

# AN INVESTIGATION INTO MANAGEMENT'S RELUCTANCE IN IMPLEMENTING AUDIT RECOMMENDATIONS AND ITS EFFECTS TO RISK

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## Abstract

**How to cite this paper:** Wadesango, N., Mhaka, C., Chinamasa, T., & Wadesango, O. V. (2017). An investigation into management's reluctance in implementing audit recommendations and its effects to risk. *Corporate Board: role, duties and composition*, 13(2), 61-70. <http://doi.org/10.22495/cbv13i2art7>

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**ISSN Online:** 2312-2722  
**ISSN Print:** 1810-8601

**Received:** 19.06.2017  
**Accepted:** 29.08.2017

**JEL Classification:** G3, M000  
**DOI:** 10.22495/cbv13i2art7

The purpose of this study was to identify the causes of non-implementation of audit recommendations, with the aim of coming up with strategies and best practices for the effective implementation of audit recommendations. The literature review showed that organizations face high levels of risk. The high level of risk is usually as a result of non-implementation of audit recommendations. It is therefore imperative to identify challenges faced by management in implementing audit recommendations. The research study used a mixed research approach. The research population was drawn from the management and employees of a Zimbabwean based parastatal. A judgmental sampling technique was used. Closed ended questionnaires and interviews were used to collect data. The research findings showed that non-implementation of audit recommendations exposed the organisation to risks such as credit risk, fraud risk, and reputational risk. This research adds to the current body of knowledge by highlighting some of the problems encountered by companies who outsource their business functions. While this research focused on the case study of a single firm, further research can look into the current trends regarding the implementation of audit recommendations in the same developing country.

**Keywords:** Risk, Audits, Management, Auditor General, Audit Recommendations

## 1. BACKGROUND OF THE STUDY

“Non-implementation of audit recommendations has led to increases in risks of inadequate financing, theft, fraud, cash flow problems and a decrease in profitability” (Aikins, 2012). Furthermore, “National Railways of Zimbabwe is in a net current liability position of US\$ 131 131 446. The National Railways also incurred a net loss of US\$ 31 607 218 in 2014 and US\$ 49 103 769 in 2013 contributing to a cumulative loss of US\$ 235 544 295”. According to (Auditor General Report, 2014), “this cumulative loss and net current liability position, along with other matters as set forth indicate the existence of a material uncertainty that may cast significant doubt over the National Railways’ ability to continue as a going concern”.

The data below shows a sample of internal and external audit recommendations for the years 2011 to 2014 and the risks associated with non-implementation. In 2012 “National Railways of Zimbabwe recommended developing a Business Continuity Plan since it had no backup facilities for all IT information “Auditor General Report, 2014”. Furthermore, “the organization’s information was

stored at each work station without any backup. In the absence of back up facility information may be easily lost should there be a disaster”. However, the organization failed to implement the recommendation due to financial constraints.

“In 2013 National Railways of Zimbabwe was recommended that rental agreements are put in place and rental fees agreed on the current functional currency. NRZ has a total rentals book of \$9 991 874 which constitutes 91% debtors outstanding for more than 90 days” (Auditor General Report, 2014). “The risk was that debts may not be recoverable resulting in liquidity challenges and NRZ may face financial losses as the organization may not be able to claim amounts in USD currency”. However, the organization failed to implement the recommendation due to inadequately trained staff and proper segregation of duties.

According to Chikoko (2013), “these findings revealed that National Railways Zimbabwe (NRZ), which is a Government institution, was not managing risk more effectively as evidenced by the recurrence of same audit observations and the non-implementation of audit recommendations within the agreed time frames”.

