

CHALLENGES FACED BY MANAGEMENT IN IMPLEMENTING AUDIT RECOMMENDATIONS: A LITERATURE REVIEW

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Abstract

How to cite this paper:

Wadesango, N., Chinamasa, T., Mhaka, C., & Wadesango V.O. (2017).

Challenges faced by management in implementing audit recommendations: A literature review. *Risk Governance and Control: Financial Markets & Institutions*, 7(4), 51-61.

<http://doi.org/10.22495/rgc7i4art6>

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ISSN Online: 2077-4303

ISSN Print: 2077-429X

Received: 07.02.2017

Accepted: 31.07.2017

JEL Classification: D81, M4

DOI: 10.22495/rgc7i4art6

This study reviewed literature on the challenges faced by management in implementing audit recommendations and the risks involved in the non-implementation of the audit recommendations in parastatals. The study adopted a desk top approach. This included documentation of a comprehensive review of published and unpublished work from secondary sources of data of specific interest to the research. The researchers examined and discussed what different authorities say on the methodologies adopted in determining whether management and staff appreciates the significance and roles of the audit function in parastatals as well as determining the responsibility of management towards risk management process and the implementation of audit recommendations.

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

1. INTRODUCTION

Audit recommendations vary in scope and complexity, as a consequence the implementation task may require coordination across a range of program delivery and support functions within an entity, Australian National Audit Office (2015). It appears that the risks which are encountered and the timeframe to implement recommendations differ from entity to entity. If implementation is not progressed promptly, and individual risks remain untreated, the full value of the audit would not be achieved. Adeyami and Uadile (2012) states that the audit committee should be able to resolve issues and problems faced by the company and provide a way forward for the entity? However, 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 have scarce resources. Chiang and Northcott (2010) agrees with this statement stating non-compliance with audit recommendations for environmental matters like occupational health and safety environment, emissions, waste disposals because of financial constraints becomes a punishable offense.

Pollitt (2013) postulates that on average audit recommendations should take about twelve months for complete recommendations. According to Zwaan et al. (2009), Internal Audit assists management by “assessing exposure to risk and recommending, where appropriate, practical improvements to the control environment” as well as “ensuring that management has understood and assumed the risk of not taking action (Zwaan et al 2009). This also includes (Aikins, 2012) reviewing timeliness and effectiveness of the implementation and its recommendations. However, it is “management’s responsibility to ensure that proper consideration is given to Internal Audit reports”. Aikins (2012:34) argues that “when the auditor is committed to the need for action on a recommendation, he/she will do what needs to be done to get it implemented. Without that commitment, a recommendation may not achieve the desired action”.

The purpose of this study was therefore to examine and discuss what literature says on the methodologies adopted in determining whether management and staff appreciates the significance and roles of the audit function in parastatals as well as determining the responsibility of management

towards risk management process and the implementation of audit recommendations.

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

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

2.1.1. Financial constraints

This is the friction which prevents “a firm from funding desired investments as a result of credit constraints, inability to borrow, inability to issue equity, dependence on bank loans and illiquidity of assets” (Australian National Audit Office, 2015). “Financial constraints frequently cause delays in implementing audit recommendations, especially where new investments are required”. For example, in the case of World Health Organization in Juba, “compliance with United Nations Minimum Operating Security Standards was initially delayed by insufficient funding” (World Health Organization, 2012:56). Lack of funding can hamper the recruitment of additional personnel to ensure an adequate segregation of duties in the finance area (Cull, 2015). Should organizations come across financial constraints in implementing audit recommendations, Adeyami and Uadile (2012) states that the audit committee should be able to resolve issues and problems faced by the company and provide a way forward for the entity? However, Theriault (2015) argues that recommendations which involve violations of laws and policies must be implemented even if the cost of implementation is very high and the organization have scarce resources. Chiang and Northcott (2010) agrees with this statement stating non-compliance with audit recommendations for environmental matters like occupational health and safety environment, emissions, waste disposals because of financial constraints becomes a punishable offense. Therefore, Australian National Audit Office (2015), states that the management holds the ultimate responsibility on the implementation or non-implementation of the audit recommendations and prioritization of the recommendations despite the constraints factors. However, Zhou and Zinyama (2012:87) 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) also states

that NRZ should comply to all statutory obligations when they fall due. Therefore, this research seeks to establish strategies that can be employed for the implementation of audit recommendations that are not affected by financial constraints for example effectiveness in the debt collection.

