MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

An analysis of the Implications of Risk Based Audit on quality of financial Reporting

Case of Ministry of Agriculture, Mechanization and Irrigation Development

By

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May God bless you all!

Finally, my praises goes to the Almighty God for guiding me throughout the entire course of my study.

DEDICATION

This piece of work is dedicated to my mother and late father; above all it is dedicated to God.

ABSTRACT

The research was on the analysis of the implications of risk based audit on quality of financial reporting on the Ministry of Agriculture, Mechanization and Irrigation Development. The objective of this study is to identify the impact of risk based audit on financial reporting and it articulated the relationship between audit risk-based audit and quality financial reporting. Literature from different scholars was discussed in this study. Audit practices and financial reporting practices which are used, at the Ministry of Agriculture, Mechanization and Irrigation Development. The weaknesses and strengths of accrual and cash basis accounting are also given. The research is quantitative in nature. The research was based on case study of Ministry of Agriculture, Mechanization and Irrigation Development. Likert scale questionnaires and structured interviews were used as research instruments. The analyses was made from the findings shows that audit risk and quality financial reporting have a positive relationship. This means that increase in risk-based audit will also result in increased quality financial reporting. The study also recommends full adoption of risk-based audit by the Ministry of Agriculture, Mechanization and Irrigation Development. Since, the practice of risk based audit has benefits that a substantial to true and fair presentation of financial information

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CHAPTER ONE

1.1.Background to the Study

This study intends to analyze the implications of risk based audit on quality financial reporting at the Ministry of Agriculture, Mechanization and Irrigation Development. In this study the background of the study the relationship between risk-based audit and financial reporting was highlighted. Financial Management and Financial Reporting in government and government departments is largely governed by the Public Finance Management Act (Chapter 22:19) PFM Act.The quality of Financial Reporting in the Ministry of Agriculture, Mechanization and Irrigation Development (AMID) needs to be improved. Faults and weaknesses in the accounting processes in department of Agriculture Research for Development (ARD) and Irrigations evidenced by findings of irregularities from both Internal Audit and Auditor General Reports for 2010, 2011 and 2012 respectively. The Auditor General reports showed the accounting discrepancies amounting to US$145,833.00 of unvouched expenditure without supporting documents for 2010,US$1,087,178.00 of unauthorized excess expenditure for 2011 and US$264,951.00 of purchases not approved for 2012 that occurred in the department of (ARD).Unvouched expenditure amounting to US$145,833.00 was paid without supporting vouchers contrary to Treasury Instructions 1215-1216 (f) which require all expenditure incurred using public funds to be fully supported by vouchers. As a result of the above the Auditor General,Mrs Chiri qualified the Financial Statements of the Ministry in 2012.

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Nkundabanyanga et al (2013) noted that accounting standards and legal framework have a significant influence on the quality of financial reporting. Although the quality of financial reporting in Uganda was affected by accounting standards and legal framework, the researcher argues that quality of financial reporting in Zimbabwe can also be affected by accounting standards and legal framework. A quotation for installation of internet services valued $1,820.00 was approved for payment as $18,200 which effectively overpaid the creditor by $16,380.00 in this department.(Chief Internal Auditor Reports 2011).The following table shows irregular transactions that occurred in the department of Irrigation department.(Chief Internal Auditor Reports 2010-2012)

Table 1: Abuse of Budgeted Funds (2010-2012)

TYPE OF ABUSE	2010	2011	2012
Goods and services not delivered	346,698	370,553	402,600
Misallocation of PSIP funds	2,773,524	1,564,124	1,024,800
Dual payments	30,243	45,253	52,993

(Source: Chief internal Auditor Reports 2010- 2012)

The above table shows a trend of irregularities for a continuous period of three years which indicates a problem that need to be addressed. The table shows an increase on goods and services which were not delivered between the period 2010 to 2012 from $346,698.00, $370,553.00 and $402,600.00 that is (6, 9%) and (8, 6%) respectively. The increase can be attributed to the weaknesses of internal checks and control of the system. Funds for Public Sector Investment Programs (PSIP) were being misallocated throughout the period even though the misallocation was decreasing, this can be attributed to insufficient allocation of funds to respective projects. Dual payments also increased from $30,243 in 2010 by (49.6%) to $45,253 in 2011 and (66%) to $52,993 in 2012.

1.2.Statement of the Problem

Financial Reporting in the Ministry of Agriculture, Mechanization and Irrigation Development is grossly substandard and of poor quality. This is evidenced through poor financial administration and substandard accounting processes that has resulted in unauthorized excess expenditure, purchases not approved, dual payments, goods and services not delivered and misallocation of PSIP funds and this positively contribute to poor quality of financial reporting and less approach to risk based audit.

1.3.Main Research Question

What is the impact of risk based audit on quality of financial reporting by the Ministry?

1.4.Objectives of the Study

The research seeks to achieve the following objectives;

- To analyze the current Financial Reporting practice and audit practice in the ministry.
- To establish the relationship between risk-based audit and Financial Reporting in the ministry.
- To establish the challenges faced in risk based audits implementation in the ministry.

- To outline best industrial practice for both audit practices and quality of financial reporting in the ministry.

1.5.Research Questions

- What are the current Financial Reporting practice and audit practice in the ministry?
- What is the relationship between risk based audit and Financial Reporting in the ministry?
- What are the challenges faced in risk based implementation in the ministry?
- What are the best industrial practices for both audit practices and quality of Financial Reporting in the ministry?

1.6.Significance ofthe Study

The research will equip the student with relevant skills and knowledge which will be acquired during the research. The study helps the audit staff to identify their shortcomings so that the employer empowers them in their responsibilities for example through training workshops on auditing. The research will also assist Ministry of Agriculture, Mechanization and Irrigation Development to find better ways of managing the risk based audit system. The Ministry will also improve the accounting systems and quality of financial reporting. The Ministry will benefit from recommendations made and improve the risk based audit system. The study helps other researchers to probe further and even identify other reasons for deficiencies in risk based audit system.

1.7.Delimitation of the research

The research was focused on the implications of risk based audit and financial reporting, the research also focused on the practices of audit and financial report in the public sector. The research was carried out in Zimbabwe specifically at Ministry of Agriculture, Mechanization and Irrigation Development Head office in Harare. The internal auditors, external auditors and senior management were the targeted respondents. The study covered the period of 2010-2012.

1.8.Limitations

Hindrances, problems and other drawbacks encountered during the research process will be highlighted under this section. Expected hindrances include transport costs, resistance in cooperation of some research participants, financial resources constraints as well as time constraints and confidentiality of information.

1.9.Assumptions

- The government policy reviews are not going to change much to affect the research.

1.10. Definition of Terms

Quality-The ongoing process of building and sustaining relationships by assessing, anticipating and fulfilling stated and implied standards.

Ministry-refers to Ministry of Agriculture, Mechanization and Irrigation Development.

Risk - the effect of uncertainty on objectives, whether positive or negative.

1.11. Chapter Summary

This chapter focused on the background of the study, statement of the problem, research objectives, significant of the study, delimitations and limitations of the study, definition of technical terms are also defined in this chapter.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter, scholarly materials about financial reporting and audit practices are analyzed, summarized and reviewed. The intention is to systematically examine literature, sources, describe and justify what has been done in this present research work. This chapter therefore analyses the financial reporting practices in public institutions, auditing practices, the relationship between risk based auditing and financial reporting, challenges affecting the implementation of risk based approach, and the best industrial audit and financial reporting practices. The intention is to learn critical lessons even from the private sector and check on how exactly they can be practically adopted into the public system to improve accountability issues. Also in addition, studies similar to this one are evaluated and methodologies used are examined to inform this research work. Insights from literature are also highlighted.

2.1.Financial Reporting Practices in Public Institutions

Public accounting is defined in a number of ways by different authors. Vitez (2014) defined it as the process by which public institutions use to record financial transactions. The author highlighted that although public sector accounting is said to be similar to private sector accounting in theory, its focus is somewhat different. It is a system which gathers, records, classifies and summarizes as reports the financial events existing in the public sector as financial statements and interprets as required by accountability and financial transparency to provide information to users associated to public institutions.

