MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

Relevance of forensic auditing in detecting fraud in related party transactions (A case study of the Duration Gold Mining Group

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

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DEDICATION

This dissertation is dedicated to my loving parents, Mailos and Sarah Mlanduli.

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I would like to take this opportunity to thank God for all his guidance through the research. I also want to express my gratitude to my academic supervisor Ms E. Mashiri for all the supervision, support and guidance on how to take on the project. I am also grateful to Duration Gold group staff members who were patient enough in sharing with me the information needed. Special thanks go to all my friends and family members for the outwitting support they demonstrated. May God richly bless them.

ABSTRACT

Apart from their declared motives, related parties transactions (RPTs) can mask stakes related to the enrichment of one party at the expense of other parties that are not involved in the transaction. They may, thus, lead to the expropriation of minority shareholders, to the benefit of controlling shareholders, directors or administrators. These groups can make profits by selling to the firm (or buying from it), assets, goods or services, at prices higher (lower) than the market price. They can also obtain loans on favourable terms, use the firm's assets as security for their personal loans, and even dilute the interest of minority shareholders by acquiring additional shares at preferential prices. Both profits and assets can be transferred via transactions between firms belonging to the same group. The transfer of wealth goes from firms located at the bottom of the pyramid towards those located at the top, where the ownership rights of the principal shareholders are higher. Although the duty of the auditor has long been emphasized, and various related party transactions disclosure standards, the unrelenting prevalence of dubious business contracts gives evidence that the currently enacted mechanisms are not foolproof. There is no distinct feeble link; each portion of the series has its identifiable distinct challenges that renders each mechanism either difficult to put into practice or to enforce. Consequently, forensic (fraud or investigative) auditing has recently been emphasized as an investor protection mechanism against abusive related party transactions. This research therefore sought to analyse the relevance of forensic auditing in detecting fraud in related party transactions.

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

TABLE OF CONTENTS

Chapter One: Introduction.

1.0 Introduction

This chapter contains the background of the study, statement of the problem, research questions, research objectives, and significance of the study, limitations, assumptions, delimitations and the definition of key terms.

1.1 Background of the study

Clarity Capital owned Duration Gold Group of Companies is a Zimbabwe focused gold mining venture with four gold producing subsidiaries and two support service companies. The companies are dependent on each other with respect to the services that each company provides and the services vary from management, consultation and accounting services to exploration, carbon generation and sampling services. The group employs a centralised purchasing and related decision making approach; and services performed by the head office or a subsidiary are charged to the respective entity monthly in the form of transfer pricing management fees, intra-group charges or loan accounts.

The data below is an extract from Forbes & Thompson (Pvt) Ltd (the group's main production subsidiary)'s Management Report as at November 2013 and shows the composition of the subsidiary's creditors' ledger balances as a proportion of its total trade payables;

Table 1: NOV 2013 CREDITORS' AGED ANALYSIS SUMMARY

CREDITOR	LEDGER BALANCE (US$)	% OF TRADE PAYABLES
Duration Gold (Parent)	$16,249,532.00	86
Other subsidiaries (Intra-group)	$1,201,042.30	6
Gvt & Local authorities	$230,000.00	1
Other creditors	$1,259,872.69	7
TRADE PAYABLES	$18,940,446.99	100

(Source: F&T November 2013 Third Quarter Management Report)

From data depicted in the charts, it is clear that intra-group transactions form a significant proportion of the firm's operating environment. Severe implications that arise from conducting related party transactions were elaborated by Corlaciu & Tudor (2011) who stated that related party disclosures, related party transactions audit procedures and taxation issues regarding the transfer pricing policies used for intra-group transactions issues need be given special attention in a group setup audit because of the likelihood of an increased overall audit risk.

According to Doshi & Shah (2009), one of the most widely contested issues by tax authorities during a transfer pricing audit (as was noticed at Duration Gold) is the amount paid for intra-group services to group companies. In their research, they suggested that in a transfer pricing context, intra-group services become significant when they are routine in nature, and may become complex as the nature of services moves from routine to more sophisticated; in which case, insider dealing and fraud might be highly probable.

To confirm the group's risk profile, KPMG, the group's external auditor, raised concerns with respect to journals performed by the subsidiaries with respect to intra-group transactions in the interim audit reports for the year 2013. This concern has necessitated the need for the group's internal audit function to perform monthly intra-group reconciliations, with special emphasis on routine, irregular and sophisticated transactions. However, research conducted by Chen-Wen & Chinshun (2010), seemed to show that related party transactions are difficult to audit because related parties and the resultant transactions warranting examination may possibly be difficult to identify, and because auditors must rely on management to make available detailed information on related party transactions.

It is against this background that the author shall seek to find out the effects of related party transactions on the overall audit risk, while analyzing the relevance of forensic (investigative) audit in an entity whose operating environment is dominated by related party transactions.

1.2 Statement of the problem

Transactions involving related parties may be for fraudulent or deceptive purposes, rather than for genuine business purposes and/or may be inadequately disclosed. Should the condition warrant a forensic audit, the endeavour remains filled with uncertainty. Because of these factors, the author of this research proposal shall look at the **relevance of forensic auditing in detecting fraud in related party transactions.**

1.3 Research questions

The research seeks an answer for the following question,

- How relevant is forensic auditing in detecting fraud in related party transactions?

Sub questions

- What are the benefits and risks associated with related party transactions?
- What are the effects of related party transactions on the overall audit risk?
- What is the responsibility of auditors with respect to fraud?
- Given the possibility of financial fraud in related party transactions, can forensic auditing could be relied on as an antidote?
- What are the investor protection mechanisms that can be put in place in order to protect investors from abusive related party transactions?

1.4 Main research objective

To assess the relevance of forensic auditing in detecting fraud in related party transactions.

1.5 Research objectives

The objectives of this study are;

- To identify possible benefits and risks associated with related party transactions.
- To identify the effects of related party transactions on the overall audit risk.
- To identify give a succinct analysis of the responsibility of auditors with respect to fraud.
- To identify the extent to which forensic auditing could be relied on as an antidote, in the event that fraudulent related party transactions exist.
- To identify investor protection mechanisms that can be put in place in order to protect investors against abusive related party transactions.

Hypothesis

During the research the researcher shall infer that responsibility for the detection of fraud rests with auditors while the responsibility of the management is to establish and ensure that sound internal controls exist to deter and detect fraud.

Assumptions

The researcher will assume the following:

- Responses from questionnaires are accurate and free from bias.
- The sample chosen is a true representative of the population.
- Respondents are well acquitted with fraud and what it constitutes.

1.6 Delimitation

This research will look at the relevance of forensic auditing in detecting fraud subject to the following delimitations:

1.6.1 Time

The research shall be based on data and facts during the period within which the author was attached at Duration Gold. The study will also include the external audit reports of the group for the period January 2013 to December 2013 and any such information as may be obtained.

1.6.2 Geography

Part-focus of the research shall be on Duration Gold's head office and Forbes & Thompson, the main subsidiary where the researcher was attached; and other entities as the researcher may deem necessary.

1.6.3 People of study

Interviews and questioners shall be done only with those with average understanding of accounting and auditing.

1.6.4 Focus of study

This research shall gather facts within the auditing profession, with special focus on forensics.

1.7 Limitations of study

- Limited financial resources might tend to be a major constraint in carrying out the research as the whole research demands money. However, some reliable information will be derived through other economical and affordable methods.
- Respondents' unwillingness to provide information will be an expected challenge but the researcher will assure respondents that the collected data will be used for academic research purposes only and their views will be anonymous and confidential.
- The entity might deny the researcher the right to disclose much of the accounting information as it may regard it as confidential. Fortunately the researcher is privileged to have been attached in the Finance Department of the institution, hence he has much of the insight into the entity's affairs.
- Some personnel might be unwilling to provide with information being sought**.** However, the researcher has established standing relations with moist of the staff and management which might be beneficial.
- The time frame within which the research is to be carried out tends to be small as the researcher will be having other modules to work on**.** Nevertheless, it is an opportunity for the researcher to be able to work under pressure.
- A major limitation to the research is the element of time. The time span upon which all relevant data will to be collected is short although considerable effort will be made to cover all important issues.

1.8 Conclusion

With time and great commitment this research shall be completed and its objective shall be met. This will lead to a better comprehension of the effects of related party transactions on the overall audit risk and an understanding of the relevance of predetermined forensic (investigative) audit in an entity whose operating environment is dominated by related party transactions.

The research will clearly bring out the provisions of ISA240 in the various circumstances the auditor may find him/herself entangled. It will further analyse the legal liability of the auditors with regard to fraud.

1.9 Definition of terms

Forensic auditing - examination of individual or company financial records as an investigative measure that attempts to derive evidence suitable for use in litigation.

Fraud - a deception purposefully practiced in order to secure unlawful or unfair benefit.

Intra-group transaction - A business arrangement or deal between entities within same group

Related Party Transaction - A business arrangement or deal between two parties who are joined by a special relationship prior to the deal.

1.10 Summary

This chapter looked at the background of the study, statement of the problem, research questions, research objectives, significance of the study, assumptions, delimitations as well as the definition of key terms. The next chapter will review an assortment of literature relevant to the study.

Chapter Two: Literature Review.

2.0 Introduction

The previous chapter introduced the research problem about the relevance of forensic auditing in reducing fraud in related party transactions. This chapter explores views from published sources on the subject of audit risks on entities whose operating environment is dominated by related party transactions and intra-group transactions. The chapter shall review literature on related party transactions and intra-group transactions, the risks associated with intra-company transactions, the effects of related party transactions on the overall audit risk and the responsibility of auditors with respect to fraud. The chapter shall also analyse the extent to which forensic auditing could be relied on as antidote; and shall assess the adequacy of investor protection mechanisms enacted in order to protect investors from abusive related-party transactions**.**

2.1 What are the benefits and risks associated with related party transactions?

Related party transactions

International Accounting Standard (IAS) 24 defines a related party transaction as an exchange of services, obligations and resources between parties that are related, regardless of whether a price is charged. Parties are considered to be related if one of them has the capacity to control, or collective control or to the ability to exercise significant influence over the reporting party in making financial or operational decisions (IASB, 2009a).

Nekhili & Cherif (2011, p293) and Loon etal (2009) states that a related-party transaction occurs when a business deal is entered into by at least two entities related in some way; or where one party has control over the other party or where the parties involved in the transaction come under the control of another party. According to Chen-Wen & Chinsun (2010), related party transactions can be broadly defined in two ways; intra-group transactions involving entities within the same group or transactions between the entity and other entities or individuals related to the entity in some way.

For financial reporting purposes, it is not purely the ‘related party-ness’ of a transaction that warrants particular attention, but rather the transaction's potential economic effect on the company (Henry etal 2012; p.190). However, Corlaciu & Tudor (2011; p.242), in their research on related party disclosures, considered that related party transactions and intra-group transactions are a normal part of the business and the fact that companies are conducting high volumes of such transactions should not automatically lead to the conclusion that such firms conceal accounting and financial fraud.