2.1.2. Staffing Issues

The Australian National Audit Office (2015:67) 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 (2012:43) 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. Bell (2010:32) 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 do not compete well to the private sector as well as insufficient career perspective, training opportunities and no systematic mentoring programs in parastatals. However, Yamamoto and Terashima (2014:65) 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 (2015:32) defines “complex issues as matters which require extensive consultations and negotiations as well as approvals involving a wide range of stakeholders”. World Health Organisation (2012) gives an example staff health insurance fund in World Health Organization and asserts that “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. According to him “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.

2.2. Are auditors' recommendations practical?

Audit recommendations

Audit findings are written explanations of errors, weaknesses, deficiencies, adverse conditions, need for improvements or changes that are disclosed in an audit. Chandler (2014) asserts that it is a constructively critical commentary on actions or inactions, which in the auditors' judgement hinder the accomplishment of desired objectives in an effective and efficient manner. Aikins (2012) postulates that audit findings are usually followed by recommendations for specific actions to correct the cited deficiency. Australian National Audit Office (2015:43) states that "auditors are supposed review how programs are being carried out and how activities are managed". They further assert that "this affords excellent opportunities to make recommendations to management that improves their ongoing programs, conserve resources, provide better customer service and ultimately provide the taxpayers expect". However Australian National Audit Office (2015) argues that auditors can provide poor quality recommendations which are nonspecific, unconvincing, imprecise, negative in tone and content, non-feasible and insignificant with no response to underlying causes of the problems. Aikins (2012:43) states that "recommendations should be action oriented, convincing, well supported and effective. When appropriately implemented they should get the desired beneficial results".

2.2.1 Imprecise audit recommendations

The Australian National Audit Office (2015) defines imprecise audit recommendations as recommendations which are not clearly labelled, hidden and obscured by text that is they are not readily identifiable nor do they stand out in the report. Aikins (2012) states that these recommendations make use of vague and soft language such as, "consideration should be given to," therefore it does not suggest significance or conviction that action is required. Roelofse et al (2014) argue that it is the independence of an auditor that gives rise to uncompromisingly honest and direct recommendations hence mandatory audit firm and partner rotation to achieve audit quality. Narayan (2015) highlights that independence of auditors is of paramount importance to stakeholders relying on the audit report. Al-Nimer (2015) agrees that the scheme of compulsory rotation prevents auditors from becoming too aligned with managers, impacting on their independence. Narayan (2015) asserts that when auditors are not independent it becomes difficult for them to be objective in their professional judgments. However, Hamilton (2012) notes that audit firm rotation would be an ineffective way to increase audit quality since it reduces chances of the audit firm gaining experience

of the audit client organization due to the complexity of modern businesses, necessary knowledge built up by the firm would be lost too soon. ACCA Global (2011), states that only the lead partner would have to change reasonably regularly to help prevent threats to auditor independence. As a result of controversies surrounding imprecise recommendations, this research seeks to establish whether imprecise recommendations lead to non-implementation of audit recommendations.

2.2.2. Unconvincing and non-specific audit recommendations

These are recommendations which do not state specifically the action to be undertaken for example, "technicians to receive further training." According to Aikins (2012), these recommendations are not well supported by facts or they do not flow logically from the facts. McNellis (2011:67) states that "audit recommendations do not convey how to develop a system, but they should be specific about the system that needs improvement and the objectives that should be achieved by the change". McNellis (2011:23) says that "where audit recommendations are not convincing it is only natural that management will not implement the recommendations". Magrane and Malthus (2010:45) states that "recognizing actions that have been completed or are underway to correct an identified problem adds balance to report and makes it more convincing". However, Svanstrom (2016:56) argues that "it is the lack of effective training in the form of workshops and seminars for auditors to understand that audits especially internal audits are systems audits not people audits that lead to poor quality audit recommendations". Grover and Grover (2015:45) agrees that "effective auditor training is one of the single greatest value added opportunities companies have with regard to their management systems and help to hone auditor skills in developing detailed audit recommendations". Auditors are kept up to date with the latest in the field and challenged by others under seminars which improve auditor's motivation. However, Mortafa et al (2013:68) state that "the training usually is generic and may not relate well to a specific industry or company especially in internal audit trainings therefore training programs should be tailored to a specific organization". This research sought to establish the basis for non-specific audit recommendations as well as determining whether it is the auditors or managements ineffectiveness that lead to non-compliance with audit recommendations.