The key thing here is the process of producing the reports, called statements that disclose an institution's financial status to management and government for public institutions. Olusegun (2011) appreciated that it is an undisputable fact that the major aim of financial reporting is the communication of relevant information useful to various categories of stakeholders. The author reiterated that financial reporting must be clear and understandable and should be based on accounting policies which vary from institution to institution. Accounting should contain facts that are comprehensible to those who have a reasonable understanding of business economic activities. Olusegun (2011) considered financial reporting as a critical component of information system of respective institutions through which they discuss their financial performance and condition to external users. The debate on financial reporting in Nigeria in the public sector ranges from the adoption of a universal public sector accounting standard and a shift to accrual basis accounting in some circles (Olusegun, 2011).

Most people accept that it is desirable for the accounting standards to be harmonized for both public and private sectors as much as possible around the world. There is no unanimous agreement on which standards and basis to be used as a benchmark or how similar public sector accounting should be to the private sector practices (Ado, 2009, p.31). Olusegun (2011) noted that financial reporting in the public sector is mostly based on the cash-based accounting system and relatively less on the accrual based accounting system. Mbelwa (2014) noted that since the 1980s, public sector entities worldwide have been exposed to accounting reforms under an umbrella of New Public Management (NPM). The main purpose behind the adoption of accounting reforms is to increase efficiency in decision-making by producing useful accounting information. However, it has been generally argued that the adoption of these accounting reforms by the public sector entities in developing countries is attributed to seeking to establish financial legitimacy rather than to increase organizational efficiency (Mbelwa, 2014).

Government institutions are not necessarily profit-driven in the same way that private business tends to be. In the private sector, financial managers are generally motivated by profit and pushed to maintain a bottom line or a minimum level of profitability. On the other end of the spectrum are the financial managers in the public sector who do not necessarily have a bottom line to maintain. Instead, they may be task-oriented or driven by some other motivating force endemic to the specific type of work the organization is focused on daily (Jared, 2014).

2.2.Cash Basis Accounting

The public sector accounting system in many developing countries uses *cash basis accounting* (Owolabi, 2013). This is the practice of recording revenues and expenses when cash is received and when the expense is paid respectively. Cash transactions eligible for recording in a cash basis accounting system include actual physical transfer of money, and also other forms of payment that can be converted into cash very quickly, including written cheques, credit cards, bank debit cards, and RTGSs. In a cash basis system, however, the receipt of a promissory note, the creation of an account receivable, or the sending of a customer invoice are not, by themselves, transactions eligible for recording (Schmidt, 2014). However, literature review on existing public accounting revealed that cash accounting system provides essential information and it is simple, easier to understand, facilitate decision making, and much more objective than other alternatives (Owolabi, 2013).

Cash accounting works hand-in-glove with single entry accounting. Cash accounting with a single entry approach is similar to the cheque register used to keep track of cheques, deposits, and balances for a single checking account (Schmidt, 2014).

Under this, it is possible to defer taxable income by delaying billing so that payment is not received in the current year and also possible to accelerate expenses by paying them as soon as the bills are received, in advance of the due date.

2.2.1 Strengths of Cash basis accounting

According to Bender (2014), the cash basis accounting method is simpler than the accrual method, as it provides a more accurate picture of cash flows of an organization. In addition, the income is not subject to taxation until the money is actually received. Sherman (2009) argued that the cash-basis accounting method is easy and cost efficient to maintain. The method is easy for an institution to keep track cash inflows and cash outflows. In addition, Sherman (2009), noted thatcash basis accounting gives an accurate picture of how much money an organization has in its bank account on a specific day

Helstrom (2014) also recapped that the cash basis of accounting is simple to understand as revenues and expenses are recorded to the general ledger only when a cash inflow or outflow occurs. Reyes-Fournier (2010) recognized that running a small non-profit institution where all income is received as cash donations and all expenses are paid in cash then a cash accounting is appropriate. Franco (2014) said that maintaining the institution's books and records is simpler under the cash method since the only important events that require the recording of revenue and expenses are the receipts or payment of cash.

2.2.2. Weaknesses of Cash basis accounting

On the other hand, although given the above merits, Akenbor (2011) argued that the cash basis system is not idle to provide information on the cost of services, earned revenues, account receivables, account payable, long-term assets and liabilities, accrued interest on external debt and stock value. In addition, to concur with Akenbor view Okoye (2011) sated that cash accounting basis system is not significantly effective in providing accounting information for efficient performance of public sector organization. Bender (2014) also noted that, cash-based accounting method is not a generally accepted accounting principle. This means it will not be given any authority during an audit. In addition, Schmidt (2014) stated that cash basis accounting provides insufficient records and insufficient control for public institutions and other organizations that are required to file audited financial statements such as the income statement or statement of financial position. It cannot provide crucial information for evaluating the institution's financial position.

2.3.Accrual Accounting System

Institutions in most cases are faced with the option of choosing one of the two accounting methods, Cash Basis and Accrual Accounting. Accrual accounting according to Schmidt (2014) is the practice of recording revenues when they are earned and recording expenses when they are owed. This author noted that the distinction between cash accounting and accrual accounting may sound minor. When the natures of the two accounting systems are better understood however, it is clear that the choice of accounting system has significant influence on the way the institution bills its clients, collects payments, pays its bills, and meet its obligations. Many institutions choose accrual accounting. It is almost impossible for a public institution to meet its reporting requirements using cash accounting alone.

According to Generally Accepted Accounting Principles (GAAP), the accrual basis of accounting is required for all businesses that handle inventory, from small retailers to large manufacturers under the Generally Accepted Accounting Principles. A business that chooses to use the accrual basis must use it consistently for all financial reporting and for credit purposes. For anyone who runs two or more businesses, however, it is permissible to use different accounting methods for each (Encyclopedia of Business, 2nd Ed., 2014). Freedman (2014) reiterated that accrual accounting, required under generally accepted accounting principles (GAAP), attempts to mimic the economic reality of an institution's business activities instead of recording transactions simply as they occur. The matching of revenue and expense under accrual accounting allows for more useful analysis of your own business. Accrual accounting is said to be a given option for large institutions. However, small institutions may not benefit from all the advantages of accrual accounting as they may still be saddled by the costs (Freedman, 2014).

The difference between cash and accrual accounting systems originates from the fact that most transactions involve two events and, moreover, these events can occur at different times. The seller delivers goods or services (one event) and the buyer pays for the goods and services (another event). These events may occur more or less simultaneously or there may be a time lapse between them. Either event may precede the other (Schmidt, 2014). The accrual accounting with a double entry system uses two pairs of transactions for a single sale. For the seller, closing the sale and delivering goods or services brings two bookkeeping entries (a debit to one account and a credit to another), while receiving the customer's cash payment brings another two entries (again, a debit to one account and a credit to another). Similarly, the buyer records two transactions when the payment is owed and another two when cash is paid. Under accrual accounting, the reported income for both buyer and seller is based on each party's first pair of transactions.

2.3.1 Strengths of Accrual basis of accounting

According to Schmidt (2014), the benefits of accrual basis of accounting is that expenses can be deducted in the year the underlying service or property is received and become liable for payment, even if the payment is not made until a future tax year. In addition, Bender (2014) noted that accrual basis of accounting is accurate as it depicts a complete financial picture by taking into account the exact dates money is earned and expenses are incurred. Accruals basis of accounting enables an organization to see money already earned that has not yet been paid into its cash account since, not all sales are cash sales. Moreover accrual basis of accounting enables the organization to see money being owed to clients that is yet to be paid. Also accrual basis of accounting is generally an accepted accounting method.

2.3.2 Weaknesses of accrual basis of accounting

However, income is supposed to be reported in the year the customers have a legal obligation to make payment, not at the time they actually make payment. This means there are chances of paying up taxes on money yet to be received during the tax year (Schmidt, 2014). In addition, Franco (2014) stated that the accrual method requires more bookkeeping than the cash method. For instance, “unearned revenue” and similar liability accounts must be created to account for advance payments received from customers until the revenue is earned (Franco, 2014). More so, Bender (2014) noted that accrual accounting system is very complex, since it requires keeping track of every transaction, which could be a cumbersome and time-consuming task. In addition, there might be the need to install costly software and even hire an experienced accountant to keep track of all the financial information (Bender, 2014).

2.4.Current Audit Practices in the Ministry

Auditing is defined in the literature as an investigation into whether proper arrangements have been made for securing economy, efficiency, and effectiveness in the use of resources (QFinance, 2009). Those who are responsible for the conduct of public business and for spending public money are accountable for ensuring that this business is conducted in accordance with the law and proper standards of accounting and governance and that public money is used economically, efficiently and effectively (FRC, 2010). Governments and government departments in democratic societies are subject to internal audit. This is essential to assess whether the departments are functioning efficiently and provide good value for taxpayers' money. Auditing can either be internal or external practices at any given public institution.

