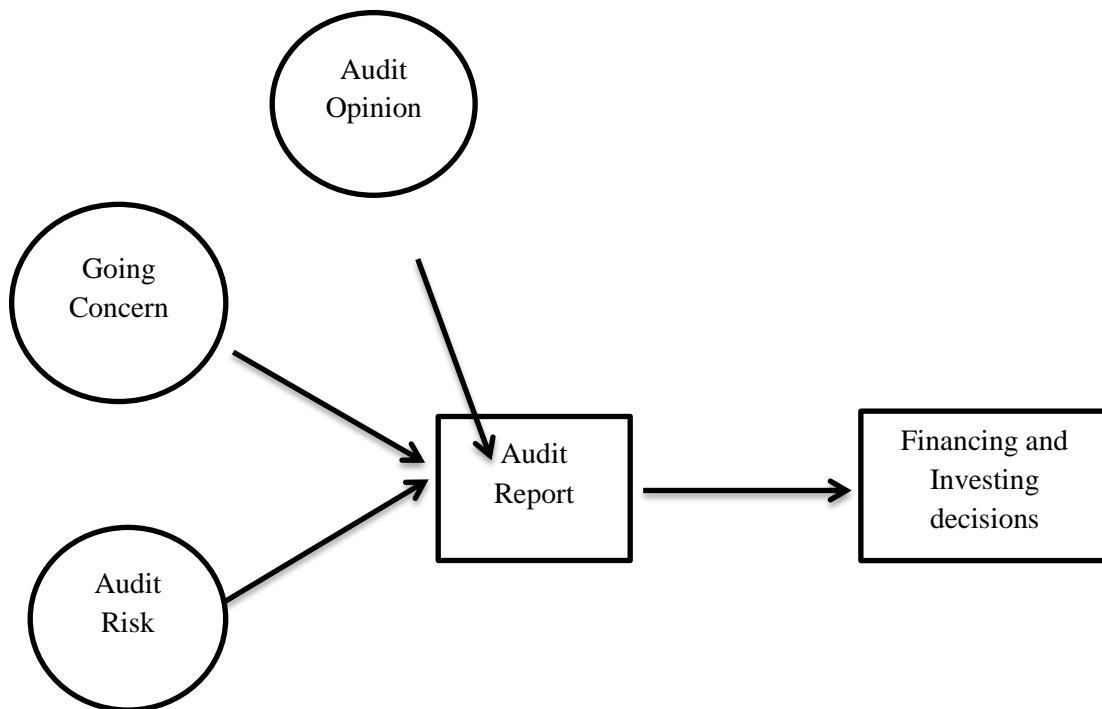
(Durendez, 2003:4) stated that, the usefulness of the auditor's report is sometimes called into question, the validity of the information it contains for users when making decisions is therefore criticized. Based on Durendez literature it is hypothesized that;

*“The audit report on banks may fail to detect financial risks rendering them not useful in making financing and investing decisions”.*

## 1.6 Conceptual framework

Thuneibat, Khamees and Al-Fayoumi (2007) used a “case study questionnaire approach” to investigate whether banks’ lending and investing decisions are affected by different types of audit reports issued. They further indicates that certain contents in the audit report such as the going concern and asset valuation largely affects the banking lending and investing decisions. Therefore an audit report should contain more information to make it more useful to users for decision making.

Figure 1.1 The Conceptual Framework



Source: Gray and Jenkins, 2012

The research will use the case study questionnaire approach over the other previous models such as the “market based approach” and the “experimental approach” because it is considered to be more appropriate to solve the gap as to whether commercial banks in Zimbabwe should consider the audit report given by the auditor when making economic decisions.

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

To Commercial banks

The research will clearly explore the usefulness of audit report, and give a light on how best they can use the information given by the auditor when a qualified opinion has been issued.

To the university

The study will provide information to fellow students on areas for further research.

To the researcher:

The research is done in partial fulfillment of a Bachelor Honors Degree in Accounting and it will also increase the student’s knowledge on the topic.

### **1.8 Assumptions of the study**

The research is carried out based on the following assumptions:

- All respondents for the questionnaires have adequate knowledge of the issues that were found in the questionnaires.
- Respondents to the questionnaires gave truthful responses adequate to make reasonable inference.

## **1.9 Research limitations**

- Confidentiality – in distributing questionnaires and conducting interviews some respondents and interviewee's found some information so confidential.
- Time – The research was limited by the timespan upon which relevant information was gathered though an attempt was made to cover all important issues.
- Finance – limited financial resources slowed down the research since the researcher had to gather data from field research.

## **1.10 Delimitation of the study**

- The research will be conducted in Harare where the head offices of many commercial banks are situated.
- Random sampling method will be used to select only four commercial banks.
- The research questions will be targeting those in managerial posts who make economic decisions.

## **Conclusion**

This research topic highlighted the main purpose of the study which is to investigate the credibility of the auditor's opinion in decision making for commercial banks in Zimbabwe. The boundaries were set in the limitations and delimitations of the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

The chapter highlights several contributions by different authors on the related study. The main purpose of this chapter is to evaluate and bring out the literature from different authors concerning the subject of research. It seeks to answer the various questions that are being asked about the credibility that can be placed on an auditor's report in making financing and investing decisions. The main thrust of literature review is to find the support to or against the hypothesis under consideration.

#### **2.1 Defining Audit**

Louwers et al (2011) defines auditing as “a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between the assertions and established criteria and communicating the results to the interested users”. Auditing comprises the application of auditing principles and methods provided by relevant acts and International standards on auditing (Shuetze, 2009).

Beck et al (2010) defines auditing as an inspection of financial statement of a company by an independent professional in order to express an opinion on whether the financial statements as a whole presents honestly the affairs of the company. Marx et al (2011) states in their definition of audit that “ The objectives of an audit of financial statements is to enable an auditor to express an opinion as to whether or not the financial statements fairly present, ( or are a true and fair view), in all material respects, the financial position of the entity at a specific date, and the results of its



operations and cash flow information for the period ended on that date, in accordance with an identified financial reporting framework and / or statutory requirements”.

From the above definitions it is clear that the concept of auditing has proved difficult to define precisely though all of them are pointing to one factor which is audit objectivity. However a widely accepted general definition of auditing is given by the International Standards on Accounting (ISAs) as the inspection of the financial report of an entity as presented in the annual report by someone independent of the entity. The financial report comprise of statement of financial position, statement of comprehensive income, statement of changes in equity, a cash flow statement, and notes including a summary of significant accounting policies and other explanatory notes.

## **2.2 The Impact of Audit Report on financing and investing decisions.**

Firth (2010, p, 231) defines an audit report as “an evaluation that provides the audit opinion on the validity and reliability of an organization’s financial statement”. IAASB defines it as the auditor’s primary means of communication in which the auditor expresses an opinion about the financial statements of an entity. Chow and Rice (2011,p,35) notes that “an audit report is an official opinion issued by either an internal auditor or an independent external auditor as a result of an internal or external audit or assessment performed on a lawful entity or division thereof”.

“The audit report is later provided to the users, such as an individual, a group of persons, a company, a government or even the general public as an assurance service in order for them to make decisions based on the results of audit” (Wilson, 2009, p, 16). Houghton (2006) conducted an experimental study in order to investigate the impact of the audit on the decision making process and the decision outcome of the financing and investing process of the banks in

Australia. The aim was to determine if there was a difference in the evidence availed in different types of audit reports that are qualified and unqualified. The results indicate that the audit report has no significant in regards to economic decision making, whether it's qualified or unqualified. Guillamon (2003) did a similar experiment to investigate the influence of the auditor's report on investing and financing decisions. The findings of the study indicate that the auditor's report represents a useful source of information when making investing and financing decisions.

From the previous scholars it is clear that it is more likely than not that users of financial information largely depends on audit reports to make decisions. The International Standards on Auditing (ISA 800) argues that an audit report is a confidence booster to the users since it only provides a reasonable assurance that the financial statements reflect a true and fair view of the entity. Therefore from the ISAs point of view it is clear that the audit report is a supporting document that aids in decision making and also users have to consider the inherent limitations of the audit process as well as the limitations of internal control.

However from the previous studies it seems that there is no agreement as to the content of the audit report and its effect on user's decisions. Some researches show that different audit reports have no effect on interested groups; others show that there are differences in user's perceptions and the degree of their dependence on the audit report. In conclusion, it must be stressed that the basic contribution of this study which differentiates it from previous studies is that it is applied on a different environment, that is provides supplementary evidence from a developing country.

### **2.2.1 Importance of Auditors report.**

The audit report is “.....thus the single most critical aspect of auditing: it is the only outward sign that an audit has been performed” (Chandler, 2012, p.412). Thuneibat, Khamees and Al-Fayoumi

(2007, p.3) notes that an audit report should be purposive and exclusively useful in its opinion and scope. Shaw (2010) also states that if banks cannot use an audit report for financing and investing decisions, then its importance became of no value to them. This practically mean that if an audit report cannot make a difference in decision making on financing and investing decisions, then it's content and purpose will be of no use to the users of financial statements.

“An audit of financial statement is an assurance engagement in which an auditor expresses an opinion designed to enhance the degree of confidence to the intended user” (Marx et al, 2011).

“The audit report enhances the credibility of the financial statements but does not guarantee the future viability of the entity and does not guarantee the efficiency and effectiveness with which management has managed the affairs of the company” (Chandler, 2012, p, 415). Ali, Thuneibat and Fayoumi (2007, p, 12) stated that “...The audit is to do with accountability and the audit report expresses an opinion on the accounts...the audit report lends credibility to the directors’ financial reporting by validating the techniques of financial measurement and reporting adopted by them. This demonstrates that an audit report is also a tool used to assess the general performance of an entities management.

From the auditor’s perspective, audit report can be regarded as the main channel of communication to the stakeholders. This can be viewed from different aspects. The first aspect is that it provides information to the shareholders, which is a basic statutory requirement. In Zimbabwe for example the law such as the Companies Act (2000) and the banking Act requires the audit report to be addressed and provide an opinion to the shareholders which normally consists of institutional groups or individuals.

Durendez and Guillamon (2003) noted that an audit report incorporates “value added” to the accounting information provided by a firm. These researchers are stressing the point that an audit report should be used as an addition to other factors that banks incorporate when making financing and investing decisions. Therefore they are acknowledging that though an audit report is important, it should not be given as a first preference when making decisions.

ICAEW (2013) criticised the audit report as not useful for decision making on the bases that it is too long and has a “boilerplate and standardized wording”. As a result the audit report is seen as identical from one company to another and rarely understood by many stakeholders due to the technical audit terms used. According to ICAEW (2013) the information that is disclosed in the audit report does not give a proper analysis of what is transpiring on a particular company, therefore it is not useful for decision making, unless it is amended.