2.2.3. Negative in tone and content audit recommendations

Kolthari (2012) states that poor quality recommendations are negative in tone, content and less likely to get action. Aikins (2012:76) agrees that "these recommendations do not identify a course of action that will correct an acknowledged problem or cause significant improvements that the auditors work as policemen and treat the auditee as the criminal, when results are bad then they would have had worked effectively". Aikins (2012:45) states that this just results in management shirking the

responsibility of implementing audit recommendations because of the approach used. He further asserts that “poor quality recommendations do not recognize or counter systematic problems for example audit work may disclose that an organization’s policy is being evaded with demonstrated adverse effects”. Australian National Audit Office (2015:43), postulates that, “nonetheless if the policy includes requirements that cannot be reasonably met, a recommendation to comply with it will not be effective”. Unless the audit findings identify the underlying cause, the recommended fix will be inappropriate or ineffective. Aikins (2012:65) states that “recommendations such as, “needs to do better” or “needs to be studied further” are not convincing nor are they easily implementable”. They signal that the auditor was still not sure of the cause and therefore weasel worded the recommendation.

According to Korje (2016:56), “this makes it difficult for management to try and implement recommendations for example the case of Pentagon, Defense Department; it has only met a fraction of audit recommendations which could be negatively impacting its efforts to get its financial books in order”. However, Svanstrom (2016:65) argues that “it is the high levels of time pressure faced by auditors which result in their dysfunctional audit behavior resulting in audit quality risk”. Seidel et al (2015:132) agrees that “limited resources and limited time allocated to perform necessary audit tasks has increased in audit firms and is far higher than optimal”. Svanstrom (2015:56) states that “the time pressured auditor would have to prioritize time saving actions and therefore minimize audit steps and procedures which result in poor quality recommendations which do not counter systematic problems”.

2.2.4. Non feasible recommendations

Aikins (2012:56) states that “poor quality recommendations are not feasible that is they do not take into account legal and practical constraints that would make their implementation possible or likely”. Armittage (2011:43), states that “non-feasible recommendations are not considerate of the realistic limitations that organizations face such as financial constraints”. The audited firm “may be constrained by a range of other factors including managerial time, attention and talent”. Australian National Audit Office (2015:56) asserts that “the audited firm will not be inclined to implement a recommendation unless it is reasonable, proper and will benefit the organization. However, Svanstrom (2015:56) argues that “audit quality is associated with the hire of auditors with higher industry experience for work experience basically generates knowledge that is specific to the situation resulting in feasible recommendations”. Hamilton (2012) also states that experience also develop through the tenure the audit firm had with the client in terms of years. Boolei and Gaoliang (2014:87) agree that “the repeated work by an auditor over a long period of time would improve the quality of audit”. Frequency of audit work leads the auditor to amass client specific experience that is knowledge of the client’s business, systems and risks. That experience is necessary for auditors to present audit recommendations which are feasible to the audit client. However, Suyono (2012:65) states

that “more client specific experience can result to long auditor tenure which may bias an auditor’s judgment and ultimately lead to lower audit quality”. As a result of controversies surrounding non-feasible recommendations, this research seeks to establish how auditors can go about constraints faced by an organization like talent and financial constraints to make their recommendations feasible.

2.2.5. Non commitment to results

Aikins (2012:65) asserts that “a commitment to results is perhaps the most important but least tangible requirement for ensuring that the benefits of audit work are realized”. According to Australian National Audit Office (2015:64), “getting action on the recommendations depends on such commitment that is, on the individual and organizational mindset, emphasis and priority given to recommendations”. Aikins (2012) argues that both the auditor and the auditee should be active participants in the implementation of audit recommendations but when both entities are not committed audit recommendations remain non-implemented. Korje (2016) says that auditors are not committed to results when they do not believe in their recommendations or the need for change, promote action, understand the organizational environment more so cooperate and help the auditee in implementing the recommendations.

Aikins (2012) found that a committed auditor will do what he or she needs to do to make sure that action required for implementation of recommendation is undertaken. However, Castillo (2011:54) argues that “it is the Audit Firm’s responsibility to be committed in enhancing audit engagement supervision and review that is having senior personnel mentoring staff by completing real time engagement file reviews”. Daugherty et al (2012:43) agree that “the Audit firm should be committed in providing an environment that fosters and reinforces auditors’ commitment to results. Therefore, if the Audit firm is not committed to results then its audit staff will follow suit”.