2.4.1 Internal Auditing

The UK government's internal audit standards (HM Treasury, 2011) defined internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (QFinance, 2009). Its scope is to help an organization to accomplish its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control, and governance processes.

Internal auditors must be independent from the public sector that they audit in order to be able to provide impartial audit review and advice. A well regulated and impartial process of appointing public auditors is key. Usually this is regulated by law; however, in the public sector organizations, the appointment of internal auditors is usually a decision for management or the audit committee (Fumiki, 2009). The auditing process in the public sector has a wide sphere of activity. The scope of the internal audit work usually focuses on a number of issues such as reviewing the achievement of objectives, making sure decisions are properly officialized,assuring the reliability and truthfulness of information, promoting efficiency and effectiveness, preservation assets, assessing obedience with regulations, and studying the opportunities for fraud (Fumiki, 2009).

2.5.1 Strengths of internal auditing

According to QFinance (2009) internal auditioning provides an insight into how the public sector functioning and it provides an assessment of the resource budget estimates that in turn helps the institution to meet its published aims and objectives. In addition, internal auditing offers consultancy advice in the form of recommendations that management is free to accept or reject.

2.5.2 Weaknesses of internal auditing

Internal auditing regulations and statutes can be lengthy and complicated for implementation, since many departments are concerned with vital public services, subjecting them to internal audit can be disruptive and can create difficulties with line management if the function, objectives, and ultimately the benefits of internal audit are not understood by department personnel. In addition, according to QFinance (2009) the internal audit function is properly trained, with a full understanding and appreciation of the department that is being audited, its judgments will be challenged by line management.

Literature has shown that for internal auditing to be efficient internal auditors are appointed in full compliance with the relevant legislation and the auditors appointed should be independent to the organization. The QFinance publication (2009) noted that, the importance of public sector auditing should not be ignored. It may seem expensive, but it will provide value for money in the long term.

2.5.External Auditing

These are purely independent, unbiased reviews of financial records of institutions by audit practitioners who are not members of the client institution. This is usually done on a contract basis, and is normally an expensive exercise with benefits. Although an institution can have an effective control and recording system, an external audit is necessary to verify this assertion (Davoren, 2014).

2.5.1 Strengths of external auditing

Devoren (2014) stipulated that, an external audit will identify errors which may be arising because of omissions and commissions and rectify them over the historical data. This, in turn, will provide you with clearer business records and data. In addition, external auditors thoroughly review the entire range of transaction processes and verify that approvals and authority checks are in place. Authentic audit statements which can be used to access funding from financial institutions normally entail those produced by external auditors. Similarly, tax authorities may be more willing to place reliance on calculations for income or sales taxes if the present audited financial statements are from external auditing exercises. Audited financial statements depict transparency in any business and thus reflects the spirit of being honesty and transparent in dealings. Also, the mere knowledge of external audit by employees may deter fraudulent activities according to Encyclopedia of White-Collar and Corporate Crimes. More so, Khan (2011) also noted that various actions of external auditors in some cases mutual support can be more proficient

In addition, Khan (2011) stated that external auditing makes it easier to compare diverse institutions as the auditors articulate their judgments about the equality of measures. The external audit can verify transparency of the internal audit process or lack thereof. In some cases, the internal auditor may be performing his/her duties in an unfair manner and thus misrepresenting facts to the institution. Moreover, Khan (2011), the external audit exercise identifies errors committed consciously and those committed unknowingly. If in a system employs are aware that at one time their accounts will be audited by external auditors, they are less likely to commit such crimes. If the accounts are audited by an external auditor, the report of the auditor will be true and fair in all respects and it will be of tremendous importance for the management of the institution. The procedure of audit will institute a check on the minds of the staff working in the business and they will not be able to commit any abnormality

2.5.2 Weaknesses of external auditing

Khan (2011) external auditing has some weaknesses that external service providers do not offer a systematic internal recruiting ground for future senior managers. In addition, discretion might be violated if external individuals have access to susceptible in rank. Internal auditors could perform intermittent or annual register reviews that external auditors could also use, thereby saving an organization external audit fees. Of course, the internal auditing contribution to the partnership must be credible for the external auditor to rely on this work.

An eHow Contributor's article (2014) highlighted that an external audit consists of a review of an institution's financial statements by an independent body who are imperative to give confidence to investors, regulators and the public that the financial data and representations in the statements are, in the auditors' opinion, true and not misleading (eHow, 2014).

2.6.Relationship between Risk Based Audit and Financial Reporting

Griffith (2012) highlighted that risk based auditing is an approach and an attitude of mind rolled into one. The simplest way to define risk-based audit conceptually is to audit the things that really matter to one's institution. The question is which ones are the issues that really matter and the answer pertains those areas that pose the greatest risks. The areas of high risks are therefore the basis for risk-based auditing (Griffith, 2012).

If audit work does not cover such risk areas, the audit function may find itself in the embarrassing position of being in the wrong place at the wrong time. Since the internal audit function is part of the enterprise risk management (ERM) process, the auditor is expected to know the sensitive operations of the entity and to use audit resources to provide efficient audit risk coverage. A proper ERM process will embrace an audit plan that will satisfy the audit committee and will answer the question of what to audit (Sanchez, 2013).

Risk-based approach stipulates that internal auditors cannot audit everything. The generally limited resources in the organization's internal auditing environment must be used in selected areas on the basis of a risk prioritization exercise. If the risk-based auditing is not used it literally means the auditors have to try and audit the whole system, a scenario which might not be possible because of the scarcity of resources in government institutions. Auditors try to do a little audit work in every auditable area. It is usually difficult or inconvenient for management and audit committee members to accept the truth, that there simply are not enough audit resources to audit everything. Auditors never want to be in a position where they would have to say that there will be no audit coverage in particular areas. The modern audit committee wants to know that the limited audit resources are being allocated to the high-risk areas at the expense of the low-risk areas (Sanchez, 2013).

By identifying, assessing, and monitoring a company's risk, internal auditing helps assure that resources are adequate and focused on priorities (Kunkel, 2010). Generally, risk-based auditing assesses areas of heightened risk (Griffiths, 2009), and, importantly, conducts continuous risk assessments. The knowledge gained from a comprehensive annual risk assessment, as well as from risk assessments undertaken at the outset of every internal audit engagement, should be shared with management and the board (Jackson, 2011).

According to King III Report (2009) risk based approach improve the effectiveness of internal financial controls and it encourages the internal audit to be risk-based. Susan Fraser (2011) noted that a risk based approach focuses mainly on the nature timing and extent of the audit procedures to areas that mostly have potential to cause material misstatements in the financial reports and the auditor is required to understand the environment and the entity to easily identify risks resulting in material misstatement of the financial reports. This means that auditing and the objective of limiting costs in the exercise of carrying out the audit, the idea is to consider where the financial reports may be depicting the wrong position of the financial status of the respective institution. The idea of risk based auditing as is depicted by Griffiths (2009), connects its objective to bring sanity in financial reporting systems. Hematfar *et al*(2013) also noted that risk based auditing contribute a lot in increasing the reliability and validity of the audit reports and if required standards are met it also increase the quality of the reports. Risk based auditing increases the confidence of users of financial statements, minimizes errors and distortions and minimizes auditing costs.

Risk based auditing take into considerations three types of audit risks which are inherent risk, control risk and detection risk. Inherent risk is that risk associated with the nature of the business or transaction. Control risk is the risk that misstatement could occur but the entities internal control system may fail to detect the misstatement and take corrective and preventative measures while detection risk refers to the probability that audit procedures may fail to pick the existence of material error or fraud. The purpose of risk based audit is to promote transparency, to provide warning signals at an early stage and to encourage self-evaluation of regulated entities at regular intervals. Under control risks, this is where it is expected that the financial reports might be misrepresenting the facts on the ground. Under this, risk based auditing then ensures that misstatements are total removed from the reporting equations and thus enabling the correct picture to be depicted.

In risk based supervision, there is continuous monitoring and evaluation of the risk profile Ramos (2009) noted that the aim of the risk assessment auditing standards was to improve the quality and effectiveness of audits by substantially changing audit practice and subsequently improving the financial reporting. This improves the usefulness of financial reports produced as they will be a true reflection of what would have taken place in an institution (Ramos, 2009). By keeping track of the healthiness of any business process, stability and efficiency of such a business is ensured. Risk based auditing makes sure that the financial reporting picks on critical issues which could have been misrepresented but of critical importance in decision making (Salehi, 2011).