## 2. LITERATURE REVIEW

### 2.1. Causes of Non-Implementation of Audit Recommendation in Parastatals

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

#### 2.1.1. Financial Constraints

“This is the friction which prevents a firm from funding desired investments as a result of credit constraints, inability to borrow, inability to issue equity, dependence on bank loans and illiquidity of assets” (Australian National Audit Office, 2015). Furthermore, they assert that “financial constraints frequently cause delays in implementing audit recommendations, especially where new investments are required”. “For example, in the case of World Health Organization in Juba, compliance with United Nations Minimum Operating Security Standards was initially delayed by insufficient funding” (World Health Organization, 2012). “Lack of funding can hamper the recruitment of additional personnel to ensure an adequate segregation of duties in the finance area” (Chi, 2011). “Should organizations come across financial constraints in implementing audit recommendations”. Adeyami and Uadile (2012) state that “the audit committee should be able to resolve issues and problems faced by the company and provide a way forward for the entity?” However, Tajudeen (2016) argues that “recommendations which involve violations of laws and policies must be implemented even if the cost of implementation is very high and the organization has scarce resources”. Chiang and Northcott (2010) agrees with this statement stating “noncompliance with audit recommendations for environmental matters like occupational health and safety environment, emissions, waste disposals because of financial constraints becomes a punishable offence”. Therefore, Australian National Audit Office (2015) states that “the management holds the ultimate responsibility for the implementation or non-implementation of the audit recommendations and prioritization of the recommendations despite the constraints factors”. However, Zhou and Zinyama (2012) have also commented stating “that legal framework gaps in the current Audit Office Act and the Public Finance Management Act does not give the Auditor General sufficient power and authority to monitor the implementation of auditor recommendations”.

AG Report (2012) states that “National Railways of Zimbabwe has not been able to remit employee pension fund contributions to NSSA as well as inability to comply with statutory obligations to ZIMRA due to financial constraints”. This results in financial loss due to interest and penalties charged by ZIMRA. However, the AG Report (2012:67) also states that “NRZ should comply with all statutory obligations when they fall

due”. Therefore, this research seeks to establish strategies that can be employed for the implementation of audit recommendations that are not affected by financial constraints for example effectiveness in the debt collection.

#### 2.1.2. Staffing Issues

The Australian National Audit Office (2015) defines “staffing issues as the non-availability of staff with the appropriate expertise and delays in recruitment present challenges that need to be met in order to ensure an efficient response to audit recommendations”. World Health Organization (2010) “gives an example of a case of the audit report on the WHO Country Office, Teheran, a period of managerial vacuum existed until the new WHO representative was appointed which resulted in a delay in mounting a comprehensive response to the audit”. According to Nash (2013), “staffing changes due to organizational restructuring slow down efforts to resolve audit recommendations”. Armitage (2011) asserts that “it becomes challenging for a unit to comply fully with the recommendations of the audit which would have been issued at a time when the unit was operating in a different setting and with a different structure”. Ziberman and Reis (2013) agrees that “the public sector salary scale does not compete well with the private sector as well as insufficient career perspective, training opportunities and no systematic mentoring programs in parastatals”. However, Yamamoto and Terashima (2014) states that “some countries face difficulties in attracting, motivating and retaining high-quality employees due to political, economic and environmental instabilities leading to the drainage of brainpower”.

#### 2.1.3. Complex Issues

Australian National Audit Office (2015) defines complex issues “as matters which require extensive consultations and negotiations as well as approvals involving a wide range of stakeholders”. World Health Organisation (2010) gives “an example staff health insurance fund in World Health Organization. Although measures were initiated shortly after the audit report, it took 2 years for the new government structure to be designed”. Aikins (2012) states that “some audit implementations require new policies to be established for them to be compatible”. This can be a time-consuming process for consultations in the implementation of audit recommendations. Some audit recommendations can be delayed due to linkages with other initiatives. However, Edegware et al. (2014) argue “that it is the Audit Committee’s effectiveness that breaks down the complex components for management since the committee is comprised of people with deep finance, analytical, accounting statutory expertise”. Knechel (2015) agrees that “it is the Audit Committees responsibility to review with the external auditor whether the recommendation is feasible and how the auditee can implement the recommendation within a certain timeframe”.