Evaluating the benefits against the risks

Literature by different authors analyse the benefits and risks associated with related party transactions by way of perspectives to related party transactions. Research carried out by Corlaciu & Tudor (2011; p.243); Emiliano (2014, p59-61); Cheung etal (2009a); Jian & Wong (2010); Nekhili & Cherif (2011, p291); Henry etal (2012); Loon etal (2009) and Pizzo (2011, pp. 309-330) all suggest that the motive behind the implementation of each model of related party transactions in any organisation is different; thus benefits of such transactions should not be analysed in isolation.

According to Corlaciu & Tudor (2011; p.243), two theories predominate related party transactions, and these are: (a) *conflict of interests* – a situation where related party transactions are seen as potentially harmful and are perceived to be carried out in the interest of the executives with the purpose to expropriate wealth from stockholders and shareholders and; (b) *efficient transaction* – a case where these transactions are considered profitable business and economic deals.

Emiliano (2014, p59), Loon etal (2009) and Jian & Wong (2010) however, adds a third perspective to the two mentioned above. Their literature proposes at least three perspectives to interpret related party transactions; (a) *the conflict of interest perspective*, which considers related party transactions as potentially harmful to the entity's corporate outsiders (creditors and minority shareholders), (b) *the efficient transactions perspective*, in which the related party transactions are thought to benefit the firm and the corporate outsiders, and (c) *the contingency perspective*, which suggest that it cannot be supposed a priori that related party transactions are efficient or harmful, as this would depend on the institutional environment and the organisational context in which such transactions are concluded.

Rationale behind related party transactions

The efficient transactions perspective of related party transactions, as was identified by Emiliano (2014, p.60-61), considers related party transactions as overally favourable to the entity and its outsiders. The key assumption behind this perspective is that the reason that leads to the related party transactions is to allow for the reduction or even the removal of important ex-post and ex-ante transaction costs through strong business ties. According to Loon etal (2009), related party transactions can be spared from the impediments or interruptions that often occur in negotiating business contracts with unrelated or third parties. Literature by Cheung etal (2009a) and Jian & Wong (2010) show that related party transactions can allow entities to overcome a financial or economic crisis, as happen in cases where subsidiaries in distress are supported by other affiliates.

According to Loon etal (2009), most related-party deals are institutionalized engagements that lubricate the gears of corporate groups globally. These activities may include property leasing arrangements, the sharing of resources and assets, shared-service arrangements for back-office functions, intercompany financing, group procurement to take advantage of economies of scale, and other treasury management arrangements.

Jian & Wong (2010) and Loon etal (2009, p.6) identified the possible benefits associated with related party transactions into three broad categories. Firstly, transactions with related-parties can offer contracting efficiency. These parties can be spared the delays or obstacles that often occur in negotiating contracts with unrelated parties. Consequently, these parties can draw up agreements with each other more quickly than they can with third party entities. These companies may consider it cost effective and strategic that they are able to control their processes and inventory without the risk of surprises from unpredictable external suppliers.

Secondly, related parties may offer strategic feedback. Loon etal (2009) states that persons aligned to the entity may be able to offer relevant knowledge if they represent certain groups with whom the entity does business. As a result, an entity with a large number of advisors, customers and suppliers may recommend individuals to the board who are aligned with these groups to ensure that the entity has the expertise it requires to make informed and coherent decisions.

The third benefit of related party transactions identified by Jian & Wong (2010) and Loon etal (2009, p.6) was the facilitation of investment. For example, a financially distressed subsidiary registered in the secondary board may find itself with restricted access to bank credit facilities; as such, it may resort to a financial assistance from the parent, another subsidiary or a member of the board with superior knowledge of its operating and financial prospects.

Risks associated with related party transactions

The conflict of interest perspective to related party transactions, as was identified by Emiliano (2014, p.60) is based on the agency theory and interprets these transactions as a potential device of expropriation by insiders, i.e. dominant shareholders, managers or both, to extract private benefits at the disadvantage of outsiders. These benefits may include, among others, perquisites, exorbitant salaries, power, empire-building and tunneling (transfer of assets or resources out of the entity to its controlling shareholder, who is typically a senior manager) (Doidge et al., 2009; pp. 425-466).

Research conducted by Corlaciu & Tudor (2011, p.242) seemed to show that related party transactions between entities within the same group might be cost-effective, but the main directors and/or principal owners might abuse such connected flows by using them for opportunistic purposes. A relevant scenario is when transactions are carried out at a price different from the market price and the profits are then shifted among group associates, while the overall group consolidated earnings remain generally unaffected.

Nekhili & Cherif (2011, p291) states that apart from their disclosed and declared motives, these related party transactions can disguise stakes associated with the enrichment of one individual at the expense of other parties who might not be involved in the transaction, or who may be involved in the transactions, without prior knowledge of the initial motives of the transaction. They postulate that groups or individuals can generate profits by buying from or selling to the firm goods, services or assets at prices that are lower (or higher) than their market values.

Henry etal (2012) in their research on the role of related party transactions in fraudulent financial reporting identified an connection between the term *related party transaction* and other common terms that include *insider trading, tunnelling and self-dealing*. Loon etal (2009) states that there are drawbacks in the conduct of related-party transactions; and the difference between what is abusive and legitimate can be overlapped easily. At their worst, related party transactions played a major role in several of the most notable corporate failures recently, and these transactions were responsible for denting overall investor confidence in the investment markets and for the wiping out of sums of money in shareholder value.

However, Pizzo (2011, pp. 309-330), identified the third perspective to related party transactions, the contingency perspective, which assumes that related party transactions can be interpreted, depending on the institutional environment and the organisational context, as both efficient transaction or instruments of expropriation. Hence, he suggests that the two perspectives discussed above (the efficient transaction and the conflict of interest) can coexist, and related party transactions cannot be analysed independently from the variables of corporate governance.

Emiliano (2014, p.61), however, argued that the contingency viewpoint does not consider the possibility that within the same entity, both the efficient and conflict of interest related party transactions can coexists. Normally, such would be the case in situations where the firm is involved in both external related party transactions and intra-group transactions.

Generally, the incentive behind the usage of each model of related party transactions is different. According to Loon etal (2009), one such motivation is contracting efficiency, which may work to the advantage of the minority shareholders if it translates to enhanced operational outcomes. One such motivation may be to preserve control of subsidiary firms within a group, which is not as clear-cut. Expropriation of wealth or resources from minority shareholders may also be a motivation. Studies by Emiliano (2014, p59-61); Henry etal (2012); Loon etal (2009) and Pizzo (2011, pp. 309-330) have associated expropriation of wealth motive with the typical business model of an Asian conglomerate. Ultimately, when a large number of shareholders exercise effective control over a corporation, the policies they implement may result in the minority shareholders' wealth being expropriated. Conflict of interest between small and large shareholders can include outright expropriation, a situation where the controlling shareholders enrich themselves by transferring profits to other entities they control, or by not paying dividends; or de facto expropriation, a case where large investors deliberately pursue non-profit maximizing objectives.

In the opinion of Nekhili & Cherif (2011, p294), related party transactions may be used to enable entities to report operating results that comply with the expectations of the managers, who are in their own right, indebted to meet the expectations of the shareholders, creditors or investors. Although the fact that transactions with related parties have taken place does not necessarily constitute evidence or a proof of fraud, it however, remains the case that some related party transactions can be used in fraudulent financial reporting schemes.

2.2 What are the effects of related party transactions on the overall audit risk?

Ernst & Young (2010; p.2) identifies characteristics that predispose mining corporations to high audit and fraud risks; and these are labour-intense operations, extremely regulated activities, high-value commodities, dependency on local communities, environmental impact, largest source of local economic activity, operating in states with endemic corruption, large royalty fees and tax takes, remoteness of operations, the need for large capital investments, group setups and the frequency of acquisition and merger activity.

Most auditors assess inherent risk as high for related parties, related party transactions and intra-group transactions because of the accounting disclosure requirement and the lack of independence between the parties involved. There is no set definition on what an audit failure is and the International Standards on Auditing (ISA) does not define the term explicitly. An audit maybe described as having failed if it does not fulfill its objectives as set out in the engagement letter (that is, the letter that describes the scope of work to be performed by the auditor for the client).

According to Brasilico, Grove & Patelli (2012), the presence of related party transactions in the year 2009 Satyam scandal and other recent high profile accounting fraud scandals raises concerns about the effects of these transactions on the overall audit risk. In their analysis of the scandal, they suggested that for the audit procedure to successfully investigate and detect fraudulent financial reporting involving related parties, the analysis of financial indicators needs to be supplemented with the analysis of non-financial corporate governance mechanisms; otherwise fraudulent activity may go undetected over periods.

The recent year 2009 Satyam scandal (Brasilico, Grove & Patelli; 2012) and other related party transaction dominated scandals recorded beforehand, gives evidence to the fact that audit failures might happen irrespective of skill of the auditors and the rigor of auditing and accounting standards. The statement may remain true in cases where there is lack of independence between the auditing firm and the client company. Accounting, reporting and the auditing material transactions involving related parties is inherently difficult – a financial statements audit limitation that the American Institute of Certified Public Accountants (AICPA) attributes to at least three distinct but interrelated factors (Loon etal, 2009)

Firstly, related party transactions are not often easily identifiable. This happens mostly in cases where an entity typically does business with several small, remote enterprises, whose ultimate ownership is not always identifiable. Secondly, auditors place much reliance on the client entity's principal owners and management to identify all parties that are related to the reporting entity and the transactions carried out with those parties. This however, becomes ineffective in cases where an insider had a prior motive of engaging in a moot business deal with a connected party; and to avoid the possibility of being detected, he/she may resort to non-disclosure of the relationship. In general, auditors always accept that position that related party transactions are part of the normal course of business, till proven otherwise. However, for the auditor to gain insight into the rationale for business transactions that do not follow the normal course involves questioning the management, who may not necessarily cooperate (Corlaciu & Tudor, 2011).

Thirdly, related party transactions may not be easily detected by an entity's internal controls. For instance, it is difficult to track a transaction between the entity and a remote company controlled by a shareholder who is a relative. In the same wavelength, a subsidiary that initiated a transaction with a related party may fail to produce adequate audit documentation to properly declare the related party transaction back to the parent.

2.3 What is the responsibility of auditors with respect to fraud?

According to the AICPA Code of Professional Conduct (n.d), fraud is a misrepresentation by an individual of a solid fact known to the individual to be untrue, or made with a reckless indifference as to whether the fact is true, with the motive of deceiving the other party. Any misstatement contained in financial statements can be caused by two elements i.e. fraud and error. The distinction between these two is merely a matter of intention.

Provisions from the Zimbabwe Companies Act Chapter 24:03 and the Auditing Profession Act.