The basic premise of risk based auditing is that auditors should focus more resources on accounts that are likely to be misstated and fewer resources on balances that are less likely to be misstated.

In this study the researcher will utilize regression analysis in order to assess the relationship between risk based auditing and quality financial reporting. STATA 11 shall be used for the calculations as it is easy to use and accurate on calculation of the data to be collected by the researcher. Simple regression model shall be utilized by the researcher.

2.6.1 Simple regression model

The relationship between risk based audit and quality financial reporting shall be calculated using simple regression model in the form of **Y=a+bx**

Where y = the dependent variable, which is quality financial reporting

a = is the constant

x = is the independent variable, which is risk based audit

b = is the sensitive respond of quality financial reporting.

2.7.Challenges in Implementation of Risk Based Audit System

Saheli (2009) argued that although risk based audit is of more beneficial to developing countries than traditional auditing it has some barriers such as the individual competency and ability in using statistical methods, effort in selecting risk based auditing standards, the timely financial information prepared by accountants. Castanheira (2009) also argued that risk based audit can be affected by entity size which means that the larger the entity, the more challenges in implementing risk based audit.

According to Salehi (2011) the following are key challenges affecting the execution and implementation of risk based auditing; Lack of timely preparations of financial statements by institutions' accountants prevents the effective execution of risk based auditing. In addition, lack of risk based auditory standards, prevents the practical execution of risk based auditing. Moreover, non-usage of auditors from statistical methods prevents the execution of risk based auditing and using statistical methods to a greater extent decreases auditing costs and time and increases reliability of audits. Lack of education for auditors under the risk based auditing method can prevent its the practical execution

Internal audit departments are in the middle of "an evolutionary transition" facing great opportunity and challenges, according to Ernst & Young's (2010). Because of the scope of internal audit's knowledge of a company - from the management level to day-to-day operations - internal audit departments are increasingly expected to move beyond compliance and financial reporting responsibilities to implement enterprise risk assessments and focus on business and operational risk (Accounting Web, 2011).

The Accounting Web (2011) noted the key challenges for internal audit in meeting expectations are hiring and training the people needed for their compliance and expanded strategic role, interacting and aligning with other risk managements in the company, and measuring the value of their services as they take on additional business activities. Adjusting to these challenges and seizing the opportunity for a visible role in improving business performance will require internal audit leaders to "think differently and react quickly," the study's authors say (Accounting Web, 2011).

In the study carried out by the Accounting Web (2011), respondents highlighted that gaps in internal audit coverage and problems completing the risk based auditing resulted from: Increase in the size of the internal audit function, operating at less than 90 percent budgeted headcount and high staff turnover. One in five reported turnover in excess of 20 percent. Thirty six percent reported turnover of more than 15 percent. An associated challenge is matching the skills of internal audit personnel with an organization's needs and demands. Most companies reported having too many internal auditors with financial reporting compliance skills (Accounting Web, 2011).

2.8.Best Audit Practices

There are quite a number of areas to consider when defining the best auditing practices for an institution. Literature has suggested the following (Wayne State University, 2014);

2.8.1 Segregation of Duties

Duties within the department or function should be separated so that one person does not perform processing from the beginning to the end of a process. Duties that should be segregated include; authorization, custody of the assets, and recording transactions

If an adequate segregation of duties does not exist, the following could occur; misappropriation of assets, misstated financial statements, inaccurate financial documentation (i.e., errors or irregularities), and improper use of funds or modification of data could go undetected

The best practice is to design a system of checks and balances to decrease the likelihood of errors and irregularities. The person who prepares documentation should not be the same person to authorize and execute the transaction (i.e. one person should not be able to accept cash, record deposits for banking, make the bank deposits, and reconcile the account) (Wayne State University, 2014).

2.8.2 Policies and Procedures

Written policies and procedures codify management's criteria for executing an organization's operations. Developing and documenting policies and procedures is the responsibility of management, thus, they should document business processes, personnel responsibilities, departmental operations, and promote uniformity in executing and recording transactions.

Thorough policies and procedures serve as effective training tools for employees (Wayne State University, 2014).

If written policies and procedures do not exist, are inaccurate, incomplete, or simply not current, the following could result; inaccurate and unreliable financial records due to inappropriate recording of transactions, inconsistent practices among employees and/or department, processing errors due to a lack of knowledge, and inability to enforce employee accountability (Wayne State University, 2014).

The best practice is to document all significant business practices, processes, and policies. Make the policies and procedures available to all personnel, ensure they are accurate, complete, and current at all times and revise policies and procedures for changes in business processes and policies. This is particularly important when new systems are developed and implemented or other organizational changes occur.

2.8.3 Safeguarding Assets

Assets are the economic resources organizations own that are expected to be of benefit in the future. Cash, office supplies, merchandise, furniture, equipment, land, buildings, and sensitive or confidential data are some examples. Protective measures must be taken to ensure that assets are maintained in a properly controlled and secured environment. The most important type of protective measure for safeguarding assets is the use of physical precautions. If physical precautions are not in place the following could occur; theft, items may be lost or misplaced, fraud may be committed using unauthorized data, and unauthorized transactions or processing could occur if data is not adequately safeguarded (Wayne State University, 2014).

The following should be performed to ensure assets are adequately safeguarded; store all assets in a secure, locked area, cash should be stored preferably in the fire-proof safe, restrict access to data and other assets to a limited number of individuals within the department or organization, ensure proper access controls are in place in systems (i.e., user IDs and passwords that are unique and forced to be changed frequently by the system) (Wayne State University, 2014)

2.8.4 Efficiency and Effectiveness

Efficient performance accomplishes goals and objectives in an accurate and timely fashion using minimal resources. Inefficiencies in operations occur when processes are performed that provide no additional benefit or value. Operations are considered effective when they are functioning as intended. If, for example, two individuals are both responsible for executing the same function within a process, a duplication of efforts would exist. In an effort to promote operational efficiency and effectiveness, departments and/or organizations should consider the following; analyze business processes and identify and eliminate any duplicated efforts, streamline processes by reducing any non-valued added procedures, identify any processes that have been done merely because "that's the way we've always done it" (Wayne State University, 2014).

Determine if those processes are still needed. If they are, identify methods that would allow steps to be completed either more timely or effectively. Strive to process documents and/or transactions in a minimum required time to increase the efficiency and effectiveness of the unit. Employ a cost-benefit methodology when analyzing and developing new processes. If the costs outweigh the benefits, then consider eliminating the procedures or significantly reducing the number of steps needed to complete the process.

2.8.5 Review and Approval

When a process is performed within a department, there should always be another level of review and approval performed by a knowledgeable individual independent of the process. The approval should be documented to verify that a review was done. Review and approval are controls that help management gauge whether operational and personnel goals and objectives are being met. The lack of or inadequate review and approval could result in errors being overlooked resulting in misstatements that could affect financial, as well as, operational decisions. In addition, Inaccurate or incomplete information in accounts and reports may result if there is no proper review and approval. Detection of irregularities may not be possible.

This means a thorough review of processes, transactions, and reports should be performed for accuracy, completeness, and timeliness. The reviewer should be someone who is knowledgeable about the items or areas being performed such that they are able to readily identify errors and/or omissions. The reviewer should preferably be someone who has the authority (e.g., supervisory role) who is able to authorize, provide direction, and make decisions about the items under review. The reviewer should be someone who does not perform the process. Evidence of the review and approval should be documented (e.g., signed or initialed and dated by the reviewer/approver) (Wayne State University, 2014).

2.8.6 Reporting

Reporting is defined as disclosing facts about an entity. These facts could be financial, regulatory, or statistical in nature. Decision makers use these facts to make assumptions about an entity. Inaccurate or incomplete reporting could result in the loss of research funding and state appropriations, difficulty obtaining debt financing and reduced creditability.

Since decision makers rely on the facts provided in reports, it is imperative that the information be; accurate, complete, and current; fully disclosed, concise and objective and provided on a timely basis (Wayne State University, 2014).

2.8.7 Accounting

Accounting is a system that measures business activities, processes that information into reports, and communicates these findings to decision makers. Two major controls of an accounting system are accurate posting of transactions and adequate account review and reconciliation. Inadequate controls over an organization's accounting system give rise to misstated financial reports and inaccurate and unreliable financial records

To help ensure strong accounting controls exist, management should ensure employees are properly trained on performing accounting functions. Only authorized personnel can establish or modify accounting ledger attributes (for instant accounts, object codes, transaction codes) (Wayne State University, 2014).