The AG Reports (2012), states that “National Railways of Zimbabwe has complex systems and it has taken approximately 4 years for its machinery to be fiscalized so that compliance with ZIMRA is

achieved". This research aimed to enquire whether a time limit control should be established so that organizations do not make the implementation process longer than necessary. The paper is structured as follows: The first aspect is background, followed by research methodology, data presentation and analysis, conclusion and then recommendations.

### 3. RESEARCH METHODOLOGY

The researchers made use of a descriptive case study research approach along with the mixed research approach. Out of a population of 50 employees who were under research, a sample of only 35 employees was used by making use of judgmental sampling. Participants were chosen based on the appropriate persons considered to give reliable feedback. The research made use of both primary and secondary data to ensure validity and reliability of data. The researcher made use of interviews and closed ended questionnaires as

instruments for data collection. The research incorporated the use of correlation in an attempt to establish a relationship between non-implementation of audit recommendations and risk.

## 4. DATA PRESENTATION AND ANALYSIS

### 4.1. Questionnaire Responses

The researcher handed over 25 questionnaires to the targeted population. In total, only 22 of the 25 questionnaires were responded to since some of the targeted respondents were absent with no eligible persons behind to fill them on their behalf. This gave rise to a response rate of 63% and according to Saunders et al (2012), a response rate of at least 35% is acceptable. The response rate is the number of valid responses as a percentage of the total sample. The response rate is illustrated in Table 1 below.

**Table 1.** Questionnaires respondent results

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

A total of 3 interviews were targeted at management and accounts staff as well as internal audit personnel. All of them were successful producing a response rate of 100% (3/3). Saunders et al (2012) support this outcome by stating that "the acceptable response rate for face to face interviews should be at least 90%".

#### 4.1.1. Qualifications of NRZ Finance and Internal Audit Staff

Table 2 portrays that 45% (10/22) have a Diploma

only, with 37% (8/22) having an undergraduate degree and 18% (4/22) with masters or other qualification. Overall, it can be argued that internal auditors and accounts staff having only diplomas and undergraduate degrees mean they are less academically qualified and may not be capable of handling job challenges. Al-Nimer (2015) confirms that "highly educated auditors were found to be more capable of dealing with job challenges in a more skilled and competent way than the less educated".

**Table 2.** Academic qualifications

Academic Qualifications	Responses			Response rate (% age)
	Internal Audit staff	Accounts staff	Directors	
Diploma	1	9	0	45%
Undergraduate degree	2	3	4	37%
Masters	0	0	3	18%
Others	0	0	0	0%
<b>Total</b>	<b>3</b>	<b>12</b>	<b>7</b>	<b>100%</b>

Table 3 illustrates that out of the 22 respondents, 41% (9/22) have ACCA qualifications, 32% (7/22) have CIMA, 4% (1/22) have CIS and the remaining 23% (5/22) have no professional qualifications. Interview findings revealed that only 44% (4/9) have successfully finished ACCA with the rest 56% (5/9) still pursuing the course. 71% (5/7) have finished the CIMA course completely with the remaining 29% (2/7) still on part 2 of the course. There is a 100% (1/1) completion for the CIS

professional course. From this it can be seen that the internal auditors and accounts staff at NRZ are under qualified as more than half (56%) have not completed ACCA, 29% yet to complete CIMA, with 23% of the respondents without a professional qualification. Zilberman and Reis (2013) agree with "this phenomenon stating that it is difficult for the public sector to retain highly qualified staff due to the competition with the private sector".

**Table 3.** Professional qualifications

Professional Qualifications	Responses			Response rate (% age)
	Internal Audit staff	Accounts staff	Directors	
ACCA	2	4	3	41%
CIMA	0	3	4	32%
CIS	1	0	0	4%
NONE	0	5	0	23%
Total	3	12	7	100%

#### 4.1.2. Professional Experience

Table 4 denotes the period that the internal auditors, accounts staff and directors have been with the profession.