However from all the previous researchers it is clear that an audit report is really an aid to decision making. It is also a requirement for all companies that are listed on Zimbabwe Stock of Exchange (ZSE) to have their financial statements audited and published; therefore an audit report is prerequisite.

### **2.3 Audit Opinion**

Mautz and Sharaf (1961) stated that, the audit process is primarily directed at forming and communicating an independent opinion about the truth and fairness of the financial statements. ISA 800 stipulates that an Audit opinion is a conclusion formulated by the auditor based on the evidence gathered during the audit process. The main objective of auditing is to derive an expression of opinion as to whether financial statements are prepared in all material respect, and in accordance with the applicable financial reporting framework (ISA 200). After performing the

audit procedures, the professional gives a conclusion based on the results of his work, in the form of an opinion (ISAs 320, 450 & 700). Derendez (2003) stated that an auditor's opinion is a formal opinion or disclaimer thereof, issued by an independent external auditor as a result of external audit. Durendez (2003) further states that an auditor's opinion is the important part of the report which is subsequently given to the user (an individual or a company) as an assurance service for the user to make decisions based on the results of the audit.

Soltani (2011) defines audit opinion as part of the auditor's report to the members of an organization in which the auditor expresses an opinion on the degree to which the financial statements are materially misstated. Lin et al (2008) also states that an auditor expresses an opinion and not a certification; therefore it gives an insight to the users of financial statement that the auditor can only provide a reasonable assurance and not a complete assurance as to whether or not the financial statements are materially misstated.

Chan and Walter (2010) indicates that an audit opinion is the certification that accompanies financial statements and is provided by an independent auditor involved in auditing of companies books and records in addition to being helpful in formulating the financial statements. Chan and Walter (2009) suggest that an audit opinion is a "certification " whilst Lin et al (2011) argue that an audit opinion is not a certification but rather an ordinary opinion. ISA 210 stipulates that in the engagement letter, the auditors should make it clear that their audit will give just a reasonable assurance due to some inherent limitations; therefore for the purpose of this study, the researcher will second the definition given by Lin et al since it is support by the regulatory standards on Auditing.

## **2.4 Effects of Modified and Unmodified Audit Report on Financing and investing Decision making**

ISA (800) stipulates that depending on the audit evidence gathered, the opinion to be expressed should either be modified or unmodified.

### **2.4.1 Unmodified Report**

An Unmodified Opinion is also known as Unqualified Opinion. ISA (700) suggests that an opinion is said to be qualified when “the Auditor concludes that financial statements give a true and fair view in accordance with the financial reporting framework used for the preparation and presentation of financial statements”. Some researchers call this type of an opinion “the clean opinion” because the Auditor could not have any significant reservation in respect of the matters contained in the financial statement.

ISA (700) states that an unqualified audit opinion indicates the following:

- The Financial Statements have been prepared using the Generally Accepted Accounting Principles which have been consistently applied.
- The Financial Statements Comply with relevant statutory requirements and regulations.
- There is adequate disclosure of all material matters.
- Any changes in the accounting principles and effects thereof have been properly determined and disclosed in the Financial Statements.

ISA (800) provided that an unmodified report is the purest report an auditor could produce, therefore users of financial statements should not hesitate to make any decision based on such statements. Carcello and Neal (2012) notes that, it is less risk to the investors if the banks are

issued with a qualified audit report, since it is used to assess the economy stability of a nation. From these scholars side it is clear that an unqualified audit report is very crucial for investors since it is a worm that draws them towards your business.

However an unqualified audit report according to ISA 700 is useful to both financing and investing decisions.

#### **2.4.2 Modified Report**

ISA (705) establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion and a disclaimer opinion. Chow and Rice (2011, p, 56) notes that the decision regarding which type of modified opinion is appropriate depends upon the nature of the matter giving rise to modification, that is whether the financial statements are materially misstated or in the case of inability to collect sufficient appropriate evidence and the auditors judgement about the pervasiveness of the effects or possible effects of the matter on the financial statement.

#### **Qualified Opinion Report**

Gibbs (2010) stipulates that a qualified opinion is a report that is issued when the auditor encountered one or two types of situations which do not comply with generally accepted accounting principles, but the rest of financial statements are fairly presented. However the International Standards on Auditing ( ISA 700 and 800) states that a qualified opinion “should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion”.

## **Effects of a Qualified Audit Report on Going concern and Decision Making**

Peter et al (2012) indicated that when an entity is issued with a qualified report, its decisions regarding the financing decisions will not be affected since this opinion is almost similar to an unqualified opinion except for some disagreements with management or unavailability of some documents or evidence that could not be material. Gibbs (2010) also supported this idea pointing out that a qualified opinion does not have any impact on financial information presented by an entity therefore its decisions towards financing and investing decisions will not be compromised.

Ali, Thuneibat and Fayoumi (2007, p, 12) also states that “there is no significant difference between the reactions of financing and investing decisions made by banks when a qualified or an unqualified audit report is issued”.

DeAngelo (2011) argues that a qualified audit report has a great impact on the financing and investing decisions for banks since it is a signal of collapse in the near future. He further argued that each decision that a bank could make after a qualified audit report is issued should be strategic. Ghosh and Moon (2009) also argues that bank’s as the major players in the economic growth of a nation; a qualified audit report is a bad symbol not only for the bank but for the whole nation. From these critiques point of view it is clear that a qualified report is a prediction for a downfall of a bank; hence there is no going concern for a bank that has been issued with a qualified report and such a report cannot be used in decision making.

However a qualified audit report does not have any impacts on going concern and financing decisions, but it compromise the banks investing decisions since no investor will be willing to partner with a bank that has such qualification. Others scholars support this indicating that going concern has nothing to do with a qualified opinion since ISA 700 stipulates that an unqualified



report and a qualified report do not compromise the going concern of an entity. Therefore they are arguing that investing decisions are compromised by the other party whom the bank wants to do business with, whereas on financing decision; it is in the banks power to decide whom to lend money, not considering the type of report issued by auditors.

Shaw (2010) propose that a qualified audit report may only influence short term decision making since it does not have any impact on the going concern of an entity. He further argues that in the long run it is difficult to predict the going concern of an entity.

### **Adverse Opinion Report**

ISA (705) stipulates that an adverse opinion shall be expressed when an auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate are both material and pervasive to the financial statements. Chow and Rice (2011) also notes that an adverse opinion is issued to an entity when an auditor concludes that its financial statements do not conform with generally accepted accounting principles (GAAP), and the information contained is materially incorrect, unreliable and inaccurate.

Martinez et al (2009) points out that, banks and other lending institutions rarely accept financial statements that have an adverse opinion but usually ask the management which is responsible for them to correct the financial statements and obtain another audit report. Elliot (2008) indicates that no financing or investing decisions should be made based on financial statements that have an adverse opinion. Some researchers went ahead to argue that it is suicidal to make future decisions about an entity when an adverse report is issued since there is no going concern on such an entity. ISA (700) stipulates that, there is doubt about the ability of the entity to continue

as a going concern with an adverse report. However this type of report should not be relied on when making decisions.

### **Disclaimer of Opinion Report**

ISA (705, p, 5) stipulates that an auditor shall disclaim an opinion “when he is unable to obtain sufficient appropriate audit evidence on which to base the opinion and concludes that the possible effects on the financial statements of undetected misstatements, if any could be both material and pervasive”. Jones (2010) stated that financial statements with a disclaimer report should not be considered when making decisions because the information presented is regarded as inaccurate and distorted.

### **2.5 Going concern Opinion**

Kida (2007) stated that a going concern is an entity that operates without a risk of liquidation in a foreseeable future. Constantinides (2002,p,1) defines going concern as “ ...the enterprise will continue in operational existence for the foreseeable future....the profit and loss account and the balance sheet assume no intension or necessity to liquidate or curtail significantly the scale of operation”.

Feldmann and Read (2009,p 2) “noted that although auditors do not opine on a client’s creditworthiness, they are required to report if there is doubt as to a client’s ability to continue as a going-concern”. However Kida (2007) argues that auditors cannot predict the future events of an entity or to state that an entity may not continue as a going concern. ISA (570, p, 9) stipulates that “the absence of any reference to going concern uncertainty in an auditor’s report cannot be viewed as a guarantee as to the entity’s ability to continue as a going concern”.

### **2.5.1 Going concern vs Audit Report.**

Feldmann and Read (2009, p 2) pointed out that “auditors are unable to signal financial reporting risks with the current audit reporting model”. They further notes that notwithstanding the many risks that threatened the banking industry, the going concern opinion was rarely used. Harris (2011) indicated that the going concern opinion is largely affecting the credibility of the auditor’s report since auditors are failing to assess this assumption. However, failure to issue a going concern opinion prior to a client’s bankruptcy is costly to auditors, both in terms of reputation and credibility of the final audit report (Feldmann and Read, 2009).

Reilly (2009) carried out a study about the accuracy of the going concern opinion and its impact on the audit report. He discovered that the going concern expressed by the auditors is only forty to forty five percent (40%-45%) predictive of the bankrupt; hence the final decision expressed in the audit report is always not true. Levitan and Knoblett (20011) did a similar research and discovered that, the going concern assumption changes with time depending with the socio-economic stability of a nation. They also noted that there is a direct relationship between the going concern prediction and the economic stability. They concluded that an audit report is a useful tool in making decisions and its credibility should not be affected by the going concern assumption, since it is a variable that is prone to other external factors that are beyond the auditors control .However many users of the audit report regard the audit report as not important since it contains misleading information about the going concern.

Geiger (2008) Criticised that the going concern opinion has no impact on the audit report, since it is just a supplementary paragraph that aids to provide additional information to the audit report. Their critic was based on the fact that a going concern opinion is a small paragraph which cannot spoil the whole audit report; therefore their argument was that, if users cannot rely on audit report, it is not about the going concern opinion that is in that report. Other critics supported Geiger's model adding that the information contend in the audit report concerning the going concern should be improved, so that it clearly gives a true picture to the users that a going concern is just an assumption.

ISA (570) stipulates that auditors though they cannot be sued for expressing a wrong going concern opinion, it is their responsibility to use their professional judgement to express an accurate going concern assumption so as to enhance the credibility of the audit report to the users. ISA (570) further suggested some of the indicators that an auditor is supposed to use when evaluating the going concern assumption. These indicators are grouped into financial and operating as indicated below according to ISA (570):

#### **Financial indicators**

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by debtors and other creditors.
- Negative operating cash flows indicated by historical or prospective financial statements.

- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Arrears or discontinuance of dividends. Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

### **Operating Indicators**

- Loss of key management without replacement.
- Loss of a major market, franchise, license, or principal supplier.
- Labor difficulties or shortages of important supplies.
- Non-compliance with capital or other statutory requirements.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that are unlikely to be satisfied.
- Changes in legislation or government policy expected to adversely affect the entity.

ISA 705 stipulates that if an auditor concludes that there is significant doubt about the entity's ability to operate as a going concern for a reasonable period of time, the audit report should include the explanatory paragraph to reflect that conclusion ( after the audit opinion paragraph). The auditor is supposed to use the phrase "substantial doubt about the entity..." And state reasons that leads to such an opinion.

However, taking into consideration the researches of the previous scholars it is clear that auditors are capable of providing a signal about the going concern of an entity. ISA 700 supports this by stipulating that a going concern opinion paragraph must be included in the audit report if a modified opinion is expressed.

## **2.6 Audit Risk (AR)**

According to ISA (315) audit risk is “the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated”. Other scholars define it as the risk that an auditor issues an incorrect report on financial statements. Puttick and Van Esch (2003) stated that auditors should try to reduce the audit risk to as minimum as possible so as to issue a quality audit report. They further indicated that it is impossible to totally remove the audit risk, but it can be reduced to an acceptable level. Audit risk is a factor of the risk of material misstatement and detection risk.

### **2.6.1 Risk of Material Misstatement**

This is the risk that financial statements are materially misstated prior to an audit being performed on them (ISA 400). The risk of material misstatement consists of two components which are; inherent risk and control risk.

#### **Inherent Risk**

Puttick and Van Esch (2003,p, 139) defines inherent risk as “ the susceptibility of an account balance or class of transactions to misstatements that could be material, individually or when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls”. Inherent risk is usually associated with the nature of the transactions that is it’s

considered to be higher where transactions of an entity are highly complex or where they involve high degree of judgement.

ISA 400 stipulates that when assessing inherent risk, there are two stages to the procedure namely:

- Assessment of inherent risk at the overall financial statement level and,
- Assessment of inherent risk to material account balances or classes of transactions at the assertion level.

Puttick and Van Esch (2003) noted that there are certain factors which an auditor should consider when using professional judgement to assess inherent risk at overall financial statement level and at assertion level. These are as follows:

**At overall financial statement level**

- The integrity of management
- Management experience and knowledge and changes in management during the period, for example the inexperienced management may affect the preparation of the financial statements of an entity.
- Factors affecting the industry within which an entity operates.
- Nature of the entity business.

### **At the assertion level**

- The degree of judgement involved in determining account balances
- The complex of transactions that might require using work of an expert.
- Transactions that are not subject to repetitive processing.
- Completion of unusual or complex transactions at or nearer period end.

### **Control Risk (CR)**

Puttick and Van Esch (2003, p ,142) defines control risk as “ the risk that a misstatement in an account balance or class of transactions that could be material individually or when aggregated with the misstatements of other balances or classes , will not be prevented or detected and corrected on a timely bases by the accounting and internal control system”. Other scholars generally define it as the material misstatements in the financial statements arising due to the absence or failure relevant control system of an entity.

ISA 315 stipulates that control risk arises due to lack of build-in internal controls of the accounting system, thus resulting in inaccurate, incomplete and invalid transactions being recorded. Jackson and Stent (2010) states that there are two phases which an auditor uses when assessing control risk. These are as follows:

- Preliminary assessment which is made before test of controls. The auditor must identify those controls which might be effective and efficient to rely on when conducting an audit.
- Final assessment, which is done after the performance of test of controls, to determine whether controls to be relied upon by the auditor were done adequately as they were designed.



The control risks are to be determined as high if they are insufficient to prevent or timeously detect an error and the auditor will not rely on such system. If the test of controls provides evidence that is satisfactory for the auditor to place reliance on such system, the control risk is to be determined as low (Puttick and Van Esch, 2003).

## **2.7 Detection Risk (DR)**

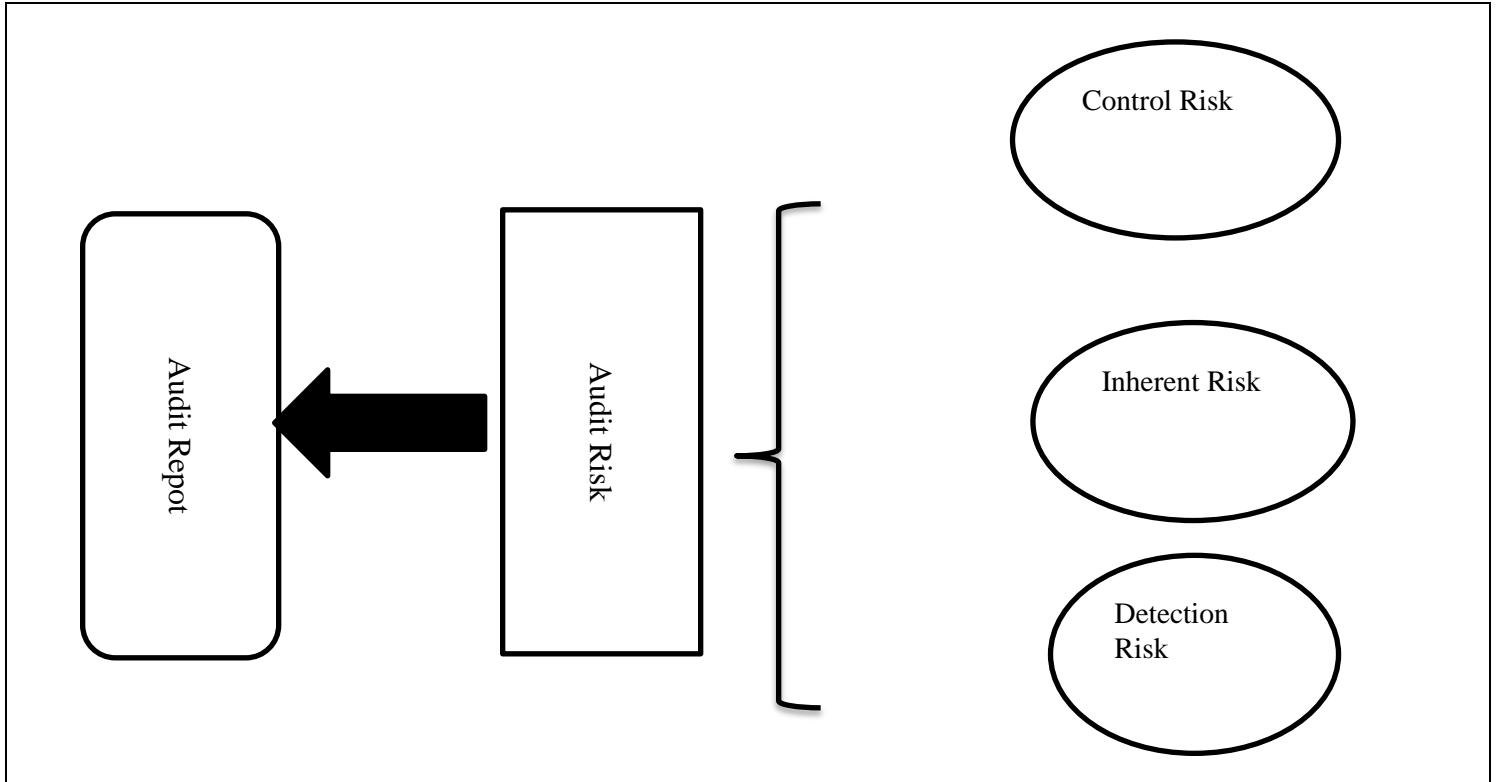
ISA (315) defines detection risk as the risk that “procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements”.

Jackson and Stent (2010) purports that both inherent risk and control risk are uncontrollable by the auditor, but failure to detect these risks will result in inappropriate opinion being expressed. They further states that there is an inverse relationship between the risks of material misstatement and detection risk. Therefore the higher the detection risk the lower the risks of material misstatement and vice versa.

## **2.8 The Effects of Audit Risk Model on Audit Opinion**

The figure below shows the audit risk model and how it directly affects the audit report.

Figure 2.1 Audit Risk Model.



**Source: Jones, 2010**

## **2.9 Auditors Liability**

The International Standards on Auditing (ISAs) stipulates that, auditors are expected to possess the basic fundamental principles in auditing. These principles are generally five, namely: Objectivity; Integrity; professional competence and due care; Confidentiality and Professional behavior. Gibbs (2010) notes that if an auditor fails to observe the fundamental principles in auditing he/she should be held liable if an incorrect opinion is expressed. Krishnan and Krishnan (2009) stated that auditors should be held liable if they fail to exercise reasonable skill and diligence when performing their duty. The auditor's liability can be separated into six groups, as follows:

1. Liability of Negligence: - the Companies Act (2000) states that an auditor will be held liable and requested to compensate if a client suffered a loss due to negligence, but if no loss is suffered an auditor will not be held liable even after the auditor has been proved to negligence.
2. Liability for Misfeasance: - According to Reilly (2009) this type of liability arises during the winding up of a company. This liability means that the auditor has breached the duty of trust which later results in the entity suffering huge or minor losses.
3. Criminal Liability: - [www.businessforum.com](http://www.businessforum.com) states that if an auditor commits various offenses such as: the auditor's report not complying with the statutory and the auditor is fully aware of it or if it has been proved that the auditor has falsified the accounts.
4. Liability of Honorary Auditor: - According to Jackson and Stent (2010) this occurs when a person acts as an auditor for an entity without being paid or receiving less amount. If negligence or misfeasance is proved, an honorary auditor will not be relieved for the liability.
5. Liability for liable: - Reilly (2009) states that if an auditor attacks an employee or an officer of an entity which has been audited in his audit report and later damage the goodwill of that person, the auditor will be held responsible. The auditor will not be held responsible if the audit report is based on facts.
6. Liability to the Third Party: - According to Jackson and Stent (2010) the auditor has no contract with the third party, but since third parties are also users of the audit report, the auditor will be held liable if the third party suffered a loss through the following;
  - If the statement signed by the auditor was not true.
  - Third party suffered a loss by relying on the statement of auditor.