2.8.8 Manage and train the client

Auditors can work much more efficiently when clients supply them with all the data they need. If audit staff spend time doing catch-up bookkeeping work or locating and copying needed files, the length of the audit probably will increase and compromise the value of auditing. To prevent this problem, some firms have experimented with creating two separate groups: a traditional audit team and another, team that prepares clients for the audit. The survey revealed other strategies for ensuring clients are prepared for their audits;

Starting at the top.

Practitioners meet with management and ask them to communicate audit value to organization staff members and urge them to cooperate in engagement preparation. This makes it as easy as possible. Firms provide explicit lists of what is needed with clear examples and due dates. Through rescheduling fieldwork if the client is not ready and developing realistic expectations. Firms know clients won't complete all the preparation work needed at first, but once they start with basic expectations, they can add more responsibilities each year.

Audit evidence is considered as key tools in the auditing processes. Audit evidence consists of the documents you use during an audit to substantiate your audit opinion (Loughran, 2014). While working on an audit, many different types of evidence (written, oral, and so on) are encountered. Documents can be prepared by employees of the client or by outside parties. To properly evaluate the strength of evidence one has to gather and understand the four concepts of evidence stated as

Nature: The form of the evidence — for example, oral, visual, or written.

Appropriateness: The quality, relevancy, and reliability of the evidence.

Sufficiency: The quantity of audit evidence — enough evidence to evaluate the audit client's management assertions.

Evaluation: A decision on whether the evidence is compelling enough to allow you to form an opinion (Loughran, 2014).

2.9.Best Financial Reporting Practices

Creating a financial report is obviously one of the most important jobs for an accountant during the course of a fiscal year. Keeping management apprised of an organization's financial situation improves accountability (Financial Reporting, 2013). When it comes time to put together a report, there are a number of practices businesses can use to stand apart from the herd and these are as below according to the Financial Reporting (2013);

Report Planning: The year-end financial report can be a massive undertaking. By taking a project approach, assigning a project manager to allocate resources and schedule timelines, organizations can effectively strategize and prepare for their report.

Audience Consideration: This involves determining who the financial report will serve, who reads it, which benefits most from the information it contains, and modify the information to suit their needs. Taking time throughout the year to gather specialized information for certain customer groups can add a lot to year-end reports.

Interactive Reporting: Although some organizations prefer the traditional financial reporting approach, times have changed and systems should change too. New technologies have shifted the paradigm in financial reporting as well and reports should be dynamic and interactive.

Timely Calculations: When assets are sold or revalued, never put off the accounting until the end of the year. By posting things to suspense accounts and waiting until the last minute, accountants create a serious year-end crunch. Performing the job as the year progresses can assist alleviate problems associated with pressure when time arrives to put together the full report (Financial Reporting, 2013).

Although there are more practices that can assist in perfecting financial reporting, Business Pro Weekly (2014) noted the following additional practices which can make companies stand out for their good financial reporting, gaining a better reputation among their stakeholders as a result of keep up with the accounting. This entails the institutions to continue updating their reports so that when the time comes, less work can be done. In addition, an organization can practice internal auditing, this implies that systems should always be up-to date with internal auditing arrangements and this make employee to be worry all the time and thus fewer misrepresentations are committed. An organization should have watch the patterns, this means the numbers watched over time expose issues not visible from point-in-time snapshots. Moreover reporting should try to answer obvious questions other than waiting to be asked by reviewers.

According to the article by Best practices.com (2014 on the Financial Reporting for Best Practices in Accounting have highlighted that institutions must have accounting principles based on which financial reports must be prepared. These principles and format standards are very crucial because they increase comparability within the various departments in the firm and other business firms as well. The following are regarded as characteristics of a good quality financial report (Best Practices.com, 2014);

Understandable and Clear: A financial report must not be complicated and must have a clear presentation

Significant Information: The information must be valuable and relevant to the institution. It is a best practice to make sure the report is prepared within a time period.

Trustworthy Information: The management of a firm is responsible for the information in the financial report to be reliable. The transactions must be consistent with what the financial report displays.

Comparable: The financial report must be comparable to enable performance review over a specified period of time.

There are some financial reporting standards which can be followed and these are;

International Financial Reporting Standards (IFRS)

Dr Afra Sajjad (2012) noted that International Financial Reporting Standards (IFRS) has been heavy on time and resources sparking concerns about the financial and human investment required to build capacity for reporting and there is also fear that reports may result in proprietary information being given away to competitors. The ACCA Financial Reporting Study Text (2013) also noted that (IFRS) are not designed to apply to not-for profit activities in the private sector or government and such entities may find them appropriate and there have been complaints from some countries that (IFRS) requirements are not as rigorous as their domestic standards which result in dual-listed companies getting undue advantages.

Such companies may publish their accounts under IFRS which are relatively less stringent and escape the local more stringent requirements. The security exchange regulations of some countries require the a full reconciliation between the financial statements prepared under local IFRS and those prepared under local GAAP which is tedious and expensive work the content of IFRS sometimes is not self-explanatory or does not explain particular issues. The IAASB Handbook (2010) (Bradshaw M.et al 2010) argued that IFRS are put in place to regulate the standard of presentation of financial information.

International Public Sector Accounting Standards (IPSAS)

It is important to apply high quality global standards for government accounts to make sure that there is a full picture on what is being reported. To ensure transparency the best way is to bring accrual –based Public Sector Accounting Standards (IPSAS). Moving to a better reporting framework in the public sector will have more visibility on the quality of reporting (O B Taft

(2012). Huang (2013) also agreed with Taft that the adoption and implementation of (IPSAS) adds value and improve decision making especially in areas with capital expenditure for example loans and asset purchase. The handbook of International Public Sector Accounting Pronouncement (2013) noted that quality and comparability of financial information will be improved by the adoption of IPSAS.

2.10. Chapter Summary

Consistent in the literature is that, albeit a well-researched area, many public organizations are still not leveraging off the value of a well-structured financial reporting and auditing system. It would appear that many public institutions continue to make the mistake of having financial reporting systems which are relatively flawed. This then provides for the necessity of this type of research work. Financial reporting systems, the accrual and the cash basis were evaluated, advantages and disadvantages being discussed. Two audit systems, the internal and the external systems were also analyzed. Challenges affecting these systems were evaluated with relationships between the risk based auditing and financial reporting being checked.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

Research methodology is by nature the process used to collect information and data for the purpose of making decisions. This chapter presents the research design, data collection methods and analytical tools used. Both primary and secondary data will be used. The justification for using specific techniques is discussed. This chapter also describes procedures for the data analysis. A highlight was made on the choice of the ultimate sampling units in addition to reviewing major data sources, and the research procedure.

3.1 Research Approach

Saunders et al (2012) defined "research method as the structure of how a research is carried out, including the academic and theoretical assumptions upon which the study is based and methods adopted. In this study the researcher adopted a quantitative research method. According to Burns and Grove (2009) quantitative research is an official systematic process in which numerical data is used to get formation about the topic under study. The approach describes and examines causes and effects among variables and presents the findings numerically and analyses data statistically.

Quantitative research method is idle for this study as the appropriate method to use in this study because the researcher has to identify the relationship between risk based audit and financial reporting. The trend between the variables has to be analyzed statistically. Moreover, quantitative method allows the researcher to quantify the data she collects from respondents and analyze it statistically.

3.2 Research Design.

Saunders et al (2012) defined research design as “the framework for collecting and analyze data to address research questions and objective and giving reasoned justification for selection of methods and analysis techniques. Research design technique selected for this study is a case study. Davies (2007) defined a case study as a study and analysis of an organization or a group of organizations. With this study quantitative techniques are used to gather primary data. The researcher selected a case study because allows the researcher to focus on the selected organization, which is Ministry of Agriculture, Mechanization and Irrigation Development. It is a very valuable tool for assessing opinions and trends especially in government institutions. In addition, given the limitations of the study of no enough resources and tight deadline case study is regarded as idle for this study, since it is appropriate for short period of time. Case study is idle as it narrowed down the study to a researchable topic and allows elaboration of relationship among risk based audit and financial reporting.

3.3 Study population

Collins, (2010) Population is a complete set of group of people or set of cases were the researcher wants to study. Population is also termed target population. A population contains all the variables of interest to the researcher.The population of the study is a set of all internal audit practitioners and accounting personnel in the Ministry of Agriculture, Mechanization and Irrigation Development. These are the personnel directly involved with the audit processes and financial management issues of the institutions within the Ministry of Agriculture. Internal auditors are attached to the Internal Audit Section of the Ministry of Agriculture while the accounting personnel fall under the Finance Department of the Ministry.