From Table 4, 32% (7/22) of the respondents have less than 6-10 years' worth of experience, 41% (9/11) have 11-15 years in the organization and

finally 27% with over 15 years' experience in the organization. This implies that there is sufficient experience for staff to know exactly how to carry out their duties. However, in the case of auditors Al-Nimer (2015) states that "auditors have to be rotated otherwise they can become too aligned with management which then impacts their independence".

**Table 4.** Professional experience at the organisation

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

#### 4.2. Responsive Question 1: Causes of Non-Implementation of Audit Recommendations

Question 1 of the questionnaire as well as question 1

on the interview guide sought to gather information on the causes of non-implementation of audit recommendations. The findings are presented in Table 5 and discussed below.

**Table 5.** Causes of non-implementation of audit recommendations

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

##### 4.2.1. Financial Constraints

According to the results shown below, 45% (10/22) of the respondents strongly agreed that financial constraints cause non-implementation of audit recommendations with 32% (7/22) agreeing. The total was 77% (17/22) respondents who agreed that financial constraints caused non-implementation of audit recommendations. This was supported by Baolei and Gaoliang (2015) who stated "that financial

constraints cause delays in implementing audit recommendations especially where new investments are required". Only 23% (5/22) of the respondents were uncertain if financial constraints were an eligible cause for non-implementation of audit recommendations. This was supported by Chiang and Northcott (2010) who stated that "it is corrupt management which delays implementation of audit recommendations". No respondents disagreed. Findings are shown in Table 6 below.

**Table 6.** Financial constraints

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

Therefore, financial constraints are a major cause for non-implementation of audit recommendations. The AG Report (2012) states that NRZ had no backup facility for storage of data, and the implementation was delayed due to lack of funds. The mode for the above-stated data is 45% (10/22) of the respondents who strongly agree that financial constraints cause non-implementation of audit recommendations as supported by Cull et al. (2015).

##### 4.2.2. Staffing Issues

As shown in Table 7, 45% (10/22) employees strongly agreed along with 41% (9/22) employees who agreed that staffing issues lead to non-implementation of audit recommendations. The questionnaires depicted that 86% (19/22) of the respondents agreed with the above-stated opinion. Ziberman (2013) supports the 86% by stating that "the public sector finds it difficult to retain highly qualified staff due to its unattractive remuneration, insufficient training perspective and no mentoring programs as compared to the private sector".

Furthermore, “these results in low qualified staff in the public sector that are not fully aware of risks that may befall an organization due to non-implementation of audit recommendations”. 14% (3/22) of the employees were unsure of the causes

of non-implementation of audit recommendations. Yamamoto and Terashima (2014) state that “if qualified staff unavailability has become a national crisis not just a public sector outcry”.

The findings are shown in Table 7 below.

**Table 7.** Staffing issues

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

In relation to NRZ, staffing constraints actually do cause delays in the implementation of audit recommendations organizational restructuring changes. The mode for the data presented above is 45% (10/22) respondents who strongly agree that “staffing constraints cause non-implementation of audit recommendations” as supported by Chander et al. (2012).

with NRZ. 32% (7/22) agreed with the same notion. Therefore, overall 100% (22/22) agreed to the above-stated fact and were supported by Aikins (2012) who stated that “some audit recommendations would require new policies to be established for them to be compatible which becomes time-consuming for their overall implementation process”. The findings are illustrated in Table 8 below.

**4.2.3. Complex Issues**

However, the AG Report (2012) has overall agreed that NRZ has complex systems and it took 4 years for its machinery to be fiscalised to ensure compliance with ZIMRA was achieved. The mode for the findings illustrated above is 68% (15/22) respondents who strongly agree that complex issues cause non-implementation of audit recommendations.