The Zimbabwe Companies Act Chapter 24:03, is however silent on the duties of the auditor with regards to fraud. However, Section 153, states that the duty of the auditor is to produce a report expressing an opinion on the accounts that he has audited. The section requires the auditor to state in his own opinion whether or not the accounts have complied with the provisions of the Companies Act and other applicable acts and statutes.

Section 153(2), requires the auditor to clearly specify the following in his opinion;

a) If he has not obtained all the information which is necessary to the best of his knowledge and belief for the purpose of his audit.

b) As far as it appears to him from his examinations, whether proper books of accounts have been kept or not.

This provision has the effect of requiring the auditor to satisfy herself or himself before reporting that there are material irregularities in the books.

Section 343(2) gives the binding provision. It states that, "Every officer or auditor of a company whose employed for some special work who makes a false statement or concurs to such in a certificate, written statement or report or account in relation to any property or affair of a company shall be guilty of an offense and liable for a fine or imprisonment or both, unless if there was a reasonable ground for him to believe the statement was true". Consequently, this section has the effect of requiring an auditor to actively search for fraud in order for them to avoid extra liability.

The Auditing Profession Act No26, section 46(2) states that in case of any statement or report or opinion articulated by a registered auditor in the normal course of duties, the auditor should not be held liable to third party or the client, **unless** it has been substantiated that the expression of the opinion, or the statement or the report was fraudulently or maliciously made or was made in pursuant of a negligent performance of the auditor in the exercise of his/her duties.

It is against this background that auditors are liable to their clients under common law for any losses if they fail to render due professional care. This often arises from auditors' failure to uncover an embezzlement or defalcation being perpetrated by clients' employees. When an auditor takes up any type of engagement, they are obliged to render due professional care. This obligation exists whether or not it is specifically set forth in the contract or audit engagement letter.

Provisions from accounting and auditing standards

The major source of the responsibilities of an auditor with regards to fraud is the International Standard in Auditing 240 (ISA240) *'The auditor's responsibility to consider fraud in the audit of financial statements.'* This is further extended in to the International Standard in Auditing 250 (ISA250), '*Consideration of Laws and Regulations in an Audit of Financial Statements'.*

IFAC, International standard in Auditing 240 (paragraph 15) states that the obligation of those entrusted with the control of the entity is to ensure that there is enough management oversight over the entity's operations, and to make sure that adequate internal control mechanisms are established and maintained to ensure the financial reporting process is efficient and effective and complies with applicable regulations and laws. As a result, the responsibility for fraud rests with the management. However, auditors still have a part to play in the detection of fraud. IFAC issued ISA 315 *'Understanding the entity and its environment and assessing the risk of material misstatements'*, and ISA330 *'The auditor's procedures in response to the assessed risks'*; in order to set up procedures that could enhance the detection of fraud by the audit procedure.

International Accounting Standard 24 (IAS24) provides the disclosure requirements in respect of related party transactions. International Auditing Standard 240 (ISA240) sets the threshold on the responsibility of auditors with respect to fraud. However, it is a general requirement that an audit engagement letter must state the inherent limitations of an audit of financial statements. Consequently, an auditor must involve professional skepticism when performing an audit, that is, an attitude that includes a questioning mind; being alert to conditions which may indicate possible misstatements.

Doshi & Shah (2009) outlines two main issues that should be addressed when evaluating related party transactions and intra-group transactions in the context of a transfer pricing audit, namely determining whether the activities undertaken by a related party, parent company or group service centre constitute a genuine transaction carried out for the benefit of the party concerned (*the occurrence assertion*); and how to determine an arm's length consideration for such services *(valuation assertion).* In the audit of related party transactions, the auditor evaluates the financial statements using professional judgement based on the disclosures provided together with the financial statements.

According to Putra (2010), in a related party transaction dominated financial audit, an auditor should be aware with the likelihood that a concealed affiliation with a party to a substantial transaction may be used to fabricate business transactions. That is to say, the transactions may be without substance or fraudulent. IASB clearly acknowledges the possibility that a related party relationship may be a tool for fraud by management. IAS24 was issued mainly in response to some fraudulent financial reporting scenarios where involvement by the management in material related party transactions was masked either by absolute concealment or insufficient disclosure. The standard is however disclosure-oriented than fraud-oriented, possibly because fraud is an exception rather than a norm. Nevertheless, an auditor must be alert to the likelihood of fraud.

An auditor's prerogative in his engagement contract is to duly express an opinion on the status of financials after a particular reporting period; however in that regard this has not deterred fraud evolving within firms' financials systems.

2.4 Can forensic auditing be relied on as antidote?

Following the year 2009 Satyam related party transactions scandal, Satyam has been entitled the 'Enron of India', because of the similarity of factors within the scandals, of which in both cases, the auditors were not able to detect the arnomalities and the fraudulent activity went for years undetected. Satyam had used the international auditing firm of PricewaterhouseCoopers (PWC) since Satyam went public in 2001.

The timely detection of fraudulent financial reporting schemes remains an issue within the forensic auditing profession. Howard Schilit, The Chief Executive Officer and founder of the Financial Shenanigans Detection Group, Howard Schilit, was observed in 2010 saying, as was noted by Brasilico, Grove &Patelli (2012; p.142): "I read recently that the one lesson we have learned from history is that we have learned nothing from history. Yet my mantra remains that in order to find fraud, we must study the history of fraud. A common element is all the fraud I have described (related party transaction scandals) is that their warning signs were not hard to find; in fact, they were hard to miss."

According to Brasilico, Grove & Patelli (2012), the task of the auditors (internal or external) is to establish a financial regulation that is objective and independent from the board and the audit committee. Business transactions done between parties that are related may be for fraudulent or deceptive purposes rather than for genuine business motives and/or may not be sufficiently disclosed. Research conducted by Chen-Wen & Chinshun (2010), seemed to show that related party transactions are difficult to audit because parties that are related and the subsequent transactions that warrant inspection may be hard to identify, and because the auditors place much reliance on management to make available detailed information on transactions with related parties.

However, Kohlbeck & Mayhew (2010) suggest that related party transactions disclosure, which has come to be considered by most researchers and scholars to be the most suitable tool to manage the possible conflict of interests that characterise these transactions, would be discouraged by the evidence which suggest that the disclosure of such transactions might not solve the sceptical tendency of investors with respect to business transactions involving related parties.

The important question is on whether related party transactions disclosures or forensic auditing could be relied on as antidote, ensuring investors are protected against abusive related party transactions. Prudent investors are sometimes sceptical about the existence of related party transactions in companies. Warren Buffet, a well-known worldwide investment guru, effectively stated, as was noted by Grove and Basilico (2010, p.151) that, if one does not comprehend what a company does, he must not invest in it; and if management does not provide the missing information and keeps investors uniformed, investors should 'run!'.

Should a conflict of interest exist, that may warrant a forensic or investigative audit, the outcome of the exercise remains filled with uncertainty because of several risk factors associated with related party transactions, the probability of high level collusion schemes behind fraudulent financial reporting endeavours and the inherent limitations of a of financial statements audit.

2.5 Are the investor protection mechanisms enough?

Dossi etal (2010) argued that the form of the connection between management and ownership of an entity shapes the mechanism of corporate governance. In their study, they recommended that financial analysts, regulators and investors should propose for the implementation of various corporate governance mechanisms in diverse situational backgrounds and carried out in the future should into consideration national differences in reviewing the effectiveness of currently enacted investor protection mechanisms. IAS24 and ISA240 were effected principally in response to fraudulent financial reporting scenarios in which management's participation in substantial transactions was masked either by outright concealment or inadequate disclosure.

According to Corlaciu & Tudor (2011) and Loon etal (2009), transactions with related parties expose shareholders to at least one of two related but distinct risks: deprivation of wealth opportunity and expropriation of wealth. These two related risks originate from two motives. The first is wealth creation, which may be accomplished through the transmission of profits and assets of an openly traded entity to the remote interest of its governing shareholder. The other motive, which originates from the first, is seizure of control that may be realized by either the usurpation of corporate opportunity or the dilution of minority ownership. Expropriation of wealth refers to scenarios where a transaction with a related party takes away current funds from a listed entity or exposes them to unnecessary liabilities and risks for the private advantage of governing shareholders. The most common devices of expropriation are financial and commercial business transactions for no justifiable reasons or at distorted values.

Some transaction with related parties may not necessarily be abusive, but can adversely affect investor worth just by virtue of being related. According to Loon etal (2009), transactions with related parties have also been confirmed to destabilize corporate worth. Loon etal (2009) suggest that in order to protect investors, continuing connected transactions are supposed be subject to upper limits in contract values and disclosure, and to have prior approval of investors in a move to ensure these transactions are conducted within provisions that would not seize minority shareholder's wealth. However, in some entities where there is no separation of control and ownership, transactions with related parties can be stained with conflicts of interests with a possibility of short-changing oblivious shareholders.

According to Kohlbeck & Mayhew (2010), group-ownership structures, do not pose a threat to investors by merely engaging in transactions with related parties. A mere relationship may occasionally compromise the interests of the minority shareholders when certain circumstances arise. These wildcard situations, often erratic and at times contentious affairs involving the governing shareholders and related parties may lack economic substance and may even lead to a gradual deterioration in its shareholder value. These transactions may create a reputational threat when they stimulate an adverse public opinion; or when they provide evidence of larger corporate governance problems within the entity, hence raising suspicions about its future, molding a mist on its viewpoint, and eventually undermining the firm's intrinsic worth.

Loon etal (2009) states that in most jurisdictions, transactions with related parties in Asia are administered by layers of regulations, standards and rules intended to ensure that they are carried out in a way that does not manipulate the independent shareholder's rights of independent shareholders. One such layer is assembled through local accounting standards, which are designed to be effective to all firms and are put into practice by the responsible government agency, with recommendation from local professional accounting and auditing firms. The other layer is set up by the stock exchange listing rules which sets the non-financial and financial information disclosure requirements. However, the basic of all layers are the respective entity's internal corporate governance mechanisms, brought into effect by the independent executives who have the obligation of ensuring that the decisions made within the company's operations are for the fair benefit of all the shareholders.

According to Jian & Wong (2010), in some situations, third party advisers and minority shareholders may also engage in transactions with related parties. Overally, these corporate rules, laws and regulations which are aimed at setting limits for transactions involving related parties always keep re-defining the fiduciary duty of the board of directors and the responsibilities of management. Jian & Wong (2010) states that the crucial element for the protection of investors against abusive transactions involving related parties is the investor's opportunity and right to take legal actions against the directors through shareholder suits in a view to seek remedy for corporate misdeeds.

According to Loon etal (2009), the listing rules in Korea requires entities to seek panel consent for transactions with related parties that may lie above a predetermined threshold. However, the rules and regulations do not require investor endorsement, and these should be informed only after the board has approved the transactions. Most other Asian jurisdictions have requirements that warrant investor endorsement as well as separate trigger thresholds for shareholder and director endorsement.