3.4 Sampling

Saunders et al (2012) defined sampling as a process employed in statistical analysis on which a prearranged number of observations will be taken from a larger population. There are a number of sampling techniques which are observational, stratified, systematic and simple random sampling. In this study the researcher will use. Sampling allowed the researcher to have reliable information from the sample and given the limitations of the study sampling is the appropriate strategy to use for data gathering.

3.4.1 Sampling techniques

Burns and Grove (2005) defined simple random sampling as a technique that ensure that each and every element of the population has an equal chance of being selected to become part of the sample. In addition, Stratified sampling involves dividing the population into strata, with each stratum having relatively homogeneous elements. Once the strata have been identified a simple random sample is selected from each stratum separately, the sample corresponding to the proportion of elements in each stratum.

4.4.2 Sample size

Is the number of elements or people selected to be used in the study out of the selected population.According to Saunders et al (2007) the sample size is determined based on a 95% confidence rate interval, an estimate of margin of error and the total population which the sample was to be drawn. In this study the sample size is given as below.

Table 2: Sample size

Department	Population	Sample size	Percentage %
Finance	35	15	43%
Internal audit	10	10	100%
External audit	5	5	100%
Total	**50**	**30**	**60%**

Castillo (2009:34) clarified that a larger population sample sizes,lead to increased precision when estimating unknown parameters. In this study the sample has 60% which is a high sample size of the population which enables collection of reliable data.

3.5 Sources of Data and research instruments

3.5.1 Data collection

Scheurich (2007) stated that data collection is the most crucial part in research and it can be in the form of primary data and secondary data. In this study, the researcher utilised primary data as it was compatible with the research objectives.

3.5.1.1 Primary data sources

Scheurich, (2007), defined primary data as any data which the author has obtained initially from its original source as part of the research. Primary data will be first-hand information to the researcher and it will be compatible with the objectives of the researcher. In this research the primary data was gathered through questionnaires and personal interviews. This study utilised primary data collection sources as these sources provide information reliable to the study and the information that meet the needs and objectives of the researcher.

3.5.2 Research Instruments

3.5.2.1 Questionnaires

According to Saunders *et al* (2012) a questionnaire is defined as an instrument of data collection in which a respondent is asked to respond to some set of questions in a predetermined order. A questionnaire provides an effective way of collecting responses from a sample before a quantitative analysis. According to Davis (2007), there are three main techniques that exist in exploring peoples' views and attitude towards something. These include closed questions, open ended and likert scale. In this study the researcher will utilize likert scale questionnaire. This is because they a more effective than open ended questionnaires, given the attitudes of people towards a questionnaire. According to Rattray and Jones (2007), Likert scales are one of a range of scale types that researchers can choose from, and they identify frequency and multiple choice formats as alternatives.

Likert Scale

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

Source: Burns (2008:474)

The likert questions that provide answers to the responded were used in this study. Since, they allow the analysis of the responses by the respondents quantitatively. Likert scale questionnaire was used because it is more effective than open ended questionnaires, given the attitudes of people towards a questionnaire.

3.5.2.2 Structured interviews

According to Davis (2007), structured interviews involve questions which are set out and followed thoroughly. Each candidate is presented with the same questions and this ensures that each respondent has the opportunity to respond to each question. Structured interviews have higher predictive validity and they assume that intentions and actual behaviors are strongly linked. In this study primary data was gathered through structured interviews in the Ministry of Agriculture.

The interview guide which was prepared helped to focus the interview on the topics at hand without constraining them to a particular format. This freedom helps interviewers to tailor their questions to the interview context/situation, and to the people they are interviewing.

In this study the researcher will conduct ten interviews. Those interviewed included five directors from respective departments of Ministry of Agriculture, Mechanization and Irrigation Development one (1) deputy director from the Finance Department and five senior managers.

3.6 Data Presentation and Analysis

Data will be presented using tables. Tables will be employed to quantify the data and organise it so that the data becomes meaningful. STATA 11 will be used to analyse the relationship between risk based audit and financial reporting. Regression analysis will be used to calculate the coefficient of variation between the risk audit based and financial reporting.

3.6.1 Statistical packages used

Microsoft excel will be used to calculate the averages on the questions on the questionnaire that addresses the objective of identifying a relationship between risk based audit and financial reporting. STATA 11 will be used to compute the regression analysis to identify the relationship.

3.7 Reliability and Validity

According to Saunders et al, (2012) reliability refers to whether data collection methods and analytical procedures will produce consistent findings if applied in another occasion or used by another researcher. In this study the questionnaire was prototyped to the researcher's colleagues to assess the effectiveness and reliability of the questionnaire. The objective was to validate the questionnaire and ensure that it does not have ambiguities that will allow collection of biased data. The respondents were first debriefed such that they understand the objective of the questionnaire.

3.8 Chapter Summary

This chapter presented the research method, research design, population, sampling sample size, data sources and research instruments used in this study, data presentation and analysis. It was highlighted that a survey research design was used in this study. The following chapter shall highlight the presentation and analysis of research findings.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The aim of this chapter is to present and analyze the research findings data of the study. It contains the findings obtained from the study as guided by research method selected in the previous chapter. This chapter will address the research objectives in chapter one in line with the findings. The data will be presented in tables, charts and graphs. STATA 11 will be used to calculate the coefficient of variation among variables. The whole work will be done on the guidance of study objectives in chapter one.

4.2 Response Rate

The research instruments used in this study for collection of primary data were questionnaires and semi-structured interviews. The collection of data using questionnaires as outlined in the previous chapter is shown in a table below. The questionnaires were administered to Accounting department personnel, internal audit and external audit personnel.

4.2.1 Table 1: Questionnaire Response Rate

Department	Questionnaire distributed	Completed and returned	Response Percentage
Finance	15	10	66.6%
Internal audit	10	7	70 %
External audit	5	3	60 %
Total	30	20	66.6%

Source: Raw Data

There were thirty targeted employees of Ministry of Agriculture, Mechanization and Irrigation Development selected based on a simple random sampling method. In a sample of thirty employees who were targeted from different departments as indicated on the table above. The response is 20 out of 30 giving a response rate of 66.6% as per the population selected for the study.

4.2.2 Respondent's view on financial reporting strategy being used by the Ministry of Agriculture, Mechanization and Irrigation Development

Table 2: Responses on Financial reporting strategy being used by the Ministry

		Total	strongly agree	agree	Uncertain	disagree	strongly disagree
Cash basis Accounting	RATE	100%	65%	35%	0%	0%	0%
	FREQUENCY	20	13	7	0	0	0
Accrual basis of Accounting	RATE	100%	30%	70%	0%	0%	0%
	FREQUENCY	20	6	14	0	0	0

Source Primary data

The aim was to identify the financial strategy being used by the ministry on its financial reporting. The above statistics computed using Microsoft excel shows that on cash basis accounting 13 0ut of 20(65%) strongly agreed, 7 out of 20(35%) agreed, there were no respondents who were uncertain, disagreeing and strongly disagreeing. On the accrual basis statistics computed show that 20out of 20 (100%), agreed that ministry is using accrual basis of accounting. The result means that the Ministry uses accrual basis of accounting for its financial reporting. In agreement with what was postulated by Owolabi (2013) who stated that public sector accounting systems in developing countries uses cash basis accounting. And on the other hand Ministry of Agriculture, Mechanisation and Irrigation Development uses accrual basis of Accounting as indicated by the table above. This is because it has a department that offers trading services which handle inventory of raw materials. To concur with the statistics on the table GAAP (2012) stated that accrual basis is required for businesses that handle inventory.

4.2.3 Relationship between risk based audit and quality financial reporting

The relationship between risks based audit and financial reporting was calculated using STATA 11 software. The questions two and three on the questionnaire the responses are averaged using the coded ratings of responses of the respondents. The averages are shown on appendix c. The researcher basing on the literature in chapter two considered a positive relationship between risk-based audit and quality financial reporting.