According to the Table 8, 68% (15/22) of the respondents strongly agreed that complex issues caused non-implementation of audit recommendations with their acquired experience

**Table 8.** Complex issues

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

**4.3. Question 2: Impractical Auditor Recommendations**

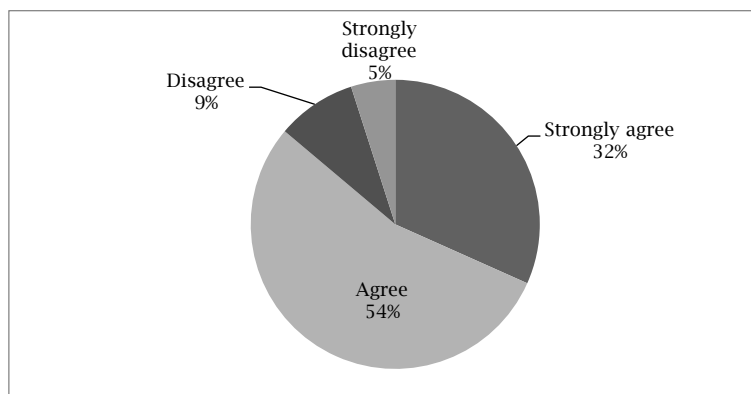
on whether the auditors caused non-implementation of audit recommendations by presenting impractical recommendations. The findings are presented in Table 9 and discussed below.

Question 2 of the questionnaire as well as question 2 on the interview guide sought to gather information

**Table 9.** Impractical audit recommendations

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

**Figure 1.** Imprecise audit recommendations



Research findings show that 32% (7/22) of employees strongly agree and 54% (12/22) (in sum 86% (19/22)) agree that auditors present imprecise

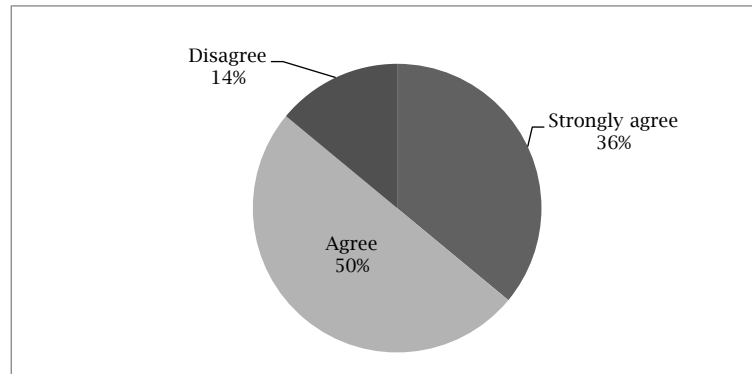
audit recommendations which are not readily identifiable nor clearly labelled. These 86% (19/22) of employees agree with the fact that auditors are

not precise in their recommendations. This is supported by Lemke and Petersen (2015) who stress that “imprecise recommendations are caused by reduced independence on the auditor’s part to the extent that they use vague and soft language”. However, 9% (2/22) disagreed whilst 5% (1/22) strongly disagreed that auditors gave imprecise audit recommendations. 14% (3/22) of the

respondents disagreed. Most of these respondents were internal auditors. The mode for the above findings is 55% (12/22) respondents “who agreed that auditors presented imprecise audit recommendations” supported by Aikins (2012).