Nekhili & Cherif (2011, p293) states that in France, transactions involving related parties are administered by Article L. 225 - 38 of the new commercial code. Consequently, these dealings are made subject to a special reports which should be written by the auditor, who is supposed to validate the provided information and the source documents, and is required to produce a report for consideration by the board in the shareholder's general meeting, where decisions are made on whether to approve the transactions or not. Consequently, the auditor has a mandate to provide information and advice on these transactions. However, in spite of the controls, agreements which are made without prior authorization and approval are often hard to identify. As a result, this research seeks to investigate the relevance of forensic auditing in detecting fraud in related party transactions.

To be certain, none of the mechanisms that have been mentioned individually or in aggregate, is adequate to secure shareholders against abusive transactions with related parties. The unrelenting prevalence of dubious business contracts gives evidence that the currently enacted mechanisms are not foolproof. There is no distinct feeble link; each portion of the series has its identifiable distinct challenges that renders each mechanism either difficult to put into practice or to enforce.

2.6 Summary

The chapter looked at the literature relevant for the research. Its focus was to integrate, and amalgamate various views of scholars and statutory requirements with regards to the related party transactions inferno. The next chapter will look at research methodology.

Chapter Three: Research Methodology.

3.0 Introduction

The previous chapter explores views from published sources on the relevance of forensic auditing in reducing fraud in related party transactions. Its focus was to integrate, and amalgamate various views of scholars and statutory requirements with regards to the related party transactions inferno. This chapter shall give an account of the research design, population under study, sampling, data collection and presentation plan. The chapter shall also explain the selection of the research subjects, the research methods used in data gathering and the methodology will provide the plan of the study.

3.1 Research Method

The research methodology describes the research design, procedures and instruments that were used by the researcher in gathering data for the study. Its main function was to control and dictate the acquisition of data.

In carrying out the research, the researcher used both the qualitative and quantitative research method. The reasons for the selection of the method were that it would allow an understanding of the issues raised and it would allow probing to get a clearer explanation on the issues raised relating to the relevance of forensic auditing in the detection of fraud in related party transactions.

Ford & Gonzales (2010) states the that quantitative research method should only be used if data can be measured numerically, and may lead to decisions being made without prior regard to individual human thought or choice to predict behavior. They also argued that the use of the qualitative method in isolation creates a strong dependency on the sample population, and may lead to lack of objectivity and bias by researcher.

Bowling (2005) noted that the use of both quantitative and qualitative data enables researchers to data that can be relied on, since the two methods can provide complimentary results when used together. Ford & Gonzales (2010) state that qualitative research lays groundwork for quantitative studies, and quantitative research provides accurate data collection and analysis and utilization.

3.2 Research Design

Wills (2014) defines research design is a plan and structure of investigation so conceived as to obtain answers to research questions It describes research design as the pattern of procedures and methods for acquiring information needed in the research, and enables the researcher to arrange how data will be collected and analysed.

The research design that was used for this study was based on the descriptive research technique as it enabled the researcher to have a clear analysis of both quantitative and qualitative data through both questionnaires and interviews respectively (Sounders, 2012). The case study design of collecting and analysing data was used. The case study design was adopted in the study because it facilitates an intensive description and analysis of a single individual or a group

The research was designed to examine the effects of related party transactions on the overall audit risk on entities whose operating environment is dominated by related party transactions and to analyse the extent to which forensic audit could be relied on as antidote, given the possibility of fraud or fraudulent financial reporting schemes and practices. Primary data used for the study was gathered from the Duration Gold Zimbabwe Group of Companies, the case study that was used for the research.

3.3 Population

This is the target population from which the sample was drawn (Sounders 2012). The targeted population of this study were the junior and senior staff of the Duration Gold Mining Group. The accessible population comprised of junior and senior staff of Forbes and Thompson (Pvt) Ltd (Vubachikwe Mine). The subsidiary was chosen for the study because it is the group's main production subsidiary, contributing 68% of the group's reported profit in the financial year ended December 2013; and with 86% of its November 2013 creditors' aged payables being intra-group charges (the subject of research).

The researcher considered the elements of the population in this research to be the staff of the finance, procurement, legal, technical services and engineering units. The study considered all the staff that were within the departments mentioned as qualified as members of the population because of their good knowledge and understanding of the entity's transfer pricing policies and support services requisitions, executions and pricing policies.

3.4 Sampling

The researcher used judgmental sampling to come up with the sample. When selecting units for questionnaires and interviews, certain individuals from the population were selected to be part of the sample.

Sample size and sampling technique

Judgemental sampling was used, since the researcher's area of study required prior knowledge of transfer pricing, the transfer pricing audit process and forensic auditing concepts. Consequently, the sample comprised of more finance and procurement personnel than other departments of the selected population. Finance and procurement elements of the population were assumed to be well accustomed with the general concepts of audit practice necessary for the research. The legal, technical services and engineering elements of the population were included in the sample for strategic reasons, mainly because it was necessary to obtain industry specific technical knowledge from experienced experts.

As a result, the sample was relatively small for the study as the researcher wanted to include only those individuals would give information in line with the problem at hand. However, according to Haralambos (2012), a sample size of at least 33% of the total population under study can be used as a sample.

The sample sizes chosen for the purposes of the research are shown on the table below;

Unit. No	**DEPARTMENT**	No. of Staff	Sample Size	Sample Size %
1	Finance	11	6	54
2	Procurement	15	6	40
3	Legal	4	2	50
4	Technical Services	8	3	38
5	Engineering	11	4	36
TOTAL	**n/a**	49	21	43

3.5 Data Collection Techniques.

Both questionnaires and interviews were used to gather primary data necessary for the research. Bowling (2005) noted that the use of both quantitative and qualitative data will enable researchers to obtain reliable data. Questionnaires were used to gather both quantitative and qualitative data, whist interviews were solely for gathering qualitative data.

3.5.1 Questionnaires

Questionnaires were distributed to the chosen respondents in the sample frame. The questionnaires designed, were delivered in person to selected candidates. According to Adefila (2008) this method may be considered appropriate for quantitative research as it allows quick responses and clarity in the important areas of the study. The Likert scale with closed ended questions was used in the questionnaire. Closed ended questions were used because they direct the respondents to issues that the researcher intended to investigate. The Likert scale was chosen in that it allowed the researcher to obtain as much information from the respondent while maintaining clarity, complex questions and leading the respondent's responses. The researcher made a point to collect the responses immediately and follow up was made on any issues that the respondents needed clarification on.

3.5.2 Interviews

Interviews were held to get professional views on the topic and to compliment information gathered by the questionnaire. These were chosen because they helped by providing clarification on some issues, which could otherwise not be clearly addressed in questionnaires; and enabled the researcher to achieve an exhaustive understanding of the interviewee's point of view. The interactive nature of the interview between the researcher and the interviewee enhanced the conclusiveness of responses.

Throughout the interviews, the writer was able to read facial expressions which were useful in making evaluations (Adefila, 2008). Unlike questionnaires which a senior person can delegate the answering to a subordinate, interviews helped the researcher reach the original person(s) targeted. Executives targeted were always busy hence interviews took shorter time than questionnaires. Also, there were a lot of formalities involved in setting up appointments with these executives.

3.6 Validity and Reliability

An analysis of instruments used was carried out after the research so as to ensure that the instruments used in the collection of data were valid to ensure that they provided accurate results. The aim of the analysis was to ensure the questions asked were properly answered and did not give biased responses.

So as to validate the questionnaire the writer carried out a pilot test on fellow colleagues and conducted peer review. Preliminary analysis was carried out before the actual reading of questionnaire. This was done so as to establish validity, reliability and clarity of the instrument. The study revealed the misconception of the respondents and the need to rephrase some of the questions for clarity. The interviews had a high response rate, for the clarifications and explanations.

3.7 Data Analysis and Presentation

The writer presented and analysed data according to logical themes which emerge from the study. In analysing data and presenting it, both qualitative and quantitative techniques were used including tables, pie charts and percentages.

3.8 Summary

The research methodology described the research design, procedures and instruments used by the writer in gathering data for the study. Its main function was to control and dictate the acquisition of data. Confidentiality and privacy of information was of primary importance to the researcher and great care was taken to avoid spilling of the data. The next chapter shall present and analyse the data collected.

Chapter Four: Data Presentation & Analysis.

4.0 Introduction

The previous chapter described the research design, procedures and instruments used by the writer in gathering data for the study. Its main function was to control and dictate the acquisition of data. The researcher interviewed individuals from the selected sample to obtain information needed for the research. The researcher further analyzed data gathered from questionnaires sent to the elements of the sample. After analyzing the interview responses, together with the responses from questionnaires, the researcher reached a conclusion based on the gathered data.

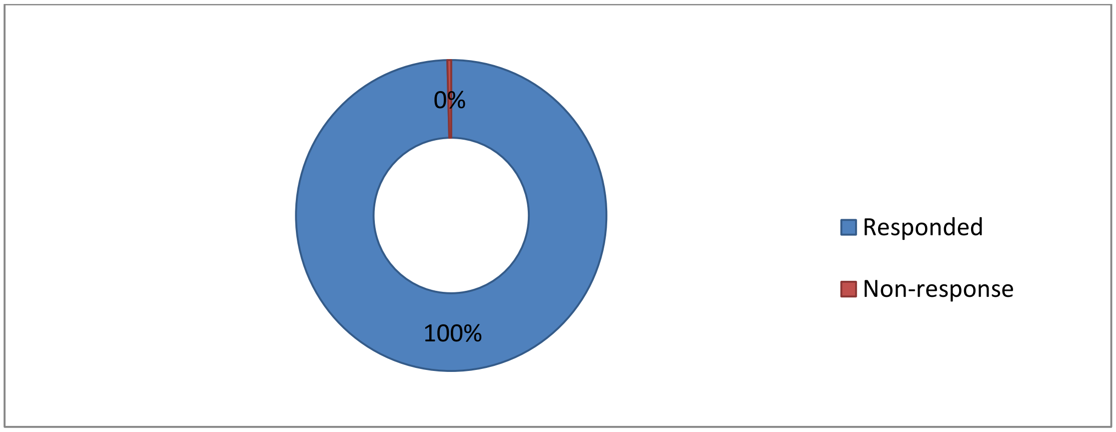
4.1 Overview of Interview and Questionnaire responses

The sample from which data was collected was selected in accordance with methodology outlined in the previous chapter. An analysis of instruments used was carried out after the research so as to establish the validity, reliability and clarity of the instrument, and to make sure the results provided were accurate.

Questionnaire response rate

Gillis (2011) defined response rate as the percentage of the elements of the sample under study that completed the demands of the research instruments presented to them for the purposes of the study in question. The response rate for questionnaires was 100%. Figure 4.1 below depicts the data on the questionnaire response rate. Questionnaires were distributed to every element of the sample.

Figure 4.1: Questionnaire Response Rate



So as to validate the questionnaire the writer carried out a pilot test on fellow colleagues and conducted peer review. Preliminary analysis was also carried out before the actual reading of questionnaire.