2.2.6. Auditors non-belief in their recommendations and need for change

Aikins (2012:65) states that “when auditors are not convinced that their recommendations are of the highest quality and if acted upon will bring about the desired improvements, they are unlikely to devote the extra effort needed to get the recommendations implemented”. However, implementing recommendations may take considerable time maybe even three or more years for some key recommendations. Aikins (2012:68) says that “when auditors are not determined in the tracking of the implementation status, reasserting the need for action or reevaluating ways to get recommendations done then the whole recommendation process becomes irrelevant”.

2.2.7. Auditors not promoting action

Rubin (2011:78) says “this is whereby auditors do not use effective communication channels like face to face approaches in a clear, concise and organized

manner to determine how findings and recommendations can best be presented to promote acceptance". Korje (2016:54) says that "this could mean unwillingness to use imagination and initiative to get beneficial results". He further asserts that "getting results should be central focus of an audit job and should be considered in assignment design; data collection, data analysis as well as recommendation follow up". According to Aikins (2012:67), "audit staff are motivated by having their work recognized therefore relating awards and bonuses to individual and team efforts that produced significant results helps demonstrate what the organization values the most". Rubin (2011:98) agrees that "appraisal systems and the way they operate in practice should cause auditors to believe that their contributions to getting action on the audit results are a significant factor in appraisals, awards, promotions and other salary decisions". ACCA (2013:65), states that "personnel appraisals should highlight proactive, innovative and creative approaches to be used to get action on recommendations".

2.2.8. Aggressive monitoring and follow up

"Recommendation monitoring is an ongoing responsibility and the status of open recommendations should be determined on a regularly scheduled basis" (Rubin, 2011:65). According to Aikins (2012:65), "monitoring and follow up systems can be sophisticated or rather simple depending on a number of factors including size and complexity of the audit client organization". Zahran et al (2010:54) state that "follow up systems in place for implementing audit recommendations vary in terms of refinement and effectiveness since only a few organizations have implemented on line systems". However, Daugherty (2012:56) also argues that "it is the Audit firm's responsibility to be clear that audit follow up is a significant and valued activity and audit staff should not be made to believe that follow up time must be borrowed from other activities considered more significant".

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

According to Rubin (2011:65), "this is whereby auditors do not fully assess options and strategies that help to get effective implementation when progress is determined to be inadequate". Aikins (2012:59) postulates that "when status monitoring identifies dormant recommendations, follow ups should determine why action is not being taken". In addition "the environment could have changed such that the problem no longer exists or that the recommendation is no longer relevant or feasible" (Armittage, 2011:76).

2.3. To identify major management risks faced by parastatals

Aikins (2012:61) says that "risk implies future uncertainty about deviation from expected earnings or expected outcome and risk measures the uncertainty that an investor is willing to take to

realize a gain from an investment". Examples include "liquidity risk, credit risk, reputational risk, business risk, default risk and fraud risk". "Various risks originate due to the uncertainty arising out of various factors that influence an investment or a situation (Scandizzo, 2011:65)

2.3.1. Reputational risk

According to Aikins (2012:55) "reputation is an expectation of behavior and consumers have expectations when they buy products or services". Sheehan and Stabell (2010:43), assert that "reputation risk is the threat to meeting expectations that in turn precipitates a crisis. It is created when expectations are poorly managed and exceed capabilities, or when a company fails to execute". Kraatz and Love (2015:43), states that "reputation is conceptualized as a valuable intangible asset and in itself is very hard to measure. Reputation can be created and controlled as soon as its nature is fully understood". Lemke and Petersen (2013) says that it ranges from positive to negative extremes and needs to be managed. Reputation is cumulative that is it is formed over time based on what the organization has done and how it has behaved. Lodhi and Magood (2015:43) states that "in Pakistan corruption and misappropriation of funds at government level is continuously destroying parastatals reputation, public trust in the government as well as economic welfare". Inefficiencies in railway transportation in the form of slow services poor maintenance of rail cars and accidents have led to the buildup of poor reputation of rail transportation for example in the case of Canada railways. Cape Times (2012:54) state that "the Passenger Rail Agency of South Africa which owns Metrorail failed to meet International Standards in most respects". This also derails the reputation of such entities. Lemke and Petersen (2013:76) affirms that "reputational risk can occur through a number of ways that is directly as a result of the actions of the company itself, indirectly due to the actions of an employee or through other peripheral parties such as suppliers". On the other hand, "good reputations are not built in a day". Saunders (2012:54), states that "good reputations take time and constant vigilance to maintain. A company can only build trust by matching its words to its actions and responding in a reliable manner to the needs of its stakeholders for honesty, transparency, fairness and social responsibility".