#### 4.3.1. Unconvincing and Non-Specific Audit Recommendations

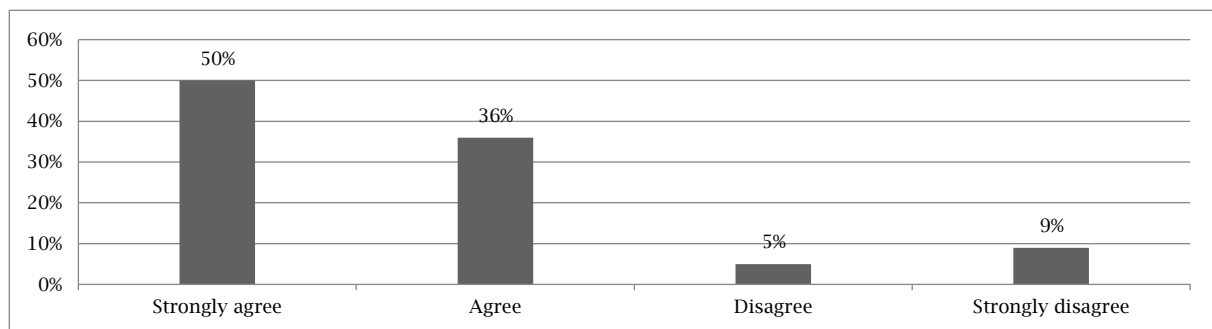
**Figure 2.** Unspecific audit recommendations



According to the Figure 2, 36% (8/22) strongly agreed that auditors presented unconvincing and non-specific audit recommendations. 50% (11/22) agreed and, overall, 19 respondents out of 22 employees (86%) agreed that they were not convinced by the auditors’ recommendations. The 86% respondents are in line with Aikins (2012) and McNellis (2011) who highlight that “these recommendations are not supported by facts and they do not flow logically”. They state that “where audit recommendations are not convincing, it is only

natural that management does not implement”. The remaining respondents 14% (3/22) disagreed with the above-stated opinion. Mostafa et al. (2013) state that “though auditors may be experienced in the firm, they should receive industry specific training tailored to their particular organisation to achieve quality recommendations”. The mode for the above-presented data is 50% (11/22) respondents who agree that recommendations presented by auditors are unconvincing and non-specific as supported by Magrane (2010).

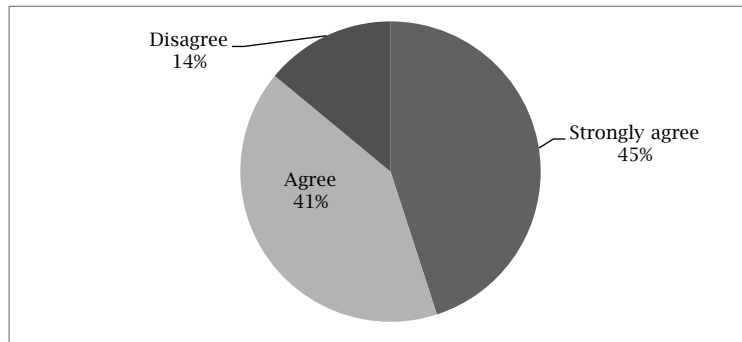
**Figure 3.** Non-feasible recommendations



Research findings show that 50% (11/22) employees strongly agree along with 36% (8/22) also agreeing that auditors’ recommendations are not feasible giving a total of 86% (19/22) of the respondents agree. The respondents who agreed are supported by Armittage (2011) who stated that “these recommendations were not considerate of the realistic limitations organizations face”. The remaining 14% (3/22) disagreed comprising of 5% (1/22) disagreeing and 9% (2/22) strongly disagreeing. These were supported by Theriault

(2015) who stated that “recommendations which involve violations of laws and policies should be implemented even if the cost of implementation is very high”. The mode for the illustrated data is 50% (11/22) who strongly agree “that auditors present non-feasible recommendations and are supported” by Aikins (2012) who agrees that “recommendations are not feasible if they do not take into account legal and practical constraints that would make implementation likely”.