4.2 Research Findings

Questionnaires were used to gather both quantitative and qualitative data, whist interviews were solely for gathering qualitative data. The researcher distributed the questionnaires in person and interviewed the respondents in order to get first hand primary data.

4.3 Questionnaire Analysis

4.3.1 What are the benefits and risks associated with related party transactions?

This question was aimed at acquiring an understanding of the views of the respondents with respect to the rationale behind related party transactions and intra-group transactions. Most respondents agreed that related party transactions and intra-group services within the Duration Gold Mining Group provided benefits both to the subsidiaries providing the services, the head office and the subsidiaries in need of such services.

Contracting efficiency

Jian & Wong (2010) and Loon et al (2009, p.6) identified contracting efficiency as the key benefit behind related party and intra-group transactions. Within the Duration Gold group, special preference on tenders is given to subsidiaries within the group, and payments for services rendered is charged by way of intra-group service fees and charges. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.1 below.

Table 4.1: Responses of the respondents to contracting efficiency

Contracting efficiency	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	8	11	2	0	0	21
Percentage	38%	52%	10%	0%	0%	100%

Source: Primary data

8/21 (38%) of the respondents strongly agreed to contracting efficiency as a benefit obtained through the use of related party transactions with the group, 11/21 (52%) agreed, 2/21 (10%) were not sure and none disagreed. Overally, 19/21 (90%) of the respondents agreed to the contracting efficiency option as a benefit obtained through the use of related party transactions with the Duration Gold group. This is in corresponds to the view stated by Loon et al (2009) who consented to the idea that contracting efficiency through the use of intra-group transactions may be beneficial to the shareholders if it translates to enhanced operational outcomes. 2/10 (10%) however, were uncertain about the view that related party transactions offer contracting efficiency, possibly because they could have assumed the same services could be obtained from the external market at competitively lower prices.

Economies of scale

Researches by Emiliano (2014) and Loon et al (2009) suggests that group procurement may lubricate the supply chain management processes of groups in that it enables the entities to take advantage of economies of scale through bulk and timely purchases. The Duration Gold group employs a centralised purchasing and related decision making processes, and resource needs of the subsidiaries are met through internal purchase requisitions made by the subsidiaries to the head office; and charges for such goods are made through intra-group stock loan accounts. Responses from the respondents at the Duration Gold group on this option are shown in Table 1 below

Table 4.2: Respondents responses on economies of scale

Economies of scale	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	11	9	1	0	0	21
Percentage	52%	43%	5%	0%	0%	100%

Source: Primary data

11/21 (52%) of the respondents strongly agreed to economies of scale through group procurement, 9/21 (43%) agreed, 1/21 (5%) were not sure and none disagreed. Overally, 20/21 (95%) of the respondents agreed to economies of scale as a benefit enjoyed by the group through the use of related party transactions. This agrees with the claim that was stated by Emiliano (2014) who states that a centralised supply chain management system used by most groups facilitates an efficient flow of resources from suppliers to the exact point of need, at relatively lower prices obtained through bulk purchases. However, 1/21 (5%) were not sure, possibly because they could have consider the periodic delays that often-times happen when the head-office fails to deliver the goods purchased in time.

Facilitation of investment

Facilitation of investment was the other benefit of related party transactions identified by that Jian & Wong (2010) and Loon et.al (2009, p.6). This is described as a situation where financially distressed subsidiaries within the Duration Gold group, may obtain financing within the group, or may obtain external financing by using another subsidiary's assets as collateral. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.3 below

Table 4.3: Responses from respondents on facilitation of investment

Facilitation of investment	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	6	9	4	2	0	21
Percentage	29%	43%	19%	9%	0%	100%

Source: Primary data

The facilitation of investment option was viewed by the respondents with varied opinions. 6/21 (29%) strongly agreed to facilitation of investment as a benefit, 9/21 (43%) agreed, 4/21 (19%) were not sure, 2/21 (9%) disagreed and none strongly disagreed. Overally, 15/21 (72%) agreed to the view that intra-group transactions enables facilitation of investment. This corresponds to the view stated by Jian & Wong (2010) who suggested that internal financing may sometimes be the cheapest source of finance for an entity. However, 4/21 (19%) were indifferent, and 2/21 (9%) disagreed; possibly because they could have considered the fact that some stronger subsidiaries may use the same option to exercise control over weaker subsidiaries.

Expropriation

Emiliano (2014) identified the conflict of interest perspective, which identified related party transactions as instruments for expropriation, defined as the extraction of private benefits by dominant shareholders, managers, or both, at the disadvantage of outsiders. Henry et.al (2012); Loon et.al (2009) and Pizzo (2011, pp. 309-330) all consented to this argument. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.4 below

Table 4.4: Responses from respondents on expropriation

Expropriation	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	8	10	1	2	0	21
Percentage	38%	48%	5%	9%	0%	100%

Source: Primary data

The expropriation of wealth option was viewed by the respondents with varied opinions. 8/21 (38%) strongly agreed to the expropriation of wealth as a possible risk factor, 10/21 (48%) agreed, 1/21 (5%) were not sure, 2/21 (9%) disagreed and none strongly disagreed. Overally, 86% agreed to the idea that related party transactions may be a potential instrument for expropriation. This corresponds with the conflict of interest perspective by Emiliano (2014), which is based on the agency theory. However, 1/21 (5%) were uncertain, and 2/21 (9%) disagreed; possibly because they might have suggested this claim of expropriation is an entity specific concept, rather than a general claim.

Self-dealing

Henry et.al (2012) defines self-dealing as case where trustees may make use of the positions vested on them to satisfy their personal interest, rather than those of those who nominated them. In their research, they identified insider trading as a risk associated with related party and intra-group transactions. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.5 below

Table 4.5: Respondents responses on self-dealing

Self-dealing	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	5	13	1	2	0	21
Percentage	24%	62%	5%	9%	0%	100%

Source: Primary data

The self-dealing option was viewed by the respondents with varied opinions. 5/21 (24%) strongly agreed to self-dealing as a possible risk factor, 13/21 (62%) agreed, 1/21 (5%) were not sure, 2/21 (9%) disagreed and none strongly disagreed. Overally, 18/21 (86%) agreed that self-dealing may be a risk factor because of the existence of related party transactions with the Duration Gold group, 1/21 (5%) were indifferent, and 2/21 (9%) disagreed.

Insider trading

Henry et.al (2012) defines insider trading as the use of non-public information by an individual within the structures of an entity for opportunistic purposes. In their research, they identified insider trading as a risk associated with related party and intra-group transactions. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.6 below

Table 4.6: Respondents responses on insider trading

Insider trading	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	10	9	2	0	0	21
Percentage	48%	43%	9%	0%	0%	100%

Source: Primary data

10/21 (48%) of the respondents strongly agreed to insider trading as a possible risk factor, 9/21 (43%) agreed, 2/21 (9%) were not sure, and none disagreed. Overally, 19/21 (91%) of the respondents agreed that insider trading may be a risk factor because of the existence of related party transactions with the Duration Gold group, 1/21 (5%) were uncertain, and 2/21 (9%) disagreed.

Tunnelling

Henry et.al (2012) defines tunnelling as the private conversion of public benefits for personal benefit. In their research, they identified tunnelling as a risk associated with related party and intra-group transactions. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.7 below

Table 4.7: Respondents responses on tunnelling

Tunnelling	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	9	10	1	0	1	21
Percentage	43%	48%	5%	0%	4%	100%

Source: Primary data

The tunnelling option was viewed by the respondents with varied opinions. 9/21 (43%) of the respondents strongly agreed that tunnelling is a possible risk factor, 10/21 (48%) agreed, 1/21 (5%) were not sure, none disagreed and 1/21 (4%) strongly disagreed. Overally, 19/21 (91%) of the respondents agreed that tunnelling may be a risk factor because of the existence of related party transactions with the Duration Gold group, 1/21 (5%) were indifferent, and 1/21 (4%) strongly disagreed.

4.3.2 How do related party transactions lead to an increased overall audit risk?

This question was designed to gain an understanding of factors associated with the execution, accounting and reporting of related party transactions and intra-group transactions that might, individually or in aggregate, lead to an increased overall audit risk.

Non-disclosure

Loon et.al (2009) states that the audit or related party transactions is inherently difficult because management may choose to resort to non-disclosure of vital information about a related party relationship. Doshi & Shah (2009) states that the auditor evaluates the financial statements using professional judgement based on the disclosures provided with the financial statements. They consented that if in any case, management objects to non-disclose, then the audit risk is increased. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.8 below

Table 4.8: Respondents responses on non-disclosure

Non-disclosure	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	10	8	2	1	0	21
Percentage	48%	38%	9%	5%	0%	100%

Source: Primary data

The non-disclosure option was viewed by the respondents with varied opinions. 10/21 (48%) of the respondents strongly agreed that non-disclosure is likely to increase the overall audit risk, 8/21 (38%) agreed, 2/21 (9%) were not sure and 1/21 (5%) disagreed. Overally, 18/21 (86%) of the respondents agreed that non-disclosure is a valid audit risk factor because of the existence of related party transactions with the Duration Gold group, 1/21 (5%) were not sure, and 1/21 (4%) strongly disagreed.

Lack of independence

Brasilico, Grove & Patelli (2012) assert that most auditors assess inherent risk as high for transactions involving related parties because of the lack of independence between the parties involved. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.9 below

Table 4.9: Respondents responses on lack of independence

Lack of independence	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	10	8	1	2	0	21
Percentage	48%	38%	5%	9%	0%	100%

Source: Primary data

The lack of independence option was viewed by the respondents with varied opinions. 10/21 (48%) of the respondents strongly agreed that lack of independence is likely to increase the overall audit risk, 8/21 (38%) agreed, 1/21 (5%) were not sure and 2/21 (9%) disagreed. Overally, 18/21 (86%) of the respondents agreed that lack of independence between the parties involved in a related party transaction is a valid audit risk factor because of the existence of related party transactions with the Duration Gold group, 1/21 (5%) were indifferent, and 2/21 (9%) strongly disagreed.

Related party transactions not easily identifiable

Loon et.al (2009) states that accounting, reporting and the auditing material transactions involving related parties is inherently difficult, and this is a financial statements audit limitations caused by three factors, the first being that related party transactions are not easily identifiable. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.10 below

Table 4.10: Respondents responses on the fact that related party transactions are not easily identifiable

RPTs not easily identifiable	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	7	10	2	2	0	21
Percentage	33%	48%	10%	9%	0%	100%

Source: Primary data

Like the other options in on the overall audit risk, option that stated that related party transactions are not easily identifiable also was viewed by the respondents with varied opinions. 7/21 (33%) of the respondents strongly agreed that this is a valid audit risk factor, 10/21 (48%) agreed, 2/21 (10%) were not sure and 2/21 (9%) disagreed. Overally, 17/21 (81%) of the respondents agreed the fact that related party transactions are not easily identifiable is likely to increase the overall audit risk because of the existence of related party transactions with the Duration Gold group, 1/21 (5%) were uncertain, and 2/21 (9%) disagreed.