- If the statement was made with the intention that the other party should act on it.
- If auditor gave his consent for the inclusion of such statements in the prospectus

## **2.10 Summary**

This chapter provided a discussion of the credibility of the audit report, the going concern and audit risk elements which compromise the usefulness of the audit report. Based from the previous scholars it is clear that the audit report is really an important tool that most entities including banks, uses when making decisions.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY AND DESIGN**

#### **3.0 Introduction**

The chapter gives a description of how the research was carried out in order to meet the objectives of the study. The chapter outlines and justifies the selection of the research methodology used to analyse the credibility of the audit report to commercial banks in making financing and investing decisions. This includes the selection criterion to research participants from the targeted population and sampling procedures to be used in conducting the research. The chapter also covers the data collection methods which were primarily through the use of questionnaires and interviews as well as secondary data from publications. The merits and demerits of research techniques used in the research are also discussed and the chapter summary.

#### **3.1 Positivism Philosophy**

This study adopted the positivism philosophy and it is usually used by natural scientists. This philosophy entails that the end results of a research is based on facts rather than on impressions. This philosophy basically helps to quantify the observations with the help of statistical methods. It helps to facilitate the estimation of quantitative cost and allow the hypothesis to be tested. The research used this philosophy to collect data from commercial banks board members on their view and attitude in regards to the usefulness of audit report in making financing and investing decisions. A descriptive method was used to analyse the data from respondents. The research can be taken in as far as possible in a value-free way (saunders, Lewis and Thornhill, 2009). They also stated that the researcher plays a very significant role as an objective analyst to evaluate the

data collected and to produce unbiased results such that the aims and objectives of the research can be achieved.

### **3.2 Descriptive research**

The research adopted descriptive research design as it is suitable to provide an accurate description of observations of a phenomenon or about the population being studied (Saunders et al 2009). Burns and Grove (2009) states that descriptive research is designed to provide a picture of a situation as it naturally happen. The descriptive research was chosen by the researcher because it enables data triangulation through its ability to collect data using a mixed method therefore the researcher is able to gather a lot of information for detailed studying. The researcher decided to use descriptive research design because of its capability to gather first-hand information from the respondents which do not distort and influence the validity and reliability of the study.

### **3.3 Research Design**

In deciding on the appropriate research methodology to use for this study, the researcher applied the following methods; first the researcher selected suitable methods that best suits the various questions that were raised in the research questions. Gosh (2002, p, 20) defines research methodology as “the arrangement of conditions for collection and analysis of data”. Selliz (2006) also describes it as a tool which shows how systematic and careful the study was carried out. Denzin and Lincoln (2005) noted that the research topic and research questions determine the appropriate research methods to be selected. Secondly the research method selected should be assessed from the practical point of view to assess if it suits the real life situations. Brayman

(2011) stated that the issue of practicality in applying research methods in real life settings should be considered, other than addressing the research questions only.

There are three types of research techniques which can be used to come up with the research results, which are quantitative, qualitative and mixed method. Brayman (2011) suggests that the distinction between these research methods is in their suitability to answer particular research questions. The researcher employed a mixed method of collecting data, which incorporates both qualitative and quantitative methods.

### **3.4 Mixed Research Method**

This method combined both qualitative approach and quantitative approach. Many scholars call this approach a “triangulation” method. A mixed approach method was considered appropriate for this research because of the following reasons:

- Both qualitative and quantitative components can have equal status and it is very effective for gaining insights in drawing a strong conclusions.
- The weaknesses of both qualitative and quantitative methods are compensated by the counter balancing strengths of each other.
- This approach is flexible in that, it considers the outcome rather than any prearranged position.
- The method use qualitative data to help explain the relationship between the quantitative variables.

### 3.5 Target Population

Saunders, Lewis and Thornhill (2009) defines a population as the set of entities that decisions relate to. Sekeran (2010) also defines it as a group of people or objects with similar characteristics. However a target population is usually known as a group of people with similar traits selected to represent the population under study. In this study the population only consists of commercial banks, with head offices which are all in Harare. The individuals selected are knowledgeable of the audit report and its contents and they make the bulk of the decisions for their respective banks in regards to financing and investing options. The groups identified comprised of the board members and executive management.

**Table 3.1 Target population**

<b>Title</b>	<b>Population</b>
Commercial Banks	15
Total	15

*Source: Field research*

#### 3.5.1 Sampling

Sekeran (2010) described sampling as an infinite part of statistical population, whose properties were studied to gain information about the entire population. Saunders, Lewis and Thornhill (2009) further notes that the nature of the population to be sampled suggests the size of the sample. Therefore the larger the sample, the greater the probability of getting more accurate results. However sampling techniques are applied when it is impossible to study the whole population due to various reasons such as time and financial constraints.



### **3.5.2 Sampling Procedures**

### **3.5.3 Random Sampling**

This technique is based on probability whereby a particular group or people or individuals are selected from the whole population. Saunders, Lewis and Thornhill (2009) noted that the sample size should be twenty to thirty percent of the targeted population, and sometimes it should be taken up to forty percent depending on the size of the whole targeted population. Based on Saunders literature, this research considers the range of thirty (30) percent as the most appropriate because of the nature and sensitivity of the institutions under study .However only four banks among the Commercial banks in Zimbabwe were selected using random sampling. Random sampling was used because it is unbiased.

## **3.6 Sources of Data**

The research used both primary and secondary sources of data.

### **3.6.1 Primary Data**

Primary data was gathered from different sources and it can be obtained through the use of case studies, true experiments and randomized controlled studies. For the purposes of this study, primary data was collected using interviews and questionnaires. Primary data provided valid and specific information for the subject under review. It was also considered to be original and less biased since the data was collected direct from the targeted population. More so Primary data can be collected in changing circumstances because the study can change collection techniques.

### **3.6.2 Secondary Data**

Secondary data was obtained from Reserve Bank of Zimbabwe (RBZ) publications, reports, circulars, newspapers, various officials and unofficial internet publications. This tool was used because it was readily available and accessible from the market and on internet. It was also used because it saved the researcher's time and reduced the costs of gathering information. Secondary data though it may not be sufficient to meet the exact needs of the study; it may be an aid to the researcher in providing an insight concerning the matter under study.

Various researchers came up with the following merits and demerits of secondary data.

#### **Advantages**

- It helps to make primary data collection more specific.
- It helps to improve understanding of the problem.
- It provides a basis for comparison for data that is collected by the researcher.
- Relatively cheap because information is readily available.
- Access time is generally short.
- Researcher has the option of disregarding it at all.

#### **Disadvantages**

- Data available may not be accurate.
- Data is not problem specific and thus the researcher has to make an assessment of what to consider and what to disregard.

### **3.7 Research Instruments**

This is the process of collecting data, using data collection techniques such as interviews, questionnaires and document analysis. The research used interviews, questionnaires and historical text (document analysis) as instruments of collecting data from selected participants. The methods were chosen because of their superiority compared to the other methods in terms of answering research questions. Other methods such as life story, observation techniques and visual texts were not appropriate because this study sought opinions and perceptions rather than studying behaviour.

#### **3.7.1 Questionnaire**

Briggs (2005) defines a questionnaire as a data collection tool in which a series of written questions are presented to gather information from the respondents in a written form. Weber (2008) indicated that a questionnaire can be used to obtain either factual information or opinions. The research used both open ended and closed questions. Open ended questions allowed the respondents to answer in their own opinions hence responses varied. The questionnaires were administered by hand delivery as supported by Briggs (2005). Due to the limited time, some of the respondents had to fill them in whilst waiting.

Questionnaires were chosen because of the following reasons: it gave the respondents more time to give well thought answers, thereby coming up with satisfactory and more informative response. The following advantages and disadvantages were encountered while conducting questionnaires:

## **Advantages**

- The responses are gathered in a standard way, so the questionnaires are more objective.
- The respondents complete the questionnaires at their own free time, thereby enhancing the chances of getting more accurate responses.
- Questionnaires were structured which enhanced focus to the objective of the research.
- Due to anonymity, the respondents were able to answer sensitive issues

## **Disadvantages**

- Open ended questions generate large amounts of data that can take time to process.
- Questionnaires were structured and that limited flexibility to the respondent in respect to format.
- Possibility of further investigation is limited.
- No control over who actually answers the questionnaire.

### **3.7.2 Interviews**

An interview is a two-way communication between the interviewer and the respondent that seeks to obtain information from the respondent. Best and Khan (2000) stated that interview method enables the researcher to clarify points which are unclear in the structured questionnaire. Weber (2001) noted that interviews can be used to obtain both qualitative and quantitative information. The appropriate type of personal interview is determined by considerations such as a research subject matter, data requirements and available resources Best and Khan (2000). This gives the researcher an opportunity to verify the information given by respondents immediately.

There are three ways in which data collection using interviews can be obtained; mainly face-to-face interview, telephone interviews and focus group interviews. Denzin (2005) suggests that face-to-face interviews are most suitable technique because of the potential to provide vast amounts of data. Proctor, (2010) indicates that interviews have a wide spectrum of forms, namely; structured, unstructured and semi structured. The interviews used in this study were semi structured, where the research questions were partially prepared in advance. Therefore semi structured interviewing allows more valid response from the informants perception of reality.

### **Advantages**

- The interview saw the research topic from the perspective of the interviewee and provided an understanding on how and why he came to have this particular perspective.
- Clarifications were made easily by using added questions.
- Interviewing provided the research with an insight into the participant's thoughts, ideas and memories in their own words.
- Quick and accurate data was collected.
- Non-verbal communication may be noted which may be able to be of value to the researcher.
- The interviewer can reconsider the respondent to see whether they fit the population profile.

### **Disadvantages**

- Interviews were expensive as the researcher had to travel to Harare.
- Interviews were also time-consuming and it was difficult to get an appointment with the respondents.

- Interviews can affect the whole data if not conducted with consistency.
- Questions may be panel beaten by the respondent during the interview. Especially if they felt the questions are sensitive.

### **3.7.3 Document Analysis**

In addition to the interview approach, the data from the secondary sources such as an analysis of formal documents and records published by a particular institution was also utilized. Data from Reserve Bank of Zimbabwe publications and from the selected sample websites was mainly used. Weber (2008) stated that data collected from records, publications and other documents provides a further insight into the parts of “lived experience”.

#### **Advantages**

- Data from secondary sources contained valuable information about the problem under investigation.
- It helped the research to grasp problems better and gives space for a more scientific conclusion and verification.
- It gives the researcher a starting point to draft the research questions or interview questions.
- The data is generally cheap and easy to access.

#### **Disadvantages**

- The documents bore the bias of the person writing the report as well as the organisation’s perspective.
- The documents may have been out of date, hence providing misleading information.