Scandizzo (2011:43) states that "senior management, customers and employees are the stakeholders with the greatest influence on corporate reputation and integrity and benefits of strong relationships with these groups are better employee retention and performance, boosting sales and shareholder confidence". Lemke and Petersen (2015:34) says that "it is indirect stakeholders like Trade Unions, competitors, media and consumer groups that draw the most attention to reputational issues for example in the case of BP Shell oil incident". Kaiser (2015:54) concludes that "knowing that reputation is important to a company's success is only the first step to maximizing value one can gain from managing it properly".

2.3.2. Risk of fraud from employees

Mansfield and Pindler (2008:54) define fraud “as behavior that is deceptive, dishonest, corrupt or unethical. For fraud to exist there needs to be an offender, a victim and an absence of controls or safeguards”. Maine (2013:54), states that “fraud is generally described in three categories which are asset misappropriation, fraudulent accounting and financial reporting as well as corruption. Fraudulent activity is motivated by one or more of the factors that are pressures, opportunity and rationalization”.

2.3.3. Asset misappropriation

Etheridge (2012:65) defines “asset misappropriation as the intentional, illegal use of property or funds of another person for one’s own use or other unauthorized purpose, particularly by a public official, a trustee of a trust or by any person with a responsibility to care for and protect another’s assets, in short a fiduciary duty”. Examples include “theft of plant, inventory or cash, falsifying invoices, accounts receivable fraud and payroll fraud”. An example is a case of Pakistan Railways, Right vision news (2015), points out that massive financial irregularities, embezzlement and misappropriation of funds in the accounts of Pakistan Railways have been pointed out by the audit in the audit report for the year 2013-2014. Right vision news (2015) states that audit reports reflects a sum of R27.64 million which was embezzled by the commercial and civil staff through fake receipts which were sold, and the money was pocketed. Imtiaz (2014), reports that asset misappropriation has left Pakistan Railways with huge budget deficits running in billions of rupees leading to a deteriorating condition in operational, financial perspective and a question mark on its sustainability.

Ball and Ken (2013:23), state that “the Association of Certified Fraud Examiners estimated that organizations lose approximately 5% of their revenue to occupational fraud and abuse”. Striscek (2010:65) also indicated that “organisations that have managers and employees attend regular training on fraud are less likely to be victims of fraud and suffer fewer losses than organisations which do not provide fraud training”. However, Yusuf and Dingley (2015:54) argues that “the greater the effectiveness of the Audit Committee and the higher the percentage of independent members, then the lower the incidence of misappropriation of assets, case study of USA, Australia and New Zealand”. Asset misappropriation cases are more common than fraudulent reporting, accounting for nearly 80% of reported fraud, making it a significant problem for many organisations. Chi (2011) cited in ACFE (2015) estimated that fraud costs US organisations more than \$600 billion annually.

In the AG Report (2012) there was a case of cash fraud where passenger tickets issued whose operator numbers did not exist on the list of management allocated operator numbers. In the (2012) AG Report, there were negative fuel quantities amounting to \$1 554 781 which was never recovered. This shows the degree to which assets are misappropriated at NRZ.

2.3.4. Fraudulent accounting and reporting

This is the intentional preparation of misleading financial statements and can result from distorted records, falsified transactions and misused accounting principles to deceive others by misrepresenting events, transactions for personal or organisational gain. Striscek (2010:56) says that “the most major financial statement frauds have involved senior management who are in a unique position to perpetrate fraud by overriding controls and acting in collusion with other employees”. Ghazali and Nazli (2012:43) reports that “an entity is motivated to commit fraudulent financial reporting due to political connection factors for example The Pakistan officials who caused millions of rupees’ losses to the national exchequer account pursuing their personal interest’s”.

Right vision news (2016:43), reports that “firms with political connections have more tendencies to misreport and overstate earnings since they may need to suppress firm specific information to hide expropriation activities by politicians and their cronies”. Chander et al (2015:44), also reports that “politically connected firms might care less about the quality of the information they disclose and are more likely to engage in fraudulent financial reporting because the benefit of committing fraud is higher than the expected cost and penalty that follows upon detection”. Mardiana (2015:66), states that “managerial ownership can motivate companies to involve in fraudulent financial reporting especially when it is family of foreign owned. Fraudulent reporting is caused by corporate governance failure to stop corrupted management and associated destruction of company value for example the WorldCom case”. According to Persons (2012:54), “New York Railroad Retirement Board has been involved in a \$1 billion scan whereby former Long Island Rail Road employees lied about being disabled retired in six figure pensions after claiming they were in too much pain along with their orthopaedists and 2 former union officials”.