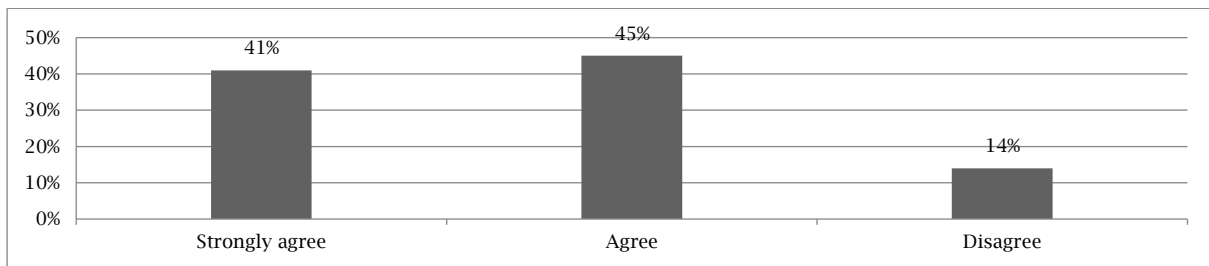
**Figure 4.** Auditors non-commitment to results



According to the questionnaire results, 45% (10/22) of respondents strongly agreed and 41% (9/22) agreed (in total 86% (19/22) of the respondents agreed) that auditors were not committed to results after they gave recommendations. This gave a total of 86% (19/22) who were supported by Korje (2016) who stated that “auditors were not committed to their results since they did not believe in their recommendations or the need for change so as to help in the implementation

process”. The remaining 14% (3/22) disagreed with the fact that auditors were not committed to results. These are supported by Buckstein (2012) who states that “it is the Audit Committee’s responsibility to bridge the gap between management and the auditor so that recommendations are implemented”. The mode for the data illustrated above is 45% (10/22) respondents who strongly agree that “auditors are not committed to audit recommendations” as supported by Korje (2016).

**Figure 5.** No aggressive monitoring and follow up



Research findings show that 41% (9/22) of the respondents strongly agreed along with 45% (10/22) that auditors were not aggressively monitoring and following up the implementation of audit recommendations. This made a total of 86% (19/22) who were supported by Lewin (2011) who states that “the unavailability of an effective monitoring and follow up system make it impossible to determine whether desired results were achieved”. The remaining 14% (3/22) disagreed with this opinion and were supported by Alzharani and Aljaaidi (2015) who stated that “it is the duty of the Public Accounts Committee to follow up on the implementation of recommendations”. The mode for the data presented above is 45% (10/22) respondents who agreed that “auditors do not aggressively monitor and follow up the implementation of recommendations” as supported by Tajudeen (2013).

**4.4. Question 3: Major Risks That Are Faced by Parastatal Directly or Indirectly as a Result of Non-Implementation of Audit Recommendations**

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

**Table 10.** Risks faced by organizations directly and indirectly as a result of non-implementation of audit recommendations

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

**Table 11.** Reputational risk

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

Table 11 illustrates that 14% (3/22) of these respondents were neutral whilst 18% (4/22) disagreed that reputational risk arises directly as a result of non-implementation of audit recommendations. The 18% (4/22) are supported by Lemke and Petersen (2015) who state that "it is indirect stakeholders like the media, consumer groups and competitors that draw the most attention to reputational issues". The mode of the data presented above is 41% (9/22) respondents who strongly agree that "reputational risk is faced by organisations due to non-implementation of audit

recommendations" as supported by Lodhi and Magood (2015).

#### 4.4.1. Fraudulent Accounting and Reporting

Research findings show that 45% (10/22) of the respondents strongly agreed fraudulent accounting and reporting is a risk faced by parastatals along with 23% (5/22) of the respondents. Therefore 68% (15/22) respondents agreed that NRZ is facing fraud risk in the form of accounting and reporting. This is tabulated in Table 12 below.

**Table 12.** Fraudulent accounting and reporting

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

According to the Table 12, 14% (3/22) of the respondents were neutral whilst 18% (4/22) disagreed that fraudulent accounting resulted from non-implementation of audit recommendations. These were supported by Strischek (2010) who stated that "it is the impracticability of the Audit Committee that results in fraudulent risks". The mode for the data above is 45% (10/22) respondents who strongly agreed that "fraudulent accounting and reporting resulted from non-implementation of

audit recommendations" and were supported by Chi (2011).