Auditor reliance on management

The second inherent limitation in the audit of related party transactions that was identified by Loon et.al (2009) was the fact that auditors place reliance on management to provide information about all material related party transactions. In their research, they state that this increases the overall audit risk. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.11 below

Table 4.11: Respondents responses on auditor reliance on management

Auditor reliance on mgt	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	7	11	1	2	0	21
Percentage	33%	52%	5%	10%	0%	100%

Source: Primary data

The option on auditor reliance on management was also viewed by the respondents with varied opinions. 7/21 (33%) of the respondents strongly agreed that this is a valid audit risk factor, 11/21 (52%) agreed, 1/21 (5%) were not sure and 2/21 (10%) disagreed. Overally, 18/21 (85%) of the respondents agreed the fact that auditor reliance on management is likely to increase the overall audit risk because of the existence of related party transactions with the Duration Gold group, 1/21 (5%) were indifferent, and 2/21 (10%) disagreed.

Related party transactions not tracked by internal controls

The other inherent limitation in the accounting, financial reporting and audit of related party transactions that was identified by Loon et.al (2009) was the fact that these transactions may not be easily detected by an entity's internal controls. In their research, they state that this increases the overall audit risk. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.12 below

Table 4.12: Respondents responses on the option that RTPs may not be tracked by an entity's internal controls

RPTs not tracked by internal controls	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	4	9	1	7	0	21
Percentage	19%	43%	5%	33%	0%	100%

Source: Primary data

The option that related party transactions may not be tracked by an entity's internal controls was also viewed by the respondents with varied opinions. 4/21 (19%) of the respondents strongly agreed that this is a valid audit risk factor, 9/21 (43%) agreed, 1/21 (5%) were not sure and 7/21 (33%) disagreed. Overally, 13/21 (62%) of the respondents agreed to the opinion that postulates that related party transactions may not be adequately tracked by the entity's internal control system, and hence is likely to increase the overall audit risk within the Duration Gold group, 1/21 (5%) were indifferent, and 7/21 (33%) disagreed.

4.3.3 Circumstances in which an auditor should be held liable for undetected fraud.

The purpose of this question was to acquire information from the users of financial statements (accountants, auditees, management and other members of staff) about their perception and understanding of the responsibility of the auditors in respect of the detection and uncovering of fraud. Several audit failure scenarios were laid in the questionnaires.

Deliberate incorrect opinion

The Auditing Profession Act No26, section 46(2) gives a provision that an auditor shall be **not** liable in the case of nay statement articulated in the normal course of his duties, **unless** it has been substantiated that the expression of the opinion, or the statement or the report was fraudulently or maliciously made or was made in pursuant of a negligent performance of the auditor in the exercise of his/her duties.. It is against this background that the researcher posed the question to get views from the respondents on this subject. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.13 below.

Table 4.13: Auditor deliberately expresses an incorrect opinion

Deliberate incorrect opinion	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	13	7	1	0	0	21
Percentage	62%	33%	5%	0%	0%	100%

Source: Primary data

13/21 (62%) of the respondents strongly agreed that an auditor should be liable if he deliberately expresses an incorrect opinion, 7/21 (33%) agreed, 1/21 (5%) were not sure and none disagreed. Overally, 20/21 (95%) of the respondents agreed to the opinion that the auditor should be liable for the undetected fraud that he has concealed, 1/21 (5%) were indifferent, and none disagreed.

Management concealment of material RPTs

Despite Section 46(2) of the Auditing Profession Act No26 emphasising the fact that an auditor shall **not** be liable for any incorrect opinion made during the course of his duties, Section 343(2) of the Companies Act however states that the auditor is liable, unless if he was impaired in the making of his opinion. This question sought to gather data on what the respondents thought about the liability of the auditor in circumstances where the auditor's opinion is impaired my management concealment of material related party transactions. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.14 below

Table 4.14: Management concealment of material related party transactions

Mgt concealment of material RTPs	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	12	6	0	1	2	21
Percentage	57%	29%	0%	5%	9%	100%

Source: Primary data

This option was viewed by respondents with varied opinions. 12/21 (57%) of the respondents strongly agreed that an auditor should be liable even if the exercise of his/her duties was impaired, 6/21 (29%) agreed, none were not sure, 1/21 (5%) disagreed and 2/21 (9%) strongly disagreed. Overally, 18/21 (86%) of the respondents agreed to the opinion that the auditor should be liable for the undetected fraud, 1/21 (5%) disagreed, and 2/21 (10%) strongly disagreed.

Inadequate audit procedures

The aim of this question was to get the views of the respondents about the responsibility of the auditor in cases where the audit procedures performed by the auditor in conducting the audit in a related party transaction dominated entity, as is the case with the Duration Gold group, is inadequate to detect fraud. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.14 below

Table 4.15: Inadequate audit procedures

Inadequate audit procedures	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	11	8	2	0	0	21
Percentage	52%	38%	10%	0%	0%	100%

Source: Primary data

11/21 (52%) of the respondents strongly agreed that an auditor should be liable in the case where the audit procedures performed were inadequate to detect existing fraud within the entity's financials, 8/21 (38%) agreed, 2/21 (10%) were not sure, and none disagreed. On average 19/21 (90%) of the respondents agreed to the opinion that the auditor should be liable for the undetected fraud, 2/21 (10%) were uncertain, and none disagreed.

Audit failure with adequate audit procedures

This question sought to find out the responsibility of the auditor for undetected fraud in cases where the auditor designs adequate substantive procedures and actively searches for fraud, but the designed procedures fail to uncover fraud arising through related party transactions. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.16 below

Table 4.16: Audit failure with adequate audit procedures

Audit failure with adequate audit procedures	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	6	9	1	4	1	21
Percentage	29%	43%	5%	19%	4%	100%

Source: Primary data

This option was viewed by respondents with varied opinions. 6/21 (29%) of the respondents strongly agreed that an auditor should be liable for undetected fraud even if he had designed adequate substantive procedures, but failed to detect material fraud perpetrated through related party transactions, 9/21 (43%) agreed, 1/21 (5%) were not sure, 4/21 (19%) disagreed and 1/21 (4%) strongly disagreed. Overally, 15/21 (62%) of the respondents agreed to the opinion that the auditor should be liable for the undetected fraud, 1/21 (5%) were indifferent, and 5/21 (23%) disagreed.

4.3.4 To what extent could forensic auditing could be relied on as antidote?

Introduction of the internal audit function

This question sought to get understanding from the respondents on whether the introduction of an internal audit function at the Duration Gold group's subsidiaries will minimize the risks associated with related party transactions and intra-group transactions. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.17 below

Table 4.17: Introduction of internal audit functions within the group's subsidiaries

	Number of respondents	Percentage
Strongly Agree	9	43%
Agree	9	43%
Not Sure	3	14%
Disagree	0	0%
Strongly Disagree	0	0%
Total	21	100%

Source: Primary data

9/21 (43%) of the respondents strongly agreed, 9/21 (43%) agreed, 3/21 (14%) were not sure and none disagreed. Overally, 18/21 (86%) of the respondents agreed the introduction of an internal audit function at the Duration Gold group's subsidiaries will minimize the risks associated with related party transactions and intra-group transactions, 3/21 (14%) were not sure and none disagreed.

Can forensic auditors detect the arnomalities?

Objective of this question was to acquire an understanding of whether forensic auditors might be able to detect fraudulent activities involving related party transactions. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.18 below

Table 4.18: Can forensic auditors detect related party transaction fraud

	Number of respondents	Percentage
Strongly Agree	11	53%
Agree	7	33%
Not Sure	3	14%
Disagree	0	0%
Strongly Disagree	0	0%
Total	21	100%

Source: Primary data

11/21 (53%) of the respondents strongly agreed, 7/21 (33%) agreed, 3/21 (14%) were not sure and none disagreed. Overally, 18/21 (86%) of the respondents agreed that forensic auditors would be able to detect any related party transaction fraud cases if they exist within the Duration Gold, 3/21 (14%) were not sure and none disagreed.

Qn3: Can forensic auditing be relied on as an antidote?

This question was aimed at analyzing the extent to which forensic auditing could be relied on as antidote, safeguarding the Duration Gold group investors and shareholders (both controlling and minority shareholders) against abusive related party and intra-group transactions. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.19 below

Table 4.19: Can forensic auditing be relied on as antidote

	Number of respondents	Percentage
Strongly Agree	9	43%
Agree	10	48%
Not Sure	1	5%
Disagree	1	4%
Strongly Disagree	0	0%
Total	21	100%

Source: Primary data

This option was viewed by respondents with varied opinions. 9/21 (43%) of the respondents strongly agreed that forensic auditing may be relied on as a safeguard on the group's shareholder wealth, 10/21 (48%) agreed, 1/21 (5%) were not sure and 1/21 (4%) disagreed. Overally, 19/21 (91%) of the respondents agreed that forensic auditing could be relied on within the Duration Gold, 1/21 (5%) were uncertain and 1/21 (4%) disagreed.

4.3.5 What mechanisms can be effected to help protect investors?

The objective for this question was to acquire views from the respondents on the mechanisms that can be effected in a view to protect investors against abusive related party transactions. Various mechanisms were suggested by the researcher and the respondents were given the right to choose the alternatives they thought would be feasible.

Frequent forensic audits

This option sought to obtain the understanding of the respondents on the extent to which they thought the frequency of forensic audit sessions within the Duration Gold group would help enhance the rigidity of currently enacted controls in a view to protect the company's shareholders against any related party aligned fraudulent activities, should they exist within the group's operations. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.20 below

Table 4.20: Frequent forensic audits

Frequent forensic audits	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	7	13	1	0	0	21
Percentage	33%	62%	5%	0%	0%	100%

Source: Primary data

7/21 (33%) of the respondents strongly agreed that frequent forensic audits may be relied on as a safeguard on the group's shareholder wealth, 13/21 (62%) agreed, 1/21 (5%) were not sure and none disagreed. Overally, 20/21 (95%) of the respondents agreed that forensic auditing could be relied on within the Duration Gold group, 1/21 (5%) were not sure and none disagreed.

Short internal auditor employment contracts

According to Brasilico, Grove & Patelli (2012), the task of the auditors (internal or external) is to establish a financial regulation that is objective and independent from the board and the audit committee. This question sought to investigate whether the lack of objectivity by the internal auditors because of elongated corporate engagements with an entity might have an effect on the type and quantity on related party transactions within the Duration Gold Group. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.21 below

Table 4.21: Short employment contracts for internal auditors

Short internal auditor contracts	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	8	9	2	1	1	21
Percentage	38%	43%	10%	5%	4%	100%

Source: Primary data

This option was viewed by respondents with varied opinions. 8/21 (38%) of the respondents strongly agreed that short employment contracts for internal auditors may be relied on as a safeguard on the group's shareholder wealth, 9/21 (43%) agreed, 2/21 (10%) were not sure, 1/21 (5%) disagreed and 1/21 (4%) strongly disagreed. Overally, 17/21 (81%) of the respondents agreed that short employment contracts for internal auditors could be relied on within the Duration Gold group, 2/21 (10%) were not sure and 2/21 (9%) disagreed.