### **3.8 Validity and reliability of research Instrument**

Reliability refers to the extent to which an independent researcher studying the same topic within the same given working framework comes up with similar results. Reliability is therefore the degree of consistence that is demonstrated by the procedures employed in a study to give reliable estimates (Proctor, 2010). Thus a reliable instrument should give precise, stable and consistent results. The aim of reliability is to ensure that, the probability of errors and bias is minimised. To ensure the reliability of the instruments used, questionnaires and interviews schedules were piloted and adjusted before they were administered to respondents.

Validity is the quality of data gathered that is relevant to the field of study. It therefore rests on the premise that the instruments used will enable the study to gather and measure what the study intends to measure. To ensure the validity of data gathered, the researcher had to analyse data given and then equates it to the research objectives. Amaratunga et al (2002) noted that “ there is a different perspective on the validity when viewed within the context of qualitative and quantitative research... qualitative research identifies the presence or absence of a given feature in a given problem or situation, as opposed to quantitative research which measures the degree of presence of the feature itself”.

### **3.9 Measurement of Variables**

The research has two variables, namely audit report as the independent variable and financing and investing decisions as the dependent variables. The table below shows how these variables were measured in this research.

**Table 3.2 Measurement of Variables**

<b>Variables</b>	<b>Measurement</b>
Audit Report – Independent variable	0- Unmodified report 1- Modified report
Decision Making – dependent variable	0- Financing and investing decisions

### **3.9.1 Chi-square**

The chi-square test was employed to test whether there is a significant difference between the expected frequencies and the observed frequencies in one or more categories. The research adopted to use a predetermined alpha level of significance of 5% for the purposes of this study. The chi-square was used to test the hypothesis that the researcher has developed in the first chapter of this study. The chi square uses the following formula:

$$\mathbf{X_2} = \frac{(o-e)^2}{e}$$

**Where O** - is the Observed Frequency in each category

**E** - is the Expected Frequency in the corresponding category

**X<sub>2</sub>** . is Chi Square



### **3.10 Data Collection Procedures**

Amaratunga et al (2002) stated that, this refers to how the measuring instruments were organized and conducted, in the case of interviews and how the research instruments were distributed and collected, in the case of questionnaires. In a nut shell, data collection procedures refer to the steps taken in administering instruments and collection of data from respondent under steps.

#### **3.10.1 Data Presentation and Analysis Procedures**

Data analysis is the act of transforming data with the aim of extracting useful information and facilitating conclusions. Data analysis can be split into qualitative data analysis and quantitative data analysis. Amaratunga et al (2002) defines qualitative data analysis as consisting of three concurrent flows of activity, namely; data reduction, data display and conclusion drawing and verification. Data reduction can be seen as the process of converting or transforming data from field notes to a meaningful design or pattern. Data display is the creation and use of data collected such that it can be analysed easily. Conclusion drawing and verification, is the final analysis and presentation of data such that it can be availed for use to others. The researcher will present the data gathered by making use of graphs, charts and tables.

Quantitative data analysis is viewed as an ordered, compressed assembly of data that allows conclusion drawing and action. It deals with mathematical data analysis techniques such as Chi-square analysis, regression analysis, correlation analysis, factor analysis, etc. quantitative data consists of raw data assessment, data processing, completing data analysis, etc. Raw data was assessed to determine the data patterns of various types such that a hypothetical relationship can be established.

### **3.11 Conclusion**

This chapter discussed the various methodologies which were used by the researcher throughout the research. It highlighted the research design which was used, population, sampling techniques, data collection procedures and the techniques used. The research was mainly conducted using a questionnaire, interviews and document analysis. The chapter also discussed merits and demerits of each data collection method used.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.0 Introduction

This chapter presents and analysis the findings of the research on the analysis of the credibility of audit report for commercial banks in making financing and investing decisions. The findings being analysed was collected using the methodology outlined in chapter three. Questionnaires were distributed and administered. Interviews and document analysis were also conducted. The responses obtained from questionnaires, interviews and document analysis will be presented in tables, graphs and charts. Regression analysis will be used to test the hypothesis of the research study. The findings are responses from BancABC, FBC, ZB Bank, and Eco Bank.

#### 4.1 Data Response Rate

The research used questionnaires, interviews and document analysis as research instruments. The responses obtained are presented and analysed below.

##### 4.1.1 Questionnaires

Description	Administered	Responded	Not Responded	Response Rate
BancABC	10	10	0	100%
FBC Bank	10	9	1	90%
ZB Bank	10	8	2	80%
Eco Bank	10	9	1	90%
Total	40	36	4	90%

**Source: Primary data**

### **Table 4.1 Questionnaire Response Rate**

Questionnaires were the main instrument of collecting data. A total of forty (40) questionnaires were administered to the targeted respondents which consist of only board members, (executive management only). Out of forty questionnaires distributed, thirty six (36) usable responses were returned summing up 90% response rate. The response rate was considered as a fair presentation of the population as only 10% of the respondents failed to return the questionnaires. Four out of forty questionnaires were not returned by the targeted respondents. Webster (2008) suggests that a good response rate should be 50% and is viewed as adequate for the evaluation and reporting. Therefore the response rate of 90% was significant enough to justify the findings of the study.

#### **4.1.2 Interviews**

A total of twelve (12) interviews were scheduled, targeting the executive management. The research managed to interview ten (10) executive managers seeking clarity in some areas. This responded a response rate of 83, 33%. The response rate was also significant to qualify the reliability of the results obtained. Table 4.2 illustrates the response rate obtained from the interviews.

<b>Description</b>	<b>Interviews Scheduled</b>	<b>Interviews Conducted</b>	<b>Response Rate</b>
BancABC	4	4	100%
FBC Bank	3	2	66.66%
ZB Bank	3	2	66.66%
Eco Bank	2	2	100%
Total	12	10	83,33%

**Source: Primary data**

## Table 4.2 Interview Response rate

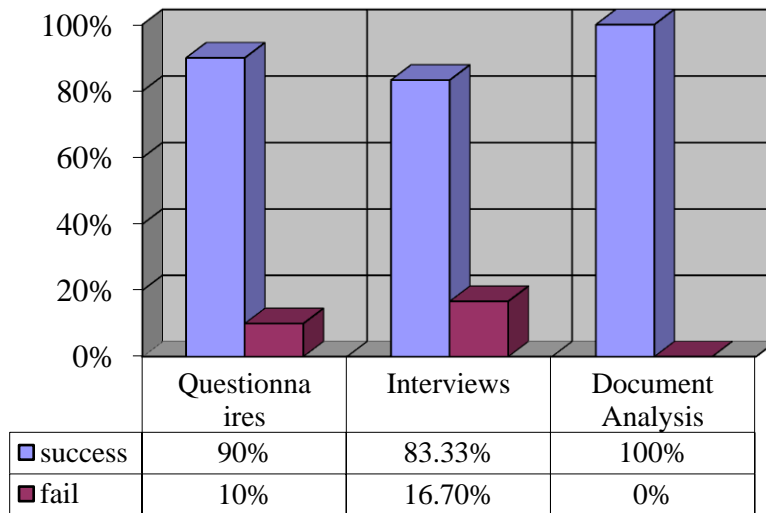
### 4.1.3 Document Analysis

The research intended to analyse two (2) documents which are on internet for public consumption. All the two documents were used thereby scoring a 100% response rate. The documents give details of all the banks which were closed since the zim-dollar era, and the type of audit report that was given.

### 4.1.4 Overall Responses

The three research instruments used, that is questionnaires, interviews, and document analysis gave different results. Therefore Table, 4.1 summarised all the findings of research instruments employed, in order to clearly justify that the data collected was valid and reliable to draw conclusions for the research study.

Figure 4.1 Overall Response Rate



Source: Primary data

## 4.2 Findings

### 4.2.1 Respondent's years of occupying the executive post

The purpose of this research question was to establish the time or period over which the respondent have been working in the banking sector and occupying the executive post. Figure 4.2 shows the responses given.

**Table 4.3 Years of occupying the executive position**

<b>Years of service</b>	<b>Number of respondents</b>	<b>Percentage (%)</b>
<b>less than one year</b>	<b>2</b>	<b>5.56%</b>
<b>1-2 years</b>	<b>4</b>	<b>11.11%</b>
<b>3-4 years</b>	<b>5</b>	<b>13.89%</b>
<b>5 years and above</b>	<b>25</b>	<b>69.44%</b>
<b>Total</b>	<b>36</b>	<b>100%</b>

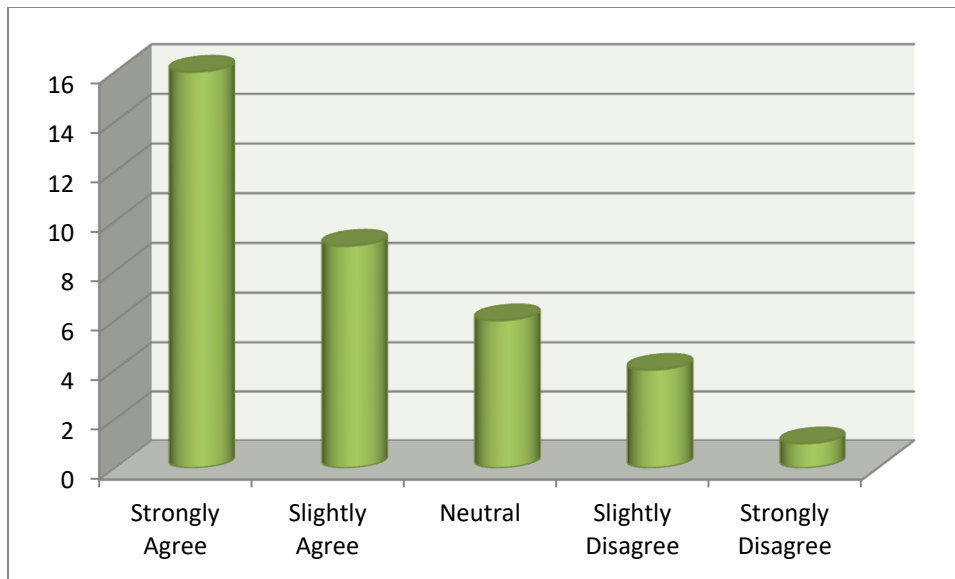
**Source: Primary data**

Out of 36 respondents only 2 have less than one year experience of working as executive managers in the banking sector and they constitute 5.56% of the population. 4 respondents have more than 1 year working as senior managers but less than 2 years and they constitute 11.11%, 5 have more than 3 years but less than 4 years and they represent 13.89%. 25 respondents have more than 5 years of occupying the executive posts and they represent 69.44% of the total respondents. However more than 69% of the respondent have more than 5 years working as executive managers in the banking sector, and this indicates that those who attended the questionnaires have established the roots in the sector and supposed to be fully aware of the usefulness of the audit report in making financing and investing decisions. Therefore it can be

concluded that the majority of the respondents are knowledgeable of the information content that an audit report carries.