However, Striscek (2010:43) questions the practicality of the Audit Committee “whether they even assess the risk of fraudulent financial reporting, whether they have a sceptical view of management and also if they use internal audit as its eyes and ears”. He continues to affirm “that the Audit Committee should accept responsibility of assessing fraud risk and to actively assess the management integrity and the pressures and opportunities to commit fraud”. Examples of fraudulent reporting include creation of ghost employees and ghost supplies, faking time sheets and manipulating financial data to receive performance bonuses. NRZ is losing a lot of money as a result of fraud cases as stated by the AG Report (2013) whereby there was negative fuel quantities amounting to \$1 554 781 which was never recovered.

2.3.5. Corruption

Aikins (2012:59) defines “corruption as a form of dishonesty or unethical conduct by a person entrusted with a position of authority often to acquire personal benefit. Activities may include bribery, favouritism, extortion, abuse of discretion,

conflict of interest, nepotism and embezzlement as well as practices that could be legal in other countries". Roelofse et al (2014:54) says that "corruption has been identified as a complex, endemic and multi-layered problem that threaten the very existence of Nigeria and various efforts have been made to curb the menace". Tajudeen (2013:25) argues that "the issue of corruption has been considered one of the most fundamental problems common to human society". According to Khakbaz et al (2015:145), "the problem of corruption is not just in third world countries although the statistics are higher in developing countries than in developed countries".

According to Tajudeen (2013:29), "corrupt employees are often protected by government officials and even though Anti-corruption units are successful in their endeavours to root out corruption, it remains unfathomable because of political interference". Roelofse (2014:176) asserts that "police and courts through bribery, followed by government officials involved with wrangling with state contracts are singled out as the most corrupt institutions. The Association of Certified Fraud Examiners have noted that government regulations worldwide have increased criminal penalties that can be levied against companies and individuals who participate in fraud schemes at a corporate level". CIMA Global (2008) estimates the cost of corruption to be \$1.5 trillion each year and only a small percentage of losses from fraud is recovered by organisations.

However, corruption has been believed to help a country's growth in several ways that is bribes are seen as a way to reduce bureaucratic inefficiencies especially in developing countries. Tajudeen (2013:45) says that "despite the controversies listed above, this research is aimed at determining whether corruption has resulted due to noncompliance with audit recommendations and the possible strategies to mitigate the risk".

2.3.6. Obsolescence risk

"Obsolescence risk can be regarded as a decline in utility that is not directly related to use, action of elements or passage of time" (Tajudeen. 2013:25). It is not the result of the wearing out of an object as obsolete items can still be in good working order. Grover (2015) says that it is due to the object becoming outdated or declining in usefulness, thereby bringing its life to a premature end. Obsolescence is unpredictable because it occurs as a result of an unforeseen change in demand. It affects profits attributable to shareholders, but not what the business may describe as its underlying profits. Mansfield and Pinder (2008:67) postulates that "managing obsolescence is a total business commitment that requires processes that cross over many organizational boundaries". Grover (2015:176), states that "obsolescence is categorized in physical, functional and economic aspects". Physical obsolescence is where the cost of repairing, reconditioning or refurbishing the asset to make it useable exceeds the cost of a modern equivalent. NRZ has faced obsolescence risk whereby its carriages are outdated and no longer functioning effectively (Takundwa, 2014).

2.3.7. Liquidity Risk

Xiaopeng et al (2011:65) defines "liquidity as an asset's ability to be sold without causing a significant movement in the price with a minimum loss of value. The unpredictable change in liquidity is then called liquidity risk". Grover and Grover (2015:43) also defines "liquidity risk as the risk that a company may be unable to meet short term financial demands which occurs due to the inability to convert a security or hard asset to cash without a loss of capital or income in the process." Liquidity risk arises from situations in which a party interested in trading an asset cannot do it because nobody in the market wants to trade for that asset. Xiaopeng (2011:54) states that "it becomes particularly important to parties who are about to hold or currently hold an asset since it affects their ability to trade. However, if one party cannot find another party interested in trading the asset, it becomes a problem for market participants to find each other hence liquidity risk is usually found to be higher in emerging markets or low volume markets".