Table 3: STATA 11. Regression results

QFR	Coef.	Std. Err.	T	P>t [95% Conf.	Interval]
RBA	0.189003	0.2564944	0.74	0.471 -.3498713	0.7278782
_cons	3.154639	0.8370526	3.77	0.001 1.396057	4.913221

Source STATA 11

The above table show statistics of STATA 11 software results. The results are used to address the aim of the researcher to establish the relationship between risk based audit and quality financial reporting. Quality financial reporting (QFR) is treated as the dependent variable and risk based audit (RBA) is treated as the independent variable. From the above table it is identified that quality financial reporting and risk based audit have a positive coefficient of variation. This means that an increase in risk based audit by one unit will lead to an increase in quality financial reporting by 19%(0.189003 * 100). To concur with the results shown above King III report (2009) stated that risk based audit improve internal financial controls, which in turn increases quality financial reporting. In addition, Hematfar et al (2013), stated that risk based auditing increases reliability and fairness of financial reporting.

4.2.4 Impact of risk based audit on financial reporting

The aim of this objective is to assess the impact of risk based auditing on financial reporting whether it is negative or positive at the Ministry. The table below show statistics gathered by the researcher.

4.2.4 Table 4: Impact of risk based audit on financial reporting

Impact			**strongly agree**	**agree**	**uncertain**	**disagree**	**strongly disagree**
positive	RATE	100%	80%	10%	0%	10%	0%
	FREQUENCY	20	16	2	0	2	0
Negative	RATE	100%	5%	10%	30%	20%	35%
	FREQUENCY	20	1	2	6	4	7

Source: Primary data.

The above table show that 16 out of 20 (80%) strongly agreed that risk based audit has a positive impact on quality financial reporting, 2 out of 20 (10%) agree, 0 out of 20 (0%) were uncertain, 2 out 20 (10%) disagreed and 0 out of 20(0%) strongly disagreed. In total 18 out of 20 (90%) agreed that risk based audit has a positive impact on quality financial reporting. This means that the application of risk based auditing lead to improved quality financial reporting. On the other hand 2 out of 20 (10%) disagreed. Ramos (2009), stipulated that risk based auditing improve quality financial reporting, this means that risk based audit has a positive impact on quality financial reporting.

4.2.5 Challenges being faced in the implementation of risk based audit

The aim of this objective was to establish the challenges being faced by the Ministry in the implementation of risk based audit which might hinder the quality implementation of the strategies.

challenges		Total	strongly agree	agree	Uncertain	disagree	strongly disagree
No resources	RATE	100%	50%	35%	0%	15%	0%
	FREQUENCY	20	10	7	0	3	0
Lack of qualified personnel	RATE		0%	25%	40%	15%	20%
	FREQUENCY	20	0	5	8	3	4
Lack of risk auditory standards	RATE	100%	5%	10%	25%	40%	20%
	FREQUENCY	20	1	2	5	8	4
Lack of timely preparation of financial statements	RATE	100%	15%	85%	0%	0%	0%
	FREQUENCY	20	3	17	0	0	0

Source primary data

The table above depicts that that 10 out of 20 (50%) strongly agreed, 7 out of 20 agreed, 0 out of 20 (0%) uncertain, 3 out of 20 (15%) strongly disagreed that no resources is a challenge being faced at the Ministry on the implementation of risk based audit. In addition, 0 out of 20(0%) strongly agreed, 5 out of 20 (25%) agreed, 8 out of 20 (40%) were uncertain, 3 out of 20 (15%) disagreed and 4 out of 20 (20%) strongly agreed that lack of qualified personnel is affecting implementation of risk based auditing. More so, 1 out of 20 (5%) strongly agreed, 2 out of 20 (10%) agreed, 5 out of 20 were uncertain, 8 out of 20 (40%) disagreed and 4 out of 20 (20%) strongly disagreed that lack of risk auditory standards is affecting implementation of risk based audit. The table above lastly show that 3 out of 20 (15%) strongly agreed, 17 out of 20 (85%) agreed and uncertain, disagree and strongly agree were 0 out of 20 (0%) that lack of timely preparation of financial statements is affecting implementation of risk based auditing. The above statistics is in agreement with what was stated by Salehi (2011) who argued that lack of timely preparation of financial statements, lack of resources and lack of qualified personnel affects implementation of risk based auditing. In addition, Castanheria (2009) stated that risk based auditing is mainly affected by the size of the organization.

4.2.6 Best practices for quality financial reporting standards

The aim was to identify the best practice for better financial reporting used by the Ministry of Agriculture, Mechanization and Irrigation Development. The table below shows the responses made by the respondents.

Table 6: Best practices for quality financial reporting standards

Accounting Practice			strongly agree	agree	uncertain	disagree	strongly disagree
IFRS's	RATE FREQUENCY	100% 20	20% 4	10% 2	10% 2	25% 5	35% 7
IPSAS	RATE FREQUENCY	100% 20	45% 9	30% 6	15% 3	10% 2	0% 0

Source primary data

The table above show that 4 out of 20 (20%) strongly agreed, 2out of 20 (10%) agreed, 2 out of 20 (10%) were uncertain, 5 out of 20 (25%) disagreed and 7 out of 20 (35%) strongly agree that the proposed International financial reporting standards are best practices for the ministry. The overall response is 6 out of 20 (30%) agreed, 2 out of 20(10%) were uncertain and 12 out of 20 (60%) were in disagreement of proposed IFRS, s. The statistics are supported by ACCA Financial Reporting Study Text (2013) that stated that IFRS; s are not designed to apply to nonprofit making organizations. This support the responses made by respondents because the ministry does not perform profit making activities.

In addition, 9 out of 20 (45%) strongly agreed, 6 out of 20 (30%) agreed, 3out of 20(15%) were uncertain, 2 out of 20(10%) disagreed and lastly 0 out of 20(0%) strongly disagreed that IPSAS are best accounting practices for financial reporting. In total, it shows that 15 out of 20 (75%) agreed that IPSAS are best accounting practices, 3 out of 20(15%) were uncertain and 2 out of 20(10%) disagreed that IPSAS are best accounting practices for the ministry. According to Huang (2013) IPSAS are idle for government accounts, since there is need for accountability and transparency to the public. In addition, Handbook of International Public Sector Accounting Pronouncement (2013) note that quality and comparability of financial information will be improved through the adoption of IPSAS. This is in agreement with what was postulated by the respondents.

4.2.7 Best practice for quality audit practice

The objective was to outline the best audit practice considered best by the Ministry of Agriculture, Mechanization and Irrigation Development. The table below show the responses of the respondents selected for this study.

Table7: for best audit practices

Audit practice		Observations	strongly agree	agree	uncertain	disagree	strongly disagree
Segregation of duties	RATE	100%	50%	35%	0%	15%	0%
	FREQUENCY	20	10	7	0	3	0
Policies and procedures	RATE	100	75%	25%	0%	0%	0%
	FREQUENCY	20	15	5	0	0	0
Review and Approval	RATE	100%	85%	15%	0%	0%	0%
	FREQUENCY	20	17	3	0	0	0

Source: Primary data

The tables above show the responses of the respondents. The table show that 10 out of 20 (50%) strongly agreed, 7 out of 20 (35%) agreed, 0 out of 20(0%) were uncertain, 3 out of 20 (15%) disagreed and 0 out of 20 (0%) strongly disagreed that segregation of duties is the best audit practice. On policy and procedure it is shown that 15 out of 20(75%) strongly agreed, 5 out of 20 (25%) agreed, uncertain, disagree and strongly disagree were 0 out of 20(0%) that policies and procedures are best practice. This is to concur with Wayne State University (2014) that states that policies and procedures are best effective practices of auditing.

In addition, on review and approval 17 out of 20 (85%) strongly agreed, 3 out of 20(15%) agreed and uncertain, disagree and strongly disagree were 0 out of 20(0%) that review and approval are best audit practices at the Ministry. According to Wayne State University (2014) review and approval is the most important audit practice that ensures errors and mistakes goes undetected in the final financial statements.

4.3 Interview Response

This study utilized structured interviews, the table below shows the interviews scheduled to be conducted and interviews conducted.

Table 8: Interview response

Interviewees	Interview Scheduled	Interview conducted	Percentage response
Senior Management and Directors	10	7	70%

Source Primary data

From the interviews conducted by the researcher 7 out of 10(70%) interviews were conducted.

Question one: what is the relationship between risk based audit and quality financial reporting

The researcher asked interviewees; what is the relationship between risk based audit and financial reporting, the Internal Audit Manager, Finance Director, one Finance staff and two external audit staff interviewed responded that there is a positive relationship between risk based audit and financial reporting, that is 5 out of 7(71%) states that there is a positive relationship. However, two staff from the Finance department that is 2 out of 7(29%) responded that there is a negative relationship between risk-based audit and quality financial reporting.