#### 4.2.2 Do you agree that an audit report is useful in making financing and investing decisions?

Figure 4.2 Shows respondents view on the usefulness of an audit report in making decisions



Source: Primary data

An audit report may not be an only tool which banks uses when making decisions, therefore this question sought to find out if the audit report is useful in making financing and investing decisions. 44,44% strongly agree that an audit report is useful in making financing and investing decisions, 25% slightly agree , 16.67% were neutral ,11.11% slightly disagree and 2.77% strongly disagree that an audit report is useful in making decisions.

### **Justification for the responses given**

The respondents were arguing that an audit report is useful in regards to financing and investing decisions since it avails information that gives an assurance not only to the public but also to the shareholders and other employees about the banks status. Others also state that an audit report is useful as it provides additional information to some tools that they consider when making decisions. The respondents who disagreed were stating that lending decisions and audit report are totally divergent hence it is not considered for decision making.

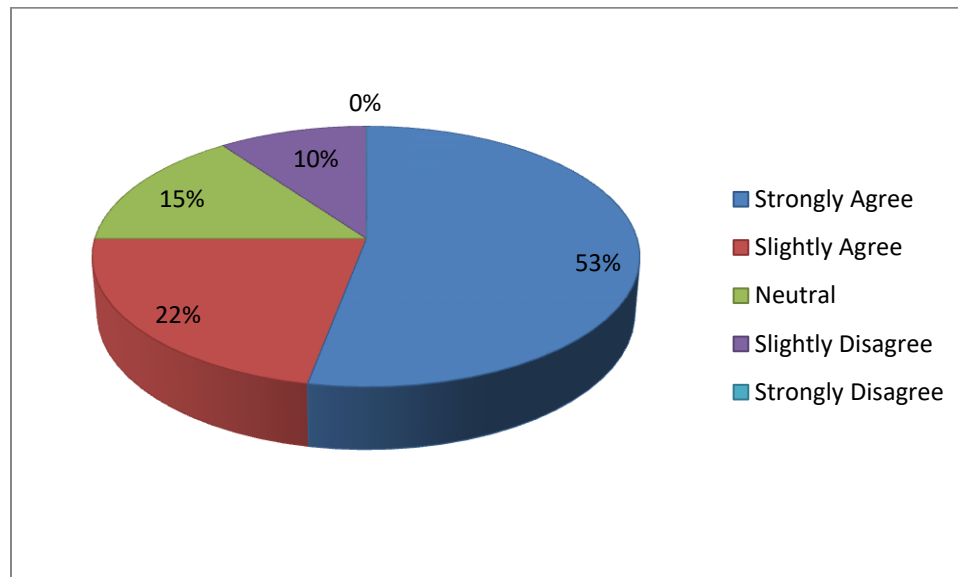
#### **4.2.3 Do you agree that the information content provided in the audit report is sufficient for making financing and investing decision?**

The research also asked this question so as to explore whether the Audit Report serves its purpose as a medium of communication. The research wanted to find out whether an audit report provides necessary information that is sufficient for banks to make decisions. As shown on figure 4.2.4 below, 53% of the respondents strongly agree that the information content provided by the audit report is sufficient to make financing and investing decisions, 22% slightly agree, 15% were neutral, while 10% slightly disagree. However it is evident that the majority of the respondents strongly agree that the information content provided in the audit report is sufficient for banks to make financing and investing decisions. 22% although satisfied with the content of the audit report, admitted that it need to be improved to make more meaningful decisions. 10% of the respondents who slightly disagree were arguing that the audit report provides limited information and it does not analyse the individual elements in the financial statements, hence providing biased information that is not useful sometimes. They were also suggesting that the



information content provided in the audit report lacks practical recommendations therefore rendering it not useful to them.

**Figure 4.3 Representing respondent's views on the adequacy of the information content provided by the Audit Report.**



**Source: Primary data**

The responses show that there is a slight disagreement between the board members as to the adequacy of the information content provided by the audit report. This therefore calls for the audit professional board to suggest how an audit report can be modified such that it delivers what its users expect (especially for banks).

#### **4.2.4 Which type of audit report(s) have you been issued for the past 5 years?**

The question intended to find out the trend on the types of reports that were provided by the auditors for the past five years. These trends helped the research to investigate whether threats to compliance with fundamental principles of auditing were not being compromised. The question

also sought to trace the independence of auditors when executing their work. All the respondents avails that banks are normally issued with unqualified reports, when being equal. Therefore because of that a 100% response rate was given in favour of unqualified reports for the past five years. The findings indicated that the independence of auditors is something that the auditor's board needs to urgently address. Figure 4.2.5 below shows the table with the response rate.

**Table 4.4 Type of audit report issued for the past five years**

Description	Year					Number of Respondents	Percentage (%)
	2013	2012	2011	2010	2009		
BancABC	Q	Q	Q	Q	Q	10	100
FBC Bank	Q	Q	Q	Q	Q	9	100
ZB Bank	Q	Q	Q	Q	Q	8	100
Eco Bank	Q	Q	Q	Q	Q	9	100
<b>Total</b>						<b>36</b>	<b>100 %</b>

Source: Primary data

NB: Q stands for unqualified report.

#### **4.2.5 Do you agree that different types of audit reports have an effect on financing and investing decisions?**

This question sought to find out whether an unqualified, qualified, adverse and or disclaimer audit reports change the type of decisions made by banks in regards to financing and investing decisions. Also the research wanted to assess whether banks really understand the message conveyed by different types of audit reports since these types of reports are issued under different circumstances.

## Unqualified Audit Report

**Table 4.5 Show the respondents view on unqualified report in making financing and investing decisions**

	<b>Strongly disagree</b>	<b>Slightly disagree</b>	<b>Neutral</b>	<b>Slightly agree</b>	<b>Strongly Agree</b>
<b>Number of respondents</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>6</b>	<b>26</b>
<b>Percentage (%)</b>	<b>0%</b>	<b>5,56%</b>	<b>5,56%</b>	<b>16,67%</b>	<b>72,22%</b>

### **Source: Primary data**

Out of 36 respondents, 28 who constitutes 77,78% strongly agreed that an unqualified report has an effect in making financing and investing decisions, 6 who constitutes 16,67% slightly agreed, and 2 who constitutes 5,56% were neutral. The majority of the respondents, who strongly agreed supported their stance stating that this type of a report is expressed when there is an adequate discloser of all material matters in the financial statements, hence making decisions based on such a report will yield a successful result. Some were arguing that an unqualified report or any other types of reports does not give a detailed analysis of all the elements disclosed in the financial statements, therefore making decisions basing on type of audit reports could be misleading.

## Qualified Audit Report

As shown by the table below, 58,33% of the respondents strongly agreed that a qualified report has an effect on making financing and investing decisions, while 30,56% slightly agreed, 5,56%

were neutral and also another 5,56% slightly disagreed. The majority of the respondents were stating that making decisions using a qualified report and an unqualified report is the same as these two types of reports are almost similar. It is now evident that as the type of audit report changes the respondents level of confidence in making decisions using such reports is also dropping.

**Table 4.6 Show the respondents view on qualified report in making financing and investing decisions.**

	<b>Strongly disagree</b>	<b>Slightly disagree</b>	<b>Neutral</b>	<b>Slightly agree</b>	<b>Strongly Agree</b>
<b>Number of respondents</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>11</b>	<b>21</b>
<b>Percentage %</b>	<b>0%</b>	<b>5,56%</b>	<b>5.56%</b>	<b>30.56%</b>	<b>58,33%</b>

**Source: Primary data**

### **Adverse Report**

27,78% strongly disagreed that an adverse report has an effect on financing and investing decisions. 30,56% slightly disagreed, 16,67% were neutral, 13,89% slightly agreed and 11,11% strongly agreed. Some respondents were arguing that an adverse report should not be used for decision making, since it represents financial statements which do not comply with the regulatory framework and international standards.

**Table 4.7 Show the respondents view on adverse report in making financing and investing decisions.**

	<b>Strongly disagree</b>	<b>Slightly disagree</b>	<b>Neutral</b>	<b>Slightly agree</b>	<b>Strongly Agree</b>
<b>Number of respondents</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>11</b>	<b>21</b>
<b>Percentage %</b>	<b>0%</b>	<b>5,56%</b>	<b>5.56%</b>	<b>30.56%</b>	<b>58,33%</b>

**Source: Primary data**

### **Disclaimer Opinion**

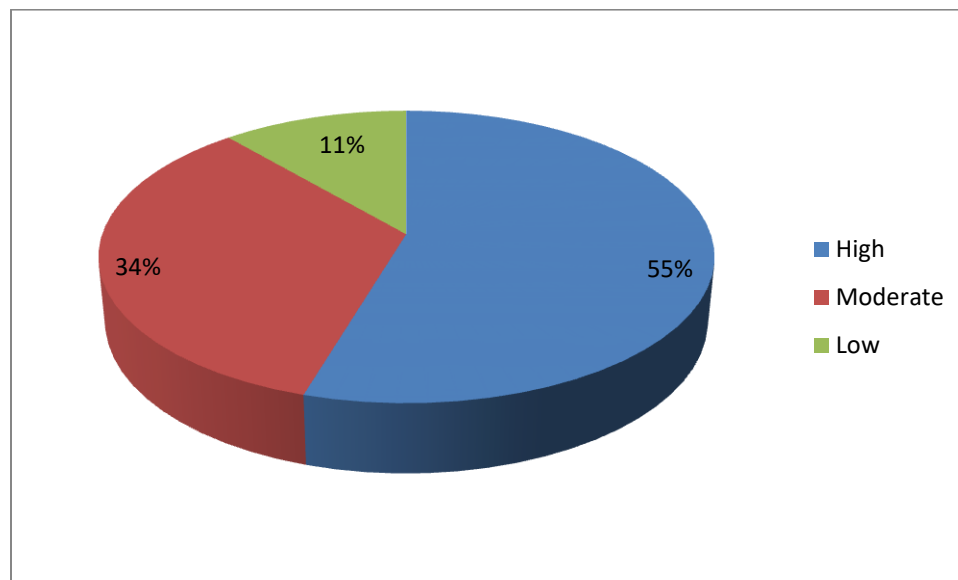
All the 36 respondents who constitute 100% strongly believed that a disclaimer opinion has no effect in making financing and investing decisions. The respondents suggested that it is not common for a bank to be issued with this type of a report. Therefore it is believed that a disclaimer report is not considered when making financing and investing decisions.