Chandler (2014) says that liquidity risk can also be described as financial risk due to uncertain liquidity. Ukrainian Business Weekly (2013) states that a decrease in rail and freight transportation volumes has imposed further on Ukrainian Railways Operations which has led to its business risk profile assessed as weak and its financial risk profile highly leveraged. Ukraine Business Weekly (2013) states that the weakening sovereign credit quality would constrain Ukrainian issuers access to the financial markets. This increases Ukrainian Railways liquidity risk in light of its sizeable debt amortization of about 5.3 billion in the domestic currency. The weak domestic banking system where Ukraine Railways holds its cash has a high proportion of nonperforming loans which adds to the entity's liquidity risk which makes Ukraine Railways reliant on operating cash flows from the currently ailing transportation markets.

An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash flows or some other event causes counterparties to avoid trading or lending to the institution. Venkiteshwaran (2014:45) argues that "because of liquidity risks tendency to compound other risks, it is impossible to isolate liquidity risk; hence comprehensive metrics of liquidity risk do not exist". NRZ in 2014 was in a net current liability position of \$131 million as stated by the AG Report (2014) which "indicated the existence of a material uncertainty that may cast significant doubt over the National Railways' ability to continue as a going concern".

2.3.8. Credit risk

According to Tajudeen (2013:36) "this is the risk of default on a debt that may arise from a borrower failing to make required payments and includes lost principal, interest disruption to cash flows and increased collection costs for example a business does not pay an employee earned wages when due or trade invoices when due". According to Apostolic and Donohue (2015), the Chinese Railways, information from Government data have shown that the ministry's debts have exceeded \$313 billion

raising its debt ratio to 51.53% in 2011. BBC Monitoring Asia Pacific (2011), to resolve the inability to repay, the Chinese Railways have reduced the cost of tickets to attract more passengers and lowered the train speeds to reduce maintenance costs. European Central Bank (2009) states that liquidity and insolvency are frequently indistinguishable that is an illiquid entity becomes whilst an insolvent entity is illiquid.

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

“The audit committee is a committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, receipt of audit results both internal and external” (Tajudeen, 2013:25). Jordana (2015:234) says that “the audit committee is responsible for overseeing the financial reporting process, enterprise risk management, system of internal controls and compliance with laws and regulations”. Lengel (2014:65) states that “the Audit Committee is composed of only Non-Executive administrators’ independent from the executive government and reports to the Management Board every year regarding activities carried out during the previous year and whenever it considers necessary for the fulfilment of its responsibilities”

2.4.1. Audit committees’ role to financial reporting

According to (Maine, 2013) “audit committees play a crucial role in the financial reporting process of firms and have been the focus of corporate governance regulation in the wake of spectacular accounting scandals”. Castillo (2011:87) states that “audit committee’s characteristics such as independence and financial expertise have found that they are positively related to a firm’s financial reporting quality”. Lenghel (2014:34) postulates that “audit committee members are expected to have a certain level of financial expertise”. Buckstein (2012:123) defines “financial expertise as the ability to prepare financial statements”. Buckstein (2012) states that it is not something one can learn once appointed to an audit committee but rather it comes from a professional designation and working for years with financial statements. Maine (2013:56) stated that “being a financial expert means understanding the financial statements and GAAP, the ability to assess the application of GAAP in connection with the accounting for estimates, accruals, reserves, experience preparing, auditing, analyzing, evaluating financial statements and an understanding of internal controls”.

Mostafa et al (2013:46) state that “the effectiveness of the Audit Committee’s financial expertise, that is accounting and non-accounting financial expertise reduces the occurrence of misappropriation of assets”. Mostafa et al (2013:45) consider “the cases of fraud as a result of the failure of the Audit Committee part to mitigate those risks”. However, Ghazali et al (2012) considers Audit Committee effectiveness as a significant factor also in ensuring timely submission of audited financial statements. Therefore, it is the responsibility of an

audit committee to reduce the yielding of misstated financial reports by management.