Question two: what are the challenges being faced by the Ministry in the implementation of audit risk based audit?

In addition, 7 out of 7 (100%) interviewee, that is the Finance Director, Chief Internal Auditor, Acting Director External Audit Senior Staff, two Finance Department Staff and two internal audit staff, stated the challenges of no resources, late preparation of financial statements hinders implementation of risk-based audit.

Question two: what is the impact of risk based audit on financial reporting

Lastly 7 out of 7(100%) the Finance Director, Chief Internal Auditor, Acting Director External Audit Senior Staff, two Finance Department Staff and two internal audit staff, states that the Ministry is using both cash basis on the departments that relies on government funding and accruals basis on other departments that offers trading services.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter aims at summarizing the objectives, conclusions, recommendations and suggestions for further study. It shall present conclusions basing on the analysis, literature and research findings from the previous chapters.

5.1Summaries

Literature review related to the study was articulated in chapter two and gave a detailed analysis of the objectives of the research. The best practices of financial reporting and audit practices were also looked into as a way that could help the ministry to improve quality financial reporting. Oslusegun(2011) argues that financial reporting in public sector based mainly base on cash bases and less on accrual basis. Mbelwa (2014) also, argues that, public sector is now on the adoption of new practices of IPSAS which are considered relevant for accountability and increase quality financial reporting. On the other hand, Griffiths(2009) stipulates, that risk based auditing improves the quality of financial reporting systems, then enhancing quality financial reporting.

Chapter three outlined the research approach which was quantitative in nature. The study was done using quantitative research approach because it was favorable to quantify the results and analyze the relationship between financial reporting and risk based auditing. A sample of 30 respondents was selected from a population of 50. Questionnaires and structured interviews were used to gather primary data. Likert scale questions were used to collect data from respondents as well structured interviews.

Data presentation and analysis derived from questionnaires and interviews was analyzed in chapter four. Data was analyzed and presented using tables and making the data meaningful. Microsoft excel was used to make tables, presents and make calculations of averages and percentages. The data was presented in tables and STATA 11 software package was used to calculate coefficient of variation between financial reporting and risk based audit. Simple regression model was used.

5.2 Research Conclusions

It is concluded that risk based audit has a positive relationship with financial reporting and the impact of risk based audit is positive. This means that if risk based audit is increasing quality of financial reporting also increases. In addition, it is clearly concluded that lack of resources and lack of qualified personnel limits the effective implementation of risk based audit. More so, from the findings made by the researcher it is concluded that the management and staff at the Ministry of Agriculture, Mechanization and Irrigation Development regard IPSAS as the best accounting practice suitable for the Ministry than the IFRS,s, since the organization is a state owned enterprises.

5.3 Recommendations

The results and findings of the study motivated the researcher to provide the following recommendation. The researcher recommends that the Ministry of Agriculture, Mechanization and Irrigation Development fully implements risk based audit, since it improves the quality of financial reporting which enables effective decision making by the stakeholders. In addition, the researcher recommends more of audit practices like segregation of duties, review and approval of work by seniors at the ministry to reduce misstatements and erroneous information to be recorded. The risk of fraud and fraudulent activities like collusion will be reduced through the implementation of risk based audit. Reliability and fair presentation of the financial statements will be enhanced through the adoption of risk based audit. The researcher also, recommends only the adoption of accrual basis accounting as it portrays the true and fair phenomenon of the financial statements.

5.4 Suggestions for Future Research

The researcher suggests a further study on effectiveness of measures that can be used to mitigate the challenges faced by Ministries in Zimbabwe on the implementation of risk based auditing.

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APPENDIX A

MIDLANDS STATE UNIVERSITY

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Zimbabwe

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

Date…./…./2014

To Whom It May Concern:

Dear Sir/Madam

REF: APPLICATION TO CARRY OUT A RESEARCH AT YOUR ORGANISATION

My name is Muridzi Judith (Registration Number – R12490G). I am visiting student at Midlands State University studying Bachelor of Commerce Accounting Honours Degree. I am required in partial fulfillment of Bachelor of Commerce Accounting Honours Degree to carry out a study on the "**analysis of the implications of risk based audit on financial reporting. A case of Ministry of Agriculture, Mechanization and Irrigation Development.**" I intend to collect data by use of the attached questionnaire and interviews. I kindly ask you to complete the questionnaire. I assure you that all information will be used for purely academic purposes and confidentiality shall be maintained.

Your co-operation will be greatly appreciated.

Yours sincerely

Muridzi Judith (R12490G :) Cell: 0779103339

APPENDIX B

Questionnaire:

My name is Muridzi Judith. I am conducting a research project in partial fulfillment of the requirements of the Bachelor of Commerce Accounting Honours Degree at Midlands State University. The research is entitled "**analysis of the implications of risk based audit on financial reporting. A case of Ministry of Agriculture, Mechanization and Irrigation Development.**" I am kindly asking for your co-operation in completing this questionnaire. All the information provided will be treated with maximum confidentiality.

INSTRUCTIONS

1. **Do not write your name on the questionnaire**
2. **Show your response by ticking in the respective answer box**
3. **Where applicable give your opinion on the blank space provided**
4. ***Ratings [strongly disagree=1, disagree=2, uncertain=3, agree=4 and strongly agree=5]***

Questions

1. Which financial reporting strategy is being used by the ministry?

Financial reporting strategy	**Strongly disagree**	**Disagree**	**Uncertain**	**Agree**	**Strongly Agree**
Cash basis					
Accrual basis					

2. In your opinion the following risk based audit practices improves quality financial reporting.

Impact	Strongly disagree	Disagree	Uncertain	Agree	Strongly Agree
Segregation of duties					
Policies and Procedures					
Safe guarding assets					
Review and Approval					

3. Risk based audit can increase quality financial reporting in the form of;

	Strongly disagree	Disagree	Uncertain	Agree	Strongly Agree
Fair presentation					
Reliability of financial information					

4. The impact of risk based audit on quality of financial reporting by the ministry is?

Impact	Strongly disagree	Disagree	Uncertain	Agree	Strongly
Positive					
Negative					

5. The following are challenges faced by the ministry in implementing risk based audit.

Challenge	Strongly disagree	Disagree	Uncertain	Agree	Strongly
No resources					
Lack of qualified personnel					
Lack of risk auditory standards					
Lack of timely preparation of financial statements					

6. The following are considered best practices for quality financial reporting in the ministry.

Practice	**Strongly disagree**	**Disagree**	**Uncertain**	**Agree**	**Strongly Agree**
IFRS's					
IPSAS					

7. The following are considered to be best for quality audit practice;

Practice	**Strongly disagree**	**Disagree**	**Uncertain**	**Agree**	**Strongly Agree**
Segregation of duties					
Policies and Procedures					
Safe guarding assets					
Review and Approval					

End of Questionnaire: Thank you very much for your time, May God Bless You

APPENDIX C

Interviews questions guide

Questions

1. What is the relationship between risk based audit and quality financial reporting?
2. What are the challenges being faced by the ministry in the implementation of audit risk based management?
3. What is the impact of risk based audit on financial reporting?
4. What is your current financial reporting practice?

APPENDIX D

STATA 11 results for questions 2 and 3 on questionnaire

```
. reg QFR RBA

      Source |       SS       df       MS              Number of obs =      20
-------------+------------------------------           F(  1,    18) =    0.54
       Model |  .51975945     1  .51975945             Prob > F      =  0.4707
    Residual |  17.2302405    18  .957235586           R-squared     =  0.0293
-------------+------------------------------           Adj R-squared = -0.0246
       Total |       17.75    19  .934210526           Root MSE      =  .97838

------------------------------------------------------------------------------
         QFR |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         RBA |   .1890034   .2564944     0.74   0.471    -.3498713    .7278782
       _cons |   3.154639   .8370526     3.77   0.001     1.396057    4.913221
------------------------------------------------------------------------------
```

Source STATA 11

APPENDIX E

	Averaged responses for question 2 and three		
ratings 1= strongly disagree, 2= disagree, 3=uncertain, 4= agree & 5=Strongly a			
questionn	Quality Financial Reporting	Risk Based Audit	
1	2	5	
2	5	3	
3	5	5	
4	4	4	
5	5	3	
6	4	2	
7	3	3	
8	4	3	
9	4	3	
10	3	2	
11	3	3	
12	4	2	
13	5	4	
14	4	3	
15	3	2	
16	5	4	
17	2	3	
18	3	3	
19	4	3	
20	3	3	

Source: Microsoft Excel