#### 4.4.2. Misappropriation of Assets

The research findings showed that 36% of the respondents strongly agreed that misappropriation of assets was a form of fraud risk faced by NRZ as well as 55% (12/22) respondents who agreed as shown in Table 13 below.

**Table 13.** Misappropriation of assets

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

A total of 91% (20/22) respondents agreed with the above-stated notion and were supported by Maine (2013) who "has highlighted massive financial irregularities and misappropriation of funds in the Pakistan Railways accounts". 9% (2/22) disagreed that "asset misappropriations was a direct result of non-implementation of audit recommendations" and were supported by Mansfield and Pindler (2012). The mode for the illustration above is 55% (12/22) respondents agreeing that "asset misappropriation is a major risk faced" by Ball and Kern (2013).

#### 4.5. Interview Response Rate

The researcher made use of the interview method to gather data especially to the Accountant and Internal Auditor since the Directors were busy and mostly absent. The interview sessions improved researcher understanding on specific questions given by the staff. The researcher aimed to carry out at least three interviews but was able to carry out two, which gives a response rate of 66.6%. From the interviews carried out the response were as follows to respective questions:

1. What are the main causes of non-implementation of audit recommendations:

- Accountant

"The causes of non-implementation of audit recommendations include financial constraints". For NRZ to start dealing with incorporating strong internal control systems, a lot of money is required to make that possible for example employing more staff members for adequate segregation of duties. With the current situation of employees strike as supported by Chikoko (2013) "it becomes harder for the organization to timely implement the audit recommendations due to lack of adequate staff". This is supported by 86% (19/22) respondents who agree to the same notion as well as World Health Organization (2012) which stated that "lack of funding can hamper the recruitment of additional personnel to ensure adequate segregation of duties in the finance area".

- Internal Auditor

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

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



- Accountant

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

- Internal auditor

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

3. To what extent have organization been affected by risk:

- Accountant

"The reputation of NRZ is now in tatters because of unavailability of funds to pay workers their earned salaries as well as inefficient services". Employees have up to 15 months' salaries in arrears as indicated by Chikoko (2013) hence the strike. This is supported by Kraatz et al. (2015) and 68% of the respondents (15/22). "The organization has also faced credit risk, unavailability to pay its suppliers on due dates hence the question of going concern viability for NRZ".

- Internal Auditor

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

## 5. CONCLUSION

It was found that "Audit recommendations were not implemented as a result of financial constraints, staffing issues, complex issues, non-feasible recommendations made by auditors as well as management's ignorance as to how their organizations can be affected as result of non-implementation of audit recommendations. The case company being a parastatal in an economically ailing developing country is heavily affected by poor financing which is a catalyst for inadequate staffing and inability to hire and retain highly qualified personnel. We also concur that financial constraints

ultimately cascades into non-implementation of audit recommendations. More so, the study also found out that some of the external audit's recommendations were imprecise which could be a sign of impaired audit independence which points to further risk exposure for the semi-autonomous board. The fact that the Public Accounts Committee is not adequately monitoring and penalizing management for non-implementation of audit recommendations also indicates laxity in public sector management which discounts stewardship over public goods further opening the entity to agency opportunism risks. The study provided enlightenment to the "possible risks that can be incurred by an entity as a result of non-implementations of audit recommendations as well as the audit committee responsibilities". The study, therefore, concludes that management's reluctance to implement audit recommendations exposes companies to operational risk, credit risk, fraud risk, opportunistic risks and reputational risks which violate sustainable development and survival of parastatals in developing countries. The limitations of this research were that the budget was so little to cover so many companies. Time was also limited to collect data since the study was conducted in another country

## 6. RECOMMENDATIONS

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

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