### **4.2.6 How do you rate asset valuation opinion in making financing and investing decisions?**

The question sought to find out if banks considers other elements in the audit report such as asset valuation when making decisions, this is supported by Gray and Jenkins, (2012) literature .53% of the respondents strongly believed that the asset valuation opinion had a great impact on financing and investing decisions, while 33% were moderate and 11% rejected this idea pointing out that asset valuation opinions do not affect either financing nor investing decisions. The

research finds out that asset valuation opinion is considered very crucial for banks, as the majority of the respondents supported it in the figure below.

**Figure 4.4 shows the respondents ratings on asset valuation towards financing and investing decisions.**



#### **4.2.8 Factors affecting the credibility of an audit report.**

The question sought to evaluate the factors affecting the credibility of an audit report in making financing and investing decisions. These factors include, audit opinion, going concern opinion, asset valuation opinion and audit risk.

#### **4.2.7 (a) Do you agree that Audit Opinion affects the credibility of Audit Report?**

The audit opinion is the most important part of an audit report, where an opinion is expressed in regards to the whole audit process. The table below show how the respondents perceived an audit opinion as a factor that affects the credibility of audit report.

**Table 4.8 Audit Opinion**

	<b>Strongly disagree</b>	<b>Slightly disagree</b>	<b>Neutral</b>	<b>Slightly agree</b>	<b>Strongly Agree</b>
<b>Number of respondents</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>11</b>	<b>23</b>
<b>Percentage</b>	<b>0%</b>	<b>0%</b>	<b>5.56%</b>	<b>30.56%</b>	<b>63.89%</b>
<b>%</b>					

**Source: Primary data**

A total of 23 respondents who constitutes 63.89% response rate, strongly agreed that an audit opinion has a great impact on the credibility of audit report. They argued that the whole purpose of auditing is to express an opinion, therefore if an incorrect opinion is given, the whole audit report would be spoiled and its usefulness would be questioned. 30.56% slightly agree and 5.56% were neutral.

#### **4.2.7 (b) Do you agree that Going Concern Opinion Affect the Credibility of Audit Report?**

For Commercial banks, this is the most crucial element of an audit report. The question sought to investigate how going concern affect the credibility of audit report in making financing and investing decisions. 88.89% of the respondents strongly agree that the going concern opinion affect the credibility of an audit report, while 5.56% slightly agree and also another 5.56% were

neutral. The majority of the respondents indicated that for a bank to be able to make financing and investing decisions, its going concern assumption has to be positive. However it can be concluded that the going concern assumption for Commercial banks is very crucial in an audit report. Some respondents further states that if an audit report lack or has no going concern opinion it's rendered not useful in making decisions.

The table below show the respondents view regarding going concern and audit report.

**Table 4.9 Response on Going Concern Opinion**

	<b>Strongly disagree</b>	<b>Slightly disagree</b>	<b>Neutral</b>	<b>Slightly agree</b>	<b>Strongly Agree</b>
<b>Number of respondents</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>32</b>
<b>Percentage (%)</b>	<b>0%</b>	<b>0%</b>	<b>5.56%</b>	<b>5.56%</b>	<b>88.89%</b>

**Source: Primary data**

#### **4.2.8 Do you agree that Audit Risk affect the credibility of an Audit Report?**

Audit risk is directly linked to audit opinion formulation; therefore a proper assessment is required so as to come up with a reasonable level of assurance. The question sought to establish the impact of audit risk on audit report.

8.33% strongly agree that audit risk had an impact on audit report, while 22.22% slightly agree and 41.67% were neutral. Also another 22.22% slightly disagree and 5.56% strongly disagree.

The respondents were arguing that audit risk is determined by auditor's professional skills of assessing the risks that are involved with a particular bank before performing substantive



procedures. Therefore if an improper assessment is undertaken, the substantive procedures to be carried out by an auditor may not yield the expected results hence the whole audit report would be biased. Others who strongly disagree were stating that there is no relationship between audit risk and audit report. The table below shows the respondents view on audit risk.

**Table 4.10 Show the respondents view on Audit Risk.**

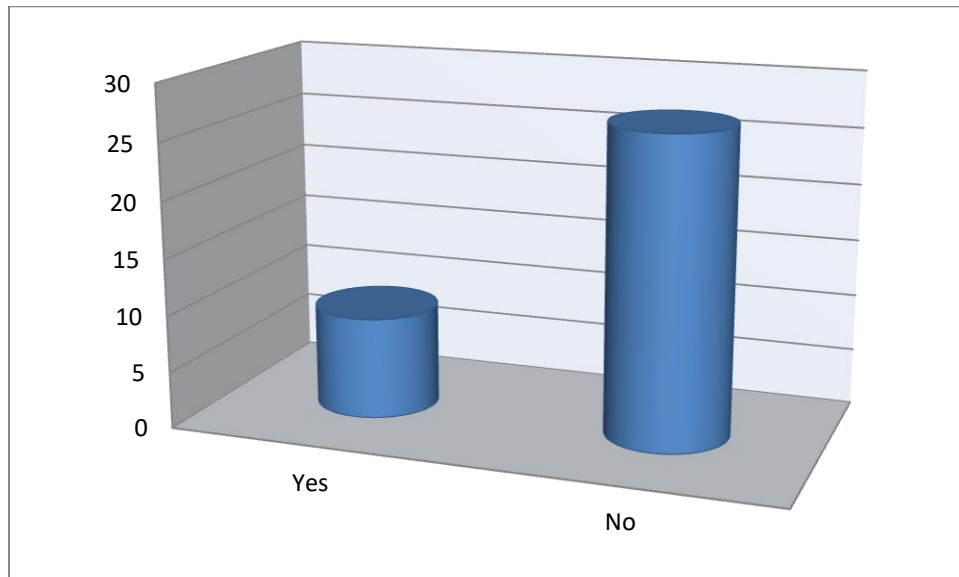
	<b>Strongly disagree</b>	<b>Slightly disagree</b>	<b>Neutral</b>	<b>Slightly agree</b>	<b>Strongly Agree</b>
<b>Number of respondents</b>	<b>2</b>	<b>8</b>	<b>15</b>	<b>8</b>	<b>3</b>
<b>Percentage (%)</b>	<b>5.56%</b>	<b>22.22%</b>	<b>41.67%</b>	<b>22.22%</b>	<b>8.33%</b>

**Source: Primary data**

#### **4.2.9 Have you been issued with an incorrect audit report before?**

75% of the respondents indicated that they have never been issued with an incorrect report; only 9 of them who constitute 25% of the sample indicated that they have been issued with an incorrect report in 2010. All the 9 respondents were from Eco bank, but during that time it was called Premier Investment bank. They states that no action was taken against the auditors since they could not prove negligence in their work.

**Figure 4.5** Below shows the response rate in regards to an incorrect report



**Source: Primary**

### **4.3 Hypothesis testing**

The data analysis was done using chi-square. Lucey 2002 suggest that the hypothesis test is important in determining the actually and the observed distribution and is recommended as best fit for testing. For this purpose of the study it required to test at 5% level of significance of the following hypothesis

*“The audit reports on banks may fail to detect financial risks rendering them not useful in making financing and investing decisions”.*

**Table 4.11 Contingency table**

Variables	Strongly Disagree	Slightly Disagree	Neutral	Slightly Agree	Strongly Agree	Total
High	0	1	3	6	10	<b>20</b>
Moderate	1	3	2	2	4	<b>12</b>
Low	0	0	1	1	2	<b>4</b>
<b>Total</b>	<b>1</b>	<b>4</b>	<b>6</b>	<b>9</b>	<b>16</b>	<b>36</b>

**Source:** survey

1. the establishment of the degree of freedom

$$V = (\text{No of row} - 1) \times (\text{No of column} - 1)$$

$$= (3-1) \times (5-1)$$

$$= 8$$

Therefore the critical point with 8 degree of freedom on chi-square distribution table is **15.507\*\***

**NB: 15.507\*\* is given on the Chi-square Critical Values Distribution Table. (Appendix 3)**

#### 4.3.1 Expected frequency

Table 4.12 shows the expected frequency

Variables	Strongly Disagree	Slightly Disagree	Neutral	Slightly Agree	Strongly Agree
High	0.56	2.22	3.33	5	8.89
Moderate	0.33	1.33	2	3	5.33
Low	0.11	0.44	0.67	1	1.78

## Formula

$$\text{Expected frequency} = \frac{\text{row total} \times \text{column total}}{\text{grand total or total number of respondents}}$$

### 4.3.1 Calculation of Chi-Square

$$X^2 = \sum \frac{(O - E)^2}{E}$$

E

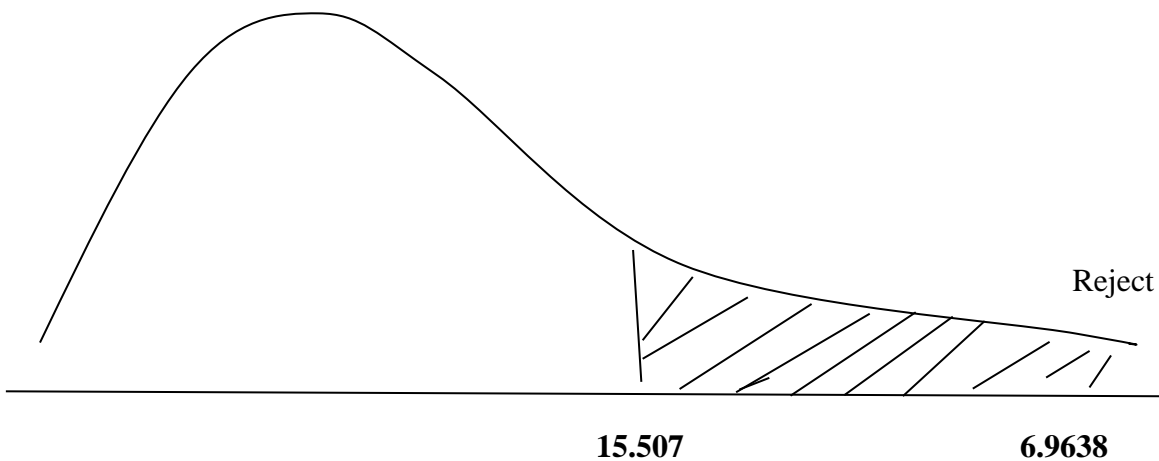
**Table 4.13** Chi square calculated

Observed [O]	Expected [E]	O-E	(O-E) <sup>2</sup>	$\frac{(O - E)^2}{E}$
0	0.56	-0.56	0.3136	0.56
1	2.22	-1.22	1.4884	0.6705
3	3.33	-0.33	0.1089	0.0327
6	5	1	1	0.2
10	8.89	1.11	1.2321	0.1386
1	0.33	0.67	0.4489	1.3603
3	1.33	1.67	2.7889	2.0969
2	2	1	1	0.5
2	3	-1	1	0.3333
4	5.33	-1.33	1.7689	0.3319
0	0.11	-0.11	0.0121	0.11
0	0.44	-0.44	0.1936	0.44
1	0.67	0.33	0.1089	0.1625

1	1	0	0	0
2	1.78	0.22	0.0484	0.0271
<b>TOTAL</b>				<b>6.9638</b>

The chi-square calculated of 6.9638 was lesser than the critical point of 15.507 therefore the researcher rejects the null hypothesis which states that audit reports are not useful for making financing and investing decisions. This implies that audit reports have an impact on making financing and investing decisions for Commercial banks as illustrated in the figure below:

**Figure 4.6 Chi-square**



**Conclusion**

The study deals with the presentation and interpretation of the research findings. The data was analysed using mixed method techniques. The next chapter deals with the summary of the study, conclusion and recommendations.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This final chapter summarises and draws conclusions on the main findings of this research, conclusion of the hypothesis and recommendations on the credibility of audit report for Commercial banks in making financing and investing decisions. The chapter also discusses the contributions of the research and finally highlights the limitations of the study.