Sub-contraction of the internal audit function

Brasilico, Grove & Patelli (2012), suggests an alternative to short employment contracts for internal auditors as the sub-contraction of the same function. In the same wave-length, this option sought to find an alternative to the short employment contracts option suggested by Brasilico, Grove & Patelli (2012). Responses from the respondents at the Duration Gold group on this option are shown in Table 4.22 below

Table 4.22: Sub-contraction of the internal audit function

Subcontraction of internal audit	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	11	5	2	2	1	21
Percentage	52%	24%	10%	10%	4%	100%

Source: Primary data

Like the other option above which deals with short employment contracts for internal auditors, this option was also viewed by respondents with varied opinions. 11/21 (52%) of the respondents strongly agreed that short the sub-contraction of the internal audit function may be relied on as a safeguard on the group's shareholder wealth, 5/21 (24%) agreed, 2/21 (10%) were not sure, 2/21 (10%) disagreed and 1/21 (4%) strongly disagreed. Overally, 16/21 (76%) of the respondents agreed that the sub-contraction of the internal audit function could be relied on within the Duration Gold group, 2/21 (10%) were uncertain and 3/21 (14%) disagreed.

Frequent external auditor rotation

This option also build on the argument laid by Brasilico, Grove & Patelli (2012), stating that the task of the auditors (internal or external) is to establish a financial regulation that is objective and independent from the board and the audit committee. This option sought to gather views from the respondents on whether frequent external auditor rotation within the Duration Gold group will strengthen the objectivity and independence of the external audit function, hence ensuring there is no likelihood of client-auditor collusion schemes. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.23 below

Table 4.23: Frequent external auditor rotation

Frequent external auditor rotation	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	14	6	1	0	0	21
Percentage	67%	29%	4%	0%	0%	100%

Source: Primary data

14/21 (67%) of the respondents strongly agreed that short the frequent rotation of the external auditor may be relied on as a safeguard on the group's shareholder wealth, 6/21 (29%) agreed, 1/21 (4%) were not sure and none disagreed. Overally, 20/21 (96%) of the respondents agreed that the frequent rotation of the external auditor could be relied on within the Duration Gold group, 1/21 (4%) were not sure and none disagreed.

Board approval of high value related party transactions

Loon etal states that in some jurisdictions, board approval is required for transactions with related parties that are beyond certain thresholds. The aim of this option was to gather information on the applicability of this mechanism at the Duration Gold mining group as a strategic policy of ensuring investors are protected. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.24 below

Table 4.24: Board approval of transactions above a certain threshold

Board approval of high value RPTs	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	12	7	1	1	0	21
Percentage	57%	33%	5%	5%	0%	100%

Source: Primary data

12/21 (57%) of the respondents strongly agreed that board approval of transactions above a certain threshold may be relied on as a safeguard on the group's shareholder wealth, 7/21 (33%) agreed, 1/21 (5%) were not sure and 1/21 (5%) disagreed. Overally, 19/21 (90%) of the respondents agreed that board approval of transactions above a certain threshold could be relied on within the Duration Gold group, 1/21 (5%) were not sure and (1/21) 5% disagreed.

King III Code enforcement

Brasilico, Grove & Patelli (2012) suggest that most fraudulent financial reporting cases reported in history are mere signs of the failure of corporate governance mechanisms within entities. After the adoption of the King III Code for Corporate Governance in South Africa, the same code has now come to be recommended in Zimbabwe. This option sought to obtain the understanding of the respondents of the improvement in investor protection within the Duration Gold group, should the code be made legal in Zimbabwe. Responses from the respondents at the Duration Gold group on this option are shown in Table 4.25 below

Table 4.25: King III Code enforcement

King III Code enforcement	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
Number of respondents	12	5	3	1	0	21
Percentage	57%	24%	14%	5%	0%	100%

Source: Primary data

This option was viewed by respondents with varied opinions. 12/21 (57%) of the respondents strongly agreed the enforcement of the King III code may be relied on as a safeguard on the group's shareholder wealth, 5/21 (24%) agreed, 3/21 (14%) were not sure and 1/21 (5%) disagreed. Overally, 17/21 (81%) of the respondents agreed that enforcement of the King III code could be relied on within the Duration Gold group, 3/21 (14%) were not sure and 1/21 (5%) disagreed.

4.4 Interview Analysis

4.4.1 What are the benefits and risks associated with related party transactions?

Respondent 1

The respondent stated that although there were benefits from related party services within the entity, these are outweighed by the possible risks associated with such connected provisions.

Respondent 2

The respondent stated that only contracting efficiency is enjoyed by the use of related parties with the Duration Gold group. He however argued that there is no facilitation of investment, as is claimed in the group's management meetings. He consented to the fact that these intra-group financing activities may be used by stronger subsidiaries to exercise abusive control over small and financially unstable subsidiaries

Respondent 3

The respondent stated that the subsidiaries did not benefit from intra-group services, and these services are carried out for the individual enrichment of the parent company, at the expense of the subsidiaries' free will to open business. He argued that the same services could be obtained from the external market at competitive prices, rather than fixed charges from the parent for management fees.

Respondent 4

The respondent was of the idea that although there were risks, benefits associated with these provisions far outweighed the benefits. He stated that even if the public always claimed that the management might be expropriating corporate assets for personal enrichment, this was not possible as the subsidiaries maintained separate asset registers and had excessive controls exercised over the assets.

Respondent 5

The respondent stated that the group transfer pricing policy gave the boundaries within which related party transactions at Duration Gold are conducted. He stated that even though there were potential risks through self-dealing by the management, the company has no policy that prohibits connected persons from gaining opportunistic dealings with the company.

Respondent 6

The respondent stated that he was comfortable with the subject in question, but the possibility of benefits and risks occurring during these related party dealings is an entity specific corporate governance concept and differs from one subsidiary to another. He suggested that internal controls within the group were enough to uncover any underground dealings should they exist.

Overally, the interviewed respondents reiterated the need that the benefits and risks associated with related party transactions should not be analysed in isolation. They explained that the Duration Gold group enjoys considerable benefits from the intra-group services, although there are also risks attached to such arrangements. The respondent's views were in in line with the discoveries made by Emiliano (2014, p59-61); Henry etal (2012); Loon etal (2009) and Pizzo (2011, pp. 309-330) who all suggested that the motive behind the use of each model of related transactions in any organisation is different; thus the risks and benefits of such transactions should not be analysed in isolation, but together and in context.

4.4.2 How do related party transactions lead to an increased overall audit risk?

Respondent 1

The respondent stated that there are various factors associated with the execution, accounting and reporting of related party transactions and intra-group transactions that might, individually or collectively, lead to an increased overall audit risk. He only identified the fact that this risks were mainly because the parties involved in a related party deal are connected, and there is no independence between the parties.

Respondent 2

The respondent stated that he was indifferent to this view. He stated that there was no link between intra-group transactions and the entity's audit risk.

Respondent 3

The respondent stated that the overall audit risk is increased by the fact that related party transactions may be difficult to identify, unless they are explicitly disclosed, and my not be tracked by the entity's internal control mechanism.

Respondent 4

The respondent stated that the overall audit risk is increased if management resorts to non-disclosure of questionable material related party transactions, but this depends on the management's involvement in those transactions. He argued that auditors rely on management to provide information on those transactions.

Respondent 5

The respondent stated that the greatest weakness of a financial statement audit is that the auditors use the financial statements prepared by the management, who might be involved in questionable deals.

Respondent 6

The respondent he was indifferent. He however argued that audit risk is a product of inherent risk, control risk and detection risk, hence this risk can be eliminated by the auditor actively searching for fraud in a related party dominated client.

Overally, the interviewed respondents reiterated that audit risk may be increased by non-disclosure of vital information about a related party relationship, lack of independence between the parties involved, auditor reliance on management and the fact that related party transactions warranting particular attention may not be easily identifiable and may not be adequately tracked by a company's internal controls. They also argued that even if some of the fraudulent related party transactions may be tracked by internal controls, management may override those controls, depending on their involvement in those transactions.

4.4.3 Circumstances in which an auditor should be held liable for undetected fraud.

Respondent 1

The respondent stated that it was the duty of the auditor to uncover fraud

Respondent 2

The respondent stated that the auditor's duty is to give an opinion, based on information made available to the auditor.

Respondent 3

The respondent stated that the auditor is liable as long as he conducted his duty with due-care and objectivity.

Respondent 4

The respondent stated that the auditor has the obligation; and hence he should make a preliminary assessment of the client's risk profile, which would then determine the nature, timing and extent of the substantive procedures to be performed.

Respondent 5

The respondent stated that the auditor should not be held liable for undetected fraud, unless if he negligently gives an opinion that is contrary to the findings made during the audit.

Respondent 6

The respondent stated that both the management and the auditor should be held liable for undetected fraud, unless if they provide enough evidence to the contrary.

Overally, interviewed respondents agreed that the liability of the auditor with respect to undetected fraud depends with the situation at hand; the auditor is liable if he acts negligently during the performance of his duty, but may not be liable if he is impaired during the performance of his duty because of outright concealment of, or non-disclosure of material related party transactions by management. However, they suggested that the auditor should make a preliminary assessment of the client's risk profile, which would then determine the nature, timing and extent of the substantive procedures to be performed.

4.4.4 To what extent could forensic auditing could be relied on as antidote?

Respondent 1

The respondent stated that forensic auditors may be able to detect related party transaction fraud, provided adequate information is provided by the management with respect to those transactions.

Respondent 2

The respondent stated that the relevance of a related party transaction audit depends on the extent to which the respective entity engages in those related party transactions, and on the complexity of the transactions involved; I which case, the forensic auditors might not be able to detect any arnomalities.

Respondent 3

The respondent stated that forensic auditors are able to detect and uncover fraud through related party transactions, even in cases where there is non-disclosure or outright concealment by management

Respondent 4

The respondent stated that the extent to which forensic auditors detect related party transaction fraud will depend on the management's involvement in the transactions in question.

Respondent 5

The respondent stated that forensic auditing is relevant, and can be relied on as fraud reducing measure, creating a psychological awareness within the fraud perpetrators of the possibility of being caught; but the extent to which this is relevant in related party transactions will depend on the level of professionalism of the respective perpetrators

Respondent 6

The respondent was indifferent, stating that the relevance of any audit engagement in the prevention and detection of fraud depends on the entity in question.

Overally, interviewed respondents agreed stated that forensic auditing has come up to be a vital benchmark for provision of evidence where fraud is prevalent, especially in related party transactions. They all suggested that forensic auditing could provide a solution, but the extent to which it can be relied on would depend on the organizational context within which such a service is provided.