2.4.2. Audit committee’s role in enterprise risk management

Buckstein (2012) states that in this 21 century, the Audit Committee skills and expertise are being put to wider use to prevent future disasters. Organization boards are now asking the audit committee to place a higher emphasis on risk appetite and tolerance. Alzharani and Aljaaaidi (2015:65) state that “audit committees with non-executive independent members, more members on the audit committee, financially expert audit committee members are more likely to combine the risk management and audit committee activities”. Chi (2011) affirms that Audit Committees and senior corporate managers should work together to build a strong tone at the top to combat fraud risks, which includes an accessible whistle blower hotline. Mustafa (2010) concludes stating that fraud risks, liquidity risks are a result of the failure of the audit committee. However Young (2014) argues that some board members are dead set against separate risk committees and point out that risk oversight is a full board responsibility. Young (2014) states that a board level risk committee is critical and in the absence of a board level risk committee, it becomes the responsibility of audit committees to oversight all sorts of risks.

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

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

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

2.5.1. Establishment of an effective Public accounts committee

According to Narayan (2015:56) “this is a committee that is responsible for the following up of the implementation of audit recommendations of the Ministries and Government departments and bodies to determine the extent to which they have responded to the Auditor General’s recommendations”. Narayan (2015:176) says that “implementation of PAC recommendations is one measure of the committee’s usefulness and effectiveness. Enforcing Section 11 of the Audit Office Act 22:18 can assist in the implementation of recommendations. This provision says if at any time it appears desirable to the Public Accounts Committee that any matter relating to public monies or State property should be reported to the Auditor General, the Committee shall direct the Auditor

General to prepare a special report thereon for transmission to the Minister of Finance”.

He further asserts that “parliament should review the Audit Office Act and Public Finance Management Act to determine if the provisions are adequate to ensure implementation of PAC recommendations and corrective action for Auditor General Findings in accordance with the Public Finance Management Act 22:19”. Accordingly, “these statutes must be aligned to reflect the letter and spirit of the constitutional provisions on principles of sound public finance management. There must be penalties for non-compliance with financial reporting requirements. The PAC should establish a follow-up schedule, for example 3 or 6 months after the report is tabled”.

2.5.2. ISA 2402 – Audit follow up guideline

“This is an audit implementation standard developed as a guide to the minimum level of acceptable performance required to meet professional responsibilities” (Narayan ,2015). Sameer and Youssef (2010:178) reports that “the follow-up activity performed by professionals is a process by which they determine the adequacy, effectiveness and timeliness of actions taken by management on reported observations and recommendations, including those made by external auditors and others”. According to Aikins (2012:45), “a follow-up process should be established to help provide reasonable assurance that each review conducted by professionals provides optimal benefit to the enterprise by requiring that agreed-on outcomes arising from reviews are implemented in accordance with management undertakings or that management recognizes and acknowledges the risk of delaying or not implementing proposed outcomes and/or recommendation”s.

Korje (2016:67) argues that “the implementation of all the management responses may be followed up on a regular basis that per every 3 months. As a part of the follow-up activities, professionals should evaluate whether unimplemented recommendations are still relevant or have a greater significance”. Professionals may decide that the implementation of a particular recommendation is no longer appropriate. “This could occur where application systems have changed, where compensating controls have been implemented or where business objectives or priorities have changed in such a way as to effectively remove or significantly reduce the original risk” (Narayan, 2015).

SUMMARY

This study reviewed literature available and relevant to causes of non-implementation of audit recommendations. These included financial constraints, staffing issues and complex issues. Australian National Audit Office (2015:34) highlighted that “lack of funding hampered the recruitment of key personnel and frequently caused delays in implementing audit recommendations especially where new investments were required”. International Monetary Fund (2010) agreed that public sectors do not have the financial capability to attract and retain qualified staff necessary for the

implementation of its recommendations. It also brought up the risks relevant to implementation of recommendations. These included fraud risks, credit risks, reputational risks and obsolescence risks. Scandizzo (2011:67) stated that “risks originate due to uncertainty arising out of various factors that influence a situation or investment”.

Sources consulted did not agree that there is a relationship between non implementation of audit recommendations and risk and stated that the auditors made ambiguous recommendations which were difficult to implement. Some authors have stated that when an auditor makes a recommendation it represents a condition which indicates an underlying risk area. They further explained that when these recommendations are not implemented by management, then the risk remains. The study further revealed that the use of effective Public Accounts Committees would actually lead to the implementation of audit recommendations if their authority was enforced to demand from ministries and government bodies, the results of implementations of audit recommendations on behalf of the Auditor General.

Audit committees and management should work together to build a strong tone at the top to combat fraud risks. However, literature reviewed indicated that there is no audit committee function at most of the companies. There is therefore need to conduct empirical studies in order to establish reasons why companies are not complying by establishing internal audit committees. This could form the background for future research.

CONCLUSION

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

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