#### **5.1 Summary of the research**

Chapter one of the research introduced the background of the study, statement of the problem, hypothesis ,conceptual framework, delimitation of the study, limitation of the study and its significance to various groups of information users were also outlined. Also the questions and objectives which had to be answered and achieved by the research were set.

Chapter two outlined what various reputable authorities say about the credibility of audit report, and the information contents that it carries. The chapter also highlighted some of the factors that can reduce the quality and credibility of an audit report for making financing and investing decisions in Commercial banks. It also highlights the audit risk that is associated with the audit process and the liability of an auditor when an incorrect report is issued.

The research methodology employed to obtain data for the study was dealt with in chapter three. The research design and techniques, data collection processes, field work process, validity and reliability of data, measurement of variables and data analysis were presented in detail. A mixed research method was chosen as the most appropriate data collection technique. Data collection

techniques and instruments were established by considering their merits and demerits. Questionnaires, semi structured interviews and analyses of documents were used to collect data.

Chapter four encompassed data presentation and analysis of all the information collected through questionnaires, interviews and document analysis. The research findings obtained from the data collected was presented with the aid of graphs, pie charts and tables. The variables were tested using chi-square.

### **5.3 Conclusions**

The following conclusions were drawn from the research based on the research findings:

- **Usefulness of audit report in making financing and investing decisions.**

The research concluded that the audit report is useful for Commercial banks in making financing and investing decisions and this is in line with Shaw's literature (2010) in chapter two. As supported by the results of the hypothesis test, the research rejected the hypothesis that audit reports are "not useful" in making lending and investing decisions. Banks strongly agree that an audit report is useful in making decisions, but the type of the audit report issued by an auditor influences their lending and investing decisions. The research also concluded that banks had more confidence in making decisions using an unqualified report than other reports as supported by DeAngelo (2011) literature in chapter two.

- **Adequateness of the information provided by the audit report.**

The research also concluded that the information content provided by an audit report is not sufficient to make adequate financing and investing decisions. Banks agreed that the information provided though it's useful, it is not adequate. It was also concluded that the information content

provided by the audit report, does not give an analysis of elements disclosed in the financial statements. Banks strongly believe that the audit reports should be tailor made to meet the specific needs of entities and the language used in the audit report should convey a message that a person of reasonable understanding should be able to interpret it. Therefore the research supported the literature by ICAEW (2007) which states that the information content provided in the audit report is not enough for banks to make financing and investing decisions. More so, the research concluded that there is an exception gap between what the users of audit report expect and what the auditors can deliver.

- **Factors which affect the credibility of audit report.**

The research concluded that audit opinion, going concern opinion, and audit risk affects the credibility of an audit report, this is in agreement with literature from Feldmann and read (2009) in chapter two. The banks strongly agreed that these factors if not carefully tackled by an auditor, an incorrect report would result. The research also concluded that the going concern assumption is very crucial for the growth of banks. Investing decisions are largely affected by the going concern assumption.

- **Auditors liability**

The research concluded that the auditors should not be held liable, unless the bank or any entity can prove in the courts that the auditors were negligence in executing their duty and also if the client proves that they suffered a loss as a result of using an incorrect report.



## 5.4 Recommendations

The study analysis the credibility of audit report for Commercial banks in making financing and investing decisions. Based on the conclusions set out above, the research made the following recommendations:

- The research recommends that, the information content in the audit report should be adjusted such that it meets the specific needs of the clients, rather than following a standardized format.
- The research also recommends that clients should not only rely on audit report to make their decisions, since the auditing profession is subject to its limitations which might result to an incorrect report being issued, and also the audit report does not give an absolute assurance about the financial statements.
- The extent of work done by the auditors is not clearly spelt out to clients to the extent that it leaves clients with a wrong perception of the merits and demerits of audits. The audit report is seen as the medium of communication between the users and the auditors but it does not spell out the extent of work done by auditors. Therefore the research recommended that users must be knowledgeable of the roles of an auditor, their duties and responsibilities.
- The auditors should try to use the terminologies that are user friendly or educate the clients about the audit terminology used in the audit report. This can be done either through educative meetings with clients or the audit profession at large should try to change the wording of the audit report to simple English that can be easily understood by

users of financial statements. This is light that the audit report is the only communication medium to the users and should communicate effectively.

### **5.5 Suggestions for future research**

Inorder to increase the credibility of an audit report, the audit profession board should consider including additional information such that it suits the needs of the users. Based on the above recommendations, the degree of detail to be communicated about the recommended information should be considered carefully from several viewpoints, so that information vital to users is disclosed at the same time maintaining confidentiality of certain client information. Further researches could pry on some of the ways of achieving this.

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## APPENDIX A

### QUESTIONNAIRES

#### **Questionnaire**

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My name is Collen Sigudu a fourth year student doing a Bachelor of Commerce Honours degree in Accounting at Midlands State University. I am conducting a research on, **Analysis of the credibility of auditor's report for Commercial Banks in making financing and investing decisions** .I would greatly appreciate it if you can spare your time to answer the following questions. The information that you will divulge will be used for academic purposes only and treated with confidentiality.

---

**Instructions for completion**

1. *Kindly tick where appropriate and use ticks only in each given box.*
  2. *Do not indicate your name as the data being collected is for academic purposes only.*
- 

1. How long have you been a board member at this bank?

- Less than 1 year
- 1-2 years
- 3-4 years
- 5 years and above

2. Do you agree that an audit report is useful in making financing and investing decisions?

Strongly agree	Slightly Agree	Neutral	Slightly Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



4. Do you agree that the information content provided in the audit report is sufficient for financing and investing decision?

Strongly agree	Slightly Agree	Neutral	Slightly Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Which type of audit report(s) have you been issued for the past 5 years?

		Year				
Unqualified	<input type="checkbox"/>					
Qualified	<input type="checkbox"/>					
Adverse	<input type="checkbox"/>					
Disclaimer	<input type="checkbox"/>					

NB: following are the ratings; you are allowed to tick one from each of boxes below.

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Strongly disagree	Slightly disagree	Neutral	Slightly agree	Strongly agree

4. Do you agree that the following different types of audit reports have an effect on financing and investing decisions?

Rate	1	2	3	4	5
Unqualified Audit Report					
Qualified Audit Report					
Adverse Audit Report					
Disclaimer Audit Report					

5. How do you rate asset valuation opinion on making financing and investing decisions?

High  Moderate  Low

6. Do you agree that the following elements may reduce the credibility of an audit report in making financing and investing decisions?

Rate	1	2	3	4	5
Audit Opinion					
Going concern opinion					
Audit Risk					

7. Have you been issued with an incorrect audit report before?

Yes  No

If yes, what action did you took against such a report?

.....  
.....  
.....

9. What do you recommend should be included in the audit report, to make it more useful for financing and investing decisions?

.....  
.....  
.....

## **APPENDIX B**

### **INTERVIEW GUIDE FOR THE MANAGEMENT**

- 1.** What are the importances of an audit report to the organization??
- 2.** In your opinion do you consider a qualified audit report in making financing and investing decisions?
- 3.** How does a going concern opinion affect the organization?
- 4.** What other information do you consider when making financing and investing decisions besides audit report?
- 5.** Is it a statutory for banks to issue audited financial statement?
- 6.** Are auditors liable when an incorrect opinion is expressed?

## Appendix C

The distribution table shows the critical values for chi squared probabilities. The critical values are calculated from the probability  $\alpha$  in column and the degrees of freedom in row of the table.

<b>df/<math>\alpha</math></b>	<b>0.995</b>	<b>0.99</b>	<b>0.975</b>	<b>0.95</b>	<b>0.90</b>	<b>0.10</b>	<b>0.05</b>	<b>0.025</b>	<b>0.01</b>	<b>0.005</b>
1	0.000	0.000	0.001	0.004	0.016	2.706	3.841	5.024	6.635	7.879
2	0.010	0.020	0.051	0.103	0.211	4.605	5.991	7.378	9.210	10.597
3	0.072	0.115	0.216	0.352	0.584	6.251	7.815	9.348	11.345	12.838
4	0.207	0.297	0.484	0.711	1.064	7.779	9.488	11.143	13.277	14.860
5	0.412	0.554	0.831	1.145	1.610	9.236	11.070	12.833	15.086	16.750
6	0.676	0.872	1.237	1.635	2.204	10.645	12.592	14.449	16.812	18.548
7	0.989	1.239	1.690	2.167	2.833	12.017	14.067	16.013	18.475	20.278
8	1.344	1.646	2.180	2.733	3.490	13.362	15.507	17.535	20.090	21.955
9	1.735	2.088	2.700	3.325	4.168	14.684	16.919	19.023	21.666	23.589
10	2.156	2.558	3.247	3.940	4.865	15.987	18.307	20.483	23.209	25.188
11	2.603	3.053	3.816	4.575	5.578	17.275	19.675	21.920	24.725	26.757
12	3.074	3.571	4.404	5.226	6.304	18.549	21.026	23.337	26.217	28.300
13	3.565	4.107	5.009	5.892	7.042	19.812	22.362	24.736	27.688	29.819
14	4.075	4.660	5.629	6.571	7.790	21.064	23.685	26.119	29.141	31.319
15	4.601	5.229	6.262	7.261	8.547	22.307	24.996	27.488	30.578	32.801