4.4.5 What mechanisms can be effected to help protect investors?

Respondent 1

The respondent stated that the protection of investors against abusive related party transactions is an entity specific corporate governance concept. Hence board approval of material related party transactions or transactions above a certain threshold could be the only solution. However, he argued that board involvement in the day-to-day operations of the Duration Gold group might affect the independence and objectivity of the non-executive members of the board.

Respondent 2

The respondent stated that the protection of investors abusive against related party transactions rests on with the internal control mechanisms within an entity. The respondent suggested that the tightening of the internal audit function through the use of short employment contracts or the sub-contraction of the internal audit function would be the solution. However, the respondent suggested that frequently tempering with the internal audit function may create loopholes that might weaken the internal controls and the objectivity of the internal audit function

Respondent 3

The respondent stated that the external audit function is the key escape-boat though which investors can have confidence with the operations of an entity. The respondent however, suggested that in order to ensure independence is guaranteed, frequent external auditor rotation could prove to be an effective mechanism.

Respondent 4

The respondent stated that introduction of frequent audits, tightening of the internal audit function, frequent external auditor rotation, and board approval of transaction above certain threshold could provide a relevant measure through which investor wealth could be secured.

Respondent 5

The respondent stated that introduction of frequent forensic audits could provide a lasting solution, but the use of such a service should be evaluated in line with the relevant costs to be incurred.

Respondent 6

The respondent stated the protection of investors against abusive related party transactions is a corporate governance concept, hence the local enforcement of the King III Code for Corporate Governance could provide a lasting solution

Overally, the respondents suggested mechanisms, all of which were relevant to the research. They suggested that introduction of frequent forensic audits, short employment contracts or sub-contraction of the internal audit function, frequent external auditor rotation, board approval of transaction above certain threshold and the local enforcement of the King III Code for Corporate Governance could provide a lasting solution. They however explicitly stated that each of the suggested mechanisms has its own distinct loopholes that makes it either hard to practice or difficult to enforce.

4.5 Summary

The primary goal of this analysis was to determine the relevance of forensic auditing in detecting fraud in related party transactions. It further ascertained the role of forensic auditing in the prevention, detection and uncovering of fraud through related party transactions

An analysis of the above responses showed that forensic auditing can be relied on as antidote, provided extra measures are put in place to ensure the objectivity of the forensic audit function is not compromised, and to ensure investors are protected against abusive related party transactions. The next chapter shall present recommendations and conclusions

Chapter Five: Summary, Conclusion & Recommendations.

5.0 Introduction

The previous chapter presented and analysed the data gathered for the purposes of this research. This chapter shall give a summary of the chapters in this research, present major findings, and recommendations and will provide suggestions for future research.

5.1 Summary of Chapters

Chapter one looked at the background of the study, statement of the problem, research questions, research objectives, significance of the study, assumptions, delimitations as well as the definition of key terms. The chapter introduced the research problem about the relevance of forensic auditing in reducing fraud in related party transactions.

Chapter two reviewed an assortment of literature relevant to the research. Its focus was to integrate, and amalgamate various views of scholars and statutory requirements with regards to the related party transactions inferno. Some of the authors whose data was reviewed include Corlaciu & Tudor (2011); Emiliano (2014); Cheung etal (2009a); Jian & Wong (2010); Nekhili & Cherif (2011); Henry etal (2012); Loon etal (2009) and Pizzo (2011) to mention but a few.

The chapter explored views from published sources on the subject of audit risks on entities whose operating environment is dominated by related party transactions and intra-group transactions. Literature on related party transactions and intra-group transactions, the risks associated with intra-company transactions, the effects of related party transactions on the overall audit risk and the responsibility of auditors with respect to fraud was reviewed. The chapter also analysed the extent to which forensic auditing could be relied on as antidote; and assessed the adequacy of investor protection mechanisms enacted in order to protect investors from abusive related-party transactions.

The third chapter looked at the research methodology. Its main function was to control and dictate the acquisition of data. It described the research design, procedures and instruments used by the writer in gathering data for the study, population under study, sampling, data collection and presentation plan. It explained the selection of the research subjects, the research methods used in data gathering.

Chapter four presented and analyzed that data that was gathered. Data gathered in Chapter three through questionnaires and interviews was presented using tables, charts, pie charts and graphs, and then analyzed.

5.2 Major Findings

After conducting a thorough analysis of the data that was gathered and presented, the researcher identified the following;

Related party transactions present a normal part of business, but may present risks which may, individually or in aggregate, be responsible for `the wiping out of shareholder value, and the ultimate deterioration of the firm's market value.

Internal controls may be ineffective in detecting and preventing fraud perpetrated through related party transactions, further fuelled by the possibility management's involvement in those transactions.

The auditing of material related party transactions may be difficult if management are involved in fraudulent related party dealings, in which case, they may opt for non-disclosure or outright concealment of material related party transactions.

The currently enacted related party control mechanisms and standards are disclosure oriented rather than fraud oriented or both. They have been ineffective in uncovering fraudulent financial reporting through related party transactions.

Forensic auditing can be a vital benchmark in the provision of evidence where fraud is prevalent, especially fraud through related party transactions. Frequent forensic audits (although costly) can help limit fraudulent related party transactions with entities.

Mechanisms suggested by the researcher during the course of the research, that can be implemented in an entity specific setup or through statute with the objective of protecting investors against fraudulent related party transactions are;

- Introduction of frequent forensic audits
- Short employment contracts for internal auditors
- Sub-contraction of the internal audit function
- Frequent external auditor rotation
- Board approval of related party transactions above certain threshold
- Enforcement of the King III Code for Corporate Governance

5.3 Recommendations

From the findings stated, the researcher makes the following recommendations to the Duration Gold Mining Group and its affiliates to help reduce the probability of abusive related party transactions with its structures and subsidiaries;

- ***Introduction of frequent forensic audits*** – however the benefits of such a service should be compared with the costs involved, and the approximate value of perceived fraud.

- ***Short employment contracts for internal auditors*** – frequent internal auditor replacement could help maintain internal audit function objectivity.

- ***Sub-contraction of the internal audit function*** – this can help in that there is auditor independence in the part of the internal auditor. Although, this may present benefits, the sub-contraction of the internal audit function may be costly.

- ***Frequent external auditor rotation*** – frequent or periodic rotation of the external auditor may help in maintaining auditor independence, hence assuring the investors that the objectivity of this function is not impaired.

- ***Board approval of related party transactions above certain threshold*** – this could help in situations where related party transactions are a normal part of the business processes. The board will be responsible for the approval of material related party transactions or transactions above certain limits.

- ***Enforcement of the King III Code for Corporate Governance*** – this code provides benchmarks for corporate governance practices and policies aimed at ensuring objectivity is maintained within the different structures of the entity.

5.4 Suggestions for future research

This study mainly focused on the relevance of forensic auditing in detecting fraud in related party transactions within the Duration Gold Mining group. The research mainly looked at auditing issues with regard to related party transactions and intra-group transactions, auditor responsibility with respect to undetected fraud and suggested mechanisms that can be effected to protect investors against abusive related party transactions.

The researcher therefore further recommends that further research be carried out on the significance of forensic auditing in detecting fraud in entities with non-pre-determinable transfer pricing policies; effects of related party transactions on the overall market value of the firm; and on the effects of over-dependency on related party transactions in determining a firm's going concern

5.5 Summary

This chapter provided a summary of the chapters in this research, presented major findings, and recommendations and provided suggestions for future research.

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APPENDIX A

Midlands State University

Department of Accounting

P. Bag 9055

Gweru

……/………/ 2014

To Whom It May Concern;

REF: RESEARCH PROJECT ASSISTANCE

I am a final year student at Midlands State University studying for a Bachelor of Commerce Accounting Honours Degree. I am currently carrying out a research on the "**Relevance of forensic auditing in detecting fraud in related party transactions**" in partial fulfilment of the degree I am undertaking. The purpose of the research is to assess the extent to which forensic auditing could be relied on as antidote, safeguarding investors against abusive related party transactions.

I therefore seek your assistance by way of completing the questionnaire attached to this letter. Your response will be treated with confidentiality and the findings are for academic purposes only.

Should you need any clarification on completing the questionnaire please feel free to contact me on 0773 378 069 or e-mail me on *nkosie.mlanduli@gmail.com*

Thank you in advance for your co-operation.

Yours faithfully,

Mlanduli Nkosilathi

APPENDIX B

QUESTIONNAIRE TO JUNIOR AND SENIOR STAFF

Instructions

Please answer all the questions.

Please provide the following answers by ticking in the given boxes or filling the spaces provided.

1. The following are the possible benefits and risks associated with related party transactions in your company:

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
(i) Benefits: Contracting efficiency					
(ii) Economies of scale through group procurement					
(iii) Facilitation of investment					
(iv) Risks: Potential instrument for expropriation					
(v) Self-dealing					
(vi) Insider trading					
(vii) Tunneling					

2. How do related party transactions lead to an increased overall audit risk?

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
(i) Non-disclosure of vital information about a related party relationship					
(ii) Lack of independence between the parties involved					
(iii) Transactions with related parties are not easily identifiable					
(iv) Auditors rely on management to identify all related parties and related party transactions					
(v) Related party transactions may not be adequately tracked by a company's internal control					

3. Under what circumstances should an auditor be held responsible for undetected fraud?

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
(i) If he knowingly expresses an incorrect audit opinion					
(ii) If the exercise of his duty was impaired because of non-disclosure or outright concealment of material related party transactions					

(iii)	If the audit procedures performed were inadequate					
(iv)	If the audit procedures performed were adequate, but failed to detect fraudulent activities					

4. *Extent to which forensic auditing could be relied on as antidote*

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
(i)	Do you think the introduction of an internal audit function in your company will reduce the risks associated with related party transactions?					
(ii)	Given the existence of fraudulent financial reporting practices and fraud, do you think forensic auditors might be able to detect the arnomalities?					
(iii)	In your own opinion, can forensic (fraud or investigative) auditing be relied on as antidote?					

5. *What mechanisms can be effected to protect investors from abusive related party transactions?*

		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
(i)	Introduction of frequent forensic audits					
(ii)	Short employment contracts for internal auditors					
(iii)	Subcontracting of the internal audit function					
(iv)	Frequent external auditor rotation					
(v)	Board approval for related-party transactions above a certain threshold					
(vi)	Enforcement of the King III Code for Corporate Governance					

6. Other comments

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Official Stamp

Thank you for your corporation

The researcher is contactable on 0773 378 069; nkosie.mlanduli@gmail.com

Or Box 4, Gwanda.

APPENDIX C

INTERVIEW QUESTIONS

1. What are the benefits and risks associated with related party transactions and intra-group transactions within the Duration Gold Mining Group?

2. What are the effects of related party transactions on the overall audit risk?

3. Under what circumstances should an auditor be held responsible for undetected fraud?

4. To what extent can forensic auditing be relied on as an antidote?

5. What mechanisms can be effected to protect investors from abusive related party transactions?